

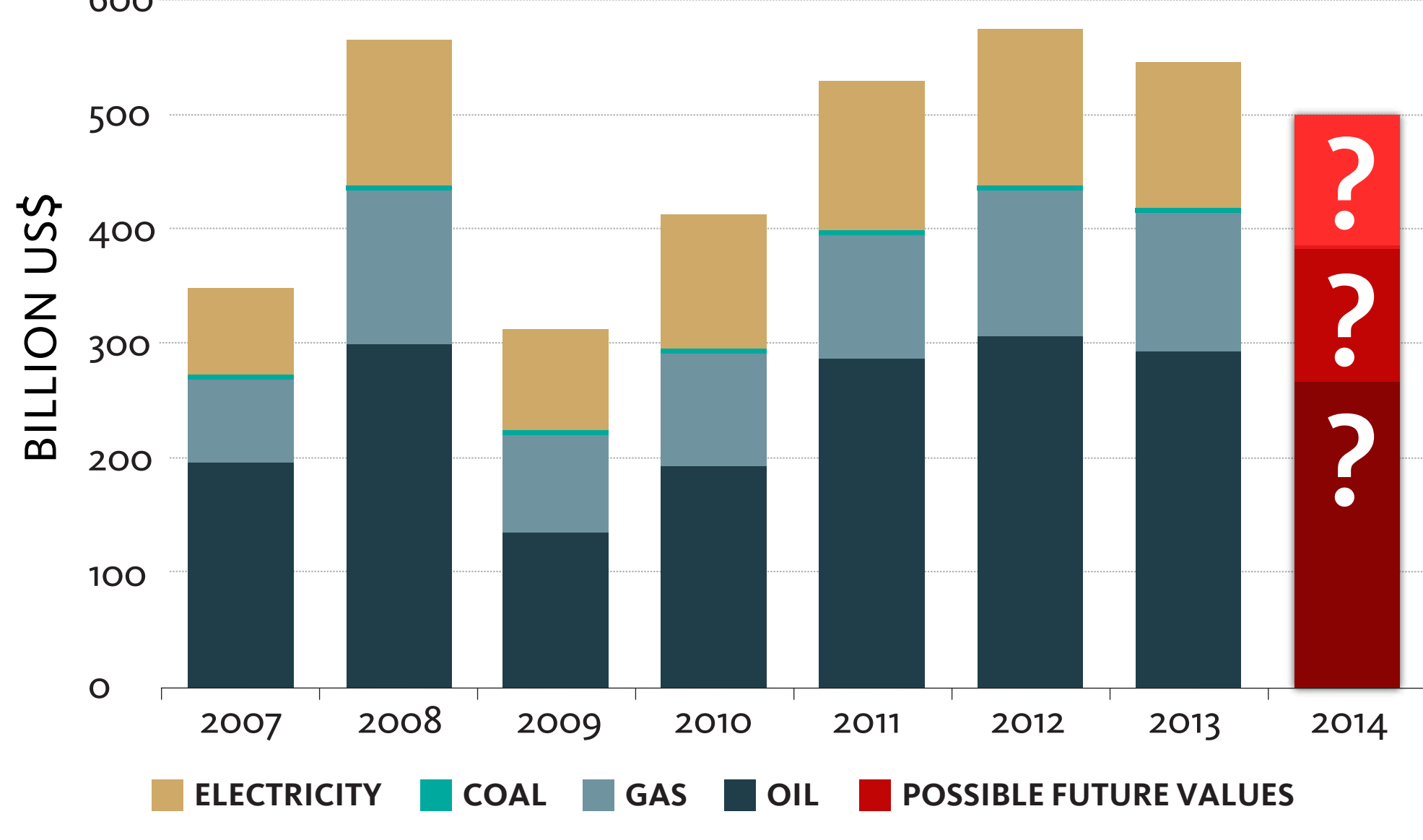
FOSSIL FUEL SUBSIDIES

A change in direction?

The International Energy Agency's (IEA) World Energy Outlook, released Nov. 12, 2014, provides a timely update on one of the key challenges to global sustainable development: **fossil fuel subsidies**.



FOSSIL FUEL SUBSIDIES DECLINE FOR THE FIRST TIME IN FOUR YEARS



IEA data show that global expenditure on subsidies for the consumption of fossil energy fell marginally year-on-year in 2013—but such energy subsidies still remain a huge burden on public finances.

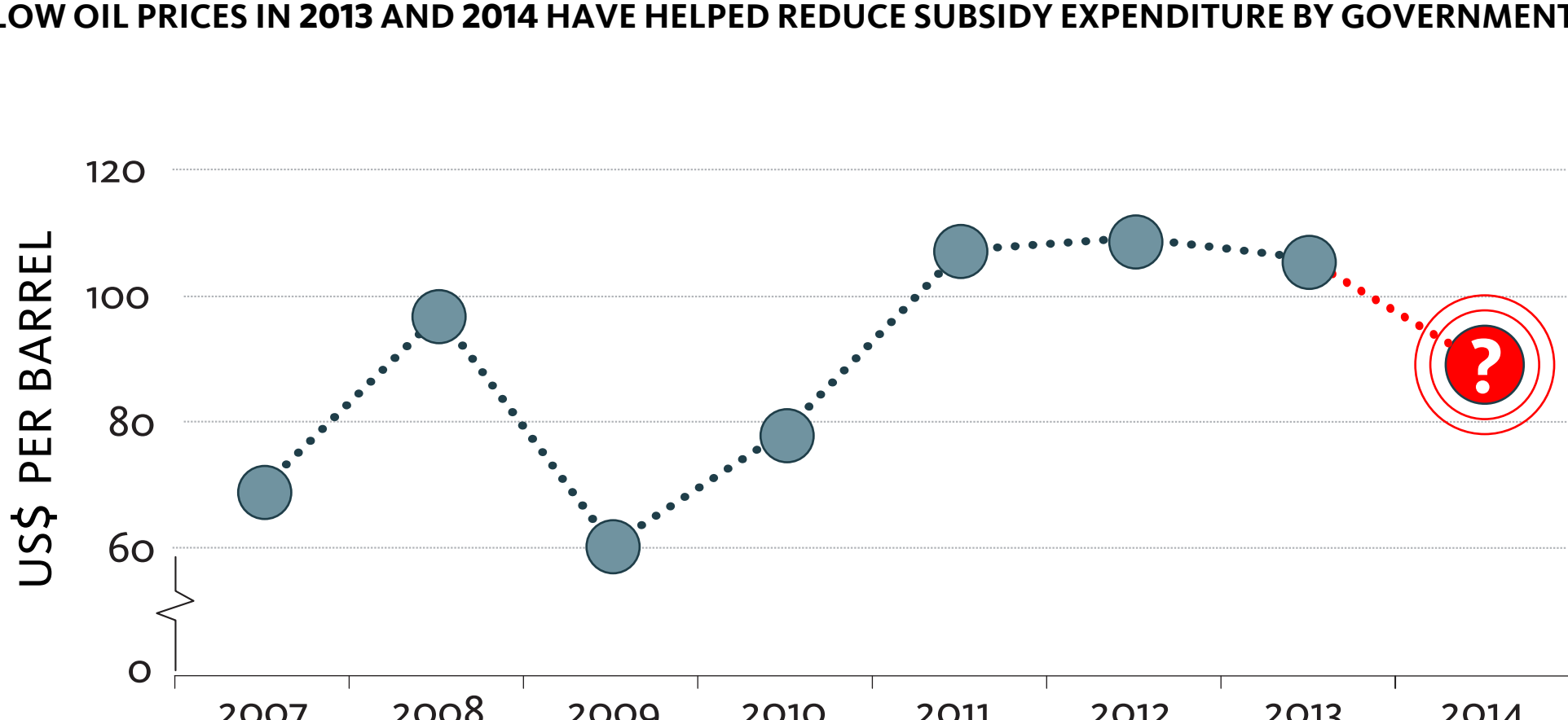


In 2013, governments – mostly in the developing world – spent US\$ 548 billion on inefficient and environmentally unfriendly fossil fuel consumption subsidies, around half on petroleum products. This is approximately 4 times the amount spent by all governments on aid delivered to the developing world in the same year.

WHAT IS DRIVING THIS DOWNWARD TREND?

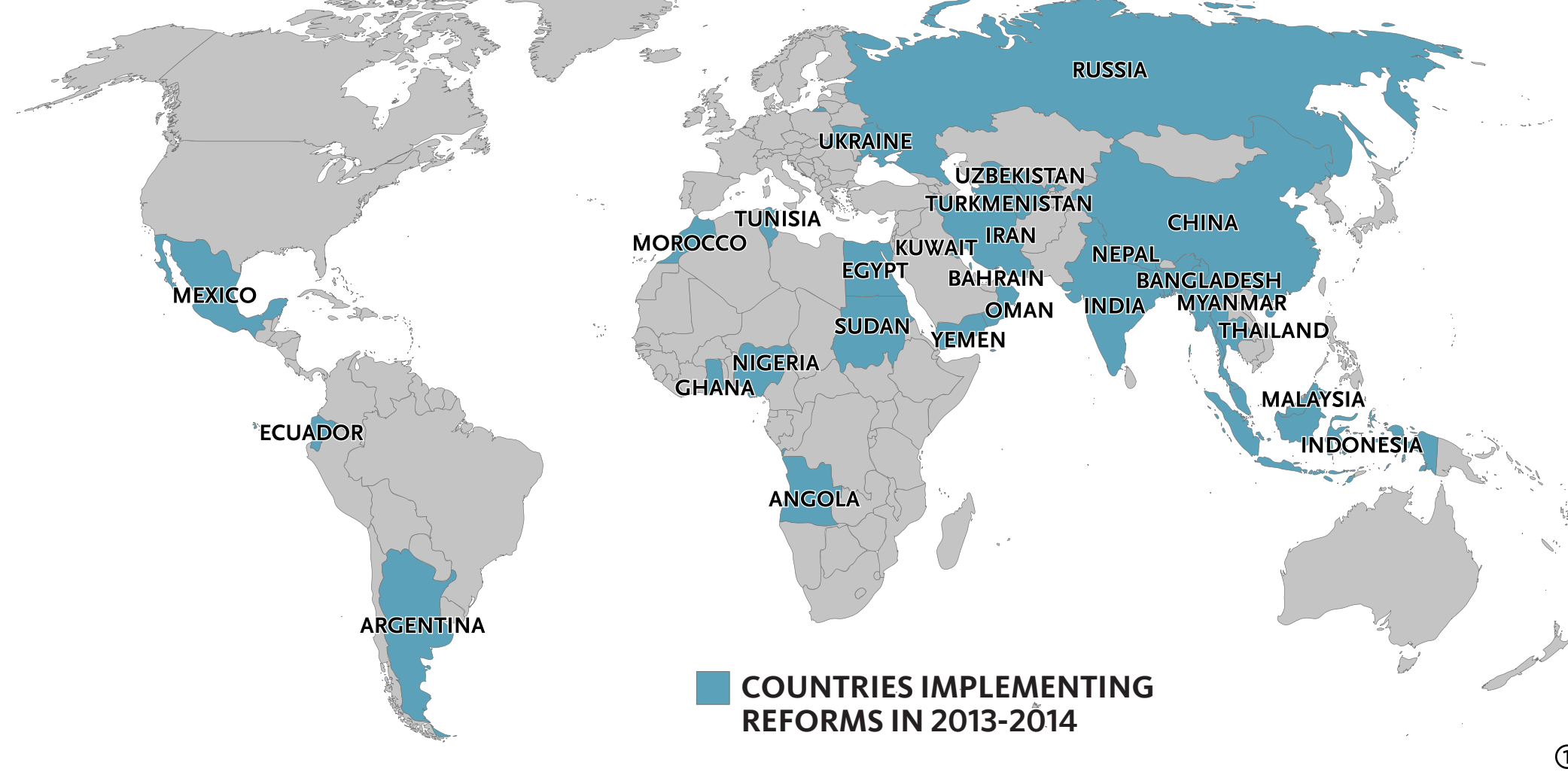
A large part of the reduction in global consumption subsidies in 2013 is because of lower international oil prices.

LOW OIL PRICES IN 2013 AND 2014 HAVE HELPED REDUCE SUBSIDY EXPENDITURE BY GOVERNMENTS.



Subsidies are also in the process of being reformed and reduced at a promising pace in **numerous countries around the world**.

MANY COUNTRIES HAVE AT LEAST PARTIALLY INCREASED SUBSIDIZED PRICES FOR FOSSIL ENERGY OVER THE LAST TWO YEARS.



EGYPT



In July 2014, Egypt undertook sweeping energy subsidy reforms, significantly increasing the price of transport fuels, electricity and natural gas. The Egyptian Government has pledged to channel USD 3 billion of the total savings of USD 7 billion directly into health and education spending.

INDIA



In October and November 2014, India liberalized diesel prices, capped per-unit LPG subsidies and increased natural gas prices by 50 per cent.

INDONESIA



In June 2013, the prices of gasoline and diesel were increased by 44% and 22%, respectively, and electricity tariffs were increased by around 15%. These reforms were combined with a USD 2.6 billion package of compensation mechanisms.

NIGERIA



In 2012, Nigeria tried to remove gasoline subsidies overnight, causing massive protests. The price increase was scaled back to 49%. In August 2014, natural gas prices for power generation and industry were increased.

IRAN



In April 2014, there was a 75% hike in gasoline prices, while diesel prices were increased by 40% and compressed natural gas prices by 32%. Low-income households were compensated with cash payments.

THERE ARE COMPELLING REASONS FOR COUNTRIES TO REFORM

MONEY



5% = THE AVERAGE VALUE OF FOSSIL FUEL SUBSIDIES AS A SHARE OF GDP

Fossil subsidies are expensive and crowd out other development expenditure, often being significantly larger than health and education expenditure combined.

FAIRNESS



7.2% = THE AVERAGE SHARE OF REACHES THE POOREST 20% OF THE POPULATION.

Fossil fuel subsidies are a highly ineffective welfare policy. On average, the wealthiest 20 per cent of people receive 42.8% of benefits. ②

ENVIRONMENT



4X = GOVERNMENT SUBSIDIES FOR FOSSIL FUEL CONSUMPTION VERSUS RENEWABLE ENERGY

Fossil fuel subsidies make it harder for new, cleaner alternatives to compete, and they also push up the cost of support for renewables.

THE SHIFT TOWARDS SUBSIDY REFORM IS PROMISING.

However, it needs to be done in the right way: being inclusive, sustainable and supporting green growth, while enhancing the welfare of vulnerable households and businesses.

Drawing on international experience and best practice, the Global Subsidies Initiative has identified **three** key aspects of successful fossil fuel subsidies reform:

① PRICING

If governments set the price of fossil energy, subsidies usually come back. Institutions that price energy according to pre-determined rules can depoliticize energy prices.

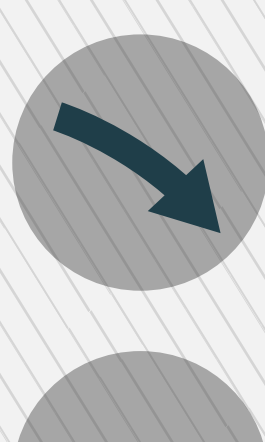
② MANAGING IMPACTS

It is important to identify who will be affected by higher fossil energy prices and how. Governments can then develop compensation packages to protect the vulnerable and promote sustainable economic activity.

③ BUILDING SUPPORT

Higher energy prices are unpopular no matter where they take place. It is important for governments to communicate the reasons for reform—and equally, to listen to the concerns of affected groups.

2015 will be a key year for fossil fuel subsidy reform, likely providing both **opportunities** and **challenges**.



Low oil prices

They provide a window of opportunity for the reform of subsidies, meaning this process can take place without severe price adjustments.



However, oil prices will likely rise again

Countries will need to use this time to develop robust alternative pricing mechanisms that will withstand political pressure to bring back subsidies in the future.



Oil prices are not the whole story

Coal, the dirtiest of all fossil fuels, continues to be subsidized in many countries, often indirectly through under-priced electricity. A concerted effort is required to change coal subsidy policy.

PRESENTED BY:

iisd International Institute for Sustainable Development



GSI Global Subsidies Initiative

WWW.IISD.ORG/GSI

SOURCES:

Unless otherwise stated, all data is reproduced from the World Energy Outlook 2014.

① This list of recent country reforms is taken from the WEO 2014: www.worldenergyoutlook.org, but for more detailed information about country experiences with fossil fuel subsidy reform, see www.iisd.org/gsi

② Arze del Granado, F.J., Coady, D. & Gillingham, R. (2012). *The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries in World Development*, 40(11), pp. 2234-2248.

③ See the GSI's 2013 publication *A Guidebook to Fossil Fuel Subsidy Reform*: www.iisd.org/GSI/fossil-fuel-subsidies/guidebook

DESIGNED BY: BEN BARRETT-FORREST