Cut Fossil Fuel Subsidies to Cut Greenhouse Gas Emissions Says UN Environment Report

Meanwhile New Assessment of Clean Development Mechanism Shows Climate-Friendly Energy Projects Achieving Lift-Off in Sub Sahara Africa

Accra/Nairobi, 26 August 2008--Scrapping fossil fuel subsidies could play an important role in cutting greenhouse gases while giving a small but not insignificant boost to the global economy a new report by the UN Environment Programme (UNEP) says.

Globally around $300 billion or 0.7 per cent of global GDP is being spent on energy subsidies annually.

The lion's share is being used to artificially lower or reduce the real price of fuels like oil, coal and gas or electricity generated from such fossil fuels.

Cancelling these subsidies might reduce greenhouse gas emissions by as much as six per cent a year while contributing 0.1 per cent to global GDP.

The report acknowledges that some subsidies or mechanisms, whether in the form of tax breaks, financial incentives or other market instruments can generate social, economic and environmental benefits.

A case in point are feed-in tariffs that have kick-started a renewable energy revolution in countries such as Germany and Spain.

The report also accepts that there may be cases where some subsidies can, if well-devised and time-limited meet important social and environmental goals.

For example ones to encourage a switch from dirty, health-hazardous or environmentally harmful fuels such a charcoal.

The report also cites the case of Chile where well devised subsidies have increased rural electrification from around 50 per cent to over 90 per cent of the population over 12 years.

But the report argues that many seemingly well intentioned subsidies rarely make economic sense and rarely address poverty. The report therefore challenges the widely-held myth that scrapping fossil fuel supports would hit the poor.

The report cites of Liquid Petroleum Gas subsidies in India where $1.7 billion was spent in the first half of the current financial year on trying to get the fuel into poor households." "LPG subsidies are mainly benefiting higher-income households…despite the ineffectiveness of the subsidy the programme is being extended until 2010,"says the study.

Indeed the report concludes that in many developing countries the real beneficiaries of such subsidies are neither the poor nor the environment but well off households; equipment manufacturers and the producers of the fuels.

Achim Steiner, UN Under-Secretary General and UNEP Executive Director, said: "In the final analysis many fossil fuel subsidies are introduced for political reasons but are simply propping up and perpetuating inefficiencies in the global economy—they are thus part of the market failure that is climate change".

"There are now less than 500 days before the crucial climate change convention meeting in Copenhagen in late 2009. Governments should urgently review their energy subsidies and begin phasing out the harmful ones that contribute to the wasteful use of finite resources and delay the introduction of renewables or more efficient forms of generation while creating disincentives and barriers to public transport up to energy saving appliances," he added.

The new UNEP report-- *Reforming Energy Subsidies: Opportunities to Contribute to the Climate Change Agenda*—was released today at a meeting in Accra, Ghana of the UN Framework Convention on Climate Change (UNFCC).

Here governments have gathered to continue negotiations under the Bali Road Map towards a conclusive and far reaching new climate deal by Copenhagen 2009.

CDM Takes Off in Sub Sahara Africa

Today UNEP also presented new findings on the penetration of the Clean Development Mechanism (CDM) in sub Saharan Africa.

The CDM, part of the convention's Kyoto Protocol agreed in 1997, allows developed nations to offset some of their greenhouse gas emissions by funding cleaner energy projects in developing countries.

These can range from wind and solar projects to ones that tap methane from rubbish tips and schemes that encourage the use of less polluting fuels or power plants.

There has been concern that the benefits of the CDM, an example of a support-mechanism aimed at wider social, economic and environmental benefits when compared with fossil fuel subsidies have been by-passing countries in sub Saharan Africa.

The main countries benefiting to date have been the rapidly developing economies such as China, Brazil, India and South Africa.

The new figures, compiled by UNEP's Risoe Collaborating Centre in Denmark, indicate that this may is changing with CDM projects emerging for the first time in the past 18 months in six countries-- Cote D'Ivoire, the Democratic Republic of the Congo (DRC); Madagascar, Mozambique, Mali and Senegal.

These include an oil well, gas flare reduction project in the DRC and a run-of river hydroelectric project in Madagascar.

In Kenya new projects include a 30MW extension of geothermal, hot rocks, generation and a sugar cane waste-into-energy project with Mumias Sugar Company.

Mr Steiner added:” If fossil fuel subsidies are examples of blunt instruments, perpetuating old and inefficient economic models the CDM is an example of a far more intelligent market mechanism that is fostering the transition to a modern Green Economy”.

He said the up take in smaller countries in Africa was in part as a result of the UN’s Nairobi Framework initiative launched in 2006.

Here UNEP, along with partners including the UN Development Programme (UNDP) have been working to build the capacity and the skills of countries to access the CDM.

Other measures have included awareness raising among banks and financial institutions on the Continent to the opportunities presented by the CDM.

Glenn Hodes and Lars Applequist of the Risoe Centre have been monitoring the impacts of these various activities.

“If one excludes South Africa, then there were just five sub Saharan countries with a total of six CDM projects in 2006. Now there are 11 countries with a total of 24 and if South Africa is included we have 12 countries with 49 projects,” they say.

The researchers said this still remained low when compared with the global total of close to 3,500 CDM projects, but did mark a departure from the stale-mate levels of the past.

Indeed the researchers calculate that overall Africa could see well over 200 CDM projects by 2012 assuming governments do agree a deep and decisive new climate agreement in 2009.

“As new policy drivers and planned capacity development activities bear fruit, the market will likely exhibit more exponential growth like other regions. This would see roughly 230 projects. Compared to CDM prodigies like India, Africa is poised to be the late bloomer,” says Hodes and Applequist.

These could cumulatively generate close to 70 million certified emission reductions, or carbon credits, worth close to one billion US dollars under a conservative carbon credit price of $15.

Notes to Editors

Reforming Energy Subsidies: Opportunities to Contribute to the Climate Change Agenda was commissioned by UNEP's Division of Technology, Industry and Economics. The principal author is Trevor Morgan of Menecon Consulting and now with the International Energy Agency.

It says that Russia has the largest subsidies in dollar terms amounting to around $40 billion a year and mainly spent on making natural gas cheaper.

Iran comes second with around $37 billion: Six countries, spending in excess of $10 billion on subsidies come next. These are China, Saudi Arabia, India, Indonesia, Ukraine and Egypt.

The report can be downloaded at www.unep.org

The new data and estimated take up of Clean Development Mechanism (CDM) projects in Africa can also be downloaded at www.unep.org

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