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RESEARCH REPORT

COMMITTEE: UNITED NATIONS DEVELOPMENT PROGRAMME

ISSUE: INEQUALITIES AND CORRUPTION DUE TO PETROL

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INTRODUCTION:

Oil plays a prominent role in our world. It is a key resource for countries wanting to develop industrially or to try to integrate the interconnected world of globalisation.

The rise of the Asian economies, notably China, since 2014 the world's largest economy, has boosted demand for oil. Tax havens have also flourished in the global economy, damaging transparency and encouraging corruption. Meanwhile a series of conflicts in the Middle East have endangered supplies and encouraged wars between states and terrorism.

Needless to say, oil is much in demand, and fossil fuel ownership and control causes various inequalities. Over the last decade or so, inequalities between countries have risen as a consequence of oil resources. Spatial disparities within countries have also escalated.

Nowadays, the oil market therefore has a preeminent place, even if many refer to this wealth as the 'Oil Curse'. Foreign intervention, (Transnational Corporations or TNCs, armed intervention) corruption and pollution have increased. Although action has been taken to control the resources and thereby control the uprising of inequalities across the globe, nothing major has been achieved.

The UNDP works to ensure that development is both effective and sustainable for citizens. By improving the capacities of local governments to meet their statutory obligations for delivering public services, investing in local development and preserving social peace, the UNDP seeks long-term solutions. The UNDP recognizes the importance of effective local governance and works with local authorities and the civil society to involve communities in deciding on priorities for local development and, in crisis-affected situations, for a sustainable recovery. In the area of anti-corruption, UNDP contributes to formulating policy and agendas for tackling corruption and adherence to higher international standards. UNDP supports governments who adopt transparency, accountability and a culture of integrity into the delivery of services including education, health and water, and in post-conflict reconstruction.

KEY TERMS

DUTCH DISEASE: the negative consequences arising from large increases in a country's income. Dutch disease is primarily associated with natural resource discoveries (in this case oil) for example in Nigeria (the Dutch TNC Shell).

PEAK OIL: based on Hubert's theory, is the point in time when the maximum rate of extraction of petroleum is reached, after which the rate of production is expected to enter lasting decline.

INEQUALITIES: refers to the quality of being unequal or uneven, notably a lack of equality, social disparity, disparity of distribution or opportunity or the condition of being variable.

SUSTAINABLE DEVELOPMENT (Extract from the Brundtland report): Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- The concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- The idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs."

BACK GROUND INFORMATIONS

One of the most insular countries in the Middle East, Saudi Arabia, has emerged from being an underdeveloped desert kingdom to become one of the wealthiest nations in the region thanks to vast oil resources. Nevertheless, a certain number of democratic rights are far from being acquired. Women are second class citizens.

Like Saudi Arabia many of the oil rich major exporters are totalitarian regimes. They benefit from the power and the wealth due to oil resources. The wealth of such country depends on their natural resources. This is a key issue as once the resources will have been fully exploited the states will have to change their policies and their strategy of development. The export of oil does not benefit the local market or the locals. Africa where the states are weak, it is easier to corrupt them.

In Saudi Arabia oil and gas account for 90 percent of the country's GDP. Most economists, politicians, and scientists see the Middle East as a paradigm of a region becoming wealthier "without becoming democratic" and "without making much progress toward gender equality."

Wealth from natural resources should lead to economic growth and social development in a country. Nevertheless this wealth can increase the risk of distrust, weak governance and conflict. Thereby, openness about how a country manages its natural resources is necessary to ensure that the resources benefit all citizens.

TIMELINE

- ◆ **After WW2:** Oil prices and demand is high
- ◆ **1973:** Oil crisis (notably a response to the USA's aid to Israel, Arab countries deliberately choose to slow down their production and so the price of oil tripled)
- ◆ **1979:** Energy crisis due to Iranian revolution
- ◆ **2000:** Oil crises linked to the economic crisis
- ◆ **End of 20th and 21st century:** change of attitude, notably awareness of climate issues and a will to "protect the planet"
- ◆ **2000, December 4th:** UNCAC
- ◆ **2002:** World Summit on Sustainable Development (WSSD) in Johannesburg
- ◆ **2010-2012:** Arab Spring
- ◆ **2012:** G+20 in Rio on Sustainable development

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

The biggest producers are Saudi Arabia, Venezuela and Qatar.

The major countries involved are separated into different groups:

- **Developed and mainly importing:** ex France, UK...
- **Un-democratic exporters:** ex Saudi Arabia, Qatar, Venezuela...
- **Huge consumers** who are not self-sufficient : ex USA, Russia
- **Emerging new superpowers:** Brazil
- **The OPEC** (Organization of the Petroleum Exporting Countries) has 12 members including Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. They were later joined by Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Gabon and Angola. They aim to coordinate and unify the petroleum policies and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.

Rio+20: United Nations Conference on Sustainable Development which aim is trying to preserve the world and prevent further exploitation of it.

Global Witness, which is an NGO created in 1993, identifies links between a country's natural resources and conflicts and corruption that may exist there. In 2002, with the help of Transparency International, Global Witness launches the first international anti-corruption mechanism in the extraction sector. This program was called the **Extractive Industries Transparency Initiative**.

Implementing the EITI leads to a wide range of benefits:

- **Strengthened Governance:** lead to improved tax collection and budgetary planning. It signals commitment to the transparent and accountable management of the country's natural resources. a transparent and open government enhances citizens' trust. Notably in 2013, global witness campaign resulted in two thirds of the global value of listed extractives companies being covered by transparency laws
- **Level-playing field:** all companies are required to disclose the same information - same rules for all companies. Companies also benefit from an improved and more stable investment climate in which they can more effectively engage with citizens and civil society.
- **Reliable and accessible information:** citizens benefit from receiving reliable information about their country's natural resources and enable them to hold the government and companies to account. The civil society is an essential partner in implementing the EITI.

United Nations Convention Against Corruption (UNCAC), The United Nations established this convention which tries to highlight prevention, criminalization, international cooperation and help asset recovery

Global Thematic Program on Anti-Corruption for Development Effectiveness (PACDE), The global program is developed in line with UNDP Strategic Plan "Accelerating Global Progress on Human Development" (2008-2011), to upscale its governance interventions at global, regional and country levels.

"Publish What You Pay" campaigns to promote greater transparency in the extractive industries, so that citizens of resource-rich countries are able track the money being paid for their natural resources and hold their governments to account for how it is used.

Transparency International (NGO), Publishes an 'International Corruption Perceptions Index' every year. The Index ranks countries and territories based on how corrupt their public sector is perceived to be.

Rank	Country	2014 Score	2013 Score	2012 Score
1	Denmark	92	91	90
2	New Zealand	91	91	90
3	Finland	89	89	90

OPEC countries

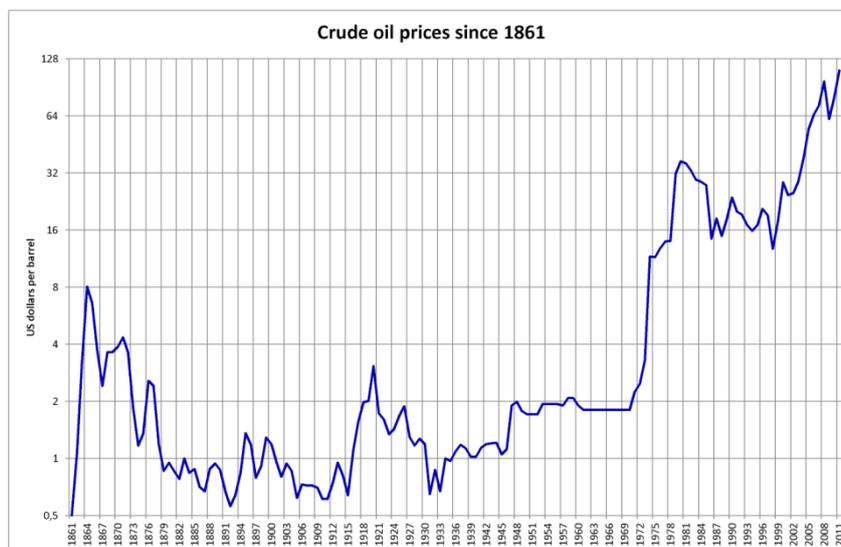
Qatar	69
Saudi Arabia	49
Kuwait	44
Algeria	36
Ecuador	33
Iran	27
Nigeria	27
Angola	19
Venezuela	19
Libya	18
Iraq	16

STATISTICS

Production countries:

In 2012: Russia 544 Mt (13 %), Saudi Arabia 520 Mt (13 %), United States 387 Mt (9 %), China 206 Mt (5%), Iran 186 Mt (4 %), Canada 182 Mt (4 %), United Arab Emirates 163 Mt (4 %), Venezuela 162 Mt (4 %), Kuwait 152 Mt (4 %) and Iraq 148 Mt (4 %).

→ Total oil production was 4,142 Mt, whereas in 2011, it was roughly 4,000 Mt. A new report from UBS shows that global oil reserves stand at 1.38 trillion barrels and are expected to last another 46.2 years.



Oil exporting countries have largely benefitted from the global rise in crude oil prices.

Country	2013	Jan-Jun 2014
Algeria	\$60	\$28
Angola	\$27	\$12
Ecuador	\$11	\$5
Iran	--	--
Iraq	\$86	\$46
Kuwait	\$92	\$45
Libya	\$34	\$4
Nigeria	\$84	\$40
Qatar	\$42	\$21
Saudi Arabia	\$274	\$130
UAE	\$53	\$26
Venezuela	\$62	\$30
All of OPEC	\$826	\$387

Available OPEC (excluding Iran) net oil export revenues

HDI Rank	Country	1980	1990	2000	2010	2012	2013
1	Norway	0.793	0.841	0.910	0.939	0.943	0.944
2	Australia	0.841	0.866	0.898	0.926	0.931	0.933
3	Switzerland	0.806	0.829	0.886	0.915	0.916	0.917
152	Nigeria	..	..	..	0.492	0.500	0.504
149	Angola	..	..	0.377	0.504	0.524	0.526
67	Venezuela	0.639	0.644	0.677	0.759	0.763	0.764

Example of HDI (Human Development Index)

THE NIGERIAN OIL THEFT

In Nigeria, petroleum exports revenue represents 90% of total export revenue and the oil and gas sectors account for 35% of the country's GDP.

Nigerian crude oil is being stolen and exported, though there is no precise data.

The suspected beneficiaries of this theft include politicians, government and security forces, oil industry personnel, oil traders and organised criminal networks.

The Nigerian oil industry has a reputation for illegality, in which the government's corruption and generalised fraud in the country play a major role.

The massive presence of corruption in the country has opened the doors to organized crime.

This oil theft threatens national and regional security: the country is destabilized due to the strengthening of organized crime networks. At the same time longer term development and infrastructures are neglected.

The informal economy grows at the expense of the formal economy and government tax income remains low, creating a vicious circle – underpaid and scarce police and civil servants leads to more corruption and fewer controls.

The Chatham House Reports proposes a four-point framework to fight against this situation:

- intelligence gathering and analysis
- efforts from Nigeria to build international confidence
- international efforts to clean up global oil trade
- implementation of a strategy by the Nigerian government to address oil theft

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