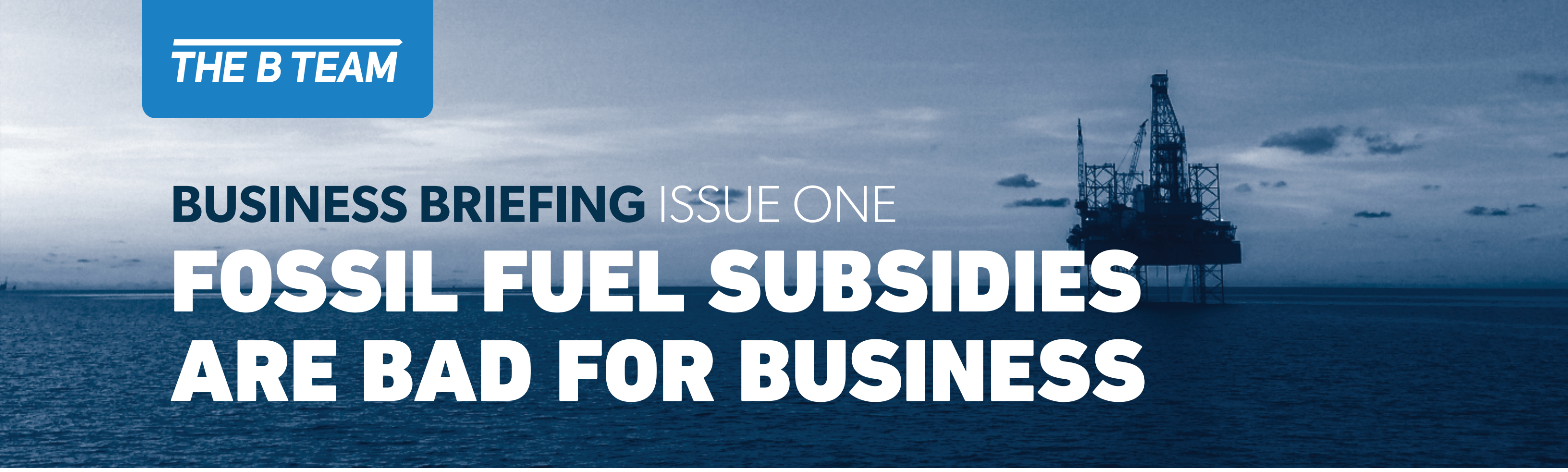

THE B TEAM

BUSINESS BRIEFING ISSUE ONE

FOSSIL FUEL SUBSIDIES ARE BAD FOR BUSINESS

FOSSIL FUEL SUBSIDIES IN NUMBERS

- Fossil Fuel subsidies cost the world US$490 billion in 2014
- This is nearly 4.5 times more than subsidies to renewable energy in the same year
- Phasing out fossil fuel subsidies could result in CO_2 emissions reductions of up to 13% by 2050
- The richest households gain six times more from fossil fuel subsidies than the poorest households
- In 2013-14 around 30 countries undertook initiatives to reform subsidies

WHAT ARE SUBSIDIES?

"A SUBSIDY IS ANY FINANCIAL CONTRIBUTION BY A GOVERNMENT OR AGENT OF A GOVERNMENT THAT IS RECIPIENT-SPECIFIC AND CONFERS A BENEFIT ON ITS RECIPIENT IN COMPARISON TO OTHER MARKET PARTICIPANTS." [1]

World Trade Organization (WTO)

Fossil fuel subsidies cost around US $490 billion worldwide every year. They promote investment in the coal, oil and gas industries at the expense of renewable energy and energy efficiency – undermining the growth of critical low-carbon products and services. Reforming fossil fuel subsidies would create a "pull" towards low carbon businesses and facilitate investment in a fairer and more sustainable economy. In addition, making these reforms has the potential to reduce CO_2 emissions by up to 13 percent by 2050.

This 'Business Briefing' outlines why fossil fuel subsidy reform matters – for the economy, for the planet and for its people – and looks at what business leaders can do to help drive change. This includes the urgent need for a wide range of innovative companies to work together to make a stronger case for fossil fuel subsidy reform.

The B Team has set a number of challenges for businesses, which include safeguarding natural resources and pushing for a reinvention of market incentives, more in favor of the planet and its people. For the business community to successfully meet these challenges, and contribute to genuinely innovative and sustainable development, the impact of fossil fuel subsidies needs to be fully understood and taken into account.

[1] https://www.wto.org/english/docs_e/legal_e/24-scm.pdf

WHAT ARE FOSSIL FUEL SUBSIDIES?

Fossil fuel subsidies are financial contributions to the producers or consumers of fossil fuels. They include all financial contributions or direct support from governments; transfer of risk through provision of debt, equity and guarantees; foregone revenue through tax breaks; provision of infrastructure, goods and services below market value; royalty breaks and investment in infrastructure, exploration and research and development.[2]

The International Energy Agency (IEA) put the value of fossil fuel subsidies at US $490 billion in 2014.[3] This figure is based on the difference between the price paid by consumers in a particular country and the cost of supply, based on an international "reference" fuel price. This calculation doesn't generally capture support to producers or most tax concessions to producers and consumers, which account for much of the support provided in developed countries.[4]

The International Monetary Fund (IMF) recently published a report opening the lid on the true cost of these subsidies. The report calculated the value of fossil fuel subsidies and included the various external costs associated with fossil fuel use, such as health impacts from air pollution and damage from climate change. On this basis, the IMF estimates that in 2015 the true cost of fossil fuel subsidies to governments is US$5.3 trillion, equivalent to US$10 million a minute every day.[5]

No matter how the overall costs of fossil fuel subsidies are calculated, the message is the same – they are unacceptably high. These subsidies create an unhealthy market incentive, and the capital would be better directed towards facilitating sustainable, low-carbon growth.

Leaders of The B Team have called for a target of net zero emissions by 2050,[6,7] but continued fossil fuel subsidies stand in the way of this critical goal being achieved and limiting global warming to under 2° Celsius. According to the Global Subsidies Initiative (GSI) , current studies show that the phase-out of fossil fuel subsidies would result in a decrease in global CO_2 emissions of between 6 and 13 percent by 2050.[8]

COMMONLY USED FOSSIL FUEL SUBSIDIES

- **Consumption Subsidies** are provided directly to consumers to lower the price of consuming energy products such as gasoline and diesel.
- **Production Subsidies** are provided to companies for exploration, extraction, and production of oil, gas, and coal.
- **Electricity Subsidies** are provided to companies providing non-renewable electricity, either on the production side (contributions to suppress the price of coal) or the consumption side (contributions to keep prices to customers down).

THE ECONOMIC IMPACT OF FOSSIL FUEL SUBSIDIES

Energy subsidies impose large fiscal costs, which governments finance by raising tax burdens and public debt, and by crowding out spending on health, education, infrastructure and other potentially productive public investments.[9] According to a recent Overseas Development Institute (ODI) study, for example, fossil fuel subsidies in countries such as Egypt, Pakistan and Venezuela amount to twice the amount as the government spending on health.[10]

By encouraging continued consumption of fossil fuels, governments may actually incur greater costs in the long run as they exacerbate problems in these other areas – for example, due to the negative health impacts of air pollution. As well as diverting money from sustainable investments, directing

[2] http://www.strandedassets2015.org/uploads/2/6/9/5/26954337/session_iv_presenter_iii_shelaghwhitley.pdf
[3] http://www.iea.org/Textbase/npsum/WEO2015SUM.pdf
[4] Separate analysis by the OECD put the value of fossil fuel subsidies amongst their members, including tax expenditure, at USD 55-90 billion a year between 2005 and 2011 (http://www.oecd.org/site/tadffss/Fossil%20Fuels%20Inventory_Policy_Brief.pdf). The OECD's data was recently updated to include the BRICS countries and Indonesia (http://www.oecd.org/site/tadffss/publication/)
[5] https://www.imf.org/external/pubs/ft/wp/2015/wp15105.pdf
[6] http://bteam.org/the-b-team/business-leaders-call-for-net-zero-greenhouse-gas-emissions-by-2050/
[7] The IPCC suggests that decreasing emissions by 40-70% by 2050 will only give a two in three chance of avoiding dangerous climate change.
[8] http://norden.diva-portal.org/smash/get/diva2:786861/FULLTEXT02.pdf
[9] https://www.imf.org/external/pubs/ft/wp/2015/wp15105.pdf
[10] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8668.pdf

public money towards supporting fossil fuels increases the vulnerability of national economies to volatile oil prices. According to the IMF, all of this can be a significant drag on economic growth and resilience.[11]

In particular, by keeping prices to producers and consumers artificially low, fossil fuel subsidies encourage wasteful consumption and create a disincentive to pursue renewable energy solutions. The US$490 billion worth of fossil fuel subsidies reported by the IEA in 2014 were nearly four and a half times higher than those allocated to renewable energy.[12] In order to achieve the goal of net zero emissions by 2050,[13] a significant ramp-up of investment in renewable energy will be required. The most ambitious energy scenarios show how renewable sources could move from 24 percent of electricity generation in a business-as-usual-scenario, to 94 percent by 2050.[14] To achieve this, a more balanced incentive structure that encourages investment into efficiency and renewables is vital.

HOW DO FOSSIL FUEL SUBSIDIES IMPACT BUSINESS?

Fossil fuel subsidies introduce a distortion into the market place that impacts the investment and operational decisions made by businesses. Even for companies with a strong focus on climate action, the existence of these subsidies reduces the fiscal space they require to invest in the social and physical capital that is crucial for sustainable and resilient business operations going forward. This undermines the ability of business to tackle the challenges put forth by The B Team to protect the environment and preserve natural resources (see Box 2).

Many energy-intensive industries, such as steel producers and cement manufacturers, benefit from subsidized energy prices now, but are at risk if they do not prepare for fossil fuel subsidy reform.

Similarly, farms and fisheries, as well as the public transport and freight sectors, are considered to be at risk of a rise in diesel fuel prices.

Sectors where a low carbon product or service is a central part of the business proposition are currently at a significant disadvantage. This includes energy-efficient buildings, energy-saving electrical devices and appliances, more fuel-efficient vehicles, smart technology applications and public transport innovations. In each case, fossil fuel subsidies make these products less competitive than they would be otherwise when compared to fossil-fuel-intensive alternatives.

FOSSIL FUEL SUBSIDIES AND THE B TEAM'S CHALLENGES FOR BUSINESS

RESTORE NATURE

Ensure that our companies significantly reduce their environmental impacts and invest in new business models that help regenerate the environment.

• Fossil fuel subsidies dis-incentivize investments in energy efficiency, that are beneficial for the bottom line and investments in renewable energy, that can protect companies from volatility in energy prices.

• Rates of return for these types of low carbon investments (already 11% on average) would improve with reform.[15]

• Fossil fuel subsidies improve the competitiveness of fossil-fuel intensive products and services, further discouraging investment in new, low carbon business models.

REINVENT MARKET INCENTIVES

Encourage government policies, corporate structures and tax systems that deliver the best outcomes for people and the planet, helping capital flow towards delivering true returns.

• Fossil fuel subsidies currently incentivize the wrong sort of behavior to the tune of around $US500 billion a year.

• A price signal that clearly encourages low carbon investment is crucial.

[11] https://www.imf.org/external/pubs/ft/wp/2015/wp15105.pdf
[12] http://www.iea.org/Textbase/npsum/WEO2015SUM.pdf
[13] http://bteam.org/the-b-team/business-leaders-call-for-net-zero-greenhouse-gas-emissions-by-2050/
[14] http://www.ren21.net/Portals/0/documents/activities/gfr/REN21_GFR_2013_scenarios.pdf
[15] https://www.cdp.net/Documents/we-mean-business-the-climate-has-changed.pdf

The impacts on companies will differ by country. However, for companies and investors that operate across national boundaries and serve multiple markets, there is likely to be some impact – whether they do business in a country or sector supported by subsidies, buy from suppliers that are subsidized, or compete with other companies that are subsidized.

WHY FOSSIL FUEL SUBSIDY REFORM IS COMPATABLE WITH SUSTAINABLE DEVELOPMENT

- The richest households gain six times more from fossil fuel subsidies than the poorest households. But the poorest are most at risk from climate change impacts.[16]
- Fossil fuel subsidies can have an adverse impact on a country's ability to met Global Goals on poverty and energy access.[17]
- Removing fossil fuel subsidies reduces outdoor urban air pollution, which was responsible for 3.7 million deaths in 2012.[18]

REFORMING FOSSIL FUEL SUBSIDIES

Historically, fossil fuel subsidies have been introduced to boost certain economic sectors or, in some developing countries, to compensate for weak institutions by offering cheap gas and electricity in place of comprehensive social protection. In oil-exporting countries, subsidies are often used as a tool for sharing oil wealth with citizens. But given the high share of benefits that accrues to upper-income groups, this is a much less effective policy instrument for distributing wealth than other public spending programs.[19] Unfortunately, the vested interests now in place because of the subsidies, make it hard to turn the juggernaut around. But this needs to be done urgently to avoid long-term carbon lock-in on a scale that would make it extremely costly to meet our climate change targets.[20]

The social impact of subsidy reform – in particular the perception that the poor will suffer as energy prices rise – can be a barrier. However, research has shown that the richest fifth of developing country households currently gain six times more financially from fossil fuel subsidies than the poorest fifth – although it is the poorest and most vulnerable that are disproportionately at risk from climate impacts.[21]

In order to manage the social impacts of phasing out fossil fuel subsidies, the GSI has outlined detailed technical guidance to steer the reform process. The guidance is structured around a three-pillared approach: improving and de-politicizing pricing mechanisms; building support for reform through consultations and communications; and making sure that the impacts of reform, particularly on vulnerable groups, are well understood and can be managed with complementary policies.[22]

For businesses specifically – and most especially those competing in high fuel-consuming sectors – the impacts must be managed carefully for reform to be successful. This can be accomplished through a well thought-out strategy that includes policies to mitigate any negative effects, where appropriate. Governments, working in partnership with business, need to identify and quantify the effects of phasing out subsidies, prepare a plan that includes any required mitigation measures, and ensure effective communication and consultation throughout this process. The most important elements of any mitigation policy are compensation policies that assist with the transition to a higher-cost energy environment, macroeconomic policies that limit the effects of energy price increases on international competitiveness, and broader policies that mitigate the impact on enterprises through mechanisms such as low-carbon infrastructure spending.

[16] https://www.imf.org/external/np/pp/eng/2013/012813.pdf
[17] http://cdkn.org/wp-content/uploads/2015/05/Impact-of-climate-on-SDGs-technical-report-CDKN.pdf
[18] http://www.who.int/phe/health_topics/outdoorair/databases/AAP_BoD_results_March2014.pdf
[19] https://www.imf.org/external/np/pp/eng/2013/012813.pdf
[20] http://iopscience.iop.org/article/10.1088/1748-9326/10/8/084023/pdf
[21] https://www.imf.org/external/np/pp/eng/2013/012813.pdf
[22] http://www.iisd.org/gsi/fossil-fuel-subsidies/guidebook

In 2013-14 around 30 countries undertook initiatives to reform fossil fuel subsidies,[23] and recent drops in oil prices have given governments a window to act on fossil fuel consumption subsidies in a number of developing countries. For example, Egypt reduced fossil fuel subsidies leading to an increase in fuel prices of 78 percent in 2014 and it is doubling electricity prices over the next five years, while Indonesia raised petrol and diesel prices by an average of 33 percent in 2013 and by another 34 percent in 2014.[24] Some countries, including Indonesia, the Philippines and Iran, are investing in social measures to offset the costs to citizens of rising oil prices during the process of reform, but others – such as Morocco and Ethiopia – have chosen to invest in the energy sector and renewables.[25]

HELPING THE PRIVATE SECTOR TO HELP BUILD THE 'NEW ECONOMY'

Raising enough money to build a new, low-carbon economy, is one of the most pressing issues of our time – and it will be a key point of discussion at the UNFCCC climate conference in Paris. The level of investment needed to address climate change in developing countries is estimated at $0.6tn to $US1.5 trillion per year.[26] The $US100 billion a year currently committed by developed countries under existing agreements is a start, but the gap remains significant. Phasing out fossil fuel subsidies could play a significant role in helping to meet the shortfall in two key ways.

1. First, it would free up a huge amount of money that could redirected towards climate finance and other areas, such as health.

2. Second, it would provide companies with the right incentives to invest in the new economy, unleashing the flow of private capital in the right direction. This private sector investment is arguably the only way that the investment needs of the low-carbon economy can be met.

For these reasons, it is vitally important for the businesses that are currently calling for carbon pricing and strong national emissions reduction targets to be part of any international agreement on climate change to also make the case for the phase-out of fossil fuel subsidies and the redistribution of those funds in a way that supports low-carbon economic growth. The "long, loud and legal" framework that will enable business to fully participate in the low-carbon economy must cover all the different pricing elements that feed into the final price of carbon.

BRINGING BUSINESS TOGETHER AT A NATIONAL LEVEL TO MAKE FOSSIL FUEL SUBSIDY REFORM A REALITY

The companies that currently benefit from billions of dollars of fossil fuel subsides every year are largely a concentrated group of coal, oil, and gas interests and sectors such as transport and agriculture.

The companies that will benefit from fossil fuel subsidy reform are a much more disparate group that provides renewable energy, efficient and low- carbon vehicles, new appliances, innovative public transportation systems, efficient equipment for manufacturing, smart meters and smart grids, insulation, green building technologies, etc.

In addition to lobbying at International conferences, it is essential that these companies band together at the national level – which is where subsidy policy is largely decided – and work together to push for a fairer, more balanced approach to energy policy and subsidy reform.

[23] http://cdkn.org/2015/08/opinion-fossil-fuel-subsidy-reform-turning-the-tide/
[24] World Bank, 2015. Global Economic Prospects: Having Fiscal Space and Using It
[25] http://cdkn.org/2015/08/opinion-fossil-fuel-subsidy-reform-turning-the-tide/
[26] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8668.pdf
https://books.google.co.uk/books?id=wBXeAgAAQBAJ&pg=PA21&lpg=PA21&dq=climate+finance+range+1.5+trillion&source=bl&ots=XpeKLiOdaK&sig=Elfv2x7-H7vmz6oKFQQkwhWRkIk&hl=en&sa=X&ved=0CCUQ6AEwAWoVChMIsMjp4NWKyAIVhmrbCh1GcQtD#v=onepage&q=climate%20finance%20range%201.5%20trillion&f=false

WHAT NEXT?

There is a significant opportunity for leadership by the G20 countries, who collectively account for 78 percent of global emissions from fuel combustion,[27] and who have agreed in principle to phase out fossil fuel subsidies.[28] APEC and the EU have made similar commitments.[29] It is time for these countries to translate principle into practice by setting clear and ambitious goals and timelines for action on fossil fuel subsidies and kick-start low-carbon investment.

Business leaders can help by supporting calls for fossil fuel subsidy reform – such as the Communiqué[30] developed by the Friends of Fossil Fuel Subsidy Reform (FFSR), a group of non-G20 countries aiming to build political consensus on this issue. The Communiqué will be presented at COP21 in December 2015 – during the Paris climate conference – to support efforts to reach a new global climate agreement. This is an important opportunity for business to publicly support FFSR as part of our common trajectory towards a more sustainable and low-carbon economy.

There are other ways for businesses to contribute. They can consider the impact of fossil fuel subsidies in investment decisions, and factor this into internal carbon pricing schemes and other risk-management tools. They can also promote reform efforts by improving transparency about any subsidies they receive, providing information and feedback on the effects of these subsidies, and talking about how they plan to minimize adverse consequences and maximize opportunities from reform. Finally, they can promote reform by educating and bringing along the wider business world.

The B Team Leaders have called for businesses and governments to strive for net zero emissions by 2050. Phasing out fossil fuel subsidies is part of this process. Including a business voice, which is often absent in the fossil fuel subsidy reform debate, is critical to ensure government leaders understand that many businesses want change to enable the creation of a low-carbon economy.

ABOUT THE B TEAM:

The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyse a better way of doing business, for the wellbeing of people and the planet.

The team includes Marc Benioff, Sir Richard Branson, Sharan Burrow, Kathy Calvin, Bob Collymore, Dr. Gro Harlem Brundtland, Arianna Huffington, Dr. Mo Ibrahim, Guilherme Leal, Strive Masiyiwa, Blake Mycoskie, Dr. Ngozi Okonjo-Iweala, François-Henri Pinault, Paul Polman, Mary Robinson, Ratan Tata, Zhang Yue, Professor Muhammad Yunus, Jochen Zeitz.

FOR MORE INFORMATION

VISIT www.bteam.org
CONTACT media@bteam.org
FOLLOW US @thebteamhq

THE B TEAM

With thanks and acknowledgement to: The Prince of Wale's Corporate Leaders Group and IISD's Global Subsidies Initiative for input and support.

[27] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8669.pdf
[28] Op cit
[29] http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8668.pdf
[30] http://fffsr.org/homepage/fossil-fuel-subsidy-reform-communique/

Global Subsidies Initiative

The Prince of Wales's Corporate Leaders Group