New figures published by the IMF show the UK provides more subsidies for fossil fuels than renewables

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An IMF report has quantified the subsidies provided for the fossil fuel industry, finding the UK will spend £26 billion this year, amounting to far more than the subsidies provided for renewables. ***Bob Ward*** *summarises the findings.*

New figures published by the International Monetary Fund (IMF) show that the UK Government may not be looking in the right place if it wants to cut energy subsidies. The IMF's latest analysis estimates that the UK will spend about US$41 billion (£26 billion), equivalent to 1.37 per cent of its GDP, on subsidies for fossil fuels this year. The bulk of this total is due to fiscal policies that do not address externalities, such as global warming and local air pollution, caused by the consumption of oil, coal and gas.

The most recent report by the Committee on the Medical Effects of Air Pollutants in 2010 concluded that atmospheric particles from human activities, such as the burning of coal and diesel, cause nearly 29,000 premature deaths in the UK each year. The premature deaths and illnesses caused by air pollution have a damaging effect on the UK economy and the failure to take them into account adequately in UK tax policy represents an effective subsidy, according to the IMF.

However, the IMF makes a conservative estimate of the subsidy for carbon dioxide pollution from fossil fuels because it uses low values for the 'social cost of carbon' to calculate the damage caused by climate change. The IMF employs figures put forward by the United States Government in 2013, which differ very little from their previous numbers that were criticised by economists for being too small.

The significant subsidies identified by the IMF are much larger than the direct support that renewable power has been receiving in the UK through the Levy Control Framework. The Framework caps the total sum that can be collected through levies on electricity bills. This was originally set to reach £7.6 billion in 2020-21 (in 2011-12 prices), but new projections by the Office of Budgetary Responsibility for the Summer Budget indicated that they would reach £9.1 billion. The Government has used these projections to partly justify the removal of subsidies for onshore wind farms, and possibly solar energy. However, the magnitude of the direct support for renewable power is still much lower than the subsidy that fossil fuels are due to receive this year.

Coal is likely to be the main beneficiary, with nearly £18 billion in subsidies in the UK in 2015. Some of this will be shared by consumers, but it will also help producers, the overwhelming majority of which are based overseas. Statistics published last month by the Department of Energy and Climate Change show that about 85 per cent of the demand for coal in the UK in 2014 was met from imports. The single biggest source was Russia, accounting for 42 per cent of imports, followed by the United States. But those who have vested financial interests in the coal industry often fail to acknowledge the extent to which they benefit from post-tax subsidies.

For instance, Viscount Ridley, the Conservative peer who disputes the scientific evidence about the scale of the risks of climate change, and whose family is paid an undisclosed sum to allow coal mining on their estate, wrote an article for the *Wall Street Journal* earlier this year in which he suggested that the subsidies for fossil fuels were lower than those for renewables. Lord Ridley's article was subsequently cited by Peabody Energy to support its claim that vegetation is benefiting from the carbon dioxide emitted by the burning of fossil fuels, in a document which it submitted earlier this year to the White House's Council on Environment Quality arguing against proposed new limits on power plants in the United States. Peabody Energy is the largest producer of coal in the United States. The company's most recent annual report boasts that it sold more than 225 million tonnes of coal in 2014 from mines in the United States and Australia, including through its UK subsidiary, Peabody Coaltrade International Limited.

The IMF calculated that subsidies for coal will reach US$3.1 trillion, equivalent to 3.9 per cent of global GDP, in 2015. Altogether, fossil fuels will receive US$5.2 trillion in pre- and post-tax subsidies, equivalent to 6.3 per cent of global GDP. The authors of the IMF report concluded that "[e]liminating post-tax subsidies in 2015 could raise government revenue by $2.9 trillion (3.6 percent of global GDP), cut global CO2 emissions by more than 20 per cent, and cut pre-mature air pollution deaths by more than half".

About the Author

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