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Subsidies to Fossil Fuels are Undermining a Sustainable Future

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In the run-up to the Federal election, both the Prime Minister and the Leader of the Opposition are claiming that there are almost no funds available for government spending on essential services, such as health, education and the protection of the environment.

However, billions of dollars per year could be made available by reducing a number of questionable public subsidies by federal and state governments to fossil fuels, agricultural chemicals, private schools, forestry, water supply and unsustainable forms of tourism, among other things. Such reductions could achieve simultaneous benefits to the environment, the economy and society as a whole.

Christopher Riedy, a PhD candidate at the Institute for Sustainable Futures, University of Technology Sydney, and I have examined the public subsidies to fossil fuels in Australia. We estimate that they amount to over \$6.5 billion per year. These subsidies are entrenching the polluting industries of the past. A large part of these subsidies could be readily transferred to fostering a better society and environment, while boosting employment in cleaner production.

In Australia as elsewhere, many of the subsidies are hidden and cannot be extracted directly from budget papers. Our estimates provide a bare minimum, calculated according to cautious assumptions. Our work builds upon and updates earlier work by National Economics in 1996. Some of the largest subsidy contributions are shown in the following table.

Type of subsidy	Level of government paying subsidy	\$M p.a.
Roads and parking, including value of land	State	2,000
Tax benefits for salary packaging of motor vehicles	Federal	750
Diesel and Alternative Fuels Grants Scheme	Federal	655
2001 fuel excise reduction	Federal	635
Lower rate of import duty for 4WDs	Federal	513
Subsidies for supply of electricity to the aluminium industry	State	410
Automotive Competitiveness and Investment Scheme (industry support)	Federal	400
Provision of data and management services by public agencies	Federal & State	258
State energy supply subsidies and cross-subsidies	State	228
Fuel Sales Grants Scheme	Federal	210
R & D support for fossil fuels	Federal & State	153

A more detailed report on these and other subsidies is available from Christopher Riedy, email <criedy@uts.edu.au>, phone (02) 9209 4402.

While there is insufficient space to describe each of these subsidies in detail here, the case of tax benefits for salary packaging of motor vehicles is illustrative. Motor vehicles are a substantial source of greenhouse gas emissions in Australia. Existing fringe benefits tax (FBT) rules ensure that employees who sacrifice some pre-tax income to lease a company or government car will be better off than if they were to borrow money and purchase the car. This is an incentive to obtain a car as part of a salary package. The FBT rules also encourage employees to drive further, as this reduces their FBT liability.

Our subsidy calculations do not include one-off government payments or infrastructure supplied to specific fossil fuel development projects, such as:

- the La Trobe Valley to Portland transmission line (to supply the Alcoa aluminium smelter);
- the sale in 1994 by the Queensland Government of the Gladstone Power Station at a price that was between half and two-thirds of its net value of \$1500M, according to the Joint Standing Committee on Treaties.

In addition to the subsidies, the diesel fuel rebate scheme is worth nearly \$2 billion per year, but does not meet the definition of subsidy used here, which is:

“Subsidies comprise all measures that keep prices for consumers below market level or keep prices for producers above market level, or that reduce costs for consumers and producers by giving direct or indirect support.”

The calculations are also restricted to economic subsidies and do not include the environmental and health costs of using fossil fuels.

We have also evaluated the public subsidies to renewable energy and public transport, but these turn out to be very much smaller than the subsidies to fossil fuel production and use.

We do not advocate that all public subsidies be simply discarded, since a fraction of them addresses social inequities and other national goals such as rural development. However, we do suggest that this kind of subsidy be paid in a different way.

For instance, subsidies could be removed from energy prices in rural and remote areas and rather be made as direct annual payments. Then the subsidies would not undermine the efficient use of energy and renewable sources of energy, which are employment-creating growth industries for Australia. With untied subsidies, rural people could choose to insulate their homes, install solar hot water and a solar-diesel electricity system, instead of being forced to waste fossil fuels.

A large proportion of existing subsidies is actually received by the wealthy and so could be redirected into health, education, social services and setting up the infrastructure for more sustainable energy and transport systems. Then people would have genuine choices about the purchase and use of environmentally sound technologies.

Modelling of the global economy by Dr Kym Anderson from University of Adelaide and Prof. Warwick McKibbin of the Australian National University has demonstrated that international reform of fossil fuel subsidies has the potential to provide substantial gains in economic efficiency *and* reductions in greenhouse gas emissions, a win:win outcome for the economy and the environment. In my view, the ‘general equilibrium’ method used by these

economists underestimates the economic benefits of reforming subsidies, because it assumes, contrary to observation, that there are no cost-effective energy efficiency improvements based on existing technologies.

With the billions of dollars that could be obtained annually from the removal of fossil fuel subsidies and from improvements in energy efficiency, there are more than enough resources available to both the government and private sectors to build a substantial renewable energy industry and greatly improved urban public transport systems.

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