



By Bruce Rich

Locked into a World on Fire?

According to the International Energy Agency, almost all of the growth over the next 25 years in greenhouse gas emissions will occur in developing countries. Two major barriers to any global climate agreement have been providing the necessary financing to help the developing world transition rapidly to clean energy — estimated as a minimum of \$100 to \$200 billion a year — and the reluctance of major emitters to commit to a binding cap.

True, at the 2010 Cancun climate negotiations the richer countries made a vague commitment to come up with \$100 billion in additional funds annually for climate mitigation and adaptation by 2020, but without any indication of where this money would come from. Similar promises of industrialized countries have proved disappointing. For example, they have pledged since the 1972 Stockholm Declaration (reiterated in the 1992 Rio Declaration), to contribute 0.7 percent of their gross national income to development assistance. In 2010 foreign aid from OECD countries reached an all time high that is less than half of the target amount.

The tragedy is that there already lies a clear path to achieve two thirds of the needed CO₂ emission reductions, while supporting poverty-reducing clean energy investments in developing countries, without additional funding or wrestling with legal commitments

to binding caps. Much of the financing could come from redirecting existing fossil fuel subsidies.

The 2010 IEA World Energy Outlook, as in past annual reports, lays out a path for the world's countries to reduce global GHG energy related emissions in the atmosphere to 450 parts per million by 2035, a level which gives a better than even chance of avoiding warming of more than 2 degrees Celsius above preindustrial levels.

The IEA scenario concludes that nearly half — 47 percent — of the needed GHG emissions savings could be achieved by end use energy efficiency in both developing and industrialized countries. Over the past three decades a very large body of research has shown that end use efficiency investments not only pay for themselves over the longer term, but generate the highest rates of economic return of any energy investment. Another 21 percent of the needed emissions reductions could come through investment in renewables, particularly through quadrupling investments in renewable energy to replace aging fossil fuel power generation. Achieving this would require increasing annual world government support for renewables from the 2009 level of \$57 billion a year to some \$205 billion annually in 2035.

The IEA notes that global consumption subsidies for fossil fuels totaled \$312 billion in 2010, of which \$252 billion was in developing nations and emerging economies. In many developing countries these subsidies are, in the words of the World Bank, “a huge drag on the economy and on the public purse.” In 2009 fossil fuel consumption subsidies totaled \$21 billion in India, \$19 billion in China, and \$12 billion in Indonesia. In Egypt, Ecuador, and Yemen well over 8 percent of GDP went for fuel subsidies in 2008, and over 1 percent in Angola, Burkina Faso, Cameroon, Nigeria, Senegal, Sudan, Cambodia, Nepal, Pakistan, India, El Salvador, Peru,

Mexico, and Venezuela. Reduction of these subsidies should be a first priority in development assistance, at the same time helping countries to rechannel the money saved into energy efficiency and low carbon electricity.

There are formidable institutional and political barriers to achieving such an agenda. Subsidies everywhere are supported by powerful entrenched interests, and safety nets have to be devised to mitigate any immediate impacts on the poor. Energy efficiency investments have been stymied by numerous obstacles such as the reluctance of both banks to lend for efficiency and of consumers and businesses to borrow. But there is a growing body of experience in overcoming these obstacles, for example through the establishment of special energy service companies and energy efficiency funds.

The most important developing countries have committed to the first steps. At the September 2009 G20 Summit, Indonesia, China, South Af-

rica, Mexico, Brazil, Argentina and Saudi Arabia joined the richer nations in pledging to “phase out over the medium term inefficient fossil fuel subsidies that encourage

wasteful consumption” and a growing number of countries, starting with China and India, have set ambitious efficiency improvement targets. So far though there has been little concrete action to deliver on the G20 pledge.

Promoting energy efficiency and removing fossil fuel subsidies are a win-win for everybody, where the goals of economic efficiency, supplying more power for the poor in developing countries at the least cost, and fighting climate change all optimally can be combined. As the heat rises and the floods swell, perhaps the needed political commitment will yet emerge.

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*A path to reform
would be financed by
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