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Global energy

Fuel subsidies defy the green amid bad climate warning

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 the cost of generating power from onshore wind has fallen 23%, while solar electricity has tumbled 73%.

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

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

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) last week found that last year actually saw an increase in money going into new upstream oil and gas projects, while investment in renewable power of all kinds dipped 2%.

> "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

'NOT VIABLE'?

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

This is "an order of magnitude (10 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 last 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% of global Gross Domestic Product.

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 $649b.

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

The report estimated that if fossil fuel prices were "fully efficient" — that is, subsidy-free — in 2015, "global CO_2 emissions would have been 28% lower (and) fossil fuel air pollution deaths 46% lower."

Dylan Tanner, the executive director of pro-transparency monitor InfluenceMap, said 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 next year.

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.

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 is not 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 has not 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."

AFP

IN BRIEF

Ithaca buys Chevron's North Sea assets for $2b

Israeli-owned company Ithaca Energy on Thursday agreed to buy Chevron's North Sea assets for $2b, as the latest US energy major offloaded non-core activities in the area.

Ithaca, part of Tel Aviv-listed Delek Group, announced in a statement on the London stock exchange that the purchase of Chevron North Sea Limited for the equivalent of 1.8b euros will complement its business.

"The acquisition ... is a significant step forward in the long term development of Ithaca Energy and underlines our belief in the North Sea," Ithaca boss Les Thomas said.

"We are pleased to be acquiring a high quality portfolio of assets and experienced operational organisation that fits well with our business."

Delek chief executive Asi Bartfeld added the purchase "is a key part of the Delek Group's strategic focus on building a world class exploration and production business."

News of the Chevron divestment comes one month after British energy exploring minnow Chrysaor bought US giant ConocoPhillips' North Sea oil and gas assets for $2.7b.

"The deal continues the UK trend of smaller companies taking up assets from the majors," Kevin Swann, senior research analyst at consultancy Wood Mackenzie, said.

AFP

Zimbabwe hikes fuel prices again as crisis deepens

Zimbabwe recently announced a fresh increase in fuel prices, months after a price hike triggered nationwide protests and a brutal security crackdown as the country's economy woes deepen further.

Upping prices by about 46%, the Zimbabwe Energy Regulatory Authority (ZERA) said petrol would cost 4.97 a litre in the local RTGS dollar currency ($1.42/1.27 euro) and diesel would cost 4.89 RTGS dollars.

RTGS dollars are a local electronic currency introduced as Zimbabwe struggles with a shortage of the US dollar notes that have recently functioned as its national currency.

ZERA said the move followed new measures by the central bank removing a subsidy and a preferable exchange rate for fuel importers.

"Operators may sell petroleum products at prices below the cap," ZERA acting CEO Edinton Mazambani said.

In January, President Emmerson Mnangagwa announced a more than 100% increase in fuel prices to tackle supply shortages as huge queues formed outside garages.

The price increase sparked nationwide protests which left at least 17 people dead after soldiers opened fire.

Zimbabwe's economy has been on a downturn for years with cash shortages, high unemployment and a scarcity of basic staples, like bread and cooking oil.

Mnangagwa, who took power when long-time leader Robert Mugabe was ousted in 2017, has vowed to attract investment and create jobs, with little success. Inflation in April rose to over 75%.

Zimbabwe plans to re-introduce a local currency within a year, after using the US dollar since its hyperinflation crisis a decade ago.

AFP