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Debt-fossil fuel trap

Published On: 23-08-2023

Why is in news? Rich countries force poor nations to rely on fossil fuels: What a new report says

The analysis says indebted countries may find it impossible to phase out fossil fuels and transition to renewable energy as revenues from fossil fuel projects “are often overinflated and require huge investments to reach expected returns, leading to further debt”.

The analysis report ‘**The Debt-Fossil Fuel Trap**’, published on August 21 by the anti-debt campaigners **Debt Justice** and partners in affected countries.

Key findings of the report:

Poor countries with heavy debts have been **forced to continue to rely on fossil fuels** for generating revenue to return the loans taken from richer countries and private lenders to meet various economic exigencies like the pandemic three years ago.

These countries, **mostly in the global south**, may **find it impossible to phase out fossil fuels** and transition to renewable energy as revenues from fossil fuel projects are **often overinflated and require huge investments** to reach expected returns, leading to further debt.

The global south — a term used for **developing, less developing and underdeveloped countries**, located in Africa, Latin America, and Asia — countries are **increasingly being burdened by enormous debts** in recent years.

Their **external debt payments** (money borrowed from richer countries, or multilateral creditors like the World Bank and IMF, or private lenders such as banks) has **gone up by 150% between 2011 and 2023**, reaching their highest levels in 25 years.

Moreover, 54 countries are in a debt crisis — they had to cut their public spending budgets during the pandemic to repay the loans, the analysis found.

The situation is **worsened by extreme weather events**, which force these countries to borrow more money as they lack adequate finances and resources for adaptation, mitigation and tackling loss and damage.

To **deal with the mounting debts**, these countries have **turned to extracting more fossil fuels**. Take the example of Argentina, which has been supporting fracking projects in the Vaca Muerta oil and gas field in Northern Patagonia to generate revenues to ease the country’s debt crisis. **Notably, the IMF has also backed these projects.**

They propose that foreign currency could be saved by supplying oil and gas domestically while additional foreign currency can be generated through oil and gas exports. The former economy minister Martin Guzman suggested that exports could hit \$15 billion by 2027,” the report said.

“The **country’s strategy to reduce debt may end up adding to debt levels without generating adequate revenue to repay**,” the report added. This is known as the “**debt-fossil fuel trap**”.

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Also highlighted that **despite many assurances, to stop investing in fossil fuels in global south countries**, richer countries and multilateral and bilateral lenders have financed “fossil fuel projects, often through loans, adding to debt burdens and keeping countries locked in fossil fuel production.”

One of the ways this happens is through loan contracts like **resource backed loans (RBLs)**. In RBLs, “**repayment is either made directly in natural resources** (in kind) such as oil or minerals, **or from a resource-related future income stream**; or **repayment is guaranteed by a resource-related income stream**, or where a **natural resource asset serves as collateral**,” the analysis noted.

The report has laid out a **few recommendations** to help global south countries exit the “debt-fossil fuel trap”. It said clean energy, wealthy governments and institutions must **implement “ambitious debt cancellation** for all countries that need it, across all creditors, free from economic conditions.”

They should **also stop accepting repayments made through fossil fuel projects’ revenue**. Meanwhile, “Bilateral and multilateral finance should be aligned with a 1.5 degree warming scenario and fair shares calculations, and not be used to finance fossil fuels.”

India’s Climate change targets:

India’s first pledge, also known as a **Nationally Determined Contribution (NDC)** in 2015,

Primary targets:

To **reduce the emissions intensity** of the economy by **33–35 percent below 2005 levels**.

To have **40 percent of installed electric power from non-fossil-based energy** resources by 2030.

To **create an additional (cumulative) carbon sink of 2.5-3 gigatonnes of carbon dioxide equivalent (GtCO₂e)** by 2030 through additional forest and tree cover.

Updated:

In **UNFCCC COP 26 at Glasgow in 2021**, the Prime Minister of India had made a series of new promises to strengthen climate action from India.

India now stands committed to reducing the emissions intensity of its GDP by **45 percent by 2030** from its 2005 levels, as per the updated NDC.

The country will **also target about 50 percent of cumulative electric power installed capacity** from non-fossil fuel-based energy resources by 2030.

To further a healthy and sustainable lifestyle, '**LIFE' 'Lifestyle for Environment' as a key to combating climate change**' has been added to India's NDC.

Other targets includes: Increase non-fossil energy capacity to **500 GW (gigawatts) by 2030**, Reduce the total projected carbon emissions by **1 billion tonnes (BT) by 2030**, **Achieve net zero carbon by 2070**.

Significance:

It will help India usher in low emissions growth pathways

It would protect the interests of the country and safeguard its future development needs based on the principles and provisions of the UNFCCC.

The update is also a step towards achieving India’s long term goal of reaching net-zero by 2070.

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India's initiatives to combat climate change:

The updated framework, including tax concessions and incentives such as **Production Linked Incentive scheme for promotion of manufacturing and adoption of renewable energy**, will provide an opportunity for enhancing India's manufacturing capabilities and enhancing exports.

India is accelerating its e-mobility transition with the **Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles Scheme**.

A voluntary **vehicle scrapping policy** to phase out old and unfit vehicles complements the existing schemes.

India is among a handful of countries that **support the global EV30@30 campaign**, which aims for at least 30% new vehicle sales to be electric by 2030.

India's advocacy of five elements for climate change "**Panchamrit**", at the UNFCCC COP26 in Glasgow is a commitment to the same.

The **Pradhan Mantri Ujjwala Yojana** has helped 88 million households to shift from coal-based cooking fuels to LPG connections.

The **public and private sectors in India** are already playing a key role in meeting the climate challenge, helped by growing customer and investor awareness, as well as increasing regulatory and disclosure requirements.

Hydrogen Energy Mission: Focus on generation of hydrogen from green power resources.

Perform, Achieve and Trade (PAT): It is a market-based mechanism to further accelerate as well as incentivize energy efficiency in the large energy-intensive industries.

National Solar Mission (NSM): Targets installing 100 GW grid-connected solar power plants by the year 2022 to achieve about 40% cumulative electric power installed capacity from non-fossil fuel-based energy resources and to reduce the emission intensity of its GDP by 33 to 35 percent from 2005 level by 2030.

National Mission on Sustainable Habitat: Promoting low-carbon urban growth towards reducing GHG emissions intensity for achieving India's NDCs.

Challenges in addressing climate change:

The **principle of Common but differentiated responsibilities** was proposed to tackle climate change by addressing the regional inequality. However, the indifferent behaviour by the developed countries has led to partial success of many global initiatives. Eg. Kyoto Protocol.

Historical emissions and pollution caused due to industrial revolution is not accepted by the industrialized nations. **Developed nations are unwilling to accept the responsibility** and are moving away from global agreements. Eg. USA rejecting the Paris deal.

Huge amount of funds are required for adaptation and mitigation measures to be adopted. The cost of shifting into renewable energy is also a **fiscal challenge** to most countries.

Many adaptation and mitigation measures need sophisticated technologies and Research and Development which is an impediment to many developing and small island nations.

Increasing use of fossil fuels: complex linkages among emissions, concentrations, climate changes, and impacts.

Way Forward:

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Localized **Climate risk atlas** at national scale level.

We have technology but **need to work on R and D** to reach our targets.

Investment in R&D is needed to spur innovations in sustainable climate-friendly and climate-proof productivity, and the private sector can help on this.

Democratization of climate data.

The real challenge is to get **other developed countries on board**.

Ban on single use plastic will be one of the game changer

The '**developing versus developed country**' **schism** needs to be diluted at the earliest and Developed Countries should avoid watering down the CBDR principle envisaged in earlier agreements.

Climate finance can prove to be a compelling financial tool to align India's growth with various climate change measures.