Debt-Fossil Fuel Trap Report

Why in news?

Debit-Fossil Fuel Trap report shows that Global North-imposed debt is locking the Global South into fossil fuels.

What is the report findings?

- Debt-Fossil Fuel Trap report has been released by the anti-debt campaigner's Debt Justice and partners.
- **Global South**- Global South is a term used for developing, less developing and underdeveloped countries, located in Africa, Latin America, and Asia.
- Global south countries are currently spending 5 times more on repaying debt than they are on addressing the impacts of the climate crisis.
- **Increase debt**- The revenue from fossil fuel projects are often overinflated and require huge investments to reach expected returns, leading to further debt Revenues from such projects.
- **External debt payments**- The money borrowed from richer countries, or multilateral creditors like the World Bank and IMF, or private lenders such as banks has risen by 150%.
- **Cut on public expenditure**- Around 54 countries are in a debt crisis, they had to cut public spending during the pandemic to repay loans.
- **Climate change**-Extreme weather events force countries to borrow more money for adaptation and mitigation efforts.
- For example Dominica's debt as a percentage of GDP rose from 68% to 78% after Hurricane Maria hit the island in 2017.

- **Extract fossil fuel** - It is seen as a means to generate revenue and to reduce debt for countries in the global south
- **Argentina**- It supports fracking in Vaca Muerta oil and gas field in Northern Patagonia to ease the debt crisis.
- This project is also backed by International Monetary Fund.

- **Saviour of foreign currency**- Through this foreign currency could be saved by supplying oil and gas domestically while additional foreign currency can also be generated.
- **Environmental catastrophe**- Fracking is a drilling method used to extract oil or natural gas from deep in the Earth's surface.
- It leads to greenhouse gas leak like methane, air pollution etc.,

- **Huge investment-** It requires large-scale investment of investment for Argentina.
- The country's strategy to reduce debt may end up adding to debt levels without generating adequate revenue to repay.
- **External support**- Despite many assurances, to stop investing in fossil fuels in global south countries, richer countries have financed fossil fuel projects.
- The financing is done through loans, adding to debt burdens and keeping countries locked in fossil fuel production.
- **Resource backed loan**-It is a loan contract in which the repayment is made
    1. Directly in natural resources such as oil and minerals.
    2. Resource-related future income stream.
    3. It is guaranteed by a resource-related income stream.
    4. Collateral natural resource asset.

- **Example**- In Surinam, creditors are entitled to 30% of oil revenue until 2050, incentivizing continued oil exploitation.

What are the key recommendations of the report?

- **Ambitious debt cancellation**- Implement comprehensive debt cancellation for countries in need, across all creditors, free from economic conditions.

- **Transition to clean energy-** Encourage the adoption of clean and renewable energy sources to reduce dependency on fossil fuels.
- **Government support**- Wealthy governments and institutions should play a role in supporting countries to exit the debt-fossil fuel trap.
- **Sustainable Development**- Promote sustainable development strategies that prioritize environmental protection and economic stability.
- **SDG 7**- Ensure access to affordable, reliable, sustainable and modern energy for all.
- **Curb external support**- 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.
- **Climate finance**- There is a need to scale up grant-based, new and additional public climate finance that fosters environment and social sustainability.

References

1. Indian Express- Fossil fuel reliance by poor countries
2. Debt Justice- Debt Fossil Fuel Trap Report

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