How Large Are Global Energy Subsidies?

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Background

The presentation draws from a new paper and two blogs from the IMF:

• Provides a comprehensive, updated picture of energy subsidies and the impacts of subsidy reform
  • Focusing on the broader notion of post-tax energy subsidies, instead of pre-tax subsidies
  • The estimates of the environmental, revenue and welfare impacts of eliminating energy subsidies are “partial equilibrium” in nature

• Points to the need to begin reform immediately while adopting a gradual reform strategy
Global energy subsidies are $5.3 trillion

Pre-tax consumer subsidies arise when the price paid by consumers is below the cost of supplying energy. Post-tax consumer subsidies arise when the price paid by consumers is below the supply cost of energy plus an appropriate “Pigouvian” (or “corrective”) tax reflecting the environmental damage associated with energy consumption and an additional consumption tax that should be applied to all consumption goods for raising revenues.
Costs are far-reaching ….

• **Exacerbate environmental damage**
  • Local pollution, traffic congestion and accidents, road damage, and global warming

• **Worsen inequality**
  • Most of the benefits are captured by rich households
  • Better targeted policy instruments are often available or can be quickly developed

• **Retard economic growth**
  • Discourage energy investments and encourages energy inefficiency

• **Fiscally costly**
  • Which requires higher distortionary taxation and crowds out high priority spending (education, health, infrastructure)
Global warming 24%
Pre-tax subsidies 6%
Local pollution 52%
Vehicle externalities 12%
Foregone revenue 6%
Components of global energy subsidies, 2015

......mostly local .....
Product composition of global energy subsidies, 2015

- Coal: 59%
- Petroleum: 28%
- Natural gas: 10%
- Electricity: 3%
Energy subsidies are pervasive

Geographic distribution of global energy subsidies, 2015

USA $0.7 trillion
EU $0.3 trillion
Russia $0.3 trillion
Japan $0.2 trillion
China $2.3 trillion
India $0.3 trillion

Subsidies, percent of GDP

- Data unavailable
- Less than 2 percent
- 2 to 4 percent
- 4 to 8 percent
- More than 8 percent
Energy subsidy reform can generate substantial health benefits …..

Reduction of fossil-fuel emissions-related deaths, 2015

Global average: 57 percent
..... and carbon emission reductions ..... 

Reduction of fossil-fuel related CO₂ emissions, 2015

Global average: 24 percent
Advanced
Emerging
Low-income and developing

Percent of GDP, 2013

Public health spending

Corporate income tax revenue

Fiscal gain

...... as well as a significant fiscal dividend
Time is now: act local, solve global!

- Energy subsidy reform is urgently needed in many countries for domestic reasons.
- This will also contribute to carbon emission reductions (in the run up to Paris 2015 UN Climate conference).
- Low international energy prices provide a window of opportunity for reform.

Reform process should *start now* and it should be *gradual*. 
Thank you!

- The working paper “How Large Are Global Energy Subsidies”
- The blog “Act Local, Solve Global: Energy Tax and Subsidy Reform”
- The blog “Global Energy Subsidies Are Big—About US$5 Trillion Big”
- All can be found at: http://www.imf.org/external/np/fad/subsidies/
Background slides
A number of countries have started to reform energy taxation

Other references

