Fueling Global Warming

Federal Subsidies To Oil In The United States

A REPORT FOR GREENPEACE BY

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Solar: The Global Warming Solution

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About the Authors:

Douglas Koplow, a Senior Associate with Industrial Economics, Incorporated in Cambridge, MA, has worked on natural resource subsidy issues for the past ten years. He is the author of *Federal Energy Subsidies: Energy, Environmental, and Fiscal Impacts* (Washington, DC: The Alliance to Save Energy, 1993) and a co-author of *Federal Disincentives: A Study of Federal Tax Subsidies and Other Programs Affecting Virgin Industries and Recycling* (Washington, DC: U.S. Environmental Protection Agency, August 1994). Mr. Koplow holds a M.B.A. from the Harvard Graduate School of Business Administration and a B.A. in Economics from Wesleyan University.

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FOREWORD BY GREENPEACE

In 1997, the issue of human-induced climate change attracted unprecedented attention. Not only are physical signs of global warming, such as temperature change and sea level rise, increasingly apparent, but governments have agreed to a legally binding instrument, the Kyoto Protocol, to begin to address the problem. How quickly the industrialized world will cut emissions of the six major greenhouse gases, how many of the loopholes negotiated in Kyoto will remain, and what role developing countries will play in emissions reductions are all central issues at high level climate talks in June and November 1998 under the Framework Convention on Climate Change.

Governments' actions, policies, and spending are benchmarks for evaluating their commitment to greenhouse gas reductions and the proliferation of clean energy solutions. Nowhere is this illustrated more clearly than through continued government subsidization of coal, oil, nuclear, and other forms of so-called "dirty" energy. These subsidies are increasingly controversial. The World Bank, Organization for Economic Cooperation and Development (OECD), the United Nations Development Programme (UNDP), the *Economist,* and other influential financial publications have all called for their removal or reduction.

In the late 1980s, federal subsidies to oil were more than four times higher than those to all renewable energy and energy efficiency sources combined; subsidies to all fossil fuels were ten times higher. With the goal of evaluating existing patterns of government support, Greenpeace commissioned Industrial Economics, Inc. in Cambridge, Massachusetts to assess current federal subsidies to U.S. oil.

The results of this comprehensive, peer-reviewed analysis demonstrate that the federal government continues to subsidize the oil industry with billions of dollars of taxpayer funds each year, and that the historic bias in government support against renewables and efficiency is likely to remain. Not only do these subsidies divert needed public support for emerging clean energy technologies, but they often make it more difficult for cleaner fuels to compete in the marketplace.

Notwithstanding the tremendous historical subsidies to fossil fuels, this current support directly undermines current and future government policies aimed at reducing greenhouse gas emissions. The bias in public support also impedes real competition within deregulated or "liberalized" energy markets by distorting relative fuel prices. The oil industry continues to argue that the high costs of solar and renewable power mean that clean power solutions are not economically viable in the near to mid-term. The viability of these energy alternatives must be evaluated taking into consideration the $5 to $35 billion in annual subsidies to oil documented in this study, as well as the billions in additional support flowing to other fossil fuels both in the U.S. and abroad.

Eliminating subsidies and incorporating environmental externalities into energy prices are achievable, market-based solutions that can play an important near-term role in combating climate change. It is our hope that this independent, peer-reviewed study will make an important contribution towards this end.

Kalee Kreider
US Climate Campaign Director
Greenpeace

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

LIST OF EXHIBITS

APPENDIX

LIST OF EXHIBITS
(continued)