Oil-producing countries have options to coexist with climate action, says expert

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Oil tanks at the Ras Tanura terminal in Saudi Arabia. Credit: 123RF.com/Rice University

Oil-producing countries are adopting a variety of strategies to shield their industries from climate action, seeking not just to survive but to recast their businesses in ways that provide competitive advantages, according to a working paper by an expert in the Center for Energy Studies at Rice University's Baker Institute for Public Policy.

"Climate Strategy for Producer Countries: The Case of Saudi Arabia" was authored by Jim Krane, the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute. Krane, whose research explores the geopolitical aspects of energy with a focus on the Middle East and

OPEC, presented the draft at the Aug. 2 Gulf Research Meeting at the University of Cambridge in England.

Krane's working paper explores in particular a less-studied climate strategy: near-term actions that Saudi Arabia and other producer states have taken or may take in the next few years to maintain oil exports amid emerging restrictions on fossil fuels.

Like other large producers of carbon-intensive fossil fuels, Saudi Arabia finds itself at the center of the global climate conundrum, increasingly recognized as major fossil fuel producer, exporter, subsidizer and consumer, Krane said. "Saudi Arabia also stands to become an early and significant victim of climate change, since its arid geography and harsh summer climate is highly vulnerable to damage," Krane wrote.

"Some of the strategies that Saudi Arabia has developed would alter the nature of its future participation in the oil business," Krane wrote. "From simply supplying energy commodities, the kingdom is increasing its involvement in importing markets and in sustaining oil-consuming technology."

Krane's paper divides the strategies into three forms:

- Oil-funded governments will "dig in" to protect their oil and gas industries by making them more competitive than those of rival producers, particularly on the basis of greenhouse gas emissions. "Saudi Arabia has succeeded in reducing the carbon dioxide and methane emissions from its upstream oil sector and as a result, the carbon intensity of its crude oil is lower than almost all competing grades," Krane said. As governments begin imposing carbon taxes, Saudi Arabia could actually benefit from a carbon tax that differentiates among grades of crude oil. Saudi Arabia is also investing heavily in "climate-proof" uses for oil and gas,

such as petrochemical production, which converts oil and gas into plastics rather than burning it.
- Governments also "join in" with global climate action, pursuing pledges to reduce greenhouse gases in line with the 2015 Paris agreement. These pledges give producer countries increased international environmental credibility while providing useful political cover for unpopular domestic actions like Saudi Arabia's reform of energy subsidies. Externally, however, producer governments prefer climate actions that protect demand for fossil fuels, supporting technologies like carbon capture and storage and reductions in natural gas flaring.
- Producer governments are also lobbying for a go-slow approach to climate action, cautioning that fast-paced decarbonization is expensive and unrealistic. They argue that some damage from human-caused climate change would be preferable to drastic schemes to slash emissions.

While this paper applies these strategies to Saudi Arabia, other producer countries should be expected to take similar steps, Krane said. "The realization that the world is over-endowed with hydrocarbon reserves that may never be produced is forcing a strategic alteration in oil market behavior," Krane wrote. "Oil and gas markets appear likely to grow more competitive, with producer states vying for market share and differentiating products based on environmental criteria."

In conclusion, Krane said a fourth strategy offers greater promise than the other three: Diversification beyond the oil and gas business. "For companies, particularly shareholder-owned oil companies, diversification is part of the constant challenge of adjusting to evolving markets," he wrote. "When governments nationalized their oil concessions in the 1970s, the big Western oil companies created new opportunities elsewhere. Climate action is hastening the next major shift in the energy business."

For producer countries, non-oil diversification also makes sense, Krane said. "Some of the more prudent producers have created new economic sectors that complement and eventually can replace those facing the risk of climate action," he wrote. "Ironically, a robust fossil fuel export sector is useful in funding investments aimed at diversifying beyond fossil fuels. Some oil producers have taken steps in this direction. The United Arab Emirates—and Dubai in particular—have built diversified economies that are already unwinding lopsided dependence on oil exports and prices. Saudi Arabia is in the initial stages of a similar effort."

More information: Climate Strategy for Producer Countries: The Case of Saudi Arabia. www.bakerinstitute.org/media/f … -strategy-082818.pdf

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