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## How Much do Fossil Fuels Benefit from Subsidies?



Hint:

It's not nearly as much as the climate  
community would like you to think.



# Subsidies explained



**Economists typically refer to implicit subsidies – which aren't incorporated within market prices – as “externalities” and not subsidies.**

**I refer to implicit subsidies as “smoke and mirrors” to intentionally inflate a number.**

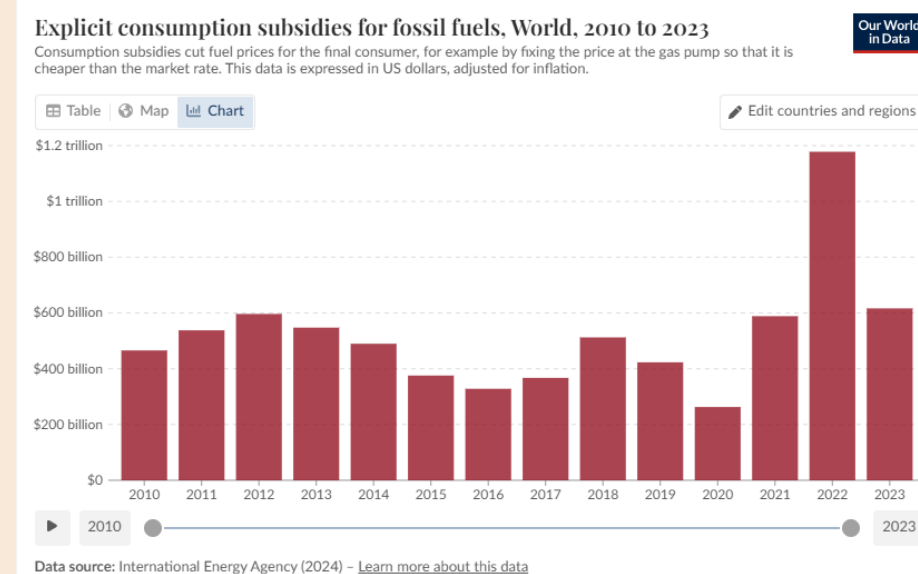
- Explicit subsidies: these are what I would define as “real” subsidies. This category represents money paid by an entity (typically a government) to reduce costs.
- Explicit subsidies are broken into two categories:
  - Production subsidies which go directly to producers, and
  - Consumption subsidies paid to consumers
- Implicit subsidies: account for the societal costs of burning fossil fuels. For example: air pollution and climate change. The IMF even throws in road accidents and congestion in its calculations.



**Did I mention that 80% of explicit subsidies go to consumers and not the producers of fossil fuels?**

**Some would argue there should be no subsidies for fossil fuels, but totally eliminating explicit subsidies would mostly harm the poorest among us.**

# Drum roll please...



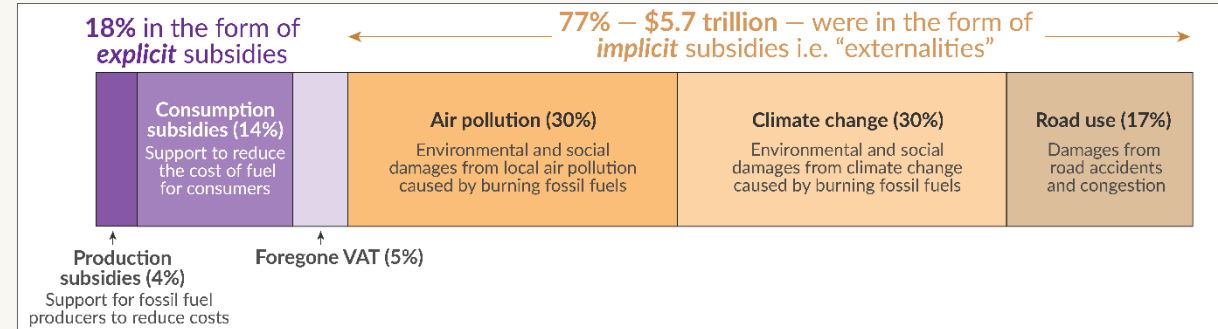
- Explicit subsidies spiked to almost \$1.2 trillion in 2022 but dropped precipitously in 2023.
- What happened in 2022?
- Energy costs spiked due to Russia's invasion of Ukraine. In some cases, the price of natural gas increased as much as 400%.
- In response, governments implemented programs to soften the blow to consumers.



# Smoke meet mirror

The IMF reports that fossil fuels received \$7 trillion in subsidies in 2022; where do these numbers come from?

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Note: Consumption subsidies approximately doubled in 2022 relative to previous years as a result of the Russian invasion of Ukraine (which caused a large increase in fossil fuel prices).  
Source: Black et al. (2023), IMF Fossil Fuel Subsidies Data: 2023 Update. The breakdown of explicit subsidies is based on data from the International Energy Agency and UN Environment Programme.  
OurWorldinData.org — Research and data to make progress against the world's largest problems. Licensed under CC-BY by the author Hannah Ritchie.

**Simply put – attempting to factor in “implicit” subsidies is a joke.**

**By any definition, these aren’t subsidies but societal costs associated with a product’s use.**

**By that definition, we “subsidize” every product because every product has some societal cost.**

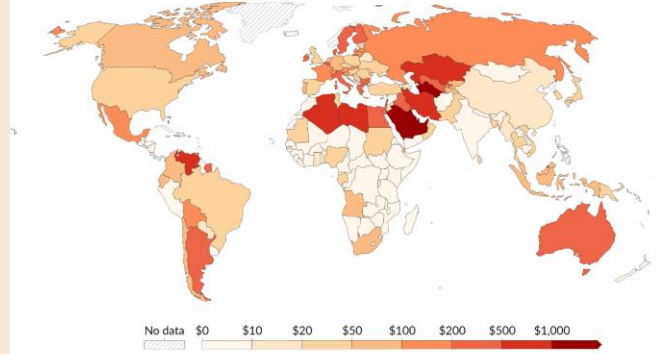
- The high end of any estimate of fossil fuel subsidies includes implicit subsidies. It’s the only way you get to the eye-popping number of \$7+ trillion.
- And the media is complicit in reporting this number as fact when in reality, it’s pure fiction.
- Here’s a sample of some headlines:
  - Fossil fuels being subsidized at rate of \$13m a minute says IMF (as reported by The Guardian).
  - U.N. chief calls for an end to \$7 trillion in fossil fuel subsidies (reported unchanged by CNBC).
  - The world feeds the climate crisis with public money: Fossil; fuel subsidies amounted to \$7 trillion in 2022 (as reported by El Pais).



# Subsidies vary widely by country

## Fossil-fuel subsidies per capita, 2021

Subsidies are pre-tax and for both the production and consumption of fossil fuels. Production subsidies reduce the cost of producing coal, oil or gas. Consumption subsidies cut fuel prices for the final consumer, for example by fixing the price at the gas pump so that it is cheaper than the market rate. The data is expressed in US dollars, adjusted for inflation.

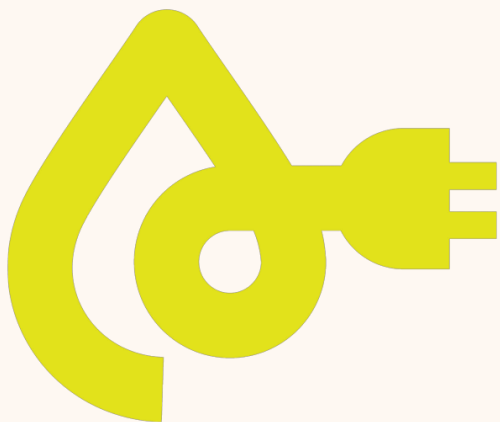


- Generally, countries that produce fossil fuels provide higher subsidies. The exception: the United States.

## The bottom line:

- You can argue that no subsidies should ever be associated with fossil fuels, but that would hurt the most vulnerable.
- I offer two pieces of advice:
  1. If you're going to rail against fossil fuel subsidies, do it honestly.
  2. The climate community would be better served to focus on the challenge at hand – reducing carbon emissions – versus attempting to portray the oil and gas industry as adversaries. They may be, but it isn't a battle that can be won. The old saying: "You can catch more flies with honey than with vinegar" comes to mind.

**Not including the implicit variety, in 2023, total global subsidies related to fossil fuels equaled approximately 0.57% of global GDP.**



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## Unbiased and Unfiltered

- An honest assessment of the climate change effort.
- I cover what's working – but more important - the issues/roadblocks that the industry would prefer to ignore.
- A must-read for anyone with a desire to understand what's really going on with renewable energy and climate change.



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