

# BARGAINING IN THE SAUDI BAZAAR

48

COMMON GROUND FOR A POST-2012  
CLIMATE AGREEMENT?

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COMMON GROUND FOR A POST-2012 CLIMATE AGREEMENT?



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- Saudi Arabia's interests vis-à-vis international climate policy are fundamentally tied to its ownership of the world's largest proven oil reserves and its political economy, which depends on oil revenues for stability and survival.
- The 'discrimination' against carbon dioxide and fossil fuels is a recurring theme that reflects the country's disapproval of any constraints on global oil consumption.
- The Saudi position has evolved around four pillars: preserving oil revenues, receiving compensation for the adverse impacts of climate change mitigation, avoiding commitments, and acquiring technology and capacity for adaptation.
- Saudi Arabia's influence in the negotiations stems from a long-term strategy of *obstructionism*, the ultimate aim of which is to prevent an agreement from emerging.
- The country's status as a developing country is increasingly contested due to its high GDP per capita, while its calls for compensation for losses in oil revenue are strongly criticised, but Saudi Arabia still faces major development challenges, economic diversification being the most pressing.
- Although Saudi Arabia's position towards adaptation requires adjusting, there are clear points of dialogue with the West, including technology transfer and capacity building.

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Photo: Richard Masoner

Regarded by many as a filibuster, Saudi Arabia's approach to international climate policy-making has always been controversial. Because of the country's heavy dependence on oil revenues and its vast oil reserves, it regards global climate change mitigation as a greater threat to stability than climate change itself. This paper looks at Saudi Arabia's negotiating role and the long-term interests that underpin its position for the post-2012 international climate regime, under the framework of the United Nations Framework Convention on Climate Change (UNFCCC).

The Saudi negotiating position has evolved around four main pillars: opposing all measures that would limit the global demand for and price of oil; calling for compensation for losses in oil revenue; opposing any commitments or targets for developing countries and differentiation within the current developing country group; and promoting the so-called clean fossil fuel technologies as a win-win solution.

Saudi Arabia is neither a key player in the climate regime, nor in the negotiations on a post-2012 treaty. However, due to the country's perceived interests, allies, financial resources, negotiating skills and strategy, it may considerably influence certain key issues, particularly adaptation. Many, if not most, of Saudi Arabia's negotiating positions are out of tune with those of the European Union and even other G77 countries. Pinpointing and analysing Saudi Arabia's main anxieties and its motivations vis-à-vis the post-2012 treaty can better structure the steps each side could take to reach an acceptable outcome.

### The obstructionist

Saudi Arabia's interests vis-à-vis international climate policy are fundamentally tied to its ownership of the world's largest proven oil reserves and its *rentier* political economy, which depends on oil revenues for stability and survival. In 2008, Saudi Arabia's oil reserves were estimated at 21% of the world's total, while oil revenues accounted for 56% of its GDP. The country ranks among the world's 25 largest economies and its GDP per capita is higher than that of most Eastern European countries. In spite of this apparent wealth, Saudi Arabia still faces important development challenges, such as economic diversification, providing employment for nationals and reforming its education sector. It also has a relatively large and fast growing population (see Table 1).

In order to keep distributing wealth among its citizens in a sustainable manner, the current political system requires a growing source of income that is external to the state, such as oil. It is commonly agreed that highly oil-dependent economies are not stable. Hence, Saudi Arabia too will ultimately need to diversify into oil- and non-oil-related industries and services. Climate change mitigation will add to the urgency of doing so. Some argue that global oil demand will peak long before we reach the notorious supply peak.

Saudi Arabia's clout in the international climate negotiations under the UNFCCC framework is much greater than its total greenhouse gas emissions or the size of its economy would suggest (see Table 1).

Share of proven global oil reserves (2008)	21.0%	
Share of global oil production (2008)	13.1%	
Oil revenues' share of GDP (2008)	55.9%	
Gross domestic product (2008)	US\$ 468.8bn	Rank: in global top 25
GDP per capita (2008, est.)	US\$ 18,900	Rank: in global top 40
Total population (2008)	24.6 million	Annual growth rate: 2%
Total CO <sub>2</sub> emissions (2005)	1.21% of world total (333.0 MtCO <sub>2</sub> e)	Rank: 20
Per capita CO <sub>2</sub> emissions (2005)	14.4 metric tons of CO <sub>2</sub> e	Rank: 10
Share of historical CO <sub>2</sub> emissions (2005)	0.54% of world total	Rank: 27

Table 1: Climate change-related and economic indicators of Saudi Arabia. Sources: BP: *Statistical Review of World Energy*, 2009. June edition; World Resources Institute: *Climate Analysis Indicators Tool (CAIT)* Version 6.0., 2009; Saudi Arabian Monetary Agency: *Forty-Fifth Annual Report*. Research and Statistics Department, 2009; World Bank: *World Development Indicators*, 2009. September edition.

This is because an ambitious agreement to cut carbon dioxide emissions is not in the country's interests. It has been argued that Saudi Arabia's influence stems from a long-term strategy of *obstructionism*: obstructionists join negotiations so as to prevent an agreement from emerging. Many observers have claimed that the country's main motive in the negotiations has been to slow down the process. Saudi Arabia, along with its OPEC peers, only acceded to the Kyoto Protocol (2005) when it became clear that the treaty would enter into force, which indicates the strategic nature of the accession.<sup>1</sup> At heart, Saudi Arabia never accepted the Protocol.

Some have pointed out that Saudi Arabia's behaviour has had a negative impact on the general level of ambition in the talks, especially in the run-up to Copenhagen: the Saudi hard-line attitudes give the developed countries an excuse to hold back their emission targets and allow many oil-poor Arab states to bandwagon, often against their evident national interest.<sup>2</sup> Most criticism, however, is directed at

the Saudi portrayal of itself as a highly vulnerable country: despite its financial affluence in terms of GDP per capita (ranking in the global top 40), it is claiming the right to equal adaptation assistance, along with groups like the least developed countries or the small island developing states. This is seen as morally unjustified by the majority of countries.

#### 'Discriminated' oil economy

As the world's top oil exporter, of all states, Saudi Arabia has the most to lose from importing countries' efforts to curtail the consumption of oil. These actions include: the increasing use of alternatives, government subsidies on coal and biofuels, fuel and carbon taxation, and border tariffs. The 'discrimination' against carbon dioxide and fossil fuels is a recurring Saudi theme that reflects the country's disapproval of any constraints on global oil consumption.

To that end, throughout the early 1990s, Saudi Arabia, together with Kuwait, concentrated on stressing the scientific uncertainty of the anthropogenic causes of climate change. In late 1996, the focus shifted to the adaptation side. Since then, calls for compensation for losses in oil revenue have been one of the main

1 Joanna Depledge: 'Striving for No: Saudi Arabia in the Climate Change Regime'. *Global Environmental Politics*, 8 (4), 2008.

Saudi Arabia acceded to the UNFCCC in 1994.

2 Christoph Bals, Germanwatch and Wael Hmaidan, IndyACT, *The Daily Star Lebanon*, 23 October 2009.



Photo: Tuomas Kortteinen

pillars of the Saudi negotiating position.<sup>3</sup> These demands can be argued to have significantly hindered progress with regard to the entire adaptation agenda. For example, in its first national communication to the UNFCCC in 2005, Saudi Arabia implied that it should receive a lump sum payment of US\$ 100–200 billion to offset economic losses caused by Annex I (developed country) response measures between 2000 and 2030.

This demand derives from Article 4.8 of the Convention, which states that parties ‘shall give full consideration’ to actions necessary ‘to meet the specific needs and concerns’ of developing countries, including oil revenue dependent countries, ‘arising from the adverse effects of climate change and/or the impact of the implementation of response measures’. Also, Articles 2.3 and 3.14 of the Kyoto Protocol state that Annex I parties shall strive to implement policies, measures and commitments in a way that minimises adverse social, environmental and economic impacts on developing countries.

In line with its demands for keeping the developing country group intact in the post-2012 period, Saudi Arabia insists on a strict separation between voluntary domestic actions and commitments in the

UNFCCC. So far, the country has made no pledges towards the Convention and its domestic action has been extremely limited due to the abundance of fossil fuel resources, the authoritarianism of the state and its weak political interest towards the issue, as well as the all but non-existent (environmental) civil society. The most notable domestic gesture during the past few years has probably been the OPEC climate change fund, aimed at research into clean fossil fuel technologies, from 2007, to which the country pledged US\$ 300 million.

### **Influential negotiator**

Saudi Arabia’s main reference group in the negotiations is the oil exporters’ organisation, OPEC. The group’s tactics in the past have included: reiterating and invoking the adverse effects issue under other agenda items; linking progress on the adverse effects issue with other issues, such as adaptation; focusing on studies that forecast revenue losses for the oil exporters; and delaying and even blocking the discussion.<sup>4</sup>

Although they are not a formal negotiating group, OPEC members are very organised and unified

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3 Peter Kassler and Matthew Paterson: *Energy Exporters and Climate Change*, The Royal Institute of International Affairs, London, 1997, 98–99. In the negotiating jargon, this subject is called either *the adverse effects issue* or *the potential consequences of response measures*.

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4 Depledge 2008, pp. 13 and 20–27; Barnett, Jon: ‘The Worst of Friends: OPEC and G-77 in the Climate Regime’, *Global Environmental Politics*, 8 (4), 2008, p. 4; Dessai, Suraje: *An Analysis of the Role of OPEC as a G77 Member at the UNFCCC*, WWF, 2004.

when it comes to almost all the main agenda topics. What binds the countries together is their common concern over the global demand for and price of oil. Saudi Arabia is the leading country within the twelve-country group. Notably, the OPEC position is often hard to distinguish from the Saudi position due to both the country's influence within the bloc and the natural alignment of oil exporters' interests. Saudi Arabia also closely coordinates its position with the five other members of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates) and more generally with the G77+China group.

Existing literature confirms the disproportionately significant influence of Saudi Arabia on the developing country group's agenda in relation to some specific agenda items, mainly due to its strong delegation, its self-proclaimed role as the defender of the group's common cause, as well as its financial resources, which can be used for leverage. Saudi Arabia subscribes to many of the G77+China's positions, but in the past it has also taken advantage of the group's chairmanship to present its own positions as those of the entire group. Historically, within the developing country group, OPEC and the Alliance of the Small Island States (AOSIS) have been at loggerheads due to their extremely divergent views on the aim and purpose of the Convention.

Saudi Arabia is also known to exert vast influence on the negotiating behaviour of non-OPEC Arab states. Due to a lack of financial and human resources, as well as meagre domestic interest in climate change, most Arab delegations support the Saudi and OPEC position either explicitly or by refraining from presenting opposing views. The size, skilfulness and activeness of the Saudi delegation are also superior compared to the rest of the Arab world. Moreover, the kingdom is also known to have close connections with the United States and shares parallel interests with its oil industry, both in and outside the UNFCCC framework. Despite the Obama administration's emphasis on alternatives to oil, the Kyoto experience and the United States' low mitigation pledges during 2009 have meant that Saudi Arabia is not concerned about any marked near-term changes in the country's stance towards the Convention.

In the future, however, Saudi Arabia's influence vis-à-vis other actors in the climate regime will

inevitably diminish if and when major developing countries, mainly China and India, engage in extra-UNFCCC agreements with developed countries, especially the United States. This would further fragment the G77 and China group's unity, a development which clearly perturbs Saudi Arabia.

Also, other Arab countries are slowly becoming more amenable to ambitious mitigation action and supporting adaptation targeted at the poorest of countries. Some local NGO networks have recently been increasing the exposure of the positions (or lack thereof) of Arab countries, which has gone some way towards helping to raise awareness among local publics and decision-makers. These developments are already resulting in more defined national positions. In the medium term, the Saudi-US relationship is set to be the most problematic one. Chief negotiator Mohammed Al-Sabban has indicated this by suggesting that the fundamental objective of the West is energy security rather than addressing climate change.

#### **Post-2012 position cornerstones**

During 2009, in the run-up to Copenhagen, the Saudi position has evolved around the four aforementioned main pillars or goals: (1) opposing any measures that would limit its oil revenues, (2) demanding compensation for the adverse impacts of response measures, (3) opposing differentiation and additional commitments within the developing country group, and (4) acquiring technology for extending the oil era and capacity for diversification, and presenting technology and its transfer, especially carbon capture and storage (CCS), as a solution to the climate change problem.

1) *Preserving oil revenues*: In its submissions to the UNFCCC and speeches in UNFCCC meetings during 2009, Saudi Arabia has been reiterating its call for an equal treatment of all greenhouse gases (GHGs) and all sources of GHGs. It has called for prioritising gases with the highest warming potential and the lowest negative spillover effects. Related to potential economic gains through carbon leakage from developed countries, Saudi Arabia, along with other developing countries, has also been vocal in opposing any unilateral protectionist measures against developing countries, including tariffs, trade

The Saudi Arabian Minister of Petroleum and Mineral Resources  
Ali Al-Naimi. Photo: IISD/Earth Negotiations Bulletin



barriers or a carbon tax. The issue of international aviation and maritime emissions is a particularly sensitive one for the oil producers as this would target specifically oil-based fuels: Saudi Arabia has called for sectors that go beyond national borders to be excluded and has insisted on keeping the relevant international organisations, ICAO and IMO, from reporting more widely in the negotiations.

2) *Compensation for adverse impacts:* Supporting the above-mentioned goal, Saudi Arabia, together with other OPEC members, has sought to keep the adverse effects issue on as many negotiating tables as possible. The country has insisted on discussing the issue in talks on both mitigation and adaptation and had called for stronger language on the fulfilment of Annex I (industrialised countries' and transition economies') responsibilities towards the issue. It has also supported the inclusion of economic diversification as a means of mitigating the potential consequences of response measures. In addition, it has emphasised, together with other major developing countries and oil producers, that all developing countries are affected by the negative consequences of response measures and that prioritising the least developed countries or other groups is inconsistent with the Convention.

Outside the negotiations, the Saudis have come in for a lot of criticism from the Western media over their old tactic of calling for financial compensation for economic losses resulting from response measures. It must be stressed that the compensation issue is employed by Saudi Arabia as a means of achieving other ends, rather than as an ultimate objective. To

put the issue into perspective, in October 2009 the International Energy Agency (IEA) launched a study which projected that, under a 450 ppm scenario (which might limit the global temperature increase to below 2°C), OPEC's total oil revenue would be US\$ 23 trillion by 2030, over four times higher over the next two decades than it was during the previous two. Compared to a business-as-usual scenario, there would only be a 16% loss for the oil exporters. The main Saudi negotiator, Mohammed Al-Sabban, immediately dismissed the figures as biased and referred to OPEC's own study, which estimates US\$ 19 billion in annual losses from 2012 onwards for Saudi Arabia alone. In addition to using different calculation methods, both sides also present the figures in a way that supports their position.

3) *Avoiding commitments:* A touchy subject for the developing country group (non-Annex I) has been the potential differentiation within the group according to carbon emissions, economic capability or other indicators. By and large, the issue is opposed most strongly by the major economies and high-income developing states that are currently classified as developing countries. These countries have come under the most pressure from other parties to upgrade their commitments in the post-2012 era. Saudi Arabia and other OPEC members have been particularly vocal about maintaining the current division, as well as preserving a clear separation of responsibilities between developed and developing country measures according to the principle of common but differentiated responsibilities. Saudi Arabia has dismissed differentiation as being against the Convention's principles and 'counterproductive'

for a positive negotiating outcome. It has demanded that nationally appropriate mitigation actions (NAMAs) be voluntary and contingent upon financial support and technology transfer from the developed countries. The country has also emphasised that financial and technical support in general should only come from the developed countries. Perhaps most contentiously, Saudi Arabia also opposes a binding global goal and has said that a figure, if needed, should be based on Annex I long-term targets under the Kyoto Protocol ad hoc working group (AWG-KP).

4) *Acquiring technology for extending the oil era and capacity for diversification*: As Saudi Arabia sees it, the country should receive assistance, more specifically technology transfer and capacity building, from Annex I countries for adaptation and diversifying its economy away from oil. As early as 2005, in its first national communication to the UNFCCC, Saudi Arabia suggested leveraging the country's abundant and low-cost energy resources and young population, and obtaining investments and technological know-how from the industrialised countries. In the negotiations in 2009, the language has been more precise: Saudi Arabia has proposed a Technology Action Plan for kick-starting technology transfer. So as to gain additional revenues for implementing CCS, Saudi Arabia supports its inclusion under the Clean Development Mechanism (CDM). It regards CCS as a technology with huge emission reduction potential, allowing economic development to be maintained while mitigating emissions. However, the CCS/CDM issue has remained deadlocked for many years now: while the European Union is not alone in supporting the issue, others, such as AOSIS and Brazil, oppose it, each for their own reasons.

### **Bargaining for survival**

As Saudi Arabia perceives it, the international climate negotiations are literally about survival, or in political science terms, regime survival. Saudi Arabia approaches and treats the climate negotiations as a battle between supply and demand security: Western consumer countries which try to cut back on their dependence on imported oil, and exporting countries which depend on a steady stream of oil revenue for their economic development and political stability.

Saudi negotiators make no secret of their aim to protect their country's national interest. Judging by the analysis above, the kingdom's negotiation strategy does indeed consist of a determined effort to prevent a strong and ambitious consensus from emerging among the parties to the climate convention.

Nevertheless, Saudi Arabia can accept making a transition to a low-carbon economy, as long as this is supported by the industrialised countries and does not severely impact its external revenues. Support can come in many forms: In addition to calling for funding for CCS, the country has spoken outside the negotiations about the possibility of diversifying into solar energy. Although no figures have been produced, the main negotiator, Al-Sabban, told Reuters in April 2009 that plans are 'huge' and exporting solar power is Saudi Arabia's strategic diversification objective. Other potential areas include non-energy use of fossil fuels and education. Saudi Arabia already knows the political impossibility of receiving direct financial compensation for its revenue losses. Technology cooperation, foreign direct investment, and capacity building are, however, areas where the West and the oil producers can find common ground.

In the shorter term, as long as the general level of ambition in the negotiations remains low, Saudi Arabia will carry on with its four-pillar policy, but in all likelihood will not try to block an agreement from emerging. The lower the pledges and commitment from Annex I, the better for a country seeking to avoid ambitious mitigation action. Al-Sabban has recently assured other OPEC members it would not opt out of nor seek to block a treaty that is 'fair and equitable and does not transfer the burden' to Saudi Arabia.<sup>5</sup> Although historically a vehement opponent of Kyoto, Saudi Arabia and its OPEC allies are now demanding that the developed countries should not 'kill Kyoto'. In this way, they are hoping to avoid any additional commitments themselves. The legal form of a post-2012 treaty will possibly be a point of contention, due to the country's objection to merging the two negotiating tracks (AWG-KP and AWG-LCA). However, as long as Saudi Arabia avoids commitments, this will probably not constitute a stumbling block.

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<sup>5</sup> 'Saudis Seek Payments for Any Drop in Oil Revenues'. *The New York Times*, 13 October 2009.



In the long term, the fundamental conflict between ambitious emission cuts and Saudi Arabia's dependence on oil revenues should nevertheless be resolved. While the main responsibility for ensuring the success of domestic diversification rests with Saudi Arabia, the West needs to engage with the country and other oil exporters in order to find a solution that is acceptable to both sides. Due to Saudi Arabia's regional significance and its crucial role as a conservative energy supplier and a key Western ally in the regional security constellation, the country's stability is in everyone's interests. Political rhetoric on decreasing dependence on Middle Eastern oil in the US might serve the domestic agenda, but is deeply counterproductive for the consumer-producer dialogue.

While the West could start by ratcheting down its anti-oil rhetoric, given that oil is projected to remain an essential part of the global energy mix for the coming decades, Saudi Arabia and its OPEC allies should seek to strike a balance between their

views on the negative impacts of climate change and those of its mitigation. Saudi Arabia also needs to face up to the economic facts and give priority to the adaptation needs of poorer countries in the Middle East and beyond. Climate change will potentially have dire consequences for the already water-scarce and politically volatile region. If the emphasis is not shifted in favour of a more constructive attitude towards climate change mitigation and adaptation, Saudi Arabia is ultimately set to suffer the consequences of increasing instability both within and outside its borders. Saudi Arabia needs to come to terms with the fact that it has grown rich on a product that has negative externalities, and it must now, in turn, bear the consequences. In practice, this could be reflected in agreeing to partially share the costs of technology transfer and development with the developed countries. As described above, despite a hard-line negotiating position and disputed aims, there might still be some room for prudent bargaining in the Saudi bazaar.

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