Fuel subsidies defy green trend amid rising climate alarm

May 17 2019, by Patrick Galey

Experts say subsidies—which can come in the form of tax breaks, rebates, financial incentives or even overseas aid—are hard to accurately calculate

Even as warnings of climate catastrophe and calls for greener economies grow ever louder, the world is still spending hundreds of billions of dollars every year to subsidise the fossil fuels that are causing the planet to overheat.

With mankind's plan to avert runaway global warming this century badly off course, scrutiny is mounting over how the taxpayer funding that companies receive to burn oil, gas and coal at heavy discounts is costing the planet in other ways.

Subsidies can come in the form of tax breaks, rebates, financial incentives or even overseas aid and can keep consumer prices artificially low. They are also hard to accurately calculate, say experts.

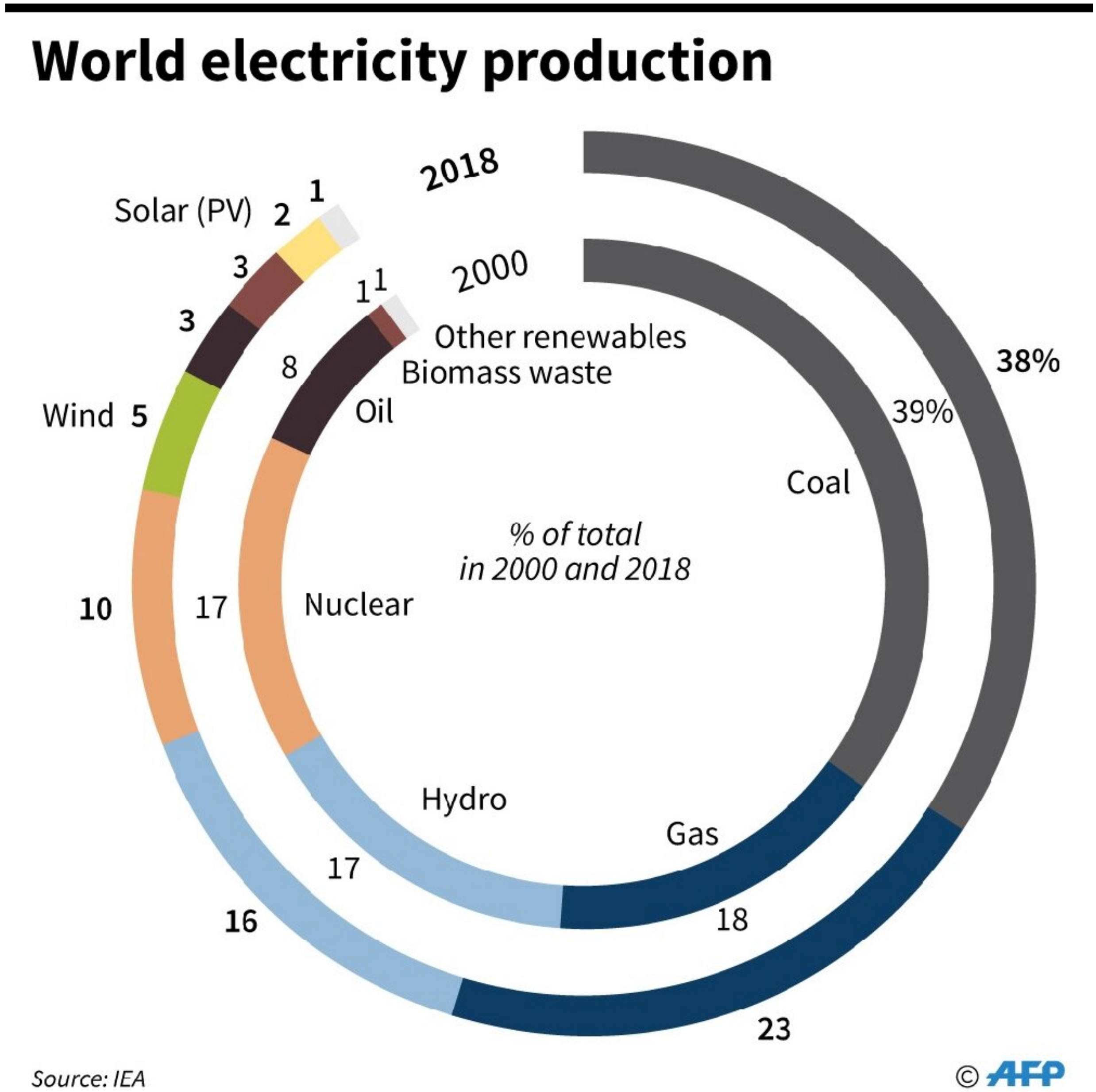
But there is a growing consensus among economists that state-backed support for dirty energy is becoming increasingly hard to justify—both in financial and environmental terms.

In particular, the cost of renewable energy has plummeted in recent years.

The International Renewable Energy Agency (IRENA) says that the cost of generating power from onshore wind has fallen 23 percent since 2010, while solar electricity has tumbled 73 percent.

"Subsidies tend to stay in the system and they can become very costly as the cost of new technologies falls," Simon Buckle, head of the Climate Change, Biodiversity and Water Division at the Organisation for Economic Cooperation and Development (OECD), told AFP.

"Cost reductions like this were not envisageable even 10 years ago. They have transformed the situation and many renewables are now cost competitive in different locations with coal."



World electricity production by energy type (2000 and 2018). The world still spends hundreds of billions of dollars every year to subsidise fossil fuels.

Yet subsidies for fossil fuels remain stubbornly high globally.

An OECD working paper last year found a direct impact from spending on oil and gas on green energy investment, concluding "fossil fuel subsidies significantly reduce" the use of renewables.

The International Energy Agency (IEA) this week found that 2018 actually saw an increase in money going into new upstream oil and gas projects, while investment in renewable power of all kinds dipped two percent.

'Not viable'?

A recent OECD report on subsidies estimated that nations were providing around $370 billion (330 billion euros) in "support measures for fossil fuels".

This is "an order of magnitude (ten times higher) than global finance flows for biodiversity conservation and sustainable use," it concluded.

Using a different methodology factoring in the social and economic costs of air pollution, health risks, and the effects of climate change associated with fossil fuel use, the International Monetary Fund (IMF) released a working paper this month with some eye-catching figures.

It estimated that in 2015 global pre- and post-tax energy subsidies stood at $5.2 trillion—or 6.3 percent of global GDP.

The cost of renewable energy has fallen markedly since 2010

The paper said China contributed the most to continued fossil fuel use, with the equivalent of $1.4 trillion in support of coal, oil and gas. The United States was second with $649 billion.

The European Union's support for fossil fuels cost $289 billion, it said.

The report estimated that if fossil fuel prices were "fully efficient"—that is, subsidy-free—in 2015, "global CO2 emissions would have been 28 percent lower (and) fossil fuel air pollution deaths 46 percent lower."

Dylan Tanner, executive director of pro-transparency monitor InfluenceMap, said that if the costs of healthcare, welfare and working hours lost were considered in the costing of fossil fuel subsidies, "these type of activities would be completely driven out of the market."

He said many companies generating energy from coal—the fuel that receives the most state funding—"are not valued as viable concerns" without continued financial support.

'Market distorting'

In 2017 the V20 group of nations most vulnerable to the effects of climate change issued a call for G20 countries to phase out "market distorting" fossil fuel subsides by 2020.

Two years earlier, 195 nations signed up to the Paris climate agreement, which enjoined them to limit global temperature rises to well below 2 Celsius (3.6 Fahrenheit)—something climate scientists say would require a rapid drawdown in oil, gas and coal consumption.

The IMF has predicted air pollution deaths would be nearly halved worldwide without fossil fuel subsidies

Part of the problem, according to Tanner, is that governments tend to be vague about what constitutes an energy subsidy.

"The debate would be: 'this isn't a subsidy, this is support to a developing country which has asked for energy infrastructure assistance'," he said.

"But part of that is a subsidy for coal technology which hasn't sold a single unit on the open market without a government-backed loan."

While Buckle said fossil fuel subsidies need to be phased out far quicker than is happening now, he stressed that ending finance for oil and gas projects alone would not be enough.

"If you look at air pollution, the costs for that are huge," he said.

"Dealing with air pollution is not just an issue of fossil fuel support and putting a price on emissions... We are talking about structural changes to our economies."

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