PRESS RELEASE

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Serving Asia and the Pacific

Soaring Oil Prices Hit Hard on Asia's Poor

UNDP Report Ranks Countries According to a New Oil Price Vulnerability Index

Bangkok, 25 October 2007 – Soaring oil prices are threatening the prospects of millions of the region's poor and forcing them further into poverty, says a report issued here today by the UN Development Programme (UNDP). As oil prices climb, the impact on the poor may presage worse to come warns the publication, *Overcoming Vulnerability* to *Rising Oil Prices: Options for Asia and the Pacific.*

"Oil Prices have tripled over the last four years. Today the price is approaching $90 a barrel. This has meant that the Asia and Pacific region has had to pay an additional bill of almost $400 billion for imports compared to the amount spent in 2003. This is 20 times the annual aid flow to the region," said Hafiz Pasha, UNDP Regional Director for Asia and Pacific, at the launch of the report in Bangkok. "It has become a real issue for an otherwise fast-growing region to absorb this staggeringly large bill," said Mr. Pasha.

An alternative perspective was presented by H.E. Piyasvasti Amranand, Minister for Energy, Royal Government of Thailand at the launch. "This time around, the price of oil has gone up so much that we are seeing renewable technologies developing and materializing. These new technologies will be beneficial to everyone," he said.

Interviews conducted for the report among poor rural and urban households in China, India, Indonesia and Lao PDR reveal that rising oil prices are starting to put a brake on human development and in some cases, shifting it into reverse. Between 2002–5, the households interviewed suffered dramatic price increases – paying on average 74 percent more for their energy needs. This included 171 percent more for cooking fuels; 120 percent more for transportation; 67 percent more for electricity; and 55 percent more for lighting fuels.

This has provoked huge public outcries – and incredible hardships for the poor – who are being literally, pushed into the dark. Millions are being forced "to climb down the energy ladder", reverting to traditional fuels that are unhealthy and inefficient, says the report. The poor are cutting back even on bare essentials of travel and services which are increasingly beyond their reach.

The **Oil Price Vulnerability Index** (OPVI) developed in this report ranks countries in terms of their economic strength and performance, and the extent to which this growth depends upon imported oil. The OPVI is a composite index which brings together 18 indicators which tracks the level of dependence of economies to imported oil, and thereby, their vulnerability to fluctuations in global oil prices.

The countries that are ranked most vulnerable are Maldives, Cambodia and Sri Lanka, whose low economic strength, lower economic performance and high oil dependence, are immediately evident.

Countries that seemingly appear less vulnerable are also not immune to the effects of these oil hikes: Malaysia and Thailand, for example, with their rapidly growing oil consumption, could become more vulnerable in the future. China and India, on the other hand, at present do not seem to be as immediately impacted, since their reliance is greater on other energy sources like coal, and their stronger performing economies and larger reserves enable them to ride through this period.

Thailand's Minister Amranand noted at the report launch that "Thailand has been providing a lot more incentive for renewable energy for very small power producers using various waste agriculture and raw materials. Biofuels are doing well to the extent that we will probably have enough raw material for the production of biodiesel by the end of next year, and now effort has to be spent in the production of palm oil," he said.

But this ability of the economy to sustain economic fluctuations is not the same as the ability of the poor in those countries to cope with the impact of high prices and inflation. The report demonstrates how poor household have suffered from the increases in prices of oil-based commodities and transport costs.

From the point of view of countries that are vulnerable to the oil price fluctuations, particularly the LDCs, the report proposes a new mechanism that will enable countries to cope with sudden downturns – the Asia-Pacific Compensatory Oil Finance Facility. AP-COIL will help countries cope with their prolonged liquidity problems. At present these vulnerable countries finance their oil bill through their debt which squeezes their capacity to invest in critical economic, social and infrastructural investments. The AP-COIL will enable these countries to tide over the immediate balance of payments or fiscal deficit crunch, and secondly, to move towards a less oil-intensive future by investing in alternative forms of energy.

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