

ALTERNATIVE USES OF PRE-TAX FOSSIL FUEL SUBSIDIES PER YEAR



Fossil fuel subsidies (FFS) are policies that support the production or consumption of fossil fuels and allow consumers to pay prices below supply costs. Depending on the definition, these are known as ‘pre-tax’ or explicit subsidies. FFS to consumers average US\$423 billion a year (using data from the International Energy Agency over a 10-year period); if we add both consumer and producer subsidies (using IMF 2021 data), they average US\$564 billion a year (annual average over 2015-2020).

If we consider the environmental impact of fossil fuels —i.e., the monetized cost of fossil fuels’ contribution to global warming, local air pollution and other adverse externalities plus the corresponding consumption tax— FFS amount to US\$5.8 trillion a year (using IMF data over 2015-2020), and these are known as ‘post-tax’ or implicit subsidies, depending on the definition. Individuals in high-income countries and upper-middle-income countries benefit from substantially large per capita explicit FFS, which reach an average of between US\$1,100 and \$1,300 per person and are mostly composed (between 80% and 90%) of undercharging for environmental externalities.

Beyond the large disparities among countries in the amounts of FFS per capita, there are also substantial differences in terms of who benefits most within countries. In general, subsidies to energy consumption are intended to protect consumers’ purchasing power by keeping the prices of energy low. However, as the benefits from energy subsidies are distributed in proportion to household energy consumption, and since the consumption baskets of high-income households are typically more energy-intensive than those of low-income households, fossil fuel subsidies are likely to exacerbate within-country income inequality and thus they often tend to be an inefficient tool to give relatively more protection to the purchasing power of the poorest individuals (some data suggest that, across developing countries, the richest 20 percent of the population reaps almost half of the benefit, whereas the poorest 20 percent accrues less than 10 percent).

What could be achieved with US\$423 billion per year?

US\$423 billion spent on fossil fuel subsidies each year are four times the size of the climate financing pledges expected at COP26, but only a fraction of the global stimulus allocated for COVID-19 recovery. Repurposing these explicit fossil fuel subsidies could:



‘Pay’ three times over the annual amount required to ‘eradicate’ global extreme poverty as measured with the PPP\$1.90 a day poverty line, and up to six times over if allocated entirely to either low-income (LICs) or lower-middle-income countries (LMICs).



Cover the amount needed to provide a Temporary Basic Income to all vulnerable people in LMICs for 6 months and up to 16 months in LICs— which, in addition to enabling them to cover essential spending, might also help them to compensate for additional costs associated with, for instance, childcare or assist them to prevent the depletion of productive assets.



Cover the price of the most expensive COVID vaccines for 90 percent of the world’s population in 2021 or pay for the inoculation of all people in the world up to five times over with the most affordable vaccines.