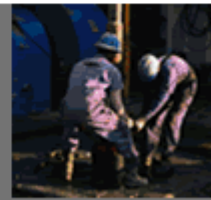




OPEC



Stability in the oil market

Financial risk management

a developing-country perspective
Ramiro Ramírez

Basic questions that need answering

- What are we talking about? Instruments aimed at reducing uncertainty for developing countries by sharing risks
- Is there a need to hedge? Oil has long lead times and capital requirements are enormous
- What is the appropriate size of the hedge?
- Do appropriate financial hedging instruments exist to meet the needs of fossil-fuel exporting developing countries?

Basic questions that need answering

What elements need to be considered in choosing a hedging instrument?

- **a) nature of the exposure**
- **b) size of the perceived risk**
- **c) cost involved**

Why are we concerned about the implementation of response measures?

- Large uncertainty on approaches
- GHG abatement is a policy objective for industrialised countries, but it is just one among other powerful policy objectives
- Implementation of response measures may not be on a level playing field
- Increase resilience of developing countries to changes in the patterns of production and consumption
- provide incentives for developing countries to take on **some of these risks associated with this change** and find “win-win-win” opportunities.

Technology dependence

- Technology solutions developed in industrialised countries may not be appropriate for developing ones. Entirely market-driven R&D programmes may not address the needs of many developing countries
- The emergence of these new “clean technology” markets in the developing world must not -in the end- constitute a subsidy for industrial sectors in the developed world
- Resilience to “implementation of response measures” could also be viewed through North-South-South cooperation in the development of appropriate technology

Challenges

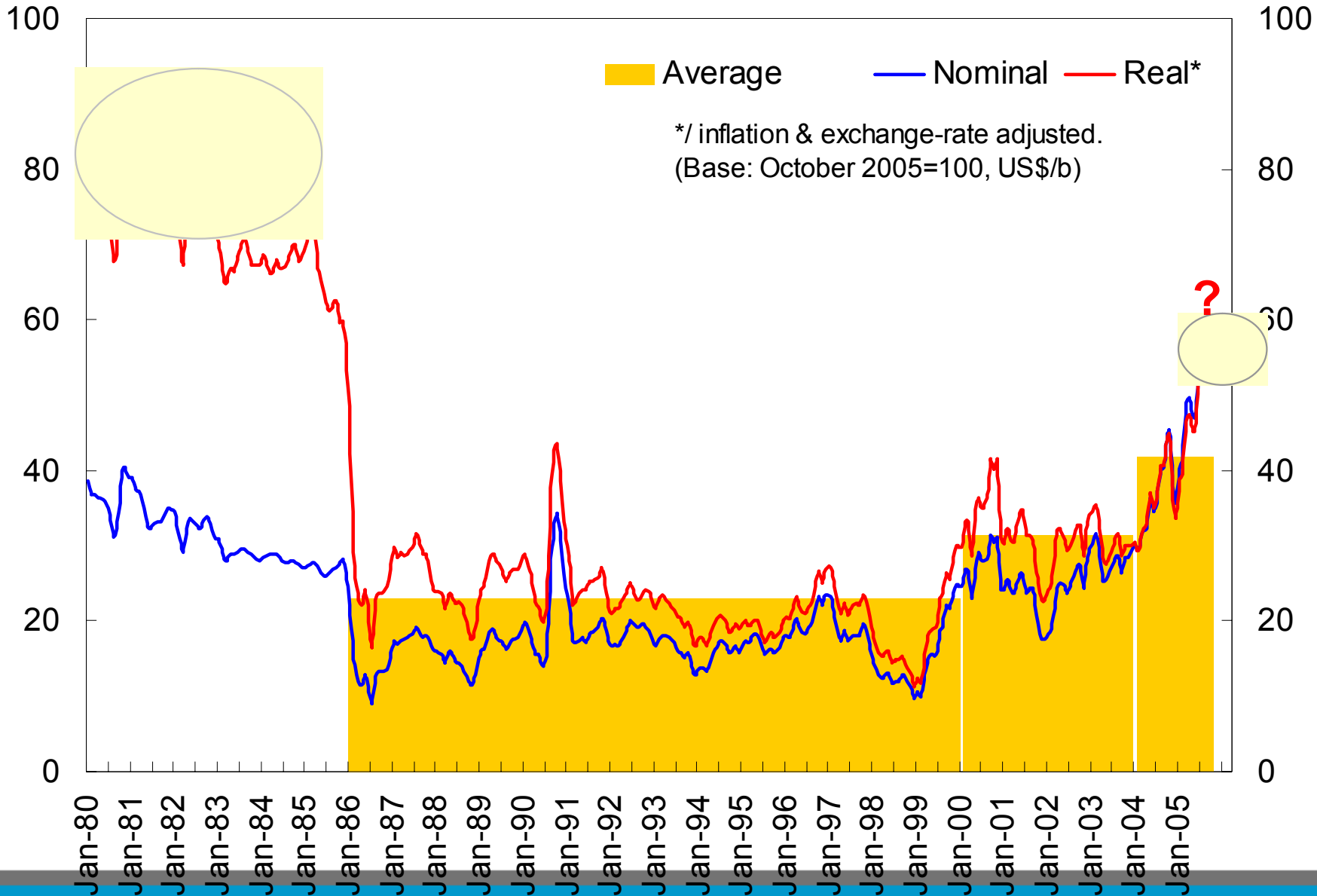
1. Fossil fuel producers are aware of the challenge they are facing in the transition to a carbon constrained world
2. Not easy... not even for developed countries!
3. three huge challenges and potentially huge impacts:
 - a. **economic and social development**
 - b. **a switch to a new patterns of production and consumption (still largely unknown to all countries)**
 - c. **Continue to collaborate in meeting the energy needs of the world**

What we do know

- The global commons has provided environmental services at “no cost...” till now...
- Ignoring this fact implies a subsidy from the developing to the industrialised world
- The issue of equity is valid and relevant
- Recognised in the text of the UNFCCC and reiterated in the Kyoto Protocol

Thank You

The price of oil: distinguishing between nominal and real, (US\$/b)



Who gets what from a litre of oil in the G7? 2004

