Climate Finance Will Fail If Fossil Fuel Subsidies Are Not Eliminated

Since the 1992 Earth Summit environmental challenges have intensified while fundamentally feasible solutions have largely failed in the face of vested interests and politics as usual. Let's take a perduring example: huge government fossil fuel subsidies that continue in the face of the urgent need for the same governments to find new finance for climate mitigation and adaptation.

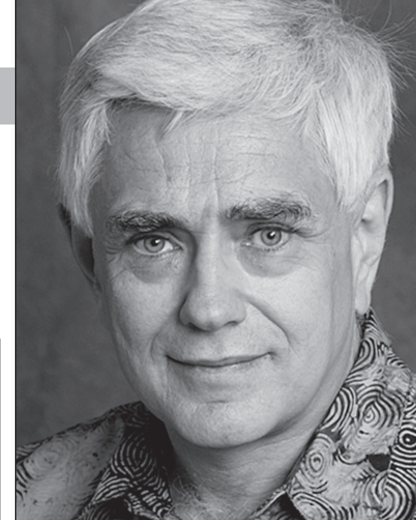
Last year, the International Monetary Fund reported that the world's nations in 2022 had nearly doubled their subsidization of oil, gas, and yes, still coal, all just in the last two years and to an all-time high of over $7 trillion annually. This amount is 7.1 percent of total world global domestic product, greater than what some 170 governments spend on education (4.3 percent of global income) and two thirds estimated global expenditures on health care. The IMF distinguishes between explicit subsidies, simple "undercharging for supply costs," of $1.7 billion, and "implicit subsidies" of $5.3 trillion, mainly environmental and public health externalities. The fund noted that three countries with high carbon emissions are also leaders in annual fossil fuel subsidies: China with $2.3 trillion in 2022, an astounding 12.5 percent of its GDP, the United States with $760 billion, and India with $350 billion.

IMF: Governmental subsidies for fossil fuels are 7.1% of the world's GDP

The IMF stated that its estimate of over $5 trillion annually in environmental costs is probably overly conservative, citing a September 2022 article in *Nature*, "Comprehensive evidence implies a higher social cost of CO_2." The journal's analysis indicates that annual global environmental costs, turbocharged by accelerating climate change, are closer to $10 trillion a year, and the "true social cost" of carbon dioxide is $185 per metric ton, "3.6 times higher than the U.S. government's current value of $51."

These carbon subsidies have been increasing for many years, perversely even more since the 2015 Paris climate agreement. That year, explicit subsidies were "only" $400 billion, and implicit subsidies $4.1 trillion. *Financial Times* columnist Gillian Tett writes that in comparison to the funds that could be freed up through reducing governments' existing fossil fuel subsidies, the goal of $100 billion annually in climate finance for the developing world that richer governments are still striving to meet "seems almost irrelevant." The IMF estimates "full price reform" of fossil fuels would free up $4.4 trillion annually in revenues, 3.6 percent of global GDP, reduce global fossil fuel emissions by 2030 by 34 percent from the baseline in 2019, prevent 1.6 million premature deaths annually, and diminish the growing gap between rich and poor "since fuel subsidies benefit rich households more than poor ones."

All of this has been taking place as governments keep repeating hollow commitments to act. The Group of 20 largest economies, including China and India as well as richer industrialized nations, promised in 2009 to phase out "inefficient" fossil fuel subsidies, and repeated this exhortation in 2012. The 26th Conference of the Parties to the Climate Convention (2021) in Egypt, and COP 27 (2022) in Glasgow committed to "accelerate" phasing out "inefficient fossil fuel subsidies." In Dubai last December, COP 28 proclaimed "phasing out inefficient fossil fuel subsidies that do not address energy poverty or just transitions, as soon as possible." Given the growing environmental, economic and health externalities of climate change, the notion of fossil fuel subsidies that are not "inefficient" would appear to be an oxymoron.



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Reform of fossil fuel subsidies has proven to be politically difficult, in significant part because the cost of proposed measures falls disproportionately on the poor and the middle class. In 2018 the French government put forth a climate "eco-tax" on diesel and gasoline, spurring the rise of the "yellow jackets" protest movement forcing the government to abandon its plan. A higher fuel tax is something the wealthy can easily afford, but disproportionally strains the budgets of the French outside big cities for whom their vehicles are essential transport to work.

Last year in Germany a leaked draft of Green Party legislation that would require all new heating systems to use at least 65 percent renewable energy unleashed a nationwide protest. It would have applied even to private houses when furnaces needed to be repaired. The only practical way to achieve the 65 percent goal would be to install heat pumps, something impossible for homeowners with tight cash flow, since the cost could run to many thousands of euros.

Social equity has to play an important part in reforming fossil fuel subsidies, otherwise we will continue to lose the global race to decarbonize before global warming spirals out of control.