Beyond Petrostates:

The burning need to cut oil dependence in the energy transition

Carbon Tracker Initiative

POLICYMAKER BRIEF

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Full report available at https://carbontracker.org/reports/petrostates-energy-transition-report/

Headline Takeaways

- Fossil fuel-dependent countries will see a drop of **46% in government oil and gas revenues over the next two decades** if the energy transition proceeds as anticipated.
- Many of these "petrostates" are at **historically high levels of indebtedness**.
- Their fiscal dependence, combined with oil and gas revenue at risk from future lower demand, creates an overall vulnerability assessment.
- The key policy considerations: 1) **petrostates** need to act now to transition away from dependence on fossil fuel revenues; 2) the **international community** needs to be encouraged to think imaginatively to provide the most effective support.

Key Points

- "Petrostates" are defined as the 40 countries with the greatest fiscal dependence on oil and gas revenues. They are situated predominantly in Africa and the Middle East.
- Most of the revenue shortfall identified for these countries, on account of the transition, will be caused by lower prices rather than lower volumes.
- 11 petrostate countries fall into the category of "most vulnerable": 10 of them are ranked low in the UN Human Development Index.
- An accelerating energy transition means that domestic and international policymakers will need to act more quickly to avert fiscal instability and associated issues. Their options and considerations are below

Developing Countries - Domestic Policymakers

- Should look at how to increase the fiscal take from non-oil sectors of the economy and reduce the risk to the public purse.
- Consider developing institutional frameworks, eg a sovereign wealth fund, which are able to reinvest fossil fuel revenues into a more diversified range of assets.
- National oil companies (NOCs) in petrostates should be directed away from reinvesting earnings in high-cost carbon-intensive infrastructure.
- Explore how their government can actively make the domestic business environment more innovative and therefore more attractive to investment into low carbon industries.
- Try to steer a political path that manages the differing pressures that may ensue, notably from incumbent interests and public opinion.

Developed Countries - International Co-operation

- Developed countries should consider both: 1) the pragmatic argument based on economics and finance,, that support for fossil fuel-dependent countries in the Global South during the transition will benefit international climate action as a whole; and 2) the equity and humanitarian issues that support action.
- A weakened economy in a petrostate risks political instability and social unrest.
- In approaching collective international co-operation and assistance to petrostates on this agenda, the Global North should think more about types of technical assistance (eg relating to institutional frameworks or fiscal systems) than concentrating on bilateral aid.
- The multilateral assistance effort should also be viewed through the lens of sharing the gains of the transition, where revenue-raising mechanisms such as carbon taxes can be pooled to help petrostates manage the transition.