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.
Prospective oil producer (e.g. Kenya)

Prospective oil investor (e.g. China)

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

<table>
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<th>Risks when Paris Agreement is...</th>
<th>Seriously implemented</th>
<th>Not implemented</th>
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<td><strong>Political</strong>: global pressure &amp; 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 &amp; local pollution; disasters Social: health risks; stranded jobs; conflict</td>
<td>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</td>
<td>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 &amp; 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</td>
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Extract and use of domestic oil (and gas)

Invest in foreign oil (and gas)

Invest in renewables

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 stranded 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.

References:


