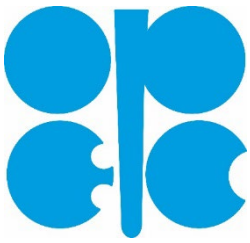
Organization of the Petroleum Exporting Countries (OPEC)



Input to the third meeting of the Technical Dialogue of the first Global Stocktake (GST)

OPEC Secretariat
Research Division
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Summary

The Organization of the Petroleum Exporting Countries (OPEC) welcomes the call for inputs for the first global stocktake (GST) under the Paris Agreement, which is expected to be completed at COP28[1], in November/December 2023, in Dubai, the UAE[2]. In this regard, the OPEC Secretariat would like to provide its input to the third meeting of the Technical Dialogue (TD1.3), planned to take place at SB58[3] in Bonn, in June 2023.

In the run-up to COP28, Parties to the Paris Agreement are called to deliver on the commitments they have made with strengthened and robust policy action. Both developed and developing country Parties are expected to build momentum and concerted action for the COP28 agenda and beyond. Besides making progress on global emissions reduction, Parties are expected to scale up and deliver climate finance supporting actions in developing countries for their sustainable development and resilience.

Indeed, there is currently a pressing need to increase climate ambition, while also ensuring energy security, and to find a resilient and sustainable way forward that leaves no one behind. The challenges are enormous due to geopolitical tensions, particularly for developing countries, which are struggling more than ever with energy security, in addition to vulnerabilities to climate change and the fallout from the pandemic.

In this context, the global economy and energy system are at a crucial juncture, characterised by great uncertainty. Alternative mitigation pathways exist, with some ambitious mitigation action leading to significant social and economic implications for natural resource endowed countries. Considering the adverse impacts of response, it is necessary to promote partnerships and cooperative initiatives to invest in technology and innovation that could enable inclusive and just solutions.

The enduring search for appropriate policies and solutions to reconcile socio-economic development and environmental protection is more urgent than ever. All viable mitigation measures, technological innovations (e.g. CCUS

[1] The 28th session of the Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC).
[2] United Arab Emirates.
[3] The 58th sessions of the UNFCCC Subsidiary Bodies, namely the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI).

technologies, blue hydrogen and the CCE platform)[4], as well as improved energy efficiency and enhanced investment for universal reliable and affordable energy access must be part of the solution.

Overall, equity, fairness and poverty eradication should be important elements in conceptualising the relationship between sustainable development and climate change. It is important to consider national priorities and different circumstances in efforts to tackle climate change, while addressing emissions and not their origin. Climate action should increase with Parties adhering to the principles of the Convention and the Paris Agreement provisions, while also recognising the right to development for developing countries.

OPEC and its Member Countries advocate putting multilateralism at the centre of energy, climate and sustainable development. OPEC remains committed to the UNFCCC process, and subscribes to a sustainable path forward; one that works for all.

[4] CCUS: carbon capture utilisation and storage; CCE: circular carbon economy.

Input to the third meeting of the Technical Dialogue of the first Global Stocktake (GST)

– *Introduction*

Both developed and developing country Parties to the Paris Agreement are currently conscious of the need for tackling global climate change, while also ensuring energy security, and finding a resilient and sustainable way forward that leaves no one behind. The challenges are enormous, exacerbated by geopolitical tensions, an economic and financial crisis, and a health crisis.

In this context, the latest UN Climate Change Conference (COP27), held from 6–20 November 2022, in Sharm el-Sheikh, Egypt, was labelled a 'Climate Implementation Summit' with Parties expected to move from climate change pledges to implementation. The COP convened in time of high uncertainties due to multiple global challenges, while the Egyptian Presidency aimed to advance partnerships and collaboration on matters related to *inter alia* mitigation ambition and implementation, as well as climate finance.

Parties eventually agreed to establish a work programme on just transition to consider pathways for achieving the Paris Agreement goals. Parties that have not communicated new or updated nationally determined contributions (NDCs) or long-term strategies were also urged to do so by COP28, which is scheduled to take place from 30 November to 12 December 2023, in Dubai, the United Arab Emirates.

Moreover, the 'Sharm el-Sheikh Implementation Plan' – the cover decisions of COP27 – recognises the importance of best available science for climate action and policymaking. On energy, emphasis is given on the need to increase low-emission and renewable energy, supporting just energy transition partnerships and other cooperative actions. The growing gap between financial support needed by developing countries and financial assistance provided by developed countries is considered as well. Concern is expressed given that the goal of developed countries to jointly mobilise $100 billion per year by 2020 has not been met.

During negotiations, reference to the challenges and gaps for achieving the pre-2020 commitments was made, and the importance of operationalising mitigation in the context of equity and common-but-differentiated responsibilities (CBDR). The importance of an equitable distribution of the remaining carbon budget was also underscored, highlighting that a just and fair

transition cannot be accomplished without maintaining political space for sustainable development.

In light of the above, the ambition mechanism of the Paris Agreement – that is the global stocktake (GST) – has been launched since COP26, with the objective to identify challenges and opportunities for enhanced climate action and support. The GST is meant to reflect the collective progress made in achieving the Paris Agreement goals, considering also efforts that address social and economic consequences of climate response measures. The first GST will conclude at COP28 late in 2023, and its outcome is expected to inform Parties in updating their NDCs, and upscaling international cooperation for climate action.

Taking into consideration national circumstances and development priorities of oil- producing and exporting developing countries as well as the expected adverse impacts of the implementation of climate mitigation response measures on their economies, the Organization of the Petroleum Exporting Countries (OPEC) submits its input to the third meeting of the Technical Dialogue (TD1.3) of the first GST. This input aims to inform the thematic areas referred to in paragraph 6(b) of decision 9/CMA.1, with a focus on efforts related to addressing the social and economic consequences and impacts of response measures.

– *Global emissions and mitigation action*

Both developed and developing country Parties are currently in the process of enhancing their efforts to build back resilient and sustainable economies and increasing their capacity to act both domestically and globally, through national governance and international cooperation.

Considering the cumulative effects of the global interlinked challenges and associated risks, governments are aiming to ensure that the implementation of response and recovery measures are universal, integrated and transformative, and thus conducive to rebuilding a resilient and sustainable future for all.

It is also recognised that at the heart of such plans lie energy systems that are integral to environmentally sound social and economic development. They play a central role in all three interdependent and mutually reinforcing pillars of sustainable development.

As a result, there is growing momentum from many countries to set net-zero emissions, carbon neutrality, or climate neutrality targets, to be achieved by

2050 or a few years later, aiming to limit global warming. The pledges and aspirations of major economies in order to tackle climate change, as reflected in their long-term development strategies, are often attached to bold policies and measures put in place as part of stimulus packages and recovery spending. Moreover, a prominent feature of countries' new or updated NDCs is their increasing emphasis on the energy-related component, with a primary focus on the power generation, transport and industry sectors.

At the same time, the world continues to experience growing challenges affecting the implementation of development plans and policies – especially those enacted or announced recently as policymakers in a number of countries shift their attention to pressing energy security issues that, potentially, could rework investment flows and defer the implementation of specific policies.

Of importance is also the fact that global emissions are still increasing, and together with rising inflation, unsustainable debt levels in some countries and trade disruptions, the world is likely to remain for the time being in a vicious cycle of energy insecurity, economic disparity and social inequality.

– *Adverse impacts of climate response measures*

To achieve global emissions reduction aligned with the long-term temperature target of the Paris Agreement, Parties are called to take action by implementing NDCs and increasing their efforts in the years ahead, while considering national circumstances and priorities.

However, the uneven distribution of adverse impacts across countries and regions arising from the implementation of response measures, mainly those of climate mitigation action on energy systems, have raised concerns regarding developing countries' right to development. It is these countries – generally having little or no responsibility for climate change – that are, and will increasingly be disproportionately affected by climate change, as well as the measures taken to respond to it. Moreover, they remain without the expected support from developed countries to help them mitigate the impacts and adapt to the changing environment.

A contradiction has also been foisted on natural resource endowed countries, including OPEC Member Countries. On the one hand, oil and gas exporting countries are expected to respond to tightening international markets by increasing oil and gas production. At the same time, however, there are also calls to reduce oil and gas usage, and moves to actively discourage investments in the oil and gas industry.

This implies that there is an increasing likelihood of an oil and gas shortfall in the years ahead, which could exacerbate energy insecurity. For example, new exploration and production projects that require financing are expected to increasingly face substantial challenges. Efforts to discourage oil exploration and development are bound to sow the seeds of a more pronounced energy crisis, affecting the stability and sustainability of global energy markets, and undermining global energy security.

Moreover, they jeopardise efforts to achieve universal, reliable and affordable energy access for people across the globe. For natural resource endowed countries, particularly developing ones, it also adds to their risks and will likely hamper efforts to achieve the sustainable development goals (SDGs), including the eradication of energy poverty and sustained economic growth.

Against the backdrop of current multiple crises, it is important to consider future energy policies and enhanced climate mitigation ambitions. Despite the inherent uncertainties of energy systems, there is a need to consider all available options, means and approaches to address global challenges in light of national circumstances and capabilities, while supporting energy security in an inclusive, fair and just transition.

Parties should also consider, when implementing the Agreement, the concerns of Parties with economies most affected by the impacts of response measures, particularly developing countries (Article 4.15). This is aligned with the Convention that calls Parties to take into full consideration the specific needs and concerns of developing countries arising from the adverse effects of climate change and the impact of the implementation of response measures – especially of '*countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy intensive products*' (Article 4.8).

Recent estimates indicate that the GDP (gross domestic product) of OPEC Member Countries in typical mainstream emissions-mitigation scenarios – with a strong focus on renewables displacing oil and gas – could be as much as 16% lower than in the reference case by 2045.[5] These adverse impacts are driven by a loss of value in traditional hydrocarbon sectors, lower export revenues and weakened terms of trade.

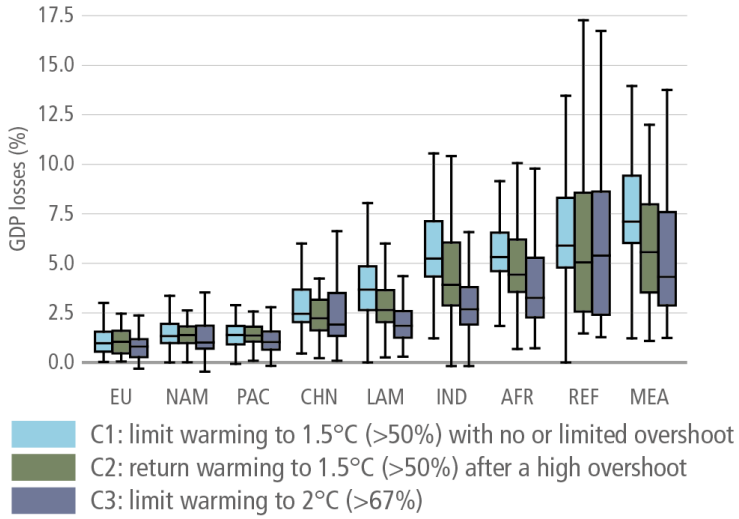
In addition, the GDP reduction of energy-exporting developing countries is expected to be larger than the overall effect on the global economy. Besides

[5] OPEC Secretariat (2022), *World Oil Outlook*, available at: https://woo.opec.org/.

losses in the wider economy and declining consumption, employment levels are also likely to be adversely affected in energy-exporting developing countries. This is not only the result of job losses across the hydrocarbon industry, but also losses in the public sector that relies on fiscal flows from the industry.

These findings are consistent with the first input of the OPEC Secretariat, submitted for the first technical assessment for the GST (available at: https://unfccc.int/documents/461862), as well as the key conclusions of the recently released IPCC[6] report on mitigation of climate change[7]. These provide evidence that any transitions will have inherent disruptions and therefore, just transition principles should seek to ensure that communities dependent on fossil-fuel based economies and industries would not suffer disproportionately.

Figure 1: Regional mitigation costs in the year 2050



Note: (expressed as GDP losses between mitigation scenarios and corresponding baselines, not accounting for climate change damages), under the assumption of immediate global action with uniform global carbon pricing and no international transfers, by climate categories for the 2°C (>67%) and 1.5°C (>50%) (with and without overshoot) categories. EU: European Union, NAM: North America, PAC: Pacific Asia, CHN: China, LAM: Latin America and the Caribbean, IND: India, AFR: Sub-Saharan Africa, REF: Eastern Europe and Former Soviet Union, and MEA: Middle East and North Africa. *Source: IPCC, Working Group III to the Sixth Assessment Report, Figure 3.35, 2022.*

[6] Intergovernmental Panel on Climate Change.

[7] Riahi, K., R. Schaeffer, J. Arango, K. Calvin, C. Guivarch, T. Hasegawa, K. Jiang, E. Kriegler, R. Matthews, G.P. Peters, A. Rao, S. Robertson, A.M. Sebbit, J. Steinberger, M. Tavoni, D.P. van Vuuren, 2022: Mitigation pathways compatible with long-term goals. In IPCC, 2022: *Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.005.

In particular, the IPCC report underlines that climate change policies and actions entail different mitigation costs and benefits. A focus on equity considerations is necessary to avoid climate-induced harm, as well as the unfairness that could result from actions taken to reduce emissions. It is also stated that mitigation policies that recognise and address the equity challenges inherent in transition to a low-emissions future would be needed, along with both near- and long-range holistic planning, which explicitly seeks synergies between climate change and sustainable development while avoiding trade-offs.

It is further highlighted that co-benefits and trade-offs arising from the implementation of climate change policies and actions could vary by region and/or country. Viable transition pathways should be identified to ensure that equity and energy security are not compromised – including in natural resource endowed countries where climate mitigation could imply significant employment and economic structural changes that raise multiple distribution concerns.

These adverse impacts on energy-exporting developing countries could be significantly mitigated if advanced technology options were implemented at scale. These include the enhanced implementation of the CCUS (carbon capture utilisation and storage) technologies in industrial sectors, strong investment in hydrogen supply networks and the increasing adoption of the CCE (circular carbon economy) framework across the global economy.

Indeed, the adverse impacts of climate mitigation response measures could be significantly alleviated with such innovative approaches and advanced technology options. CCUS is an environmentally sound technology, which can allow countries to maintain the diversity of energy supply. Hydrogen can also be a key energy carrier for decarbonisation in various hard-to-abate sectors, whereas the CCE framework encourages countries to use all technologies, forms of energy and mitigation opportunities.

Such options can protect and create new high-value job opportunities, while also contributing to the diversification of exports in energy-producing and exporting economies. Their relative importance within a country's available portfolio of mitigation actions varies depending on resource availability, capacities and national circumstances. Cooperative initiatives and partnerships, as well as adequate financial resources, can play a critical role in promoting technological advancement for climate action, and deployment and scaling up of such options, including in developing countries.

– *Concluding remarks*

As already highlighted, while implementing the Paris Agreement with the objective to achieve its long-term goals, it is vital that any adverse impacts for the economies and societies of energy-exporting developing countries are addressed in the context of equity and sustainable development.

Therefore, it is necessary to promote partnerships and cooperative initiatives to invest in technology and innovation that could enable inclusive and just solutions. The wide deployment of technological innovation – such as CCUS technologies and blue hydrogen – is a viable option, without which the long-term goals of the Paris Agreement would be difficult to achieve. Besides combating climate change, technological innovation offers wider benefits. Innovative solutions could lead to the creation of new jobs and new value-added potential, reducing the adverse impacts of climate mitigation response measures.

In summary, Parties to the Paris Agreement have outlined their national visions, pathways and mitigation policies as reflected in their NDCs and long-term low-emission development strategies. However, it is worth emphasising that developing countries are not only affected by climate change, but also by the impacts of the measures taken in response to it.

The enduring search for appropriate policies and solutions to reconcile socio-economic development and environmental protection is more urgent than ever. Nobody should be left behind, and all viable mitigation measures, technological innovations, as well as improved energy efficiency and enhanced investment for universal reliable and affordable energy access must be part of the solution.

The SDGs of the 2030 Agenda for Sustainable Development also set out a desired state for inclusive and sustainable societies. A global challenge such as climate change requires a global response, and a coherent approach is needed to set the world on a sustainable, more resilient, equitable and fair pathway.

Parties' contributions to reducing global emissions should be subject to differentiated responsibilities, based on capabilities and national circumstances. The different starting point between developed and developing counties needs serious consideration for the implementation of the Paris Agreement. Developing countries should have the policy space to address climate change in the context of sustainable development.

Determined leadership, adequate finance, the utilisation of all relevant technologies and collaboration among countries will be needed to reduce emissions, while also eliminating any adverse impacts of mitigation measures on livelihoods and societies.

The OPEC Secretariat expresses its willingness and preparedness to collaborate with the UNFCCC Secretariat and other stakeholders supportive of the UNFCCC process on issues related to addressing the social and economic consequences and impacts of climate response measures.