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Citizens for financial justice; the case for ending fossil fuel subsidies in Ireland

This briefing document summarises the findings of an independently researched report written by Clodagh Daly for Friends of the Earth. The report draws on four case studies from Ireland and explains how fossil fuel subsidies flowing through various financial channels fail to serve the public interest. The report argues that fossil fuel subsidies increase the risks of fossil fuel dependency, undermine public spending rules, and jeopardise a safe and sustainable future for all.

What are fossil fuel subsidies?

A fossil fuel subsidy is any form of government intervention that lowers production costs, reduces market risks for, or attributes values to fossil fuel producers. These forms of financial supports are problematic because they create 'perverse' or undesirable incentives to continue exploring for and producing fossil fuels. Much of the fossil fuel economy would not be economically viable were it not for direct state intervention through subsidies in different forms. G20 governments spend $88 billion on exploration subsidies alone per year – more than double what the biggest twenty private fossil fuel companies spend on exploration. This suggests that exploration for oil and gas relies heavily on public finance. There is now widespread scientific consensus that on-going fossil fuel exploration, extraction, and delivery infrastructure is incompatible with the Paris Agreement, whose objective is to avoid dangerous global warming by holding global heating below 2°C and to pursue efforts to limit global warming to 1.5°C. To prevent irreversible climate breakdown, scientists agree that it will be necessary to keep all remaining fossil fuels in the ground. For this reason, continued support for the fossil fuel industry through subsidies is unjustified and must cease as soon as possible.

Fossil fuel subsidies –

- Distort the energy market by reducing the price of fossil fuels.
- Prevent investors from accurately reporting risks and returns on fossil fuel investments.
- Socialise the risks associated with continued fossil fuel exploration and create value for the fossil fuel industry.
- Lock in a market for fossil fuels, and signal to the market that renewables are not yet competitive.
- Incentivises bad investments and gives a strong incentive to investors to invest in fossil fuels over other types of investment.
- Socialise the risks associated with climate damages and stranded assets.

Where does Ireland stand on fossil fuel subsidies?

Fossil fuel subsidies can take the form of direct fiscal or financial support, or expenditures by commercial semi-state enterprises (see table below). For example, in Ireland, licenses granted to private offshore oil and gas companies in Ireland are regarded as very liberal, despite changes introduced in 2014. In comparison, most countries tax profits on oil and gas extraction somewhere between 40 – 85%.

Since 2009, Ireland through the G20 group has made annual commitments to phasing out fossil fuel subsidies that encourage wasteful consumption. Ireland has committed to 'rationalise inefficient fossil fuel subsidies,' through the Sustainable Development Goals (target 12.c.1), and to make finance flows 'consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' (Article 2.1c of the Paris Agreement, to which Ireland is a party). Yet the Central Statistics Office (CSO) estimated in 2019 that Ireland subsidises fossil fuels both directly and indirectly to the tune of €2.5 billion annually - almost 200 times what Ireland contributes to the UN Climate Fund. Crucial to the transition to a zero-carbon future and achievement of the Paris Agreement goals is the diversion of public finance away from fossil fuels. To achieve this, it is important that the policy process is not compromised by undue influence by vested interests. The revolving door of advisors working for the fossil fuel industry and the government must be firmly shut to ensure the integrity of the policy process.

Using public finance to support natural gas; four case studies from Ireland

The following table shows the type of subsidies, the flows of finance behind these subsidies, and examples of case studies from Ireland.

Type of subsidy & Flows of finance	**Irish case studies**
Fiscal support: Direct spending by government agencies, and income or price support	1) Publicly funded research carried out in partnership with the natural gas industry
Tax exemptions or 'fossil fuel welfare'	2) Offshore exploration regime
Public finance: Support from domestic, bilateral, EU and multilateral international agencies through the provision of grants, loans, equity and guarantees	3) A loan provided to the Gas Networks Ireland from the European Investment Bank
Investments by State-owned enterprises: money spent through State-owned companies	4) Assessed through the Electricity Supply Board's plans to construct four new gas plants in Ireland.

Case Study 1: Fiscal support: Direct spending by government agencies and income or price support. Publicly funded research carried out in partnership with the natural gas industry

University College Dublin (UCD) is home to the Irish Centre for Research in Applied Geosciences (iCRAG), mostly funded by Science Foundation Ireland (a semi-state body) whose overarching objective is 'to significantly de-risk Ireland's offshore and onshore hydrocarbon and mineral resource exploration, increasing exploration activities.'

iCRAG's industry partners are fossil fuel giants, and while these companies no longer deny the reality of climate change, and even endorse the Paris Agreement, producing research through universities enables industry to influence the research agenda and related policy discourse. SFI has sponsored iCRAG by €14.5 million. Yet, public funds allocated to iCRAG do not appear within the CSO's assessment of subsidies directed towards fossil fuel exploration in Ireland. iCRAG classifies this research under the objective of 'energy security' which is misleading and a poor use of research finance which could be directed towards renewable alternatives, which among other benefits, would likely to generate far more employment as well as contribute meaningfully to both decarbonisation and energy security.

There is no good case for investing limited public research finance in iCRAG's research. SFI should consider its broader role as a scientific institution and align its funding with what is scientifically required to avoid the worst impacts of climate breakdown and assist Ireland's transition to zero emissions. In addition, mandatory disclosure agreements should be required in all cases where industry representatives sit on publicly funded advisory committees to make the full extent of relationships between research and the fossil fuel industry transparent, including staff. Host academic institutions, in this case UCD, should assess whether these research activities contribute to their codes of ethics and the Sustainable Development Goals.

Case study 2: Tax breaks and 'fossil fuel welfare'

Subsidies that pose a serious threat to remaining within 1.5°C are those that assume the liability for upfront costs associated with natural gas production, such as allowing exploration costs to be written off against tax. These subsidies significantly reduce financial risks associated with exploration for new gas reserves and can thus lock investment into natural gas extraction on a long-term basis. Ireland's licensing regime for gas extraction is regarded as among the most liberal in the world. Companies that receive licence to drill for gas are taxed at a paltry 25%, against which *all* operating costs of the business can be offset.

In 2014 the Minister for Communications Energy and Natural Resources introduced a Petroleum Production Tax (PPT), replacing Profit Resource Rent Tax in respect of new authorisations at variable rate of 0% to 40% linked to profitability of discoveries but permitted as a deduction from Corporation Tax. While the tax rules have tightened somewhat, there is no doubt that the clear intention of regime is to attract offshore exploration and lower upfront costs rather than discourage it.

Lower upfront exploration costs have been regarded as detrimental to responsible environmental management. Despite the generous terms provided to private gas companies by the Irish government, the location of drilling for oil and gas is effectively led by industry. The Petroleum Affairs Division of the DCCAE has never required an Environmental Impact Assessment to be carried out for the exploration of oil and gas in Irish waters.

Case Study 3: Public finance as a pillar for natural gas infrastructure: how a preferential public loan from the European Investment Bank (EIB) to Gas Networks Ireland increases the risk of carbon lock in and subsidises climate breakdown.

Despite its relatively low-profile, the European Investment Bank (EIB) is the biggest public bank in the world. It is financed through the issuance of bonds which are backed by EU member state governments. In other words, loans granted by the EIB are directly funded by EU taxpayers. In 2019, the bank announced that it will phase out finance for new fossil fuel energy projects under its revised energy lending policy. However, the lending policy contains significant loopholes and will only come into effect by the end of 2021.

Gas Networks Ireland (GNI) operates as a subsidiary of Ervia – one of the largest multi-utility commercial semi-state companies in Ireland. GNI's primary aim is the promotion of 'natural gas as a fuel of choice for homes, businesses and industry'. In December 2018, GNI received a €100 million loan from the EIB to upgrade and expand the gas network and facilitate the expansion of so-called renewable gas from anaerobic digestion. Central to the GNI's outlook for the use of natural gas in a low-carbon energy system is the use of carbon capture and storage (CCS) technology.

Projects of Common Interest are not included in the EIB's new lending policy. One of these projects is Shannon LNG which is currently listed as a PCI. The terminal is expected to be in operation by 2023, receiving imports of fracked LNG gas from the US. The proposed LNG plant would add 10 billion cubic meters of natural gas to Ireland's energy mix – more than twice Ireland's demand for natural gas from 2010 – 2015 (4.5 Bcm).The effect of the PCI designation is that private investors will generate profits simply by trading the pure capacity of the terminal. If public guarantees can hedge part of the investment risk involved in the Shannon LNG project, 'a flow of contractual earnings' is ensured, increasing the attractiveness of the project to private investors at an enormous public expense.

Case Study 4: Public money spent through State-owned companies; the Electricity Supply Board's plans to construct four new gas plants in Ireland.

As a company which is 95% State-owned, the Electricity Supply Board (ESB) has a legal mandate to make investment decisions that align with the public interest. The ESB recently announced plans to build four new gas power plants in Dublin, at a projected cost of €700 million. There is no justification for building four new gas plants at precisely the moment when we need to be retiring fossil fuel infrastructure to align with the Paris Agreement. According to the ESB's own projections, almost a third of total electricity demand will come from data centres by 2027. Data centres are set to be classified as strategic infrastructure development (SID) projects in Ireland, significantly reducing the participatory rights citizens have in the planning process. The problem is not only that the ESB as a publicly owned company is using its resources to invest in fossil gas for the use of private multinationals – energy demand from data centres additionally constitutes an enormous private drain of Ireland's national grid. This investment will extend by decades our reliance on fossil gas at precisely the time we need to be abandoning fossil fuels.

The transition to a zero-carbon economy is both critical and dangerously belated, and a managed decline of the production, distribution and consumption of fossil gas must commence immediately.

Removing supply-side subsidies for natural gas could shift the fundamental economics of natural gas exploration and production. Yet, no climate assessments have been carried continued financial supports for natural gas production instead increases path dependencies and lock-in in the very systems that need redesigning for a zero-carbon future. State-owned enterprises should be leaders in transitioning Ireland to a low-carbon economy, and policymakers already have a clear mandate to cut subsidies at the source. Alignment with the Paris Agreement requires financing and democratising the energy system. But ending fossil fuels provides an opportunity to redirect and channel finance towards clean alternatives. Without restricting access to fossil gas both financially and through stringent regulation, Ireland cannot meet its commitments under the Paris Agreement.