



Overcoming Vulnerability To Rising Oil Prices: Options for Asia and the Pacific - Q&A with Dr. Nandita Mongia

1. Why did you write this report?

UNDP commissioned this report because the evidences of negative implications of rising oil prices had started to become evident scattered but consistent, most severely at the incomes and lives of the region's poor. Though governments have been trying to protect the vulnerable -either by providing subsidies, or by obliging public oil companies not to pass on the full international price increases to local consumers, these policies are becoming difficult to sustain. These facts prompted UNDP to take up this study to explore further the impacts of continuously rising oil prices on the developing economies of Asia-Pacific, livelihoods of the poor in these countries, and evolve and recommend country specific strategies to overcome vulnerability to different levels of oil price increases. We trust the report will help boost dialogues with development partners and that impacts on poor people will become an important consideration in the development of future policy responses.

2. Why is there so little hard data on the direct affects on the poor, most observations are anecdotal?

The full range of data on impacts of oil price rises on the poor is not available as yet. Primary data through large scale sample surveys are the only source for such data. Also, such surveys need to be commissioned with well defined objectives, time and resources. To our knowledge no country in the region conducted such a survey post oil price rise or conducts such surveys regularly. Because of these reasons, the observations of impact on poor remained at micro survey levels. National level macro-economic data has not yet captured the impacts on poor because of averaging.

3. Why are the surveys only of 500 families?

The survey was conducted mainly to elicit the perceptions of the poor on the impact of oil price rises, observe the ground realities of such a price rise and gather evidences of such impacts. It was not envisaged to gather primary data through scientific sampling methods and carryout rigorous statistical analysis in an attempt to generalize the findings. Considering this it was felt that 500 families from countries of different size, economic development and regions representing the dynamics of urban and rural, moderate to extreme poor and type of settlement are adequate.

4. How do you reconcile the use of gasohol (blend of gasoline and ethanol) and biomass fuel (biofuel) with environmental degradation?

Any decisions related to increased use of biofuels need to address negative impacts of environmental degradation and biodiversity. Effective policies and regulatory measures need to be in place to prevent unhindered growth of biofuel production, large scale shift from food crops to monoculture biofuel plantations and use of food crops for producing biofuels. Effective incentive as well as disincentive mechanisms should be in place to regulate the growth of biofuels. Biomass energy, particularly biofuels have potentials for oil import substitution as will steadily become more competitive. However, governments need to be fully aware of the social, economic and environmental impacts of biofuel production.

5. What is the single biggest impact of oil price rises on the poor?

The evidence shows that the steep increase in the prices of fuels used for cooking and lighting have resulted in poor climbing down the 'energy ladder' and reverting to inferior fuels and in some cases making compromises on other essential needs.

Over the last three years, households in the region are paying, on average, 171 percent more for cooking fuels, 120 percent more for transportation, 67 percent more for electricity and 55 percent more for lighting fuels.

6. How is this report different from others that analyze oil prices in the region?

The report presents a comprehensive assessment of the impact of oil price rises in the developing countries of Asia and the Pacific region for a time span when the lagged effects have not fully been passed through and the latest national data sets are not available to make standard impact assessments. The attempt here is to capture the implications both at the country level (national vulnerability through constructing a new vulnerability index) as well as at the level of people (poor's vulnerability, through micro case studies) and recommend policies to mitigate the impacts.

While many recent studies have discussed national level impacts and worked on them through macro model packages this report has designed a new *vulnerability index* that reflects what makes a country more or less vulnerable at different price scenarios & the complimentary policy packages that help reduce & protect from higher vulnerability .

7. Why have oil price rises not affected economic growth as yet in the region?

They have not affected visibly as of yet. Partly because this time the price rises occurred in the midst of a global boom, and despite the price increases countries have been able to maintain their economic momentum. Secondly, due to the good performances of the past few years, the countries could absorb this increase. The recent price hike is linked to depreciating dollar in the global market that has indirectly boosted exports. But if the hike continues, the overall impact will start affecting living standards and economic growth within the region.

8. Are there differences across the region in how price rises will affect the poor?

The differences are perceived more by vulnerability characteristics than by region per se. However the Pacific countries in general are more exposed to oil price rise

9. Are there rural vs. urban differences?

Yes there are, primarily due to both demand and supply characteristics. The urban poor mostly depend on kerosene for cooking and tend to be worse off since they do not have the alternative of collecting fuelwood or other biomass. The rural poor, however, are more vulnerable to higher prices for lighting fuels, especially in un-electrified villages. They are also at a greater disadvantage when high transport costs isolate them from essential services that they do not have in their villages. Urban poor is affected more on additional costs of LPG and transportation, while rural poor is affected more additional costs on kerosene and chemical fertilizers.

10. How much will the monthly income of the poor be affected? Do you have examples?

The results of survey based micro case studies in four different countries showed that on an average a poor family spends some 12 percent of its household expenditure on fuels and electricity and slightly over 16 percent on transport expenditure, most of which is oil related. Thus, the total expenditure affected by high oil prices comes to 28 percent of household expenditure - for families with no or low surplus incomes to spare. Oil price rises will cause further increase in this share and thereby reducing the share of other essential needs. Possible implications could be reduced travel, reduced expenditure on medical help and food resulting in reduced opportunity of better employment and thereby affecting the income levels.

12. What is UNDP position in this era of oil fight? Is nuclear energy to be an option?

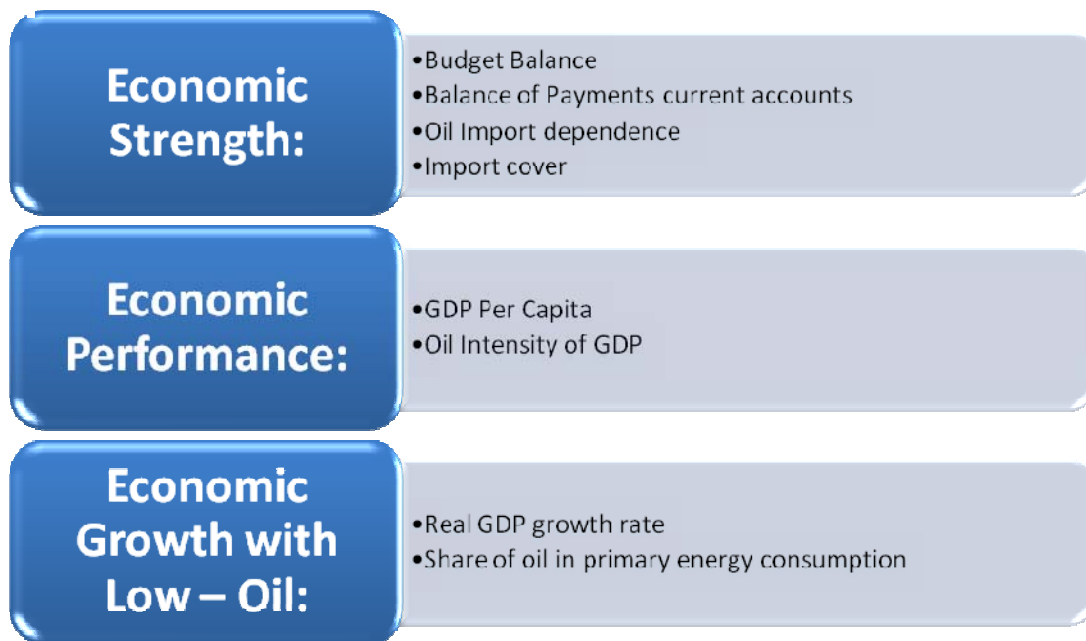
Leave it to IAEA to decide!

13. The report is quite timely as the oil price is now hitting US\$ 80 + per barrel. However, what would you expect to be the impact of this report?

The complementary package of policy recommendations this report lays out for countries with varying economic strength and economic performance can be used a road map. We expect several of the policy recommendations will receive a boost in their country context.

14. What are the sources of vulnerability?

The report analyzed eight factors and combined them into a composite index that mainly cluster the sources on vulnerability to following three:



15. What are the alternative sources of energy ...which one would you chooses & why?

Alternate sources:

Biomass. Biogas, hydro (relevant scales), solar, wind, bio-diesel, methane, geothermal etc.....it depends entirely on the country's endowments. Choose on the basis of cost effectiveness, availability, socio economic impact etc.

16. Enhancing oil supply seems to be applicable only to oil-rich or developed countries. For LDCs or developing countries, which options would you recommend for reducing oil price vulnerability?

Emphasize developing alternate fuels, decentralized power generation through up scaling of already successful pilot projects, improve fuel efficiency, and tax breaks.

18. What capacity development strategies would UNDP recommend for energy ministries in these countries, and who should be the main target for capacity development in these countries?

UNDP works in close cooperation with national governments and regional bodies for capacity development on policy identification, planning and application. It will respond to the governments requests. Fuel- efficiency, fuel- substitution, backed by appropriate policy regimes, management of financial frameworks for decentralized off grid energy access etc etc.

Bring together sub-regional and regional bodies for dialogues on cross border resource pooling.

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