

What are subsidies and who provides them? Subsidies are given when governments or government-owned institutions decide to give a helping hand to a business, an industry or consumers. Subsidies to fossil fuel companies are any government action that lowers the cost of producing coal, oil and gas. Governments help fossil fuel companies in many different ways – via direct payments, tax breaks, loan guarantees, cheap rental of public land or R&D grants – but the result is always the same: subsidies artificially lower the price of dirty energy.



Why do governments subsidise fossil fuels? In many countries, fossil fuels are required for many daily activities such as kerosene for lighting, petroleum gas for cooking or diesel for transportation. Governments subsidise these inputs to consumers to make sure more people can use them but also to producers to keep them in business. Thus, a fossil fuel subsidy can lower the cost of fossil fuel energy production and it can raise the price received by energy producers or lower the price paid by energy consumers.

If subsidies lower prices for consumers, why should they be opposed?

Subsidies are a good mechanism if used appropriately. Unfortunately, some subsidies such as for coal increase the use of products that harm our health and the environment. Contrary to common belief, subsidies benefit the poor much less than the rich. In fact, according to the International Monetary Fund (IMF), the richest 20 percent of the population receive six times the benefit of the poorest 20 percent. Fossil fuel subsidies increase the price gap between fossil fuels and renewable energies making fossil fuels appear cheaper, increasing consumption of them while decreasing incentives for producers and ultimately consumers to switch to renewable, healthier energies. In a nutshell: the cheaper fossil fuels are, the more we burn. The more we burn, the sicker we get and the more our planet heats up.

What are the three main arguments against paying fossil fuel subsidies?

1. **Climate:** Subsidies make us consume more fossil fuels for our energy needs. Fossil fuels are the main generator of greenhouse gases and contribute significantly to climate change. Subsidies impede investment in clean energy sources and undermine efforts to address the threat of climate change.
2. **Health:** Subsidies overshadow the fact that fossil fuels contribute greatly to air pollution which harms the health of millions of people worldwide each year. It also causes respiratory and heart diseases, a loss in productivity and high healthcare costs for governments.
3. **Fiscal costs:** When we subsidise something, we are encouraging it. Fossil fuel companies worldwide receive high amounts of public funds, which could be better spent on the transition to renewable energies or invested in education, health or social programmes.



If it's bad for health and environment, why are subsidies not cut?

A phase out of subsidies is beneficial from the view of the entire society. Yet, cutting for example *producer subsidies* often meets political unwillingness especially in conservative governments where fossil fuels such as coal are considered an asset and where corporations hold power over political processes. Cutting *consumer subsidies* would result in higher fossil fuel prices in some countries which in the past has led to widespread public protests by those employed in the

industry as well as low- and middle-income households, who fear higher prices. Phasing out producer subsidies would meet less public resistance and is often even supported by citizens. It is essential to note that the debate on how to curb fossil fuel subsidies will vary across countries and governments.

What can be done to mitigate potentially negative effects of subsidy reform?

Reform of consumer subsidies could for example free up to 5.3 trillion USD according to the IMF. Oil Change International calculated that cutting producer subsidies (i.e. funds for exploration, extraction and development) would free roughly 444 billion USD for the world's 20 major economies. It is crucial that governments utilize this fiscal gain properly such as i.e. through compensated retraining programs for workers who may lose their jobs or for the poor- and middle-class in the form of cash payments or assistance in implementing solar and other energy sources. Cutting different kinds of subsidies requires different mitigation efforts in different countries and there is no universal formula to be applied or advocated.



What would subsidy reform mean for the global climate?

Eliminating for example worldwide fossil fuel consumer subsidies completely would cut global CO₂ emissions by more than 20 percent, a significant amount to help stop a worldwide climate crisis, according to the IMF. Two-thirds of these reductions would come from cutting coal subsidies, given its high carbon intensity and the high coal taxes needed to cover carbon and air pollution damages.

What would subsidy reform mean for global health?

According to the IMF, eliminating worldwide fossil fuel consumer subsidies would cut premature deaths from air pollution by more than half worldwide, saving 1.6 million lives per year. In Central Europe even 60 percent of premature deaths from air pollution could be prevented. Aside from direct health benefits such as lives saved, the money freed through reform could be invested in improvement of health systems as well as the transition to renewable energies. Consequently, this would have a positive effect on human health and the environment, through cleaner air.

Why and how are health professionals advocating for a subsidy reform?

The Lancet, one of the world's oldest and best known general medical journals, named tackling climate change as the greatest global health opportunity of the 21st century. The journal suggests how universal health coverage may be financed by cutting fossil fuel subsidies. The Lancet is not alone - more than 300,000 doctors, nurses, public health professionals and health advocates from 30 countries have called on the world's seven largest economies to accelerate the transition away from coal to save lives.

What is happening at the international political level?

At the 2009 G20 summit in Pittsburgh, governments agreed to “rationalise and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption.” The leaders of the G7 countries and the European Union (EU) have pledged to eliminate “inefficient fossil fuel subsidies” (for coal, oil and gas) by 2025. Overall, progress has been slow with few countries implementing the necessary first steps. In addition to the absence of political will, there is a lack of a universally applicable definition of what constitutes a subsidy, allowing governments to be creative when reporting on progress made and consequently making it more difficult for the public to track whether promises have been held.



For sources of information see the Fossil fuels subsidies and health briefing, July 2016