APLMUN
ECOSOC BACKGROUND GUIDE

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Letter from the executive board

Dear Delegates,

It is a great honour and privilege to welcome you to APL Model United Nations' second online simulation of the United Nations Economic Social Council. As the Executive Board, we look forward to chairing you and guiding you through this conference which we hope will be full of fruitful debate. Our goal for this conference is to foster a formal, yet friendly, environment to debate some important issues that currently challenge the international community. We hope you can leave this committee with more knowledge, confidence and good memories that you will carry with you forward in your future MUNs. We understand that since this Economic Social Council will be simulated on an online platform there are certain obstacles that are to be expected in terms of creating an effective debating environment. As the Executive Board, we will strive to do our best in addressing these aspects along with whatever concerns you may have so as to provide you with a memorable experience.

This study guide has been provided to equip you with the basic knowledge that you may find yourself requiring whilst beginning your preparation process. That being said, please note that this guide is to only serve as a starting point to your research and as the Executive Board we expect you to delve far deeper into the aspects of this agenda than what the contents of this guide entail. Our duty as the Executive Board is to guide you and help you throughout the conference so we encourage you to ask questions that you may have without a shred of hesitation.

A conscious effort has been made by the Executive Board to ensure that this guide is as restrained as possible whilst still providing the necessary framework required so as to not deprive you of the opportunity of going about your own research based in whichever manner suits you as an individual based on your own unique perspectives. We understand that as this is an online simulation we have no control over the usage of the internet by delegates, nevertheless we encourage that you prepare for this MUN the same way you would prepare for any other as your preparation before the actual conference will definitely reflect on your performance in committee. Please remember that one of the top priorities in the committee is upholding your country's foreign policy above all else.

The aim of this simulation is that every delegate walks away with more knowledge and experience. Your experience will not only shape the way you debate in future MUNs but also shape the way you approach a variety of challenges in your life. We, as the Executive Board, will try our best to foster that healthy environment for growth and experience. For any further queries, don't hesitate to contact us directly.

- The Executive Board ECOSOC

What is the ECOSOC?

The Economic and Social Council, ECOSOC when abbreviated, was established under the United Nations Charter in 1945. The United Nations has 6 main organs, and the Economic and Social Council is the second organ. It's very important we do not confuse ECOSOC with ECOFIN. ECOFIN or The Economic and Financial Committee is the second subsidiary committee of the United Nations General Assembly. For more about ECOSOC please visit

https://www.un.org/ecosoc/en/about-us

What does being an ECOSOC delegate mean?

Well the purpose of ECOSOC as a committee is to improve the overall social and global economic well-being. This can mean a variety of things such as seeking to achieve some of the sustainable development goals set out by the UN. In a more general sense it is essentially to work towards global economic stability as well as ensuring community integration as a whole. This is an essential aspect of ECOSOC as a committee that delegates must keep in mind as the session progresses.

Timeline of events

Due to large increases in shale oil (oil produced from oil shale rock fragments) production in 2014 oil prices dramatically fell from a reported $114 per barrel in 2014 to $27 per barrel in 2016. The result of this was cooperation between Saudi Arabia and Russia to manage the price of oil. This resulted in an informal alliance between OPEC and non-OPEC producers which was dubbed "OPEC+". By January of 2020 the group had made significant reductions to the number of barrels produced per day with Saudi Arabia making the most significant cut.

Following the onset of the Covid-19 pandemic, factory output as well as the demand for transportation fell while there was a sharp rise in unemployment. This resulted in an overall fall in the demand for oil and a fall in oil prices. Furthered by a fall in demand for oil in China (China being one of the major consumers of oil), the necessity arises for an OPEC summit to be held which occurred on the 5th of March, 2020 in Vienna. During the summit it was agreed that further reductions in oil production were required with the idea for this policy to be revisited on the 9th of June that year. This policy was expected to be respected and followed by non-OPEC members of OPEC+, however Russia failed to comply and on March 6th ended their partnership with OPEC+.

On March 8th 2020, Saudi Arabia announced discounts of $6 to $8 per barrel to customers in Asia, Europe and the United States. This subsequently resulted in a dramatic fall of oil prices. On the 9th of March 2020, global stock markets reported significant losses as a culmination of the price war as well as fears related to the ongoing pandemic.

On the 10th of March, Russia and Saudi Arabia announced significant oil production increases, similarly Aramco was instructed to increase it's old production capacity to 13 million barrels per day.

On the 2nd of April, President Donald Trump called for a withdrawal of military support if
Saudi Arabia and it's OPEC allies failed to reduce oil production. The following day Russian energy minister Alexander Novak stated that global production could be cut by 10 million barrels per day, which resulted in a soar in oil prices. Later that day, Saudi Arabian foreign and energy ministers publicized statements criticizing Putin and blamed Russia for not partaking in the OPEC+ agreement.

Introduction to the agenda

<u>November 8th 2015:</u> The What is an Oil crisis ?
Oil crisis, a sudden rise in the price of oil that is often accompanied by decreased supply. Since oil provides the main source of energy for advanced industrial economies, an oil crisis can endanger economic and political stability throughout the global economy.
The impact of the COVID-19 pandemic hammered the oil industry in 2020, forcing U.S. oil prices to go negative for the first time on record. In a matter of hours on April 20, the May 2020 contract futures price for West Texas Intermediate (WTI) plummeted from $18 a barrel to around -$37 a barrel.

Oil producers were faced with a glut of crude oil that left them scrambling to find space to store the oversupply. Brent crude oil prices also tumbled, closing at $9.12 a barrel on April 21, a far cry from the $70 a barrel crude oil fetched at the beginning of the year.

Dispute between Saudi Arabia and Russia

It's happened several times before: geopolitical tensions between Saudi Arabia and Russia have led to a dramatic drop in oil prices in years past. But the breakdown in Saudi-Russian cooperation in oil markets over the weekend is strikingly different this time. That's because the backdrop of the COVID-19 crisis could significantly influence outcomes.

That two major producers would differ on oil strategy has been a frequent occurrence in the geopolitics of oil.But the current conflict comes amid strikingly new circumstances. First and foremost, COVID-19 is rapidly destroying demand for oil. Secondly, the oil demand shock comes amid long run signals that some of the world's oil reserves will need to remain unexploited. Leading into last week's OPEC plus meeting, Russia expressed its reservations about instituting a new round of production cuts to help shore up sagging oil prices. Russia's market share concerns are different from Saudi Arabia's and those of other major exporters because Russia's exports are concentrated in a few discrete markets, with a majority of shipments going to Europe and a smaller percentage by pipeline to China. Not only does this mean that the immediate impact of COVID-19 would hit Russia's chief export outlets, it also makes Russia more vulnerable to competition from other suppliers seeking to sell in Europe, including the U.S. shale exporters. Saudi Arabia has a vast network of global customers including useful oil storage arrangements that enhance operational flexibility.

The challenge of the spread of COVID-19 couldn't have come at a worse time for OPEC plus Russia deliberations. OPEC members were already miffed at Russia by what they believed in retrospect to be a tricky request that Russia's condensate production, a byproduct very similar to crude oil, not be counted in any production reduction agreement. Russia then increased its condensate output by 1.68 million barrels a day in the weeks following the December OPEC meeting. For its part, Russia is also frustrated with Saudi Arabia, which it feels has not reciprocated its cooperation over oil prices by forging stronger collaboration in other areas such as arms sales and co-investments in each other's energy industry.

But underlying tensions were also driven by other geopolitical backdrops, not the least of which was Russian anger that its flagship national oil company Rosneft was targeted for new sanctions by the United States over its ongoing oil trade with Venezuela. Russia is clearly angling to concessions from somewhere, and Washington might just be the place it is targeting. Still, tensions between Saudi Arabia and Russia on who dictates outcomes at OPEC plus Russia meetings have been brewing for some time and leave the United States in an awkward bind on how to proceed. U.S. Treasury Secretary Steve Mnuchin met with the Russian ambassador to the United States yesterday and emphasized the "importance of orderly energy markets."

OPEC AND OPEC+

OPEC

The Organization of the Petroleum Exporting Countries (OPEC, /ˈoʊpɛk/ OH-pek) is an intergovernmental organization or cartel of 13 countries. Founded on 14 September 1960 in Baghdad by the first five members (Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela), it has since 1965 been headquartered in Vienna, Austria, although Austria is not an OPEC member state. As of September 2018, the 13 member countries accounted for an estimated 44 percent of global oil production and 81.5 percent of the world's "proven" oil reserves, giving OPEC a major influence on global oil prices that were previously determined by the so-called "Seven Sisters" grouping of multinational oil companies.

OPEC plus

In 2016, OPEC allied with other top non-OPEC oil-exporting nations to form an even more powerful entity named OPEC+ or OPEC Plus.
The cartel's goal is to exert control over the price of the precious fossil fuel known as crude oil. OPEC+ controls over 50% of global oil supplies and about 90% of proven oil reserves.
This dominant position ensures that the coalition has a significant influence on the price of oil, at least in the short term. Over the long term, its ability to influence the price of oil is diluted, primarily because individual nations have different incentives than OPEC+ as a whole.

OPEC's role in the agenda

OPEC has demonstrated repeatedly its commitment to market order and stability, even though, in practice, this can sometimes be hard to achieve. This can be viewed in the experiences of the past few years, with the growing scale of the paper market and the expanding role of speculation.
However, over the past 50 years, the oil market has remained adequately supplied, and OPEC has responded, as and when necessary, to market developments and unforeseen happenings. For example, when capacity from Iraq and Kuwait were withdrawn from the market in 1990, other OPEC Members increased exports to help meet the shortfall. And from 2003 to 2006, OPEC responded swiftly to a demand surge and supply disruptions in the market by increasing its production by more than 5 mb/d.
The most recent of the Solemn Declarations, the 'Riyadh Declaration', which concluded the Third OPEC Summit held in Saudi Arabia, also underlines how the Organization's objectives, whilst remaining in line with those from 1960, have evolved. The Declaration states that the OPEC Heads of State and Government "have agreed on the following principles to guide our Organization and Member Countries' economic, energy and environmental endeavors, within the following three themes: stability for global energy markets; energy for sustainabledevelopment; (and) energy and environment."

Effect on the stock market

Delegates, you may ask, why did stock markets crash? Low oil prices would be better for consumers right? However, due to the sharp and sudden decline in oil prices, this caused great amounts of uncertainty and fear. Considering oil is such a necessary good in modern society, uncertainty in price for such a necessary product will have an effect on stock prices.

Additionally, fears related to the coronavirus pandemic had a significant effect on stock prices as the pandemic was a main contributor to significant reductions in production as well as rampant job uncertainty globally. SARS-CoV-2 (Covid-19), first discovered in December of 2019 had spread internationally by 4th April of 2020 and had become a pandemic. The virus had infected over a million individuals globally and had been responsible for the death of thousands. Furthermore, lockdowns being enforced throughout the world halted work and resulted in heavy losses for most businesses as well as a large increase in unemployment.
This, coupled with fears of recession as well as a sharp decline in oil prices saw stock prices and the stock market being dramatically affected.."

Case studies of previous crisis

2014-16 crisis- The 2014-16 collapse in oil prices was driven by a growing supply glut, but failed to deliver the boost to global growth that many had expected. In the event, the benefits of substantially lower oil prices were muted by the low responsiveness of economic activity in key oil-importing emerging markets, the effects on U.S. activity of a sharp contraction in energy investment and an abrupt slowdown in key oil exporters.

Between mid-2014 and early 2016, the global economy faced one of the largest oil price declines in modern history. The 70 percent price drop during that period was one of the three biggest declines since World War II, and the longest lasting since the supply-driven collapse of 1986.

Booming U.S. shale oil production played a significant role in the oil price plunge from mid-2014 to early 2016. Efficiency gains in the sector lowered break-even prices considerably, making U.S. shale oil the de facto marginal cost producer on the international oil market.

The initial drop in oil prices from mid-2014 to early 2015 was primarily driven by supply factors, including booming U.S. oil production, receding geopolitical concerns, and shifting OPEC policies. However, deteriorating demand prospects played a role as well, particularly from mid-2015 to early 2016. This partly explains why the oil price plunge failed to provide a subsequent boost to global activity.

The oil crisis of 1986-In the early 1980s, oil prices began to decline, prompting OPEC to cut production in order to bolster the value of its lifeblood. Saudi Arabia produced over 10 MMBOPD from October 1980 through August of 1981, but cut back to just 2.3 MMBOPD by August of 1985 in order to protect prices, according to the Energy Information Administration. It was hoped that prices would go higher as production slowed, but other members of OPEC continued to produce, leaving Saudi Arabia to shoulder the burden of lower production and prices.

In late 1985, Saudi Arabia abandoned its strategy of propping up prices, and instead began increasing production in order to increase market share. By July 1986, the average per-barrel free on board (FOB) price for OPEC crude oil had dropped to $9.85 from $23.29 in December 1985, a 58% decline in a matter of months.

The losses were compounded further in places like Colorado, where in 1982, the oil and gas industry in the state's Western Slope collapsed following Exxon's departure. The day the news became public, May 2, 1982, became known as Black Sunday in Colorado. 2,200 oil shale workers were laid off from Exxon's Colony Project, and the local economy took a dive as residents scrambled to get out of town.

"The best business to be in at the time would have been the moving business," said Herb Bacon, who worked for U.S. Bank of Grand Junction in 1982. From 1983-1985, some 24,000 people and $85 million in annual payroll left the Western Slope while unemployment climbed from near 0% to 9.5%, all before the larger crude oil market crash.