

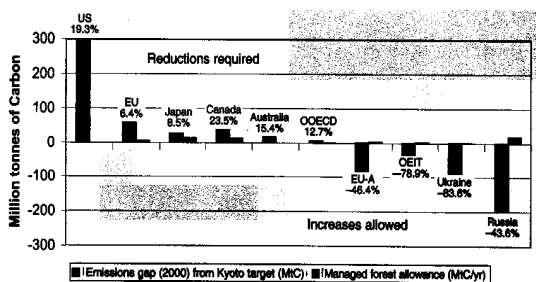
Impact of response measures and economic diversification

- Possible impact of response measures
- Implication for economic diversification
- priorities for action

Possible impact of response measures

- On energy exporters:
 - Reduction in fossil fuel use, esp. coal
 - Increased use of gas, but constrained by transport cost
 - Impact on absolute output level and producer prices of oil limited (Radetzki, 2002)
- On heavy fossil fuel users:
 - CDM as a potentially significant mechanism to reduce emission, but prospect uncertain
 - China and India would be major beneficiaries of CDM
 - Mitigation a pressing issue

Kyoto Target



Source: RIIA 2003

Global distribution of non-sink CDM

Country/region	Standard scenario		For comparison	
	CER sales, excluding sinks projects (million tonnes CO ₂ /year)	Share of global non-sinks CDM volume (%)	Share of non-Annex B emissions at 2010 (CO ₂ from combustion) (%) ^a	Share of non-Annex B GDP at 2010 (%) ^a
China	144	47	33	22
India	36	12	10	8
Indonesia	10	3.3	2.2	1.7
Other Asian countries	29	9	23	25
Middle East	34	11	13	8
Africa	34	11	8	7
Brazil	1.9	0.6	4	12
Other Latin American countries	18	6	7	15
Total	305	100	100	100

^a Source for 2010 emissions and GDP projections: Energy Information Administration (2002).

From: Jotzo and Michealowa

Implication for economic diversification in OECs

- Oil revenue may not be significantly affected during the current commitment period
- But the need for economic diversification remains in order to deal with:
 - Depletion of oil reserve
 - Dominance of emission-heavy and water-intensive industries, which are unsustainable
- Priorities for action:
 - Re-orientation of domestic economic policies to make non-oil economic activities viable and competitive
 - Formation of human capital
 - Removal of energy subsidies
 - Market access
 - Regional integration

Implication for economic diversification in China and India

- The situation:
 - Heavy coal users and large emitters
 - Relatively cheap to reduce emission
 - Existence of energy subsidies
 - Some political will to deal with emission
- Priorities for action
 - Transfer of clean technology via FDI
 - Institutional capacity to manage clean development, esp. CDM projects
 - Removal of energy subsidies
 - Mitigation to drive industrial restructuring