

**UNFCCC Expert Meeting on Economic Diversification
Bonn, Germany
16 -17 May 2006**

Economic Diversification
Country Perspective

Saudi Arabia

Overview

- Relevant UNFCCC Articles & Decisions
- How will Climate Change Policies Impact Oil?
- Saudi Economic Vulnerability
- Why Economic Diversification
- Enabling Actions and Role of the convention
- Way Forward

Relevant Articles & Decisions

UNFCCC (Article 4.8)

“In the implementation of the commitments of this article, the Parties shall give full consideration to what actions are necessary under the convention, included actions related to funding, insurance and transfer of technology, to meet the specific needs and concerns of developing country parties arising from the adverse effects of climate change and/or the impact of the implementation of response measures”

Relevant COP Decisions

Decision 5/CP.7

- **19. *Decides*** that the implementation of the activities included in paragraphs 22 to 29 below shall be supported through the Global Environment Facility (in accordance with decision 6/CP.7), the special climate change fund (in accordance with decision 7/CP.7), and other bilateral and multilateral sources:
- **22. *Encourages*** Annex I and non-Annex I Parties to cooperate in creating favorable conditions for investment in sectors where such investment can contribute to economic diversification;

Decision 1/CP.10

How will Climate Change Policies Impact Oil ?

How Will Policies Impact Oil

- Possible economic impacts on Annex I could lead to lowered demand for oil
- Through Spillover effects
- Taxation on fossil fuels
- Terms of trade effects
- Lack of diversity leaves fossil fuel exporters vulnerable

GHG Mitigation Policies will Impact the Saudi Economy by Reducing its Primary Source of Revenue

Saudi Economic Vulnerability

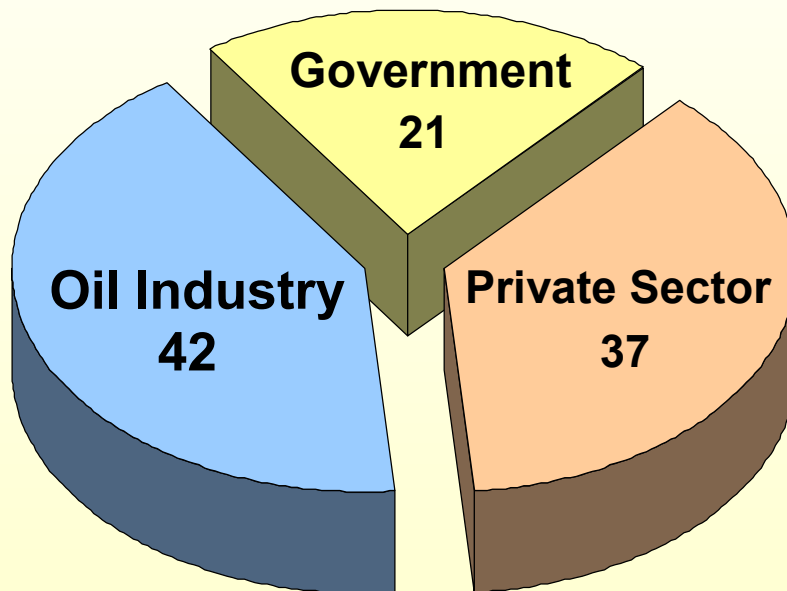
Saudi Economy is Vulnerable

- Highly Dependent on Oil Revenues
- Oil Demand Growth Slowing (policies)
- Rapidly Growing Population
- Significant Demographic Pressures
- Oil Price Volatility Impedes Investment

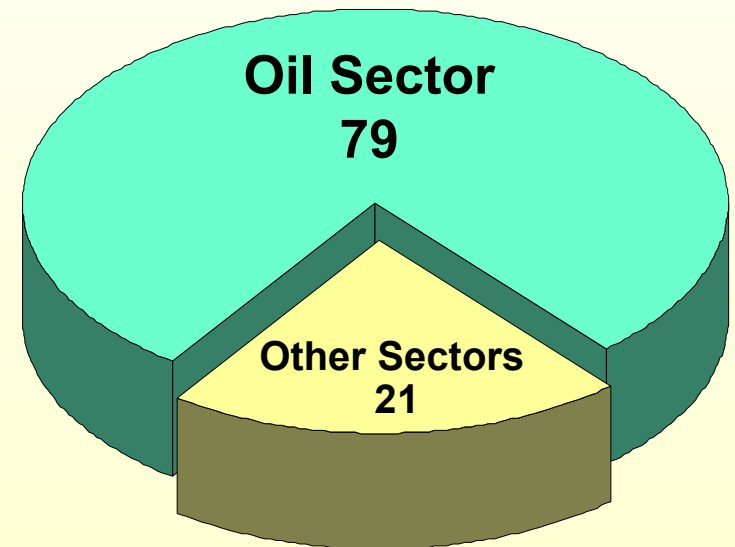
Slow Economic Growth Coupled with a Rapidly Growing Population will Challenge the Kingdom's Future Economic Growth

Oil Sector Contribution in 2003

**Contribution to Saudi
Gross Domestic Product**

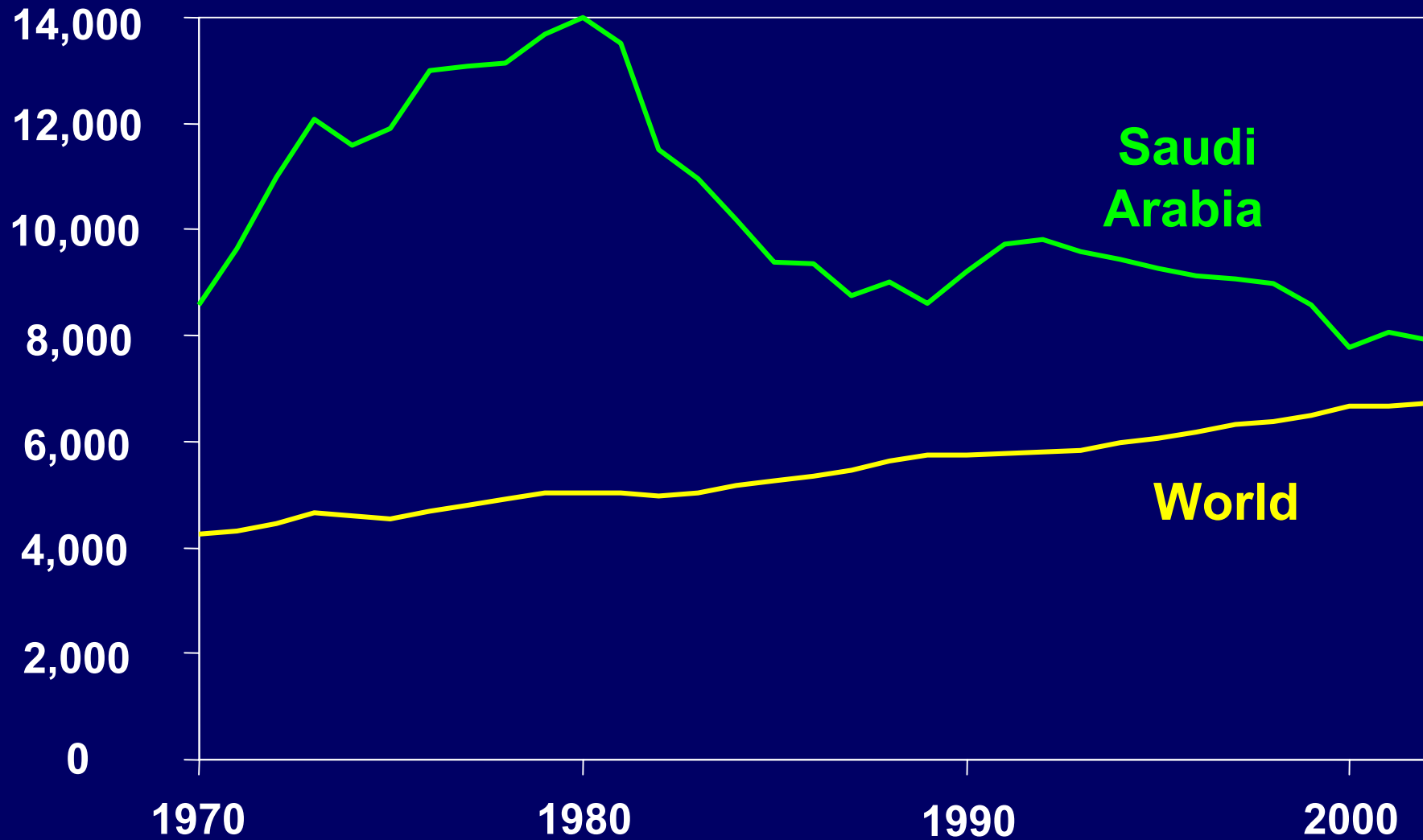


**Contribution to Saudi
Government Revenues**

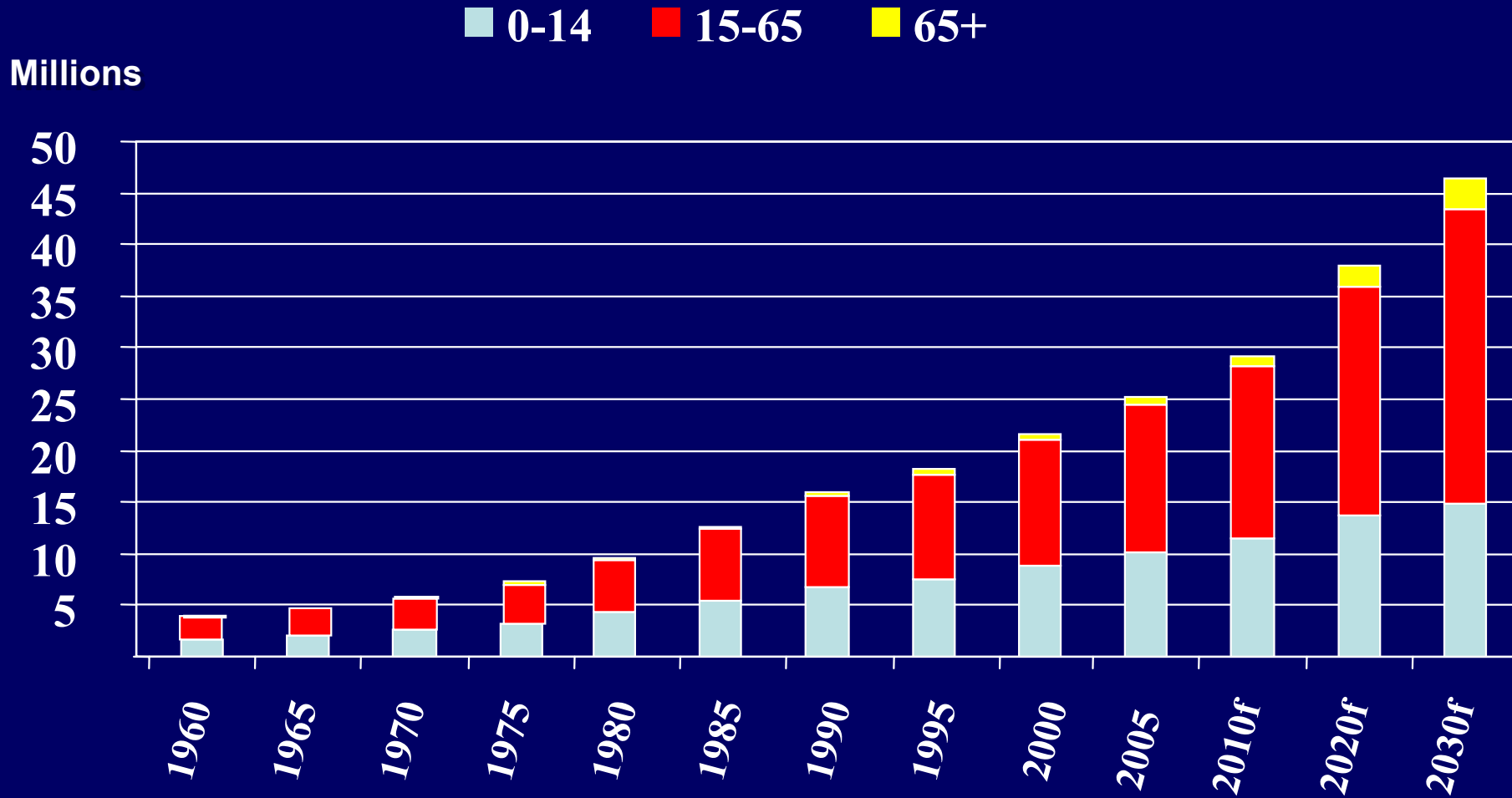


Saudi GDP/Capita

GDP/Capita



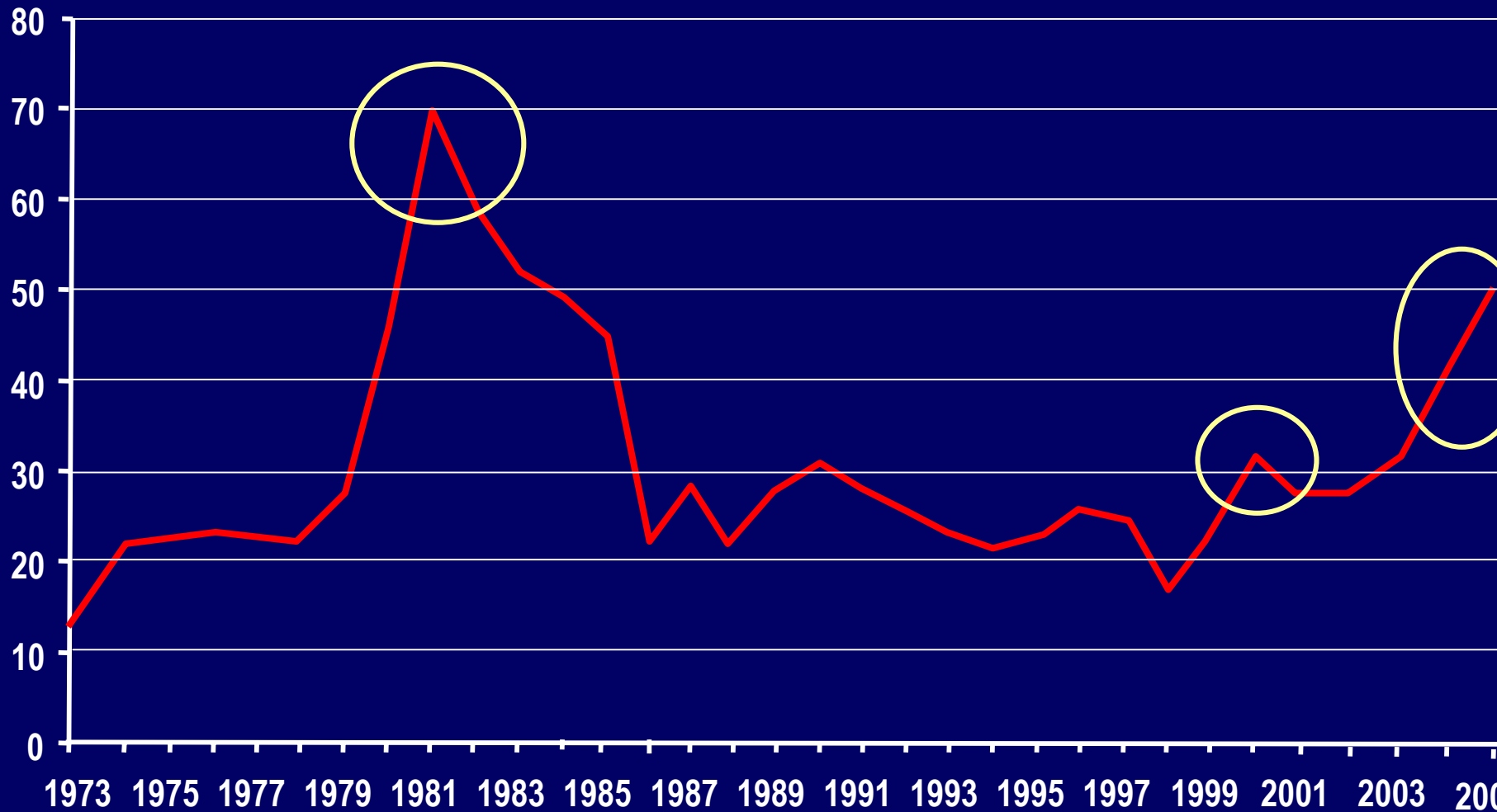
Saudi Population Growth



Historical Crude Oil Prices

\$/BBL

(WTI Prices in \$2004)



Source: PIRA 2004

Why Economic Diversification ?

Achieving Resilience

- Insurance & Financial Risk Management
 - Short Term

- Economic Diversification
 - Long Term

Why Economic Diversification?

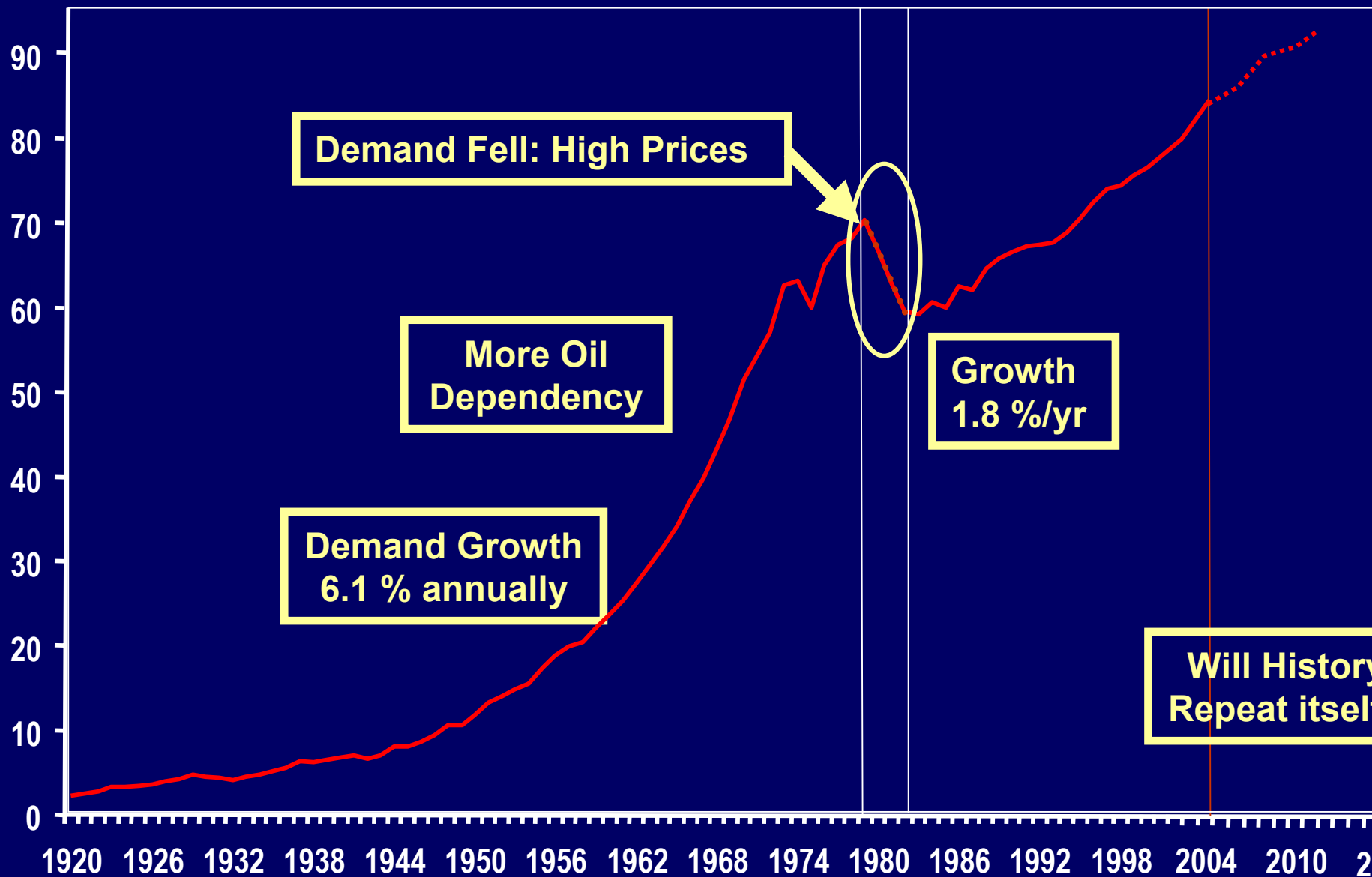
- Oil is 79% of Revenues & 42% of GDP
- Economy Sensitive to Price Volatility
- Revenues from Oil have grown more Slowly than Global GDP
- Fossil-Based Economy not Sufficient for Significant Job Creation

Why Economic Diversification?

- Business Environment Continuously Changing
(Temporary Higher Oil Prices)
 - **Impact Demand**
 - **High level of Uncertainty**
 - **High level of Volatility**
 - **Bad History Record**

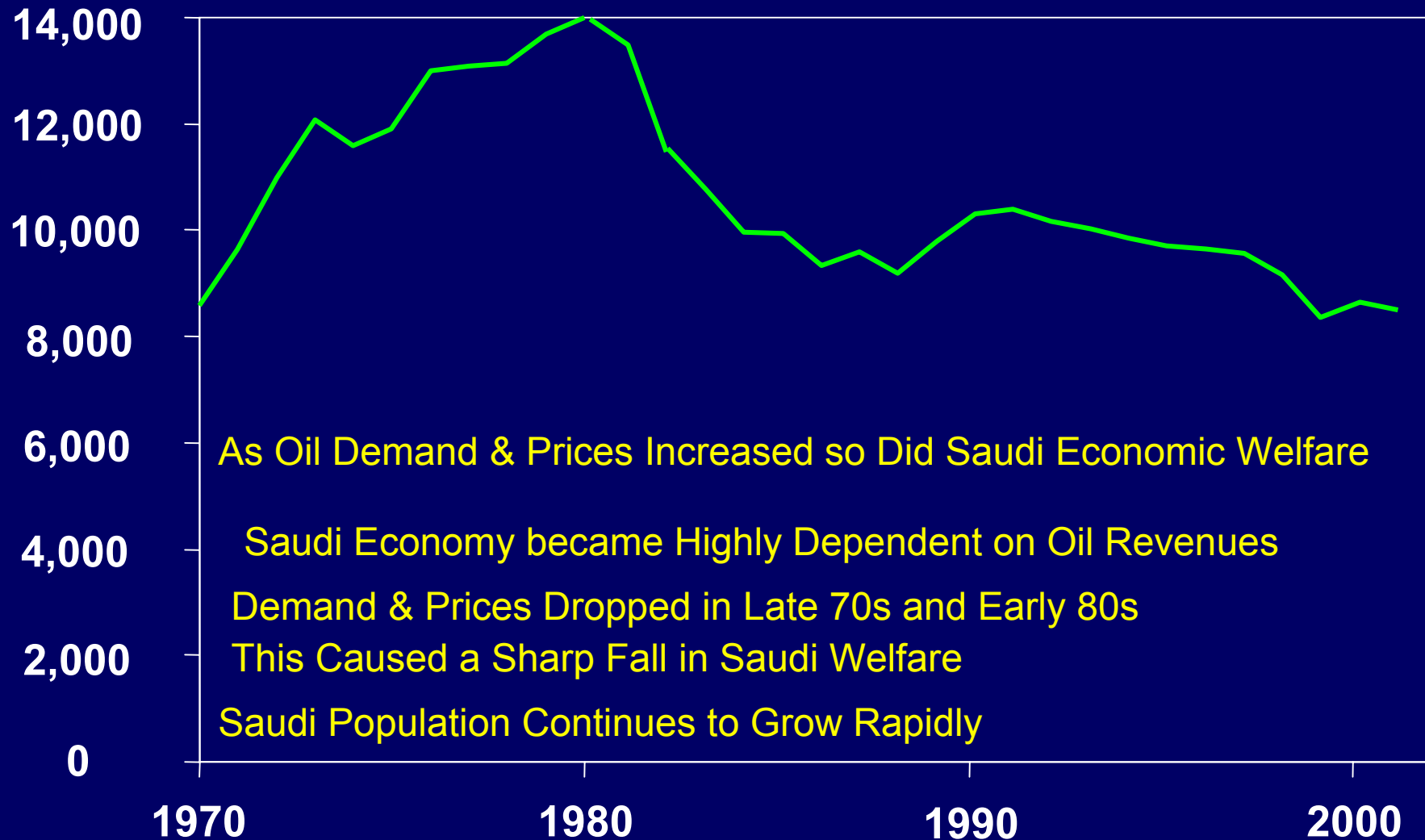
Future Oil Demand Growth?

MMBD



Will History Repeat Itself?

GDP/Capita



Enabling Actions, and Role of the Convention

Enabling Actions

- Funding by Developed Countries
 - Investment in Projects to Diversify Economy
- Transfer of Technology
 - GHG Friendly Energy Production (CDM)
- Market Access
- Transfer of Technical Know-how
 - Build a Wealth of Knowledge
- Saudi Arabia has its Role to Diversify Economy
 - Integration into sustainable development planning and strategies

What action is needed by the convention?

Outcomes of Tehran Workshop :

- Support Integration of economic diversification into sustainable development
- Establishment of an economic diversification forum
- Providing support to develop structural and institutional capacity
- Establishing special funds for economic diversification
- Encourage public private partnerships

What action is needed by the convention?

In 1/CP10, we emphasized :

- What might be integrated in the sustainable development?
- What can be done through technical and financial assistance?
- What can be done through investments?

What action is needed by the convention?

What might be integrated into sustainable development?

- Support Integration of economic diversification into sustainable development
- Consider appropriate options in addressing response measures impact consistent with national priorities

What action is needed by the convention?

- What can be done through technical and financial assistance?
 - Providing support to develop structural and institutional capacity
 - Cooperation in development, diffusion and transfer of technology
 - financial and technical support for improving environmental and energy efficiency in upstream and downstream activities relating to fossil fuels.

What action is needed by the convention?

- What can be done through technical and financial assistance?

This can be done through:

- Assistance in leveraging needed financial assistance through existing financial institutions (GEF, SCCF, World Bank)
- Foreign Direct Investment by the Public and Private Sector
- Preferential Market Access/Differential treatment

What action is needed by the convention?

What can be done through investments?

- Annex II Parties to support development of non-energy uses of fossil fuels
- Annex II Parties to promote investment in developing countries for development of less GHG emitting energy sources.

The Way Forward

The Way Forward

Step I

COP Decision on the implementation of actions that are already specified and agreed

Step II

Establish an **Economic Diversification Forum** to continue discussion on challenges and opportunities, and provide recommendations on further actions to be taken by the COP (outcome from Tehran Workshop)

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Thank You

Saudi Arabia