When diversification delivers mitigation outcomes?

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

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 © FT
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.

- Traditional product diversification through heavy industrialization
  - High export concentration
  - Dutch disease
  - Resource curse

- Diversification beyond oil and gas
  - 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

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

- Diversification beyond fossil fuel value chains and brown capabilities
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- Diversification beyond oil and gas
  - Reliance on oil and gas exports
  - Low-carbon transition requires leapfrogging beyond product diversification, towards diversification of assets
Preferential trade agreements and other incentives and enablers of mitigation co-benefits of diversification of fossil fuel exporters

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

Credible expectation of ambitious climate policies by fuel importers with CBAM
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 forgo tax revenues and face inflationary pressure;
- Enhance willingness to pay to stabilize climate.

**Diagram: Business Case Analysis**

- **Oil exporter #1**
  - End-use $, excise +10$/tCO<sub>2</sub> carbon tax
  - Wellhead carbon tax 10$/tCO<sub>2</sub>

- **Oil importer**
  - End-use $, excise +20$/tCO<sub>2</sub> carbon tax
  - =BCA 10$/tCO<sub>2</sub>
  - =BCA 20$/tCO<sub>2</sub>

- **Other oil exporters**
  - End-use $, excise tax
  - Carbon tax 0$

**Bilateral trade + fiscal policy agreement**

- OIL price +$10 CO<sub>2</sub>
- OIL price

**Asset Diversification**

- $ $ $ $
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

Gulf Economic Update, December 2019: Economic Diversification for a Sustainable and Resilient GCC