

Energy

# Seize the day

The fall in the price of oil and gas provides a once-in-a-generation opportunity to fix bad energy policies

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MOST of the time, economic policymaking is about tinkering at the edges. Politicians argue furiously about modest changes to taxes or spending. Once in a while, however, momentous shifts are possible. From Deng Xiaoping's market opening in 1978 to Poland's adoption of "shock therapy" in 1990, bold politicians have seized propitious circumstances to push through reforms that transformed their countries. Such a once-in-a-generation opportunity exists today.

The plunging price of oil, coupled with advances in clean energy and conservation, offers politicians around the world the chance to rationalise energy policy. They can get rid of billions of dollars of distorting subsidies, especially for dirty fuels, whilst shifting taxes towards carbon use. A cheaper, greener and more reliable energy future could be within reach.

The most obvious reason for optimism is the plunge in energy costs. Not only has the price of oil halved in the past six months, but natural gas is the cheapest it has been in a decade, bar a few panicked months after Lehman Brothers collapsed, when the world economy appeared to be imploding. There are growing signs that low prices are here to stay: the rising chatter of megamergers in the oil industry (see [article](#)) is a sure sign that oilmen are bracing for a shake-out. Less noticed, the price of cleaner forms of energy is also falling, as our special report this week explains. And new technology is allowing better management of the consumption of energy, especially electricity. That should help cut waste and thus lower costs still further. For decades the big question about energy was whether the world could produce enough of it, in any form and at any cost. Now, suddenly, the challenge

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### Clean up a dirty business

That abundance provides the potential for reform. Far too many economies are littered with the detritus of daft energy policies, based on fears about supply. Even though fracking has boosted America's oil output by two-thirds in just four years, the country still bans the export of oil and restricts exports of natural gas, a legacy of the oil shocks of the 1970s—and a boondoggle for American refiners and petrochemical firms. Congress also keeps handing out money to Iowa's already coddled corn farmers to produce ethanol and has not reviewed generous subsidies for nuclear power despite the Fukushima disaster and ruinous cost over-runs at new Western plants. Instead, it has spent four long years bickering about whether to allow the proposed Keystone XL pipeline to Canada's tar sands. In Europe the giveaways are a little different—billions have gone to wind and solar projects—but the same madness often prevails: Germany's rushed exit from nuclear power ended up helping boost American coal and Russian gas.

The most straightforward piece of reform, pretty much everywhere, is simply to remove all the subsidies for producing or consuming fossil fuels. Last year governments around the world threw \$550 billion down that rathole—on everything from holding down the price of petrol in poor countries to encouraging companies to search for oil. **By one count, such handouts led to extra consumption that was responsible for 36% of global carbon emissions in 1980-2010.**

Falling prices provide an opportunity to rethink this nonsense. Cash-strapped developing countries such as India and Indonesia have bravely begun to cut fuel subsidies, freeing up money to spend on hospitals and schools (see [article](#)). But the big oil exporters in the poor world, which tend to be the most egregious subsidisers of domestic fuel prices, have not followed their lead. Venezuela is close to default, yet petrol still costs a few cents a litre in Caracas. And rich countries still underwrite the production of oil and gas. Why should American taxpayers pay for Exxon to find hydrocarbons? All these subsidies should be binned.

### What a better policy would look like

That should be just the beginning. Politicians, for the most part, have refused to raise taxes on fossil fuels in recent years, on the grounds that making driving or heating homes more expensive would not only annoy voters but also hurt the economy. With petrol and natural gas getting cheaper by the day, that excuse has gone. Higher taxes would encourage conservation, dampen future price swings and provide a more sensible way for governments to raise money.

An obvious starting point is to target petrol. America's federal government levies a tax of just 18 cents a gallon (five cents a litre)—a figure that it has not dared change since 1993. Even better would be a tax on carbon. Burning fossil fuels harms the health of both the planet and its inhabitants. Taxing carbon would nudge energy firms and consumers towards using cleaner fuels. As fuel prices fall, a carbon tax is becoming less politically daunting.

That points to the biggest blessing cheaper energy brings: the chance to inject some coherence into the world's energy policies. Governments have a legitimate role in making sure that energy is abundant, clean and secure. But they need to learn the difference between picking goals and deciding how to reach them. Broad incentives are fine; second-guessing scientists and investors is not. A carbon tax, in other words, is a much better way to reduce emissions of greenhouse gases than subsidies for windmills and nuclear plants.

By the same token, in the name of security of supply, governments should be encouraging the growth of seamless global energy markets. Scrapping unfair obstacles to energy investments is just as important as dispensing with subsidies. The more cross-border pipelines and power cables the better. America should approve Keystone XL and lift its

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export restrictions, while European politicians should make it much easier to exploit the oil and gas in the shale beneath their feet.

This ambitious to-do list will drive regiments of energy lobbyists potty. But for the first time in years it is within the realm of the politically possible. And it would plainly lead to a more efficient and greener energy future. So our message to politicians is a simple one. Seize the day.

From the print edition: Leaders

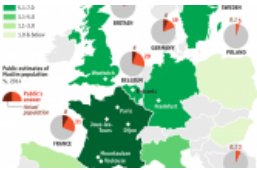
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