CLIMATE ENERGY FINANCE

New global study quantifies human toll of fossil fuel price inflation (as industry revels in superprofits)

Tim Buckley, director, Climate Energy Finance

17 February 2023

A new study in Nature Energy released overnight quantifies the devastating toll of global energy price hyperinflation. Household energy costs spiked between 62 and 113 percent in 2022, helping to drive a cost of living crisis which increased household expenditures an average of around 5 percent, and much more in some poorer countries.

Fuel price rises impact households directly and indirectly. They increase energy bills for cooking, heating/cooling and transport. Higher energy input costs also mean the cost of production of goods and services goes up, leading to soaring prices for householders on a gamut of routine expenditures including food, and exacerbating inflation and interest rates.

The report authors said the energy price crisis could push up to 141 million people into extreme poverty, and called on governments to provide targeted help to those hardest hit, as governments here, including federally, have done. As always, it is the poorest in the community, and the poorest countries globally with the slimmest buffers and the least resilience that suffer the worst.

The root of the crisis is in Putin's invasion of Ukraine, which resulted in sanctions against Russian fossil fuel exports, reducing global supply and pushing up prices. This has been exacerbated by the world's continued over reliance on fossil fuels, and under-investment in both old and new clean energy capacity, including during Covid.

There is only one winner out of all of this.

As households around the world reel from fossil fuel commodity price hyperinflation, the six largest private western oil companies made more money than in any year in the history of the industry: over US$200bn in war-profits.

In other words, a very small group of multinationals are making out like bandits and booking windfall profits, and everyone else is paying the price. They're even paying out record dividends to shareholders, and offering massive, unprecedented share buybacks. Chevron's share buyback, for example, will hand out $75bn to shareholders.

The one thing they are not doing is investing aggressively into new capacity, particularly zero emissions energy capacity to help solve the global energy crisis. In fact, BP CEO Bernard Looney is even actively walking back from its ambitious climate targets of 2020.

In Australia, we are far from immune. We estimate this same small cartel of multinationals made A$120-140bn of gross profits here from coal and LNG exports in calendar year 2022.

The same group of companies is reported by the ATO tax transparency initiative as having collectively paid next to no corporate tax in the last eight years.

This is the definition of a total regulatory failure, as set out in detail in our August 2022 report on windfall profits.

These fossil fuel giants are collectively extorting Australians as they exploit our finite public sovereign assets for private gain. The utterly negligible corporate tax take from these majors only rubs salt into the cost of living wound they have inflicted on Australians.

They also pay much less in the form of royalties that anticipated, particularly relative to what would be a fair rate (Queensland is the exception, thanks to the progressive coal export royalty agreement put in place by Queensland Treasurer Cameron Dick in June 2022).

The silver lining for Australia is the direct market intervention by the Albanese government in December 2022 to temporarily impose domestic wholesale gas and coal price caps.

Electricity providers were warning retail prices would rise by a full third on 1 July 2023. As a result of the government's unprecedented intervention, forward wholesale electricity prices have halved in the last four months, which will moderate what would have otherwise been extreme further hyperinflation in 2023.

In other words, the federal intervention has worked to insulate Australians from the damage, and limit the worst of the cost of living crisis. Fossil fuel shills or lobbyists who say otherwise are simply out to con the public.

We wear the costs of the industry in other ways too. NSW's interim 2022/23 budget last week showed a $2.6bn hit from the systemic increase in climate-change related natural disasters, particularly flooding, even as it booked an extra $7.2bn in cost-of-living relief in 2022-2023 alone.

There is only one ultimate solution to the fossil fuel price crisis: rapid and aggressive investment in firmed low-cost zero-emissions renewables capacity, to end our dependence on dirty, expensive, volatile and damaging gas and coal, and deliver permanent price relief to households and businesses.

The federal government, in its nine months in office, has made considerable progress on this front after a catastrophic lost decade of energy policy failure under the LNP, with major initiatives including the Climate Act, the commitment to 82% renewable energy by 2030, the $15bn Reindustrialising Australia Fund, the $20bn Rewiring the Nation program, progress on critical minerals, the global methane pledge and so on.

The proposed Safeguard Mechanism reforms, which will force Australia's 215 biggest polluters to ratchet down their emissions, are also a positive step in the right direction. While the proposal is imperfect, and needs to be modified to strictly limit the use of offsets as an alternative to direct emissions reduction, it does create a credible framework to re-establish a price on carbon in Australia, the key trigger to drive industrial Scope 1 decarbonisation and catalyse investment in clean tech.

In the meantime, it is beyond time that the multinational fossil fuel cartel be made to at least pay some tax here, so the Australian public, the collective owner of the resources they exploit, gets some social dividend to shield the poorest of us from their ruthless profiteering. We hope the federal government will apply its welcome reformist zeal to this issue, and act in the interests of all Australians.