

*The Secretariat of the Fifteenth
Annual Virginia International
Crisis Simulation Presents:*



**US Commission of
Automobile and Energy
1991-2010**

Chaired by Shrutí Ektare

VICS XV

Dear delegates,

Welcome to VICS XV! My name is Shruti Ektare and I will be your chair for the U.S. Commission of Automobile and Energy 1991-2010.

I am currently a second year at the University of Virginia and I plan to be an Economics and Commerce double major. I have been an active participant in the conferences held by the University of Virginia International Relations Organizations since my matriculation and it is a pleasure to be able to be a part of VICS once again.

The U.S. Commission on Automobile and Energy is a unique committee in that it attempts to unify two major industries, many different companies, and several powerful economies into one dynamic group set within the United States in a specific time frame. As delegates, you will become the CEOs of some of the largest companies in the world and be given the responsibility to make decisions that may change the course of the global economy.

The committee, although it focuses on the economics behind automobiles and energy, will not be focused on economic facts and statistics but rather on the efficiency with which you can pull together information, collaborate, and take action. I hope to introduce a variety of situations that will be challenging yet highly enjoyable to work through. I am open to creative (but professional) parliamentary procedure and will leave it up to you to decide how to structure debate.

The following background guide is divided into several parts, each designed to give you information and aid your research. I strongly suggest your research incorporate not only your company but also the topics presented. A position paper will allow you to channel ideas and organize.

Please do not hesitate to ask me any questions or speak up about any and all concerns. I look forward to seeing you in March!

Best,

Shruti Ektare
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VICS XV

I. Committee Structure and Background

The United States Commission of Automobile and Energy is a fictional committee that explores the international automobile and energy market from the years 1991 through 2010. These two industries have been melded together so closely that it makes little sense to separate them in the context of the goals of the committee. While the time period covered is not even a whole decade, 9 years in terms of the automobile and energy industries is an overwhelming amount of time.

During these 9 years, these industries have not only experienced the usual fluctuations of the business cycle but also changed the way whole economies stand in the pattern of global trade. Entire nations have used these sectors to make a name for themselves and their products. The remarkable thing about both industries is that they are two of the most interconnected industries that exist today, with production, raw materials, and final distribution depending on the actions of dozens of companies and nations at once.

This committee will attempt to mirror the necessity of that interconnectedness by way of creative simulations. Over the course of the four days of the conference, the committee will be responsible for effectively resolving and adapting to various situations that arise in these two industries. The 25 companies will have to work together to protect their own interests, the interests of their home countries, the interests of the industries as a whole, and most importantly, the interests of the consumers.

The 25 delegates are CEOs of their respective companies, which are an even mix of car and oil companies from

various parts of the world. These companies all hold a significant spot in the market and influence billions daily with the smallest economic decisions. Not only are they major players in their respective industries, but they are also among the most powerful companies in the world today:

FORTUNES MADE, FORTUNES LOST

The top 25 companies in the Fortune 500, this year and 2008.

	2008	Revenues (\$ Millions)	Profits (\$ Millions)	2009	Revenues (\$ Millions)	Profits (\$ Millions)
1	Wal-Mart Stores	378,799	12,731	1	Royal Dutch Shell	458,361 26,277
2	Exxon Mobil	372,824	40,610	2	Exxon Mobil	442,851 45,220
3	Royal Dutch Shell	355,782	31,331	3	Wal-Mart Stores	405,607 13,400
4	BP	291,438	20,845	4	BP	367,053 21,157
5	Toyota Motor	230,201	15,042	5	Chevron	263,159 23,931
6	Chevron	210,783	18,688	6	Total	234,674 15,500
7	ING Group	201,516	12,649	7	ConocoPhillips	230,764 -16,998
8	Total	187,280	18,042	8	ING Group	226,577 -1,067
9	General Motors	182,347	-38,732	9	Sinopec	207,814 1,961
10	ConocoPhillips	178,558	11,891	10	Toyota Motor	204,352 -4,349
11	Daimler	177,167	5,446	11	Japan Post Holdings	198,700 4,208
12	General Electric	176,656	22,208	12	General Electric	183,207 17,410
13	Ford Motor	172,468	-2,723	13	China National Petroleum	181,123 10,271
14	Fortis	164,877	5,467	14	Volkswagen	166,579 6,957
15	AXA	162,762	7,755	15	State Grid	164,136 664
16	Sinopec	159,260	4,166	16	Dexia Group	161,269 -4,868
17	Citigroup	159,229	3,617	17	ENI	159,348 12,917
18	Volkswagen	149,054	5,639	18	General Motors	148,979 -30,860
19	Dexia Group	147,648	3,467	19	Ford Motor	146,277 -14,672
20	HSBC Holdings	146,500	19,133	20	Allianz	142,395 -3,577
21	BNP Paribas	140,726	10,706	21	HSBC Holdings	142,049 5,728
22	Allianz	140,618	10,904	22	Gazprom	141,455 29,864
23	Crédit Agricole	138,155	8,172	23	Daimler	140,328 1,973
24	State Grid	132,885	4,423	24	BNP Paribas	136,096 4,422
25	China National Petroleum	129,798	14,925	25	Carrefour	129,134 1,862

Source: Fortune

WWW.AGORAFINANCIAL.COM

II. Introduction to the Automobile:

The automobile had its beginnings from a wide variety of international players. Starting in Germany with the invention of the four-stroke petrol internal combustion engine, inventors and engineers worldwide, including those in Europe and Asia, devoted attention to the creation of the perfect automobile.

France, Germany, and the United States were initially the top players in the infant auto industry, but this balance of power shifted sharply after the perfection of the assembly line by Henry Ford in 1913 and the establishment of the Automobile Board of Trade. The

United States auto industry thrived for decades as a result, and while carmakers in Western Europe continued to produce some of the most popular cars in the market, the United States remained on top.

The Ford Motor Company set up their headquarters in the city of Detroit – changing its future drastically – and was later joined by General Motors (a combination of several companies including Buick and Oldsmobile) and Chrysler. Through most of the 20th century, the United States automobile industry dominated the market, experiencing fluctuations in productions and sales but always managing to bounce back into an expanding market.

Alongside the United States, developments in the automobile industry were being made worldwide. Auto markets appeared in nations such as Brazil, Germany, and Japan. Inventors contributed to the perfection of the automobile in terms of safety, comfort, efficiency, and economic viability, adding in now-mundane features such as seat belts and air bags.

Despite foreign competition, the United States remained at the top of the auto industry until the mid-1970s. During this time period, the Organization of Petroleum Exporting Countries (OPEC) supplied most of the United States' oil needs. During the OPEC crisis of the 1970s, OPEC cut back on oil supply and threw the industrial world into crisis.

The petroleum crisis affected all the industrial sectors worldwide but hit the United States' auto market particularly hard. The problem was fuel efficiency versus safety standards. The lack of oil called for car models that used less of it – this requirement called for smaller and lighter cars. However,

smaller and lighter cars oftentimes violated safety standards. Detroit was not ready to make cars that were safe and also fuel efficient. Other nations, however, were prepared to step up to the plate.

Japan was one nation ready to provide where the United States fell short. Japan had been a rising power for years, and had already made a few unsuccessful attempts to enter the auto market and compete with existing companies. By building smaller cars that were also of excellent quality and low price, Japan surged ahead in the automobile market and remained a strong force in the industry after that time period.

It was this crisis that truly highlighted the direct effect energy prices had on the entire structure of the auto market. Oil companies in many ways held the controls for which way the market would go, and which nations would benefit or flounder as a result.

III. Auto Industry, 1990-present day:

In the 1990s, with the oil crisis resolved and larger cars back in demand, the industry returned to steady levels of production and sale. However, there were significant changes in the market. While the United States still produced the most cars in the world, other carmakers were quickly closing the gap.

European carmakers in Germany and France continued to lead in the international markets with automobile companies such as BMW and Renault, both famous for quality, speed, and luxury. However, European manufacturers took a step back in the mid-1990s when Asian carmakers joined the scene with fervor.

Among the nations starting to change the international auto industry

was South Korea, a nation that struggled through many domestic crises in order to create a place in the well-established market. Alongside with selling cars to its own citizens, South Korea worked hard in order to compete independently. After years of changes and various partnerships, South Korean companies such as Hyundai and Kia became some of the most popular car companies in the world.

It was during the 1990s, also, that Japanese companies such as Honda, Toyota, and Nissan revolutionized the car markets. The Toyota Corolla soon became the most bought car in the world, and Top Ten lists were dominated by Japanese vehicles.

Perhaps the most interesting aspect of the car industry during this time period, however, was the concept of “sourcing.” Sourcing was the unification of two or more automakers in the creation of automobiles. This did not simply refer to car parts such as engines or doors, but also to arrangements and partnerships between car companies. For example, Renault, the French carmaker, has an alliance with Nissan that allows it to be one of the top car companies in the world today. These partnerships and alliances became more pronounced during the late 20th century and had strong effects on the performance of large car companies worldwide.

Although sourcing was a clear advantage for many companies and nations, it was also a somewhat risky maneuver. Failure of certain car companies could then easily have a domino effect across the global market and wreak havoc.

Competition in the automobile market has only increased since the start of new millennium, with various nations and car companies vying for the top

spot. However, predictions about which company will gain the most in the long term depend so heavily on other factors that they are nearly impossible to make. One of these factors is energy.

IV. Introduction to the Energy

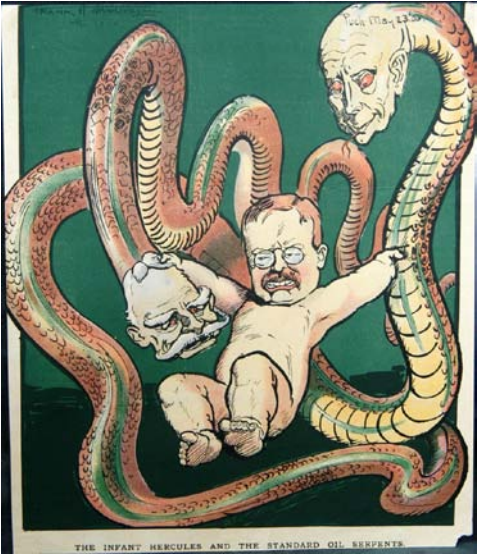
Industry:

The history of oil is as rich as the resource itself. Since biblical times, oil has been used as an imperative source of light and energy. Oil as a valuable resource emerged at varying time periods in various parts of the world. Interestingly enough, the first type of oil commonly used was whale oil, used to light lamps in homes and other buildings. After whale oil became scarce, oil from the earth was discovered in natural locations and tapped as a source for kerosene lamps. Gasoline was actually thrown away by early drillers and refiners because it had no use in pre-automobile society. Rudimentary drilling techniques were ineffective and highly laborious.

Gasoline was first widely used in transportation when the horse-drawn carriage was replaced by the automobile. Although many oil companies had begun prospecting and drilling for oil much earlier, gasoline as an industry did not take off until gasoline-powered methods of transportation became popular.

Oil companies began their quest for drilling, refining, and selling oil much earlier than the onset of the automobile. Many of the earliest began in the mid-1800s as localized projects in industry-heavy locations, but through a series of developments and merges became big-name companies such as Chevron. The oil company that caused the greatest initial ruckus in the world was Standard Oil Company, founded by John. D. Rockefeller in 1870. Standard

Oil Company enjoyed a steady monopoly of oil in the United States for almost half



of a century until the Sherman Antitrust Act forced it to break apart completely, as creatively depicted in the famous political cartoon involving the new president Teddy Roosevelt “battling” with Standard Oil.

Standard Oil Company was a conglomeration of many smaller oil companies that operated under it, such as Jersey Standard and Standard Oil of Ohio. When the company was forced to break apart in 1911, these smaller companies were forced to break off and fend for themselves. Many of them were eventually bought out by larger and more successful companies such as British Petroleum, but some went on to become giants such as ExxonMobil.

The power and success stories of these oil companies lies in their utter interconnectedness. There are hardly any “independent” oil companies in the market today. The most successful oil companies have been those who have invested in the oil and energy industries across borders and oceans as a way to build up their own businesses.

While the United States-based Standard Oil Company paved the way for industry giants such as ExxonMobil or Chevron, neither of these companies hold the top spot in the energy industry today because of the remarkable rise of the Middle Eastern oil nations.

Hardly anyone can speak of petroleum without referring directly to the Organization of the Petroleum Exporting Countries. An integral part of the global economy, OPEC was established over the four days spanning the Baghdad Conference in the September of 1960. The organization was originally created for the economic benefit of oil-producing nations. These nations were mostly located in the Middle East, but included Venezuela and later expanded to include several African countries such as Angola and Nigeria. Through the four decades since the establishment of OPEC, the organization grew to 12 member nations and its headquarters is currently located in Vienna, Austria.

Considered an oil cartel by much of the international community, OPEC enjoys control of about a third of the world’s total oil production, and its member nations together hold control of about two-thirds of the world’s total oil reserves. This wide-scale domination of the oil market has led to many famous conflicts regarding oil prices and production.

Oil companies in the Middle East were few in number until OPEC rose in power, with Saudi Aramco being the only one with solid roots in the 1800s. Some of the largest and most wealthy oil companies in the world, today, however, are in OPEC nations and currently reap the benefits of being a handful of the largest suppliers of energy. While nation such as Russia also have a substantial

amount of oil reserves, no country or company even comes close to competing with the oil influence of OPEC nations, which share an extremely high percentage of the total global oil market.

Regardless, oil companies such as Royal Dutch Shell are among the top companies in the world, earning hundreds of billions of dollars in revenue per year. While many major oil companies are largely concentrated in Europe and the United States also, ultimately the power of oil companies depends strongly not only on oil supply and demand but also on what price petroleum-exporting nations set.

V. Energy and Automobiles

Energy and automobiles very obviously go hand in hand. The global market for vehicles has always depended heavily on oil prices. Consumer preferences in vehicle type, make, and quality are all directly related to the price per gallon of oil.

In the past few decades, oil crises have had crippling effects on the auto markets of every economy. Regardless of how strong the auto industry in a country is, an oil crisis leaves deep scars.

Oil crises can be caused by a number of reasons, ranging from political to economic. Most of the major oil crises in history have been caused by a combination of the two and have had widespread effects on the automobile market.

Part of the reason why demand and supply for certain vehicle types fluctuate so wildly is the price of oil – the higher the price per barrel, the lower the demand for vehicles on average. This easy logic is brimming with consequences for automobile imports, exports, and production.

Oil prices have spiked particularly quickly in the past decade or so (refer to <http://bespokeinvest.typepad.com/bespoke/images/2008/05/21/oilparabolic1.png>), and are definitely a cause for some of the huge revolutions in the automobile and energy industries, including alternate fuel and environment-friendly energy sources.

Although alternate fuel and fuel-efficient technologies are becoming more and more popular in the market today, these technologies are highly expensive and require much more research and development until they are widespread enough to “overtake” the petroleum market. Hybrid cars have yet to create a large enough dent in the automobile industry to mask the effects of oil price increases.

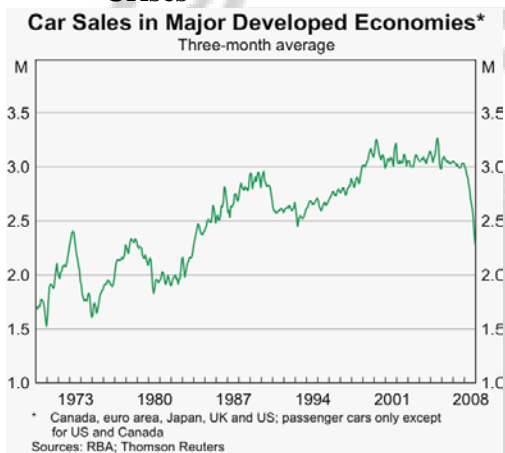
Environmentalists have not made the petroleum problem any easier for either sector. Even if consumers can afford to fuel their cars, advocates of the Green Revolution publicly see pollution-spewing vehicles as social parasites. Oil companies have therefore been forced to divert resources into the R&D divisions of their companies to find an answer that will please consumers.

One answer that avoids high costs of alternate energy and environment-friendly energy practices is increasing fuel efficiency (discussed briefly in the above). A practice that was first made imperative after the first oil crisis in the 1970s, the importance of lightweight vehicles that do not require large amounts of gasoline is once again coming to light. However, the paradox is that smaller cars are usually most popular in nations with a high population density and fewer vehicles, such as China or India. With the lowering of oil prices post the 1970 crisis came the

return of gas-guzzling powerful vehicles such as SUVs and Hummers. However, the latest upward trend in oil prices has directed attention to cars such as the Tata Nano, a cheap and almost painfully adorable vehicle that sells for about \$2000 USD.

VI. Topics to Know

1. The Automobile and Energy Crises



When one thinks of the automobile industry today, the words “The Big Three” spring instantly to mind. Indeed, Ford, Chrysler, and General Motors have certainly made a name for themselves as the three companies primarily involved in the devastating crash of the automobile industry in 2008. Because one major industry failing in one nation inevitably has domino effects, the crisis quickly exacerbated the suffering automobile markets around the world and proceeded to affect almost all other companies and related industries worldwide. This committee does *not* focus primarily on the market crash of 2008, but instead on the time period that encompasses it, both before and after. However, it is imperative to have a thorough understanding of such major events because they directly affect how a

particular company will handle a similar (or completely different) crisis.

The energy crisis has now become a familiar economic phenomenon, characterized by a steady rise in oil prices starting the early 2000s and tapering off very recently. The causes of the crisis are usually attributed to OPEC, and the effects felt by dozens of industries. Oil crises have been frequent in history and usually have similar effects, depending on the state of the economy.

The automobile crisis was caused primarily by the latest energy crisis. It is important to note that the international effects of the crisis were notable, though somewhat ignored in the face of the enormity of the crisis in the United States. High oil prices caused consumers to shy away from buying vehicles in general, but large vehicles, which American companies such as Chrysler and Ford rested much of their faith on, suffered the most in terms of falling demand. The bankruptcy of General Motors and Chrysler was not much of a shock after months of deliberation and talks between the government and company leaders about bailouts and plans for reform. The extent of the problem can be summed up by a famous quote by Edward E. Whitacre, Jr. chairman of GM, who admitted that honestly, “I don’t know anything about cars.”

What is important to take away from the automobile crisis (besides the unfortunate lack of knowledge on the part of industry leaders about their respective industries) is the actions of companies and company leaders. What has this crisis done in guiding decision making for any future problems of similar or even greater magnitude?

2. The Global Economy

As a semi-historical simulation, the committee will be based in similar economic climates as the time periods covered. It is important, therefore, to have a grasp of the economy from 1991-2010. This is obviously much more challenging than it sounds, and a detailed knowledge of the workings in major industries is not necessary. Instead, it is important to focus on major events that caused fluctuations in the business cycle during this period for both the home country of a particular company and the world in general. Once again, the company itself should be considered when pulling together this knowledge. How did the profits move? What changes did the company see?

3. Company History

Quite possibly the most important knowledge pool in this committee is information on the companies themselves. Each company has a unique history that involves mergers, contracts, disputes, scandals, and shattering decisions. Economic data or detailed information on major crises (energy or automobile) is valuable only if applied correctly to the company in question. In the end, companies decide production, prices, and are largely responsible for the crises they deal with. Consider the following carefully:

1. Where does your company stand in the global market/
2. What nation does your company have the most ties to?
3. What are the challenges that your company has faced in the past?
4. How does your company plan to act in the next decade?

5. Is your company prepared to face a crisis, either in terms of the economy or in terms of oil?

Asking such basic questions will be imperative to good research and effective problem-solving.

VII. Challenges and Goals

The mutual dependence that oil companies and automobile companies have on each other is part of what creates the challenge for the leaders in both industries.

As such huge players in the economic health of dozens of countries, oil companies have an extremely difficult job. They not only have to control the sale of oil on large scales, but also oversee innovation that allows efficient refining, creative technologies, and price-saving techniques.

Oil companies measure success not only in terms of revenue but also in terms of their overall public image. Companies that can facilitate the process of oil distribution as well make efforts to help the environment, produce alternate energy, and cooperate well with car companies have a huge advantage in the global market.

Automobile companies also lean heavily on consumer preferences as well as oil prices. Production depends on what these companies predict for the future based on data they have today, but economic fluctuations hardly call in advance. As a result, the leaders of these companies have to be ready for anything: competition, high prices, low demand, and supply shocks, just to name a few.

What ties all of these companies together is their overall connectedness. A superb asset overall, this

connectedness can have grave consequences if collaboration is weak.

As part of the United States Commission of Automobile and Energy, companies must not only regulate their own businesses and revenues but also make sure that their home economies benefit from whatever decisions that they make. This is a challenge because these companies have divisions all over the world, and must also cooperate with other industrial sectors.

The United States Commission of Automobile and Energy is unique in the sense that the companies represented are companies of interest for dozens of different countries worldwide despite the commission being in the United States. Any decisions that are made by these companies can therefore have extremely widespread ramifications for several economies and ultimately for the global economy.

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