OPEC

Organization of Petroleum Exporting Countries

Carlotte Lucas and Betsy Surma

Co-Chairs

GSMUN 2011

Esteemed delegates,

It is our great honor and pleasure to welcome you to the most influential committee at this year's GSMUN XIV! We are extremely excited to be working as your co-chairs for the Organization of Petroleum Exporting Countries (OPEC). What you will do here will have an impact on the world as you know it today, your decisions could change the outcome…of life. The topic of discussion will be the use of currency, that is, the euro versus the dollar. Each country in OPEC will naturally have a different opinion on the subject, so we expect you to work diligently and research before coming to the conference. But first, we'd like to introduce ourselves as your co-chairs:

Carlotte is a senior at Maggie Walker and has been a member of Model United Nations since her freshman year. She has attended four conferences at William & Mary and the University of Virginia. After serving as vice-chair of Press Corps last year, Carlotte is extremely excited to be co-chairing a committee this year at GSMUN. During her free time, she enjoys reading and spending time with friends and family.

Betsy is a senior at Maggie Walker and has been involved in Model UN since her freshman year. She was a member of the fundraising committee at GSMUN XII and vice-chair of ECOSOC at GSMUN XIII. During the rare moments she is not doing schoolwork or Model UN, she enjoys watching movie marathons, eating ice cream (as well as serving ice cream, since she works at an ice cream shop), and gazing at the stars. In the spring, she spends much of her time playing softball for her school's varsity team, of which she is a captain. She also holds positions and is involved in numerous other clubs and honor societies.

Now that we have become acquainted, it is time for you to get down and oily. We expect nothing but the best from each and every one of you, so get working! Feel free to contact us if you have any questions or concerns.

See you soon!

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Committee Information

Committee Background

The Organization of Petroleum Exporting Countries (OPEC) is a cartel of oil exporting countries that seeks to regulate and stabilize the price of oil on the world market and to secure an efficient and regular supply of oil to consuming countries. Established in 1960, the organization currently has 12 members: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. OPEC's most fundamental mission is to secure optimal financial gain for its member countries.

OPEC functions as a cartel in that it seeks to limit production in order to control the price of crude oil on the international market. Therefore, OPEC's control of the international oil market and its influence on the global economy is often discussed and criticized. It is fair to say that OPEC's impact on the global market is often overstated. OPEC member states occupy roughly two-thirds of the total world reserve of crude oil, but due to stringent production quotas, they bring forth only one-third of the world's daily oil exports.

Today, OPEC attempts to retain its authority in the world market and to control ongoing disputes between its member states. Despite its efforts, OPEC's position has weakened due to several factors. In the last three decades, extensive oil reserves have been discovered in areas outside OPEC territory, such as Alaska, the North Sea, Canada, and the Gulf of Mexico, diminishing OPEC's dominance over the oil market. Furthermore, the real price of oil, corrected for inflation, has seen a continuous downward trend. The temporary price increase of the late 2000s will likely be short-lived because of technical advances that will promote the use of cleaner energy sources, such as natural gas and nuclear power. Competition from other sources of energy and new suppliers on the market will be some of OPEC's main challenges in the next 50 years.

OPEC and the UN

OPEC and the UN share an interest in global issues of sustainable energy and its contribution to socioeconomic development. The OPEC Fund for International Development (OFID) has forged alliances with a host of UN programs and committees, such as UN Conference on Trade and Development (UNCTAD) and the UN's Economic and Social Council (ECOSOC). The UN Undersecretary-General of Economic and Social Affairs, José Antonio Ocampo, took part in the Third International Seminar of OPEC in 2006. During a speech, he stressed the importance of OPEC's involvement in creating energy-efficient technology, enabling economic growth in developing countries, and promoting clean energy in order to curb climate change. The UN recognizes OPEC as a legitimate and indispensable partner in sustainable socioeconomic development and the global challenge of climate change.

Currency

Introduction

Since the second half of the 20th century, the US dollar has been the de facto world reserve currency. The Great Depression, the huge costs of two devastating World Wars, and a diminishing part in world trade caused the British sterling pound to lose its dominant role in the global economy. The vast majority of foreign countries now hold their central bank reserves in US currency. In addition, the dollar serves as the anchor for many foreign currencies.

Issuing the world's leading currency gives the US many hard (economic and geopolitical) and soft (cultural) advantages. The US gains as much as one percent in Gross National Product (GNP) per year because the dollar is the world reserve currency; this is called seignorage. It is explained as the principle that foreign countries with reserves in dollars will never ask the US to have these reserves redeemed in the form of loans or goods. This allows the US to export more dollars and run a larger trade deficit, without the usual consequences of a depreciating currency, higher inflation, and higher interest rates. It has enabled the US to develop the world's largest economy and build a military apparatus that is superior to most other countries. In short, the dominant dollar has greatly contributed to the US' position as an economic, political, and cultural world leader.

Since the creation of a common currency for the European Union (EU), the euro, it has been debated as to whether the euro could challenge the position of the dollar as the world's leading currency. The euro was formally adopted on January 1, 1999 and was introduced in monetary form on January 1, 2002. It replaced the national currencies of the 12 participating EU countries with one single currency. Initially, it was expected that the role of the euro on the world market would be modest. Most analysts dismissed the idea that the euro could become a leading world currency. The position of the dollar was considered incontestable, supported by the fact that two-thirds of all international reserves were still held in US currency and that most import-export transactions were based on dollars. Due to a convergence of economic and geopolitical factors, that perspective has changed.

The position of the dollar has weakened significantly over the last ten years. In the first decade of the 21st century, the value of the dollar fell sharply against the major currencies around the world, including the euro. As a result, many countries suffered a significant devaluation of their financial holdings, leaving them to wonder if the dollar was the optimal currency for their reserves. Countries that defy the US' position as world leader, including Iran and Venezuela, have tried to convince regional powers to abandon the dollar and introduce a basket of currencies for their reserves and international transactions. More friendly nations have also openly questioned whether the weakened dollar should be removed from its favorable position.

From a geopolitical perspective, the US and the EU both maintain dominant roles in their spheres of influence. The EU dominates in Europe and its neighboring countries, while the US prevails in Asia and the Americas. In terms of exchange currency, this difference results in an implicit deference of the US to the euro in the European sphere of influence, while many in Latin America and Asia still accept the dollar's hegemony. The Middle East, with its oil-rich powerful nations, is divided in its allegiance to the two currencies and demands to be recognized on the world stage. In the Middle East, for which Europe is the largest trading partner, some leaders are arguing that it would be more sensible to conduct trade with Europe in its own currency, instead of in the US dollar. It is clear that there is more to the issue than financial and economic arguments. The conflicts with Iraq and Iran since the late 1900s and the general anti-American sentiment in the Middle East region account for much of the depreciation of the US dollar.

Despite the fact that the European Central Bank never actively promoted the euro outside the EU, the euro has developed into the world's second most important international currency. Its steady rise against the dollar and the strong economy of the EU have granted the euro a favorable position in the international trade market. For the US, ongoing political conflicts with countries in the Middle East and Asia and a devastating economic crisis since the year 2008 have further eroded the position of the dollar in favor of the euro. However, the recent collapse of the economies of some members of the EU, such as Greece, Spain, and Ireland, has forced the euro into a downward spiral. It has brought the EU into such disarray that some analysts now wonder if the euro will maintain its role in the global economy. Therefore, it will depend on the commitment of the member countries to their economic and political unification as to whether the euro will regain a strong position in the international markets.

OPEC, the US, and the EU

Since the unexpectedly strong performance of the euro and the decline of the dollar, which have eroded the oil exporters' purchasing power, OPEC has contemplated a possible switch to the euro. However, the topic seems to have divided the member states, causing internal conflict. In 2000, Iraq was the first to adopt the euro for its oil transactions under the Oil-for-Food program. When the US invaded Iraq in 2003 and removed Saddam Hussein from power, oil transactions returned to dollars. With much delay, Iran opened the Iranian Oil Bourse (IOB) for petroleum, petrochemicals and gas in 2008. These commodities were almost exclusively traded through the New York Mercantile Exchange (NYMEX) in New York City and the Intercontinental Exchange (ICE) in London and Atlanta. The IOB is located on the island of Kish, a free trade zone. It accepts a basket of major currencies, primarily the euro and the Iranian rial.

Before the creation of IOB, Iranian President Mahmoud Ahmadinejad repeatedly tried to use his influence to move OPEC away from the dollar. In 2007, during a rare meeting of the heads of state of OPEC members, Ahmadinejad, with the backing of the leaders of Venezuela and Ecuador, sought to persuade the group to abandon the US dollar in favor of a variety of major currencies. He blamed the weak dollar for high oil prices, stating that "the US dollar has no economic value." The Venezuelan president, Hugo Chavez, added that "the dollar is in free fall – everyone should be worried about it. The fall of the dollar is not the fall of the dollar – it's the fall of the American empire." Saudi Arabia, the host country of the meeting, tried to steer away from these controversial, political statements. The Saudi Arabian government refused to mention the dollar in the closing statement of the meeting, noting that OPEC would "study ways and means of enhancing financial cooperation among OPEC member countries."

In the financial and economic crisis of the last two years, oil-producing countries have been hit hard by falling oil prices. Searching for solutions to prop up their income and reserves, OPEC leaders continue to consider dropping the dollar for a basket of currencies, which would include the euro, but so far they have had no success. In a 2009 trade summit between South American and Arab leaders, Chavez again sought support for a new oil-backed currency to challenge the dollar. The discordant proposal received little support. The possible switch from the dollar to the euro as the oil-backed currency will keep OPEC divided for some time.

The position of one's currency is closely related to matters of security and geopolitical influence. Robert Pape, professor of political science at the University of Chicago, is a scholar who has discussed the relationship between the dollar's position in the world market and the implications for American foreign policy and security. He expresses a widely held opinion that the US would suffer significantly, both economically and geopolitically, if the euro took the place of the dollar in the international oil trade. In his article entitled "Soft Balancing: How the World Will Respond to US Preventive War on Iraq," he states that "Europe could challenge the position of the dollar as the world's reserve currency by, most notably, using euros to purchase its oil. This would substantially reduce demand for dollars, reduce the dollar share of all world reserves to the US share of the world GNP, and so largely eliminate seignorage benefits to the United States. This would be painful."

If the EU indeed decides to pay for its oil imports in euros, this could diminish America's economic power significantly, having potential consequences for its dominant role in global politics. However, in the near future, it seems unlikely that this will happen. Since World War II, much of Europe has accepted and acknowledged the US' position as world leader, and many countries have been staunch allies ever since the Cold War. The European continent has relied on the US to fulfill the role of policing the world, to take the lead in international political conflicts, and to protect European interests on the global stage. Therefore, it is improbable that Europe would deliberately tarnish that relationship by pushing aside the US currency.

OPEC, on the other hand, has a different relationship with the US. As the world's largest oil-producing body, it also has a hand in influencing the strength of the dollar. Some OPEC members, most notably Chavez and Ahmadinejad, have advocated to topple the US from its preeminent position. If OPEC took the initiative to switch to the euro for oil exports, the EU might be more inclined to follow suit. This would mean a considerable economic downturn for the European economy, which finds itself in dire straits at present. In their book World Out of Balance: International Relations Theory and the Challenge of American Primacy, Stephen Brooks and William Curti Wohlforth, professors of government at Dartmouth College, argue that Pape's scenario of the EU paying for its oil in euros is "highly improbable." They maintain that, aside from some provocative remarks by dissident member states, during the last decade, OPEC has repeatedly voiced its continued support for the dollar. Although it could be advantageous for OPEC to change to a stronger currency, which would increase the value of its income and reserves, the value of the euro has been in flux in the last six months, and a group of multiple currencies would erode the financial gain that results from transactions in a single monetary unit.

There are other compelling economic advantages for OPEC to continue pricing oil sales in dollars only. The euro, a relatively young, and therefore less established, currency offers less financial instruments relative to the dollar. Brooks and Wohlforth continue their argument in stating that the US remains, in many ways, the most important trade partner for the OPEC countries. The US is not only OPEC's largest customer, but it is also the chief supplier of products essential to OPEC member states, namely agricultural products and military supplies. Furthermore, Brooks and Wohlforth question Pape's opinion that a switch to pricing oil in euros would greatly affect the state of the US economy. They argue that the contribution of oil dollars to the US economy is minor compared to the gain that the US reaps from holding the currency of the financial global market of world reserves. In their opinion, the dollar's position as the reserve currency "is intimately related to the United States' long-standing position as the largest military and economic power in the system."

Conclusion

Oil is one of the most valuable resources in the world, and OPEC plays a large role in creating a constructive environment for trading. The outcome of this debate can determine the well-being of a nation, and therefore this committee has been directed to determine which is the better option, the euro or the dollar. It is time for OPEC to take a stand on this issue, and for this committee to carefully decipher the logic behind both sides.

Questions to Consider

- Is there a way for the EU and the US to benefit from the oil trade?
- Should all members of OPEC have to use the same currency? How can the international community play a role in making this decision?
- Would it be wise to consider a different currency altogether?
- How does the political environment of a country factor into its ability to have a stable economy?
- Does it seem plausible that there will be wars based on oil prices?
- What would happen to the US economy if OPEC decided to switch to the euro? Could this cause another depression?
- Will OPEC one day be powerful enough, or is it already powerful enough, to have more influence than the US or EU?
- How has history affected the choices OPEC has made?

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