

Barriers to Reforming Fossil Fuel Subsidies: Lessons Learned from Asia

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20 June 2014



Outline of presentation

1. Introduction to the GSI
2. Scale of fossil-fuel subsidies in Asia
3. Rationale for reform
4. Existing political commitments
5. How a reform strategy can help
6. Experiences of Asian countries trying to reform



Global Subsidies Initiative

Established in 2005 as a program within the International Institute for Sustainable Development

Support governments, civil society organizations and the public assess the costs and benefits of subsidies

Technical: identify and quantify subsidies, assess impacts

Political: Promote communication and informed debate

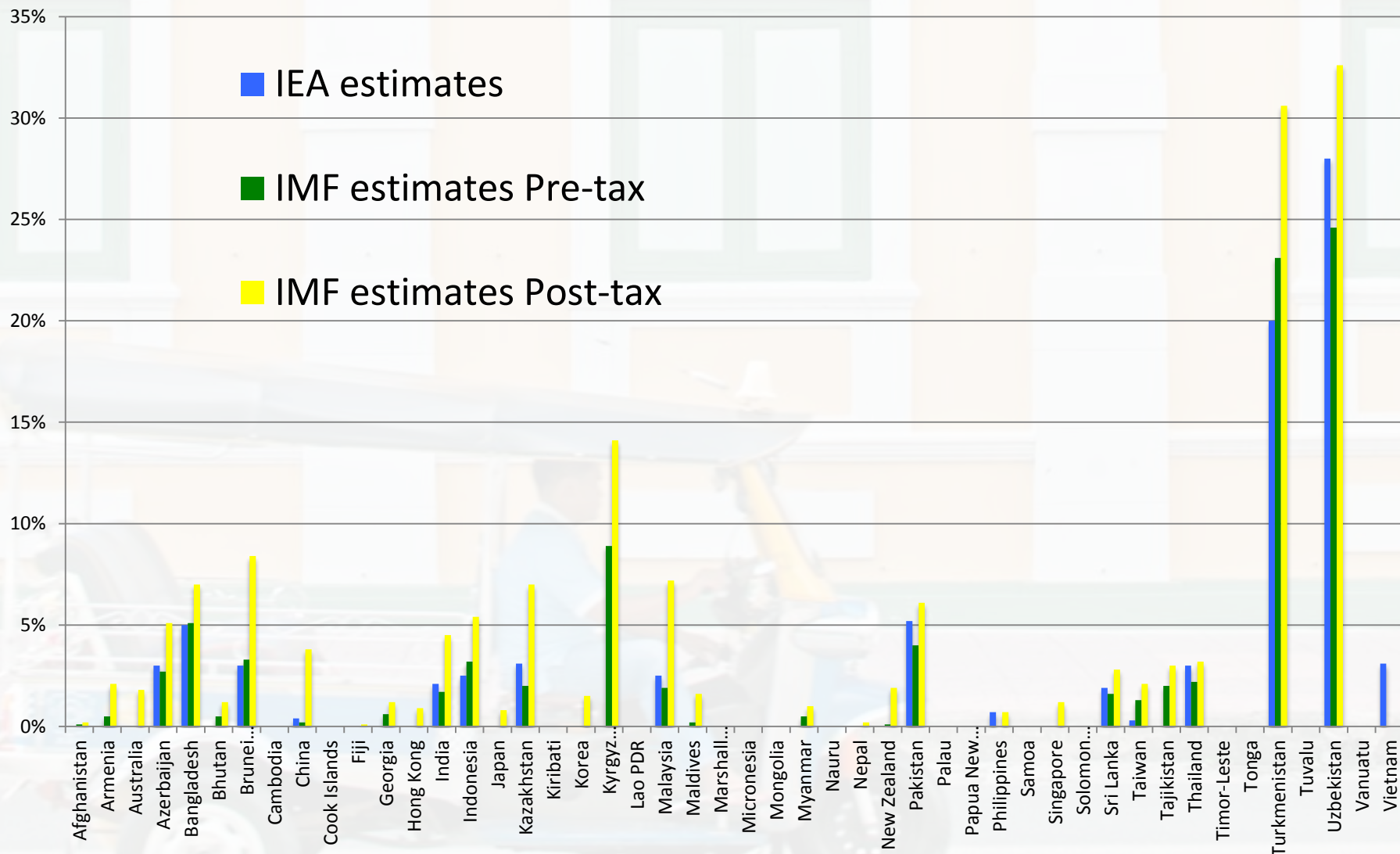


Scale of fossil-fuel subsidies

- Consumer subsidies globally exceeded US\$ 544 billion in 2012 (IEA)
- Of the 25 top subsidizing countries identified by the IEA for 2012, ten located in Asia
- ADB regional member countries
 - Pre-tax: US\$ 168 billion (IEA, IMF)
 - Post-tax: US\$618 billion (IMF)
- Producer subsidies less well understood in non-OECD



Consumer fossil-fuel subsidies as % GDP



Rationale for reform

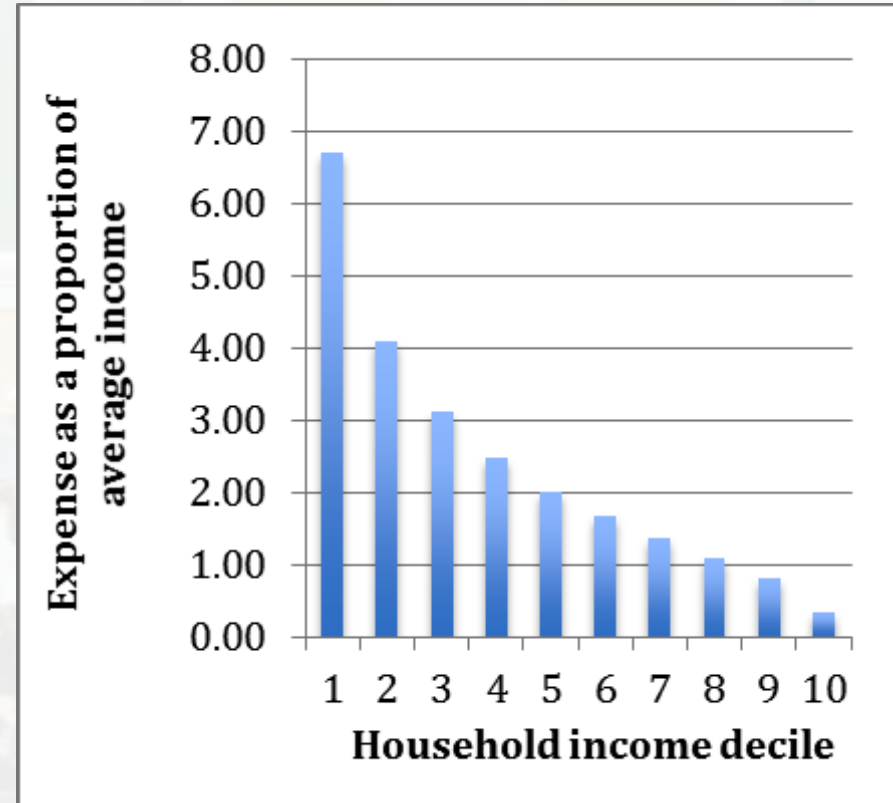
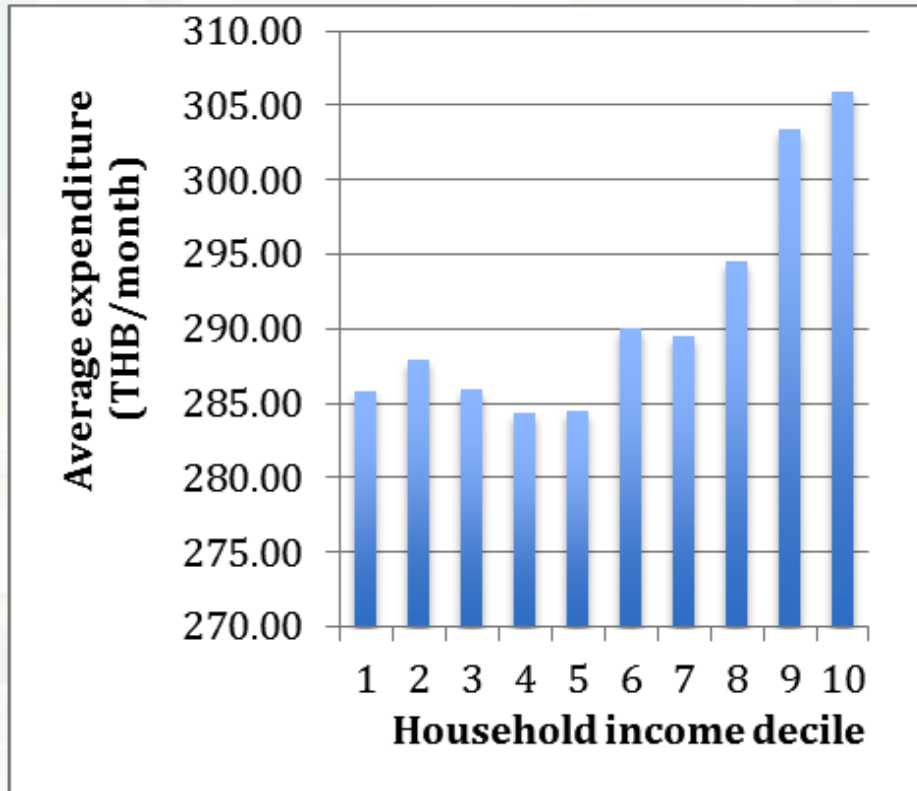
- Intended to help citizens by reducing prices and promoting domestic energy production

BUT:

- Help the rich more than the poor
- Major cause of additional greenhouse gas emissions
- Wasteful use of scarce government resources
- Distort energy markets
- Illegal use and smuggling can foster corruption



Thailand: LPG consumption



Rationale for reform

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Political commitments

In 2009, G-20 and APEC leaders agreed to phase-out 'inefficient' fossil-fuel subsidies

Many Asian countries have made unilateral commitments and efforts

E.g. China, India, Indonesia, Malaysia, Thailand, Vietnam...

Progress has been slow and patchy

Concern about impacts and politics



Reform strategy

KEY

GETTING THE PRICES RIGHT

BUILDING SUPPORT FOR REFORM

MANAGING THE IMPACTS OF REFORM

Political mandate and internal organization

Explore options for pace and change of pricing system:
gradual vs. "big bang,"
strategic timing, consider the
four dimensions of pricing

Communications:
general awarenessraising
Consultations:
map stakeholders, gauge views

Project impacts and explore mitigation options:
direct and indirect impacts, mix
quantitative and qualitative
approaches, consider the three
types of mitigation measure



Building support for reform: Indonesia

2003 price hikes failed

2005 – strategy in place and prices successfully increased

- Managing impacts
- Consultation and communication
- Not getting the prices right – subsidies re-emerged

2008 & 2013 – Prices increased again successfully



Managing the impacts: The Philippines

- 1997-1998 petroleum price reforms
- One off cash transfer funded from VAT levied on oil
- Lifeline electricity rate for low-income users
- Senior citizen discount on electricity
- Public Transport Assistance Program



The Philippines: transition to market prices

1984 – 1996

Ad hoc pricing

Subsidies
through an oil
fund

1996-1997

Automatic
pricing
mechanisms

Transitional
subsidies

1998 to present

Market-based
pricing

Preferential
taxation



Getting the prices right: Vietnam

- Electricity subsidies for rural and regional areas helped increase electrification from 2.5% in 1975 to >97% in 2010
- 2009 decision to gradually increase in prices and move towards full cost recovery
- Extending price increases over many years helps smooth impacts of reform but inflation remains a concern
- Cross-subsidies targeted to poorer households



Lessons

- Economic rationale is well understood: real barriers are reducing impacts and managing the politics
- Getting the strategy right will make reform more achievable
- Strategy depends on country circumstances
- Must be founded on an assessment of the subsidies and the projected impacts of their removal

 ADB project on India, Indonesia and Thailand



Thank you

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