



ECOSOC



Topic: Discussing the commodity price rises in relation to international conflicts

Committee: Economical and Social Council (ECOSOC)

Name: Erdem Bera Eroğlu

Position: Deputy Chair

A. Introduction to the Committee

ECOSOC (the Economic and Social Council) is one of the six principal organs within the system of the United Nations, as it was established by the UN Charter in 1945. This committee comprises 54 member states that are elected by the General Assembly. ECOSOC coordinates the activities of the United Nations' fourteen specialized agencies, functional commissions, as well as the five regional commissions on economic and social-related issues. It is the primary platform for debating international socioeconomic concerns, and for generating policy recommendations adhering to the context of each member state, as well as for the entirety of the UN system. ECOSOC has the well-established goals of promoting an increased state of well-being across the world, as well as conducting efforts to bolster economic development and social prosperity. It aims to incorporate an interdisciplinary approach to tackling prevalent international issues such as unemployment, and other types of wide-scale economic obstacles. This committee is also concerned with facilitating international educational and cultural cooperation, and at a wider level, it encompasses the intention of encouraging universal respect and compliance for human rights and fundamental freedoms.

In 2013, there was a reform to the scope of ECOSOC, thereby including the power to identify emerging challenges around the world, promote innovation, and achieve a balance between the three pillars of sustainable development (established by the Johannesburg Declaration of 1992): economic, social and environmental issues. In specific, the discussions at the ECOSOC meetings are usually focused on an annual theme of global importance to sustainable development.

The UN General Assembly (UNGA) agreed upon 17 different issues that are of dire importance to sustainable development, called “Sustainable Development Goals(SDGs)” that were aimed to be resolved to the maximum extent possible by 2030. Given that sustainable development is a priority to the committee- there is a very strong connection between ECOSOC and the UN Sustainable Development Goals.

B. Introduction to the Agenda Item

The complex relationship between rising commodity prices and international conflicts presents a significant challenge to the fields of geopolitics and global economics. These two phenomena interact in a way that is not only intricate but also global in scope, affecting economies,

societies, and livelihoods everywhere. The impact of international conflicts is frequently felt most acutely in commodity markets, where the rising costs of necessities like food, fuel, and minerals can cause economic instability and exacerbate humanitarian catastrophes.

Conflicts have historically caused and been caused by changes in the price of commodities. The correlation between conflict and commodity prices is evident, ranging from the oil crises of the 20th century, which were instigated by geopolitical tensions in the Middle East, to the current conflicts in regions such as Yemen and Ukraine, where food and energy prices are subject to sudden fluctuations in response to armed hostilities. Furthermore, the interdependence of these phenomena has increased due to market globalization, making the consequences of conflicts on commodity prices more immediate and pervasive.

Understanding the dynamics of commodity price rises in relation to international conflicts requires a multidimensional approach. It necessitates an examination of the geopolitical drivers behind conflicts, the vulnerabilities of global supply chains, and the socio-economic impacts on both belligerent and neutral nations. Moreover, it demands an exploration of the role of international institutions, such as the United Nations and regional bodies, in mitigating the adverse effects of conflicts on commodity markets and fostering peace and stability.

We explore the complex relationship between rising commodity prices and global tensions in this debate. We examine the historical parallels, current issues, and potential future developments for resolving this urgent global concern. In a world where conflict-induced volatility in commodity markets looms large, our goal is to illuminate paths towards resilience, cooperation, and sustainable development by dissecting the intricacies of this relationship.

C. Key Terms

Inflation: Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time. The inflation rate is calculated as the average price increase of a basket of selected goods and services over one year. High inflation means that prices are increasing quickly, with low inflation meaning that prices are increasing more slowly. Inflation can be contrasted with deflation, which occurs when prices decline and purchasing power increases.

Commodity: Commodities are raw materials used to manufacture consumer products. They are inputs in the production of other goods and services, rather than finished goods sold to consumers. In commerce, commodities are basic resources that are interchangeable with other goods of the same type. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

D. General Overview

Conflict-related increases in commodity prices are complicated, multidimensional problems that affect many areas of the world economy. Essential commodities like oil, minerals, agricultural products, and precious metals can be disrupted in production, trade, and distribution due to conflict, be it small civil unrest or full-scale warfare between nations. This interruption frequently results in less supply, which raises prices.

Supply chain disruption is one of the main causes of rising commodities prices during conflicts. Natural resource-rich areas are frequently located in conflict zones, and the instability brought on by hostilities can make it more difficult to collect and transport these resources. A reduction in supply can be achieved by impeding the movement of commodities from production sites to markets through logistical problems, infrastructure damage, and security threats.

Conflicts can also impede agricultural operations, which can result in a shortage of food and an increase in prices. Because of violence or displacement, farmers may be forced to leave their crops, which lowers productivity and increases food insecurity. Furthermore, food price volatility can be further exacerbated by inflation and currency devaluation due to conflicts, which lowers the affordability of necessities for disadvantaged populations.

Conflicts can also have a significant impact on international commerce networks and marketplaces. Important transit routes, such as shipping lanes and pipelines, could become unsafe or unusable, which would interrupt the flow of commodities and raise the cost of transportation. Embargoes and trade restrictions imposed on nations engaged in conflict can further impede the flow of commodities, further constricting the supply and raising prices on the global market.

Conflict-related increases in commodity prices have ramifications beyond the realm of the economy. Armed wars are frequently accompanied by humanitarian catastrophes, with civilians suffering the most. Price increases for essential needs have the potential to worsen social inequality, increase poverty, and fuel instability in areas afflicted by war.

To address these issues, governments, non-governmental organizations, and aid groups strive to lessen the effects of hostilities on commodity prices and guarantee disadvantaged communities' access to necessities. Humanitarian aid, peacebuilding and conflict resolution programs, and sustainable development to strengthen the resilience of impacted populations are a few possible avenues for action.

All things considered, the connection between wars and commodity prices highlights the interdependence of world markets and the high human cost of armed conflict. Investing in conflict prevention and resolution initiatives as well as addressing the underlying causes of conflict are crucial steps in creating a more secure and prosperous world for everybody.

E. Timeline of Key Events

a. Russia-Ukraine Conflict

On 24 February 2022, the diplomatic-military clash that had been going on between Russia and Ukraine since February 2014 resulted in an invasion. The Russia–Ukraine conflict, in all its three dimensions, military, humanitarian and economic, produced cascading effects on the world economy, with particularly dramatic impacts on developing countries. Food, energy and financial markets have undergone sudden changes since the start of the war; in fact, both contending countries are among the world’s leading wheat exporters. According to UNCTAD “they provide around 30 percent of the world’s wheat and barley, one-fifth of its maize, and over half of its sunflower oil. At the same time, the Russian Federation is the world’s top natural gas exporter, the second-largest oil exporter and the largest exporter of wheat, pig iron, enriched uranium, natural gas, palladium and nickel”. It also holds a significant share of coal, platinum, crude oil and refined aluminum exports. Finally, we can conclude this brief examination by analyzing how Russia and Belarus, together, are important suppliers of fertilizers, including nitrogen and potash. On the other hand, Ukraine is also an important exporter of numerous raw materials including wheat, pig iron, maize and barley. Furthermore, it is the world’s largest exporter of sunflower seed oil and of neon gas, which is a critical input used to manufacture electronic chips. Given the numbers of goods exported and the size of the exports, the Russian invasion of the Ukraine was a very traumatic event for the commodity markets, as many nations rely on raw materials from these two countries. In this situation, there was a notable increase in the prices of energy and food, including wheat. This, in turn, has given rise to concerns about energy and food security, especially for the poorest families. Food production, at the global level, must also adapt to changes in relative prices, and it is for this reason that the volatility of commodity prices has increased. In this context, food prices have reached levels similar to or higher than those reached in 2007–2008. At that time, many authors attributed the high values of agricultural commodity prices to the financialization of derivatives markets . Others have shown that the causes of the increases were also to be found in other factors . The increased volatility in commodity prices recorded since February 2022 is based on concerns about the short- and long-term consequences of the war on the production and trade of commodities, in particular those for which Russia and Ukraine play a key role. The effects of the war in Ukraine on commodity markets occur through two main channels: the physical impact, the destruction of productive capacity, and the impact on trade and production due to sanctions. As a result, commodity prices are reaching record highs across the board. In April 2022, the United Nations Food and Agriculture Organization (FAO) published its third consecutive record food price index. According to FAO, food prices were 34% higher than that time the previous year and had never been that high since FAO started recording

them. Likewise, crude oil prices, gas and fertilizer prices have more than doubled. The FAO Cereal Price Index averaged 169.78 points in May 2022, with an increase of 27.65 percent compared to the same period of 2021. Given the significant contribution of the two countries to global food and energy supplies, the war produced consequences not only for neighboring countries but throughout the world. Regarding Europe, it imports a significant share of energy from Russia, including natural gas (35 percent), crude oil (20 percent) and coal (40 percent). Furthermore, Russia is similarly dependent on the European Union for its exports. In fact, around 40 percent of crude oil and natural gas is exported to the EU. Regarding food supplies, advanced economies (e.g., Australia, Canada, EU, US) and emerging economies are not dependent on Russia and Ukraine, being major producers of agricultural raw materials, the former being among major suppliers of grains and oilseeds. However, many smaller emerging markets and developing economies are almost exclusively dependent on agricultural raw materials from Russia and Ukraine. In fact, more than half of wheat imports into many countries in Africa, developing Europe and the Middle East came from Russia and Ukraine. In Europe, the demand for natural gas had already suffered due to price increases, and as a result many energy-intensive businesses such as fertilizer plants and refineries have reduced production. Most important of the territories at war are the greater southern ports of Ukraine, such as Mariupol and Odessa, essential for the transit of agricultural and industrial goods in the country. Soon after the war began, in March 2022, rail and road corridors saw limited quantities of Ukrainian grain exports pass through. However, grain exports from Russia have not been affected. The interruption of wheat exports from Ukraine has affected several importing countries, especially in the Middle East and North Africa, including Egypt and Lebanon. As a result, several countries have introduced trade policy measures or banned wheat exports. By the end of March 2022, just one month after the start of the war, 53 new policy interventions had already been imposed affecting the trade of food commodities. However, the trade restrictions imposed were not as extensive as those that occurred during periods of tension in commodity markets in 2007–2008 and 2011–2012.

The consequences of the conflict in terms of increased prices of raw materials and energy sources are tangible and there for all to see. On the other hand, the link between these aspects and the dynamics of financial markets may appear less linear and more complex. From this perspective, the present work aims to verify if there is a link between stock market performance and the prices of wheat and natural gas, i.e., the commodities that have shown the greatest volatility since the beginning of the war.

The economic link between Russia and Europe has been analyzed by numerous authors in different aspects: energy, food and financial. Gardebroek and Hernandez show the relationship between the price of agricultural commodities and the use of bioethanol as a fuel. In fact, while traditionally the relationship between food and energy prices was linked to production

and transportation costs, if demand increases to produce ethanol, this determines a stronger link between the energy and agricultural markets. They indicate how many products necessary for agricultural are energy-intensive, especially fertilizer, and in this way the rising energy prices increase the production costs. In addition, transportation costs raise oil prices, which can also cause an increase in raw material prices. Agricultural prices not only increase, but given the link between oil and food prices volatility shocks in fuel prices will also produce larger shocks in food price volatility. Economic literature has long studied the transmission of price shocks between different markets, especially financial and energy markets and, starting from 2008, also food. With reference to the 2008 crisis, analyze the spreading of price shocks between the food, energy and financial markets and show how volatility spillovers increase considerably after that date, when stock markets become net transmitters of shocks and crude oil becomes a net receiver. In fact, their results identify the presence of low volatility spillovers from crude oil to most food yields. Their findings highlight the main role played by the 2007–2008 financial crisis in focusing the spreading of shocks from crude oil or equity markets to food. In a recent analysis, Jebabli and Roubaud (2018) when analyzing food and energy markets consider the weak-form efficiency of spot and daily futures prices. The results indicate that all commodities show long-term efficiency and short-term inefficiencies whose explanation can be found in global economic conditions such as the global financial crisis of 2008, the financialization of commodity markets and the fluctuations in crude oil prices. An et al. (2021) indicate how the rapid growth of biofuel production has led to a choice between food and fuel. In fact, the use of agricultural commodities as inputs to produce fuels increases prices and volatility in both the food and fuel markets. Serra (2011) examines the linkages between crude oil, ethanol and sugar prices in Brazil. Since the levels of all the prices of the commodities examined are linked in the long term by an equilibrium parity, she shows that these links cause ethanol prices to rise with the increase in both crude oil and sugar prices. Algeri and Leccadito (2017) investigate the risk of contagion from commodity markets to the entire economy and between different sectors. This is because the financialization and integration of commodity markets expose the economy to potential contagion risks, for example adverse shocks affecting one or more commodity markets. Their results show that for energy and metal markets contagion risks are triggered primarily by financial factors, while for food markets they are triggered by financial and economic factors. Furthermore, they indicate how a transmission mechanism occurs from energy to food markets: oil is more important than biofuels in influencing food markets. Finally, they conclude by stating that tail events tend to spread from the commodity markets to the rest of the economy, both when risks derive only from financial factors and when they derive jointly from financial and economic fundamentals. In contrast, when risk measures are derived from economic fundamentals, only commodity markets can lead to economic instability. Mensi et al. (2013) investigate the return

and volatility link between the S&P 500 index and commodity price indices, like energy, food, gold and beverages, in the turbulent period 2000–2011. In terms of yield and volatility, the results show an important transfer between the S&P 500 and raw material markets. In the analysis of volatility spillover mechanisms between the markets, they show a significant correlation and the transmission of volatility between commodity and stock markets. Instead, Khalfaoui et al. (2021) examine the dependence structure between pairs of energetic and non-energetic goods at different frequencies and quantiles in joint returns distribution, and illustrate a significant low dependence between the energy commodities, like coal, crude oil and natural gas, and non-energy, such as metals, agriculture and fertilizers, on different frequencies and quantiles, between 1960 and 2019. Furthermore, some non-energy commodity markets have a neutral relationship with global energy markets.

The link between energy and financial markets in EU has been analyzed in recent years. Gong et al. (2021) study the impact of different oil shocks on oil price and show that oil inventories and speculative demand have more significant effects on price fluctuation than aggregate demand and supply of oil. Fang and Shao (2022) show how the Russia–Ukraine conflict significantly increases the volatility of agricultural, metals and energy markets through both economic and financial channels. Wang (2022) jointly studies the efficiency and connection of the commodity market. He examines the link between energy (Brent and TTF futures), industrial metals (aluminum, copper, lead, nickel, tin and zinc futures) and financial markets in the EU (FTSE 100, CAC 40, DAX and Bitcoin). The analysis shows that as markets “become turbulent, the flow of information increases in both efficient and less efficient markets, but efficient markets capture and send more information than less efficient markets”. Adekoya et al. (2022) examine the Russian–Ukrainian war from the point of view of the financial market’s performance. The war led to a shock in the supply of crude oil and a consequent increase in its price. They show how the connection is greater during the war than before. Nerlinger and Utz (2022) analyze the stock price of energy companies and show that these companies during the conflict outperformed the stock market. Alam et al. (2022) analyze the effects of the conflict on the dynamic connection between five commodity markets, the G7 and the BRIC markets, showing how the impact on returns and behavior in terms of volatility are dissimilar between neighboring, EU, and non-neighboring markets. However, they indicate a market connection between all raw materials and markets, G7 and BRIC. Image 1 analyzes the market reaction to the Russia–Ukraine conflict using event study methodology. Image 1 find an adverse event day impact on EU stock market indices. Furthermore, it shows that abnormal losses in the initial period of the conflict were large and persistent in the G7 market and volatility persistence was widely present. That compares the market responses of foreign and US firms to the outbreak of war, and show that foreign stocks listed in the US suffer a greater deterioration in market quality than US stocks. They note how

this effect is strong for companies from countries considered closer to Russia, and attribute these results to the information asymmetry hypothesis regarding the quality of the market which is more vulnerable to international geopolitical risk. In the same field, statistics examine the market impact of the onset of war on major European listed banks by observing a negative and statistically significant reaction in stock prices at and around the conflict. In addition, they indicate that the reaction is more negative for Russian-listed banks and for foreign banks with exposure to Russia. Image 1 analyzes the effects of increase in crude oil prices on the stock returns and currency exchange rates in the G7 countries and show how the continued increase in hostilities between Russia and Ukraine and the resulting conflict has had a global impact in terms of its long-term effect in the volatility of stock price returns and exchange rates.

Researchers document a statistically and economically significant market sanction imposed by investors on Reminders, which they attribute to “negative sentiment regarding companies that maintained their trade ties with Russia” after the February 2022 invasion. The Russian–Ukrainian military conflict resulted in a marked increase in geopolitical risk, and the economic sanctions imposed on Russia have damaged its economy. This uncertainty has spread to the global economy, as is evident from a sharp rise in global energy and commodity prices.

Image 1: Comparison of Price and Volatility

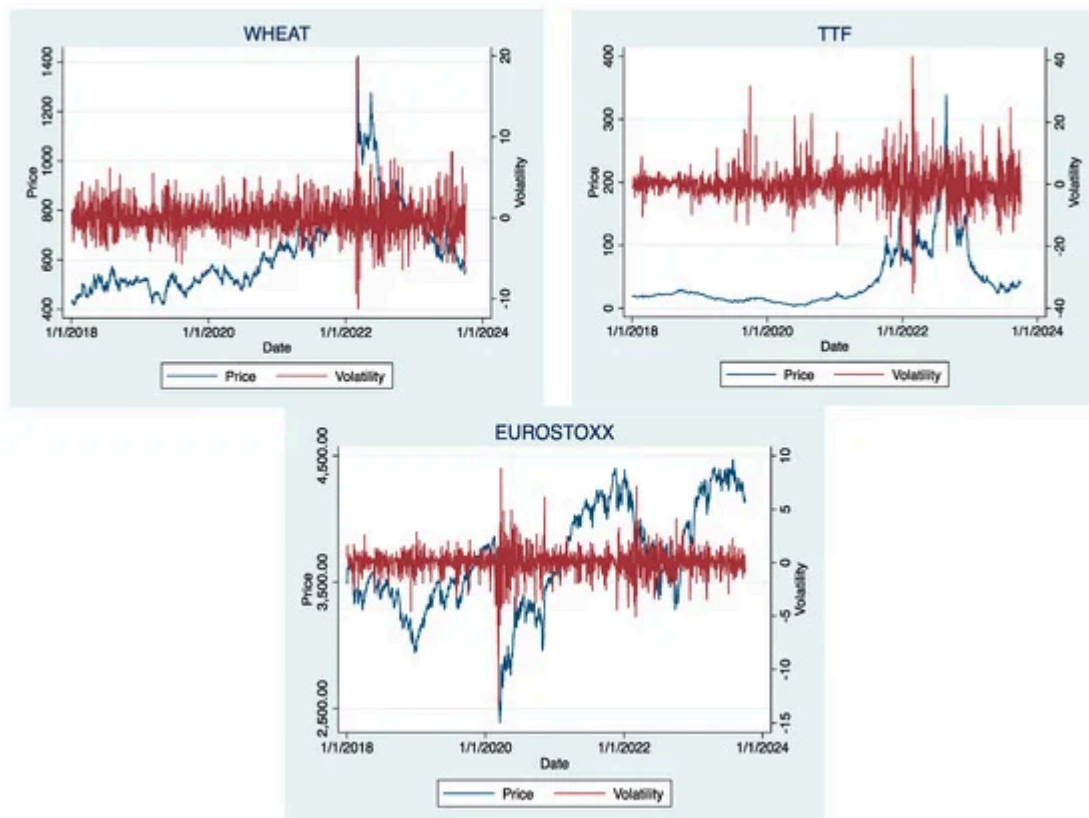


Image 1 investigates the impact of geopolitical risk, GPR, generated by the Russia–Ukrainian conflict on both European and Russian bond, equity and commodity markets. The results “indicate that most assets show a mix of negative and positive relationship with GPR” and therefore this produces changes in asset returns under normal market conditions. This researches evaluate the transmission of yields and commodity volatility in the period of war in Ukraine and show that return spillovers increase. During conflict, crude oil was a net transmitter of the return, while wheat and soybeans clearly receive the return spillovers. The spillover index volatility rises from less than 35% to 85% immediately after the start of the war.

b. Israel-Palestine Conflict

The Palestinian-Israeli conflict is showing signs of becoming more permanent, and as Israel plays a significant role in the global supply chain and is an important trade center in the Middle East, the impact of the military conflict on the country is causing further negative impacts on the global economy through trade networks and commodity markets.

Israel plays an important role in the global semiconductor industry, and almost all major chip makers have set up production bases or R&D centers in Israel. Some of these R&D centers and production sites are located in close proximity to Lebanon and the Gaza Strip.

Here is a list of significant commodities as an example:

Fertiliser

While the events in the Middle East are being observed by market participants, sources report that there has been no disruption to exports of fertilizer from Israel. However, the Middle East and North Africa (MENA) region is responsible for around 30% of global nitrogen fertilizer exports, with Qatar and Saudi Arabia being two of the top five exporters. Russia is also a major exporter of fertilizer, and the conflict in Ukraine has already impacted supply; with a military escalation in the Middle East, market players believe supply could become even tighter. Furthermore, there are significant potash resources in the south of Israel, which may be at risk from any conflict spillover, thus highlighting the vulnerability of the fertilizer market to the tensions in Israel and Palestine.

Market sources believe that the conflict, and any potential escalation, will likely further drive up the cost of fertilizers and energy. In turn, players in the grains complex anticipate higher grain prices when elevated fertilizer prices begin to filter into the market.

Crude Oil

In the days and weeks after the initial attack, many global markets were visibly choppy, notably crude oil.

Market players have been extremely concerned that the transport of crude oil would be negatively impacted because of the conflict. However, Israeli freight activities appear to be continuing, albeit with rapidly changing risk premiums due to the war.

Currently, the major risk to the crude oil market, and the broader economic environment, is an escalation of the war, particularly if Iran were to become involved. Regional sources say that this is possible, but not probable, with the greatest chance of a wider conflict depending on how Iran chooses to support Hezbollah in south Lebanon. There have been reports of skirmishes between the IDF and Hezbollah in recent days.

Contacts pointed out that although direct Iranian involvement is unlikely, if this were to materialise, the crude oil price would likely spike on supply fears and potential large-scale freight disruptions through the Strait of Hormuz.

Fruit and Vegetables

Farmers in Israel cultivate a diverse range of fruit and vegetable crops, many of which are destined for export markets. A significant portion of these crops are grown in the northern regions, which have been significantly affected by recent conflict events involving Hamas and Hezbollah. The ongoing conflict has placed immense pressure on agricultural supply chains.

Market sources report that many growers have faced challenges accessing their fields due to safety concerns, and a substantial number of local farm workers have been called up for reserve duty while foreign workers have left Israel, which has constrained labour availability. As a result, those farmers who can work in their fields are operating at limited capacity. Currently, the harvesting of citrus crops and avocados is underway, although progressing slowly. For field crops such as tomatoes, carrots, onions, cucumbers, and most other vegetables, the harvest and storage window are significantly narrower, as they tend to be more perishable. Prolonged conflict could lead to substantial crop losses as agricultural produce may never reach final markets. There have been reports of the Israeli government asking the public to purchase locally-grown produce in a drive to support the Israeli agricultural sector.

The conflict has also disrupted logistical operations, with transport routes experiencing delays, and truck drivers encountering difficulties reaching certain farms. These disruptions have led to a loss of valuable time between harvest and consumption. Even for the produce that does make it to packhouses, packing rates have been affected, with many packhouses operating at reduced capacity or remaining closed. Consequently, some market sources anticipate shortages of fruits and vegetables in Israel, as well as export produce never reaching its end markets.

Milk Powders

The MENA (Middle East and North Africa) region is one of the most important regions for the global and European dairy market, with Algeria as the biggest importer in the region. The EU, NZ (New Zealand), and UK supply about 63% of the dairy imports generated in the region, as the MENA region has become a critical marketing region for Dairy producers. However, as the current conflict in Israel does not directly involve any of the major importing markets in the region, both NZ and EU market participants have stated limited concerns surrounding a potential impact on trade flows.

Israel has significant natural gas fields in the Mediterranean. In order to guard against Hamas attacks, Israel has stepped up the protection of its gas fields. If the conflict escalates further, it could lead to disruptions in gas production and supply, impacting European energy markets. The price of oil and gas in the international market remains high, and further rises having the knock on effect of inflation in most countries, including Western countries in Europe and the United States. Furthermore, the conflict causes these countries to try and strike a balance between the dual objectives of "suppressing inflation" and "stabilizing growth".

Some countries have regulated or completely terminated their economic relations with Israel due to various reasons following conflicts. These countries based their actions on various moral and political grounds.

Various countries have cut their trade agreements or sales with Israel, with Arab countries stopping oil sales and countries like Canada halting arms sales. However, Turkey stands out as the first country to impose significant sanctions by terminating a \$7 billion trade deal due to 'humanitarian tragedy'.

Turkey's trade ministry first announced restrictions on exports to Israel in early April, stopping the export of iron and steel products and construction equipment. The two countries had a trade volume of \$6.8bn in 2023.

Katz said Erdoğan was "breaking agreements by blocking ports for Israeli imports and exports". He said: "This is how a dictator behaves, disregarding the interests of the Turkish people and businessmen, and ignoring international trade agreements." Katz added that Israel would try to replace any lost products via local production and imports from other countries.

Arab Spring

The events that took place in the Arab World in the opening months of 2011 mark a watershed in the history of the East and North Africa (MENA) region. Spontaneous, grass-roots coalitions of mostly young people, united by shared grievances and helped by new means of civic organization, have succeeded where traditional opposition movements had hitherto failed. They have carved out a new sense of political agency for the oppressed majority, and in doing so have forced long-serving despots out of office and have challenged longstanding

external assumptions about the philosophy and practice of politics in the Arab world. However, much as they have shaken the existing socio-political order in the region, the final outcome of the recent events is as yet unknown and the longer-term consequences of the transformation process they appear to have set in motion are highly uncertain.

Given the importance of MENA energy supplies in global economic terms, the political unrest witnessed by the region has caused widespread fears about the prospect of energy supply disruptions. With international oil and gas prices beginning to rise from 2010, there was serious concern among market and political actors that any further increase in prices would put at risk the fragile recovery of the global economy from the deepest recession in decades. The many historical precedents of oil disruptions in the region did not help allay these anxieties, especially in consuming countries and regions. But although these concerns proved justified – in the sense that disruptions did occur – the short-term effect on oil and gas markets of the recent events in the MENA region have been less dramatic than feared.

The importance of MENA oil cannot be over-emphasized (Table 1). MENA is by far the most well-endowed region in the world. In 2010, it held 816 billion barrels of proven oil reserves, with Saudi Arabia alone accounting for almost 20 per cent of the world's oil reserves. In the same year, the region produced 29 million barrels per day (b/d), accounting for more than a third of the world's total production. Unlike many other oil producers, MENA exports the bulk of its oil production, and thus the region has a dominant position in international trade of crude oil. In 2010, the region's exports constituted more than 40 per cent of the world's crude oil exports. Spare capacity is concentrated in the three Gulf Cooperation Council (GCC) member states of Saudi Arabia, Kuwait, and the UAE, with Saudi Arabia holding the bulk of the world's available spare capacity. This has allowed the Kingdom to act as a swing producer, filling the gap at times of oil supply disruptions. Finally, the GCC reserves are among the cheapest in the world to find, develop, and produce (with the exception of Oman). The IEA estimates total production costs in Saudi Arabia, Kuwait, and the UAE to vary between \$3 and \$5 per barrel of oil produced.

	Level (2010)	Share of Global (2010)
<i>Proven Oil Reserves (billion of barrels)</i>	816	59%
<i>Production (mb/d)</i>	29	35%
<i>Consumption (mb/d)</i>	9	10%
<i>International Exports (mb/d)</i>	21.8	40.7%
<i>Surplus Capacity (2010)</i>	4	100%

Despite these spectacular events, it is important to stress that it has not been all bad news when it comes to the security of MENA energy supplies. The Middle East, and in particular the Gulf countries, continues to act as the main supplier of energy to global markets. Furthermore, in many instances the region has played the role of a swing oil producer, absorbing supply shocks from within and outside the region. From a producers' perspective, oil is a crucial resource which is key to their political, economic, and social stability. Despite efforts to diversify their economies away from hydrocarbons, the oil sector remains the 4

Event	Date	Gross Loss (million barrels)
<i>Iranian nationalization</i>	03/1951–10/1954	924
<i>Suez Crisis</i>	11/1956–03/1957	240
<i>Syrian transit fee dispute</i>	12/1966–03/1967	63
<i>Six Day War</i>	06/1967–08/1967	120
<i>Libyan price controversy; damage to tapline</i>	05/1970–01/1971	351
<i>Algeria–France nationalization dispute</i>	04/1971–08/1971	90
<i>October Arab–Israeli War; Arab oil embargo</i>	10/1973–03/1974	468
<i>Iranian Revolution</i>	11/1978–04/1979	630
<i>Outbreak of Iran–Iraq war</i>	10/1980–12/1980	297
<i>Gulf Crisis</i>	1990–1	420
<i>US Invasion of Iraq</i>	03/2003–06/2008	1150
<i>Libyan Disruption</i>	03/2011–continuing	288

engine of economic growth and development in most producing countries. Oil exports generate most of the foreign revenue needed to meet import requirements. The bulk of the government revenues needed to implement key developmental and social

projects, to diversify and industrialize their economies, and to create employment opportunities for the hundreds of thousands of workers entering their labor markets each year is also generated by oil exports. Given the dominance of the oil sector in their economies, producers are also vulnerable to episodes of physical disruption and oil price instability, especially when compared to the more diversified economies in the OECD.

The impact of disruptions on oil market dynamics is not uniform and depends on a number of factors, including the causes of disruption, their nature, their length, and the prevailing market conditions at the time. Disruptions and dislocations can also occur at any segment of the supply chain. The supply chain from the resource holder to the end user is very long and includes refining, international and local transportation, storage, and delivery facilities. The impact of a supply disruption also depends on market conditions at the time whether the market is tight and whether there is enough surplus capacity in the system.

In analyzing oil supply disruptions, it is important to distinguish between short-term effects, manifested in the immediate loss of output and the impact this has on short-term price behavior, and long-term effects that result in the loss of productive capacity and reduction in a country's long-term supply and export potential. Some disruptions – such as those caused by terrorist attacks – have a limited impact on global oil supplies and on productive capacity, and while they attract a lot of media attention, their effect on oil market dynamics is short-lived.

In contrast, some other disruptions - notably those caused by international conflicts and civil war - are likely to impact oil supplies and long-term productive capacity. Unilateral sanctions, such as those currently imposed by the USA on Iran, and more recently on Syria, have limited impact on global oil supplies as countries can divert oil flows to other destinations. However, their long-term effects on productive capacity is likely to be large, as sanctions limit technology transfer and reduce the country's access to international funding.

F. Major Parties Involved

a. Libya

Libya was significantly affected by the Arab Spring, which resulted in political unrest and negative economic effects. The Arab Spring demonstrations in Libya turned into a full-fledged armed struggle that ended in 2011 with the fall of longtime despot Muammar Gaddafi.

The dispersion of political authority and instability, however, characterized Gaddafi's downfall. There was a protracted era of bloodshed and instability as different militias, ethnic groups, and armed forces fought for dominance. The nation's efforts to reconstruct its institutions and infrastructure were impeded by this instability, which also affected economic activity and oil production.

Libya is a major producer of oil, therefore the disruption in oil production had an impact on the price of commodities globally. When there is a surge in violence or unpredictability in Libya, the oil markets tend to react more volatily as traders evaluate the possible effects on supply. Changes in oil prices can impact not only crude oil but also derivatives and other commodities linked to energy markets if there are notable disruptions in Libya's oil production.

Furthermore, trade and agriculture were two other areas of Libya's economy that were harmed by the unrest. The absence of governance and security frameworks hindered investment and economic growth, making the nation's economic problems worse.

Overall, the Arab Spring had a complex and multifaceted impact on Libya, ranging from political and social upheaval to economic disruption and volatility in commodity markets.

b. Russia and Ukraine

The conflict between Russia and Ukraine has had various impacts on commodity prices, particularly in sectors such as energy, agriculture, and metals.

Energy: Russia is one of the world's largest producers and exporters of natural gas and crude oil, while Ukraine serves as a transit country for Russian gas exports to Europe. Any disruptions in energy supply from Russia, whether due to the conflict itself or geopolitical

tensions, lead to concerns about energy security in Europe. This uncertainty can cause fluctuations in oil and natural gas prices, as markets react to the potential for supply disruptions.

Agriculture: Both Russia and Ukraine are major producers and exporters of agricultural commodities such as wheat, corn, and barley. The conflict disrupted agricultural production and logistics, leading to concerns about potential shortages or supply chain disruptions. Additionally, geopolitical tensions between Russia and Ukraine affected trade flows, export policies, and market access, influencing global prices for agricultural commodities.

Metals: Ukraine is a significant producer of metals such as steel and iron ore. The conflict disrupted production and export activities in the region, leading to potential supply shortages and logistical challenges. Additionally, geopolitical tensions can affect investor sentiment and market confidence, leading to volatility in metal prices.

Overall, the conflict between Russia and Ukraine creates uncertainty and volatility in commodity markets, as traders and investors assess the potential impact on supply, demand, and geopolitical risk. Depending on the severity and duration of the conflict, commodity prices may experience fluctuations in response to developments in the region.

c. Israel and Palestine

Commodity prices may be indirectly impacted by the war between Israel and Palestine, especially in areas that are economically connected to either party or directly impacted. Even while neither Israel nor Palestine are significant oil producers, rising tensions raise questions about the stability of the Middle East and possibly raise fears of disruptions to supply, which would raise oil prices. Food prices are impacted locally and worldwide by shortages or disruptions in the supply of agricultural goods brought on by disturbances in agricultural activity in the impacted areas. Geopolitical tensions also affect investor sentiment, causing financial markets, notably the commodities market, to fluctuate as investors reevaluate the risks involved in the battle. Furthermore, the violence may affect regional supply chains and trade, resulting in logistical difficulties, shipping delays, and higher transportation expenses.

G. Previous Attempts to Resolve the Issue

Over the years, numerous initiatives have been undertaken to lessen the impact of the long-standing difficulty of rising commodity prices caused by conflicts. Here are a few earlier strategies:

Diplomatic Negotiations: Historically, efforts have been undertaken to reduce disruptions to the supply of commodities by amicably resolving disagreements. Negotiations between parties in conflict are frequently greatly aided by international institutions like the United Nations.

Peacekeeping Operations: Designed to stabilize areas afflicted by war that has already broken out, peacekeeping operations have been sent in. The goal of these operations is to bring stability and peace back, which can lessen the negative impact that wars have on commodities prices.

Humanitarian Aid: By meeting immediate needs and halting future destabilization, giving humanitarian aid to populations impacted by conflicts might help lessen the effect on commodities prices. Food, medical supplies, and other necessities may be included in this assistance.

Sanctions: To put pressure on conflicting parties to put an end to hostilities and start peaceful negotiations, economic sanctions have been placed on them. Sanctions, however, may also be a factor in rising commodity prices if they impede trade or place limitations on necessities. Long-term investments in peacebuilding and conflict resolution programs can assist in addressing the underlying causes of disputes, which will lessen their frequency and the corresponding swings in commodity prices.

International Coordination and Cooperation: concerning successfully handle the issues brought on by conflicts concerning commodity prices, cooperation between nations and international organizations is crucial. This could entail exchanging data, arranging for policies, and offering support to one another in order to lessen the effect of disputes on international markets.

Diversification of Supply Chains: Efforts have been undertaken to diversify supply chains and commodity sources in order to lessen reliance on areas vulnerable to interruptions caused by conflict. By guaranteeing the availability of alternate supply sources, this can lessen the negative effects of disputes on commodity prices.

Conflict Prevention: Taking proactive steps to keep disputes from getting worse will assist keep commodity markets from being disrupted and price spikes from happening. Interventions such as diplomatic engagement, mediation efforts, and early warning systems can all help prevent conflicts.

H. Relevant UN Treaties, Resolutions and Events

UN Security Council Resolution 1973 (2011): This resolution authorized military intervention in Libya to protect civilians from attacks by the government of Muammar Gaddafi. While the resolution primarily focused on humanitarian concerns, the conflict in Libya also had significant implications for commodity markets, particularly oil prices.

UN Security Council Resolution 2216 (2015): This resolution imposed an arms embargo on Houthi rebels in Yemen and authorized sanctions against individuals and entities involved in the conflict. The resolution aimed to prevent the escalation of violence and stabilize commodity markets, including food and fuel, in Yemen and the broader region.

UN General Assembly Resolution 69/321 (2015): This resolution declared the period 2015-2024 as the International Decade for Action "Water for Life," highlighting the importance of water resources in achieving sustainable development and addressing conflicts over water access, which can affect commodity prices, particularly agricultural products.

UN General Assembly Resolution 73/262 (2019): This resolution condemned the illegal annexation of Crimea by Russia and reaffirmed the territorial integrity of Ukraine. While the resolution primarily focused on political and territorial issues, the conflict in Ukraine also had economic implications, including disruptions to commodity markets and trade flows.

UN Security Council Resolution 1325 (2000): While not directly addressing commodity price rises, this resolution recognized the disproportionate impact of conflicts on women and called for their increased participation in peacebuilding and conflict resolution efforts. Gender-sensitive approaches to peacebuilding can help address the socio-economic impacts of conflicts, including commodity price rises.

I. Possible Solutions

Long term price fixing arrangement with suppliers:

- Buyers and sellers agree to transact on a known volume of a raw material at a predetermined price at a future date.
- In this situation, the buyer is often paying a premium to remove the uncertainty around price rises.
- Sellers who expect the market prices to rise are less likely to agree to such agreements without a significant premium.
- Such agreements are not always possible as aligning incentives can be tricky.

Cost pass through:

- Buyers of raw materials can pass on increased costs straight through to their consumer.
- Tends to not work as well in cases where demand is elastic.

Strategic buying (stockpiling):

- Another mechanism that can be used to manage commodity price risk is to stockpile materials when prices are low, and burn through the stockpile when prices are high.
- Requires proactive management.
- In cases like the current Cocoa market, where prices are at record highs and trending upwards, this strategy will eventually fail.

Financial Products: There are a variety of financial tools available to mitigate commodity price risk today, ranging from options trading to OTC Swaps through dedicated providers.

Futures contracts on an exchange:

- A futures contract is a legal agreement to buy or sell a particular commodity at a predetermined price at a specified time. The buyer of a futures contract is taking on the obligation to buy and receive the underlying commodity when the futures contract expires. On the flip side, the seller is obliged to deliver the underlying commodity at the contract's expiration date.
- This typically allows the futures contract buyers to lock in the price up front.
- Exchanges are able to provide this type of product as they typically have market participants who are participating both in downside protection and upside protection. This allows them to balance their overall risk.

Options:

- An options contract offers the buyer the opportunity to buy or sell—depending on the type of contract they hold—the underlying asset. Unlike futures, the holder is not required to buy or sell the asset if they decide against it.
- Buyers of options have the ability to participate in the markets when prices move in their favor while being protected in the case where prices move against them.

OTC Swaps:

- An OTC Swap contract is an agreement between two parties to exchange assets that have cash flows for a set period of time. At the time the contract is initiated, the value of at least one of the assets being swapped is determined by a random or uncertain variable, such as an interest rate or a commodity price.
- OTC Swaps are typically sold as bespoke arrangements between two parties because:
 - There isn't a typical exchange or options market that a material can trade on, or there isn't enough liquidity in the market.
 - The buyer of the product has a varied portfolio of risk, and wants to aggregate the risk into a single product as opposed to a variety of trades.
- In general, OTC swaps require a high level of sophistication on the part of the buyers, and can be expensive as a bespoke product is created to fit the risk profile of the buyer.

Insurance:

- There are some specialty insurance companies that are currently able to offer a commodity price risk insurance product on demand.

J. Bibliography

<https://www.atb.com/wealth/good-advice/markets/rising-commodity-prices-and-their-impacts/>

<https://www.atb.com/wealth/good-advice/markets/economic-sanctions-and-investing/>

<https://www.brookings.edu/articles/how-to-mitigate-the-impact-of-the-war-in-ukraine-on-commodity-markets/>

<https://chaipredict.com/resources/commodity-price-risk-management>

https://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/09/MEP_2.pdf

https://www.economist.com/graphic-detail/2020/12/18/the-arab-spring-ten-years-on?utm_medium=cpc.adword.pd&utm_source=google&ppccampaignID=18151738051&ppcadID=&utm_campaign=a.22brand_pmax&utm_content=conversion.direct-response.anonymous&gad_source=1&gclid=CjwKCAjwvIWzBhAIEiwAHHWgvfy2_OrY9c1yawfBtivI7-CFlxoKCwb1GK-QeOrAFarABKv9qRREohoC_O8QAvD_BwE&gclsrc=aw.ds

<https://www.investopedia.com/terms/i/inflation.asp>

<https://www.investopedia.com/terms/c/commodity.asp>

<https://www.worldbank.org/en/news/press-release/2023/10/26/commodity-markets-outlook-october-2023-press-release>

https://pdf.usaid.gov/pdf_docs/PA00TH3Q.pdf

https://www.economist.com/leaders/2022/03/12/war-and-sanctions-have-caused-commodities-chaos?utm_medium=cpc.adword.pd&utm_source=google&ppccampaignID=18151738051&ppcadID=&utm_campaign=a.22brand_pmax&utm_content=conversion.direct-response.anonymous&gad_source=1&gclid=Cj0KCOjw9vqyBhCKARIsAIIcLMFHiTk5gPtsKCxafH_u5IDsf7rHbBpFitHGUmFfJsJROPID277euh4aAu-OEALw_wcB&gclsrc=aw.ds

https://mpira.ub.uni-muenchen.de/59786/1/MPRA_paper_59786.pdf

<https://www.cambridge.org/core/journals/american-political-science-review/article/abs/do-commodity-price-shocks-cause-armed-conflict-a-metaanalysis-of-natural-experiments/469E8F1CBA02E4E5D525E3355DC401D9>

<https://academic.oup.com/restud/article-abstract/80/4/1384/1579342>

<https://mpra.ub.uni-muenchen.de/59786/>