**On Sunday the twelfth of March twenty-twenty-three, the world’s largest oil and gas producer, Saudi Aramco, announced earnings of a hundred and sixty-one billion dollars for the previous financial year. That’s the largest ever profit recorded in a single year by a fossil fuel company. The announcement followed similar record results from all the other major fossil fuel producers that had been hitting the headlines during the latter part of last year.**

**This is absolutely fantastic news if you happen to be the CEO of one of those companies. The boss of BP, Bernard Looney, for example, netted ten million dollars for twenty-twenty-two, including eight- point-four million in bonuses alone. Shell’s CEO, Ben van Beurden’s twenty-twenty-two package jumped fifty three percent to nine-point seven million, and it was a similar story for all the other brave captains of the fossil fuel industry, all of whom had managed to steadfastly steer their corporate ships through the choppy waters of a captive monopolistic market where they could charge whatever they felt like with complete impunity. It must have been a very worrying time for the poor lambs, so I’m sure you can understand why they all required such a high level of compensation.**

**But a few weeks prior to the Aramco earnings call, the International Energy Agency, or IEA, published this report, which showed that fossil fuel consumption subsidies for twenty-twenty-two had roughly doubled, to well over a trillion dollars.**

**Now, I don’t know about you, but there’s something about all of this that, you know… just seems like it could possibly be construed by the average person in the street as maybe being, well, not quite right.**

**So, what really is the deal with fossil fuel subsidies? Are these payments actually an essential measure to ensure the lights stay on and our societies continue to operate safely and reliably, or are we simply lobbing obscene amounts of tax payers’ money into the war chests of these companies to help them fight the onslaught of the green transition?**

**Hello and welcome to Just Have a Think,**

**Regular viewers will know that I often END my videos with a phrase that goes something like…”this one’s quite a contentious issue…” or some such pithy comment**

**Well, I’ve got a sneaky suspicion that fossil fuel subsidies may well be one of THE MOST contentious topics we’ve covered so far, so I thought this week I’d just throw that out there right from the get-go so you can start sharpening your metaphorical pencils straight away!**

**Let’s start off with a quick look at the two main types of so-called ‘EXPLICIT’ subsidy. There’s actually a third, very hotly debated ‘IMPLICIT’ category as well, but we’ll come back to that a bit later…The two EXPLICIT subsidies are designed to help producers at one end of the supply chain, and consumers at the other.**

**PRODUCTION subsidies are tax breaks or even direct government payments that contribute towards reducing the cost of producing a fossil fuel in the first place. They can often be less conspicuous activities too, like state loans and guarantees at artificially low interest rates, or the provision of resources like land and water to fossil fuel companies at below-market rates, a bit like the deal recently agreed between Conoco Phillips and the US government to build three new drill sites up in Alaska that will eventually churn out nearly two hundred thousand barrels of oil a day.**

**Production subsidies are most common in Western industrialised countries where they’re increasingly locking in large, long-term infrastructure like oil pipelines and gas fields that could become stranded assets as we transition ever more rapidly towards renewable technologies like wind, solar and energy storage.**

**At the other end of the supply chain there are CONSUMPTION subsidies. As the name suggests, this is government support that essentially keeps fuel prices artificially low for final consumers like you and me by fixing prices below the true market rate. 4:06 Public awareness of these subsidies really came to the fore during twenty-twenty-two. As the IEA points out in their recent report, prices for fossil fuels during that year were extraordinarily high and volatile, largely as a result of the situation in Ukraine and the sharp cuts in Russian fossil gas deliveries to Europe. The IEA found that in many countries a range of policy interventions insulated consumers from ballooning prices, BUT with the rather perverse effect of keeping fossil fuels artificially competitive with low-emission alternatives.**

**Now, in preparation for this video I checked in with a contact at the IEA who told me that figures for twenty-twenty-two global PRODUCTION subsidies are being worked on right now by the Organisation for Economic Cooperation and Development or OECD, but unfortunately, they won’t be available until September twenty-twenty-three. 4:58 We DO have the IEA’s findings for CONSUMPTION subsidies though, and as you can see from this chart, in twenty-twenty two that number shot up to almost one-point-one trillion dollars.**

**The International Monetary Fund, or IMF expresses its view on Consumption Subsidies at its website. It says this…**

**“Subsidies are intended to protect consumers by keeping prices low, but they come at a high cost. Subsidies have sizable fiscal costs, (leading to higher taxes and borrowing, or lower spending), promote inefficient allocation of an economy’s resources (hindering growth), encourage pollution (contributing to climate change and premature deaths from local air pollution), and are NOT well targeted at the poor (mostly benefiting higher income households). Removing subsidies and using the revenue gain for better targeted social spending, reductions in inefficient taxes, and productive investments can promote SUSTAINABLE and EQUITABLE outcomes. Fossil fuel subsidy removal would also reduce energy security concerns related to volatile fossil fuel supplies.”**

**Now you might be thinking that that all sounds a bit like naïve lefty liberal kumbaya, but there are examples from countries around the world where these principles have been adopted without necessarily harming normal working people. According to a Swiss research group called the Global Subsidies Initiative, or GSI, the Philippines, Indonesia, Ghana and Morocco have all introduced cash transfers and social support like education funds and health insurance for poor families, that effectively compensate for the removal of fossil fuel subsidies. The combined population of those countries is almost half a billion, so we’re not talking about some obscure unrepresentative island in the middle of nowhere – these are fairly significant numbers. Egypt is another example of how to remove subsidies well. According to analysis from the World Bank, a decade ago the Egyptian government was spending about seven percent of its GDP on fossil- fuel subsidies, which was more than its combined spending on health and education. But in its twenty sixteen-seventeen budget it slashed that number to just two-point seven percent. The administration took the trouble to communicate every stage of the transition to its one hundred and nine million citizens, so that they understood how and WHY the changes were taking place, and again, the money saved was used to support health and education to help protect the long-term prosperity of the country.**

**Like all initiatives though, the human beings running them don’t always get it right. In twenty-twenty, India decreased its subsidies for liquefied petroleum gas or LPG. That meant higher prices, which, while quite irritating were nevertheless fairly manageable for relatively wealthy urban citizens. The same could not be said for poorer rural families though, for whom these price hikes could have been extremely damaging. So, the plan was to provide FREE LPG cylinders to those rural populations that would insulate them somewhat from higher costs. It was a very fine concept. The only problem was, the government underestimated how many cylinders would be needed and didn’t provide enough, so people had no choice but to go back to burning wood and other biofuels, which led to higher carbon emissions – precisely the opposite of what the policy was designed to achieve. In twenty-nineteen, President Lenin Moreno of Ecuador introduced a RAPID fuel-tax hike in a radical attempt to completely eliminate fossil fuel subsides altogether. But the policy was badly thought through, and it was simply too much of a shock to the social system of that country. As a result there were weeks of serious demonstrations, mainly by poorer, indigenous protesters, and Moreno had to walk back the proposal and promise dialogue to find a better solution.**

**And of course, just stripping out a layer of financial support that has, in some cases become a fundamental bedrock of corporate fiscal security, doesn’t usually prompt the leaders of those businesses to cut their own salary packages and tell their shareholders that annual dividends will have to be slashed. The much more likely outcome is that the jobs of thousands of hard-working employees will be destroyed in order to keep the bottom line looking healthy. Governments need to understand that challenge and ensure there’s a plan in place to mitigate those redundancies. Denmark provides us with a potential template in this case. Public investment in technology and the expansion of the wind market, combined with the development of companies that have the necessary capabilities, as well as pressure from within both the business community and civil society were all factors that persuaded the Danish government to remove fossil fuel subsidies and put in place a regulatory regime that allowed the state owned energy company, Ørsted, to make a radical and rapid strategic shift away from fossil fuel production and towards renewable energy.**

**But what about those IMPLICT subsidies that I briefly mentioned right at the start of the video. Well, that’s a topic that appears to have split market analysts into two distinct camps. Some argue that because big polluters have no obligation to pay for the hidden impacts of fossil fuels on air pollution and the overall warming of our climate, those UNPIAD costs effectively represent ANOTHER completely separate subsidy.**

**According to this 2021 report from the International Monetary Fund, if those IMPLICIT environmental, health and climate costs were added in then the real level of subsidy being enjoyed by fossil fuel companies would have worked out at five-point-nine trillion dollars in twenty-twenty or six point eight percent of global GDP, rising to seven point four percent by twenty-twenty-five as the share of fuel consumption in emerging markets, where price gaps are generally larger, continues to climb. Only eight percent of the twenty-twenty subsidy is explicit subsidisation of supply costs. Ninety-two percent is made up of environmental costs and foregone consumption taxes.**

**The IMF calculations showed that if all countries raised their fuel prices to what they call ‘fully efficient levels’, then the result would be a thirty six percent reduction in projected global fossil fuel carbon dioxide emissions by twenty-twenty-five, which is actually IN-LINE with the reductions needed by twenty-thirty to keep atmospheric warming to between one point five and two degrees Celsius this century.**

**And it’s perhaps worth finishing with this page from a November twenty-twenty-two publication by the Canadian Institute for Sustainable Development or IISD called ‘Navigating Energy Transitions’, which says this…**

 **“estimates show that capital and operational expenditures for the exploration and extraction of oil and gas in new fields—incompatible with IPCC, IEA one point five degree Celsius pathways, are expected to reach five hundred and seventy billion dollars A YEAR by twenty thirty, which will mean a cumulative total of four point two TRILLION dollars this decade. By themselves, these investments would suffice to bridge the entire investment gap for wind and solar by twenty- thirty.”**

**You should have your virtual electronic pencils well and truly sharpened by now I suspect, so I’ll see you in the comments section below, and in the words of the immortal British chat show host Mrs Merton “let’s have a heated debate”**

**That’s it for this week though. I’m talking a short break next week, not to recover from what I’m about to face in the comments section, but actually to do a few early Spring tidy up jobs around my home and garden. So, there’ll be no video next weekend, but I’ll be back on Sunday the 2nd April [Actually the 9th April!!] with more news from the world of climate change and sustainable energy.**

**In the meantime, a huge thank you, as always to our amazing Patreon supporters who make this channel possible and who you can join by visiting patreon dot com forward slash just have a think.**

**And of course, if you found this video useful and informative, then you can help the channel absolutely for free by clicking the ‘subscribe all’ option in YouTube’s drop down menu so that you get notified whenever a new video comes out.**

**As always, thanks very much for watching, have a great week, and remember to Just Have a Think.**

**See you next week.**