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The fossil fuel bailout:

G20 subsidies for oil, gas and coal exploration

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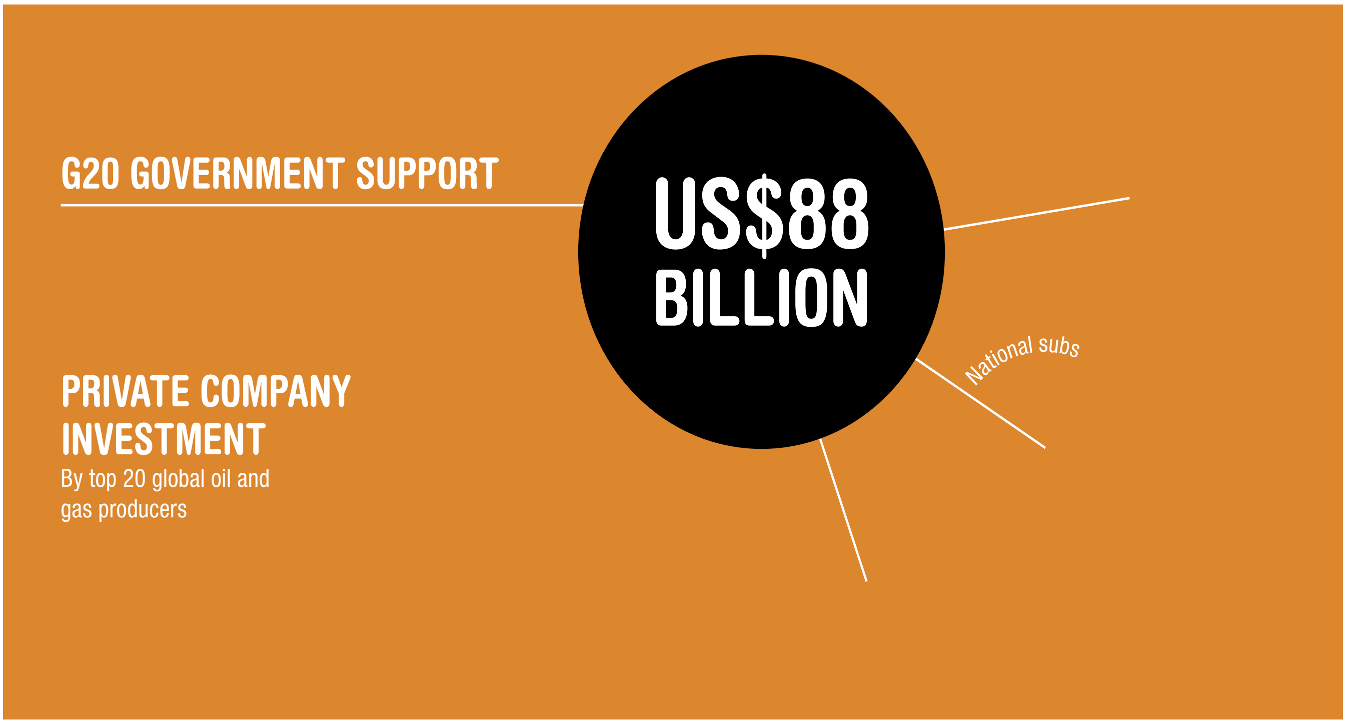
Executive summary

Governments across the G20 countries are estimated to be spending $88 billion every year subsidising exploration for fossil fuels. Their exploration subsidies marry bad economics with potentially disastrous consequences for climate change. In effect, governments are propping up the development of oil, gas and coal reserves that cannot be exploited if the world is to avoid dangerous climate change.

This report documents, for the first time, the scale and structure of fossil-fuel exploration subsidies in the G20 countries. The evidence points to a publicly financed bail out for carbon-intensive companies, and support for uneconomic investments that could drive the planet far beyond the internationally agreed target of limiting global temperature increases to no more than 2°C.

It finds that, by providing subsidies for fossil-fuel exploration, the G20 countries are creating a ‘triple-lose’ scenario. They are directing large volumes of finance into high-carbon assets that cannot be exploited without catastrophic climate effects. They are diverting investment from economic low-carbon alternatives such as solar, wind and hydro-power. And they are undermining the prospects for an ambitious climate deal in 2015.


G20 GOVERNMENT SUPPORT
US$88 BILLION
National subs
PRIVATE COMPANY INVESTMENT
By top 20 global oil and gas producers

- The UK has introduced national subsidies for fossil fuel exploration valued up to $1.2 billion a year, including for promoting offshore and unconventional gas/oil exploration. In between 2009 and 2014 these were worth $838 million to Total (headquartered in France), $407 million to Statoil (Norway), $229 million to Centrica (UK) and $72 million to Chevron (US).

Investment by state-owned enterprises (SOEs) represents a major source of support for exploration by several G20 countries. Levels of support range from $2-5 billion in Russia, Mexico and India, to $9 billion in China, $11 billion in Brazil and $17 billion in Saudi Arabia. National subsidies and investment through SOEs have pushed back the frontier for fossil-fuel exploration. Russia's Gazprom, for example, has started production from its first Arctic offshore site through the Prirazlomnoe project. Even with extensive tax breaks and public investment in infrastructure, the project is of dubious commercial viability: two-thirds of the reported internal rate of return of 14% can be traced to tax breaks.

Domestic and international public finance also plays a significant role in supporting fossil-fuel exploration. Support from financial institutions owned by the governments of Canada, China, Japan, the Republic of Korea and Russia figures prominently in financing for exploration around the world, including in developing countries.

In addition, the G20 countries provide public finance for exploration through their stake in multilateral development banks (MDBs). We estimate that the MDBs provided an average of $521 million every year for fossil-fuel exploration between 2010 and 2013. Almost two-thirds of this total originated from the World Bank Group, calling into question the alignment of loan practices with the Bank's stated policy goal of driving low-carbon development. The bulk of the World Bank's exploration portfolio in fossil fuels can be traced to the International Finance Corporation.

Support for fossil-fuel exploration is one part of a wider picture of subsidisation. Globally, subsidies for the production and use of fossil fuels were estimated at $775 billion in 2012. This is without taking into account the wider costs associated with air pollution and greenhouse-gas (GHG) emissions. By contrast, subsidies for renewable energy amounted to just $101 billion in 2013. Linking this to global energy investment figures shows that for every US dollar in renewable subsidies there is US$2.5 invested in renewable energy, while a US dollar in fossil fuel subsidies only draws US$1.3 of investment.

Image: CSIRO ScienceImage 2945 Morwell Open Cut Mine.

Recommendations

Above all, governments should price carbon to reflect the social, economic and environmental damage associated with climate change, and to reduce emissions to levels compatible with the globally agreed 2°C target. Governments in the G20 and beyond should act immediately to phase out fossil-fuel subsidies to exploration.

The following specific recommendations emerge from this report:

- immediately phase out exploration subsidies as a first step towards wider fossil-fuel subsidy phase out and reform
- eliminate bilateral and multilateral finance for fossil-fuel exploration
- introduce greater transparency in budget reporting so that citizens and legislative bodies are aware of real spending on fossil-fuel subsidies
- work through the OECD, UNFCCC and other bodies to identify and remove government incentives for fossil-fuel production
- transfer subsidies from exploration and other fossil-fuel subsidies to support for the transition to low-carbon development and universal energy access.

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