



Why do we need a new approach to extractives-led development?

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1. **How the context for oil and gas in development has changed?**
2. **Implications for development**
3. **Areas for new approaches to policy and international partnerships**

How has the context for oil and gas in development changed?

Mechanisms of wealth creation

'Resource curse'/carbon risks

Fossil fuel investment and revenues

- Ability to pay international debts and 'graduate' from aid.
- Support for budgetary expenditure including public services and core infrastructure.
- Foreign exchange (FX) flows facilitate payment for foreign goods.
- Establishment of savings for future generations e.g. through SWFs.

- Economic dependence on volatile and shrinking global commodities markets, uncertainty regarding time frame for declining demand.
- Political and public expectations re. rents from the fossil fuel sector and risk of locking in high 'social cost' of transition (real or perceived).
- Management of fiscal impacts incl. 'boom-bust' economy, Dutch disease, imbalance of trade compounded by longer-term uncertainty re. fossil fuel demand and exposure to international carbon risks through foreign investments.

Economic, energy and industrial linkages

- Access to energy e.g. development of gas-to-power infrastructure, fuel switching (e.g. gas displacing charcoal, HFO/LFO), reduced reliance on imports.
- Industrial development based on fossil fuel inputs e.g. petrochemicals, gas-/coal-based fertilisers, steel, cement.
- Local content (employment, services, procurement) for the fossil fuel sector.

- Diversification into high-carbon sectors locks-in carbon-intensive infrastructure/locks-out of emerging technologies.
- Energy and industrial pathways promote rising fossil fuel demand, leading to further domestic production and/or import dependency (and in turn, pressure on FX).
- Uncertain time frame for 'depletion-based' economic diversification.
- Political economy and incumbent energy and industrial interests obstruct low-carbon transition.

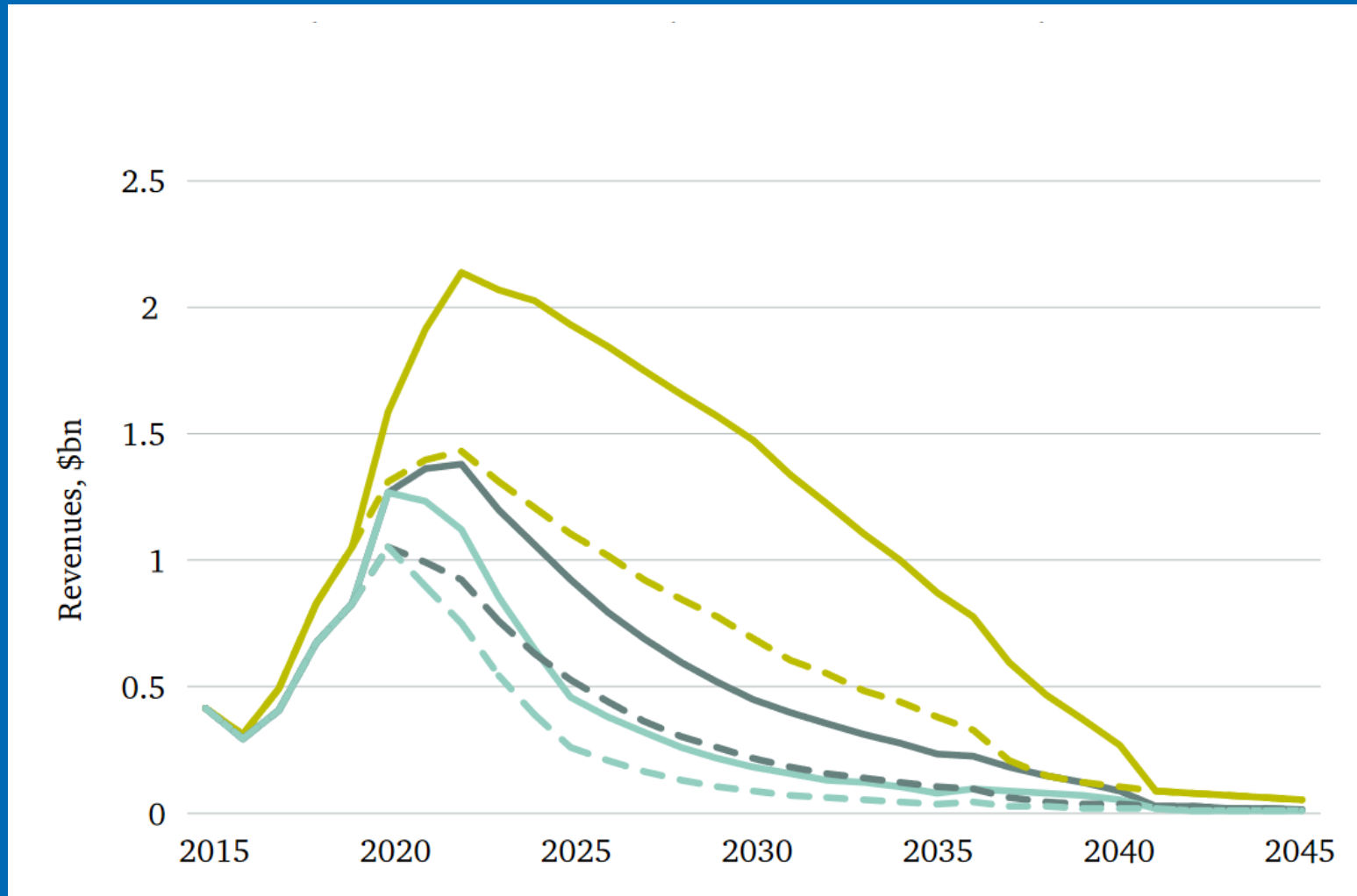
Access/positioning for finance

- Growing FDI, GDP and cash flow reflected in sovereign credit rating.
- Lower cost of borrowing on international markets.
- Access to 'oil-backed' loans from consumer countries and traders.

- Sovereign credit rating downgrades due to carbon risk exposure increase cost of borrowing.
- Access to climate finance and green finance mechanisms affected due to perception of 'subsidizing twice'.
- Vulnerability to sub-optimal financial structures e.g. securitizing finance against oil incomes.

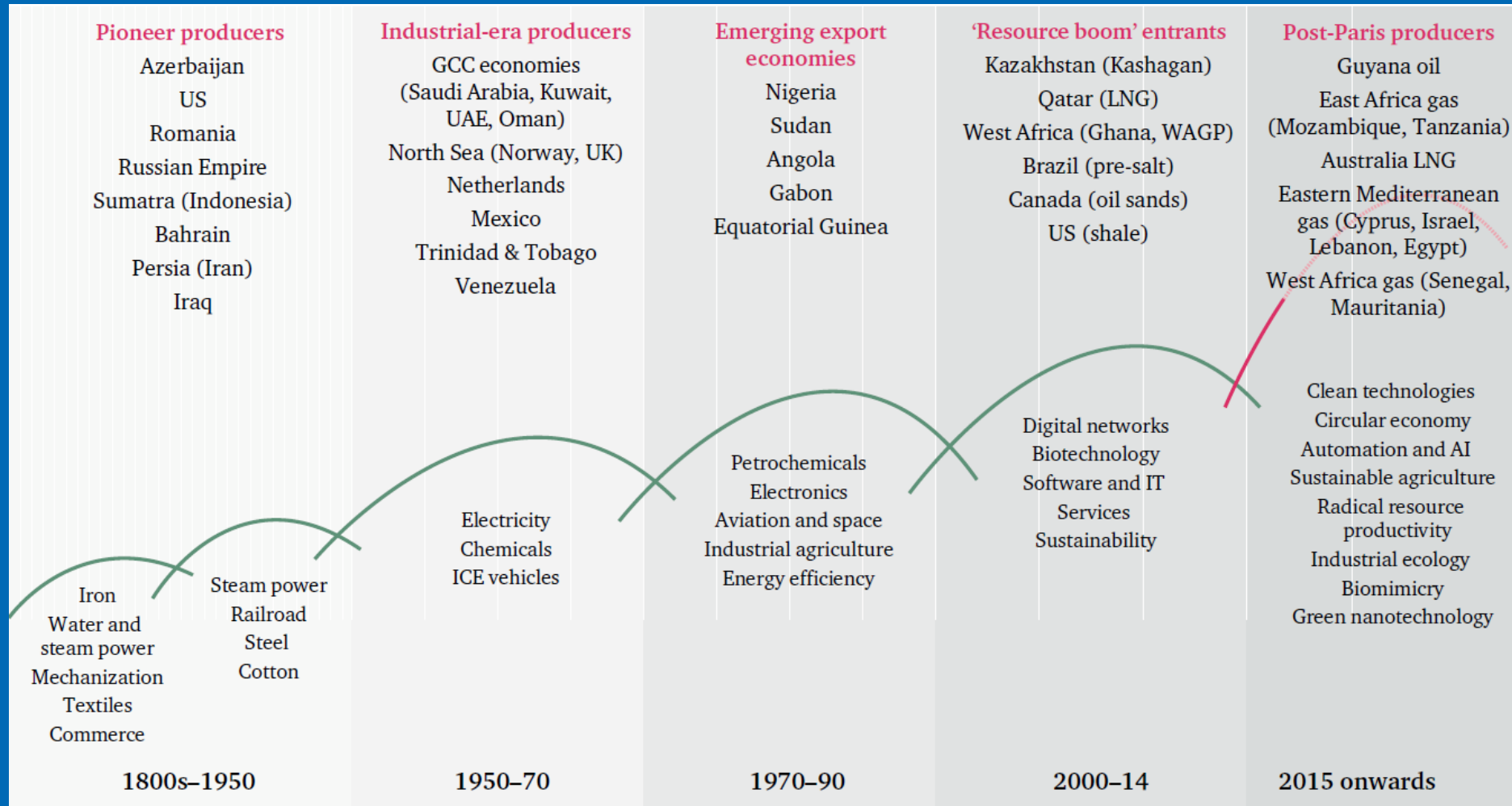
What are the implications for producers?

- Economic governance
- Energy and industrial prospects
- Upstream decision-making



And new options for diversification and industrialization

Producers through two centuries of industrial innovation and structural transformation



New considerations and policy approaches

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- **Developing ‘carbon competencies’ in key areas of economic governance**
 - Assessing the implications of the energy transition for domestic fiscal stability and the time frame for diversification (exploring scenarios)
 - Reassessing plans for extraction/expansion in light of carbon risks and changing asset values
 - Reviewing revenue management frameworks in light of their vulnerability to carbon risks and their potential to support domestic transition and NDC implementation (how much to reinvest in the sector over time?)
 - Investing sovereign wealth funds (SWFs) in a way that helps hedge the overall national balance sheet from shocks
 - **Designing energy and industrial policy to incentivize transition**
 - Getting policy, regulation and pricing right
 - Adopting integrated approaches to upstream, energy and climate planning
 - Seizing the opportunities that urbanization and green industrialization trends present
 - **Preparing the upstream for transition**
 - Setting the right incentives for institutions that manage and operate in the upstream
 - Building capacity to procure clean technologies, monitor and manage emissions and apply carbon pricing to analysis
 - Reconsidering the mandate of an NOC in light of the likely time frame for transition
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Thank you

Resources

[Lahn, G & Bradley S. \(2016\), Left Stranded? Extractives-Led Growth in a Carbon Constrained World](https://www.chathamhouse.org/2016/06/left-stranded-extractives-led-growth-carbon-constrained-world) <https://www.chathamhouse.org/2016/06/left-stranded-extractives-led-growth-carbon-constrained-world>

[Bradley, S., Lahn, G., & Pye, S. \(2018\), Carbon Risks and Resilience: How Energy Transition is Changing the Prospects for Developing Countries with Fossil fuels,](https://www.chathamhouse.org/2018/07/carbon-risk-and-resilience) <https://www.chathamhouse.org/2018/07/carbon-risk-and-resilience>

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