

Executive summary

Fossil fuel-producer developing economies have contributed least to cumulative greenhouse gas (GHG) emissions and yet are exposed to some of the worst impacts of climate change. They are also among the least equipped to navigate the risks and take advantage of the opportunities arising from the low-carbon transition. Many are in the midst of severe economic downturns caused by the enduring effects of the COVID-19 pandemic and Russia's invasion of Ukraine. These crises have created strong inflationary pressures, increased public debt to unsustainable levels and made it harder and more expensive to access international finance. Faced with rapid demographic growth, urbanisation and burgeoning demand for energy, they rely heavily on cheap access to fossil fuels for power generation and industry, with inadequate power networks, and significant gaps in technology, capacity and financing that could lock them into costly high-carbon development pathways.

Despite these challenges, and while there has been a strong push towards net-zero commitments at a global level, little attention has been paid to “how” fossil fuel-producer developing economies can manage to reduce their fossil fuel dependence in a way which safeguards the rights and interests of their citizens and supports the achievement of sustainable development objectives. The *Equitable Framework and Finance for Extractive-based Countries in Transition (EFFECT)* provides a toolbox for these countries to answer this question. Developed in close partnership with developing economies, *EFFECT* provides a menu of policy options and practical guidance for policy makers in extractive-based countries to chart just, realistic and sustainable pathways to a low-carbon future, accounting for the need to address short-term pressures, particularly energy access, affordability and security, without losing sight of long-term structural transformation and decarbonisation objectives.

EFFECT is structured around three interrelated Pillars.

Pillar 1: Decarbonising extractives and managing uncertainties is framed by the uncertain outlook for fossil fuels in a global decarbonised economy, renewed energy security concerns and the risks associated with continuous reliance on fossil fuels. The transformation of the global energy mix to renewable energy is necessary to meet the goals of the Paris Agreement and to prevent irreversible damage to the world's environment and ecosystems. However, fossil fuel use will continue in the short-medium term, and remain an important part of the energy mix even after the world has transitioned toward a low-carbon and green economy. For example, the International Energy Agency (IEA)'s Net Zero Roadmap finds that by 2050, fossil fuels would still represent a 20% share of the global energy supply. Consequently, as a transitional step, fossil fuel-producer developing countries, including national oil companies (NOCs), should ensure that fossil fuel production is as low-carbon as possible. This can be achieved through a mix of regulations, policy incentives and the deployment of best available technologies and practices to reduce flaring, venting, and methane emissions across the upstream oil and gas and mining sectors. To manage the transition, these countries need to ensure that measures to decarbonise the extractives sector are implemented at the same time as structural reforms to reduce fossil fuel dependence, and to accelerate systemic change and economy-wide decarbonisation.

Pillar 2: Sustainable fossil fuel exit strategies and just transition plans provides concrete recommendations for policy makers to navigate the implications of long-term trends in declining fossil fuel

demand. It addresses its impact on market access opportunities for emerging and developing producing countries – and therefore on their public budget, labour market, and overall economic, fiscal and political stability. Global climate commitments are changing the market outlook for high carbon commodities: the carbon footprint of fossil fuel extraction, processing, transportation and refining will de facto affect prospects for future market access, given the likelihood of expanding carbon constraints in importer countries. This has global equity implications, considering the difficulties that oil and gas export-dependent low-to-middle income economies face in securing capital, developing regulation, and building technical expertise to enable emissions reduction in the sector, compared with higher-income exporters.

A managed transition away from fossil fuels informed by inclusive, sustainable, and resilient low-carbon development strategies with international support will be essential. Ideally, supply-side and demand-side policies would go hand in hand, and efforts should be made to transparently co-ordinate these policies in line with the Paris Agreement. In the absence of such an approach, mismatches in fossil fuel supply and demand, exacerbated by geopolitical tensions, could create disruptions in both physical and financial markets across developed and developing countries during the transition: if production drops faster than demand, prices might go up, whereas if demand declines faster than production, revenue falls and stranded assets are likely, with increased exposure for asset owners. The prospect of this volatility requires economic policies and measures for robustness, to anticipate and cope with such turbulence. With likely increased energy market volatility, Pillar 2 considers the opportunities and challenges of managing revenues, reducing fossil fuel import or export dependence, creating new jobs, and increasing the share of cleaner, domestically sourced energy alternatives.

Pillar 2 considers how, through integrated policy making, governments can achieve ambitious action on climate change while maximising opportunities for quality jobs through skills transfer and reskilling policies, poverty reduction and minimising the risks of social disruption. This will require just transition plans and the mobilisation of new sources of finance, including crowding in private capital. It will also mean governments and industry working together to address the risks of stranded assets, both through legal contracts with a fair allocation of responsibility over time and through innovative approaches to re-using and re-purposing fossil fuel assets and infrastructure.

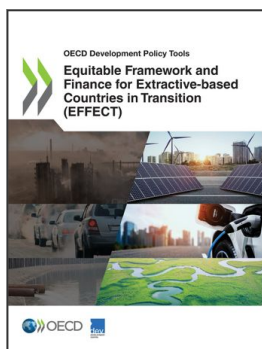
Pillar 3: Systemic change and economy-wide decarbonisation focuses on broader transition planning, including integration of nationally determined contributions (NDCs), decarbonisation and sustainable development planning. Pillar 3 provides guidance on “how” fossil fuel based developing economies can seize the transformational opportunities associated with economic diversification, the development of low-carbon value chains, green industrialisation and, where relevant, the responsible and sustainable supply of critical minerals for low-carbon technology manufacturing. It explores revenue substitution and recycling, as well as fiscal restructuring options, noting that the process of diversifying the economy will be a multi-decade endeavour for established producers, with no single industry or sector being capable of replacing revenue from fossil fuels.

Pillar 3 further seeks to chart the least-cost pathway to decarbonisation, by prioritising measures that yield the highest short-term benefits, lead to no regrets, and deliver net positive sustainable development outcomes. Recommendations aim to help governments address energy poverty, and improve energy security (in terms of reliability, affordability and sustainability). Pillar 3 further offers approaches to correct misaligned incentives and price negative externalities of carbon-intensive technologies and modes of production, to encourage industry and consumers to make low-carbon choices while preserving affordability and competitiveness.

Differentiation of recommendations

Recommendations fall into distinct categories: those that fossil fuel-producer developing countries should prioritise, and those that are more complex and challenging, where countries with lower institutional

capacity may require technical assistance. Recommendations directly targeting new and emerging producers have also been separated, given the specific trade-offs and choices facing this subset of countries. Lastly, though raising capacity across the board is a fundamental requirement of an equitable transition, *EFFECT* highlights capacity gaps common to many developing countries, and gaps that inhibit progress and the implementation of low-carbon strategies in particular policy areas.



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