Energy Subsidy Reform in EECCA Countries: Learning from international experience

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Energy Subsidy Reform: Moving ahead

- Around 30 countries in the world reformed their subsidies to fossil fuel consumption in 2014-2015
- Ukraine has increased tariffs for heat, electricity and natural gas
- Armenia increased electricity tariffs
- Kazakhstan deregulated AI-92 gasoline prices in Sept 2015
- IMF price-gap estimates of consumer subsidies to oil, gas, coal and electricity in 2013 in the Table

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-tax subsidies in US$ billions (nominal)</th>
<th>Pre-tax subsidies as a percent of GDP</th>
<th>Pre-tax subsidies in US$ per capita (nominal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>0.01</td>
<td>0.06</td>
<td>1.82</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2.27</td>
<td>3.08</td>
<td>243.54</td>
</tr>
<tr>
<td>Belarus</td>
<td>0.27</td>
<td>0.38</td>
<td>28.96</td>
</tr>
<tr>
<td>Georgia</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1.89</td>
<td>0.82</td>
<td>110.25</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>1.07</td>
<td>14.76</td>
<td>189.01</td>
</tr>
<tr>
<td>Moldova</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Russia</td>
<td>43.69</td>
<td>2.08</td>
<td>304.07</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>0.28</td>
<td>3.34</td>
<td>34.85</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>6.63</td>
<td>16.23</td>
<td>1161.72</td>
</tr>
<tr>
<td>Ukraine</td>
<td>8.85</td>
<td>4.96</td>
<td>206.27</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10.34</td>
<td>18.21</td>
<td>342.00</td>
</tr>
</tbody>
</table>
USD 548 B in FFS, 2013 (IEA, almost same as pre-tax IMF)

USUSD 5.3 T in post-tax FFS, 2013 (IMF)

USD 100 B in FFS, per year (GSI)

Matrjoshka of Subsidy Definitions:

**Consumer Energy Subsidies**
- Energy exempt from social cost of externalities.
- Energy sold below regional or international tax levels.
- Energy exempt from VAT, GST and carbon taxes
- Energy sold below the cost of production, imports and international benchmark price to consumers

**Producer Energy Subsidies**
- Government tax and regulation levels below regional or international levels.
- Government revenue forgone (reduced and exempt tax rates).
- Government provided or purchased goods and services (respectively below or above market rates).
- Direct transfers or potential direct transfers of funds to producers.
- Income or price support (above market rate prices for producers).
Energy Subsidy Reform: Window of Opportunity

Context:
- Financial crisis
- Fluctuating oil prices

Benefits & Co-benefits:
- Budgetary savings
- Reallocation potential
- Pollution reduction
- Climate change

Champions:
- Finance ministries
- Friends of FFSR
- GSI & other NGOs

Managing Impacts:
- Protecting vulnerable groups (e.g. cash transfers)
- Pricing mechanisms
- Renewables deployment
- Green industrial policy
Lesson Learned 1. Managing Impacts

• Quantitative and qualitative methods
• Time & money

HOW SUBSIDIES ARE CHANGED: GRADUAL VS. "BIG BANG"
- Size and frequency
- Targeting subsidy
- Sequencing reform for different fuels
- Timing

RESPONSES TO IMPACTS: ECONOMIC AND SOCIAL ASSISTANCE
- Anti-inflationary policy
- Target assistance to affected households
- Target assistance to affected businesses
- Energy access programs

EFFORTS TO COUNTER-ACT PRICE INCREASERS
- Temporarily reduce taxes and fees
- Policies targeting fundamentals of supply and demand, e.g., competition, efficiency of distribution etc.

• Credibility
## Facilitating the Energy Shift: Complimentary Policies

<table>
<thead>
<tr>
<th>Industry/business</th>
<th>Social</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Support to restructure sectors e.g. retraining programmes</td>
<td>- Cash transfers: (un)conditional</td>
<td>- Investment in renewable or alternative energies, rural electrification, etc.</td>
</tr>
<tr>
<td>- Measures to improve energy efficiency</td>
<td>- Social safety nets, pensions, health insurance</td>
<td>- Energy conservation, energy security, energy efficiency policies</td>
</tr>
<tr>
<td>- Investments in infrastructure</td>
<td>- Increase (minimum) wages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Pro-poor expenditure</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Macro-economic</th>
<th>Banking</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Policies to manage inflation</td>
<td>- Can help roll out cash transfers</td>
<td>- Expanding public transport systems</td>
</tr>
<tr>
<td>- Strengthen market forces and encourage competition</td>
<td>- Credit facilities, e.g. for SMEs and micro-credit</td>
<td>- Alternatives for freight (rail or inland waterways)</td>
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<td></td>
<td></td>
<td>- Transitional support for taxi drivers</td>
</tr>
</tbody>
</table>
Lesson Learned 2. Building support

- Organize internally
- Gather information and understand perceptions
- Raise awareness and change attitudes
Goal: Level playing field and support for renewables

Globally, fossil fuels receive four-six times as much government subsidies ($500-600 billion per year) than renewables (~ $100 billion per year)