When diversification delivers mitigation outcomes?

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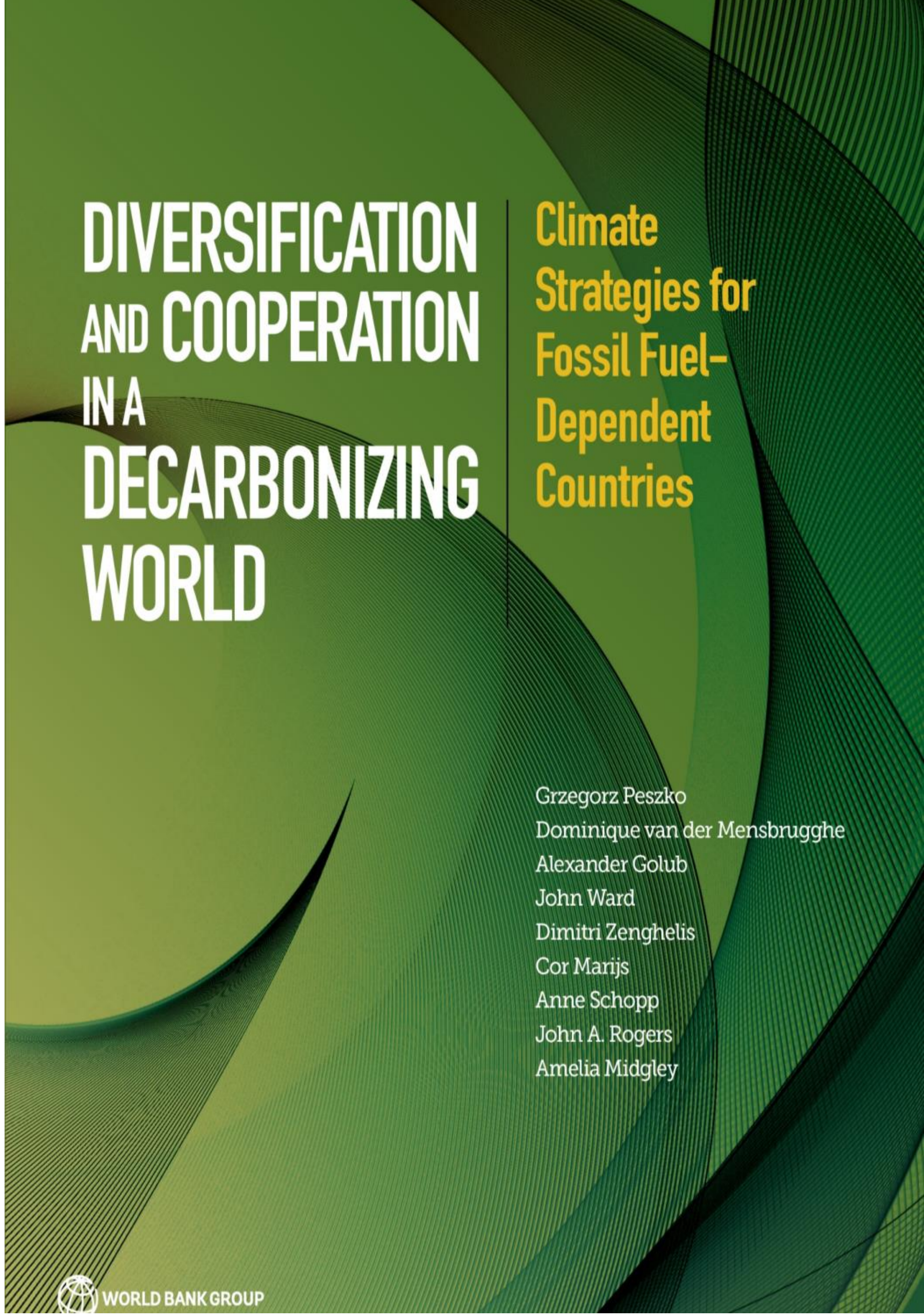
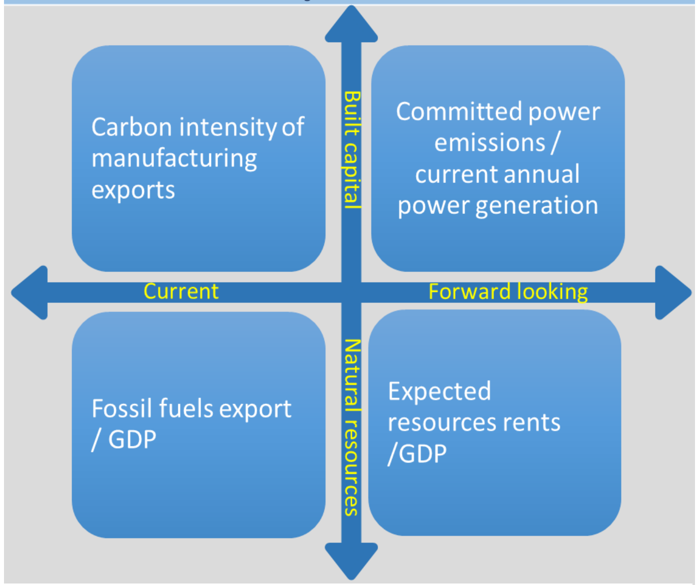
SBSTA and SBI technical expert meeting on practical approaches to economic diversification and transformation // 18 October 2021



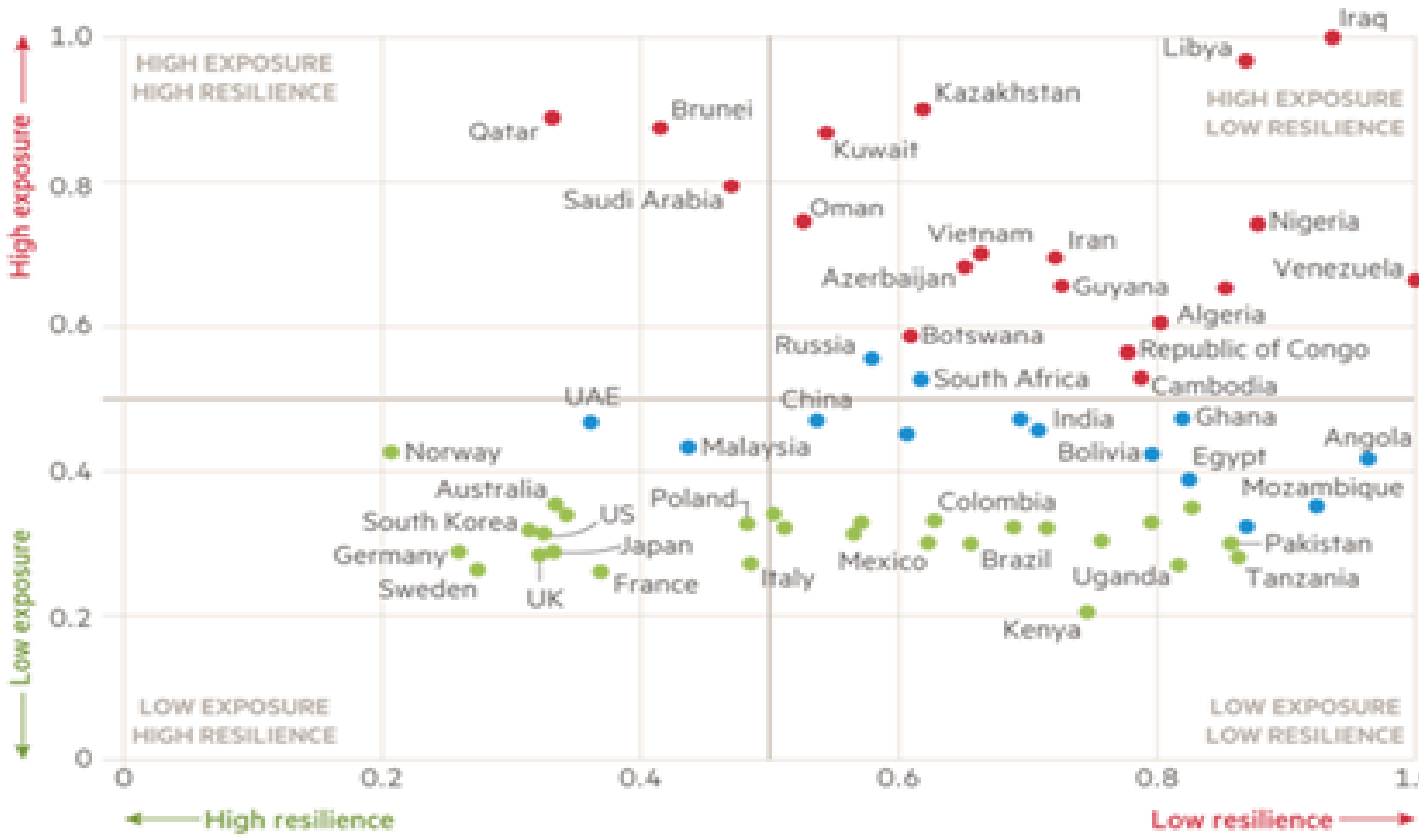
Fossil fuel-dependent countries are least prepared to LCT and least diversified

Exposure



Resilience

1. Position on global oil supply curve
2. Macroeconomic stability
3. Adjusted Net Savings
4. Financial market development;
5. GDP per capita;
6. Economic complexity;
7. Technology adoption;
8. Ease of doing business;
9. Quality of infrastructure;
10. Human capital;
11. Institutional quality and governance.



Source: World Bank
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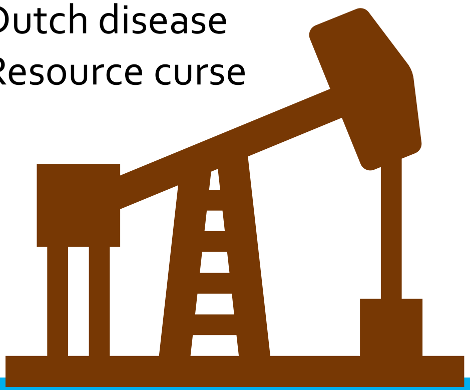
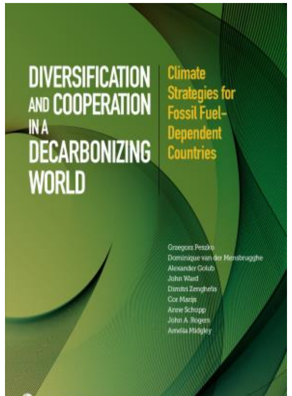
Selected countries

Low-carbon transition requires leapfrogging beyond product diversification, towards diversification of assets

- High export concentration
- Dutch disease
- Resource curse



Reliance on oil and gas exports

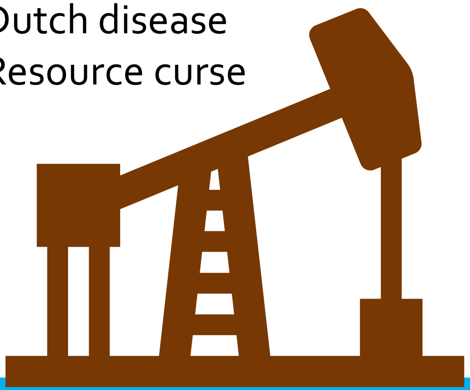


Low-carbon transition requires leapfrogging beyond product diversification, towards diversification of assets

- Climate action by ff importers
- Lower demand, prices, export revenues
- Reverse Dutch disease boosts manuf.
- Lower domestic cost of burning fuels
- Industrial and emission leakage

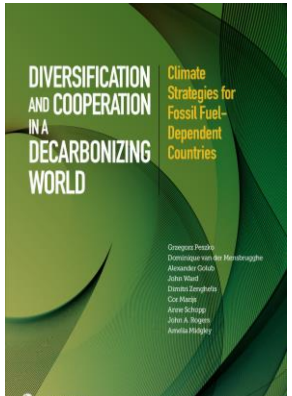
Traditional product diversification through heavy industrialization

- High export concentration
- Dutch disease
- Resource curse

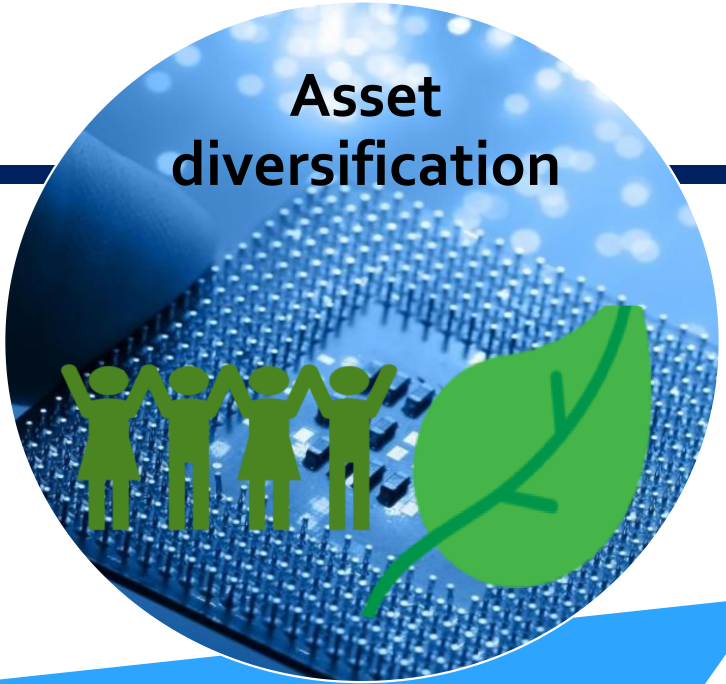


Reliance on oil and gas exports

Diversification beyond oil and gas



Low-carbon transition requires leapfrogging beyond product diversification, towards diversification of assets



- CBAM by fuel importers
- Lower exports by heavy manufacturing
- Lower incentives for freeriding
- Domestic climate and innovation policy

- Climate action by ff importers
- Lower demand, prices, export revenues
- Reverse Dutch disease boosts manuf.
- Lower domestic cost of burning fuels
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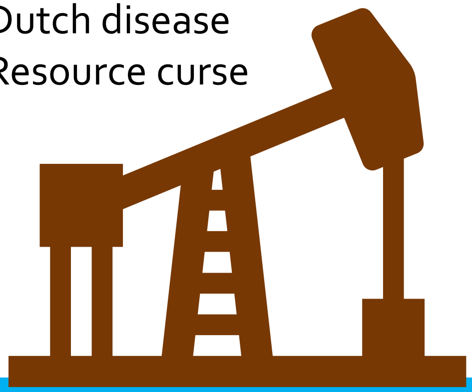
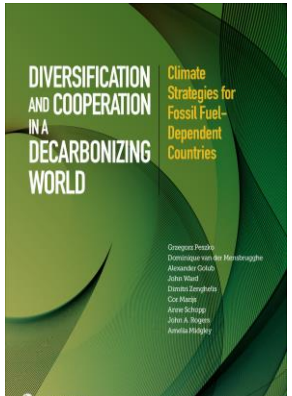
Diversification beyond fossil fuel value chains and brown capabilities

- High export concentration
- Dutch disease
- Resource curse



Diversification beyond oil and gas

Reliance on oil and gas exports



Preferential trade agreements and other incentives and enablers of mitigation co-benefits of diversification of fossil fuel exporters

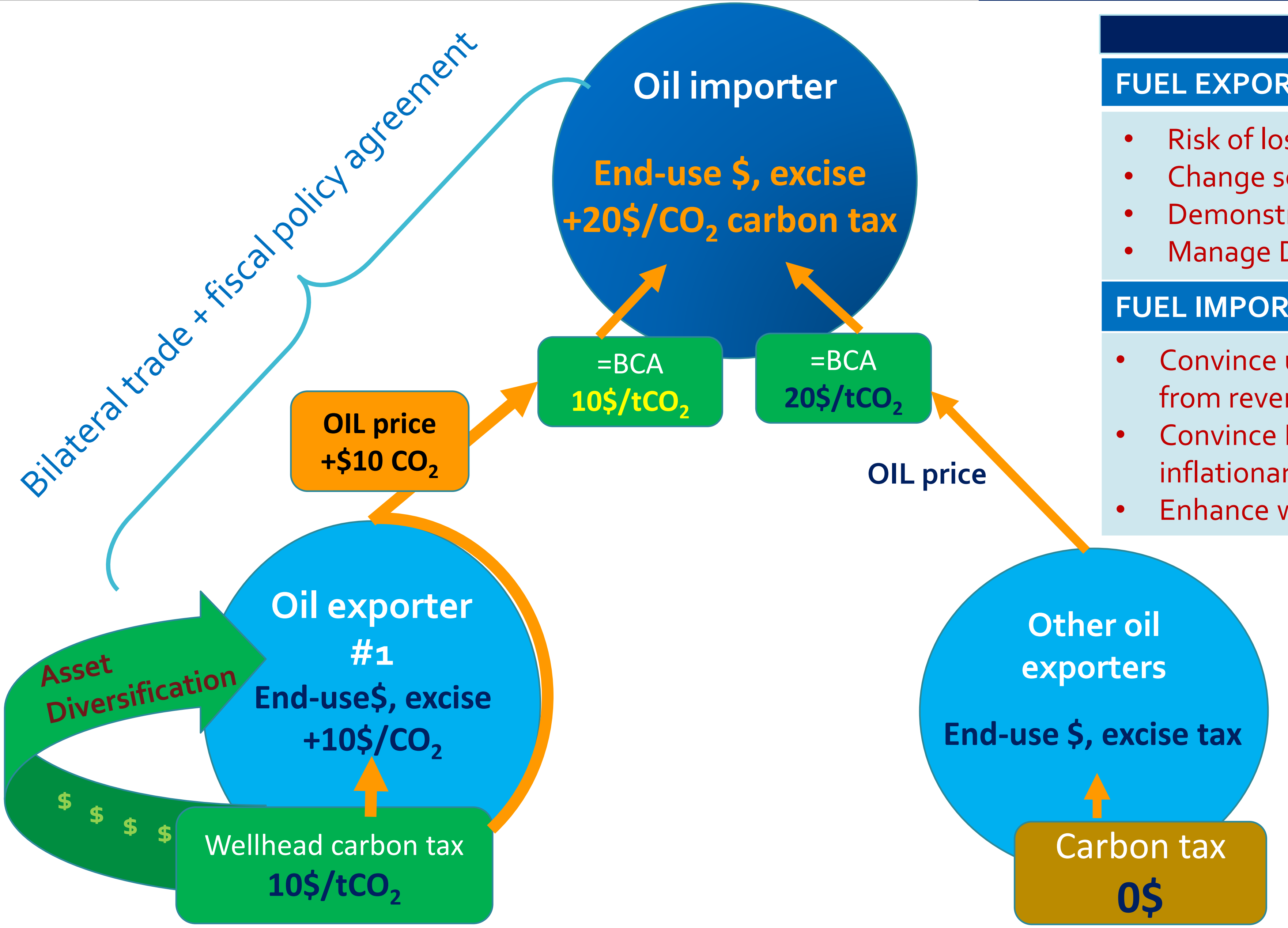
Credible expectation of ambitious climate policies by fuel importers with CBAM

International technology/trade cooperation (CCUS, CCS, RES, Hydrogen, bioeconomy)

Trade agreements between exporters and importers of fuels with policy conditionalities – e.g. tax treaties with shared collection of revenues

...plus financial transfers to low-income, FCV fuel producers to help accumulate produced and human capital in green economic activities

Example: preferential trade agreement with wellhead carbon tax



CHALLENGES

FUEL EXPORTERS

- Risk of loss of market share;
- Change social contract based on low fuel prices
- Demonstrate fuel price and fiscal transparency
- Manage Dutch disease and resource curse risk

FUEL IMPORTERS

- Convince users to pay high fuel prices and not benefit from revenues
- Convince MoF to forego tax revenues and face inflationary pressure
- Enhance willingness to pay to stabilize climate

Diversification and Cooperation in a Decarbonizing World: Climate Strategies for Fossil Fuel-Dependent Countries
https://openknowledge.worldbank.org/handle/10986/34011

Diversification and Cooperation in a Decarbonizing World: Macroeconomic Simulations Report:
https://openknowledge.worldbank.org/handle/10986/34056

Cooperative Carbon Taxes Under the Paris Agreement that Even Fuel Exporters Could Like
http://documents1.worldbank.org/curated/en/121521574783671207/pdf/The-First-International-Research-Conference-on-Carbon-Pricing.pdf

Gulf Economic Update, December 2019: Economic Diversification for a Sustainable and Resilient GCC
https://www.worldbank.org/en/country/gcc/publication/gulf-economic-monitor-december-2019

Low-Carbon Transition, Stranded Fossil Fuel Assets, Border Carbon Adjustments, and International Cooperation: Forthcoming in the Changing Wealth of Nations 2021