



THE GEOPOLITICS OF DECARBONISATION

Reshaping European foreign relations

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Federal Foreign Office

EXECUTIVE SUMMARY

1 INTRODUCTION

Under the Paris Agreement, governments committed to radically cutting carbon and other greenhouse gas (GHG) emissions over the coming decades, and thus to transforming their economies and societies. This decarbonisation process has profound implications for both domestic and foreign policy, and is likely to have important geopolitical consequences. This report contributes to the emerging literature on the geopolitical implications of decarbonisation and energy transition processes. It aims to provide insights on the external dimensions of the European Green Deal launched by the European Commission in 2019 and on how EU external relations can evolve to accelerate and shape the transition to a decarbonised world.

The decarbonisation challenge

Decarbonisation implies a fundamental change in the way economies and societies work, and it is likely to be characterised by two broad changes – the decline and destabilisation of carbon-intensive development models based on the production and burning of fossil fuels and overexploitation of natural resources, and the emergence of more sustainable forms of energy production and resource use. We expect it to have both adverse and positive effects on countries, with the particular challenges and opportunities they face varying considerably between them.

The geopolitical challenge

Foreign policy and external relations have a dual role to play in supporting deep decarbonisation. On the one hand, countries and regions must work together to support decarbonisation processes beyond their own borders – with a particular responsibility on historically high emitters and developed countries to support less developed regions of the world, and regions under-resourced to address the impacts of climate change. On the other, they must pave the way for developing fruitful external relations beyond fossil fuels and other carbon-intensive products. That means both promoting forms of cooperation that can help to prevent the potentially destabilising effects of fossil fuel phase-out and decarbonisation, and putting external relations on a new sustainable foundation based on other sectors, including low-carbon ones.

Whether a country is a net importer or exporter of fossil fuels or other carbon-intensive commodities, we can expect the process of decarbonisation to reconfigure countries' external energy relations. Climate action and decarbonisation processes are also likely to have a broader effect on trade relations, finance and investment flows, scientific cooperation, official development assistance, as well as efforts to promote conflict prevention and peacebuilding.

The geopolitical decarbonisation challenge for the EU

As a global power, as a leader on climate action, and as a region that by international comparison is relatively advanced in the transition to climate neutrality, the EU has an important role to play in meeting these challenges. Building sustainable, fruitful partnerships with EU partner countries under decarbonisation is likely to require wide-ranging action, both to support them in implementing the Paris Agreement and to place external relations with partner countries on a solid footing for future cooperation in the decades to come. In this task, the EU can make use of the entire diplomatic toolbox, including instruments related

to trade, finance, security, and research and innovation. This is essential to mitigate potential risks related to climate change and decarbonisation, and to diversify cooperation away from fossil fuels and high-carbon assets towards other sectors with potential in the long-term.

The current European Commission is aiming to usher in a new era of EU decarbonisation and renewed leadership on climate action. With the European Green Deal now at the heart of EU politics, it is even more pressing to consider what the foreign policy community should take into consideration when developing and implementing the European Green Deal's external dimensions.

2 ANALYSING THE GEOPOLITICS OF DECARBONISATION

This report is based on detailed case studies that consider the complex interaction of the multiple factors at play in decarbonisation processes. Our analysis focused on a particularly high-risk group of countries – fossil-fuel exporters – and took into account each country's economic exposure to decarbonisation risks, the wider risks they could face as result of economic disruption under decarbonisation, their potential to diversify and develop a low-carbon economy, and their external relations with the EU.

The six case studies selected – **Azerbaijan, Canada, Colombia, Indonesia, Nigeria and Qatar** – represent a broad cross-section of six fossil-fuel exporting countries from different world regions, covering different resource endowments and stages of development, beyond the “usual suspects” like Russia, Norway and Algeria. As such, the selection has the potential to reveal a variety of ways in which fossil fuel exporters or, more generally, carbon-dependent economies may be vulnerable to the global transition away from coal, oil, gas and other emission-intensive products that should see falling demand under decarbonisation. As trade in fossil fuels – and other high-carbon products such as palm oil – accounts for a sizeable proportion of EU trade with many of these countries, the decarbonisation of the European economy (and eventually the world economy) is set to have important repercussions for bilateral relations. Each case study therefore also presents areas for the development of bilateral relations beyond carbon-intensive products and related trade under decarbonisation.

The sample includes two countries that are highly vulnerable to deep decarbonisation processes. In **Nigeria**, the economy is highly dependent on gas and particularly oil, with these two commodities accounting for almost all the countries export revenues and the EU an important export market. The country also scores poorly on indexes assessing state fragility, human development, strength of governance, and preparedness for climate change impacts. The economy in **Azerbaijan** is also highly dependent on oil and gas, and among the sample it is the country most dependent on trade in these commodities with the EU.

At the other end of the spectrum, **Canada** is a stable, highly developed democracy with a diversified economy and a well-educated workforce, although the oil industry remains economically important. **Qatar** is a rich petrostate with stable governance structures and one of the highest per capita incomes in the world. It has used the wealth generated by its oil industry to develop its gas sector, as well as other areas of the economy and its external relations.

The remaining two countries in the sample face both major risks and opportunities. In **Colombia**, revenues from coal and oil exports are economically significant, but the economy is increasingly diversifying into low-emission areas. However, the country is still in the process of emerging from decades of internal conflict. **Indonesia** is a rapidly developing economy, experiencing huge growth in the demand for goods and energy. This growth is highly dependent on the exploitation of its abundant hydrocarbons, primarily coal and oil, as well as other carbon-intensive assets, such as palm oil.

3 KEY FINDINGS

This study investigated the implications that the phase out of fossil-fuel use and broader decarbonisation processes may have for the EU's foreign policy toward and external relations with six fossil-fuel exporters – Azerbaijan, Canada, Colombia, Indonesia, Nigeria and Qatar. Overall, the report draws five main findings from the country case studies.

I: Decarbonisation constitutes a key political and economic challenge for exporters of fossil-fuels and other carbon-intensive products.

The economies and government budgets of the six studied countries are, with some variations, highly dependent on the production and export of fossil fuels (and other carbon-intensive goods). As a result, and again to varying degrees, they are also exposed to fluctuations in the price of fossil fuels, and continuing investments in related infrastructure carry a high risk of creating stranded assets.

- **High dependence on fossil-fuel production and export:** The case studies illustrate that the economies and government budgets of a number of fossil-fuel exporting countries are highly dependent on the production and export of oil, gas, coal and/or other carbon-intensive goods. Fossil-fuel production and export account for significant shares of these countries' economies, ranging from less than 10 percent to about half of GDP.
- **Exposure to price fluctuations:** Fluctuations in the price of fossil fuels in international markets illustrate the high dependence on fossil-fuel production and export, as could be seen in the fall of the international oil price between 2014 and 2016 (and is confirmed by the dramatic falls resulting from the COVID-19 pandemic in 2020). This fall had a major impact on the economic development, in some cases causing recessions, and public budgets of the six countries studied. Although decarbonisation has not been a major driver of international fossil-fuel markets to date, it could reinforce downward pressure on fossil-fuel prices in future.
- **High risk of stranded assets and insufficient diversification:** The countries investigated have continued to invest heavily in fossil fuels and related high-carbon infrastructure, entailing a high risk of stranded assets under decarbonisation. This has contrasted with lower investment in non-fossil-fuel sectors, and at times even undermined progress towards economic diversification.

II: The decarbonisation challenge intersects with various other fragility and security risks.

These risks and their severity vary across countries. They include conflicts at national and regional level, weak and fragile governance arrangements, and the impacts of climate change. These risks can exacerbate the difficulty of moving away from fossil-fuels, and decarbonisation could increase these risks if they are not adequately addressed. While such risks are negligible in Canada, they are particularly grave in countries where the political settlement depends to a large extent on income from fossil-fuel exports (e.g. Azerbaijan, Qatar, Nigeria).

- **National and regional security risks:** Our case studies illustrate that fossil-fuel exporting countries frequently face significant national and/or regional security risks. Indeed, all our case study countries except Canada face significant or even serious security challenges; these take different forms and are highly specific to the respective contexts.
- **Fragile governance contexts:** Most of the fossil-fuel exporting countries also face governance challenges at the national level, although their significance varies. These seriously curtail the respective governments' capacities to effectively address dependence on fossil-fuel exports and, more generally, to implement targeted policies to foster low-carbon development.
- **Climate change impacts:** Climate change is predicted to have a medium to high impact on the countries studied. These impacts could strengthen support for engaging in climate policy and related cooperation. However, the concrete impacts might also restrict the capacity to act on fossil-fuel dependency, as priority might be given to urgent adaptation measures.

III: Climate policy frameworks are in urgent need of further development, but ambitious climate policies face significant resistance.

While climate policy frameworks are at various stages of development, none of the countries studied have yet developed adequate targets and policies for meeting the goals of the Paris Agreement. Progress in the development of such targets and policies and in the climate transition of these countries is hampered by significant socio-economic barriers, in particular strong opposition from the fossil fuel industry that is often intertwined with the political system.

- **Climate policy frameworks are at various stages of underdevelopment:** The development of climate policy frameworks in the studied fossil-fuel exporting countries ranges from insufficient to grossly inadequate. The targets set out in the six countries' Nationally Determined Contributions (NDCs) are insufficient for achieving the objectives of the Paris Agreement, and there are concerns about the ability of existing domestic policy frameworks to effectively implement these targets (and to support the raising of ambition in future).
- **Significant opposition to transformational climate action.** The (under)development of domestic climate policy frameworks in the studied countries correlates with significant political and economic opposition to transformational climate action. Even in studied countries where fossil fuels have a comparatively modest importance for the national economy – Canada and Colombia – this opposition is significant and strong.

IV: EU external relations can build on pre-existing cooperative arrangements of varying strength and form.

Existing cooperative arrangements between the studied fossil fuel exporters and the EU provide a sound basis for "decarbonising" bilateral relations, i.e. developing them fruitfully beyond high-carbon products. The most important institutional arrangements in this respect include Partnership and Cooperation Agreements and Free Trade Agreements, but cooperation has a varied, more diverse basis, including regional and multilateral forums.

The EU's relations with the studied countries can build on existing Partnership and Cooperation Agreements or other forms of high-level dialogue. In several cases, bilateral trade relations find a further firm basis in relevant free trade agreements. Beyond these formal agreements, the studied fossil-fuel exporters and the EU also cooperate within a web of other bilateral, regional, and multilateral forums. How tight this web is, and where its points of focus lie, varies between the countries, but generally these relations provide a solid basis for developing cooperation.

V: There is ample potential for developing EU external relations with fossil-fuel exporters beyond fossil fuels.

Our case studies indicate that there is a strong and varied basis for successfully developing EU external relations with fossil-fuel exporters away from and beyond fossil fuels. We identify five prime areas that deserve particular attention: (1) climate and energy, (2) trade and investment, (3) science and education, (4) finance and development, and (5) security and peace. Whereas these areas' specific potential varies across countries, they can serve to describe and assess the possibilities for advancing decarbonised EU external relations as part of the EU's aspirations for global leadership under the European Green Deal, thereby strengthening the deal's foreign policy dimension.



1. Climate and energy: Low-carbon development, including renewable and clean energy technologies, is a particularly promising field for developing future cooperation. There is considerable scope for stepping up action worldwide and the EU is relatively advanced in its climate and energy transition by international comparison. In virtually all the studied countries, there was also enormous potential to further intensify cooperation on renewable energy. As a first step in the energy transition, this has the potential to synergise with the exploitation of oil and gas, as it can enhance the availability of these fossil fuels for export. Beyond that, renewable energy has increasing price advantages, is becoming an internationally recognised prime energy resource, and can be linked to established programmes and strategies for economic diversification.



2. Trade and investment: There is enormous potential for trade, investment and, more generally, economic cooperation with the studied countries beyond fossil fuels and other carbon-intensive products. Partnership and cooperation agreements and free-trade agreements provide a strong basis for such economic cooperation. In countries that have strategies or plans for economic diversification, cooperation with the EU could more strongly build on and connect to priority sectors and industries.



3. Science and education: Poorer fossil fuel exporters in particular face significant challenges in developing a knowledge-based economy, which is itself closely linked to aspirations towards economic diversification. As an advanced knowledge economy with established educational and research programmes, including for international cooperation, the EU and its member states have much to offer in cooperating with fossil-fuel exporters to enhance their education and skills development, as well as their research capacities.



4. Finance and development: The EU already has strong finance and development cooperation with the developing countries studied. There remains significant scope for realigning finance and development cooperation to support decarbonisation. External finance and development cooperation could aim to ensure a significant share of overall finance (at least 25 percent) is reserved for climate and low-carbon development purposes, and to phase-out or prohibit finance that is not aligned with low-carbon development objectives.



5. Security and peace: The geopolitics of decarbonisation is also closely related to issues of peace and security. All the fossil fuel exporters studied except Canada face serious internal and/or external security challenges. While Nigeria faces both serious internal and regional security threats, the main security challenges are primarily domestic for Colombia and Indonesia. Qatar and Azerbaijan in particular are embedded in precarious regional security contexts. In addition, these countries are – to varying extents – challenged by weaknesses of their governance systems. To this end, the EU and its member states can build on and intensify cooperation with fossil fuel exporters on these matters.

4 FUTURE PROSPECTS

Decarbonisation and the European Green Deal constitute both a challenge and an opportunity, also for EU external relations. This report systematically examined EU external relations with a cross-section of six fossil fuel-exporting countries, with the aim of using concrete cases to investigate what impact European and global decarbonisation could have on external relations. It also considers how the objectives of the climate transition and a fruitful development of bilateral relations can be aligned and synergised, and, more generally, the potential for successfully developing external relations under decarbonisation.

The study's findings suggest that there is ample scope for developing EU external relations beyond fossil fuels, even with those countries that may be considered particularly hard cases, namely fossil fuel exporters. Partners highly dependent on the production and export of coal, oil, gas and other high-carbon products also have other significant interests. These provide entry points for developing climate-neutral EU foreign relations, including cooperation on expanding the use of renewable energy and, more generally, developing a more diverse (knowledge) economy.

The potentials and conditions for developing relations under decarbonisation are highly specific to each country and need to be appraised on a case by case basis. Importantly, it seems evident that successfully developing relations with these – and other – countries requires the EU to take an active and targeted approach. Fruitful external relations are unlikely to come about by themselves in a decarbonising world; they need to be shaped via a proactive foreign-relations strategy. Since our case study analysis was concluded, the disruption of the COVID-19 pandemic has added to the complexity of decarbonisation processes, but also presented new opportunities for accelerating climate action via green recovery packages. Exactly how the European Green Deal will shape these recovery packages and other foreign policy priorities still remains to be seen and realised in concrete action. This will require coherent follow-up of engagement strategies with individual countries and regions.

We are hopeful that the present study constitutes a useful beginning for thinking about EU external relations and foreign policy beyond fossil fuels, and thereby stabilising international affairs in these challenging times. To this end, it develops two important lines of enquiry: (1) exploring the dependence on high-carbon products in their broader context (trade, security, etc.) and (2) systematically taking account of the opportunities and potentials for developing external relations that assist in and synergise with the decarbonisation challenge. A comprehensive approach that takes into account broader relations with the partner countries beyond climate and energy, including trade and investment, science and education, finance and development, and peace and security, should facilitate the development of coherent foreign relation strategies that support the transition to a climate-neutral world.

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