

## Forum

# The Worst of Friends: OPEC and G-77 in the Climate Regime

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The average price of a barrel of oil in 2007 was US\$ 72, and will most likely average over US\$ 100 in 2008. This costs oil importing countries billions of dollars worth of growth, and it affects the health and welfare of hundreds of millions of poor people through rising transport, energy, and food prices.

Climate change is already affecting the health and welfare of millions of the world's poor. As the IPCC and the Stern Review have shown, in the future it will drive hundreds of millions more people below the poverty line, will cause large increases in child mortality, and will cost developing countries up to 13 percent of GDP by the end of the century.

So, developing countries are hurt by high oil prices and by climate change. Sustainable development in developing countries can therefore be met by actions that seek to reduce both the price of oil and the danger of climate change. Opposing these goals is the Organization of Petroleum Exporting Countries (OPEC), which seeks to maintain high oil prices and avoid reductions in the emissions of greenhouse gases from the burning of oil. To do this they work very hard to block and delay progress in the climate regime. Surprisingly, OPEC is often tacitly supported in this obstructive role by the larger Group of 77 (G-77) coalition of developing countries.<sup>1</sup>

The thirteen OPEC members—in particular its Middle Eastern members—profit from high oil prices. For example, a US\$ 10 rise in the price of barrel of oil results in a 14 percent rise in GDP in Saudi Arabia, a 17 percent rise in GDP in Oman and Kuwait, and a 22 percent rise in GDP in the United Arab Emirates.<sup>2</sup> These gains hurt oil importing developing countries. For example, a US\$ 10 rise in the price of a barrel of oil causes GDP to fall by 1.4 percent in India, by

1. The G-77 presently has over 130 members. China often shares positions with the G-77, and the coalition is sometimes referred to as the G-77 and China.
2. Bacon 2005.

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1.3 percent in Kenya, by 1.6 percent in the Philippines, and by 2.8 percent in Jamaica.<sup>3</sup> There have therefore been very significant wealth transfers between oil exporting and oil importing countries as prices have steadily risen from a (nominal) US\$ 10 per barrel in early 1999.

OPEC does not have complete control over oil prices (as is commonly assumed). It has some influence over price by virtue of its ability to adjust supply, but it has little control over other factors, such as changes in the value of currencies, consumption taxes, the futures market, and distribution and refining activities.<sup>4</sup> Indeed, in recent times OPEC's power to control the price of oil has waned as control over distribution, refining and sales has become increasingly concentrated in the hands of four "super major" companies.<sup>5</sup> Oil prices are critical to the profit of these companies, and high oil prices also equate to increased profits for companies exporting arms into the Middle East. This has created a largely US-based coalition of influential large oil and arms manufacturing companies that act to gain the larger profits that come from high oil prices, which rise through the perceived scarcity that arises from risk of, or actual conflict in the Middle East.<sup>6</sup>

For the Middle Eastern members of OPEC, this alliance of arms and oil companies with a common interest in tension and conflict is ostensibly a dramatic challenge to their sovereignty. Yet many of the same regimes whose sovereignty is challenged are dependent on higher oil prices for the security of their rule. Saudi Arabia, for example, relies on oil revenues for 70 percent of state revenues, so that when the price of oil softened in 1998 the budget deficit rose, unemployment increased, and the stability of the regime was weakened.<sup>7</sup> This dependence on oil is the result of a failure to reinvest oil rents into other income generating activities to diversify the economy. As a result, war or the risk of it may be a lesser concern to oil dependent Middle Eastern governments than soft oil prices and declining state revenues, particularly when, as in the case of Saudi Arabia, the costs of war are largely borne by other states.<sup>8</sup> Indeed, Saudi Arabia is often understood to be the leader of OPEC (including in the climate regime), and this is perhaps partly because the Saudi regime has the most to lose from lower oil prices.<sup>9</sup>

OPEC claims that climate mitigation policies and measures that target oil consumption will slow growth in their revenues from oil exports.<sup>10</sup> Since the lead up to the Kyoto Protocol they have argued that reducing emissions through

3. Bacon 2005.

4. Kaufmann et al. 2004; and Kohl 2002.

5. Davis 2006.

6. Nitzan and Bichler 1995.

7. Kohl 2002.

8. Abir 1993; and Gause 2000.

9. Smith 2005.

10. Barnett et al. 2004.

the imposition of carbon taxes (or equivalent measures) in developed countries will reduce demand for oil, and because developed countries account for more than 60 percent of world oil consumption, this may cause a decline in the global price of oil. They also argue that carbon taxes in developed countries may increase the rent that governments in energy importing countries have in the oil market, which would further transfer wealth from governments in producing countries to governments in consuming countries.<sup>11</sup>

In the climate negotiations OPEC has argued that the developed countries must minimize these impacts, demanding compensation for their expected losses. This is the reason why there are so many complex, time consuming, and otherwise unnecessary negotiations around the issue of “the adverse effects of response measures,” which to OPEC means “compensation for lost oil revenue.” To pursue this ostensible goal OPEC, and in particular its Middle Eastern members, block progress by exercising the de facto power of veto that arises because the negotiating process seeks consensus.<sup>12</sup> A party that wants no progress in the negotiations can object to or seek amendment to every piece of text that comes before it, and this is the game that OPEC plays in the negotiating process, often with de facto G-77/China support because that group does not oppose it.

However, OPEC has nothing much to fear from the effect of climate change policies on oil prices.<sup>13</sup> In 1999 its own model—the OPEC World Energy Model (OWEM)—showed that revenue from oil exports will rise massively into the future, even under the Kyoto Protocol. Nevertheless, OWEM and other energy/economic models did suggest that the rate of growth in revenue would be less than the business-as-usual scenario due to the Kyoto Protocol.<sup>14</sup> OWEM assumed that without any action on climate change the price of a barrel of oil would rise to US\$ 18 by 2010. This assumption is now clearly outdated by recent high oil prices. For example, in 2007 OPEC earned four times more for a barrel of oil than was forecast in OWEM, despite the Kyoto Protocol being in force since early 2005. In any event, given that models such as OWEM are easy to manipulate, its results should not be seen as information that determined OPEC’s position in the climate regime, but rather as evidence that helped to justify OPEC’s predetermined opposition to the Kyoto Protocol.

At least one of OPEC’s motivations in opposing actions to reduce emissions is a desire to prevent developed countries from using climate change mitigation policies to increase the rent that they receive through taxes on imported fuels. Indeed, OPEC may be using the climate negotiations to claw back some of that rent. They have argued, for example, that developed countries should both *reduce* taxes on imported oil, and reduce their own production of fossil fuels.<sup>15</sup>

11. Mabey et al. 1997.

12. Oberthür and Ott 1999.

13. Barnett et al. 2004.

14. Ghanem et al. 1999.

15. Barnett and Dessai 2002.

There is also speculation that there is an informal alliance between OPEC and the coalition of interests opposing climate change mitigation in the United States.<sup>16</sup> Putnam's two-level game theory would suggest that this US-based coalition, which includes the government and oil companies, would seek to minimize the domestic political costs of being too strongly identified as a cause of problems in the climate regime by asking its allies to assist them in obstructing the regime. This is plausible given that OPEC (and the Saudi regime in particular) shares a common interest with the United States government and its corporate allies in maintaining high oil prices, has no obvious reason to want action to reduce emissions, and has less to worry about in terms of domestic political backlash (in the absence of democratic elections).<sup>17</sup>

Despite evidence that the Kyoto Protocol has not had the effect on oil revenues forecast in OWEM and other such models, OPEC has continued to obstruct progress in the climate negotiations through tactics such as outright refusal to agree, insisting on linking progress on the compensation issue with progress on other issues (including on assistance for adaptation—a key concern of G-77), blocking discussion of ideas and issues, stressing scientific uncertainty and contesting the validity of the IPCC Reports, wasting time, fomenting mistrust among parties, misrepresenting the G-77 position, and introducing meaningless text or text that is clearly going to be unacceptable to other parties.<sup>18</sup>

In short, OPEC's oil policies contribute to large reductions in the GDP of developing countries, which causes increasing poverty and hunger, and its climate change policies strive to see no action on climate change, which means a world where oil prices remain high, and where growth in developing countries is suppressed and poverty increased due to both high oil prices and the impacts of climate change. OPEC's actions on energy and climate therefore undermine sustainable development in developing countries. The paradox of this situation is that the G-77/China group, which is the institutional face of the developing countries in the climate change negotiations, sometimes actively and—by virtue of its inclusion of OPEC members in its number—frequently tacitly supports OPEC in its efforts to obstruct the climate regime.

Surprisingly little has been written about the internal dynamics of the G-77 given that it is very heterogenous, and that the politics of the negotiations is almost always understood as being fundamentally driven by the North-South divide.<sup>19</sup> What happens *within* the G-77 is critical for the progress or otherwise of the climate regime, yet there is as yet no totally convincing explanation of why the G-77 has been so unified for so long despite widely and increasingly divergent interests among its members.<sup>20</sup> It is disconcerting that this is probably in no small part due to the bias towards understanding the developed countries by

16. Most clearly argued by Leggett 1999; but see also Dessai 2004.

17. Putnam 1988; and Paterson 1996.

18. Paterson 1996; Dessai 2004; Depledge 2006; Depledge, this volume; and author's observations.

19. But see Gupta 1997; Najam 2004; Williams 2005; and Kasa et al. 2008.

20. Najam 2004; and Williams 2005.

researchers from the developed countries.<sup>21</sup> The lack of a satisfactory explanation in turn means that there is no totally satisfying explanation as to why the G-77 tacitly supports OPEC in its efforts to obstruct the climate regime. However, this lack of a convincing single explanation is not unique to studies of global politics, where there are often competing explanations of a phenomenon based on different theories of regime and state behavior informed by evidence of different kinds.

There is an important but subtle distinction to be made between explanations of G-77 unity, and explanations as to why OPEC is still part of and is indeed so influential with the G-77. G-77 unity is seen to be a function of the shared goals of all countries, which include: a development-centered approach to climate change; the recognition of common but differentiated responsibility as a guiding principle; an equal voice in all aspects of international affairs; technology transfer; and additional resources for environmental programs.<sup>22</sup> There is also a common feeling of vulnerability to political and economic power in the international system and to the negotiating power of developed countries, and a high degree of internal work to negotiate and coordinate the G-77's efforts at times when the group has begun fragmenting.<sup>23</sup> Within the G-77, unity is often held up as value to be preserved in and of itself. In the context of differences within the group on climate change, the goal of unity seems irrational, but it makes more sense when one appreciates that the group operates across a range of international negotiations, so that "maintaining long-term unity can be rationalized as being more important than the fate of any single issue."<sup>24</sup>

These reasons partly explain why OPEC has considerable influence within the G-77 on climate change. A shared sense of weakness makes countries like Saudi Arabia that take the fight up to developed countries seem like champions of a sort.<sup>25</sup> And an overriding commitment to unity may make it easier for countries to rationalize acceding to G-77 leadership and demands even while these may conflict with their particular interests. It is also significant that the Chair of the G-77—which coordinates the group—was filled by a delegate from an OPEC country for six of the eleven years spanning 1994–2004—a critical period during the evolution of the climate regime.<sup>26</sup> This leading role may have arisen after the G-77 effectively ignored OPEC's demands and argued instead for strong targets in early negotiations over the Kyoto Protocol.<sup>27</sup>

A frequently mentioned but rarely explained reason for G-77 unity and for the influence of OPEC concerns the capacity to successfully manage negotiations. Almost all G-77 countries have small delegations relative to the devel-

21. But see the unique insights in the work of Joyeeta Gupta, Adil Najam, and Marc Williams. I am not from a developing country.

22. Najam 2004; and Williams 2005.

23. Gupta 1997; Najam 2004 and 2005; and Kasa et al. 2008.

24. Najam 2005, 151.

25. Dessai 2004.

26. After Dessai 2004.

27. Kasa et al. 2008.

oped countries. The logic, rules, and language of the climate negotiations are arcane and require the kind of full-time staffing that only the wealthiest developing countries can afford. The growing complexity of the regime only adds to the insecurity that many small delegations feel at the prospect of having to navigate the negotiations on their own. For this reason developing countries find security within the G-77 bloc.<sup>28</sup> This means that G-77 countries such as Saudi Arabia, which have formidable negotiation capacity, can have significant influence *within* the bloc though their ability to inform discussions and advise others in ways that suit their particular interests.<sup>29</sup> Small delegations within G-77 are as vulnerable to manipulation from within the group as they are from developed countries. Within the G-77, OPEC is a negotiating superpower, yet one which commands more votes than others such as Brazil, China, India, and South Africa. One implication of this analysis is that if it were met, the strong demand from G-77 for assistance to develop capacity in negotiations might confer such confidence to its members that G-77 solidarity becomes less necessary.

Yet for now G-77 remains a group whose flexibility, credibility, and capacity to lead the negotiating process is compromised by the demands and actions of its OPEC members. OPEC's actions are a key reason why there is an impasse between G-77 and the developed countries on so many issues in the climate regime. Indeed, so entrenched are the two camps that the climate change regime is at risk of ossification.<sup>30</sup> The opportunity costs of ossification are now larger than ever given the critical need for meaningful reductions in emissions of greenhouse gases to be achieved, ideally, through a second commitment period under the Kyoto Protocol that includes all major emitters including those such as a China and India. China and India, for their part, may well want to be included in such an agreement if it can assist them to alleviate the significant problems they have with energy security and air pollution, yet their decision will be far less easy if it involves choosing between either participation in the new agreement or participation in G-77. Thus, for as long as the overarching value of G-77 unity prevails, and/or for as long as OPEC has influence within G-77, intra-G-77 deliberation on this issue will be restricted and deferred, developing country participation in a successor agreement to the Kyoto Protocol will be obstructed, and the regime may increasingly ossify.

So, what happens within G-77 in the coming few years, and in particular how it deals with the increasingly anachronistic demands of OPEC, will be critical for the future of the climate change regime. Of course the climate change regime is not the only institution that determines action on climate change. There are activities that occur outside its auspices,<sup>31</sup> and this includes large developing country emitters engaging in bilateral agreements perhaps in part as a means to avoid choosing between the G-77 position and the benefits of action on climate

28. Gupta 1997; and Williams 1997 and 2005.

29. Kasa et al. 2008.

30. Depledge 2006.

31. Depledge 2006.

change.<sup>32</sup> Nevertheless, the climate change regime is a “core” site of learning about how to address climate change and has and can still be a key locus of action,<sup>33</sup> so developing new theories and producing more evidence to better understand intra-G-77 dynamics remains an important task for researchers interested in global environmental politics.

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32. Kasa et al. 2008.

33. Depledge 2006.

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