Forum: ECOSOC

Issue: Measures to reduce instability in oil producing nations

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Introduction

A country's policy choices, rather than institutions, are more relevant and have a more direct effect in addressing the negative relationship between resource abundance and economic growth.

The reduction of instability in oil producing countries has been a problem since the early 60s due to a number of reasons such as political instability and the gap between rich countries and poor countries. Kendall-Taylor Andrea went in depth on her research regarding the lack of stability in some oil producing countries. Kendall-Taylor Andrea's theories centred on the idea of the resource curse or as some may know it, the paradox of plenty. The resource curse states that countries with a lot of natural resources are more likely to suffer from instability than countries with very little natural resources. Which is quite apparent in today's society as African countries have an abundance of natural resources compared to countries in the western world such as America and Britain etc…

Key terms

Resource Curse: The resource curse, also known as the paradox of plenty, refers to the paradox that countries with an abundance of natural resources (like fossil fuels and certain minerals), tend to have less economic growth, less democracy, and worse development outcomes than countries with fewer natural resources

Dutch Disease: Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive on the export market.

International Cooperation: The interaction of persons or groups of persons representing various nations in the pursuit of a common goal or interest.

Revenue Volatility: It is a rate at which the price of a security increases or decreases for a given set of returns. Volatility is measured by calculating the standard deviation of the annualized returns over a given period of time.

Democracy: a system of government by the whole population or all the eligible members of a state, typically through elected representatives.

Enclave Economy: An enclave economy is defined as an economic system in which an export based industry dominated by international or non-local capital extracts resources or products from another country. It was widely employed as a term to describe post-colonial dependency relations in the developing world, especially in Latin America.

Foreign Aid: When money, food, or other resources given or lent by one country to another

Policy versus Institution: A policy is a principle course of action adopted or proposed by an organization or individual whereas institution is an established law or practice

Countries and Organizations Involved

The Organization of the Petroleum Exporting Countries (OPEC): is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by ten other Members: Qatar (1961); Indonesia (1962) – suspended its membership in January 2009, reactivated it in January 2016, but decided to suspend it again in November 2016; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership in December 1992, but reactivated it in October 2007; Angola (2007); Gabon (1975) - terminated its membership in January 1995 but re-joined in July 2016; and Equatorial Guinea (2017). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.

American Petroleum Institute (API): The American Petroleum Institute is primary trade association of the U. S. oil and natural gas industry. API represents over 600 members involved in all aspects of petroleum including a cross section of petroleum and allied industries in exploration, production, transportation, refining and marketing.

U.S. Energy Information Administration (EIA): A government agency, the U.S. Energy Information Administration collects, analyses, and disseminates independent and impartial energy information to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and the environment. EIA provides an extensive range of information and data products covering energy production, stocks, demand, imports, exports, and prices; and prepares analyses and special reports on topics of current interest.

Independent Petroleum Association of America (IPAA): Begun in 1929 and headquartered in Washington, D.C., the Independent Petroleum Association of America is a trade association that represents thousands of independent oil and natural gas producers across the United States.
The organization serves as a "voice for the exploration and production segment of the industry, and advocates its members' views before the U.S. Congress, the Administration and federal agencies." IPAA provides economic and statistical information about the

domestic exploration and production industry. IPAA also develops investment symposia and other opportunities for its members.

General Overview

The main issue being addressed is the countries that suffer from instability due to their oil production as we consider oil as being a contributing factor to the reason why these countries are unstable at the moment. Increasing instability in already-fragile oil producing countries such as:

- Iran
- Iraq
- Libya
- Russia
- Venezuela

These countries suffer instability due to low oil prices fuelled by first world countries such as America and Britain. Let's say the first solution to the problem may be to remove these first world countries opinions from the table but unfortunately it's not that simple due to the fact that these first world countries supply most of the resources needed to extract this oil, this basically rules out the first option. The second solution is probably to engage in negotiations with these first world countries to come up with a solution which would best suit the economy of the individual country facing instability. However we must not forget that these countries are working in their own self-interest so their decisions will be biased towards economic prosperity for their own country. Therefore coming up with a compromise to the situation will be very hard as first world countries continue to work in their own self-interest. The third solution is to cut of oil supplies to these first world countries this back fire's as this kills trade for both countries making it a very unlikely option.

The oil market currently suffers serious contradictions. In terms of supply and demand, it is possibly oversupplied. This is not least because higher prices to final consumers are beginning to bite. At the same time prices since June 2012 have increased by around 30 per cent, driven by geopolitical concerns. The future price trajectory depends upon politicians. Failure to manage the eurozone crisis could lead to much lower oil prices while an Israeli attack on Iran would cause a major price spike. A key outcome of the Arab uprisings has been a significant increase in the prices needed by the producers to manage their fiscal position. This is a serious indictment of producers' failure to diversify their economies away from dependence on oil revenues over the last 20 years. If the oil price goes much lower, three scenarios could ensue sequentially: a price war forcing prices even lower, a period of internal repression as revenues fail to buy compliance among populations, and internal unrest among producers, which could lead to supply disruption followed by prices bouncing back. Underlying all this is a fundamental dilemma for OPEC. Its members need higher prices, but these will cause demand to fall and other supplies, including unconventional resources, to increase. This will force prices lower. Thus OPEC members need the golden eggs at a rate that may well kill the goose that lays them.

Focusing on the aspect of self-interest as delegates you should understand that many countries will always want to create resolutions that best fit them. However as UN body we must also be able to make decisions that help the world to achieve the UNs development goals as well as making decisions that best support countries in need of assistance regarding instability inside their countries due to the fact they produce oil.

Related UN resolutions and Previous Approaches to Solving the Issue

Security Council 2016: Condemns attempts to illicitly export crude oil from Libya, including by parallel institutions which are not acting under the authority of the Government of National Accord.

OPEC 2002: To bring about a stable oil market with fair and reasonable prices, OPEC has been prepared to act in both directions. The joint OPEC/non-OPEC action restored a degree of stability to the Dr Alvaro Silva-Calderon Secretary General market following the slide in the final months of 2001, and brought prices back within the price band, underlining the need for continued co-operation as a long-term necessity, rather than a short-term solution.

United states Institute of Peace 2007: The two primary sources of fuel are oil (petroleum)—a flammable liquid that can be refined into gasoline—and natural gas, a combustible gas used for fuel and lighting. Fuel scarcity, or at least access to fuel, is one of the greatest concerns for developing and developed countries, given their dependence on energy sources. With a greater global rate of industrialization, many countries have invested in and paid particular attention to alternative types of energy such as nuclear, electrical, wind, and solar energy. Still, the U.S. Department of Energy estimates that by 2020, two thirds of the world's known petroleum reserves will be consumed. Many mainstream media sources and other organizations warn that easily accessible oil, especially in Saudi Arabia, is rapidly disappearing and that the world will soon face the end of the oil era. Moreover, many of the world's largest petroleum reserves are located in areas suffering from political instability or conflict, such as Iran, Iraq, Nigeria, Venezuela, and Sudan. Thus the value and demand for fuel, especially petroleum, allows conflicts in these areas to have an impact on the global economy. On the other hand, the developed world's increasing demand for oil, and its search for "supply security," can exacerbate existing conflicts

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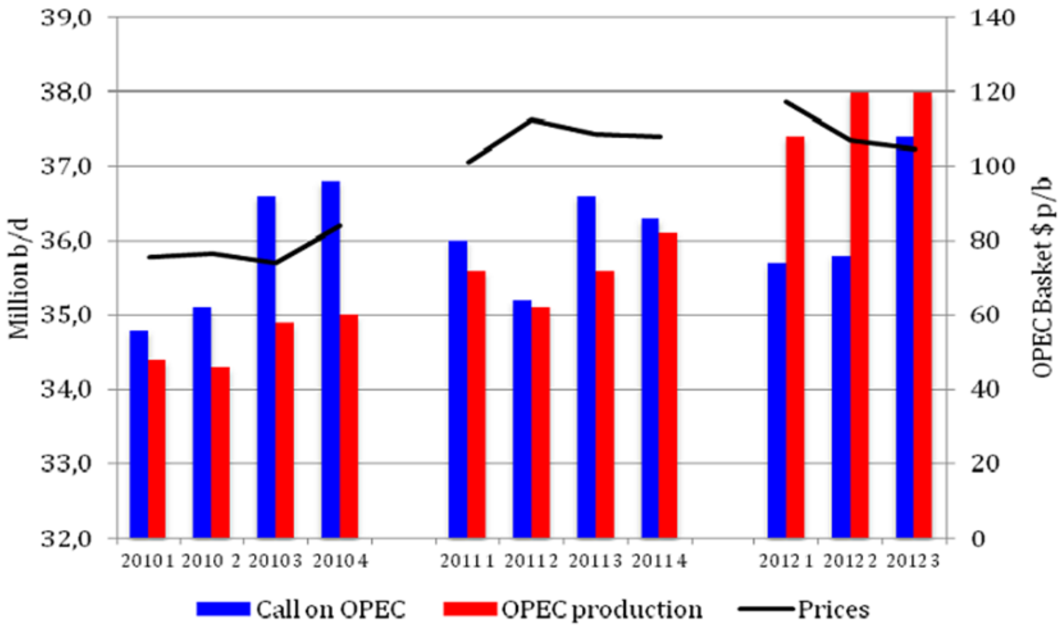
Appendix

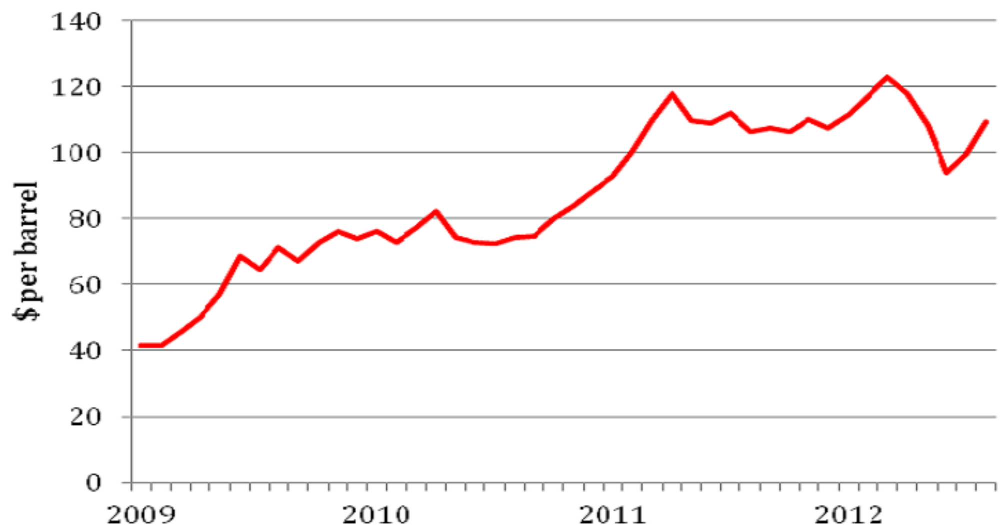
Figure 1: World oil market, 2010–12

Source: International Energy Agency.



The figure tells a clear story of oil prices. During 2010, global demand grew strongly and the call on. OPEC responded accordingly. However, OPEC did not increase output. The reason was that, during 2010 and for a number of quarters earlier, oil inventories had been at record five-year-high levels. OPEC's concern was that if this stock overhang came to market, then prices would fall dramatically, as had happened in 1998. This failure to increase output by OPEC caused the markets to tighten and prices to rise in the second half of 2010. At the start of 2011, the events of the Arab uprisings began to unfold, starting in Tunisia. This led to rising prices as a result of fears in the paper barrel markets that the major oil producers of the Gulf Cooperation Council (GCC).

Figure 2: OPEC basket monthly price, 2009–September 2012



Source: OPEC,www.opec.org.

In many ways demand is key to the current state of the oil market. Forecasts of world oil demand for 2011 and 2012, made by eight independent forecasters at different points in time, are summed up in Figure 3.

Figure 3: Forecast for world oil demand, 2011–12