

US backs ending of fossil fuel subsidies

By Fiona Harvey in London, Edward Luce in Washington and Kathrin Hille in Beijing
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The [Group of 20](#) will discuss phasing out fossil fuel subsidies at its meeting on Friday, in a move that will delight the low-carbon energy sector, which has long [complained of the distorting effects of such assistance](#).

[Barack Obama](#), president of the US, has asked Susilo Bambang Yudhoyono, Indonesia's president, to give a presentation to world leaders in Pittsburgh on how to reduce fuel subsidies while still targeting cash transfers to the poor.



Mike Froman, the White House “sherpa” for the G20 summit, said the US proposal to eliminate the subsidies would reduce fossil fuel emissions by 12 per cent. The biggest developing economies spend \$310bn a year in such subsidies, according to the International Energy Agency.

Iran, Russia, China, South Africa and India are the developing countries offering the highest subsidies, though many developed countries also offer implicit subsidies.

But past hopes of phasing out the subsidies have foundered as many countries have vested interests in providing lower-cost fuel to their citizens and industries, and in propping up sectors such as coal-mining.

Fatih Birol, chief economist at the IEA, said countries were reluctant to cut the subsidies because of a perception that they help the poor. In fact, studies show higher-income citizens are the main beneficiaries and the subsidies mean less government spending is available for other services.

Removing the subsidies also stimulates greater energy efficiency and cuts air pollution, in the form of particles and noxious gases such as sulphur dioxide.

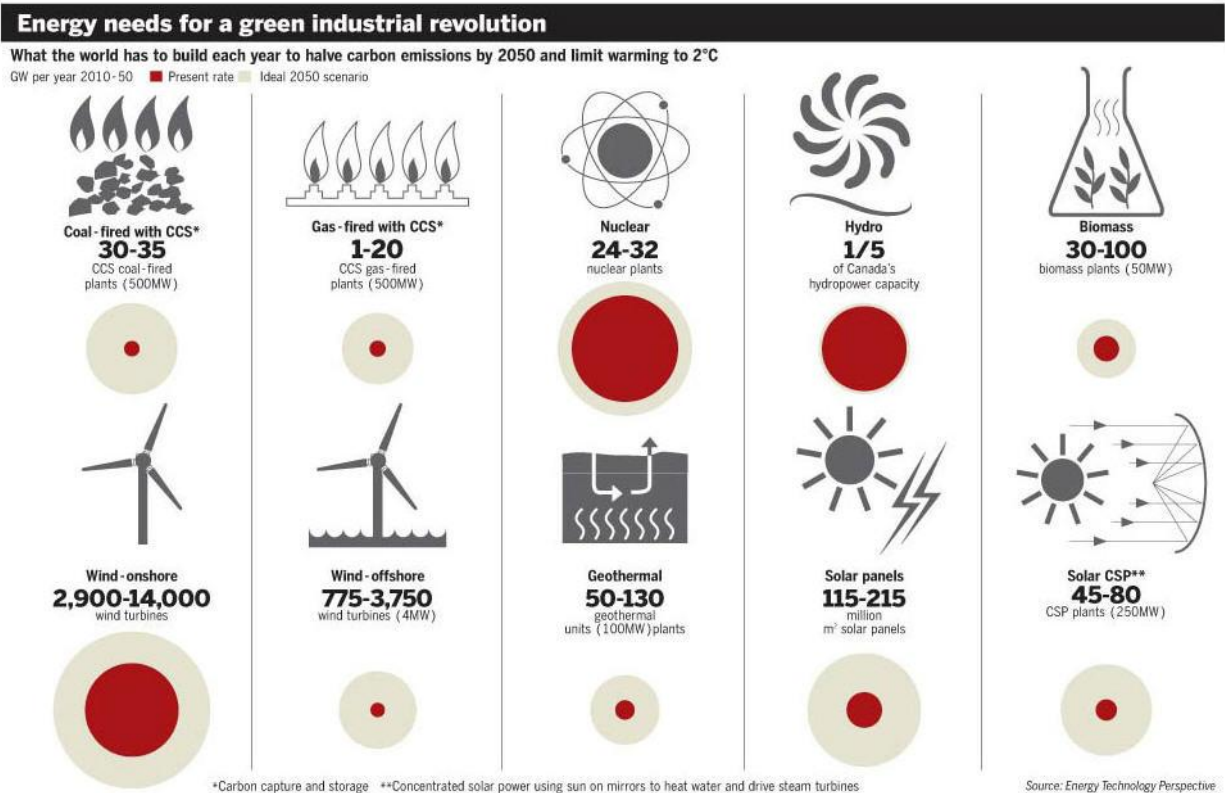
He said China had successfully rolled back some subsidies in recent years, but the rest of the world had a poor record. “Our advice is to encourage countries with the largest subsidies to reduce them gradually, by telling them about the benefits,” he said.

Mr Froman moved to reassure other governments over the US proposal. “The G20 is not trying to do anything that would leave people in the dark,” he said. “But instead we are trying to encourage countries to move off blanket subsidies and replace them with targeted subsidies that would provide necessary resources to those in need.”

But US officials were much vaguer about what the US is offering to cut in the way of the implicit fuel subsidies in the US tax code, including tax breaks for oil exploration companies, tax credit for manufacturers and other devices that indirectly lower the cost of petrol for the US consumer. “We are not taking anything particularly off the table,” he said. “If it falls into the right category of subsidies for fossil fuels, we would have to look at our own programmes as well as others.”

China was silent immediately after Mr Obama’s speech but observers said Beijing could perceive his move as a politically appropriate response to the climate policy agenda mapped out by Hu Jintao, president. However, while China may like the idea that the US should cut fossil fuel subsidies, Mr Obama’s call for a multilateral deal under which others should do the same could prove much more difficult for Beijing.

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Real challenge lies in putting cash to work

By Ed Crooks

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If an industrial revolution to produce energy with much lower carbon emissions gathers momentum in Copenhagen in December, there will be fortunes to be made. There are also likely to be some great business empires destroyed.

The scale of the task is vast. Limiting carbon dioxide emissions to the levels scientists suggest would keep global warming to no more than about 2°C would mean building nuclear power stations, wind farms and solar panels at rates never seen before. But it is - just about - achievable. As Cecilia Tam of the International Energy Agency, the rich countries' watchdog, puts it: "It is challenging, but feasible."

The technology is not an obstacle. All the necessary processes are either already in use or, with luck, capable of being deployed within a decade or so.

Nor is finance necessarily a barrier, even though the sums being discussed sound breathtaking. Estimates of the additional cost required to curb greenhouse gas emissions to acceptable levels vary from about \$100bn (€67bn, £61bn) to as much as \$1,000bn per year. Even that higher figure, however, amounts to only about 2 per cent of the world's gross domestic product.

The real issue will be putting the money to work: finding the right institutions and frameworks that will deploy those thousands of billions of dollars to make the investments needed.

Spending in emissions reduction is already big business. Although the global recession has hit investment in low-emissions energy, like everything else, it rose tenfold in the five years to \$155bn last year, and will still be about \$100bn this year, according to New Energy Finance (NEF), a research group.

HSBC, the bank, estimates that listed companies' worldwide revenues from climate change-related activities were \$530bn last year, making the industry as large as the defence and aerospace sector.

That investment will undoubtedly have to rise much higher, however. Ms Tam of the IEA says: "We will need all the low-carbon technologies available to us. Capturing carbon dioxide emissions will be an important technology, we need the nuclear renaissance, we will need a big build-up in renewables such as wind and solar power, and we will need low-carbon -transport."

The bulk of the money will have to come from the private sector. At first that could be in the form of loans and equity investments. There are huge opportunities in emerging economies,

including China, for investments that would cut emissions and also -generate profits, typically by saving energy. There will need to be more mechanisms to allow those investments to be made.

Michael Liebreich of NEF argues that the costs of renewable energy will fall as technology improves, while the costs of fossil fuels are likely to rise as reserves are depleted. So investment in wind farms and solar panels may become ever more attractive even without official support.

But ultimately there is likely to be a global framework to reward investments in emissions reduction, probably in the form of a carbon trading system.

Such a system would put a price on emitting carbon, creating a cost for companies that create emissions and gains for those that cut carbon output.

A world with such a system would look very different. Where electricity generation today is heavily dependent on coal, by 2050 there would probably be very few coal-fired power stations that did not capture and store their carbon dioxide emissions. Where petrol and diesel-powered vehicles now account for almost all those on the road, by 2050 they would be in a minority, with some combination of battery, hydrogen and advanced biofuel used in the rest.

But while the impact on business of these changes would be huge, many companies argue that their biggest problem is not the decisions that have been made but the uncertainty about what the outcome will be.

Simon Henry, the chief financial officer of Royal Dutch Shell, Europe's biggest oil company, argued in a speech yesterday: "Industry. . . needs a robust and predictable climate change policy framework. The lack of a hard price for carbon dioxide hinders long-term planning and discourages investment on the scale needed to build a sustainable energy supply."

If there is no clear lead from Copenhagen in December, not only will the clean energy revolution be deferred but future energy supplies in general will be put at risk.

Business landscape in 2050

WINNERS * Manufacturers of battery-powered cars * Renewable energy companies * Nuclear power generators * Backers of emission-reduction projects in developing countries * Electricity generators that have developed carbon capture technology * Energy-efficient companies in energy-intensive industries **LOSERS** * Makers of petrol and diesel-powered cars * Oil producers * Coal producers * Traditional coal-fired power stations * Energy-intensive industries such as steel * Consumers with high energy use in developed countries * Manufacturing and construction companies producing energy-inefficient products and buildings

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