

LA MARTINIÈRE
MODEL UNITED NATIONS, 2023



THE DECENNIAL EDITION

ORGANIZATION OF THE PETROLEUM
EXPORTING COUNTRIES PLUS

BACKGROUND GUIDE

PRINTABLE FORMAT

[CLICK HERE](#)

CONTENTS

1. Letter from the Executive Board
2. About the Committee
3. About the Agenda
4. Problem Specification
5. Current Situation
6. Crude Oil Price Movements
7. Crude spot prices
8. Dynamic Effect of Oil Resources on Environmental Quality
9. Guiding Questions
10. References

Letter from the Executive Board

At the outset on behalf of the Executive Board, we extend a warm welcome to all the distinguished delegates and congratulate you and them on being a part of the Organization of the Petroleum Exporting Countries Plus committee simulation at La Martiniere Model United Nations 2023.

Deliberating and debating for the benefit of the society is not an activity, it is a moral obligation, that is something we, as the YOUTH should look forward to. The Petroleum Exporting Countries Plus committee is in itself, one of the most broad and peculiar committees and there can't be a better option to explore your debating and MUNing skills than to be a part of this committee and discussing these broader, relevant agendas which are open to interpretation. We strongly encourage you to go through this background guide that has been prepared for you as a part of the conference in order to get an in-depth understanding of the issue that will be discussed in the committee. You are expected to research, collate, list down possible points of discussions, questions and plausible responses and be prepared to enjoy the intellectual energy in the group. At the same time it is not only about speaking and presenting, but very importantly it is also about the ability to listen, understand viewpoints and learn from each one's perspectives.

We, as a panel expect you to focus more and more on the quantity and fierceness of the debate rather than poking our noses into set cliches and guidelines. Remember, 'Believe in what you say, stand by it, and make your merit.'



We are not looking for existing solutions, or strategies that would be a copy paste of what countries you are representing have already stated; instead we seek an out of the box solution from you, while knowing and understanding your impending practical and ideological limitations.

And oh yes, never forget to gain more and more knowledge, experience and joy. That is the main purpose of a conference, to be better and of course to be a winner.

Also to add on, background guides are made just to give you an insight into the agenda and help you with the research part. It must not formulate your entire research , You have to research beyond this going into the depths of the agenda. All you need is the willingness to make your voices heard and learn from the experience. My excitement knows no bounds, I hope you'll be as excited as me for this one. So without further ado, let's get things rolling folks!

Best of luck !!

Aryan Singh
(Chairperson)

Vani Singh
(Vice Chairperson)



About the Committee

The Organization of the Petroleum Exporting Countries and its allies, collectively known as OPEC+, is a significant and influential international organization in the energy sector. Established with the primary objective of coordinating and managing the global oil production and supply to stabilize oil prices, OPEC+ represents a collaborative effort among oil-producing nations to achieve common economic and strategic goals.

OPEC, founded in 1960, initially consisted of only five member countries but has since expanded to include several more. OPEC's mission is to ensure the stability and reliability of oil markets while securing fair and equitable returns for its member nations' petroleum resources. In the early 21st century, OPEC recognized the importance of collaborating with non-OPEC oil-producing nations to better address the complex challenges facing the global energy landscape.

As a result, the OPEC+ coalition was born. OPEC+ includes OPEC's member countries, led by major oil producers such as Saudi Arabia and Iran, along with non-OPEC oil-producing countries, most notably Russia. This alliance was established to respond to the ever-evolving dynamics of the global energy market, which includes factors like fluctuating oil prices, geopolitical tensions, and the increasing influence of renewable energy sources.

The OPEC+ committee plays a pivotal role in coordinating and implementing production cuts or increases to balance the supply and demand of crude oil, thus influencing global oil prices. It convenes regularly to assess market conditions, evaluate production levels, and make informed decisions that impact the economies of member nations and the world at large.



About the Agenda

In a world where energy security, economic stability, and environmental sustainability are increasingly interconnected, the utilization of oil reserves remains a pivotal concern on the global stage. The agenda before us, "Exploring New Methods for Utilization of Oil Reserves with Special Emphasis on Latin American and African Oil Reserves, Bearing in Mind the Issue of Sanctions and Its Effects on Global Oil Trade," addresses a multifaceted and pressing challenge. It calls upon us to explore innovative ways of harnessing oil resources in Latin America and Africa, regions endowed with substantial oil reserves yet grappling with unique socio-economic and geopolitical complexities.

Moreover, the specter of sanctions casts a long shadow over global oil trade, influencing the flow of resources, impacting nations, and shaping international relations. As we delve into this agenda, we must chart a course that not only maximizes the benefits of oil utilization but also considers the broader implications for global energy markets, environmental sustainability, and the profound effects of sanctions on the world's economies and geopolitics. Our deliberations hold the potential to shape not only the future of energy production and trade but also the international landscape in which these resources are managed and distributed.

The utilization of oil reserves has always been a critical concern, and today, it stands at the nexus of energy security, economic prosperity, and environmental responsibility. Latin America and Africa, two regions blessed with abundant oil reserves, have become focal points in this global discourse. These reserves are not only vital resources for the development of these regions but also have far-reaching implications for global oil markets.



However, the exploration and exploitation of these reserves are not without their challenges, including technological limitations, geopolitical complexities, and the looming shadow of sanctions.

Sanctions, in particular, have emerged as a formidable factor shaping the global oil trade. They have the power to disrupt supply chains, influence global oil prices, and impact the livelihoods of millions. Our task is twofold: to unlock the potential of these untapped oil reserves in Latin America and Africa while taking into account the multifaceted effects of sanctions on both the producing nations and the global oil landscape.

As delegates in this committee, we are entrusted with the responsibility of finding innovative solutions that balance the economic benefits of oil exploration with the imperatives of sustainability and international cooperation. It is a weighty challenge, and the decisions we make here will have lasting consequences for energy security, economic development, and global geopolitics. Let us engage in thoughtful, informed, and cooperative deliberations to address this complex agenda and work towards a more secure and sustainable energy future for all nations.

The utilization of oil reserves has always been a critical concern, and today, it stands at the nexus of energy security, economic prosperity, and environmental responsibility. Latin America and Africa, two regions blessed with abundant oil reserves, have become focal points in this global discourse. These reserves are not only vital resources for the development of these regions but also have far-reaching implications for global oil markets. However, the exploration and exploitation of these reserves are not without their challenges, including technological limitations, geopolitical complexities, and the looming shadow of sanctions.



Sanctions, in particular, have emerged as a formidable factor shaping the global oil trade. They have the power to disrupt supply chains, influence global oil prices, and impact the livelihoods of millions. Our task is twofold: to unlock the potential of these untapped oil reserves in Latin America and Africa while taking into account the multifaceted effects of sanctions on both the producing nations and the global oil landscape.



Problem Specification

Addressing the Complexities of Harnessing Latin American and African Oil Reserves

Untapped Oil Reserves: Latin America and Africa boast vast and bountiful oil reserves, which remain tantalizingly underutilized. These untapped resources, however, face a multifaceted challenge, encompassing limited technological capacity, recurrent political instability, and daunting economic constraints. The consequence is a failure to unlock the full potential of these invaluable reserves.

Socio-Economic Disparities: The potential of oil reserves to act as catalysts for economic growth and development in Latin America and Africa is undeniable. Yet, paradoxically, these reserves often serve as catalysts for socio-economic disparities. Mismanagement, corruption, and the unequal distribution of oil wealth perpetuate socio-economic imbalances, sometimes leading to societal unrest and destabilization, thus counteracting the positive potential of these resources.

Environmental Sustainability: The quest for oil exploration and extraction in these regions has raised profound environmental concerns. These concerns include habitat destruction, toxic pollution, and escalating greenhouse gas emissions, all of which have far-reaching ecological and climate ramifications. Consequently, a pressing challenge arises: the need to harmonize the pursuit of economic development with the imperative of environmental sustainability.



Geopolitical Complexities: Geopolitical intricacies such as territorial disputes and international rivalries introduce formidable obstacles to the efficient utilization of Latin American and African oil reserves. These complexities transcend national borders, affecting not only regional stability but also reverberating through the intricate web of global oil markets, thereby compounding the challenges faced.

Sanctions and Global Oil Trade: The imposition of sanctions on oil-producing nations can set off a chain reaction of consequences on the global oil trade. These sanctions, wielding the power to disrupt supply chains, influence price dynamics, and even escalate geopolitical tensions, render the issue of sanctions a pivotal concern with implications far beyond their intended targets.

Energy Security: The dependency of oil-importing nations on supplies from regions embroiled in sanctions or geopolitical instability raises grave concerns regarding energy security. This dependence, marked by vulnerability to supply disruptions, incites a quest for alternative energy sources to diversify and secure energy portfolios.

International Cooperation: In navigating this complex landscape, international cooperation emerges as an imperative. Achieving consensus on equitable resource management, robust environmental safeguards, and the intricate ramifications of sanctions demands diplomatic finesse and unwavering international cooperation, transcending political divisions.



Technological Advancements: The utilization of cutting-edge technology represents an indispensable avenue for optimizing the harnessing of oil reserves. Technological innovation offers the promise of enhanced efficiency and minimized environmental impact. However, it is essential to acknowledge that these advancements often necessitate substantial investments, thus raising financial and logistical challenges.



Current Situation

Effects likely to be on the global economy.

Overall, lower oil prices due to supply shifts are good news for the global economy, obviously with major distribution effects between oil importers and oil exporters. The crucial assumptions in quantifying the effects of those supply shifts are how large and persistent we expect them to be. These assumptions determine not only the path of adjustment, but also the initial reaction of consumers and firms.

Given the uncertainty about the relative importance of supply shifts, both now and expected in the future, we present the results of two simulations (these are *ceteris paribus* in nature—not projections about the global economy, and as such ignoring all other shocks likely to affect the global economy), which we see as representing a reasonable range of assumptions.

The first assumes that the supply shift accounts for 60 percent of the price decline reflected in futures markets. The second also assumes that the supply shift accounts for 60 percent of the price decline at the start but that the shift is partly undone over time for the reasons described above, with its contribution to the price decline going gradually to zero in 2020.

The first simulation implies an increase in global output of 0.7 percent in 2015 and 0.8 percent in 2016 relative to the baseline (the situation without the oil price drop. Not surprisingly, in the second scenario, the effect on output is smaller, of the order of 0.3 percent in 2015 and 0.4 percent in 2016. The range of these effects includes predictions which would be obtained using existing empirical estimates for advanced economies.



Estimates from Blanchard and Gali (2009) for example find that the effect of a permanent (supply driven) decrease in the price of oil by 10 percent leads to an increase in U.S. output by about 0.2 percent. Given a supply component of the price decline of about 25% (60% of a total decline of 40%), these estimates would therefore imply an increase in output of about 0.5%.

These global results mask asymmetric effects from lower prices across countries. Winners are the (net) oil importing countries, losers are (net) oil exporting countries. But, even within each group, there are important differences.

Effects on oil importers

There are three main channels through which a decrease in the price of oil affects oil importers. The first is the effect of the increase in real income on consumption. The second is the decrease in the cost of production of final goods, and in turn on profit and investment. The third is the effect on the rate of inflation, both headline and core.

The strength of these effects varies across countries:

For example, the real income effect is smaller for the United States, which now produces over half of the oil it consumes, than for the euro zone or for Japan. The real income and profit effects also depend on the energy intensity of the country: China and India remain substantially more energy intensive than advanced economies, and thus benefit more from lower energy prices. The share of oil consumption in GDP is on average 3.8 percent for the United States, compared to 5.4 percent for China and 7.5 percent for India and Indonesia. The effect on core inflation depends both on the direct effect of lower oil prices on headline inflation, and on the passthrough of oil prices to wages and other prices.



The strength of the passthrough depends on real wage rigidities—the way nominal wages respond to CPI inflation—and the anchoring of inflation expectations.

In normal times, monetary policy would respond to lower core inflation through a more than one-for-one decrease in the nominal interest rate, and thus a lower real interest rate. However, times are not normal, and the major advanced economies are constrained by interest rates at zero, leaving aside quantitative easing.

While the United States, which is getting closer to exiting this zero lower bound, can respond to a decrease in inflation by delaying the timing of its exit, the euro zone and Japan, which are expected to remain at the zero lower bound for a long time, cannot materially change their conventional monetary policy.

The effect on China is larger than those for Japan, the United States and euro zone countries. For China, GDP increases 0.4-0.7 percent above the baseline in 2015, and 0.5-0.9 percent in 2016. For the United States, GDP increases 0.2-0.5 percent above the baseline in 2015, by 0.3-0.6 percent in 2016. (The simulation assumptions do not take into account the potential offset from some policies that governments may implement following the fall in oil prices. For example, China may decide to tighten monetary or fiscal policy in response to the oil price decline).

In countries which have large specific—as opposed to proportional—taxes on energy (that is, they levy a fixed dollar or euro amount per gallon or liter), the same percentage decrease in the world price of oil leads to a smaller percentage decrease in the price paid by consumers and firms.



Countries may also use the opportunity of a decreasing price of oil to reduce energy subsidies—a move that has been generally recommended by the IMF—leading again to a smaller decline in the price paid by consumers and firms.

Some oil importers depend heavily on what happens to oil exporters, and thus may benefit less from lower oil prices. For example, low-income importers in the Caribbean that benefit from transfers under Venezuela's Petrocaribe regime could face a marked reduction in transfers as Venezuela itself comes under pressure. Caucasus and central Asia oil importers are likely to experience adverse spillovers from slowing growth in their oil exporting neighbors, particularly Russia, which will reduce non-oil exports and remittances. Mashreq countries and Pakistan might also be adversely affected through a decline in non-oil exports, official transfers and remittances from the member countries of the Gulf Cooperation Council, especially over the medium term.



Effects on oil exporters

In all countries, real income goes down, and so do profits in oil production; these are the mirror images of what happens in oil importers. But the degree to which they do, and the effect of the decline in the price of oil on GDP depends very much on their degree of dependence on oil exports, and on what proportion of revenues goes to the state.

Oil exports are much more concentrated across countries than oil imports. Put another way, oil exporters depend much more on oil than oil importers. To take some examples, energy accounts for 25 percent of Russia's GDP, 70 percent of its exports, and 50 percent of federal revenues. In the Middle East, the share of oil in federal government revenue is 22.5 percent of GDP and 63.6 percent of exports for the Gulf Cooperation Council countries.

In Africa, oil exports accounts for 40-50 percent of GDP for Gabon, Angola and the Republic of Congo, and 80 percent of GDP for Equatorial Guinea. Oil also accounts for 75 percent of government revenues in Angola, Republic of Congo and Equatorial Guinea. In Latin America, oil contributes respectively about 30 percent and 46.6 percent to public sector revenues, and about 55 percent and 94 percent of exports for Ecuador and Venezuela. This shows the dimension of the challenge facing these countries.

In most countries, a mechanical effect of the oil price decline is likely to be a fiscal deficit. One way to illustrate the vulnerabilities of oil-exporting countries is to compute the so-called fiscal break-even prices—that is, the oil prices at which the governments of oil-exporting countries balance their budgets. The breakeven prices vary considerably across countries, but they are often very high.



For Middle Eastern and Central Asian countries, the break-even prices range from \$54 per barrel for Kuwait to \$184 for Libya with a notable \$106 for Saudi Arabia. For countries for which we do not have available data on break-even prices, budgetary oil prices (that is, the oil prices that countries assume in preparing their budget) are another way to gauge countries' vulnerability to falling oil prices.

Some countries are better equipped than in previous episodes to manage the adjustment. A few have put in place policy cushions such as fiscal rules and saving funds and have more credible monetary framework, which have helped decouple internal from external balances, such as Norway.

But, in many, the adjustment will imply fiscal tightening, lower output, and a depreciation (harder to achieve under the fixed exchange rate regimes that characterize many oil exporters). And where expectations of inflation are not well anchored, the depreciation may lead to higher inflation.

Financial implications

Declines in oil prices have financial implications, directly through the effects of oil prices themselves, and indirectly through the induced adjustment of exchange rates.

Lower oil prices weaken the financial position of firms in the energy sector, especially those that have borrowed in dollars, and by implication weaken the position of banks and other institutions with substantial claims on the energy sector. The proportion of energy firms with an interest coverage ratio (the ratio of cash flows to interest payments) below 2 stands at 31 percent in emerging countries, indicating that some of these companies may indeed be at risk.



CEMBI spreads, which reflect spreads on high yield emerging market corporates, have increased by 100 basis points since June.

Stress tests carried out in the context of our financial stability assessments over the past few years in a number of oil exporting countries had found only a few countries where some banks did not pass the tests, implying recapitalization needs of a few points of GDP at most. However, those stress tests results may not be very informative since the capital buffers at the time of the tests may have changed, as well as the profitability of banks. Russia is a good example of rapidly evolving conditions in both respects considering the effect of sanctions on its financial sector.

Overall the impact of lower oil prices on banks in oil-exporting countries will depend critically on how persistent the fall in price is and its impact on economic activity and in turn on prevailing buffers.

Lower oil prices also typically lead to an appreciation of oil importers' currencies, in particular the dollar, and to a depreciation of oil exporters' currencies. The drop in oil price has contributed to an abrupt depreciation of currencies in a number of oil exporting countries including Russia and Nigeria. While the decrease in the price of oil is only one of the reasons behind the fall of the rouble, the Russian currency has depreciated by 40 percent so far this year, and 56 percent since September. While controlled depreciations can help oil exporters adjust, they also exacerbate financial problems for those firms and governments whose debt is denominated in dollars. And, in countries where expectations are not well anchored, uncontrolled depreciations can lead quickly to very high inflation.



If sustained, the oil price slump will thus have a concentrated and material impact on those bondholders and banks with high dollar and energy sector exposures. However, the global banking system's exposure is likely not to be large enough to cause more than a moderate increase in provisioning requirements and should be partially offset by improving credit quality in oil importing countries and sectors. Some oil importers may nevertheless have financial sector linkages to oil exporters, and may be exposed to economic and financial developments in the latter. For example, Austrian banks have significant exposure to Russia, and some have seen a very sharp decline in their equity price recently.

This relatively optimistic assessment must however come with a clear warning. One of the lessons from the Great Financial Crisis is that large changes in prices and exchange rates, and the implied increased uncertainty about the position of some firms and some countries can lead to increases in global risk aversion, with major implications for repricing of risk, and for shifts in capital flows. This is all the more true when combined with other developments such as what is happening in Russia. One cannot completely dismiss this tail risk.



Potential policy response of oil importers and exporters

Clearly, the appropriate policy response to falling oil prices will depend on whether the country is an oil importer or exporter. The exception is the shared opportunity provided by low oil prices to reform energy subsidies and energy taxes. The IMF has long advocated that governments use the saving from the removal of energy subsidies toward more targeted transfers. Low prices provide a great opportunity to remove subsidies at less political cost. For example, India was able to decrease diesel subsidies recently, and there were no protests as the price did not rise. And, in a number of advanced countries, this might be an opportunity to increase energy taxes, using the savings to reduce other taxes, such as labor taxes.

In normal times, for a country in good macroeconomic health — say, no output gap, inflation is at target and current account is balanced— the advice is well honed, learned from past movements in oil prices: monetary policy should make sure that, in the face of lower headline inflation, inflation expectations remain anchored, and try to maintain stable core inflation. Whether this implies an increase or a decrease in the interest rate is ambiguous. On the one hand, higher demand calls for higher interest rates; on the other hand, keeping core inflation from declining, may call for lowering interest rates. In general, whatever the interest rate does, the improvement in the current account balance is likely to generate an exchange rate appreciation. This appreciation is natural, and desirable.

Times are not normal however. Most large advanced economies suffer from a substantial output gap, inflation below target, and conventional monetary policy constrained by interest rates close to zero.



This suggests that any increase in demand is welcome at this stage, and that lower inflation, which cannot be offset by lower interest rates, is more dangerous. Against this backdrop, use of forward guidance to anchor medium run inflation expectations and avoid sustained deflation is crucial.

One might think that the appropriate policy response for oil exporters is the same as that of oil importers, but sign reversed. Importers differ however from exporters in two important ways: first, the size of the shock faced by oil exporters as a proportion of their economy is much larger than for oil importers. Second, the contribution of oil revenues to fiscal revenues is typically much higher. Thus, in all countries, lower fiscal revenues, and the risk that prices remain low for some time, imply the need for some decrease in government spending.

In countries that have accumulated substantial funds from past higher prices, allowing for larger fiscal deficits and drawing on those funds for some time is appropriate. This is even more so for exporters with fixed exchange rates, and where the real depreciation needed for adjustment may take some time to achieve.

For countries without such fiscal space, and where room to increase the fiscal deficit is limited, the adjustment will be tougher. Those countries need a larger real depreciation. And they need a strong monetary framework to avoid that depreciation leads to persistently higher inflation and further depreciation. This will indeed be a challenge for a few oil exporters.



Crude Oil Price Movements

Crude spot prices rose on average m-o-m in July driven by higher futures prices and stronger physical crude supply/demand fundamentals. Robust buying in the spot market including for near-term loading volumes for July and August trading cycles, concurrent with higher refinery intakes in July and firm demand from Asian buyers supported spot prices.

The ORB value averaged higher m-o-m in July. This came amid firm gains in related crude benchmarks and higher official selling prices (OSP) of all medium and heavy components exported to Asia, Europe and the US markets. In July, the ORB increased by \$5.87, or 7.8%, to settle at \$81.06/b. Crude oil futures prices bounced back in July from low levels recorded in June, as selling pressure in futures markets ceased and market sentiment turned optimistic about improving global oil market fundamentals in the second half of 2023. Moreover, the expectations that central banks were approaching the end of their monetary tightening cycles, the sharp decline of the US dollar in the first half of July and expectations of economic stimulus in China added to the positive sentiment in financial markets.

The ICE Brent front-month averaged \$5.18, or 6.9%, higher in July to stand at \$80.16/b, and NYMEX WTI rose by \$5.76, or 8.2%, to average \$76.03/b. DME Oman crude oil futures prices increased m-o-m in July by \$6.25, or 8.3%, to settle at \$81.16/b.

Hedge funds and other money managers recovered a large part of their combined futures and options net long positions in July, after significantly cutting their bullish positions in May and June, mirroring an improved market sentiment and a change in speculators' strategy.



Money managers rush to cover short positions built in the previous month, which contributed to pushing oil futures prices higher. The rise of net long positions was mainly due to the large drop in short positions.

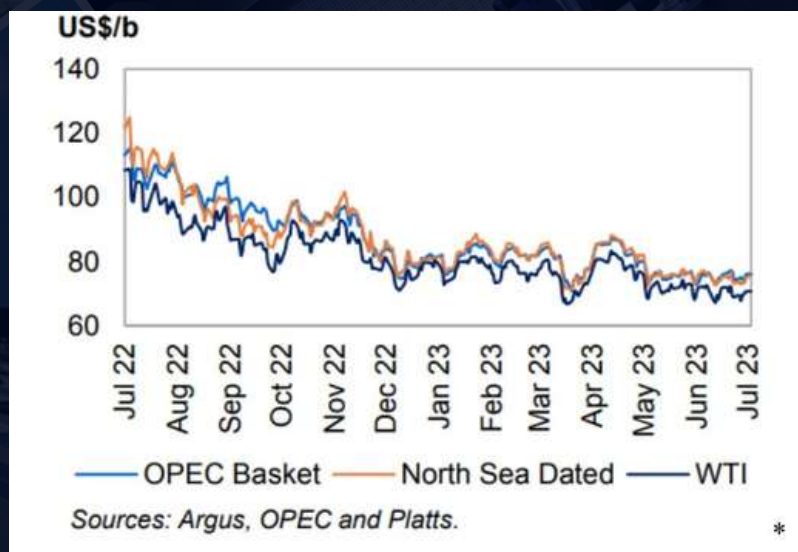
The crude market structure strengthened in July on an improving supply/demand balance outlook and signs of easing supply overhang for prompt loading volumes amid robust demand from refiners. Higher global refinery intakes boosted purchases of crude for prompt loading volume. The large decline in US crude oil stocks last month contributed to a strengthening of the structure of NYMEX WTI with the nearest monthspreads flipping into backwardation from contango in June. The sharp rise in bullish positions in the futures markets added support to prompt-month prices compared to forward-month contracts.

The prospect of a tighter sour market and sustained supply availability of light sweet crude, including from the US, led to the further narrowing of the spread between the value of sweet and sour crude in almost all regions, although they widened slightly in Asia. Further strengthening of high sulphur fuel oil supported the value of heavy sour crude, while a sharp drop in the value of Naphtha cracks weighed on the value of light sweet crude, which resulted in further narrowing of the naphtha-HSFO spread to deep discount.



Crude spot prices

Crude spot prices rose on average m-o-m in July driven by higher futures prices and stronger physical crude supply/demand fundamentals. Robust buying in the spot market including for near-term loading volumes for July and August trading cycles, concurrent with higher refinery intakes in July and firm demand from Asian buyers, including Chinese refiners supported spot prices. There were lower crude loading programs in several regions. Spot prices were further buoyed by higher refining margins in all major refining hubs, specifically diesel and gasoline. North Sea Dated benchmark rose firmly m-o-m buoyed by demand from European refiners and a favourable west-to-east arbitrage that raised demand for Brent-related crude from Asia refiners and lowered supply availability in the Atlantic Basin.



In the US, WTI crude also rose in July on strong demand from US refiners and lower crude stocks, partly due to sustained crude exports. The sour crude rose the most amid the prospect of tighter sour markets and stronger heavy distillate margins, including high sulphur fuel oil.

Dubai prices rose 7.5% m-o-m.



Spot crude prices strengthened against futures prices but they remained below futures prices in July in a sign that the crude market was adequately supplied. North Sea Dated stayed at a discount to ICE Brent's first-month contract in June and July on a monthly basis, after pricing at a premium in April and May.

On a monthly average, the North Sea Dated-ICE Brent spread stood at a discount of 7¢/b in July, compared with a discount of 25¢/b in June. The spread was at a premium of 12¢/b in May and \$1.53/b in April. In July, North Sea Dated and Dubai's first-month contracts increased m-o-m by \$5.36 and \$5.63, respectively, or 7.2% and 7.5%, to settle at \$80.09/b and \$80.33/b. WTI's first-month contract also rose last month, increasing by \$5.54 m-o-m, or 7.9%, to settle at \$75.85/b.

OPEC Reference Basket (ORB)	Jun 23	Jul 23	Change		Year-to-date	
			Jul 23/Jun 23	%	2022	2023
ORB	75.19	81.06	5.87	7.8	105.82	79.56
Arab Light	77.18	83.45	6.27	8.1	106.44	81.49
Basrah Medium	73.03	78.82	5.79	7.9	104.02	76.75
Bonny Light	74.18	79.92	5.74	7.7	110.46	79.81
Djeno	67.28	72.64	5.36	8.0	101.07	72.24
Es Sider	74.23	79.69	5.46	7.4	108.75	78.83
Girassol	76.30	82.09	5.79	7.6	111.24	81.09
Iran Heavy	75.33	81.48	6.15	8.2	105.49	79.84
Kuwait Export	76.44	82.39	5.95	7.8	106.62	80.94
Merey	57.37	63.28	5.91	10.3	81.86	59.90
Murban	75.52	80.78	5.26	7.0	104.55	80.04
Rabi Light	74.27	79.63	5.36	7.2	108.06	79.23
Sahara Blend	75.23	80.29	5.06	6.7	111.72	80.59
Zafiro	75.28	81.45	6.17	8.2	110.67	80.14
Other Crudes						
North Sea Dated	74.73	80.09	5.36	7.2	108.52	79.69
Dubai	74.70	80.33	5.63	7.5	102.07	79.08
Isthmus	66.31	72.56	6.25	9.4	100.27	68.35
LLS	72.63	78.39	5.76	7.9	103.62	77.42
Mars	70.67	77.19	6.52	9.2	98.90	74.19
Minas	72.58	77.47	4.89	6.7	102.85	77.73
Urals	56.64	65.12	8.48	15.0	86.47	55.72
WTI	70.31	75.85	5.54	7.9	101.68	74.92
Differentials						
North Sea Dated/WTI	4.42	4.24	-0.18	-	6.85	4.77
North Sea Dated/LLS	2.10	1.70	-0.40	-	4.90	2.27
North Sea Dated/Dubai	0.03	-0.24	-0.27	-	6.46	0.61

Sources: Argus, Direct Communication, OPEC and Platts.



Crude oil differentials strengthened further in July and the value of spot differentials of several crudes rose to multi-month highs, specifically in the Atlantic Basin. Firm demand from European and Asian refiners for the August trading cycle and higher refining margins added support.

In the North Sea, the value of sour crude rose the most amid lower supply availability of sour crude and firm demand from European refiners that was boosted by higher middle distillates margins. Light sweet crudes also rose last month, although a well-supplied light sweet market and a sharp decline of naphtha margins to deep discount limited the rise of the value of light sweet crude.

Ekofisk crude differentials increased by 26¢ on a monthly average in July to settle at premiums of \$1.74/b, while the value of Johan Sverdrup crude differentials rose by \$2.30 m-o-m to an average of \$2,83/b premium, which makes the value of sour crude higher than sweet crude. However, North Sea Forties crude eased 11¢ m-o-m to a premium of 4¢/b.

West African crude differentials registered robust gains in July, buoyed by firm demand from European refiners and the return of demand from some Asian refiners amid favourable west-to-east arbitrage, represented in a narrow Brent/Dubai spread and lower freight rates.

On a monthly average, crude differentials to the North Sea Dated benchmark by Bonny Light, Forcados and Qua Iboe rose by 48¢, \$1.19 and 87¢, respectively, m-o-m in July to settle at premiums of \$1.12/b, \$2.59/b and \$1.95/b. The crude differential of Cabinda also rose in July by 2¢ m-o-m on average to a premium of \$1.24/b.



Likewise in the Mediterranean, Saharan Blend and the CPC Blend crude differentials also firmed last month, despite a sharp decline of naphtha margins, rising respectively by 23¢ and 73¢ m-o-m to stand at a premium of 6¢/b and a discount of \$1.48/b. Azeri light crude differentials rose the most by 85¢ in July to stand at a premium of \$4.23/b, buoyed by strong diesel margins.

In the **Middle East**, crude differentials to Dubai rose in July on firm demand from Asia Pacific buyers, including China and India, higher refining margins and the prospects of lower supply in the coming months. The value of the Oman crude differential rose 64¢ m-o-m in July to a premium of \$1.64/b.

Similarly, in the USGC, the crude differentials of Light Louisiana Sweet (LLS) and Mars sour strengthened amid higher demand from refiners in the USGC, sustained US crude oil exports and a large drop in US PADD3.

Mars sour crude rose more than sweet crude like in other regions. LLS and Mars sour crude differentials against WTI at Cushing rose m-o-m in July, increasing by 20¢ and 96¢, respectively, on a monthly average, to premiums of \$2.54/b and \$1.34/b



Dynamic Effect of Oil Resources on Environmental Quality

Sustainable development determines the future of humankind while oil resources dependence and the ongoing greenhouse gases (GHG: nitrous oxide, carbon dioxide, gas flaring, methane, etc.) emissions have severe consequences for the environment and global warming. In a recent study, Gatto et al. report that oil-dependent developing and emerging countries share 15–20% of GHG emissions in the Earth's atmosphere.

As documented in the Climate Watch, carbon dioxide (CO₂), with a share of 74% in GHG emissions in 2017, remains the main component of environmental degradation and climate change. For example, in 2016, the oil-based activities sourced 12.3 billion metric tons (or 30%) of the planet's CO₂ releases.

In this context, Africa is the lower-emissions region with a share of only 4% of carbon release from the world fossil fuel sector in 2017 . The region also accounts for over one-third of carbon pollution from energy use and manufacturing sector compared to 80% of such emissions worldwide, while this continent is the most vulnerable to global warming . African economies have also experienced one of the world's highest levels of gross domestic product (GDP) growth of 4.5% for almost two decades (1995–2013), which persisted even during the 2008/2009 financial crisis. Oil resources abundance is the backbone of economies in countries such as Nigeria and the Congo Democratic Republic (COD), with around 5.8% and 5.9% average annual GDP growth over 2000–2019 .



Additionally, according to World Bank , the GDP figures for African region (expressed in constant 2010 US dollars (\$)) amounted to \$664.583 billion, \$812.256 billion, and \$1.834 trillion in 1990, 2000, and 2019, respectively. The corresponding average annual growth has been 2.2% (for the first decade 1990–2000) and even more vigorous with 4.6% (for the following two decades 2000–2019). United Nations Economic Commission for Africa (UNECA) and Talukdar and Meisner show concerns because these growth trends could have the adverse environmental impacts.

Meanwhile, Africa with its infant industries, including oil companies, also became greater CO₂ emitter due to the overextraction of oil resources (to support the said growth); the oil processing requires extensive energy use, resulting in fugitive emissions, etc. . According to the International Energy Agency (IEA), the economic growth and oil resources dependency has raised the energy demand up to 80% of the total energy required to stimulate the region's economic activities. The 2020 report of British Petroleum (BP) revealed that fossil fuel energy consumption in Africa, including oil resources, amounted to over 40% of the total energy mix.

Such an extensive use of primary energy had a detrimental effect on the environment . Though Africa is the least carbon polluter of the planet, yet its carbon emissions are increasing over the years. In this regard, BP draws the attention that the CO₂ emissions in the region increased from 1070.2 million tons in 2009 to 1308.5 million tons in 2019, with an annual growth of 2.0% between 2008 and 2018. These African emissions trends could even dramatically rise to 30% by 2030 with the region's GDP and population growth projection . The prior literature mainly suggests an inverted U-shaped relationship between income level and pollution, commonly known as the environmental Kuznets curve (EKC) .



Particularly, the development level affects the environmental quality based on scale, composition, and technical (also called technique effect) effects of the economy. Scale effect postulates that holding the structure and the technology of the economy unchanged, the production increase leads to environmental deterioration.

Thereby, economic development worsens environmental pollutions and related climate damages . The pre-industrial era relates to the scale effect because economic prosperity improves the living standards of people who initially consume more energy-intensive goods increasing the pollution level. Thus, IEA documented the boom of fuel-based vehicles, which are the most polluting (carbon emitters). The industrialization era leads to the overexploitation of the oil resources to match the economy's energy needs. Consequently, this operational process jeopardizes the environment by emitting CO₂ through fugitive emissions and flaring.

Furthermore, the oil sector's energy consumption, together with that of the rest of the economy, enhances the carbon emissions, ultimately damaging the environmental quality. In the second stage, additional economic growth shares a high-income level in moving from quantitative to qualitative growth. Particularly, as the economy develops, citizens may require a safe and healthy environment. This process characterizes the ongoing structural change in the economy from agricultural activities to the heavy and "dirty" industry, then to virtual activities (services): post-industrial era. The said economic transition contributes to low-pollution intensity after crossing the turning point (TP) via development of advanced and innovative technology in the economy. The aforementioned mechanism corresponds to the composition effect. Lastly, the technique effect gauges the production efficiency and the adaptability of energy-efficient and low-carbon technologies, which improves the environment.



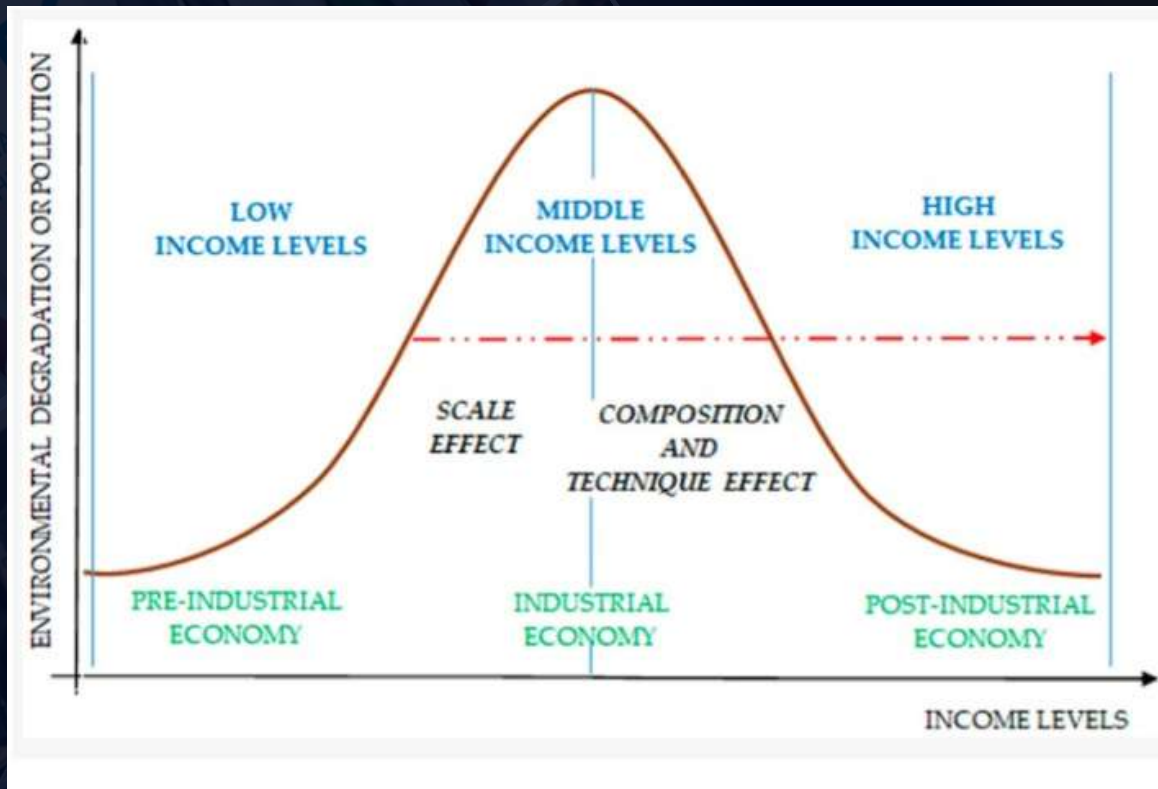


Figure 1. The environmental Kuznets curve (EKC) mechanism depicting development level-related environment quality.

Guiding Questions

1. How do demand and supply factors play distinct roles in shaping the oil market?
2. To what extent is the current supply shift expected to endure in the long term?
3. In what ways can OPEC+ collaborate with other stakeholders to promote stability and growth on a global scale?
4. How might the evolving oil market dynamics impact the global economy, and what proactive steps can OPEC+ take to contribute positively?
5. What financial risks and opportunities are associated with the changing oil market, and how can stakeholders prepare for them?
6. How should policymakers in oil-importing nations adapt their energy policies to ensure resilience in the face of evolving supply dynamics?
7. What policy adjustments should be considered by oil-exporting nations to support sustainable growth and stability?

References

- <https://www.eia.gov/energyexplained/oil-and-petroleum-products/use-of-oil.php>
- <https://www.energy.gov/fecm/enhanced-oil-recovery>
- <https://eos.org/editors-vox/where-and-how-can-we-find-new-sources-of-oil-and-gas>
- <https://www.investopedia.com/terms/o/oil-reserves.asp>
- <https://www.worldfutureenergysummit.com/en-gb/future-insights-blog/8-ways-the-oil-and-gas-industry-is-making-better-use-of-sustainable-technologies.html>
- Arezki, R. , Loungani P. , van der Ploeg, R. and Venables T. , (2014). Understanding International Commodity Price Fluctuations, Journal of International Money and Finance, Vol 42, April, pp. 1-8.
- Blanchard, Olivier J. and Jordi Gali, 2009. The Macroeconomic Effects of Oil Price Shocks: Why are the 2000s so different from the 1970s? in J. Gali and M. Gertler (eds.), International Dimensions of Monetary Policy, University of Chicago Press (Chicago, IL), 373-428.
- Baumeister Christiane & Gert Peersman, 2013. "The Role Of Time-Varying Price Elasticities In Accounting For Volatility Changes In The Crude Oil Market," Journal of Applied Econometrics, John Wiley & Sons, Ltd., vol. 28(7), pages 1087-1109, November.

- Cashin, Paul, Kamiar Mohaddes, Maziar Raissi, and Mehdi Raissi (2014). "The differential effects of oil demand and supply shocks on the global economy", *Energy Economics*, Volume 44, July 2014, Pages 113-134.
- Hamilton, James D., 2003. "What is an oil shock?," *Journal of Econometrics*, Elsevier, vol. 113(2), pages 363-398, April.
- Kilian, Lutz, 2009. "Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market," *American Economic Review*, American Economic Association, vol. 99(3), pages 1053-69, June.
- Parry, Ian, and others, 2014, *Getting Energy Prices Right: From Principle to Practice* (Washington: International Monetary Fund).
- Peersman, Gert & Van Robays, Ine, 2012. "Cross-country differences in the effects of oil shocks," *Energy Economics*, Elsevier, vol. 34(5), pages 1532-1547.

OPEC
ORGANIZATION
OF THE PETROLEUM
EXPORTING
COUNTRIES



THE DECENNIAL EDITION