G8 / G20 Briefing Document:
The True Cost of Fossil Fuels

Over the years, oil and coal companies have reaped vast profits at public expense. In country after country, high-priced lobbyists have persuaded governments to hand over enormous sums of taxpayer money to subsidize the activities of big oil and big coal.

In rich countries, these handouts take the form of production subsidies such as tax deductions, credits and other benefits that cost taxpayers about $100 billion per year.[1] Such tax breaks are one reason why ExxonMobil paid no US taxes last year, despite a gross operating profit of $52 billion.[2]

In developing countries, subsidies usually take the form of consumer support to bring down the costs of energy. These subsidies are often justified as necessary to enable the poor to gain access to energy at affordable prices. However, in many cases all segments of society receive the subsidy.

Where consumption subsidies are not narrowly targeted to the poor, corporations and better off citizens who consume more energy are the primary beneficiaries, and the poor are left to bear a disproportionate cost.[3] Consumption subsidies in developing countries have been estimated at over $550 billion each year.[4]

In exchange for this extraordinary largesse, the public has suffered a range of environmental, social and economic impacts. Subsidies reinforce dependence on fossil fuels and decrease energy security by reducing incentives to invest in renewable energy and use fossil fuels more efficiently.

They have also directly contributed to the climate crisis both by increasing CO_2 emissions and impeding the necessary transition to less carbon intensive energy sources.[5] The Organization for Economic Cooperation and Development (OECD) has concluded that ending fossil fuel subsidies could reduce global greenhouse gas emissions by ten percent by 2050.[6]

Given the extraordinary dangers of climate change, and enormous work societies must do to avert it, it is simply scandalous that governments continue to subsidize the fossil fuel industries that are causing a major part of the problem.

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[1] OECD, *Global warming: ending fuel subsidies could cut greenhouse gas emissions 10%* (9 June 2010). http://www.oecd.org/document/30/0,3343,en_2649_37465_45411294_1_1_1_1,00.html
[2] Christopher Helman, *Big Oil's Tax Bill,* Forbes.com (April 10, 2010) http://blogs.forbes.com/energysource/2010/04/05/big-oils-tax-bill/
[3] IMF, *Petroleum Product Subsidies: Costly, Inequitable and Rising*, at 12 (2010).
[4] *Id.*
[5] UNEP, Reforming Energy Subsidies: Opportunities to Contribute to the Climate Change Agenda (2008).
[6] OECD, *Global warming: ending fuel subsidies could cut greenhouse gas emissions 10%* (9 June 2010). http://www.oecd.org/document/30/0,3343,en_2649_37465_45411294_1_1_1_1,00.html

Subsidies also exacerbate a host of other environmental harms inherent in the production and consumption of fossil fuels. The BP disaster in the Gulf of Mexico is the most visible recent example. The cruelest irony of the BP debacle is that US taxpayers have supported BP's reckless activities in the Gulf through foregone tax revenue, and worse, through a cap on legal liability for cleanup costs.

The economic impacts of fossil fuel subsidies are similarly destructive. First, they reduce national incomes. Eliminating fossil fuel subsidies would raise real incomes significantly in many countries—by over 2 percent by 2050 in countries such as Russia and India.[7]

Second, they can also place a huge strain on very limited public budgets. Money that is lavished on Big Coal and Big Oil would be far better spent on direct investments in poverty alleviation, education, public health and other public goods, or on energy efficiency initiatives and catalyzing the transition to a green low/zero carbon energy economy. Finally, they can undermine national energy security by increasing reliance on imported fossil fuels.

The G20 Commitment to Eliminate Fossil Fuel Subsidies:

At their September 2009 summit in Pittsburgh, the Leaders of the Group of 20 countries officially recognized the harmful effects of fossil fuel subsidies. They agreed that "[i]nefficient fossil fuel subsidies encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change."

At the same time, they recognized that narrowly tailored subsidy programs could play an important role in ensuring that the poor have adequate access to essential energy services.

Thus, the Leaders agreed to "phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest."[8] To ensure that this commitment was carried forward, the Leaders also agreed to instruct their Energy and Finance Ministers to develop implementation strategies and timeframes, and report back to the Leaders at the Toronto Summit.

Links to Climate Finance:

At the Copenhagen Climate Summit, the developed countries promised to provide "scaled up, new and additional, predictable and adequate funding" to developing

[7] OECD, *The Benefits of Removing Eliminating Consumer Subsidies to fossil fuels: results of the OECD-IEA modeling exercise*
[8] G20, *Leader's Statement: The Pittsburgh Summit*, Preamble, para 24. (Sept 2009).

countries to help them reduce the growth in their greenhouse gas emissions and adapt to the inevitable impacts of climate change.

Collectively, they committed to new and additional resources "approaching USD 30 billion" through 2012. In addition, they also committed to a goal of mobilizing jointly USD 100 billion dollars a year by 2020, if developing countries took meaningful mitigation actions and adequately reported upon them. This is the same figure as the annual production subsidies to the oil and coal industries in the developed world.

Two things are clear about the financial commitments of the Copenhagen Accord. First, they are unlikely to be enough to meet the challenge. Estimates of the incremental costs of addressing climate change are inevitably imprecise, but most experts expect that annual costs will far exceed $100 billion in the developing world.

This is particularly true if the developed countries do not raise their mitigation targets. If current pledges are implemented, countries will be forced to adapt to temperature increases of approaching 3.5-4ºC.

Second, although their current finance pledges are likely to fall short of need, developed countries will still have to scramble to meet them. Already, a number of countries have not followed through on their pledge to raise "new and additional" resources. Instead, they have repackaged official development assistance to meet their obligations.

Although, developed country fossil fuel subsidies and climate finance pledges are both equal to about $100 billion, the contrast between them is stark and revealing. On the one hand, Big Oil and Big Coal have already extracted these extraordinary sums from the public, at great cost to the economy, environment, and national security. At the same time they are making enormouse profits and paying out huge dividends to their shareholders.

On the other hand, poor countries in desperate need of help to cope with the adverse impacts of climate change must struggle for new and additional assistance. Developed countries must urgently reevaluate their priorities: subsidizing Big Oil and Coal, or meeting their commitments to the world's poorest.

Greenpeace Recommendations:

- In Toronto, all G20 members should follow up on their Pittsburgh commitments by producing action plans and timetables for phasing out "inefficient fossil fuel subsidies while providing targeted support for the poorest" by 2015. They must also agree to an ongoing and transparent process to monitor progress in implementing these strategies and timetables. As part of their reporting, G20 governments should explain how subsidies that they intend to keep in place are narrowly targeted to the poorest.

- As an immediate first step, the developed G20 countries must eliminate fossil fuel support from their official development assistance, export credits and guarantees. The UK Government has demonstrated leadership in this regard by pledging to eliminate export assistance for fossil fuel projects.[9] The G20 Leaders should also agree to immediately eliminate fossil fuel subsidies provided through the World Bank, and other multilateral development banks, that are not narrowly targeted to the poor They should ensure that these institutions provide their clients with coherent policy advice for phasing out domestic fossil fuel subsidies, while facilitating access to energy services for their poorest citizens.

- Developed countries should meet their pledges to provide substantial resources to developing countries to assist them in the transition to low/zero carbon, climate resilient economies. This support will be critical to enable developing country members of the G-20 to take the difficult political decisions that will be necessary to meet their commitment to phase out fossil fuel subsides. Developed countries could free up resources to provide this support by accelerating the elimination of their fossil fuel subsidies.

Greenpeace media contacts at the summit in Toronto:

Alex Paterson*, Media and public relations, Greenpeace Canada, (416) 524-8496

Phil Radford, Executive director, Greenpeace USA, *Number to come*

Steve Kretzmann, Director, Oil Change International, *Number to come*

Patricia Lerner, Senior political adviser, Greenpeace International, *Number to come*

Dave Martin, Climate change policy adviser, Greenpeace Canada, (416) 627-5004

Virginie Lambert-Ferry, Climate & energy campaigner, Greenpeace Canada, (514) 217 5438

Bruce Cox, Executive director, Greenpeace Canada, (416) 419-7341

***For interviews with **Dr. Kumi Naidoo**, International executive director, Greenpeace International, please contact Alex Paterson.

[9] The Coalition: our programme for Government, at 22 (2010); available at *www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf*

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