The Battle Over Cheap Energy in the Third World

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This article from the May 2014 edition of the IPA Review is by Chief Executive of the Minerals Council of Australia, Brendan Pearson.

The American literary critic Lionel Trilling once sounded a warning about the risks of the 'preening moral righteousness' that is relevant many of today's environmental campaigners and the complaisant international aid bodies influenced and intimidated by them.

Trilling wrote that 'once we have made our fellow man the object of our enlightened interest we go on to make them the object of our pity, then of our wisdom, ultimately of our coercion.'

A case study of how the developed world has reached the coercive phase of its relationship with poor nations is the recent decision by the World Bank to restrict funding to coal-fired power stations in poor countries except in 'rare' circumstances. It was the quarter of the world's population that consumes 90 per cent of the world's energy use dictating the rules for the three-quarters of the world's population that use just 10 per cent. It was a decision made by comfortable people addicted to the pleasures of condescension.

Some facts can help explain the context. One billion Africans now use roughly the same amount of electricity as 34 million Canadians. Ninety million children in sub-Saharan Africa go to schools without electricity. In Malawi and Uganda, as many as 9 out of 10 people lack access to regular electricity. In Pakistan, forests are being stripped not for building supplies but for firewood. A refrigerator in an average developed country household uses 9 times more electricity per year than an average Ethiopian household. Meanwhile estimates suggest that poor household air quality is due to the use of solid fuels, including dung, and that results in 3.5 million deaths annually.

Yet the global institution tasked with reducing poverty and hardship has decided to ration poor nations' access to the cheapest and most abundant energy source available.

The Australian government, as a member and governor of the World Bank, should ask the Bank to immediately overturn the policy. There are three reasons why.

First, the World Bank's strategy reverses the longstanding approach, enunciated first at the Rio Earth Summit in 1992 and many times since, that economic development and poverty eradication should remain the first and overriding priority of developing countries (and the nations that seek to assist them in this effort). The World Bank's new policy contradicts that central proposition by subordinating poverty eradication to climate policy objectives.

The practical effect of the policy will be to deny or delay the provision of cheap and reliable energy to billions of people. Affordable energy is widely recognised as a fundamental requirement for economic growth. Conversely, energy scarcity constrains economic growth. Nearly half the world's population has only limited access to electricity; 1.3 billion have no energy access at all. Limiting coal access to 'rare' exceptions will set back the cause of universal energy access and economic growth in the world's poorest nations.

A recent study highlighted the regressive impact of such an approach. A study last month by the Center for Global Development assessed the impact of a mooted ban on support for fossil fuel generation plants in poor nations by the USA's major aid donor, the Overseas Private Investment Corporation (OPIC).

The findings were stark. Sixty million more people in poor nations would gain access to electricity under a portfolio that allowed OPIC to invest in natural gas rather than renewable projects alone.. The findings would have been even more dramatic if the study had included coal investments. The bottom line is that there is a tangible, adverse human cost when the developed world decides to indulge itself at the expense of poor nations.

Second, the World Bank's approach is impractical. It implies that alternate energy sources are available to developing nations at comparable cost. This is not true. For the last decade coal has been world's fastest growing energy source. In the last year alone, global coal use jumped by the energy equivalent of 2 million barrels of oil per day. That's three times the growth in non-hydro renewables (solar, wind, biomass, and geothermal) and stronger than the growth in both oil and gas.

There is a simple reason for this – coal is abundant, affordable, reliable and versatile. Coal use is actually growing in many of the World Bank's wealthy member nations that have decided to ration coal use in poorer nations. In 2012, for example, coal use in both Spain and the U.K. jumped by 24 per cent over 2011 levels. In France, coal consumption rose 20 per cent, in the Netherlands, by 8 per cent and in Germany by about 4 per cent. It requires a special kind of moral callisthenics for wealthy nations to deny access to coal to the world's poorest nations while increasing its use at home.

Among the 191 countries in the 2009 UN energy statistics database, all but five have power sectors that depend on a combination of fossil fuels, nuclear, hydroelectric and geothermal energy for more than 90 per cent of their power generation. With nuclear and hydro plants *already* off-limits to World Bank funding, ruling out coal plants means that poor nations have a narrow (and expensive) list of options to choose from. The simple fact is that renewables are not a practical option for the developing world. The imperative is cheap, reliable energy and not unreliable windmills.

Third, the policy will be counterproductive. It will fail to reduce emissions and may even have the opposite effect. This point has been made by senior members of the World Bank itself. Former World Bank Economist Justin Lin wrote in 2009 that 'because coal is often cheap and abundant and the need for electricity is so great coal plants are going to be built with or without our support. Without our support, it is the cheaper, dirtier type of coal plants that will proliferate.' A year earlier, the World Bank's then chief economist for sustainable development, Marianne Fay, said that 'there are a lot of poor countries that have coal reserves and for them it's the only option.' She added that 'frankly it would be immoral at this stage to say, "We want to have clean hands, therefore we are not going to touch coal".' Precisely. It is as true now as it was then.

The reality is that continued consumption of coal and lower greenhouse gas emissions are not mutually exclusive goals. With the construction of new, more efficient, generation capacity, average emissions from coal-fired plants are falling. According to the International Energy Agency, modern coal-fired plants are producing 30 per cent fewer CO_2 emissions than the average for existing coal fleet.

No doubt some critics will argue that Australia is seeking the reversal of this policy approach because it is a coal exporter. This is nonsense. Australia is also an exporter of natural gas and uranium for nuclear power.

The case against this World Bank policy stands on its merits, not on a calculated assessment of interests. This policy should be overturned because it is wrong. It is a case of moral bearings overwhelmed by a vanity pose.