The Arab League

Diversifying National Economies Away from the Fossil Fuels Industry in the Light of the Global Energy Transition

Research Report

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Forum: The Arab League

Issue: Diversifying National Economies Away from the Fossil Fuels Industry in the Light of the Global Energy Transition

Position: President

Introduction

It is a known truth that the Middle East and Northern Africa (MENA) region is responsible for a large share of the fossil fuel reserves in the world. This, throughout history, has led to the exploitation of these reserves for the benefit of this region's countries' economies. Contrasting the sudden importance of the fossil fuel industry at the start of the 19th century, we now find ourselves questioning how beneficial the industry has been on a larger scale. This increase in importance of slowing down the world's reliance on fossil fuels comes at the time of a global climate crisis, one that has been propagated by said fossil fuel industry in the past. Hence, the status quo leaves the region in a troubling situation: diversify their economies away from fossil fuels, risking major economic collapse? Or, keep developing the extremely profitable fossil fuel industry, to the detriment of the environment and the region's public image?

It is the responsibility of the committee to answer this daunting ultimatum with a plan of action, one that is appropriate for the vulnerable economies of the MENA region, as well as for the equally as vulnerable environmental and socio-political global climates.

Definition of Key Terms

Economic diversification

Explained by the United Nations Framework Convention on Climate Change (UNFCCC), "Economic diversification is the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets". Regarding this topic in particular, 'economic diversification away from the fossil fuels industry' would be asking the concerned economies to try making a profit from different products than just the one, that being fossil fuels.

Fossil fuel industry

Fossil fuels, as defined by ScienceDaily, "[...] are hydrocarbons, primarily coal, fuel oil or natural gas, formed from the remains of dead plants and animals". Thus, the fossil fuel industry is the branch of a certain economy (be it national, organisational, or other) that deals with the production and processing of raw materials for capital gain; profit. The fossil fuel industry has been under scrutiny in recent years over its contribution to the global climate crisis, as the combustion of fossil fuels for energy releases harmful compounds into the air and general surrounding environment, harming fauna, flora, and people.

Global energy transition

This refers to the current trend we see on the global stage, in which countries and organisations are being pressured to move away from unsustainable fossil fuels for energy, in exchange for the 'greener', more sustainable alternatives, such as solar, wind, geothermal, hydraulic, and debatably nuclear energy. This transition to green energy alternatives comes in the wake of gigantic issues regarding the environment, usually summed up as 'climate change', which is causing many people and their public figureheads to turn their back on the fossil fuel industry and ask instead for their economies to make the switch to green energy industries, in an attempt to reverse, or at least stall the effects of fossil fuels and their detrimental impacts on the environment.

Climate Change

As defined by the UN, "Climate change refers to long-term shifts in temperatures and weather patterns. Such shifts can be natural, due to changes in the sun's activity or large volcanic eruptions. But since the 1800s, human activities have been the main driver of climate change, primarily due to the burning of fossil fuels like coal, oil and gas. Burning fossil fuels generates greenhouse gas emissions that act like a blanket wrapped around the Earth, trapping the sun's heat and raising temperatures."

The GCC

The Gulf Cooperation Council is an intergovernmental organisation that concerns itself with matters of economic, political, and sociocultural nature. It is a regional union comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Paris Climate Agreement

As defined by the UNFCCC, "The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels". All countries in the Arab League have ratified the agreement, except Libya and Yemen. Iran is the third state to not have ratified the agreement.

General Overview

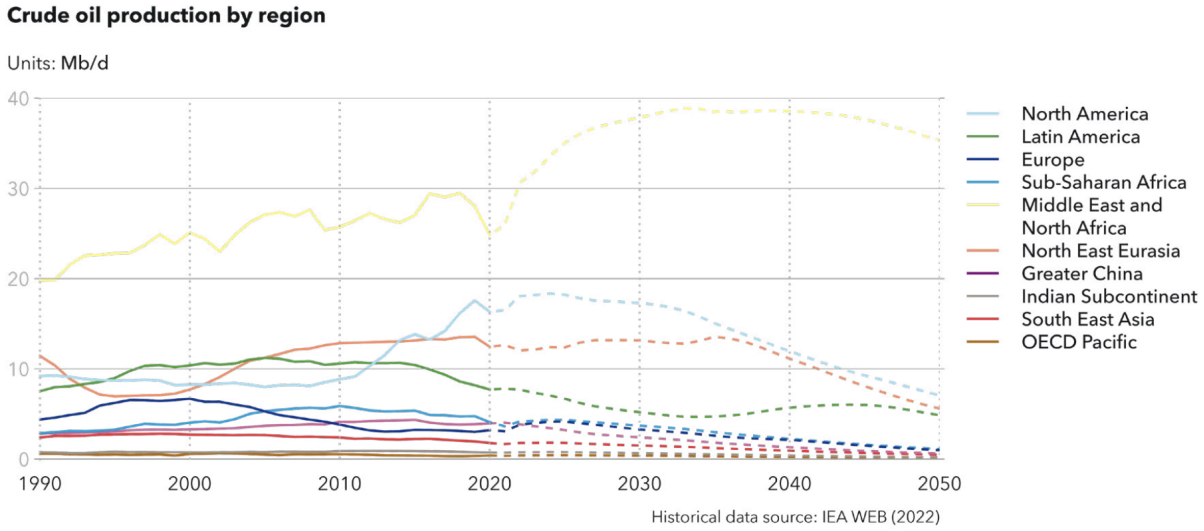
The Past: The History of Fossil Fuel Industries in the MENA Region

The topic of the fossil fuel industry's relation to that of Middle Eastern economies has a century-long history, which is to be understood comprehensively before we can question the future of these economies. This history starts with the first discovery of a large, natural crude oil deposit in Iran, formerly known as Persia, in 1908. At the time, natural gas and crude oil were not used as the primary source of energy, and thus no economic developments were immediately made off of this discovery. The market for crude oil and natural gas did not truly take off until after the second world war in 1945, due to the lack of uses for these energy sources until then. Motorised vehicles were still barely in use, and most transport systems and power stations used coal for their power. Leading up to this boom in interest of oil, the states in the MENA region had some of the least developed economies and sociopolitical conditions. It was with the establishment of crude oil as a desirable and highly profitable resource that the countries housed in the MENA region could start their modernisation.

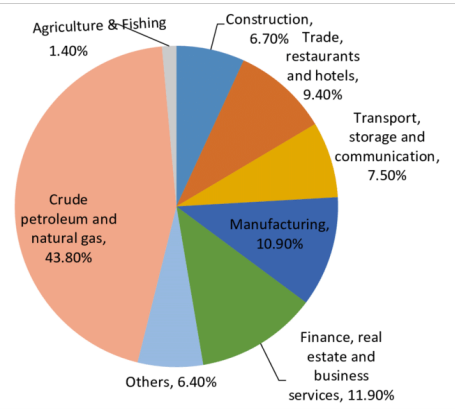
The sudden interest in oil from the MENA region meant these countries could develop steady economies, which helped them further improve their infrastructure and the lives of their citizens. The first state to fully monetise off of their crude oil reserves was Kuwait, with the establishment of the Kuwait Oil Company (KOC) in 1946. As the economies of the MENA region only continued to grow alongside the demand for oil, the ensuing decades saw increases in public investments of infrastructure, be it in sanitation, education, or industrialisation. Undeniably, the discovery and coveting of fossil fuels allowed the region to develop to a level of modernisation comparable to the rest of the world.

The Present: How Middle Eastern Economies Currently Rely on Fossil Fuels

Due to the indubitable evidence that oil production was benefiting all aspects of life within the MENA region, there was no reason to slow production, nor to question its virtue. Up until the 1980's there was no significant attention being paid to the issue of climate change, and even if there were any red flags being raised, the industries behind fossil fuel extraction and export were far too profitable to be discarded over worries for the environment. And so, the MENA region continued its production of oil and gas for exportation, in turn expanding their economies for further modernisation purposes.



As made clear in the graph, provided by the 2022 DNV Global Energy Transition Outlook, the MENA region is responsible for the majority of crude oil production, and this leading stance in the fossil fuel industry is only predicted to grow in the coming years. This growth is predicted mainly through the fact that the MENA region has what is considered to be the lowest per-barrel extraction costs, and so countries in the MENA region will get the best return on their investment in the fossil fuel industry over other countries.



Although that is the predicted change for the region, the current distribution of economic share by sector can be modelled by the graphic on the left, which shows the distribution of the GCC's GDP across the main economic sectors in 2016. Although the GCC is not a completely accurate representation of the MENA region, especially in terms of economy, the graphic provides us with an idea of how important the fossil fuel industry truly is for the region of the Middle East, which was to be expected considering

the elaborate history of crude oil and natural gas production in the region. With the given proof of how unabated the reliance of the MENA region's countries' economies have on the fossil fuel industry, it becomes clear why the question of diversifying economies becomes so important, especially with the increasingly loud calls for environmental consideration over economic prioritisation.

The Future: Moving Away From Fossil Fuel Focused Economies

The fossil fuel industry is one known to be unreliable in its markets, meaning the supply and demand of the industry's products (such as crude oil, natural gas, coal, etc.) can change in unpredictable ways. The most notable example of this is the 2014 oil price plunge, in which the prices for a barrel of oil dropped by 59.2% over 7 months. The erratic and unstable nature of the fossil fuel industry is only one reason why a diversification of products being sold by the MENA region's countries would be a smart move. The more pressing issue regarding a dire need for economic diversification is the new mood set by the turn of the 21st century, in which the environment has become a major issue that is slowly gaining more and more influence over policy and economics globally. International standards for environmental protections, mainly outlined by the Paris Climate Agreement of 2015, provide themselves as more stressors to the question of economic diversification, as many countries are expected to go net zero in terms of carbon emissions across all sectors. This includes the UAE by 2050 and Saudi Arabia by 2060, for example. Moreover, the global energy transition from fossil fuels to green energy sources means the current status of the region's countries' economies puts itself at risk, as fossil fuels will start to lose popularity in favour of green energy sources, meaning the major source of income until now will slowly become obsolete.

So with a clear goal of economic diversification in mind, what is holding the MENA region back from following the pressuring advice of the rest of the world, especially in light of the global energy transition? The overwhelming issue at hand is that of leaving behind what is so incredibly profitable, as well as what truly is part of the economic legacy of the region. The states in the concerned region have practised economic monoculturalism for the past century, which has accumulated to become the economic powerhouse it is today. The issue with economic monoculturalism is that selling one product for too long isolates your economy from other sectors, and forces you to achieve near-monopolisation instead of having a diverse range of products to profit off of. For the region to change its economic strategy by diversifying its product, it risks major economic collapse if it cannot match the competition in terms of pricing and marketing strategy. Overall, the MENA region has a lot of problems to overcome if it wishes to start forgoing fossil fuels in exchange for product diversity, which will be a necessary change to make if it wishes to lose its contingency on fossil fuels.

Major Parties Involved

Saudi Arabia

Saudi Arabia is the country with the most oil reserves in the world, holding 17% of the world's crude oil. Because of this, Saudi Arabia also exports the most oil to the rest of the world, sitting at 15% of all global oil output, and compared to the exports of the rest of the MENA region's countries. With this much power, Saudi Arabia has the ability to hugely influence the global fossil fuel market, and thus is a relevant party in the question of reducing the MENA region's economies' reliance on fossil fuels. If Saudi Arabia takes primary action to diversify its largely fossil fuel-based economy, it is likely that the rest of the region will follow.

China

China is the biggest importer of oil in the world, at 23% of crude oil imported. 41% of this imported oil comes from the MENA region, making China the biggest importer of Middle Eastern oil. By changing their reliance on fossil fuel-based energy sourcing, China will be able to slowly stop needing to import Middle Eastern oil, making the MENA region's reliance on fossil fuels for their economies lessen in place of a more diversified economy.

OPEC

The OPEC is the Organisation of the Petroleum Exporting Countries, established in 1960. The members of OPEC that are also members of the Arab League are: Algeria, Iraq, Kuwait, Libya, Saudi Arabia, and UAE. According to OPEC, their objective is, "to coordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry". With this in mind, OPEC has significant influence over oil producing nations, especially those in the MENA region. With the help and influence of OPEC in policy-making spheres, the affected countries involved in the issue may be able to start to diversify their economies.

IEA

The IEA is the International Energy Agency, which is an intergovernmental organisation that was established in 1974, with the mission of providing support to its member states regarding their energy sectors; from consumption to sourcing. The IEA consists mainly of countries within the EU, but cooperation between the countries in the MENA region and the IEA may lead to progress regarding the region's energy sectors. The IEA can provide policy recommendations to said countries, including but not limited to transitions away from fossil fuels, either for their own consumption or in order for them to diversify their economies.

Japan, South Korea, & India

Similar to China, these three countries all are amongst the top consumers of the MENA region's oil reserves, at 89%, 70%, and 60% respectively. If these countries were to change their energy consumption away from fossil fuels, it would give the region the chance to diversify their economies in order to stop crude oil from being their primary export.

The Arab League

Within the charter of the Arab League, the following objectives are stated, "Coordination of member states' plans and policies … Examining the interests and affairs of Arab states … To regulate economic and social relations with international organisations in order to assure peace and security". With these objectives in mind, the committee has a lot of power over a wide range of countries, which will definitely prove to be useful regarding the issue at hand. With the help of the Arab League, efforts to reduce the MENA region's economies' reliance on fossil fuels can be coordinated and concerted, so that an effective economic plan can be put into place. Harnessing the power of the Arab League within the context of this issue may prove to be particularly useful when it comes to economic diversification, as the economies of the MENA region should cooperate in recreating themselves so that no major economic failure in the region takes place. Moreover, the committee will be able to construct guidelines and regulations for the transitions away from fossil fuel-based economies, so that the countries that may need help regarding the issue will be able to get it.

Timeline of Events

May 26th, 1908	The first large, natural oil reserve discovered in Persia (modern-day Iran).
March 22nd, 1945	The Arab League is established in Cairo, Egypt.
September 14th, 1960	The OPEC is formed in Baghdad, Iraq.
August 2 1990 - February 28 1991	The Gulf War, triggered by the Iraqi invasion of Kuwait, partially to gain access to Kuwaiti oil reserves.
July 2008	Record peak in oil prices, at $147 per barrel.
February 2009	Plunge in oil prices due to the 2008 market crash, at $39 per barrel.
January 28th, 2015	Another plunge in oil prices, at $44 per barrel.
April 22nd, 2016	The Paris Climate Agreement is signed by 194 member states and the EU. Iran, Libya, and Yemen are the three states to not have signed or ratified the agreement.

Possible Solutions

The first of many possible solutions to the issue at hand is quite obvious; to invest in markets that are not a part of the energy sector, including but not limited to agriculture, manufacturing, construction, mining, technology, and research. This is the most immediate way to diversify the region's economy, and in doing so, the region's loss in income from the decreasing demand for fossil fuels globally will be softened. It may be equally as relevant to invest in green energy focused markets, so that the MENA region can maintain its reputation as a global source for energy, and also so that the region can slowly make the transition away from consuming its own fossil fuel reserves in place for green energy sources, thus joining the rest of the world in the transition to green energy.

The MENA region has one extremely secure advantage over the rest of the world, and that is its geographical position between the superpower continents of Europe, Asia, and the up and coming Africa. This strategic position between many powerhouses on the global stage can and should be harnessed for its full potential, which can be done most effectively through investments in transport and logistics infrastructure. This may include investments in railroads, airports, or docks, so that new trade routes can be developed and profited off of by the region's countries. With proper investments, and incredibly well-intentioned cooperation between all states in the MENA region, the area could become the new world hub for transport and logistics, providing a secure and eternally profitable source of income, away from the fossil fuel industry.

A final possible solution for the region to expand its economic activities beyond the sector of fossil fuel sourced energy is to make the area more attractive to foreign direct investment (FDI). FDI is defined by Investopedia as, "Investment made by a company or individual from one country into another country, often to establish or acquire business operations". Investment of this type is known to help develop a country's economy, often so that said country receiving FDI will be able to build up trade connections, develop infrastructure, and diversify their economy. In this sense, attracting FDI to

the MENA region may find itself to be a viable solution to the issue at hand. In order to do so, governments of countries within the questioned region may offer tax breaks or other monetary incentives to transnational corporations (TNCs). Moreover, the MENA region may choose to strengthen its workforce, or to build stronger international relations between itself and the rest of the world, if it wishes to attract more FDI. These strategies, amongst others, may prove to be effective when questioning how to solve the issue of diversifying the MENA region's economies away from fossil fuels.

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