Stranded Assets and Developing Countries: Avoid Fossil Fuel Lock-in

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Goal 13. Take urgent action to combat climate change and its impacts

Key messages:

1. **Achieving 1.5° - 2°C requires phasing out fossil fuels**
   To adhere to this limit, more than 80% of the world´s proven fossil fuel reserves should remain in the ground.
2. **Developing countries (DCs) that just discovered oil and gas reserves want to become fossil fuel rich countries**
   From an equity perspective, DCs may have a Right to Development and exploit newly discovered fossil fuel reserves and many see this as a way to develop rapidly.
3. **There are high risks for DCs if they invest in stranded fossil fuel assets**
   Yet, exploiting these reserves may leave them worse off and lock these countries into a carbon intensive trajectory.
4. **Renewable energy is a cost-effective alternative**
   Ignoring new fossil fuels and investing in renewables is favourable and politically, socially, ecologically and economically more rewarding.
5. **Aid agencies should have coherent policy on fossil-fuel**
   Many aid agencies are still supporting the use of fossil fuels in the South, sending contradictory signals.
6. **Multinationals and home countries should follow a coherent strategy**
   If European countries are seriously implementing their climate policy, they should encourage a coherent strategy on fossil fuels.

Introduction

The Paris Agreement on Climate Change requires countries to aim at reducing the rise of global temperatures to 2°C and if possible 1.5°C above pre-industrial levels. This implies a rapid phase out of fossil fuels worldwide, thus making them stranded resources and assets.

Developing countries (DCs) that have just discovered oil and gas want to become fossil fuel rich countries

Many countries have become rich through the exploitation of oil and gas. In line with this aspiration, countries like Mozambique, Kenya, Ghana, Ecuador, China and India are seeking ways to exploit their newly discovered domestic or international fossil fuel resources to become rich (BP 2017; Menas 2017).

From an equity perspective, they may have the legitimate right to exploit their resources (cf. the Right to Development and their low greenhouse gas emissions), but this may leave them with stranded assets if they invest in fossil fuel infrastructure with lifetimes of over 80 years. This could also lead to liability and compensation claims from (foreign) investors.

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There are high risks for developing countries if they invest in stranded assets (SA) (Bos & Gupta 2018)

		Risks when Paris Agreement is…	
		Seriously implemented	*Not implemented*
Prospective oil producer (e.g. Kenya)	*Extract and use of domestic oil (and gas)*	***Political****:* global pressure & sanctions; ***Economic:*** premature investment write-off; compensation for SA; low diversification; lock-in; loss of ODA; ***Legal***: (inter)national climate or investment litigation; policy freeze; ***Ecological***: climate impacts; high water demand & local pollution; disasters ***Social***: health risks; stranded jobs; conflict	***Low political risk*** ***Economic:*** aggravated negative impacts of climate change on economy; impact of local pollution on economy ***Ecological****:* aggravated negative climate impacts due to climate inaction; high water demand; high local pollution; environmental disasters ***Social:*** high health risks; local violence or conflict; empowering terrorists
	Ignore fossil fuel reserves, invest in renewable tech.	***Low political risk*** ***Economic:*** quick income ignored while others gain; renewables may not be enough; low North-South transfers; risks of being an early-adopter; SA (e.g. contracts); compensation ***Legal:*** contract breaching & litigation ***Ecological:*** continued but reduced risk of climate impacts; reduced water demand; problems with batteries for renewables ***Social:*** citizens' anger about fossil fuel phase-out; stranded jobs	***Low political risk*** ***Economic***: quick income ignored while others gain; renewables may not be enough; insufficient North-South transfers; SA (e.g. contracts); compensation; negative climate & pollution impacts on economy; ***Ecological***: continued & aggravated negative climate impacts; reduced water demand; problems with batteries for renewables ***Social:*** health risks; low risk of stranded jobs
Prospective oil investor (e.g. China)	*Invest in foreign oil (and gas)*	***Political****:* pressure high ***Economic***: creating SA & decommissioning liability; debt or low investments in other areas; ***Legal***: climate litigation; contract breaching or resource nationalization ***Ecological:*** climate impacts; low water risks; high local pollution ***Social:*** jobs loss; violence	***Political:*** pressure low ***Economic:*** climate impacts; low investments in other areas; ***Legal***: contract breaching or nationalization ***Ecological****:* aggravated negative climate impacts due to climate inaction; high water related risks; high local pollution ***Social****:* local violence
	Invest in renewables	***Political: pressure high*** ***Economic***: creating SA and liability for decom-missioning costs; debt or low investment in other areas; economic loss due to political or social risks **Legal**: climate litigation; contract breaching or re-source nationalization **Ecological:** negative climate impacts; low water related risks; high local pollution **Social**: Job loss, violence	***Political: pressure low*** ***Economic:*** quick income ignored, while others gain ***Ecological***: climate impacts ***Legal:*** *contract breaching* ***Social****: local violence*

Renewable energy is a cost-effective alternative

Increasingly renewable energy options are becoming cost-effective and offer an alternative to fossil fuel investments.

Aid agencies should have coherent policy on fossil-fuel

Aid agencies continue to support the transfer of knowledge on fossil fuels to the South. Research on German, British and US aid to India reveals that there is no proactive strategy for fostering a fossil fuel phase-out. Instead, these countries use aid resources to promote trade and marketing of their own fossil fuel expertise (a stranding asset) using India's right to development as an excuse. This leads to incoherent policy messaging to the South.

Multinationals and home countries should follow a coherent strategy

Multinationals continue to export their fossil fuel knowledge and technologies to the Global South. DCs have a task to provide energy to 'the energy poor', this however does not imply that fossil fuels should be the only investment option. Continuing with investing in fossil fuels in DCs leads to a fossil fuel-lock in the South. Furthermore, some multinationals and investors are divesting their fossil fuel resources in the West. However, if they invest in and/or sell their fossil fuels to the South, the problem of climate change will be further aggravated. Western governments need to develop consistent climate policies for all the actors that operate in the area of fossil fuels.

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