Energy Subsidy Reform in EECCA Countries: Learning from international experience

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GSI Global Subsidies Initiative

IISD International Institute for Sustainable Development

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**

Country	Pre-tax subsidies in US$ billions (nominal)	Pre-tax subsidies as a percent of GDP	Pre-tax subsidies in US$ per capita (nominal)
Armenia	0.01	0.06	1.82
Azerbaijan	2.27	3.08	243.54
Belarus	0.27	0.38	28.96
Georgia	0.00	0.00	0.00
Kazakhstan	1.89	0.82	110.25
Kyrgyz Republic	1.07	14.76	189.01
Moldova	0.00	0.00	0.00
Russia	43.69	2.08	304.07
Tajikistan	0.28	3.34	34.85
Turkmenistan	6.63	16.23	1161.72
Ukraine	8.85	4.96	206.27
Uzbekistan	10.34	18.21	342.00

Matrjoshka of Subsidy Definitions:

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)

Consumer Energy Subsidies	Producer Energy Subsidies
Energy exempt from social cost of externalities).	externalities (non-internalized
Energy sold below regional or international tax levels.	Government tax and regulation levels below regional or international levels.
Energy exempt from VAT, GST and carbon taxes	Government revenue forgone (reduced and exempt tax rates).
	Government provided or purchased goods and services (respectively below or above market rates).
Energy sold below the cost of production, imports and international benchmark price to consumers	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

Champions:

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APEC Asia-Pacific Economic Cooperation

OECD

iea

THE WORLD BANK

INTERNATIONAL MONETARY FUND

RIO+20 United Nations Conference on Sustainable Development

Finance ministries
Friends of FFSR
GSI & other NGOS

Benefits & Co-benefits:

- Budgetary savings
- Reallocation potential
- Pollution reduction
- Climate change

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 INCREASES

- 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

Industry/business

- Support to restructure sectors e.g. retraining programmes
- Measures to improve energy efficiency
- Investments in infrastructure

Social

- **Cash transfers: (un)conditional**
- Social safety nets, pensions, health insurance
- Increase (minimum) wages
- Pro-poor expenditure

Energy

- Investment in renewable or alternative energies, rural electrification, etc.
- Energy conservation, energy security, energy efficiency policies

Macro-economic

- Policies to manage inflation
- Strengthen market forces and encourage competition

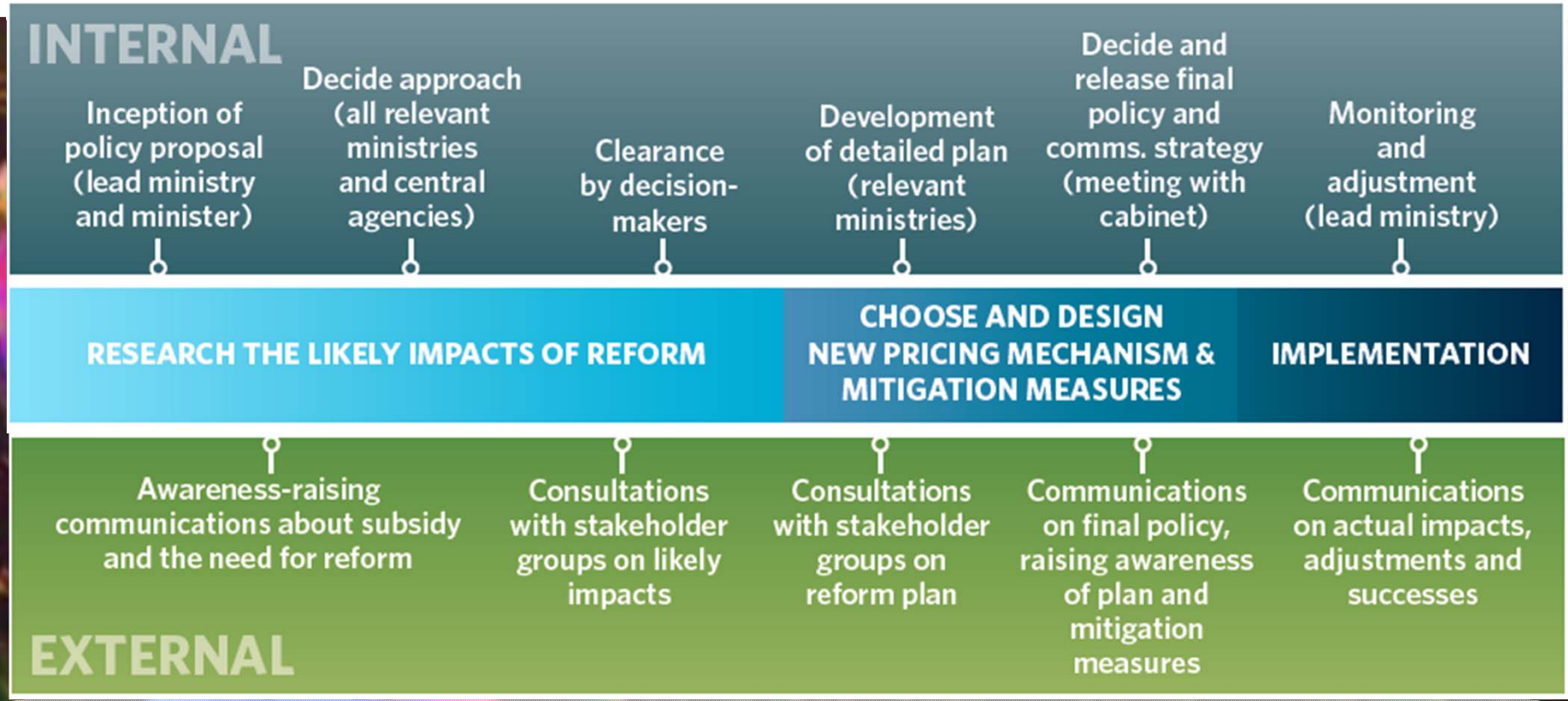
Banking

- Can help roll out cash transfers
- Credit facilities, e.g. for SMEs and micro-credit

Transport

- Expanding public transport systems
- Alternatives for freight (rail or inland waterways)
- Transitional support for taxi drivers

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

Q & A

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