

Fossilised policy

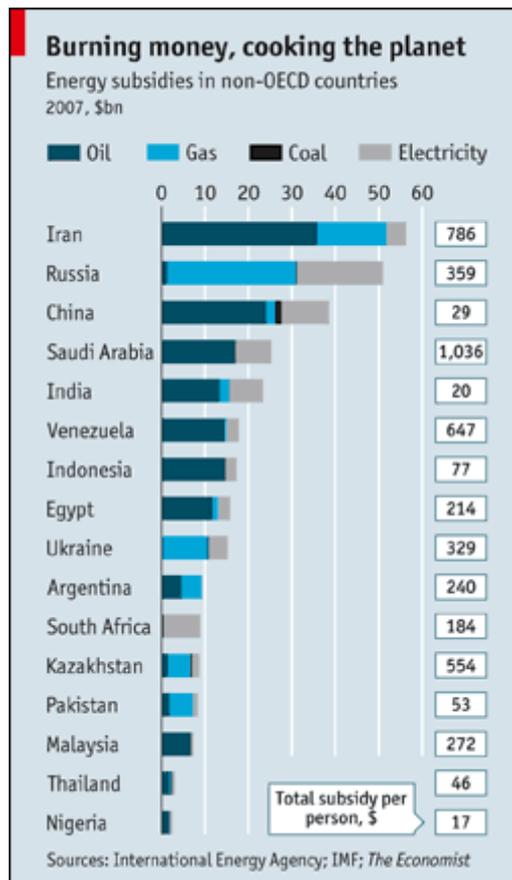
The G20 decides to end subsidies on fossil fuels.



Hopeful activists branded the annual UN get-together of world leaders in New York starting on September 20th “Climate Week”. In the event it was a cold shower, failing to reach a breakthrough in the run-up to the climate-treaty talks in Copenhagen in December. But a decision taken later in the week by the G20 meeting in Pittsburgh helped make up for that. To little fanfare, world leaders decided to phase out fossil-fuel subsidies in the “medium term”.

That was a surprise. Discussions in the days before the meeting seemed to centre on how the rich world might come up with money to pay poor countries for their transition to greener energy—a crucial element in any deal at Copenhagen. But behind the scenes, talks on fossil-fuel subsidies were moving forward. Earlier in the month, the American administration had started putting out feelers about cutting subsidies; President Barack Obama floated the idea in his speech to the UN on September 22nd. On Friday 25th the G20 announced a move that few had expected on Monday morning—and with an American stamp on it.

The G20 (actually 19 countries plus the European Union and international financial institutions) account for 80% of greenhouse-gas emissions. Most subsidies come from its poor and middle-income members (see chart). The International Energy Agency reckons that poor countries, defined as those outside the Paris-based Organisation for Economic Co-operation and Development (OECD), spend \$310 billion a year on such subsidies, mainly for petrol. That supposedly helps the poor. But Fatih Birol, the IEA’s chief economist, says that the subsidies mainly benefit middle-income and higher-earning urban types; the rural poor use little fossil fuel. The G20 said the money spent on subsidies could help the poor in other, more effective, ways.



Subsidising fossil fuels has many flaws. If imported, they may increase a country's energy dependence on risky outside supplies. In big oil-producing countries, such as Iran (which is not a G20 member) and Saudi Arabia (which is), subsidies are especially high. They drain public coffers and encourage wasteful domestic consumption, using petrol that could be better sold for export.

Rich countries subsidise fossil fuels too, but by much less—the OECD estimates around \$20 billion-\$30 billion annually. A new report by the Environmental Law Institute, a think-tank, says that America spent \$72 billion on fossil-fuel subsidies from 2002 to 2008. But these are production subsidies. American oil companies earn a tax credit at home for royalties (of up to 85% in some cases) paid on oil extracted abroad. The provision is intended for companies to avoid double taxation, but acts as a windfall for the oil industry. Other subsidies, such as paying for poor families' heating oil, are more defensible. But the G20 agreed that all subsidies that encourage wasteful consumption must go.

The IEA, along with the OECD, reckons that eliminating fossil-fuel subsidies would result in a 10% reduction in global greenhouse-gas emissions by 2050. Given a broad consensus around the need to reduce emissions by 50% by that year, to keep global warming at around 2°C, Mr Obama called the emissions cuts that would come from scrapping subsidies a good "down-payment".

The political details will be tricky. Subsidies have their defenders, often on the political left. In 2008, amid high oil prices, countries such as Egypt, India and Indonesia that cut subsidies saw street protests and political upheaval.

Untangling America's complex production subsidies will require congressional approval, against likely opposition from the oil lobby. And questions remain: under the cap-and-trade legislation under discussion in Congress, will emissions allocations given to fuel refiners count as a

subsidy? All countries are expected to come to the next G20 meeting, in Canada in 2010, with a plan of action. The declaration may yet be whittled away to nothing.

But it still looks odd that green lobbyists were so quick to pooh-pooh the decision to get rid of subsidies. It may not directly affect hopes for progress on a treaty in December. But as Michael Levi, a policy analyst at the New York-based Council on Foreign Relations says, "This is not a glimmer of hope for Copenhagen. But it is good news for the climate."

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