OPEC Study Guide

The Issue of Long-term Outlook for OPEC

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Welcome Letter

Dear delegates,

Welcome to the Organization of the Petroleum Exporting Countries (OPEC), where you will be deliberating upon OPEC's long-term outlook. It is our greatest pleasure to serve you as the Dais of this committee, and we look forward to witnessing your innovative ideas during the lively and invigorating debate.

OPEC is often viewed as an organisation that goes against many common global goals by other countries and institutions. It can be argued that it contributes to climate changes, and uses oil as a political weapon to fuel geopolitical conflicts. However, there are factors that have diminished OPEC's market power and significance in the energy market, such as the pandemic, increasing renewable energy usage, and more frequent disagreements between oil producers, which has led to OPEC suffering lower oil prices.

The climate conference known as COP26 marked a turning point for OPEC, as it solidified other countries' commitments to phase out fossil fuels. This could be devastating for OPEC, as it reduces the market size for their main source of revenue - oil.

This meeting has been long overdue. Before fossil fuels are eliminated from the energy market for good and OPEC goes bust, it will be up to you to salvage OPEC from its dire state. To all prospective delegates: Take this conference as a challenge to save OPEC from one of the most tumultuous periods it has ever faced.

The series of issues presented in the topic are contentious and multifaceted, and require careful consideration of many factors. Be sure to come prepared; We, the Dais, expect the very best from you.

Warmest Regards,
Tze Chuan, Rosaline, and Wan Qin
Dais of the Organization of the Petroleum Exporting Countries

Chair Introductions

Head Chair: Chua Tze Chuan

Tze Chuan is an IB1 student from HCIS who wears WBA as "casual wear" and attends MUNs in even more outrageous outfits, such bright pink or bright red blazers. Among the MUN councils, economic and political councils are his favorite due to the s-OPEC-tecular debates they provide. He swears by the quote, "There are a lot of sea in the fish, but the most important is diploma-sea," which totally reflects his style as a delegate. Sadly, some people still accuse him of being a power del for his talkative personality, but he assures you that just like everyone else, he fuel-riously detests power dels. On a side note, he hopes to soon complete his MUN bucket list of singing Taylor Swift songs on the GSL in the near future, and with that, he wishes that delegates will 😎slay🌈 the debate but hopefully not fuel prices.

Deputy Chair: Lim Wan Qin

Wan Qin is a strong believer in all things mozzarella. Her to-do-list before turning 50 includes farming in California, watching musicals around the world and swimming in the Atlantic ocean. She has a great fear of flying slicing killer-disks, also known as frisbees. Her main sources of energy are cabbages, tteokbokki and music, and she is often exasperated by her parents' repeated rejections to let her adopt a cat. Lastly, she hopes that this experience will be an oil-tra fuelfilling one for delegates.

Deputy Chair: Rosaline Tan

Rosaline is your average overworked (and unpaid) JC1 student who can often be found with caffeine or energy drinks in hand. Despite having a deep-rooted passion for current affairs and international relations, they are often chronically offline, much to the despair of their friends. After four years in the circuit, they hope that this last journey (or maybe not?) will be a fulfilling one. They hope that the OPEC debate will fuel all delegates' passion for MUN.

Council Introduction

The Organization of the Petroleum Exporting Countries (OPEC) is an intergovernmental economic organisation established by its five founding members, which were Kuwait, Iran, Iraq, Saudi Arabia, and Venezuela. It aims to stabilise oil prices and deliver a high return on investment for oil producers.[1] As oil is one of the main energy sources in the world, a stable oil market would translate to stable economic growth across all countries, which is the result of the collaborative effort of oil producing countries to provide a steady supply at a reasonable price.

Currently, there are 13 members of OPEC, which include the five founding members alongside Algeria, Angola, the Republic of the Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and the United Arab Emirates. In 2016, OPEC+ was established in hopes of expanding OPEC's sphere of influence and to have greater power to manipulate prices even further. OPEC+ members include Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan, and Sudan.

In terms of decision-making in OPEC, the final decision in passing documents requires consensus amongst the Full Members of OPEC, which are the 13 OPEC member states that exclude OPEC+, as stated in Article 11 of the OPEC statute. OPEC has had a history of inviting observer states to conferences, in which they do not get to make substantive votes but they are allowed to make procedural ones.

In the oil market, OPEC is what is known as a cartel, meaning that they have significant market power to influence prices as they control a significant portion of the world's oil reserves.[2] The countries that now form OPEC were initially being threatened by larger oil producers such as the United States, and hence they banded together to coordinate oil production and export policies to prevent the price of oil from lowering (due to competition from non-OPEC oil). In fact, many OPEC nations even went as far as to nationalize their oil industry to gain control over their country's oil production.[3] Despite what is asserted in OPEC's statute of oil market stability, they are also influenced by profit motives.[4] For example, many Western nations such as the United States and the European Union have placed sanctions on Russian oil, and have been requesting for OPEC to cover for the fall in supply. However,

[1] "Our Mission." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/23.htm.
[2] "Oil and Gas Industry: A Research Guide: Organizations and Cartels." Research Guides. Library of Congress. Accessed September 14, 2022. https://guides.loc.gov/oil-and-gas-industry/organizations.
[3] Ibid.
[4] Danielsen, Albert L. "OPEC." Encyclopædia Britannica. Encyclopædia Britannica, inc. Accessed September 14, 2022. https://www.britannica.com/topic/OPEC.

OPEC has only done the bare minimum in order to punish Russia,[5][6] who is a member of OPEC+ and is a key reason for OPEC's strong market power. Hence, OPEC's pursuit of self-interest can at times come at the expense of the international community.

Overall, a good understanding of OPEC's true stance and internal politics is crucial to succeeding in this council.

[5] Bussewitz, Cathy. "OPEC+ Boosts Oil Output by Slower Pace than Previous Months." AP NEWS. Associated Press, August 3, 2022. https://apnews.com/article/inflation-russia-ukraine-health-saudi-arabia-aa4ce431a7105ff94adb1f1a240657f0.
[6] Schwartz, Felicia. "OPEC+ Agrees Minimal Oil Production Rise in Effort to Placate Western Allies." Subscribe to read | Financial Times. Financial Times, August 3, 2022. https://www.ft.com/content/498fc973-9afd-4094-9790-0ee4e42edc37.

OPEC

The Issue of Long-Term Outlook for OPEC

Topic Introduction

Whether you call it black gold, petroleum, or the devil's excrement, it is undeniable that oil makes the world go round. From powering homes, vehicles, to entire industries, oil has boosted economic growth rates around the world. Yet one of OPEC's founders, Juan Pablo Pérez Alfonzo, has described it as a curse bestowed upon OPEC member states. The resource curse, also known as the paradox of plenty, refers to the phenomenon of countries with an abundance of natural resources having less economic growth or worse development outcomes than countries with fewer natural resources. This could be the result of too much of a country's capital and labour force being concentrated in only a few resource-dependent industries. Countries specialise and focus their economies on industries where they have a comparative advantage. This advantage exists when the cost of specialisation is lower than that of other nations, which in the context of OPEC stems from the abundance of oil. By failing to make adequate investments in other sectors, countries can become vulnerable to declines in commodity prices, leading to long-run economic underperformance.

While OPEC saw the height of its power and influence in the 1970s where it controlled more than half of the oil market,[7] in recent years, OPEC has been facing more challenges. Now, the advent of renewable energy and increased consciousness over climate change has reduced the demand for oil. Furthermore, it is becoming increasingly difficult to build consensus and cooperation between OPEC member states. There have been rising cases of internal disagreements within OPEC, OPEC+ and other oil producers, such as the price war between Russia and Saudi Arabia in 2020. COVID-19 as a whole has also impacted OPEC's unity, as lowered oil prices from 2020 to 2021 caused members to disagree with production quotas, leading to oversupply and prices to lower further, leaving OPEC in a deadlock.

April 20, 2020 marked a turning point for OPEC, as for the first time in history, oil prices were in the negatives. Just two years later, in 2022, oil prices can often be seen in the triple digits, showing just how volatile the market has become, creating uncertainty as to how the countries in OPEC can continue to sustain their economies.

OPEC as an organisation is being threatened. The power it had as a cartel in the previous century has diminished significantly - in the past, they had more leverage over other states due to their use of oil as a political weapon and bargaining chip whenever things went awry for them. However, now they can be seen as the ones suffering as they are overly dependent on oil. The power imbalance and

[7] "Oil Crisis of the 1970s." Oil crisis of the 1970s - Energy Education. University of Calgary, 2017. https://energyeducation.ca/encyclopedia/Oil_crisis_of_the_1970s.

internal politics within OPEC and OPEC+ weaken the organisation further, and it is time for OPEC to reconsider their long-term outlook should they wish to survive and continue to be relevant.

Key Issues

The World's Transition Away From Oil

Oil is a resource classified as a source of non-renewable energy. To generate energy, it first needs to be burned, creating waste products such as organic waste and greenhouse gases (GHGs), which can exacerbate climate change. In the process of producing, consuming, or handling petroleum products, they have the potential to result in oil spills if mishandled, which can cause biodiversity loss and damage water quality among other consequences. These problems form the push to phase out oil and seek more sustainable forms of energy. As climate change awareness increases, there is now growing pressure on OPEC to cut down oil production.[8] Yet, this is not to say there is a straightforward move away from oil - the world, facing rapid economic globalisation, continues to demand for more oil as time passes.[9]

In the short run, renewable energy is unlikely to replace oil. The high costs in production from relatively less developed technology compared to well established oil extraction and refinery technologies means renewable energy is more expensive than oil. This is not to mention that much of the world's infrastructure and production technologies are still better suited to use oil as their main source of fuel, and the fact that renewable energy relies on uncontrollable variables, such as wind conditions in the case of wind energy, resulting in more fluctuation in its output.[10] Hence, oil can also be seen as a more reliable and efficient source of fuel, explaining why there is some inertia regarding countries shifting away from oil.

However, in the past few years, the costs of renewable energy seem to be falling, which is a sign of concern for OPEC. For example, increased research and development (R&D) and economies of scale in projects allowed the costs of producing electricity from photovoltaic solar cells to fall by around 85% from the years 2010-2020.[11] Efforts to make renewable energy more accessible are also bolstered by many governments around the world who have renewable energy targets, which aim to make a certain percentage of energy consumption come from renewable sources by a certain year.[12] For example, China aims to have 35% of electricity come from renewable energy by 2030 to combat air pollution, and Costa Rica already has more than 95% of its electricity from renewable sources.[13] The

[8] Donaghy, Tim. "8 Reasons Why We Need to Phase out the Fossil Fuel Industry." Greenpeace USA, November 22, 2021. https://www.greenpeace.org/usa/research/8-reasons-why-we-need-to-phase-out-the-fossil-fuel-industry/.
[9] "World Oil Demand Just Keeps on Rising." OPEC, 2014. https://www.opec.org/opec_web/en/press_room/2777.htm.
[10] "Barriers to Renewable Energy Technologies." Union of Concerned Scientists, June 6, 2014. https://www.ucsusa.org/resources/barriers-renewable-energy-technologies.
[11] "Renewable Power Generation Costs in 2020." IRENA â" International Renewable Energy Agency, 2020. https://irena.org/publications/2021/Jun/Renewable-Power-Costs-in-2020.
[12] "11 Countries Leading the Charge on Renewable Energy." Climate Council, February 3, 2021. https://www.climatecouncil.org.au/11-countries-leading-the-charge-on-renewable-energy/.
[13] Ibid.

growing trend of countries transitioning away from oil and towards renewable energy will be detrimental for OPEC in the long-term, as it reduces oil demand and hence oil prices, severely reducing their incomes.

The commitment to clamping down on oil can further be seen by an increase in international agreements to combat climate change, or climate agreements. Many of these climate agreements have stipulations that put pressure on countries to phase out oil. A notable example of this would be in the 2021 United Nations Climate Change Conference, better known as COP26. Compared to its previous years, the 2021 conference was the first time that the phasing out of fossil fuels was explicitly stated in the draft text.[14] Noting the significance of this agreement, OPEC knew that they had to take action to protect their position in the energy market. Oil producers, most notably Saudi Arabia, voiced their objections in the conference, citing economic concerns, and were pushing hard to get rid of clauses that would threaten their oil revenue.[15]

Yet even amidst the trends of renewable energy becoming increasingly popular, OPEC is not alone in opposing the complete phasing out of oil in the global energy market. Oil-hungry nations such as China and India were also concerned, as they would not be able to find alternative sources of energy that were similarly priced to oil in the short-run.[16] Japan and Australia, similarly, sided with Saudi Arabia during COP26 by lobbying against the rapid shift away from fossil fuels.

Oil market volatility

Demand-side shocks

The price of oil is determined by the law of supply and demand, which represents how much consumers and producers are willing and able to purchase and sell respectively.

When the demand for oil drops, this means that there are less consumers that want to buy oil. This could be due to a switch to renewable energy or a recession, whereby less power is used and is known as a demand-side shock. With a surplus of oil, the oil producers, in this case OPEC, will reduce their prices to get rid of excess oil, resulting in lower prices of oil. Furthermore, oil requires very specialised equipment and investments which can only be used for drilling oil and investments are recouped over years. Hence, even when the prices are low, they will continue drilling, even when prices are low and the quantity that is supplied does not change much. This contributes to a large fall

[14] Green, Eleanor, Caroline Varin, Victoria Hatherick, & Samira Kawar. "Cop 26 Climate Diplomacy Focuses on Saudi Arabia: Argus Media." Commodity & Energy Price Benchmarks, November 10, 2021. https://www.argusmedia.com/en/news/2272468-cop-26-climate-diplomacy-focuses-on-saudi-arabiav.
[15] Rowlatt , Justin, & Tom Gerken. "COP26: Document Leak Reveals Nations Lobbying to Change Key Climate Report." BBC News. BBC, October 21, 2021. https://www.bbc.com/news/science-environment-58982445.
[16] Ibid.

in price when demand drops. For instance, during the Covid-19 pandemic, the sudden drop in economic activities led to a drop off of an estimated 30% of demand for oil in 2020.[17] This helped contribute to the sudden fall in oil price during that period as producers were suddenly faced with a glut of surplus oil.

The converse also holds. If suddenly more consumers want to buy oil, the oil producers are not able to suddenly increase the quantity of oil supplied, therefore, the prices will jump by a large amount. Therefore, any sudden changes to the demand for oil will drastically affect oil prices and the stability of the oil market.

As part of OPEC's mission to "stabilise prices in international oil markets" and "secur[e …] a fair return on their capital to those investing in the petroleum industry",[18] it would greatly benefit OPEC to be able to secure the demand for oil and reduce its volatility. Investments into oil run in the billions with long lead times. The uncertainties in determining future oil demand from changing energy policies and technological developments can result in producers bearing the high costs of capital when projected demand does not materialise.[19] Delegates may discuss how OPEC may further promote "security of demand" for oil, examining the role for oil-consuming nations in developing "road-maps" or increasing transparency of oil needs.

Supply-side shocks

Similar to how the demand for oil can affect prices, the supply of oil can also determine the prices of oil. A restriction of the supply of oil would mean that there is a shortage of oil on the market and countries in a way bid up the price of oil. The widespread use of oil in daily lives makes oil a necessity for firms, governments and the general population. In the short run, they do not have the time nor the incentive to switch away from oil. A major example could be seen in the case of phasing out petrol-based cars in the European Union, where several countries including Italy and Bulgaria opposed this. These opposing countries felt that this would bear a financial cost which certain European Union countries would suffer more than others, and "adequate and tailored transition periods" were needed if these policies were to be implemented. Hence, countries will continue to purchase oil regardless of the costs and the amount demanded drops less than proportional to a rise in prices. This is known as the price elasticity of demand and to the OPEC members, this means that they are able to increase their profits by restricting the oil supply.

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[17] "The Impact of Coronavirus (COVID-19) and the Global Oil Price Shock on the Fiscal Position of Oil-Exporting Developing Countries." OECD, September 30, 2020. https://www.oecd.org/coronavirus/policy-responses/the-impact-of-coronavirus-covid-19-and-the-global-oil-price-shock-on-the-fiscal-position-of-oil-exporting-developing-countries-8bafbd95/.

[18] "Brief History." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/24.htm.

[19] "Energy Supply and Demand Security." OPEC, February 16, 2006. https://www.opec.org/opec_web/en/1097.htm.

It is important to understand that the supply of the entire oil market is made out of many different oil producers which include the OPEC and OPEC+ members but also other nations like the US with its fracking technology. OPEC through coordination of its policies such as by setting production limits and minimums can influence the global supply as they make up a significant portion. This is how they are able to influence the price of oil. Supply side shocks can be the result of a variety of factors.

Supply Chain Disruptions and Natural Disasters

Apart from demand-side shocks that result in market volatility, supply-side shocks, as a result of natural disasters and supply chain disruptions, can also lead to fluctuating oil prices.

A prominent cause of supply-side shocks can be seen in supply chain disruptions. The oil supply chain consists of storage facilities that allow for the ability to adjust to supply and demand, shipping, and pipelines that transport oil into storage and refineries, which use chemical separation and reaction processes to transform crude oil into usable products. One cause of supply chain disruptions is human error, as can be seen when a ship was stuck in the Suez Canal for over 6 days in 2021. It is estimated that this shipping route carries around 9.6 billion US dollars worth of goods per day, including almost 2 million barrels of oil per day.[20][21] These disruptions cause instability to the oil market, so delegates can consider what actions, if any, can be taken to mitigate them in the future.

In a similar vein, another cause of oil supply-side shocks comes in the form of natural disasters, which are unexpected destructure events that are out of OPEC's immediate control, similar to certain causes of supply chain disruptions. For example, if an earthquake or hurricane damages oil or transport infrastructure, this leads to a fall in supply, and thus fluctuations in prices. However, there is little that the individual country can do on its own to mitigate the situation, and the only thing that OPEC can do in the short run to address it is to allow other countries to exceed their production quotas to meet the missing supply. However, this does not address the issue of the damaged infrastructure in the country affected by the disaster, and does nothing to help in economic recovery. It also does not fix the root cause of the supply chain disruption, since not fixing this section will cause the issue to prolong into the future. Furthermore, disagreements over production quotas have long been a contention present in OPEC since individual member states may prioritise their own revenue and economic growth against the common goal of OPEC, so OPEC modifying other countries' quotas on such a short notice will likely spark disagreements.

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[20] "Factbox - the Suez Canal: A Vital Oil Transit Route with an Ancient History." Reuters. Thomson Reuters, March 26, 2021. https://www.reuters.com/article/egypt-suezcanal-oil-idINKBN2BI26C.
[21] Staff, Reuters. "Factbox - the Suez Canal: A Vital Oil Transit Route with an Ancient History." Reuters. Thomson Reuters, March 26, 2021. https://www.reuters.com/article/egypt-suezcanal-oil-idINKBN2BI26C.

Supply chain disruptions and natural disasters enhance the difficulty for OPEC to ensure a stable oil market, yet measures that need to be undertaken to solve these supply issues are not directly under the organisation's jurisdiction. However, preemptive measures can be developed to better anticipate and respond to such situations, such that the oil market can quickly be re-stabilized whilst minimising any conflicts with production quotas between OPEC members. To ensure that OPEC's long-term outlook will be one where disagreements are minimised, preparatory measures in regards to these unexpected situations will be needed.

Geopolitical Considerations and Terrorism

Supply-side shocks can also be initiated by oil producers themselves in order to purposefully manipulate prices for their own benefit. Since OPEC works as a cartel, they have significant market power when working collectively, meaning that they have a high ability to manipulate prices, which can be used to gain market share, maximise profits, or utilise oil as a political weapon. This could work by refusing to sell oil to certain consumers, or manipulating the price of oil to be exorbitantly high, which is done by artificially reducing its supply. In 1973 as an example, the Arab nations in OPEC orchestrated an oil embargo against countries who supported Israel in the Yom Kippur war, a conflict between Israel and Arab nations.[22] The main country targeted was the United States, and the shortage of oil led to long lines for gas in the country, alongside increased oil market volatility during this period of turmoil.[23] Hence, this explains the possible motivations behind self-induced supply-side shocks by oil producers.

They can also be a result of embargoes and sanctions, leaving world oil supplies tight and OPEC struggling to meet global demands. The tightening of the Iranian sanctions regime in 2017 and 2018 sent oil prices soaring from around $50 to $80 per barrel due to a production cut of 1.3 million barrels per day (bpd) and export reductions from 3 to 1.7 million bpd.[24] While this may appear favourable, demand may eventually suffer if prices were to keep rising and potentially encourage developments that reduce reliance on oil. Hence, OPEC has to try to prevent a crude shortage that ultimately backfires on the group itself.

Supply chain disruptions can also arise from domestic conflicts, such as terrorism. Since oil holds strategic value for many powerful countries, it is very common for terrorists to target facilities such as pipelines, tankers, refineries, oil fields and chokepoints in oil-producing countries with the aim of

[22] "Oil Embargo, 1973–1974." U.S. Department of State. U.S. Department of State. Accessed August 5, 2022. https://history.state.gov/milestones/1969-1976/oil-embargo.
[23] Ibid.
[24] Vakulenko, S. (2022, 14 June). A Big Bang? Anticipating the Impact of Europe's Sanctions on Russian Energy. Carnegie Endowment for International Peace. https://carnegieendowment.org/eurasiainsight/87318

economically disrupting foreign energy supplies. Moreover, attacks on the energy sector are a very relevant part of the military strategy of notorious terrorist organizations such as the Islamic State (IS) because oil is an important source of financing for them. For example, Jihadists of the IS hit energy targets to stop the supply of oil and gas to Western countries, thereby damaging their economies, and at the same time, limiting supply of these resources which increases the price of oil while simultaneously nourishing themselves with increased possession of limited resources that can be sold for significant funds.[25] Furthermore, The IS strategy is to tap the full potential of the wealth of energy resources in its territories by developing its own oil industry so that it would acquire a stable and reliable source of income.[26] Over the course of 2014, the IS took control of more than 60% of the oil production in Syria and almost 10% of the Iraqi oil production. As a result, they had a total production capacity of 80,000–120,000 barrels of oil per day.[27][28] Another example is the drone attack on two major oil facilities in Saudi Arabia on September 2019 by Yemen-based terrorist group Houthis, which posed a risk of global oil supply disruption and led the oil price to soar by 14.6%. Since then, they have carried out a series of attacks on oil tankers and installations, including the April 2021 drone attacks on Saudi Aramco's oil facilities.[29]

When production infrastructures in producing countries are damaged or influenced by terrorist activities by appropriation or destruction, oil prices and production are affected. Major economies depend on the biggest oil-producer countries, many of which suffer high political instability and uprisings such as Iraq. For example, Al-Qaeda's attack on a gas field in Algeria in 2016 caused significant curbs on its production, while a pipeline attack in the same year in Nigeria paralyzed oil production, with production losses of around 250,000 barrels. Another pipeline attack in Kurdistan in February 2016 reduced oil production by 600,000 barrels per day.[30] The impacts are exacerbated by the degree of geographic concentration of some of these countries, with seven out of the top twenty oil producing countries being located in the Middle East and North Africa region, putting the area at high risk to damages caused by terrorism.[31] Additionally, many producing countries are poorly diversified economies, which means that turbulence and conflicts reducing the productive capacity of the oil industry could leave countries with little to fall back on.

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[25] Tichy, Lukas. "The Islamic State oil and gas strategy in North Africa". Elsevier. April, 2019. https://www.sciencedirect.com/science/article/pii/S2211467X19300288#bib62

[26] Mongue, Manuel. "Terrorism and the behavior of oil production and prices in OPEC" http://ddfv.ufv.es/bitstream/handle/10641/2483/1.-%20Terrorism.pdf?sequence=1&isAllowed=y.

[27] Harrell, Peter. "Peter Harrell before the Senate Committee on Energy and Natural Resources". CNAS. December 10, 2015. goo.gl/gvU9yB.

[28] Lukáš Tichý & Jan Eichler. Terrorist attacks in the energy sector: case of Al Qaeda and the islamic state Stud. Conflict Terrorism, 41 (2018), pp. 450-473.

[29] Lee, Chia-yi. "Why do terrorists target the energy industry? A review of kidnapping, violence and attacks against energy infrastructure." Elsevier. May, 2022. https://www.sciencedirect.com/science/article/pii/S2214629621005466#fn0010.

[30] Bassil, Charbel, Hamadi, Hassan & Bteich, Marion. (2018). Terrorism in OPEC countries and oil prices. International Journal of Emerging Markets. 13. 00-00. 10.1108/IJoEM-11-2017- 0493. October, 2018.

[31] Ibid.

Internal Disagreements between OPEC members

The withdrawal of Qatar from OPEC on January 1, 2019 signified internal disagreements between OPEC members.[32] Saudi Arabia had previously cut economic ties with Qatar in 2017 as they had suspected the country of endorsing terrorism and destabilising the Middle East region. Qatar, on the other hand, thought that this infringed on their national sovereignty. While Qatar has said that the decision was not politically motivated, this shows the underlying friction between OPEC member states.[33] Given that OPEC is a consensus based organisation, this can cause their dealings to be inefficient and policy decision-making to become slower and more stagnant, which can reduce their monopoly over the oil market.

More recently, the loosening of the COVID-19 restrictions in the first half of 2021 was the primary reason why the demand for crude oil increased exponentially. This was more than what OPEC member states had previously agreed upon to supply. About half of crude oil demands come from the transportation sector, and with restrictions relaxed more people travelled.[34] With an increased demand for oil, the price of each oil barrel significantly went up with limited supply controlled by the OPEC countries.[35]

The number of oil barrels that OPEC countries had agreed to produce was during a time where COVID-19 was rampant, and the demand for oil was not as high. As such, the number of oil barrels produced was not tailored to a post-COVID world, and this has put OPEC at a disadvantage in terms of maximising profit. Disagreements in terms of setting appropriate production quotas and total output levels ultimately led to a slow adaptation to the changing economic conditions, especially during the post-pandemic recovery period.[36]

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[32] Jahshan, K. (2018, December 6). *Qatar Withdraws from OPEC: Business, Politics or Both?*. Arab Center Washington DC. Retrieved August 4, 2022, from https://arabcenterdc.org/resource/qatar-withdraws-from-opec-business-politics-or-both/

[33] Meredith, S. (2018, December 3). *Qatar to quit OPEC after more than 57 years, denies decision related to Saudi-led boycott.* CNBC. Retrieved 5 August, 2022, from https://www.cnbc.com/2018/12/03/qatar-to-withdraw-from-opec-as-of-january-2019.html#:~:text=Qatar%20to%20quit%20OPEC%20after,related%20to%20Saudi%2Dled%20boycott&text=Qatar's%20Energy%20Minister%20Saad%20al,OPEC%20on%20January%201%2C%202019.

[34] Jefferson, M. (2020, July 15). *A crude future? COVID-19s challenges for oil demand, supply and prices.* National Library of Medicine. Retrieved August 4, 2022, from https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7360512/

[35] Barbosa, F. et al. (2020, May 15). *Oil and gas after COVID-19: The day of reckoning or a new age of opportunity?* McKinsey & Company. Retrieved August 4, 2022, from (https://www.mckinsey.com/industries/oil-and-gas/our-insights/oil-and-gas-after-covid-19-the-day-of-reckoning-or-a-new-age-of-opportunity

[36] Paraskova, Tsvetana. "OPEC+ Underproduction Is Pushing Oil Prices Higher." OilPrice.com, February 21, 2022. https://oilprice.com/Latest-Energy-News/World-News/OPEC-Underproduction-Is-Pushing-Oil-Prices-Higher.html.

Lack of cooperation between OPEC and OPEC+ members

The formation of OPEC+ in 2016 greatly shifted the power dynamics between the organisation. The addition of Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, the Philippines, Russia, Sudan and South Sudan to OPEC+ was aimed at internally coordinating oil supply policies. Saudi Arabia, the largest oil producer in OPEC, was the de facto leader of OPEC at that time. However, with the introduction of new countries, there was an increasing need to accommodate OPEC+ member states.[37] This caused tension between the organisation, as Saudi Arabia had to share its leadership with Russia, who was a larger crude oil producer than Saudi Arabia. In 2021, Russia produced 13.1% of global crude oil, 1% more than what Saudi Arabia produced.[38]

When Russia entered OPEC+, they believed that their participation allowed for OPEC+'s regulations and quotas to be effective since this would increase the overall market share in the oil market.[39] Russia has also assisted Saudi Arabia in periodically chasing down violators of the production quotas, and making up for what they have overproduced.[40] At the same time, however, Russia has also been particularly non-compliant with OPEC+'s regulations and production quotas. They had demanded that they get more allowances, such as more relaxed compliance with production quotas, or even exemptions from the quotas entirely.[41] Russia's unpredictability had left other countries to deal with the fallout that occurred afterwards. The failure to cooperate has made it difficult for OPEC+ members to work together on key issues, such as regulating and stabilising oil prices.

This was most prominent during the pandemic, where the increased volatility of oil prices and demand makes cooperation and complicity with production quotas extremely difficult. The Russian-Saudi price war in 2020 demonstrates the friction and tensions between OPEC and OPEC+ members amidst the ravaging pandemic. Saudi Arabia had wanted OPEC+ members to reduce production in order to adapt to the fall in demand due to COVID-19.[42] However, Russia was hesitant to do so due to US sanctions aimed at their oil company, and was convinced that there was significant detriment to cutting production. In retaliation, Saudi Arabia increased production to force Russia to agree. This

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[37] Kozhanov, N. & Young, Karen. (2021, July 13). *The Saudi-Emirati OPEC rift might be local, but the core dispute is global.* Middle East Institute. Retrieved August 4, 2022, from https://www.mei.edu/publications/saudi-emirati-opec-rift-might-be-local-core-dispute-global

[38] U.S. Energy Information Administration. (2022, June 1). *Where our oil comes from.* Retrieved August 15, 2022, from https://www.eia.gov/energyexplained/oil-and-petroleum-products/where-our-oil-comes-from.php

[39] Reed, Stanley. "Russia and Others Join OPEC in Rare, Coordinated Push to Cut Oil Output." The New York Times. The New York Times, December 10, 2016. https://www.nytimes.com/2016/12/10/business/russia-opec-saudi-arabia-cut-oil-output.html.

[40] Ibid.

[41] Ibid.

[42] Stevens, P. (2020, April 9). *OPEC and allies agree to historic 10 million barrel per day production cut.* CNBC. Retrieved August 4, 2022, from https://www.cnbc.com/2020/04/09/oil-jumps-ahead-of-make-or-break-opec-meeting.html

caused the price of oil internationally to significantly plummet in the short term, and oil producing countries had suffered significant losses.[43] The damaging price war negatively impacted the view of OPEC and the oil market. The oil market was seen as extremely volatile and too much of a gamble to invest in as more than 100 oil companies had to declare bankruptcy.[44] It is important to note that the oversupply of oil was largely caused by a lack of cooperation between OPEC and OPEC+, which is why OPEC was criticised as an ineffective organisation in achieving its goals.

Another dispute involved the United Arab Emirates and Saudi Arabia over plans to increase production in the face of rising global demand. The United Arab Emirates refused to move forward with the deal because it would extend oil production cuts through late 2022, going against its wish to raise its output unconditionally. On the other hand, Saudi Arabia argued that extended output cuts are necessary to prevent excess oil supply that could tank prices. Without agreement on an increase in crude production beyond the end of July, oil prices surged to a six-year high and oil markets were left in a state of limbo just as global fuel demand recovered from the coronavirus crisis.[45] Hence, lack of cooperation between OPEC and OPEC+ can lead to increased volatility in the oil market, with prices jumping on lack of new supply or sinking suddenly if countries decide to release crude independently, raising oil production due to the lack of a restricted structure.[46] This inability to harmonise their policies, which is part of the OPEC mandate, causes a lack of clarity on production policy, which could lead to investor uncertainty over their returns. Since market sentiment plays a dominant role in oil price determination, this could further aggravate volatility in oil prices.

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[43] Ma, R. et al. (2021, August 17). *The Russia-Saudi Arabia oil price war during the COVID-19 pandemic.* National Library of Medicine. Retrieved August 4, 2022, from https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8652835/

[44] OGV Energy. (2021, January 21). *Over 100 oil and gas companies went bankrupt in 2020.* Retrieved August 4, 2022, from https://www.ogv.energy/news-item/over-100-oil-and-gas-companies-went-bankrupt-in-2020

[45] Meredith, Sam. "OPEC+ deadlock is bad news for oil producers and consumers, IEA warns". CNBC. July 13, 2022. https://www.cnbc.com/2021/07/13/oil-iea-says-opec-deadlock-is-bad-news-for-producers-consumers-and-energy-transitions.html

[46] Domm, Patti. "OPEC discord could unleash a new level of volatility in oil market". CNBC. July 6, 2021. https://www.cnbc.com/2021/07/06/opec-discord-could-unleash-a-new-level-of-volatility-in-oil-market.html

Scope of Debate

Climate change

Even amidst the trends of renewable energy becoming increasingly popular amidst the global fight against climate change, OPEC is not alone in opposing the complete phasing out of oil in the global energy market. Due to certain groups of countries lacking the political will to phase out oil, delegates can consider which non-OPEC stakeholders might share similar views on renewable energy, which could enable cooperation to ensure OPEC's long-term position in the energy market. An example would be Japan and Australia, which sided with Saudi Arabia during COP26 by lobbying against the rapid shift away from fossil fuels.[47] As such, delegates are highly encouraged to debate on how certain non-OPEC countries can be involved in mitigating the effects of renewable energy to secure OPEC's interests.

Additionally, OPEC has indicated some response to climate change pressure. OPEC Secretary General, Mohammad Sanusi Barkindo has pointed out his commitment in engaging with the United Nations Framework Convention on Climate Change (UNFCCC) in his speeches.[48] The question, however, centres around what form this should take. OPEC, as an organisation, has promoted innovations that reduce emissions from traditional sources and improve energy efficiency. The success of OPEC's transition towards cleaner extraction of oil, may offset some of the calls to move away from oil, thereby helping OPEC to maintain its market. Saudi Arabia's own oil minister even highlighted "the dangers of the industry failing to help limit global warming" in 2015. Hence, delegates can consider how OPEC may continue to promote such technologies, especially in relation to oil's viability in the face of climate change.

Short-term demand fluctuations and productive capacity

One of the major short-term challenges that OPEC faces involves dealing with sudden disruptions in the supply of oil, as mentioned earlier. Whether or not OPEC is able to successfully even out the short-term shocks is dependent on their productive capacity, that is how much they are able to ramp up their output especially in a short span of time.[49] Due to the differences in spare capacity and reserves, the responsibility for this has often fallen upon larger producers like Saudi Arabia that can have the largest influence over the level of output.[50][51]

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[47] Ibid.

[48] "Oil Industry Ready and Willing to Tackle Climate Change Issues." OPEC, 2019. https://www.opec.org/opec_web/en/press_room/5772.htm#:~:text=Many%20OPEC%20Member%20Countries%20are,CCUS)%20and%20energy%20efficiency%20improvements.

[49] Shibab-Eldin, Adnan. "Meeting the Supply Challenge." OPEC, September 21, 2005. https://www.opec.org/opec_web/en/888.htm.

[50] B., Dr Nimat, and Abu Al-Soof. "The Role of OPEC Spare Capacity." OPEC, 2007. https://www.opec.org/opec_web/en/866.htm.

[51] Cho, Sharon. "What Exempting Russia from OPEC+ Supply Quotas May Mean for Oil." Bloomberg.com. Bloomberg, June 1, 2022.

Finding a way for OPEC to better prepare for short-term disruptions will allow it to better ensure stability of oil prices and its profit. This would also aid OPEC in dealing with fluctuations in demand (short term demand changes), specifically sudden increases of the demand for oil, as seen in the abrupt increases in Chinese oil demand in 2007-2008 amidst the unexpected drop in non-OPEC production.[52]

The key is increasing the productive capacity of nations which enables them to better respond to immediate drastic spikes in the quantity of oil demanded which presently tight supply chains are inadequate to meet the rising demand. Therefore, delegates may wish to consider how they can better prepare OPEC to deal with risks in their supply chains as well as improve its productive capacity to respond to short term increases in the demand for oil as timely as possible.

Increasing coordination between the member nations

As demonstrated, OPEC has faced a plethora of difficulties in achieving coordination among its member nations in complying with production quotas. Many of the countries violate the production quotas when they feel the quotas were unfairly set or when other members of OPEC are cheating in their own production.[53] The need for increased income may also instigate OPEC members to circumvent quotas.

To counter this issue, delegates can consider tackling two different aspects of it: increasing compliance and setting the quota.

Delegates should consider the policy options available to OPEC that can improve compliance within the organisation. One potential method is the threat of a price war. In the event that members overproduce, the price would fall in response to a surplus unless other members compensate by cutting their own production.[54] However, if they do not, then prices would fall, potentially to the point where the producers are in the red.

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https://www.bloomberg.com/news/articles/2022-06-01/what-exempting-russia-from-opec-supply-quotas-may-mean-for-oil?leadSource=uverify+wall.

[52] Kaufmann, Robert K. "The Role of Market Fundamentals and Speculation in Recent Price Changes for Crude Oil." Energy Policy. Elsevier, October 14, 2010. https://www.sciencedirect.com/science/article/abs/pii/S0301421510007044.

[53] Gordon, Deborah. "At the Heart of OPEC: Strategies and Reflections." Carnegie Endowment for International Peace, July 8, 2015. https://carnegieendowment.org/2015/07/08/at-heart-of-opec-strategies-and-reflections-pub-60816.

[54] Krane, Jim. "Reconsidering Saudi Arabia's Membership and Role in the OPEC Cartel." Does Saudi Arabia need OPEC?, November 26, 2019. https://agsiw.org/wp-content/uploads/2019/11/Jim-Krane_Saudi-OPEC_ONLINE.pdf.

Currently, the quota system is not based on set criteria.[55] Delegates should consider how OPEC can set quotas for its respective members to induce adherence. Some factors that might be up for examination might be the proven reserves and the productive capacity of each member nation. These factors determine how much countries are able to produce. Alternatively, delegates may choose to see gross domestic product and domestic investment needs as potential criteria as they can affect how fair quotas appear. Tighter criteria or even a formula-based model may aid OPEC in achieving greater stability.

Falling market share

OPEC is formed by oil-producing countries who collude to jointly fix price or output. As a cartel, they have a goal of setting the monopoly price for oil. In the past, their monopolistic behaviour allowed them to dominate the oil market, conferring them the ability to affect the price and output. With little close substitutes to replace the oil supplied from OPEC, they were able to retain control over the oil supplied and the price of oil in order to maximise their profits. This allowed them to have a dominant market share within the oil market, which is the percentage of the total amount of oil sold in the oil market.

Despite this, OPEC's market share in the global oil market has sunken from 42% in 2015,[56] to only around 30% in 2019 (excluding OPEC+).[57] This is largely due to the strict control that OPEC nations enact on their members. Their restraint on oil production has led to a falling market share in the global oil market. The supply cuts have led to other countries overtaking OPEC in their market share, such as Russia and the US. However, recent events such as the Russian sanctions due to their invasion of Ukraine signify that Russia would become less significant in the oil market in the short term.[58] Their oil exports have been significantly constrained, and would thus be less of a threat to OPEC's market share than the US.[59] This can be seen as the EU and countries like the US, the United Kingdom, and Australia have committed to reducing reliance on or outright banning Russian oil.[60]

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[55] Gault, John, Charles Spierer, Jean-Luc Bertholet, and Bahman Karbassioun. "How Does OPEC Allocate Quotas?" Journal of Energy Finance & Development. North-Holland, June 8, 2000. https://www.sciencedirect.com/science/article/abs/pii/S1085744399000071.

[56] Owyang, Michael T, and Hannah Shell. "Is OPEC Losing Its Ability to Influence Oil Prices?" Saint Louis Fed Eagle. Federal Reserve Bank of St. Louis, December 9, 2021. https://www.stlouisfed.org/on-the-economy/2017/march/opec-losing-ability-influence-oil-prices.

[57] Lawler, A. (2019, August 22). *OPEC's market share sinks - and no sign of wavering on supply cuts.* Reuters. Retrieved August 5, 2022, from https://www.reuters.com/article/us-oil-opec-graphic-idUSKCN1VC0U4

[58] AFP. (2022, June 2). *OPEC debates oil output boost amid Russian isolation.* The Economic Times. Retrieved August 5, 2022, from https://energy.economictimes.indiatimes.com/news/oil-and-gas/opec-debates-oil-output-boost-amid-russian-isolation/91954426

[59] England, A. & Al-Atrush, S. (2022, May 23). *Saudi Arabia signals support for Russia's role in Opec+ as sanctions pressure mounts*. Financial Times. Retrieved August 5, 2022, from https://www.ft.com/content/87ac05cd-d1e4-4495-8064-60d97b17f5f4

[60] Horton , Jake, and Daniele Palumbo. "Russia Sanctions: How Can the World Cope without Its Oil and Gas?" BBC News. BBC, September 29, 2022. https://www.bbc.com/news/58888451.

OPEC must thus be able to reconcile their differences with their dominance over the oil market. They have reported in July 2022 that oil demand is expected to increase in the next year due to the improvements in the containment of COVID-19 worldwide. [61] To increase market share for OPEC, countries would need to improve their production capabilities to meet higher oil production quotas, and increase flexibility in exceeding quotas to meet future expected increases in demands to regain market share loss. Beyond 2023, countries would need to find a long-term sustainable solution in order for them to maintain a dominance over the oil market.

[61] Lawler, A. (2022, July 12). *OPEC sees slower 2023 oil demand growth, no big shale gain.* Reuters. Retrieved August 5, 2022, from https://www.reuters.com/business/energy/opec-forecasts-slower-oil-demand-growth-2023-2022-07-12/

Key Stakeholders

Russia

While Russia is not in OPEC, it has significant power with regards to the setting of production quotas and setting oil prices. Being the third-largest oil producer in the world, both Saudi Arabia and Russia agreed that their partnership would be strategically beneficial for OPEC to get a better hold on oil prices.[62] Despite this seemingly elevated position, Russia is only a member of OPEC+. OPEC has invited Russia to join as a member on several occasions, for example in 2013 and 2015, as a measure to stop the rapid decline of oil prices. However, it appears that being a member of OPEC is not in Russia's best interests. Most of Russia's oil is privatised, which makes the government unable to fully comply with OPEC's oil production quotas.[63]

Furthermore, Russia's importance as a large oil producer has brought about conflict within OPEC+. Russian refusal to cooperate with OPEC's production quotas and instead overproducing oil has led to multiple declines in oil prices, and on one occasion, caused a price war.[64] Recent developments such as the Russian-Ukraine war have led to worsening tensions between Russia and OPEC. While Saudi Arabia and Russia are likely to maintain a stable relationship, other OPEC countries are potentially interested in expelling Russia from the OPEC+ collaboration.[65] Such a move could have lasting implications on the state of OPEC+ and indirectly on OPEC as Russia has taken a prominent role in the setting of quotas.

Saudi Arabia

As the largest oil producer in OPEC in terms of oil production and a founding member of the organisation, Saudi Arabia is seen as the de facto leader of OPEC, and is often the "spokesperson" of the group.[66] In terms of oil reserves, Saudi Arabia has the second-largest in the world, standing at 297.5 billion barrels of oil.[67] As such, it is important for oil to stay prominent in the energy market, hence the need for Saudi Arabia to maintain OPEC's image and power, so that these currently untapped reserves can be put to profitable sale.

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[62] Uhler, Andy. "*Why OPEC might decide to take a break from its alliance with Russia"*. Marketplace. June 1, 2022. https://www.marketplace.org/2022/06/01/why-opec-might-decide-to-take-a-break-from-its-alliance-with-russia/

[63] Smith, R. (2017, March 29). *Why Isn't Russia a Part of OPEC?* The Motley Fool. Retrieved 14 September, 2022, from https://www.fool.com/investing/2017/03/29/why-isnt-russia-a-part-of-opec.aspx

[64] Mann, J. (November 2009). *Russia's Policy Towards OPEC.* Vol. 45, No. 6. pp. 985-1005.

[65] Domm, P. (2022, June 1). *Tough new sanctions on Russia could hit world oil supply and change the OPEC+ dynamic.* CNBC. Retrieved 14 September, 2022, from https://www.cnbc.com/2022/06/01/tough-new-sanctions-on-russian-oil-could-change-the-opec-dynamic.html

[66] England, Andrew. "Saudi Arabia Signals Support for Russia's Role in OPEC+ as Sanctions Pressure Mounts." Subscribe to read | Financial Times. Financial Times, May 22, 2022. https://www.ft.com/content/87ac05cd-d1e4-4495-8064-60d97b17f5f4.

[67] "Oil Reserves by Country 2022." Oil reserves by country 2022, 2022. https://worldpopulationreview.com/country-rankings/oil-reserves-by-country.

Since Saudi Arabia is the de facto leader of OPEC, they have had troubles alleviating disputes within stakeholders in the oil market, as they recently have had to concede to the conflicting demands of the United States and Russia.[68][69] On one hand, Saudi Arabia and the US have long been significant trading partners,[70] yet Saudi Arabia still has to maintain fair relations with Russia, as they are the largest OPEC+ producer.[71] The Russo-Ukraine war has made it even harder for Saudi Arabia to play the strings between the US and Russia, as the relations between these two countries have become even more strained as a result. Russia's cooperation is important for Saudi Arabia since they make up a large portion of OPEC's collective market share (OPEC and OPEC+ market shares), and the effects of a non-compliant Russia can be seen in the oil price war in 2020.[72]

Iran

As the world's 17th largest country in territory,[73] Iran holds a significant amount of oil reserves, totalling to approximately 157,530,000,000 barrels of proven oil reserves as of 2016. It ranked 4th globally and accounted for around 9.5% of the world's total oil reserves, as one of the first 5 founding members of OPEC. With reserves of about 239.2 times its annual consumption,[74] Iran relatively has sufficient spare capacity to adapt to short-term fluctuations in the demand for oil, specifically sudden increases in the demand for oil as worldwide pandemic restrictions ease. Before the United States continued sanctions on Iran after former President Donald Trump left the Iran Nuclear Deal in 2018, Iran was the third largest producer in OPEC after Saudi Arabia and Iraq before moving down the list when the sanctions hit.[75]

As a result of sanctions on Iran's exports, it is excluded from the current agreement within OPEC+ to limit oil supply to minimise the fall in oil prices, especially since it has declined by more than 3% in October 2022. However, with senior United States officials stating that Iran had removed some of its demands on reviving the nuclear deal in order to retain its nuclear programme, which increases the likelihood of an agreement to be reached with the West, Iran would return to oil markets and start

[68] Chulov, Martin. "Putin and the Prince: Fears in West as Russia and Saudi Arabia Deepen Ties." The Guardian. Guardian News and Media, October 5, 2022. https://www.theguardian.com/world/2022/oct/05/putin-mohammed-bin-salman-russia-saudi-arabia-deepen-ties.
[69] Welle, Deutsche. "Russia, Ukraine: Whose Side Are Middle Eastern Countries Really on?: DW: 03.03.2022." DW.COM, 2022. https://www.dw.com/en/russia-ukraine-whose-side-are-middle-eastern-countries-really-on/a-61003595.
[70] "U.S. Relations with Saudi Arabia - United States Department of State." U.S. Department of State. U.S. Department of State, July 13, 2022. https://www.state.gov/u-s-relations-with-saudi-arabia/.
[71] Ibid.
[72] Ibid.
[73] "Iran Facts and Figures." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/163.htm.
[74] "Iran Oil." Worldometer, 2022. https://www.worldometers.info/oil/iran-oil/.
[75] Turak, Natasha. "An Iran Nuclear Deal Revival Could Dramatically Alter Oil Prices - If It Happens." CNBC. CNBC, August 31, 2022. https://www.cnbc.com/2022/08/31/an-iran-nuclear-deal-revival-could-dramatically-alter-oil-prices.html.

boosting oil production and exports.[76] In response to this possibility, OPEC+ has affirmed that it will collaborate with Iran to integrate it into its oil supply limiting accord to prevent market share competition that could negatively hit prices and drive it down to the extent that OPEC and its allies become increasingly unprofitable.[77] While it is estimated that Iran would take around 1.5 years to achieve its full capacity of oil production,[78] OPEC will still need to contend with the challenge of bringing Iran into its production cut agreement moving forward as a revived nuclear deal becomes increasingly promising.

Major Oil Consumers

China

China is the world's biggest importer of crude oil, and is projected to account for 30% of the rise in world oil demand from 2017 to 2040. However, worsening of US-China relations means that reliance on U.S. oil supplies would be strategically risky, putting more importance on Middle East supplies, such as Iraq, Kuwait and the United Arab Emirates. However, these countries could face increased geopolitical risk if the escalating conflict between Iran and Saudi Arabia leads to additional sabotage against Persian Gulf shipping and production.

Standing to lose most from oil supply cutoffs, stabilisation in the oil market is a key interest for China. However, the country is also concerned about future energy global security and facilitation of energy transition. At the 6th OPEC and non-OPEC Ministerial Meeting, China signed the Charter of Cooperation, which facilitates dialogue between oil extractors, consumers, investors and participating countries regarding long term prospects of the oil market, including the approach to oil in the growing global energy balance.[79] Therefore, OPEC needs to consider China's concerns and capitalise on China's projected increasing reliance on its oil supply in order to improve its long-term outlook.

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[76] Lawler, Alex, Olesya Astakhova, and Maha El Dahan. "With Iran Deal Looming, OPEC+ Weighs Oil Cuts." Reuters. Thomson Reuters, August 23, 2022. https://www.reuters.com/markets/commodities/with-iran-deal-looming-opec-weighs-oil-cuts-2022-08-23/.
[77] Lawler, Alex. "OPEC+ Would Seek to Bring Iran into Oil Supply Deal." Reuters. Thomson Reuters, February 18, 2022. https://www.reuters.com/business/energy/opec-would-seek-bring-iran-into-oil-supply-deal-2022-02-18/.
[78] Ibid.
[79] "The Organization of Petroleum Exporting Countries". The Ministry of Energy in the Republic of Azerbaijan. August 4, 2022. https://minenergy.gov.az/en/beynelxalq-teskilatlarla-elaqeler/neft-ixrac-eden-olkeler-teskilati-opec-ile-emekdasliq

India

As the world's third largest consumer of oil behind only the US and China, India's demand for petroleum products is projected to rise at the fastest pace in the world of 7.73% in 2022.[80] The country's expanding middle class represents a growing source of demand that is expected to double to 11 million barrels by 2045.[81] Continued reliance on petroleum would mean greater dependence on imports for a country that already buys 85% of its oil from overseas.[82] India thus shares with OPEC a common interest in oil market stability that is sustainable.[83]

With its rapidly growing economy, India prioritises keeping inflation in check by negotiating the best deals with its suppliers. It hopes for OPEC to balance the interests of suppliers and consumers,[84] taking a strong stand with OPEC on rising crude prices back in September 2021 where the country stated it was unfair for OPEC+ to refuse to raise production when demand was going up.[85] In fact, OPEC's share of India's overall imports has been declining because refiners are buying cheaper Russian oil shunned by western countries and companies after Russia's invasion of Ukraine. OPEC's share of Indian oil imports fell in 2021 to the lowest in two decades, shrinking to 70% from 87% in 2008.[86] Russian crude now accounts for nearly 17% of Indian imports, up from less than 1% before the invasion,[87] and in the coming months, Kpler data showed Russia moving up to be the top supplier of crude to India.[88] OPEC's share has also shrunk as refiners increased imports from Canada and the United States due to US sanctions that made it difficult for India to import crude from Venezuela and

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[80]Press Trust of India. "India's oil demand to rise by 7.7% in 2022, fastest growing in world: OPEC". Business Standard. August 17, 2022. https://www.business-standard.com/article/economy-policy/india-s-oil-demand-to-rise-by-7-7-in-2023-fastest-growing-in-world-opec-122081700697_1.html

[81]Chakraborti, Debjit. "Opec says India will be hooked on oil for years to come", Business Standard. September 29, 2021. https://www.business-standard.com/article/economy-policy/opec-says-india-will-be-hooked-on-oil-for-years-to-come-121092901213_1.html

[82] Ibid.

[83] "The Growing OPEC-India Relationship". Organization of Petroleum Exporting Countries. October, 2017. https://www.opec.org/opec_web/en/4567.htm

[84]Bhaskar, Utpal. "Unpacking India's oil crisis and the role of Opec". Mint. October 21, 2021. https://www.livemint.com/industry/energy/why-does-india-want-opec-to-raiseproduction-11634750199689.html

[85]"India takes a strong stand with OPEC on rising crude prices". BusinessToday.In. October 20, 2021. https://www.businesstoday.in/latest/economy/story/india-takes-a-strong-stand-with-opec-on-rising-crude-prices-309940-2021-10-20

[86]Verma, Nidhi & Maguire, Gavin. "OPEC's share of Indian oil imports falls to lowest in at least 15 yrs". Reuters. January 21, 2022. https://www.reuters.com/markets/europe/opecs-share-indian-oil-imports-falls-lowest-least-15-yrs-2022-01-20/

[87]Schmall, Emily & Reed, Stanley. "India finds Russian Oil an Irresistible Deal, No Matter the Diplomatic Pressure". The New York Times. May 4, 2022. https://www.nytimes.com/2022/05/04/world/asia/india-russia-oil.html

[88]Press Trust of India. "India's oil demand to rise by 7.7% in 2022, fastest growing in world: OPEC". Business Standard. August 17, 2022. https://www.business-standard.com/article/economy-policy/india-s-oil-demand-to-rise-by-7-7-in-2023-fastest-growing-in-world-opec-122081700697_1.html

Iran.[89] Therefore, OPEC needs to find ways to regain its market share in India to ensure its economic interests moving forward.

[89]Verma, Nidhi & Maguire, Gavin. "OPEC's share of Indian oil imports falls to lowest in at least 15 yrs". Reuters. January 21, 2022. https://www.reuters.com/markets/europe/opecs-share-indian-oil-imports-falls-lowest-least-15-yrs-2022-01-20/

Potential Solutions

Carbon Capture and Storage (CCS)

During COP26, there was much contention over the phasing out of fossil fuels due to conflicting interests between cutting down GHG emissions, and revenue for fossil fuel producers. Saudi Arabia, as the de facto leader of OPEC, was against such strong language being used in the draft documents since it would hinder the economic growth of oil producers.[90] Saudi Arabia emphasised that the goal was to reduce net emissions, and that more diverse solutions were needed. The delegation argued that just getting rid of fossil fuels was not sustainable and abusing this solution would be against the goals of the conference, since the sustainable development of oil producers would be hindered.[91] CCS is thus a solution with the potential to address the concern of OPEC that oil will eventually become indefinitely eliminated due to countries favouring renewable energy and phasing out fossil fuels.

Hence, several oil producing countries brought up CCS during the conference, since it would reduce the amount of carbon emissions in the air, which was in line with the goals of the conference, and it would enable oil producers to continue producing oil. It works by trapping carbon (dioxide) particles when oil is being burnt, which prevents it from escaping into the atmosphere.[92]

However, for this solution to curb carbon emissions significantly enough to meet the global warming goals set in the Paris Agreement, the capacity of CCS around the world to capture carbon emissions had to increase over a hundred-fold by 2040, according to the Global CCS Institute.[93] This meant that a coordinated global effort would be needed if the solution were to be feasible, since OPEC alone would not be able to achieve such drastic improvements in CCS technology and capacity. Furthermore, firms and governments may be reluctant to invest in CCS due to it being a fairly new technology, meaning that it will incur high financial costs to conduct research and development (R&D), and in the short-run, it may be unfeasible to use CCS on a large scale.

An argument can also be made that since oil is a non-renewable resource, it is counter productive in trying to limit the GHGs from burning fossil fuels, when these fossil fuels can be phased out altogether. Eventually, CCS may become redundant when fossil fuels are fully depleted, or renewable

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[90] Green, Eleanor, Caroline Varin, Victoria Hatherick , and Samira Kawar. "Cop 26 Climate Diplomacy Focuses on Saudi Arabia: Argus Media." Commodity & Energy Price Benchmarks, November 10, 2021. https://www.argusmedia.com/en/news/2272468-cop-26-climate-diplomacy-focuses-on-saudi-arabia.

[91] Ibid.

[92] Sibley, Merlin. "What Is Carbon Capture and Storage and What Role Can It Play in Tackling Climate Change?" Grantham Research Institute on climate change and the environment, January 14, 2021. https://www.lse.ac.uk/granthaminstitute/explainers/what-is-carbon-capture-and-storage-and-what-role-can-it-play-in-tackling-climate-change.

[93] 27, Anuradha Varanasi|September, Anuradha Varanasi, Geoffrey Peel, Charles Cartwright et al. "You Asked: Does Carbon Capture Technology Actually Work?" State of the Planet, September 27, 2019. https://news.climate.columbia.edu/2019/09/27/carbon-capture-technology/.

energy becomes so cheap that firms prefer it over oil or coal, hence it may not be seen as a worthwhile endeavour. Ultimately, delegates should deliberate on the feasibility of CCS, and how to further develop it from the current status quo should they feel that it is a useful measure to protect OPEC and oil producers as a whole in the energy market by allowing them to continue producing oil while minimising the environmental impacts of it.

Establishment of New Markets

It is no secret that over the past few decades, OPEC's market share has been falling due to external oil producers such as the United States penetrating the market. However, OPEC has the potential to capture and dominate new markets, especially with the current shortage in the oil market with sanctions placed against Russia, though it must also consider the implications this has on OPEC-Russia relations, and whether OPEC can feasibly meet the production capacity to do so.[94]

An example of a market that OPEC can gain dominance over is Europe, as the European Union (EU) faces an energy crisis primarily due to their sanctions against Russian oil and natural gas in response to the Russia-Ukraine conflict. This is further exacerbated by the fact that during the summer and winter seasons, demand for oil in the EU increases due to the need for air-conditioning and heating services.[95] A possibility for OPEC is that they could engage in greater dialogue and trade agreements with the EU so that the EU would increase their foreign direct investment (FDI) into OPEC countries to improve their oil production capacity, in exchange for OPEC selling oil to the EU, perhaps at a discounted price.

However, Russia is still a member of OPEC+ and has significant market power, as it produces almost as much oil as Saudi Arabia, which is the largest oil producer in OPEC. Gaining control over the European oil market where it was previously dominated by Russia may also strain OPEC-Russia relations even further, which would lead to more disagreements and conflicts between OPEC and OPEC+. The decision making and negotiation process between OPEC and OPEC+ may become even more bureaucratic and inefficient as a result, which would lead to even less coordination between oil producing states to stabilise the oil market. This solution may even lead to a similar outcome as the price war between Russia and Saudi Arabia in 2020, if Russia deems OPEC's actions as aggressive towards their country, which will ultimately lower the profitability for OPEC.

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[94] Ng, Abigail. "OPEC+ Has 'Kind of Broken down' as Russia Loses Relevance and Group Faces Tight Spare Capacity." CNBC. CNBC, June 3, 2022. https://www.cnbc.com/2022/06/03/oil-markets-opec-has-limited-spare-capacity-russia-is-less-relevant.html.
[95] WU, TIN LOK. "The European Energy Crisis: How Are Countries Handling the Gas Shortage?" Earth.Org, August 18, 2022. https://earth.org/the-european-energy-crisis/.

It is important to realise that this solution is not exclusive to the EU, though the EU is one of the more obvious examples. OPEC can perform market research into regions facing energy shortages and determine the profitability of trading with such nations before entering the market. Should this solution be implemented, a mechanism that balances profitability, capturing market share, and maintaining stable geopolitical relations with other oil producers, must be reached for it to truly be effective in maintaining OPEC's long-term position in the energy market.

Admission of New OPEC Members

Part of the reason why OPEC was so successful in the past was due to their increased control over the oil market with greater market share. The readmission of former OPEC members, or admission of new OPEC members, could thus be a possible solution to increase the organisation's market share, which helps preserve their long-term position in the energy and oil market. However, it is important to first look at why several members have left the organisation over the last few years, since this illustrates how it may not be so easy to convince other nations to join the cartel.

Over the years, Ecuador, Indonesia, and Qatar have left the organisation for several reasons. For Ecuador, it felt that the production quotas set by OPEC were too strict, and they were placing too much stress on Ecuador's economy in terms of output and growth, compelling it to leave the organisation in 2020, in hopes of greater revenue after not being bound by quotas.[96] Indonesia also left the organisation (for the second time) in 2016, citing similar reasons of overly restrictive quotas which harmed economic growth.[97] Qatar left the organisation in 2018 for "strategic reasons," though observers speculated that it was due to geopolitical conflicts with Saudi Arabia, noting the hostile tensions the two experienced during the time.[98]

In any case, these events reduced the size of the cartel, and reduced the market share and market power that OPEC had over the oil market. A coordinated response by OPEC would yield a less prominent effect than before as a result. If OPEC wanted to artificially raise oil prices, the countries would have to sacrifice more than they did before, since there were now less members in the organisation. This is because assuming the number of oil producers stays the same, if OPEC wants to cut production by a set amount, each member of OPEC has to cut their output by more since there are less members and the cut is less "spread out."

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[96] Valencia, Alexandra. "Ecuador to Quit OPEC in 2020 in Search of Bigger Export Revenue." Reuters. Thomson Reuters, October 1, 2019. https://www.reuters.com/article/us-ecuador-opec-idUSKBN1WG4KB.

[97] Jensen, Fergus, and Wilda Asmarini. "Net Oil Importer Indonesia Leaves Producer Club OPEC, Again." Reuters. Thomson Reuters, December 1, 2016. https://www.reuters.com/article/us-opec-meeting-indonesia-idUSKBN13Q3M7.

[98] Wright, Steven. "Why Qatar Left OPEC." OPEC | Al Jazeera. Al Jazeera, December 6, 2018. https://www.aljazeera.com/opinions/2018/12/6/why-qatar-left-opec.

If OPEC were to increase the admission of new members, this could reverse the effect and increase the market power of OPEC once again.

In 2017 and 2018, two new members had joined OPEC, which were Equatorial Guinea and the Republic of the Congo, respectively. By joining OPEC, these two countries could reap the benefits of coordinated oil market manipulation, such as artificially raised prices. It also served well for OPEC itself since these two countries had substantial oil reserves, which meant that OPEC controlled even more of the world's oil.[99][100] As such, if countries can keep within their production quotas without harming their economic growth, being part of a cartel can be useful in the long-term as they enjoy the benefits of charging high prices, and having control over the oil market. However, should being a member of the organisation be deemed too restrictive or detrimental to a country's economy, they will be incentivised to leave.

OPEC hence has to strike a balance between having quotas that are appropriately strict such that they are adhered to, and having enough flexibility so that members will be satisfied. If members decide to leave the organisation, this leads to less control over the oil market for the remaining OPEC members.

At the same time, having a larger cartel may make it more difficult for the organisation to sustain its unity. The reasons for this stem from an increased number of stakeholders, which cause conflicting views in decision making; Firstly, there are differences in the cost of production of oil between different countries, which can lead to difficulty in ascertaining quotas for producers. For example, in 2015, the break-even oil price for Venezuela was $57.90 per barrel, while it was only $31 per barrel for Saudi Arabia.[101] Hence Saudi Arabia may be more amenable with lower oil prices compared to Venezuela, creating disagreements regarding setting the price of oil. This effect is exacerbated when there are more producers in the cartel, with varying costs of production. Secondly, increasing the number of members could result in increased interdependence, which leads to the beggar-thy-neighbor effect during times of recession for OPEC nations as the actions of one member to secure its interests often comes at the expense of other members, as can be seen when one member exceeds its quota which drives down oil prices and results in other member's profitability from producing oil to fall.[102]

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[99] "Congo facts and figures." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/5090.htm.
[100] "Equatorial Guinea." OPEC, 2022. https://www.opec.org/opec_web/en/about_us/4319.htm.
[101] Statista Research Department. "Worldwide: Breakeven Oil Price by Country 2015." Statista, July 15, 2021. https://www.statista.com/statistics/1070981/worldwide-breakeven-oil-price-by-country/.
[102] Hayes, Adam. "Beggar-Thy-Neighbor Definition." Investopedia. Investopedia, July 8, 2022. https://www.investopedia.com/terms/b/beggarthyneighbor.asp#:~:text=What%20Is%20Beggar%2DThy%2DNeighbor,beggar%22%20out%20of%20neighboring%20countries.

The Saudi-Russia price war is the perfect encapsulation of this effect. This interdependence can therefore cause members to put blame on each other, which can disrupt the progress of this council.[103]

Hence, delegates can consider whether increasing admission into OPEC and growing OPEC's size will be helpful towards achieving its long-term outlook, and how feasible this solution is.

[103] Ibid.

Questions a Resolution Must Answer (QARMA)

1. How will OPEC nations ensure GDP growth in times of falling oil prices?
2. How should OPEC address non-compliance regarding set quotas?
3. How can OPEC effectively build consensus in decision-making among members amidst growing protectionist sentiments?
4. Should OPEC nations diversify away from oil, or resist the movement against fossil fuels, or embark on both?
5. Should OPEC collectively take any actions to alleviate demand-side and supply-side shocks faced by its member states? If so, what are they?
6. How can OPEC create preemptive measures towards issues that they do not have direct control over, such as supply-chain disruptions, a future pandemic, and/or a war?

Conclusion

When approaching the issue of OPEC's long-term outlook, member states must always remember the objective of the council - to ensure a stable oil market and a profitable return on the sale of petroleum. There are many factors that could compromise the feasibility of OPEC as an oil cartel, which include internal sources such as disagreements over quotas and price wars, and external sources such as the increased development and usage of renewable energy. Ultimately, collaboration between stakeholders in the oil market must be achieved to preserve the profitability of oil and the cartel, noting the large interdependence that exists in the highly concentrated oil market. Collaboration is also important due to the structure of OPEC, which operates and passes draft resolutions via consensus, hence effective action will only come as a result of a unified OPEC.

Annex A – Special Rules of Procedure

To more accurately simulate how the real-life OPEC operates, draft resolutions will require all 13 full members of OPEC to vote in favour for them to pass. In other words, consensus must be reached. Should a draft resolution fail, a motion to divide the house will be in order. If the draft resolution still fails, a motion to divide the question will be in order, and voting will proceed per article, followed by per clause.

When voting individually per article or clause, consensus must be reached between full members for it to pass. However, there is an exception in the case of **clauses that involve the admission of new OPEC members**. In clauses that call for the admission of new OPEC members, they require ¾ of all full members to vote in favour, including all 5 founding members, for these clauses to be passed.[104] As stated under Chapter II, Article 7 of the OPEC Statute, countries may be considered for OPEC membership if they have "substantial net export of crude petroleum," and "fundamentally similar interests to those of Member Countries."[105]

[104] Ibid.
[105] Ibid.

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