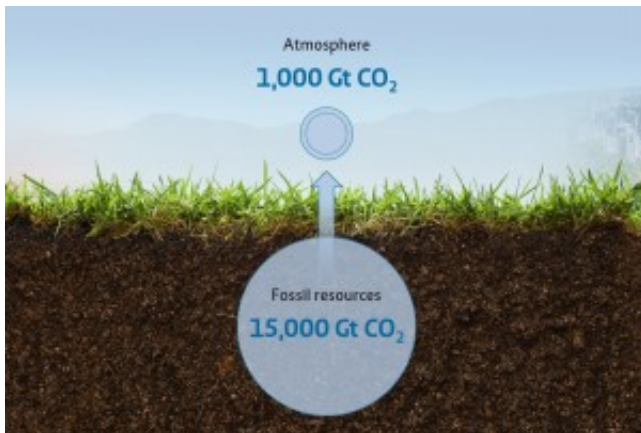


King Coal and the queen of subsidies

The window of opportunity for a global fossil fuel phase out is closing faster than expected: We experience a global renaissance of king coal. In particular poor but fast-growing developing countries are currently investing heavily in the construction of new coal power plants. One main reason why this source of fuel is so cheap is that its price does not incorporate the social costs, such as health. King coal is accompanied by a queen of subsidies. Governments around the globe subsidize the use of oil, gas and coal worldwide with 150 dollars per ton of CO₂, when all costs are factored in.



The worldwide popularity of coal is also explained by the fact that it is abundantly available and because its price is very low compared to natural gas or renewable energy sources. In addition, the increasing globalization of the coal market is also pushing the price of this type of energy resource further down. A country no longer has to sit on huge deposits in order to burn this type of fuel. The dynamic is pretty sardonic: If a country decides to abandon coal, it is essentially increasing the amount of coal on the market, thereby making it easier for other countries to obtain this climate killer at even cheaper prices.

This – seemingly – cheap coal spurs the economic growth of the poorest on earth. But if only one third of the world's currently planned coal-fired plants is actually built, an additional 113 Gt of CO₂ would be emitted into the atmosphere over the years—which would consume nearly the entire allowable CO₂ emission budget for staying below the 2°C threshold. This calculation considers that the existing coal-fired plants will account, over a period of 40 years, for cumulative emissions of 729 GtCO₂. Overall, however, the atmosphere can only absorb about 1000 Gt if the average global temperature increase is not to exceed two degrees Celsius.



Prof. Dr. Ottmar Edenhofer. Co-Chair of Working Group III of the IPCC - director of MCC - deputy director and chief economist of PIK. Copyright: Thomas Trutschel/ photothek.net

Drawing on data from the International Monetary Fund, the U.S.-American environmental organization Sierra Club as well as The Mercator Research Institute on Global Commons and Climate Change (MCC) we can show that the implications for long-term GHG emissions are serious as once installed, a coal power plant will emit for decades. If the opportunity to correct the distortion in fossil fuel pricing is missed, climate policy is at peril.

Therefore, the advantages of stopping direct and indirect coal subsidies are obvious. At MCC, we were able to show that the elimination of coal subsidies would serve as an excellent poverty reduction program. At present, universal access to these services is lacking in around 80 countries. But if current fossil fuel subsidies were to be redirected to investments in basic infrastructures over the next 15 years, substantial strides could be made in reducing poverty. This includes universal access to clean water in about 70 countries, to improved sanitation in about 60 countries, and to electricity in about 50 countries. Installing carbon pricing very soon, therefore, is key to an effective climate policy that would also provide the poor yet fast-growing developing countries with an alternative path to coal.

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