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Diversification and cooperation in a decarbonizing
world: Role of carbon pricing in climate strategies
for fossil-fuel dependent countries

Webinar "Carbon Pricing in the EU and GCC" // 15 September 2020

**DIVERSIFICATION
AND COOPERATION
IN A
DECARBONIZING
WORLD**

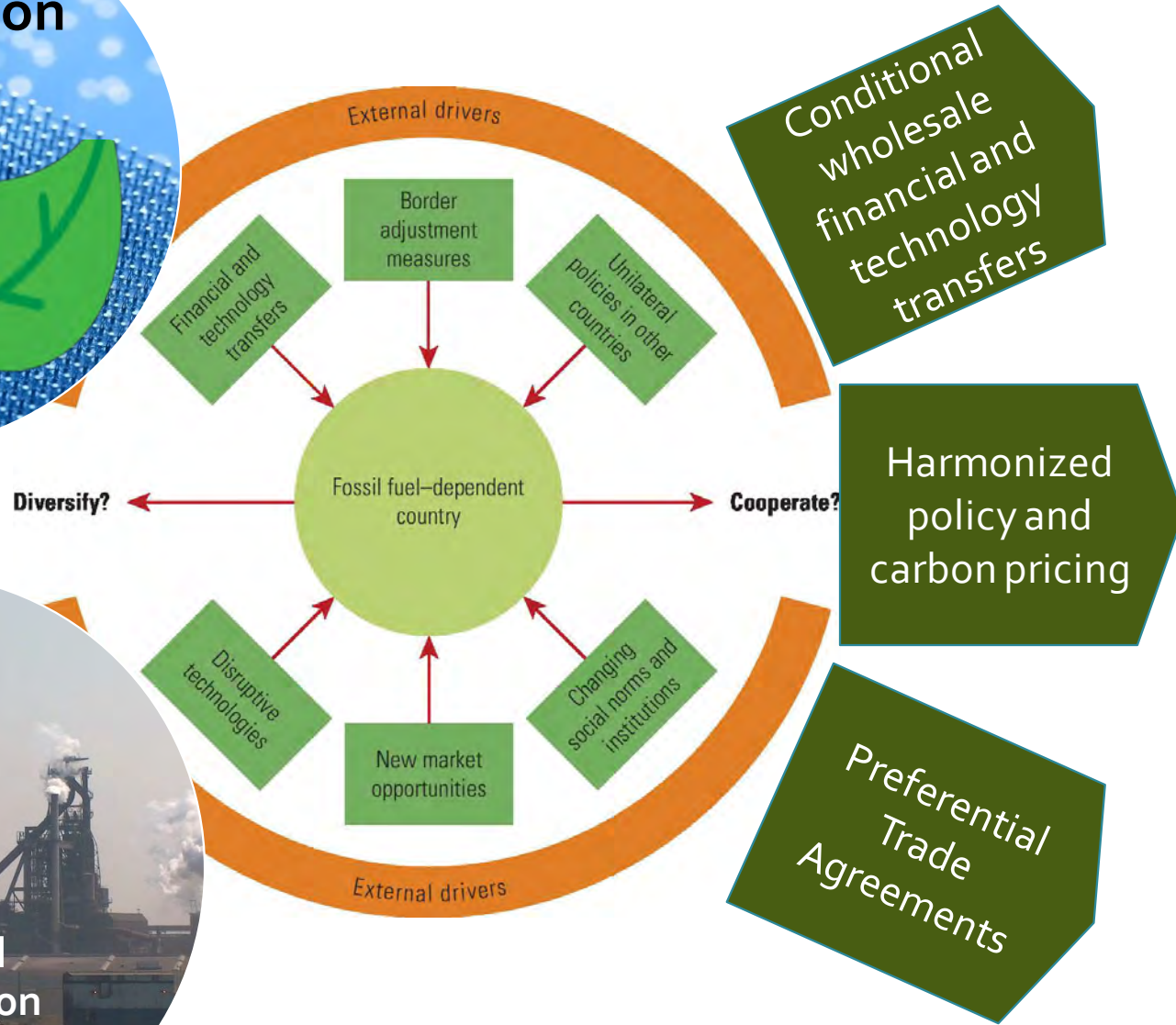
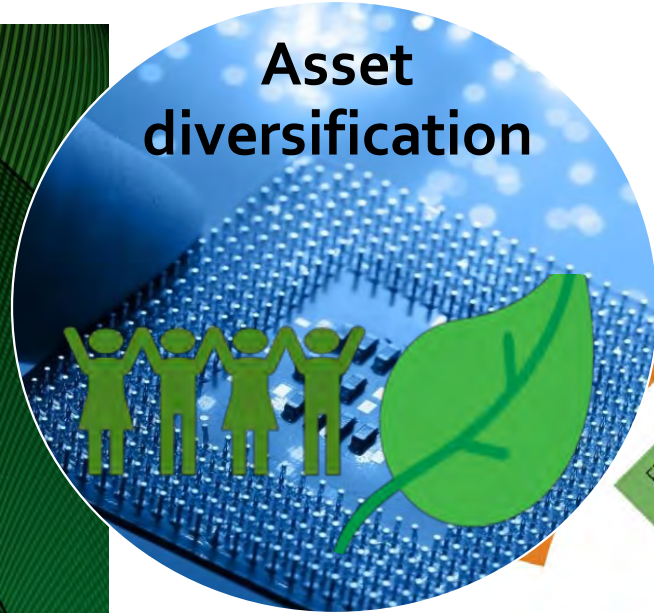
**Climate
Strategies for
Fossil Fuel-
Dependent
Countries**

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Dominique van der Mensbrugge
Alexander Golub
John Ward
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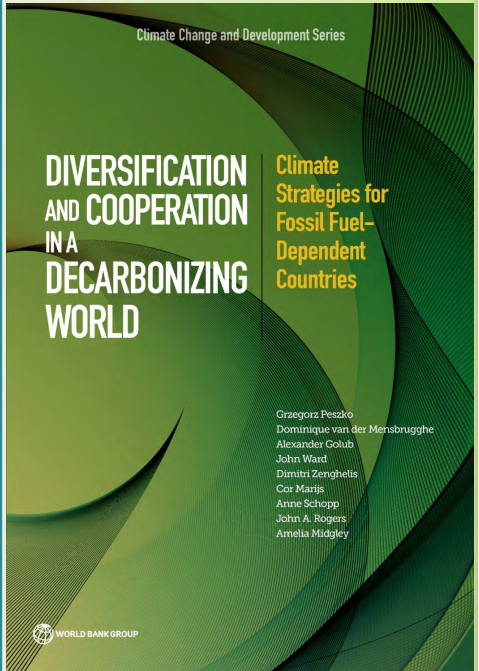
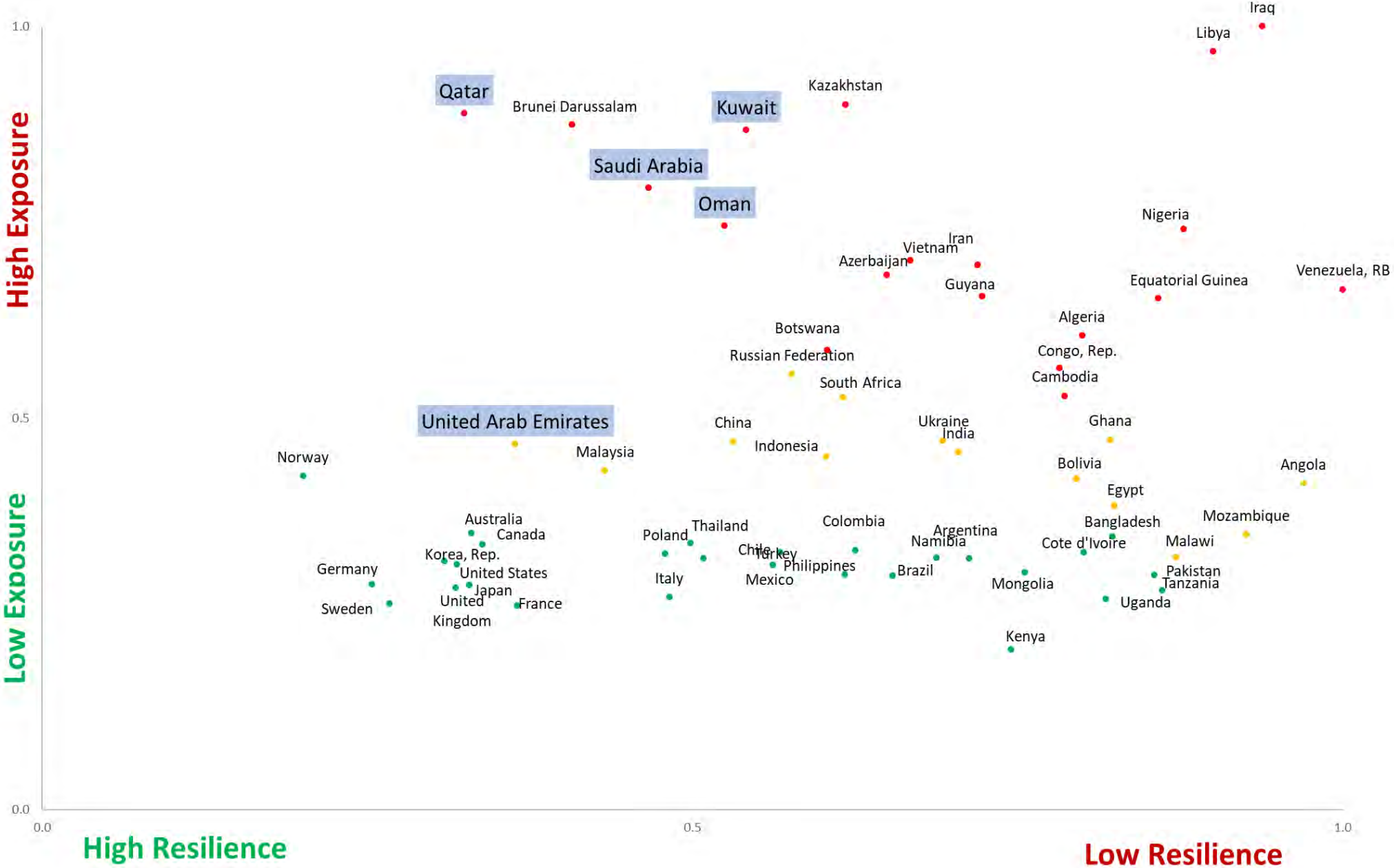
DIVERSIFICATION AND COOPERATION IN A DECARBONIZING WORLD

Climate Strategies for Fossil Fuel-Dependent Countries

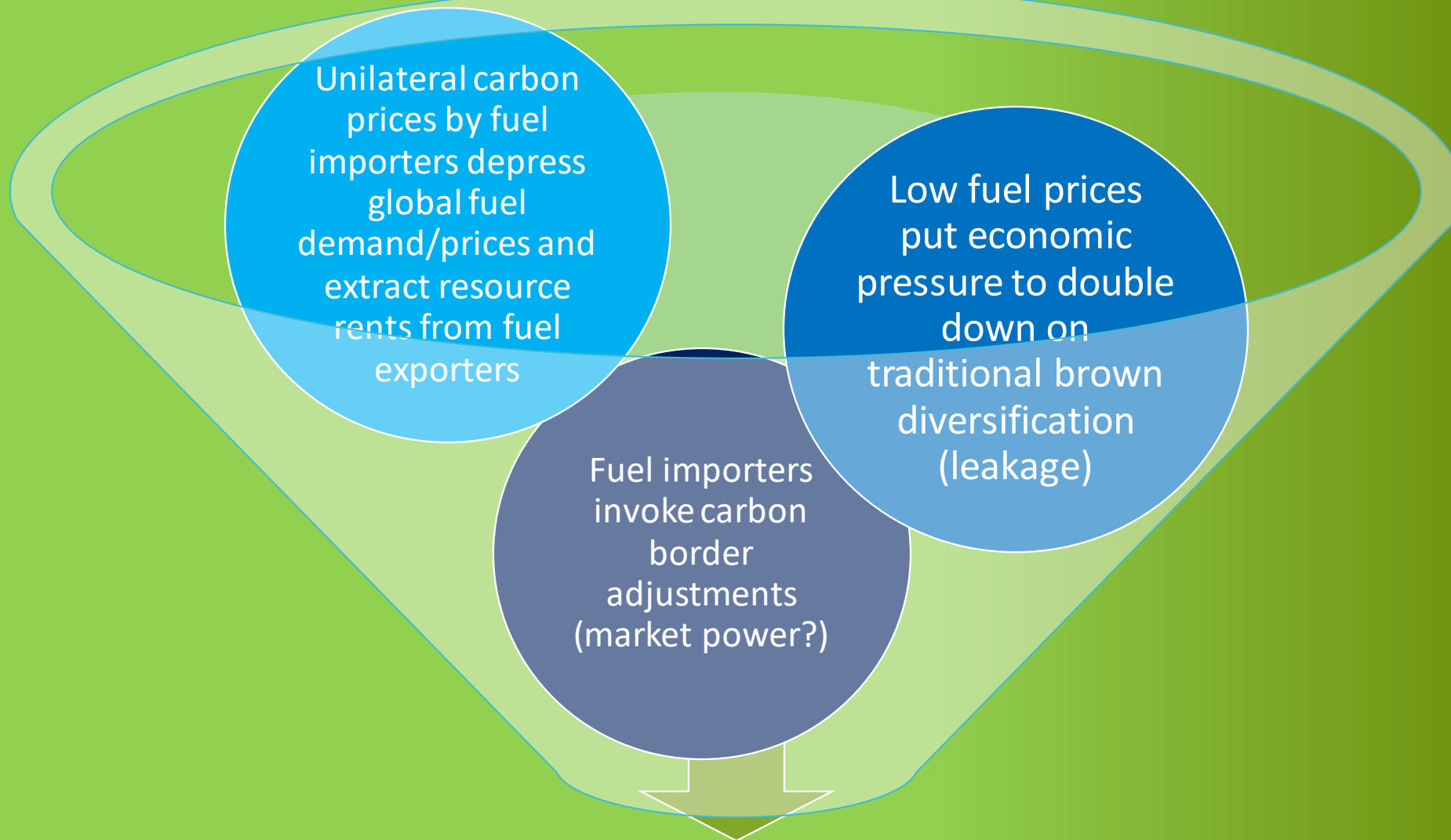
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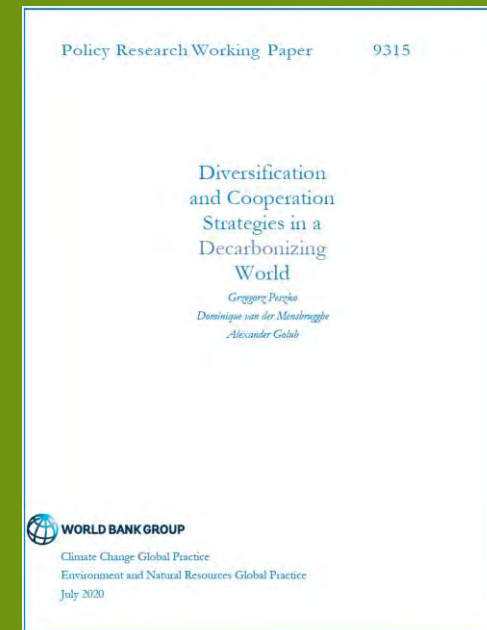
The GCC countries are exposed but also comparatively resilient to LCT impacts



Incentives for diversification and cooperation need to be aligned



Negotiations of carbon pricing + climate policy + trade agreements between fuel importers and exporters



Carbon price + policy + trade agreements can incentivize and enable climate cooperation with fuel exporters

Carbon offsets

Domestic demand to offset carbon content of petroleum and industrial products supplied to the market (e.g. CCS)? Link to EU FQD or California LCFS

Linked ETS

Sellers: Oil demand shrinks but rents remain at home
Buyers: Demand shrinks more; rents go abroad allowing leakage
Challenges: Domestic fuel prices and competition (SOEs)

Minimum carbon taxes

Emissions taxes: Demand shrinks, rents go abroad
Wellhead carbon taxes: Demand shrinks; Rents remain at home, prevents leakage



Wellhead tax aligns incentives to cooperate

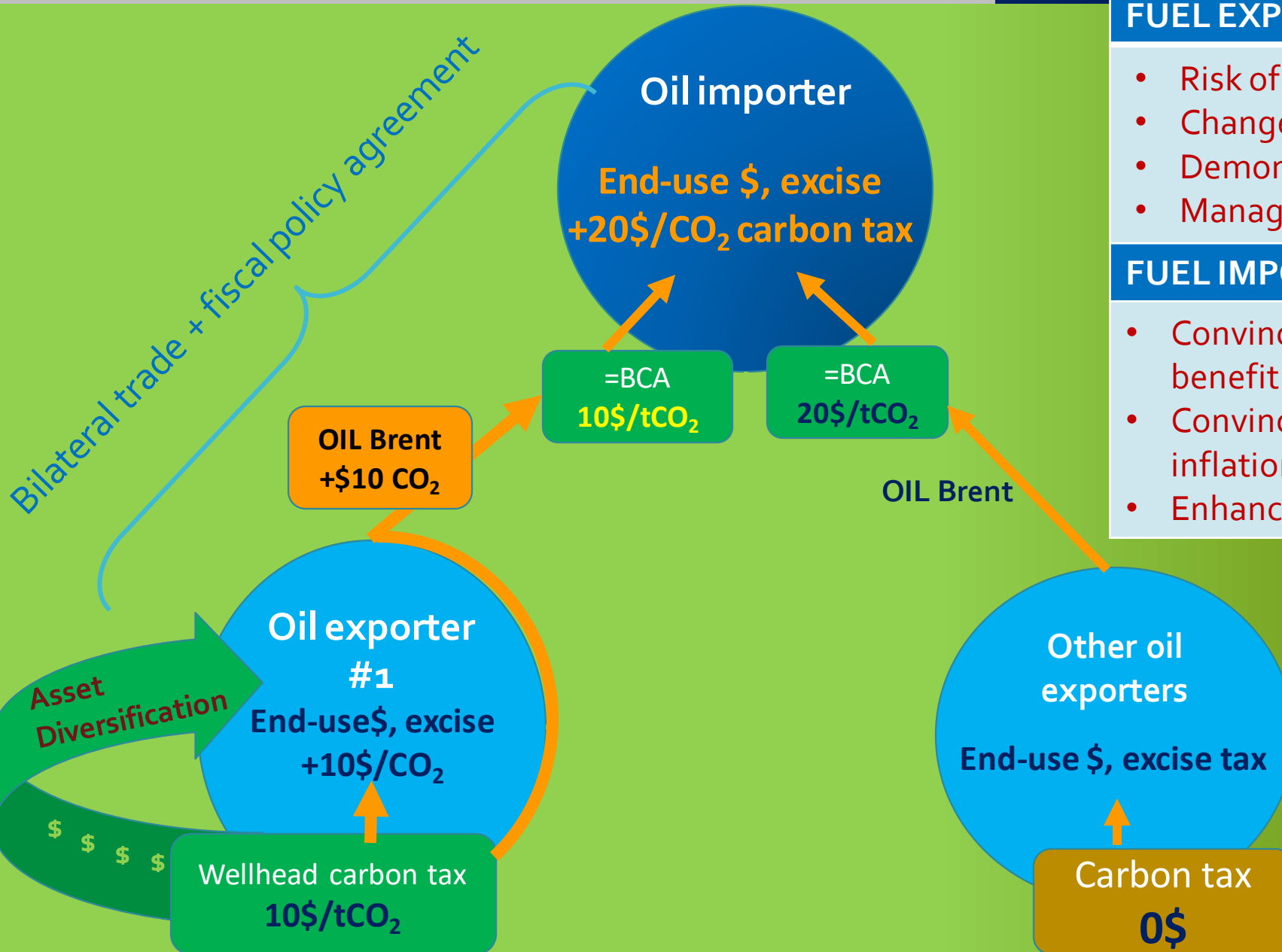
CHALLENGES

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



Carbon price + policy + trade agreements need to be tailored to the circumstances and capabilities of each fossil fuel-dependent country

THANK YOU!

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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>

Climate Change and Development Series

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Strategies for
Fossil Fuel-
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