

Fossil Fuel Subsidy Reform to Support Climate Action

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Introduction

What are Fossil Fuel Subsidies



A fossil fuel **subsidy** is a deliberate policy action by government that specifically targets a particular energy source (e.g. coal, oil, gas, electricity) with one or more of the following effects:

- A) Reducing the net cost of energy purchased
- B) Reducing the cost of production or delivery of energy
- C) Increasing revenues retained by energy suppliers



This financial benefit most commonly comes as a direct transfer, price control or a tax break.

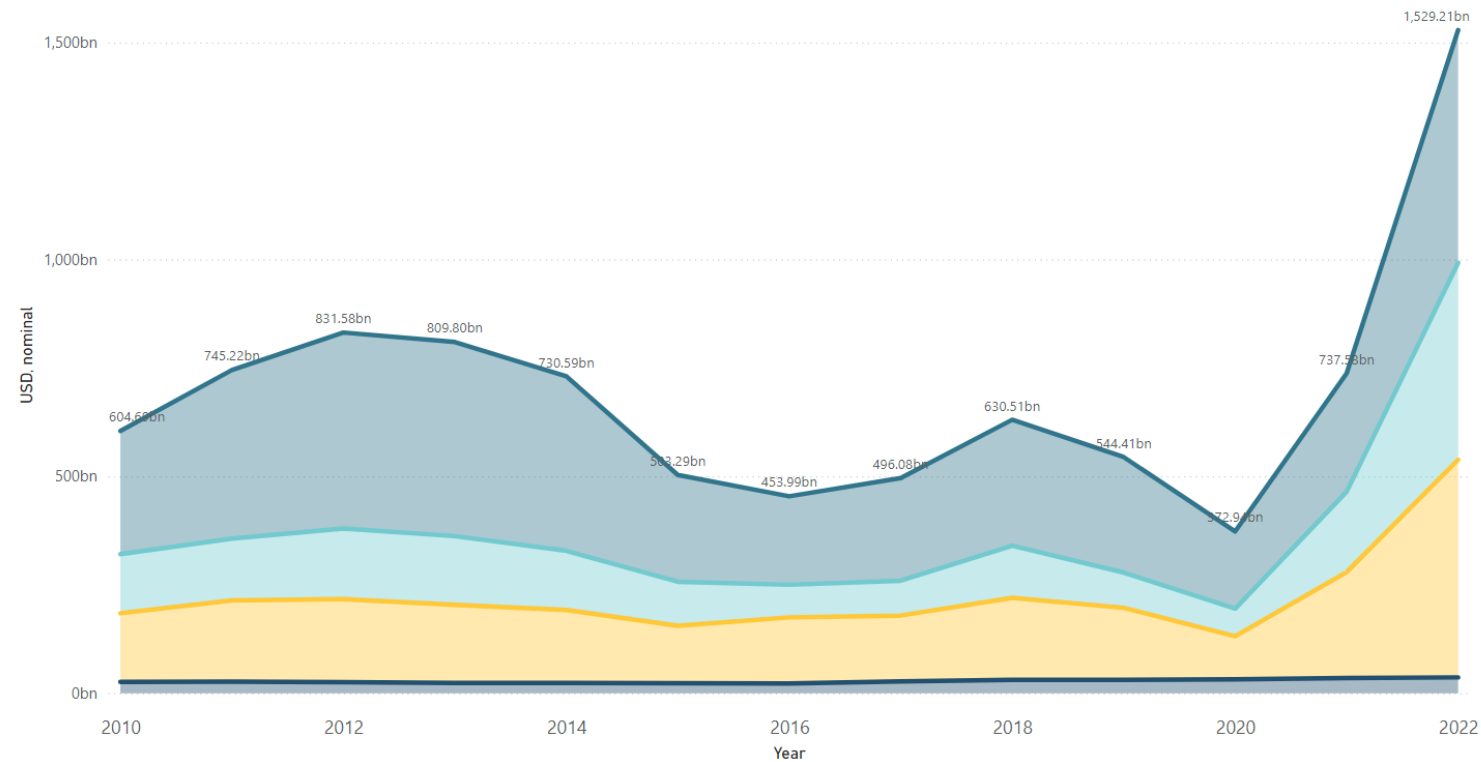


Fossil fuel subsidies go to fossil fuel producers or consumers—whether it's for extracting oil, shipping gas through a pipeline, reducing the cost of home heating or personal transport fuels, or burning fossil fuels for energy. Consumer subsidies distort the price for energy (the amount paid by consumers does not reflect the actual cost)

Scale of Fossil Fuel Subsidies Globally

Global estimates by fuel type

Fuel type ● Coal ● Electricity ● Natural gas ● Petroleum products



2022

● Coal	36,326,812,088.12
● Electricity	501,943,998,150.77
● Natural gas	453,951,247,315.64
● Petroleum products	536,992,119,434.69
Total	1,529,214,176,989.22

FossilFuelSubsidyTracker.org

Microsoft Power BI

Sources: [OECD](#), [IEA](#), [IMF](#)

Common misconceptions about subsidies

Misconception: Financial support to reduce greenhouse gas emissions is not a subsidy. Grants and direct spending that have environmental benefits are not subsidies.

Correction: Ultimately, these help fossil fuel industries compete and lower their cost of business artificially, so they are correctly classified as subsidies.

Misconception: Tax expenditures and royalty relief are not subsidies. Allowing companies to undervalue their assets for tax purposes just levels the playing field for capital-intensive industries.

Correction: Tax expenditures and royalty relief have the same impact as grants.

Common misconceptions about subsidies

Misconception: All subsidies are inherently bad.

Correction: When properly applied, subsidies can support the low-carbon transition, assist in energy access and affordability, and avoid bankruptcies and unemployment risks, supporting workers and energy consumers.

Misconception: Removing fossil fuel subsidies means advocating for job losses and energy insecurity.

Correction: Fossil fuel subsidy reform can be done in a way that supports job creation and enhances energy security, setting up a sustainable low-carbon economy.

Harmful Impacts of Subsidies

Bad for the environment directly

- **Directly:** Fossil fuel subsidies undermine climate action. For example, through direct transfers and tax breaks, fossil fuel subsidies incentivize increasing the same pollution that we're trying to lower through other climate action. Rather than making pollution expensive, they make it cheaper.

This is like raising taxes on cigarettes to discourage smoking while also giving cigarette producers tax breaks so they can make more cigarettes with higher profits.

Harmful Impacts of Subsidies

Bad for the environment indirectly

- **Indirectly:** To make matters worse, *fossil fuel subsidies disadvantage clean energy because they make it cheaper to produce or consume fossil energy*. When fossil fuels are artificially cheap, investing in renewable energy becomes less attractive. In the long run, subsidies distort the market, pushing investment toward sectors that might not otherwise be viable.

Subsidies and Carbon Pricing

Fossil Fuel subsidies undermine the effectiveness of carbon pricing



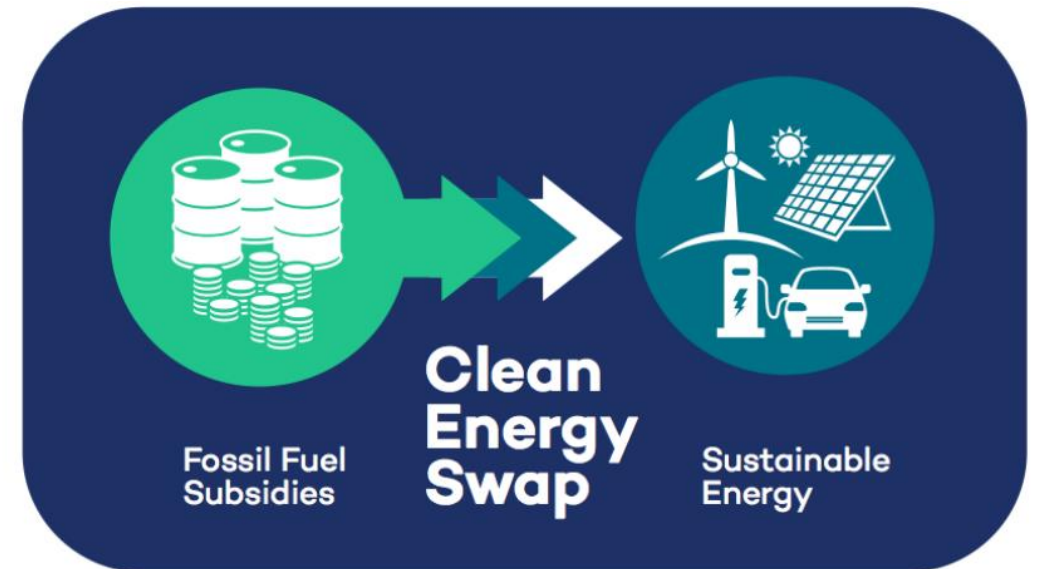
Repurposing Subsidies to Support Climate Action

Most subsidies are not put in place with the express goal to make it cheaper to produce or consume fossil fuels, they are put in place to deliver on social goals: energy access, employment, poverty reduction...the goal is to find the policy tools to deliver the ultimate goal in a way that doesn't harm the environment or hinder clean energy transition.

Repurposing Subsidies to Support Climate Action

Subsidy swaps and reforming financial flows

- If even a small portion of subsidy savings were swapped to support renewable energy or energy efficiency, we could make a faster shift to an economically stable, climate-safe future. That sounds like a pretty good alternative compared to getting locked into dangerous climate change and unhealthy pollution!
- FFSR can be used as well as a supporting mechanism to fund initiatives like social safety nets, just transition, public health, etc.
- Reforming financial flows can remove these market distortions and support more rapid transitions to clean energy



Reforming **fossil fuel subsidies** will generate \$avings that can be re-invested towards **sustainable energy**.

Thank You!

For more information:

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