



THE FIFTY-SIXTH ANNUAL NORTH AMERICAN INVITATIONAL MODEL UNITED NATIONS

Dear Delegates and Moderators,

Welcome to NAIMUN LVI and more specifically welcome to the Organization of Petroleum Exporting Countries, 1973 (OPEC). The staff of NAIMUN LVI has been working day and night to make this the most rewarding and educational experience yet, and we are excited to welcome you all to DC in February!

This document is the topic abstract for OPEC. It contains three key elements to allow you all to prepare well in advance for the committee: topics, structure, and research avenues. The goal of this abstract is to give you a better understanding of the content in the committee. As well, it is meant to be a launch point for further research about the content of this committee. By reading and understanding the topic abstract, you will more fully get a sense of how this committee will be run at NAIMUN and what specific issues the NAIMUN staff want you to focus on.

We hope to be of assistance to you in your preparation for NAIMUN LVI. If you have any questions, comments, or concerns, please feel free to contact the Secretary-General or Director-General. We look forward to welcoming you to the NAIMUN family!

Best,
Chase and Charlotte

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Topic Abstract: OPEC, 1973

What is a Crisis Committee?

Crisis committees are markedly different from both GAs and ECOSOCs. They tend to focus on specific issues, geographic areas, and historical periods. For example, NAIMUN LI's Yedintsvo: Vladimir Putin's Cabinet, 2000 simulated the early years of President Putin's cabinet, tackling issues from reforming the Russian economy to confronting separatists in Chechnya. In essence, crisis committees have a narrower and more specific focus than the GAs and ECOSOCs that focus on broad global concepts and issues. Crisis committees also have the distinguishing characteristic of portfolio powers, where delegates have and can use individual powers that are part of their character's bio in order to shape the 'world' they interact in. Finally, crisis committees are the smallest of committees, usually with less than 30 delegates per committee. They tend to be faster-paced and more dynamic than assemblies with set topics.

Adapted from "A Guide to Model UN." For more information, please visit: <https://naimun.modelun.org/introduction-to-model-un/>

Introduction

The primary goal of this committee is to develop an understanding of the ways intergovernmental organizations like OPEC can influence international affairs through embargoes, price-setting measures, and other punitive economic tools. OPEC's leverage in influencing global oil prices is derived entirely from its members' sheer control of the world's oil supply, functioning as a "near monopoly" with a large share of the market; accordingly, OPEC exists as a forum for its members to cooperate and find common ground in areas of mutual interest to maximize collective power. This committee in particular will focus on the complexities of the 1973 Arab-Israeli War and the conflicts of interest that OPEC members faced in reconciling national security with



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economic prosperity. Delegates are expected to have a working knowledge of this war as well as the rationale behind the committee's decision to impose an embargo on the United States and her allies. Further, delegates should understand the limitations of OPEC's price-setting capacity and the counterarguments to an embargo. The remainder of this abstract will provide a brief description of the topics as well as sources upon which to base your research.

Topic A: Public Ownership of Oil Corporations

In the run-up to 1973, two-thirds of global ownership of oil moved from the private sector of American and European companies to public-sector national oil companies. Rather than let the forces of supply and demand determine prices, post-1973, the lowest-cost oil producers, such as Saudi Arabia, Iraq, and Iran, artificially shut production and discouraged capital investment, creating a lasting wedge of rents or financial profitability that market conditions never warranted. (Today, oil prices in real terms are more than four times higher than in 1972.) A massive industrial restructuring occurred over the course of a half-decade, as state-owned enterprises, with limited project-management skills and bloated workforces, surpassed the oil majors like Chevron and Shell in both capitalization and size. The 1970s witnessed a profound and unprecedented transfer of wealth to the Middle East that continues to have significant repercussions today — from democracy movements to terrorism to civil wars. The region's leaders failed to set up long-term mechanisms to distribute the benefits of this transfer of wealth across their populations and to establish an equitable stake in governance of resource proceeds that would have brought a newfound stability to the region. Instead, they bought lavishly, gilding their palaces and buying fleets of luxury autos. For decades, they squandered the opportunity to use oil wealth to modernize their societies and train their populations for future global economic competition. The result — unfolding not just in the Middle East but in other oil-producing countries as well — is a crisis of governance that is itself triggering a round of oil-supply disruptions.

As members of OPEC in the early era of nationalization, you will have to argue the merits of both private and public ownership of oil companies, and ultimately establish



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a framework for the body that will decide the course of action for its members. Is public-sector control of oil the most desirable path for OPEC's members, sacrificing capital development, innovation, and equitable distribution of wealth in order to allow the body to control production and ultimately set the global price of oil? Or is it best to allow private firms to produce their own supply of oil, greatly diminishing OPEC's price-setting capacity but paving the way for economic development and innovation?

Topic B: Embargo on American Oil Imports

On October 6, 1973, Egypt and Syria, with support from other Arab nations, launched a surprise attack against Israel on Yom Kippur. In response to American aid to Israel, on October 16, 1973, OPEC raised the posted price of oil by 70%, to \$5.11 a barrel. The following day, oil ministers agreed to the embargo, a cut in production by five percent from September's output and to continue to cut production in five percent monthly increments until their economic and political objectives were met. Since short-term oil demand is inelastic, immediate demand falls little when the price rises. Thus, market prices rose from \$3 per barrel to \$12 per barrel to reduce demand to the new, lower level of supply. The world financial system, which was already under pressure from the Bretton Woods breakdown, was set on a path of recessions and inflation that persisted until the early 1980s, with oil prices remaining elevated until 1986.

As a member of OPEC, you will have to weigh your particular country's benefits from imposing an embargo on the US with the economic harm of shutting off oil to the world's largest petroleum consumer. Remember that, while embargoes can be used as a bargaining tool, businesses and their investors on both sides of the border are the ones who absorb the losses, which can run into millions or billions of dollars. Your delegation's strategy should ultimately reflect the perceived effectiveness of an embargo on changing US foreign policy and the economic impact of decreased demand.



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Resources for Further Research

Below is a list of resources that will be useful for preparation for committee. Overall, an understanding of the Arab world (from its period of colonialism beginning in the late 19th century to more recent independence movements), the general mission and powers of OPEC, the economic theory behind “cartels” and embargoes, and the specifics of the 1973 Arab-Israeli War will be the most beneficial to perform well in committee.

A History of the Modern Middle East by William Cleveland and Martin Bunton

- <http://islamicblessings.com/upload/A-History-of-the-Modern-Middle-East.pdf>

History of Oil and Nationalization amongst OPEC members

- <https://web.stanford.edu/class/e297a/The%20History%20and%20Social%20Consequences%20of%20a%20Nationalized%20Oil%20Industry.doc>
- <https://www.economist.com/special-report/2006/08/10/oils-dark-secret>
- http://paashamahdavi.com/DeterminingNOCs_RR.pdf

A Background of OPEC

- <https://www.investopedia.com/terms/o/opec.asp>
- http://www.opec.org/opec_web/en/17.htm

1973 Arab-Israeli War

- <https://history.state.gov/milestones/1969-1976/arab-israeli-war-1973>
- <https://www.aljazeera.com/indepth/features/2017/10/arab-israeli-war-of-1973-what-happened-171005105247349.html>

Economic background on cartels and embargoes

- <https://www.investopedia.com/terms/c/cartel.asp>
- <https://www.investopedia.com/terms/e/embargo.asp>



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1973 Oil Crisis

- <https://www.tandfonline.com/doi/abs/10.1080/01603477.1978.11489099>
- https://www.tandfonline.com/doi/abs/10.1080/17530350.2010.494123?src=r_ecsys&journalCode=rjce20
- <https://www.britannica.com/event/Arab-oil-embargo>
- <https://www.newyorker.com/magazine/2003/02/10/the-oil-weapon>
- <https://www.e-ir.info/2014/12/28/was-the-oil-weapon-effective-in-achieving-the-arab-states-goals-in-1973-74/>
- <https://www.globalpolicy.org/component/content/article/185/40719.html>

The Political Economy of Middle Eastern Oil

- <https://pdfs.semanticscholar.org/67a6/b3d396b50a88733c06a527c2abeb65e0e685.pdf>

Limitations to OPEC

- <https://www.investopedia.com/articles/investing/081115/opec-and-its-limited-control-over-oil-prices.asp>