

Fossil Fuel Subsidies and Business – Time to Get Involved

Fossil Fuel Subsidies – What's the story?

Globally, governments spend more than USD 500 billion to keep domestic prices for oil, gas and coal products artificially low. The impacts of these fossil fuel subsidies are wide-ranging and detrimental to national and international economic, environmental and social performance.

Three Types of Fossil Fuel Subsidies

Consumer Subsidies: Subsidies provided by governments to consumers to lower the price of using energy products.

Electricity Subsidies: Subsidies provided by governments to electricity companies to fund operations and keep electricity tariffs low.

Producer Subsidies: Subsidies provided for the exploration and production of oil, gas and coal.

Impacts on Society from Fossil Fuel Subsidies

By lowering the price of producing and consuming fossil fuels, subsidies encourage wasteful consumption, aggravate local pollution, disadvantage clean energy technologies, and drain scarce public resources that could be better directed to other sustainable development goals.

In some countries, fossil fuel subsidies take up a significant proportion of government resources, with some governments spending more on fossil fuel subsidies than they do on health or education.

Studies also show that the phase-out of fossil fuel subsidies is a viable option for the mitigation of greenhouse gas emissions, suggesting an associated decrease in emissions of between 6 and 13 per cent by 2050.

Impacts on Business from Fossil Fuel Subsidies

Fossil fuel subsidies also have a range of unacknowledged but potentially devastating effects on businesses.

First and foremost, subsidies introduce a distortion into the marketplace, thereby affecting investment and operational decisions, and impairing trade and long-term competitiveness.

More broadly, subsidies make it harder to do business:

- Subsidies impair the working of energy markets, resulting in fuel supply shortages and blackouts. This in turn impacts business operations – both those businesses operating in national and international markets, and micro-enterprises. For micro-enterprises, in particular, even small disturbances compared to business as usual can have serious implications on the livelihood and social welfare of the owner.
- Subsidies degrade the balance of trade and incentivize misallocation of resources, acting to destabilize the broader business environment and overall macroeconomic performance.
- Subsidies reduce fiscal space to invest in the social and physical capital that is crucial for business operations (education and training, infrastructure, health, etc.).
- Subsidies reduce the incentives for business to implement more energy-efficient modes of production, thereby weakening long-term competitiveness, while driving up energy demand.
- Subsidies can lead to fuel smuggling, the emergence of black markets and corruption.

Impacts on Renewable Energy

By artificially depressing the cost of fossil fuel consumption and production, the existence of fossil fuel subsidies impairs the cost competitiveness of renewable energy, reinforces the incumbent advantage of fossil fuels within the energy system and incentivizes investment in fossil fuel-based technologies over renewable alternatives.

The numbers speak for themselves: In 2013, fossil fuel consumer subsidies (USD 548 billion) stood at four times the level of subsidies to energy efficiency (USD 120 billion) and renewable energy (USD 121 billion). Achieving renewable energy targets for 2020 in the Middle East and North Africa could cost up to USD 200 billion, less than one year's worth of fossil fuel subsidies in the region (USD 237 billion).

Reforming Fossil Fuel Subsidies While Protecting Economies and Livelihoods

The reform of subsidies is often difficult and controversial – the public and business may be concerned that they will be adversely affected. But reform, when properly planned and implemented, results in significant benefits for society as a whole, including vulnerable groups, business and the environment.

Government needs to identify and quantify effects of reform in partnership with business and other relevant stakeholders, prepare a plan for subsidy phase-out that includes mitigation measures, and ensure effective communication and consultation throughout the process.

Primary among mitigation policies are compensation measures to assist in the transition to a business environment where energy prices are higher, introducing macroeconomic policies that limit the effects of energy price rises on international competitiveness, and broader policies to mitigate the impact on enterprises.

Business Can Lead the Way to Fossil Fuel Subsidy Reform

As momentum for phasing-out fossil fuel subsidies is growing, there is an urgent need for vision from the business community, to drive the shift to a more competitive, market-based energy sector. This is also an opportunity for the business world to demonstrate corporate leadership in the inevitable transformation toward a future energy system that will be cleaner and more socially inclusive. There are several ways for business to lead the way in efforts to promote reform.

Endorse the Fossil Fuel Subsidy Reform Communiqué, which calls on the international community to increase efforts to phase out these subsidies. The statement was launched by the “Friends of Fossil Fuel Subsidy Reform” – a group of non-G20 countries building international political consensus on the importance of reform. Current members of the Friends group are Costa Rica, Denmark, Ethiopia, Finland, New Zealand, Norway, Sweden and Switzerland. By endorsing the Communiqué, countries, businesses and international organisations recognize fossil fuel subsidy reform as an important climate-change mitigation policy with clear economic, social and environmental co-benefits.

The Communiqué will be presented at COP 21 in Paris on 30 November 2015 to support efforts to reach a new global climate agreement. The Communiqué is a high-profile opportunity for business to publicly support reform of fossil fuel subsidies as part of our common trajectory toward a more sustainable and low-carbon economy (sign up at www.fffsr.org).

Business can also promote reform efforts directly by improving transparency on subsidies they receive as well as providing information and feedback on effects and how to minimize adverse consequences from reform.

Finally, business can promote reform by directly lobbying government to take action and by galvanizing support from the wider business world (which has largely been absent in the fossil fuel subsidy reform debate).

The logic behind subsidy reform is undeniable, yet reform is politically challenging. Demonstration of broad-based, international support for reform is critical for governments taking on this task. Subsidy reform is an urgent priority offering the opportunity for joint leadership by governments, business leaders and organizations to create a sustainable, prosperous future.