



**Address by Dr. Hafiz Pasha, UN Assistant Secretary-General and UNDP
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at the launch of

'Overcoming Vulnerability to Rising Oil Prices: Options for Asia and the Pacific'

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Good Morning Excellencies, Ladies and Gentlemen, Colleagues,

Over the past several weeks, we have witnessed oil prices surge to levels not seen since the oil 'shocks' of the 1980s. In fact, the price has jumped 10 per cent in the last week alone. It appears that triple digit prices per barrel of crude oil loom in the not too distant future.

UNDP commissioned ***Overcoming Vulnerability to Oil Price Rises***, because we could see evidence that in a world far from the flickering screens of oil traders, rising prices are starting to bite. In fact, they are already having an impact on the lives and livelihoods of the region's poorest families. The impressive progress made by the region in recent years to eradicate poverty is now threatened.

Steep rises in expenditure have provoked outcries. Recent public protests in Asia over fuel price increases indicate that the problem is brewing and the poor are taking it to the streets. In the last two years, we have seen life in several cities grinding to a halt due to agitations over sharp rises in the costs of household fuels and public transportation, as also the prices of food and essential commodities.

The poor have few options to exercise in the face of mounting oil prices. Many are coping only by abstaining from oil products and oil-related services that are crucial to their basic survival. As observed by this Report, families have been pushed quite literally into the dark with both electricity and kerosene for lighting receding from their reach. Millions are being forced to *climb down the energy ladder*, that is, reverting to traditional fuels that are inefficient, unhealthy and time-consuming to gather and use.

In an effort to reduce expenses on public transportation, many families are staying away from or making less frequent visits to health centers. They are withdrawing their children from the schools of their choice. Families that only a few years ago held hopes of rising out of poverty are struggling afresh today to hold on to what little they have by way of comfort and convenience.

What is taking place among the poor could well be a portent of more widespread setbacks to whole economies if oil prices continue on then-present trajectory. While rising oil prices affect every country, some are more exposed than others. If so, which countries are at greater risk? Presumably those that use a lot of imported oil. But the Report points out that there are other factors at play. Countries that have enough export incomes to pay for oil imports, for example, can continue to power ahead. As a way of taking this and other issues into account, UNDP has devised a new *oil*

price vulnerability index (OP VI). The OP VI assesses each country in terms of its economic strength and performance, and also looks at the extent to which it bases its growth on imported oil. It reduces no fewer than 18 indicators to a single index.

So how does Asia fare? Out of 24 countries ranked in Asia according to the Oil Price Vulnerability Index, half fall into the "most vulnerable" category.

The evidence is in that post 2004 the rise in oil prices has caused a slow down in GDP growth rates at the regional level & this trend is more pronounced in the developing countries of the region. (Ref: IMF WEO Sep 2006, figure 2.5 in the report)

What is alarming is that in some of these countries, it is not the just the poor who are being adversely affected by rising oil prices. The continued oil price rise is also taking a toll on the economic strength and macro performance of several of these vulnerable countries. In Pakistan, for instance, inflation rose by XXX percent of which XXX percent was directly due to the oil price hikes.

Since many factors go to influence inflation & current account balance causality to the oil price rise is difficult to attribute to any one factor ...yet for LDCs a significant reversal is likely due to oil import bills.

In Bangladesh for instance the increase in world fuel prices have had a spiraling effect on the economy through inflation, increased import bills and a dampening of the economic growth. The average price of fuel imported to Bangladesh in 2006-7 hovered between \$60 and \$64 a barrel. This resulted in an inflation rate of 7.4 percent. The import bill for fuel was nearly 10 percent of the total imports of Bangladesh.

Philippines imports most of it's requirements of crude oil. A recent IMF report indicates average inflation is expected to rise to 4 % in 2008 from 3%this year due largely to effects of increasing world oil price.

MORE EXAMPLES:

Current account balances of Asia-Pacific developing countries, 2003-2007

Least developed countries	2003	2007	Other developing countries	2003	2007
Afghanistan	3.00	-3.80	China	2.80	10.00
Bangladesh	-0.40	0.70	Fiji	-0.11	-0.53
Bhutan	-10.80	-3.20	India	1.50	-2.40
Cambodia	-3.70	-5.50	Indonesia	3.50	1.80
Kiribati	12.50	-50.70	Malaysia	12.70	15.30
Lao PDR	-8.10	-22.50	Pakistan	4.90	4.00
Maldives	-4.60	-34.30	Papua New Guinea	4.50	2.50
Myanmar	-1.00	2.70	Philippines	0.40	2.10
Nepal	2.60	3.40	Sri Lanka	-0.40	4.80
Samoa	-1.00	-6.20	Thailand	3.40	1.50
Solomon Islands	-2.50	-24.60	Tonga	-3.10	-11.20
Vanuatu	-10.70	-13.20	Vietnam	4.90	-1.20
Average	-2.06	-13.10	Average	2.10	0.76

Data source: IMF. 2007a

Not surprisingly, Iran performs well in the OPVI because it is a major oil exporter. But China, even though it is a major oil importer, is also less vulnerable according to the OPVI because it has a strong economy and a range of other energy options, particularly coal. India, too, ranks quite high for

much the same reason. At the lower end of the scale are countries like Sri Lanka and Cambodia with poorly performing economies and a high dependence on oil. The most vulnerable countries at the lowest end of the scale are those with low economic strength, lower economic performance and high oil dependence - Maldives, Vanuatu and Cambodia.

The Report cautions, however, that even countries that are less vulnerable now could become more exposed in future. Malaysia and Thailand with their rapidly growing oil consumption, for instance, could soon find themselves slipping down the OPVI rankings.

To stave off ill affects of rising oil prices, the Report proposes the creation of an Asia-Pacific Compensatory Oil Finance Facility. If oil prices remain high or rise further, least developed and low income countries (LDCs and LICs) of the region will struggle to finance their growing oil import bills, as is already evident in the six-fold increase in their current account deficits since 2003. Prolonged liquidity problems can force many countries to resort to external borrowings. The rise in debt and debt service costs can squeeze their capacity to invest in critical economic, social and infrastructural development. This can only worsen the plight of their poor.

The twin interconnected aims of the proposed facility are to help these countries to:

- a) tide over an immediate balance of payments or fiscal deficit induced by oil price hikes; and
- b) move towards a less oil-intensive future by investing in alternative forms of energy.

The most distinguishing feature of the facility is that financial assistance is linked to targeted commitments by countries to lower their oil intensities. This is considered essential to bring about structural changes for a more sustainable energy future, beyond just the resolution of immediate liquidity problems. A second important feature is its intent to draw upon the growing financial strength of the region's own economies and the enhanced dynamism of regional capital markets for a good part of needed funds.

It has now become an unavoidable imperative to make structural changes in energy economies and put into place policies and practices that ensure energy security at both the national level and at the level of the household. Reducing the *oil intensity* of economic growth is central to this. Countries can diversify away from oil towards natural gas, clean coal, hydropower and renewable energy technologies. They can, at the same time, slow down oil demand growth by applying more stringent energy efficiency improvement measures. As an integral part of this process, they can safeguard their poor by using innovative pricing and financing mechanisms.

The increasingly uncertain future prospects of oil supply and price require governments to be prepared with policies and plans of action under a range of scenarios - from \$50 a barrel, all the way up to and beyond \$100 a barrel. This Report offers recommendations and strategies along a number of alternative future oil price paths, depending on the vulnerability of a country. It outlines five broad categories of options:

- 1. Managing oil price risk:** Governments can try to offset the impact of oil price rises on the poor by compensating them in various ways, such as targeted subsidies on household fuels, or rationing subsidized fuels through a monthly quota.
- 2. Enhancing oil supply:** Governments can take a number of measures to enhance oil supplies. They can strengthen oil exploration and extraction and increase refining capacity, especially to process 'heavy' crude as the supply of light crude declines. They can also diversify their sources of supply, including tapping the region's own oil resources by expanding cross-border trade between producing and consuming countries. Another option, becoming more pertinent against the sagging purchasing power of the dollar, is barter - trading manufactured products, industrial crops or services for oil.

3. **Restraining oil demand:** Without curtailing demand at the cost of economic or social activity, Governments can increase the efficiency of oil consumption and concentrate the use of oil on purposes for which cheaper alternatives are unavailable. In the transport sector, which is the single largest cause of the steep rise in oil demand,
 - public transport facilities could be improved,
 - fuel wastage in vehicles could be reduced through better urban planning and congestion charges in cities, and
 - industry and households encouraged to use energy-efficient equipment.
4. **Diversifying fuels:** Governments can accelerate the substitution of oil by natural gas, clean coal and renewable energy for electricity generation. Goals can be revised to use more renewable energy in total energy consumption. Thailand, for instance, has revised its targeted share of renewable energy from 10% to 14% by 2011 and raised the consumption of natural gas in vehicles to 4,384 kilo tones of oil equivalent from 2,867 kilo tones of oil equivalent to replace diesel in transport vehicles. Following the examples of Bangladesh, India and Thailand, Governments could mandate the use of LPG (Liquefied Petroleum Gas) and CNG (Compressed Natural Gas) for public transport. Providing cautious and appropriate fiscal incentives to promote the use of biofuel in transport is another option gaining ground. Biogas, agricultural residue and municipal solid waste can make impressive contributions to non-oil energy options. Public investment is needed in R&D to develop technologies that use alternative sources of energy.
5. **Preparing for Emergencies:** Each country needs to prepare for abrupt disruptions in oil supplies, for example, by building strategic national reserves or collaborating with other countries to establish shared strategic reserves, and preparing plans for targeted rationing to households and essential public services.

The Report offers several recommendations that could benefit the daily lives of the poor. For instance, *smart cards* or cash vouchers could provide households with access to public transportation at subsidized rates while minimizing the 'leakage' of subsidies to the non-poor. The development of bioethanol and biodiesel could help boost rural production and employment, particularly in remote mountainous and island communities. The Report suggests subsidizing electricity for irrigation purposes to low income consumers. It calls for accelerating the use of renewable energy-based lanterns and cooking devices, improved biomass cook stoves and community-based gasifiers to generate electricity for homes.

The central message of the Report is that Asia-Pacific countries have to come to terms with the possibility that oil prices may have entered an irreversible trend, as opposed to the short, cyclical spikes of the past. The world's finite oil resources will one day or another be exhausted, and that day might arrive sooner than later.

While each country must weigh its own circumstances to decide which strategies and policies to pursue, it is clear that the poor need essential relief against rising fuel prices. Simultaneously, stronger efforts are needed to shift the future path of energy consumption away from reliance on oil. Reducing the oil intensity of development is no longer a matter of choice. It is the only course, while we still have the time to chart it.

BANGKOK, Oct 25 (IPS) - A new mechanism to measure the impact of rising oil prices on Asia's poor offers a sobering forecast There is a clear threat to the region's gains in reducing the numbers living poverty.

Using 18 different indicators, the recently conceived Oil Price Vulnerability Index (OPVT) suggests that countries surveyed have been hit by varying degrees as the price of oil rose from around 22 US dollars per barrel in 2003 to over 80 dollars per barrel in the years since. Last week, oil fetched a record high of 90.07 dollars per barrel, leading to speculation that the 100 dollar mark was a growing possibility.

The most vulnerable countries are those that have 'low economic strength, low economic performance and high oil dependency,' states a report released Thursday by the United Nations Development Programme (UNDP), which used the OPVI to confirm its region-wide assessment of how the continent's poor are coping with the rise in fuel prices.

In South Asia, the worst off countries are Afghanistan, Bangladesh, the Maldives, Nepal, Pakistan and Sri Lanka. In South-east Asia, the list includes Cambodia, Laos and the Philippines. In the Pacific, they range from the island nations of Fiji, Samoa, Solomon Islands to Vanuatu.

The moderately vulnerable countries, on the other hand, stretch from Bhutan and India on one end to Burma, Thailand, Vietnam, Indonesia, Papua New Guinea and Mongolia. What has saved these countries from being at the bottom of the barrel are the capacities of their respective economies to "absorb oil price shocks, performing better with high or medium gross domestic product and economic growth rates," states the UNDP report, 'Overcoming Vulnerability to Rising Oil Prices'. "(They also have) a low reliance on oil or being a net exporter of oil."

But such a distinction would pale if oil prices continue to remain high, consequently posing an unforeseen challenge to the region's Millennium Development Goals (MDGS) described by the report as "the overarching goal to eradicate extreme poverty and hunger".

"The threat to the MDGs depends on the length of oil prices continuing to rise," Nandita Mongia, the lead author of the report, told IPS. "If the prices continue to rise over the next three to five years, then we are in big trouble."

The MDGs were eight development targets that were set by the world's leaders at a U.N. summit at the world body's headquarters in New York in 2000. The first of them was to halve by 2015 the number of people whose income was less than one U.S. dollar a day. The Asia-Pacific region has come in for praise due to the drop in poverty rates from 32 percent of the region's population to 17 percent. In 2004, some 641 million people were still living in extreme poverty in this region.

There is equal concern that another MDG target — to ensure that by 2015 children everywhere, both boys and girls, will be able to complete a full course of primary education — will take a hit. Rising transport costs can come in the way of children in rural communities gaining access to good schools, states the 149-page UNDP study.

At the time the MDG's were conceived, however, the prospect of high oil prices posing a major hurdle appeared remote. 'The issue of an oil price hike was never discussed seven years ago as a possible hindrance to the MDGs,' says Mongia. "We were living in a happy world when the price was around 25 dollars a barrel."

Yet the new reality that the spike in oil prices has posed to the region's development plans is stark. "The Asia-Pacific region has had to pay 400 billion dollars as an additional oil bill to what was spent in 2003," Hafiz Pasha, U.N. assistant secretary-general, said during the launch of the report. "This is 20 times the annual aid flow to the region."

This has forced a change among rural and urban communities, with many shifting to "more traditional, dirtier, and more difficult to access fuels," he added. "It has also made their attempts to climb out of poverty more difficult."

Interviews conducted by the UNDP's researchers among poor households in rural and urban China, India, Indonesia and Laos conveyed the emerging reality. "Between 2002 and 2005, the households interviewed suffered some dramatic price increases, paying as a whole 74 percent more for their energy needs," states the report. That included 171 percent more for cooking fuels, 120 percent more for transportation, 67 percent more for electricity and 55 percent more for lighting fuels.

The millions who have been forced "to climb down the energy ladder," as the UN agency describes it, have been left with limited choices, prompting many households to be forced to stay in the dark. While the urban poor "tend to be worse off since they do not have the alternative of collecting fuel

wood or biomass," the rural poor are no better off, since they are ' 'more vulnerable to higher prices for lighting fuels, especially in unelectrified villages."

For least developed countries like Nepal, the pressure has had a bearing on the quality of life. "There has been an increase in the disparity between the rich and the poor," said Posh Raj Pandey, member of the South Asian nation's national planning commission. "This poses a critical threat to achieving our MDGs."

Thank you.