



Country Case Studies on Fossil Fuel Subsidy Reform

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EGYPT: Communication, reform and reallocation

Energy subsidies in Egypt significantly contributed to a large structural fiscal deficit, as well as shortages. In July 2014 Egypt introduced long-awaited energy subsidy cuts. These had been in the pipeline for over five years, but had been repeatedly delayed. Their announcement was one of several economic initiatives instituted by the new president, Abdel-Fattah al-Sisi.

The most significant step was the 64 per cent hike in diesel prices, but similar increases affected electricity and a wide range of refined products—the most notable exclusion being heavily subsidized liquefied petroleum gas (LPG). Moreover, the subsidy reductions were set out as the first step in a five-year program to eliminate energy subsidies entirely (again, excluding LPG).

After the announcement, there was an ongoing public relations campaign by the president and Cabinet, including meetings with relevant stakeholders. In July Prime Minister Ibrahim Mehleb gave a press conference explaining that the decision had been taken after “delicate studies” outlining how much would be saved in the budget, and emphasizing that almost half would be allocated to education and health care. President Sisi gave a national address on television, which explained the energy price changes as a necessary “bitter pill.” In the wake of the change, carpooling and buspooling are reported to be on the rise (James, 2015; Clarke, 2014).

FINLAND: Transparency around subsidies as a prompt for fossil fuel subsidy reform

In Finland, energy prices are determined by the market, and most energy consumption is subject to an energy tax. The level of taxation varies by fuel and according to whether it is being used for heating, power production or in transport, etc.

Historically, however, Finland has also had several tax exemptions including tax deductions for energy-intensive industries, subsidies for commuting by car, some transportation fuels and peat in energy production.

Nevertheless, in recent years, Finland has taken important steps to rationalize and remove its fossil fuel subsidies. By conducting a transparent and comprehensive review of its own subsidies in 2013, Finland created an official platform for evaluating existing policies around fossil fuel subsidies. The review included 400 measures and 50 were analyzed in detail.

Following “the good, the bad and the ugly” principle, Finland categorized existing subsidies according to a three-tier system. “The good” are subsidies actually deemed relevant, targeted and effective. “The bad” are those subsidies that are no longer relevant and “the ugly” are subsidies that are badly designed and badly targeted.

The review has not only provided full transparency around Finland’s fossil fuel subsidies, but in 2014 also led to a range of policy adjustments. These include a carbon dioxide tax on heating, power



plant and machinery fuels, an increase in the taxation on transport fuels, and an annual motor vehicle tax on cars and vans.

Besides environmental gains, Finland's reform measures have also brought wider social and economic benefits, underlining that subsidies can be wasteful even when not damaging the environment. Likewise, the review has also shown that "green" subsidies can be badly designed, poorly targeted and costly (Limpinen, 2013).

THE PHILIPPINES: Reforming subsidies and liberalizing fuel markets

The Philippines has removed all consumer energy subsidies as part of wider structural reform. Between 1996 and 2001, the government deregulated the downstream oil and electricity sectors and, at the same time, phased out price subsidies. This included the removal of the Oil Price Stabilization Fund and privatization of the National Power Corporation.

Consecutive Philippine governments have managed to keep subsidies at bay, despite their removal being democratically challenged. These challenges have included major reviews and a constitutional challenge.

Rather than using subsidies, the Philippines has mitigated the impact of high world oil prices through non-pricing efforts. On several occasions, the government encouraged domestic oil companies to discount diesel prices. In 2003 they negotiated an agreement with oil companies to allow public transportation companies to buy diesel at a discounted rate. In May 2011 the government launched a temporary Public Transportation Assistance Programme (PTAP) to support Jeepney and Tricycle drivers during a period of high fuel prices. This meant issuing legitimate beneficiaries with electronic debit cards that were loaded with a lump-sum that drivers could use for purchasing diesel within a six-month period.

The Philippines has also expanded its social welfare programs, notably the Pantawid Pamilyang Pilipino Program (4P), introduced in 2007. Through 4P, the government can target support to vulnerable households in poorer parts of the country when

energy prices are rising. When fuel and food prices rose in the wake of the global financial crisis in 2008, the government temporarily expanded the program's eligibility criteria (Beaton, Gerasimchuk et al., 2013; Beaton, Christensen, & Lontoh, 2015).

SOUTH AFRICA: Removing subsidies and boosting employment through fuel pricing

Since the 1950s, South Africa has maintained a stable automatic pricing mechanism. This means that, over the last two decades, it has had relatively high fuel prices. In relative terms, fuel prices have been at par or above levels in the United States for most years since 2000. Since the introduction of a new fuel pricing mechanism in 2003, South Africa has not had to subsidize fuel prices.

South Africa copes with price volatility by enforcing a consistent and transparent pricing regime, with prices updated monthly by the government in line with fluctuation in international oil prices. Each component of the price structure is published on the public website of the Department of Energy. Prices are reported by the news media, and both the Department and Minister of Energy regularly engage with media to provide more information about components of the formula.

In addition, South Africa has integrated social welfare into its fuel price mechanism. Most notably, the Road Accident Fund Levy collects revenue to compensate third-party victims of motor vehicle accidents, and an allowance set aside for fuel pump attendant salaries at service stations contributes to boosting employment and alleviating poverty (Beaton, Christensen, & Lontoh, 2015).

SWEDEN: Fossil fuel-free ambition

Taxes on energy have for many years played an important role in Sweden, both as a fiscal tax source and as a policy instrument. In 1991 the energy taxation system was reformed and a carbon tax was introduced as a supplement to the existing energy tax system.

The carbon tax and the energy tax are very closely connected and have had a substantial



impact on Sweden's energy system. The carbon tax, particularly, is believed to have encouraged innovation and the development of green technologies.

When Sweden introduced the carbon tax in 1991, however, opposition voices claimed that it would be detrimental to economic development. Quite the contrary, Sweden's economy continued to grow, and companies within new industries such as geothermal and wood pellets have grown into big market players. Since 1991 Swedish carbon dioxide emissions have decreased by approximately 25 per cent, while GDP has increased by 64 per cent.

Today, Sweden is considered a green pioneer, aiming for a completely fossil fuel-free society, as recently announced by Prime Minister Stefan Löfven at the United Nations General Assembly.

In support of that goal, the Government of Sweden recently announced a large climate-friendly reform package. Measures include an electrification of the bus fleet; investments in renewable energy and smart electricity grids; a preferential tax treatment for environmentally friendly cars; and electric, hybrid and gas vehicles (Independent, 2015; Johansson, 2015).

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