

Instant Insight

Brazil, Russia, India, China, and South Africa

Potential Roadways
to A New Global
Governance
Mechanism for Energy
and Climate

Emre Hatipoglu, Colin Ward, and Noura Mansouri



About KAPSARC

KAPSARC is an advisory think tank within global energy economics and sustainability providing advisory services to entities and authorities in the Saudi energy sector to advance Saudi Arabia's energy sector and inform global policies through evidence-based advice and applied research.

This publication is also available in Arabic.

Legal Notice

© Copyright 2023 King Abdullah Petroleum Studies and Research Center ("KAPSARC"). This Document (and any information, data or materials contained therein) (the "Document") shall not be used without the proper attribution to KAPSARC. The Document shall not be reproduced, in whole or in part, without the written permission of KAPSARC. KAPSARC makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that is contained in the Document. Nothing in the Document constitutes or shall be implied to constitute advice, recommendation or option. The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the official views or position of KAPSARC.

The recent regionalization of global politics and trade has placed Brazil, Russia, India, China, and South Africa (BRICS) at the forefront of the geopolitical agenda.

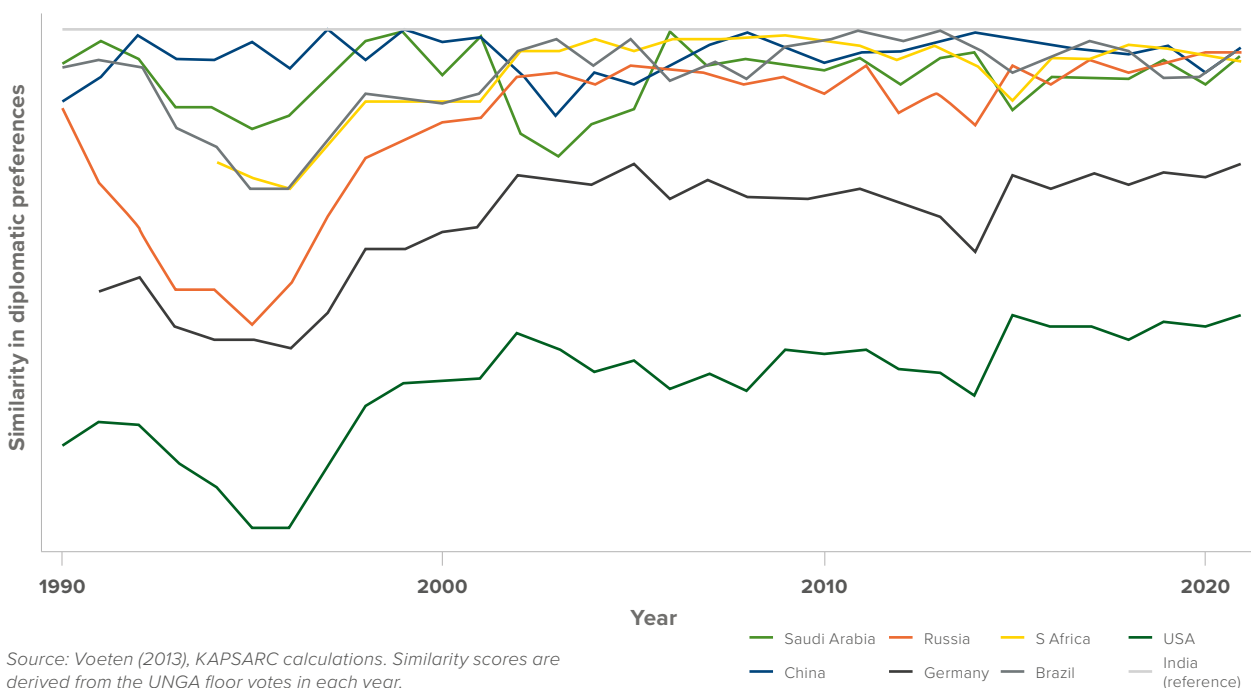
During the 2023 annual summit in Johannesburg, the BRICS forum of major emerging economies - Brazil, Russia, India, China, and South Africa (BRICS) - confirmed significant expansion plans, inviting six new members, namely Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates to join in January 2024. The purchasing power parity adjusted collective GDP of the resulting 11 BRICS states will exceed that of the G7 industrialized nations. This Instant Insight provides an overview of BRICS's potential to play a significant role in forging alternative mechanisms for energy and global climate governance. We highlight the increasing convergence of diplomatic preferences among BRICS members and other potential members. This convergence can lead to fruitful partnerships with implications for trade, energy, and climate governance. We discuss the potential for BRICS to establish a robust alternative oil and gas

value chain that can stabilize markets against geopolitical shocks. Furthermore, coordinated actions by BRICS may influence the direction of the energy transition, benefiting the Global South. However, BRICS must address several challenges to realize its potential. These challenges include limited institutional capacity, intra-group friction, and the lack of a unified vision of global politics among BRICS members.

The Re-rise of BRICS as a Diplomatic Weight in Global Politics

Over the past decade, the diplomatic preferences of BRICS members have been converging with those of potential members, such as Saudi Arabia. Figure 1 demonstrates this convergence, illustrating countries' voting preferences at the United Nations General Assembly (UNGA) since the end of the Cold War. India's

Figure 1. Similarity in UNGA voting patterns: BRICS, Saudi Arabia, Germany, and the US.



Source: Voeten (2013), KAPSARC calculations. Similarity scores are derived from the UNGA floor votes in each year.

voting record serves as an index at top of the figure, with higher positioning indicating closer alignment with India. The voting preferences of BRICS and Saudi Arabia have grown notably more closely aligned since 2000. The United States (US) and Germany, a representative European Union (EU) member, have also converged slightly toward the BRICS countries over that time. However, their interests still differ greatly.

This convergence suggests that the profile of BRICS is rising. This shift is reminiscent of the Group of 77 (G77) movement in the 1970s. This movement saw a large body of non-aligned countries establish a counterweight to both the Western alliance and the Warsaw Pact. The group was especially active in international bodies, such as the United Nations (UN).

The diplomatic convergence between BRICS members and other developing nations may translate into a fruitful partnership. Their coordination may have significant implications for the global governance of trade, energy, and climate. Despite some challenges, enlarging BRICS may accelerate efforts to de-dollarize global trade and create a counterweight to the current world order. President Lula's re-election in October 2022 brought Brazil onboard with BRICS expansion, at least rhetorically. Thus, BRICS may be close to achieving a critical mass of support for expansion. With the recruitment of regional powerhouses, such as Saudi Arabia, Algeria, Türkiye, and Argentina, a substantial portion of global trade may be de-dollarized.

BRICS also has an opportunity to establish a robust alternative value chain for oil and gas. It includes some of the major producers and consumers of hydrocarbons, and it can take a more balanced view of the energy transition. The legitimization of this alternative value chain may stabilize oil and gas markets against geopolitical shocks, such as sanctions. In addition, coordinated actions by the BRICS members can shift the direction of the energy transition to bring more value to the Global South. Considering the interests of the BRICS countries and their partner nations in climate negotiations may lead to more inclusive solutions for carbon offsets and damages.

Many Challenges Must be Addressed to Realize BRICS's Potential

Despite the potential gains from concerted action, BRICS's capacity for policy formulation and execution remains limited. The gains realized from cooperation

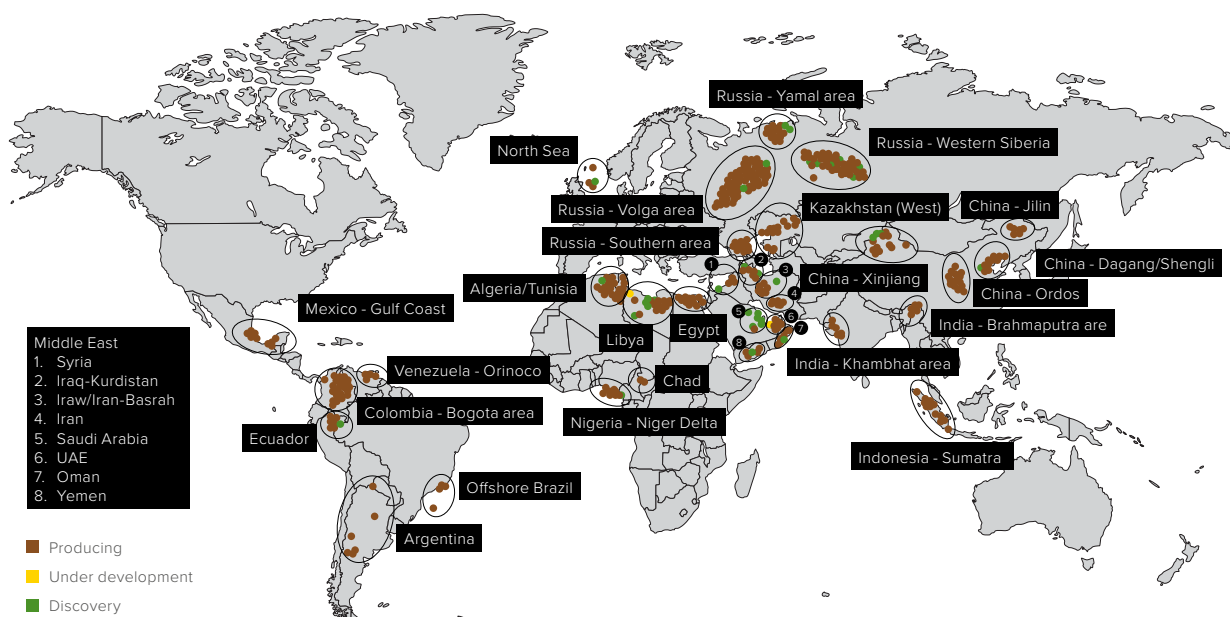
strongly correlate with the presence of tangible functioning institutions and platforms, but BRICS has largely overlooked institutional development. Many major international organizations, such as the EU, the North Atlantic Treaty Organization, the Association of Southeast Asian Nations, the Economic Community of West African States, and OPEC, have robust institutions. In contrast, BRICS has a light institutional arsenal. It holds annual leaders' and ministerial summits and operates the New Development Bank, which has \$10 billion in paid capital.

The notable intragroup friction within BRICS also creates doubts regarding its effectiveness in global politics. Since 2020, border tensions between India and China have led to skirmishes and casualties in the Himalayan highlands. In the UN, Brazil and India abstained on votes regarding Ukraine instead of formally supporting fellow BRICS member Russia. However, these abstentions may be construed as tacit approval. More abstractly, BRICS does not necessarily project a unified vision of a desirable future in global politics. Coordination among its members is limited to voicing similar criticisms against Western nations regarding global politics. Integrating their varying worldviews will be very complicated if the economies and governance structures of the BRICS countries become interlinked.

Accordingly, BRICS does not have a unified approach to relations with the West. Some current and potential members enjoy close relationships with Western markets. For example, India, South Africa, and Brazil benefit from the nearshoring or friendshoring of global supply chains at China's expense. Some potential BRICS partners, such as Indonesia, Türkiye, and Saudi Arabia, benefit from this practice as well. Thus, it remains unclear whether other countries' interest in BRICS reflects a genuine search for an alternative world order. It may serve as merely a bargaining signal to existing allies.

In short, the current political situation renders considerable capital to the BRICS countries and their potential future partners. They can influence global governance on many pressing issues, including energy and climate. However, considerable diplomatic and institutional efforts are required to realize these gains. Accordingly, we assess the effects of stronger ties between BRICS, Saudi Arabia, and other regional partners on global energy and climate governance. We consider both the short and medium terms.

Figure 2. Carbon dioxide EOR clusters for development outside of North America.



Source: KAPSARC, 2018.

BRICS, Energy, and the Environment: Where Major Producers and Consumers Meet

In its current form, BRICS includes the two strongest markets for future energy demand, China and India. It also includes two major energy producers, Russia and Brazil. BRICS differs from other interstate initiatives (e.g., the International Energy Agency and OPEC+) in important ways. It spans both supply and demand and has a heavy developing market slant. Developing markets and Global South players have different views and priorities from their developed counterparts in terms of energy, the environment, and economics. Expanding the group to include Saudi Arabia may provide some further advantages based on existing relationships. Saudi Arabia and Russia both play key roles in OPEC+. Saudi Arabia has strong economic ties with China and India, and Saudi investment in Africa and South America is growing.

Securing energy supply and demand is critical for all current and potential BRICS members. Projections show that the proportion of renewables in each nation's future energy mix is growing. Nevertheless, hydrocarbons are more prominent in these countries' plans than in those of Group of Seven nations. This fundamental difference arises for several reasons. They include economic reliance on hydrocarbon production; confidence in carbon

capture, utilization, and storage (CCUS) technology; and concerns about the cost and scalability of renewables.

BRICS can particularly shape the evolution of the global energy and climate landscape in the context of CCUS. Its members' geological profiles are conducive to subsurface storage. This storage can take the form of depleted oil and gas reservoirs, carbon dioxide enhanced oil recovery (EOR), aquifers, and mineralization. Of the current BRICS members, Russia, China, and Brazil have significant pore space available, as Figure 2 illustrates. Saudi Arabia has a large capacity for this potential revenue stream from storage as a service.¹ It can also futureproof hydrocarbon sales via blue hydrogen and other carbon-mitigated energy carriers and products, such as ammonia, methylcyclohexane, and urea.

Since the start of the Ukraine conflict and the resulting sanctions on Russia, a robust secondary oil market has developed. All current BRICS members participate in this market with privileged access. China and India benefit from discounted Russian crude oil and resell it as a refined product. Brazil is receiving record shipments of Russian fertilizer, which is derived from natural gas, for its agricultural sector. South Africa's dealings with Russia may include a weapons-for-oil exchange.

¹ Storage as a service involves outsourcing storage responsibility and management, reducing a major risk associated with carbon dioxide storage for carbon emitters.

BRICS may form similar secondary markets around other major sanctioned oil producers, such as Iran and Venezuela. Not surprisingly, these two countries also applied to join BRICS. President Lula of Brazil expressed official support for Venezuela's bid when President Maduro of Venezuela visited Brazil in May 2023. A favored partner status within BRICS would help Saudi Arabia gain market share for both energy and petrochemical products in growing economies. Such access would be especially beneficial as the global economy recovers.

Saudi Arabia and BRICS also have shared interests regarding climate policy and relevant international negotiations. BRICS and the Kingdom are members of the G77+China and the group of Like-minded Developing Countries. Both BRICS and Saudi Arabia advocate for the principles of common but differentiated responsibility and respective capacities in climate negotiations. These principles emphasize the need for developed countries to take greater responsibility for climate solutions and consider the differing capacities of developing nations. BRICS and Saudi Arabia both recognize the importance of maintaining diverse energy mixes that include hydrocarbons. Their perspective acknowledges the ongoing role of hydrocarbons in economies as progress toward sustainable development continues.



www.kapsarc.org