

Fossil-fuel subsidies hurting global environment, security

April 21 2010

A comprehensive assessment of global fossil-fuel subsidies has found that governments are spending \$500 billion annually on policies that undermine energy security and worsen the environment.

The study, titled "The Politics of Fossil-Fuel Subsidies" by David Victor, a professor of [political science](#) with UC San Diego's School of International Relations and Pacific Studies (IR/PS), was one of five released April 22 by the Global Subsidies Initiative (GSI) of the International Institute for Sustainable Development (IISD).

GSI's goal is to reform, reduce and ultimately eliminate fossil-fuel subsidies, which are highest in Iran, Russia, China, Saudi Arabia, India and Venezuela. The reform effort received a boost September 2009 when President Obama and other world leaders met in Pittsburgh, Pa., for the Group of 20 Summit. They agreed in a non-binding resolution to phase out fossil-fuel subsidies, but the measure didn't attempt to resolve difficult political issues such as how governments would actually achieve a phaseout. Victor's study addresses the political challenges.

The U.S. was one of the governments pressing for subsidy reform at the G20 Summit in September 2009. Such policy reforms are a relatively easy way to improve [energy security](#) for all nations and reduce growth in emissions of gases that cause global warming.

"[Fossil fuels](#) are often the most cost-effective way to provide useful energy, especially in poor households living on already stretched

budgets," said Victor, director of IR/PS's Laboratory on International Law and Regulation. "But the pervasive role of fossil fuels in countries' economies makes them attractive for politicians to subsidize, which leads to over-consumption. Virtually every analysis of fossil-fuel subsidies has shown that most are a complete waste of money, or worse, because money spent on subsidies isn't available for other purposes that yield much greater social benefits, such as education and rural agriculture."

Victor's assessment found that as of November 2008, Venezuela had the lowest gasoline prices of any country, prices maintained at their low levels by subsidies. While Iran's fuel prices are nearly as low, the financial burden on that nation is much higher because its fuel consumption is greater. "Iran's fuel subsidy totals about \$55 billion (U.S.) a year, or roughly one-tenth of global energy subsidies," said Victor.

He said the largest subsidies are usually found in oil-producing democracies: fuel prices often are a major campaign issue, and politicians who face contested elections would most likely lose if they attempted to reform subsidies. "When leaders don't feel secure in power, as in Iran or Venezuela, they find it particularly difficult to roll back massive subsidy programs," Victor said. "As a result, consumers in those countries are not only using more fossil fuels, but also are demanding more subsidies, which are plunging those countries into an economic death spiral."

The pressure for subsidies extends to many other countries as well. India spends a conservatively estimated \$15 billion (U.S.) to subsidize fossil fuels as part of its official policy to make energy services more affordable to the country's poorest citizens. Victor noted that the subsidies help provide power and irrigation services to farmers at low regulated prices. However, his assessment and others have found that

many of India's fossil-fuel subsidies don't actually help poor households, but instead benefit those who can already afford to own vehicles and electrical appliances.

"When the price of crude oil jumped a few years ago, the Indian government was stuck paying the difference between the regulated price to consumers and the actual price of oil on international markets," said Victor. "The money that the India government spent on those subsidies was not available for other more beneficial programs to reduce poverty and facilitate economic development."

As a large oil importer, India's energy security remains vulnerable to interruptions in its supply of crude oil or to sudden spikes in price.

"China was in a vulnerable energy-security situation similar to India's, but the Chinese government took the major political step of reducing subsidies sharply and exposing consumers to market forces," said Victor. "It makes China more secure by reducing growth in its consumption of fossil fuels and forcing consumers to respond when markets tighten. It also helps China reduce its rate of increase of greenhouse gas emissions and enables it to invest in renewable energy and other sustainable development projects."

"In facing today's global challenges - be they economic recession, rising temperatures, or the need for sustainable development - governments worldwide are beginning to take a closer look at how they use public money to favour the fossil-fuel sector," said an IISD statement accompanying the release of the report.

Beyond reducing subsidies, Victor's report suggests that governments also need to look more closely at raising fuel taxes. Among the advanced industrialized countries, major fossil-fuel subsidies are rare, but fuel-tax rates vary widely. As a percent of its total economic output, the U.S. has

low fossil-fuel subsidies; however, only 20 countries had lower retail gasoline prices than the U.S., according to the 2008 International Fuel Prices report. That report said 152 countries had retail gasoline prices higher than those in the U.S., primarily due to higher gasoline taxes and other country-specific duties and taxes.

"The U.S. does not tax fossil fuels to the level needed to offset the costs of burning them," Victor said. "The more that consumers in every country in the world pay the full price for fuels—a price that reflects the true costs of fuel combustion on the economy and environment—the easier it will be for market forces to encourage more secure and cleaner energy supplies."

Although most fossil-fuel subsidies are harmful, Victor said some are beneficial. Notably, subsidies for research on new energy technologies are essential since companies and universities are unlikely to perform such research otherwise. Victor's study shows that political forces in favor of these good subsidies are usually much less powerful than the forces that promote pernicious subsidies.

The five-part research series, "Untold Billions," produced by the IISD's Global Subsidies Initiative was supported by the governments of Denmark, the Netherlands, New Zealand, Sweden, the United States and the William and Flora Hewlett Foundation.

Provided by University of California - San Diego

Citation: Fossil-fuel subsidies hurting global environment, security (2010, April 21) retrieved 25 April 2024 from <https://phys.org/news/2010-04-fossil-fuel-subsidies-global-environment.html>

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