Global Fuel Subsidies 2015 Press release

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A number of studies claim that pervasive subsidies provide an unfair competitive advantage to fossil fuels over renewable energy. Many estimates have been made of the value of direct and indirect subsidies provided to fossil fuels, the most extreme being the 2015 study by the International Monetary Fund estimating fossil fuels subsidies at $5 trillion annually.

On examination, many of the direct subsidies in this study turn out to be generally available to other businesses, and most of the value of the indirect subsidies is estimated from uncertain projections of future damages from fossil-fueled global warming, which are discussed in detail in a previous CO2 Coalition White Paper, *The Social Cost of Carbon and Carbon Taxes: Pick a number, any number*. The most thoughtful and transparent evaluation of subsidies are those of the Organization for Economic Cooperation and Development (OECD), a European-based coalition of 36 market economies, and its International Energy Agency (IEA). Many of the roughly 2,200 items listed by the OECD as "subsidies" are debatable. However, focusing on subsidies alone obscures the real policy issue, which is whether government policy in total reduces fossil fuel prices below their hypothetical market level and whether these distortions occur in markets where renewables are trying to compete.

To address this issue, the new CO2 Coalition White Paper *Do Government Policies Favoring Fossil Fuels Hamper the Development of Wind and Solar Power?* (a) distinguishes "subsidies" from "externalities," (b) includes taxes in the calculation, and (c) makes proper geographic distinctions. Taking these factors into account, the paper concludes that, even taking at full value the direct subsidies cited by the OECD and IEA, fossil fuels are significantly overtaxed and not unfairly advantaged in most countries of the world.

In fact, although most countries do offer some subsidies to fossil fuels, as outlined in the OECD data, the massive taxes imposed by most governments are generally far higher, resulting in a net increase in the price of fossil fuels. Taking into account all taxes and subsidies, fossil fuels in the United States are overtaxed by an estimated $50 billion per year. The 28 other largest industrial democracies (most of the European countries, Canada, South Korea, New Zealand and Australia) are overtaxed an estimated $363 billion, and the BRIC countries (Brazil, Russia, India, and China) are overtaxed an estimated $104 billion. The primary exceptions to this rule are found in oil-producing developing countries that offer their citizens heavily subsidized motor fuels but are not likely candidates for renewable energy.