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CONTENTS

Energy subsidies have been a core policy in many parts of the world, typically aimed at achieving broader welfare and development objectives. Yet, in recent years a growing number of countries – Indonesia, Nigeria and Iran being some examples – have begun to reform their domestic energy pricing systems, in particular for fossil fuels and electricity. Part of the reason for this trend lies in the oil market, where higher prices since the early 2000s have rendered energy imports, and the mounting fiscal burden of subsidies that level the gap between international and domestic prices, ever more expensive for governments. But criticism of subsidies has also sprung from what increasingly many observers see as the ineffectiveness of many current subsidy systems in achieving their declared policy goals, such as promoting universal energy access and industrial value-added growth. Issues such as unequal access, demand growth in emerging economies, and the sustainable long-term use of energy resources additionally feature in this debate – reason enough for this special edition of the Oxford Energy Forum.

The debate is started by Laura El-Katiri and Bassam Fattouh, who explore in more detail some of the factors that have contributed to the controversy surrounding energy subsidies. They emphasise the difficulty of providing a universally accepted definition, and hence measurement, of subsidies. For this reason, quantifying the size and performance of subsidies remains a controversial task. Assessments of subsidies in place differ widely, while the reform of subsidies in the eyes of many governments remains costly – not least due to political considerations in view of mass protest and industrial action.

Joerg Spitzy provides a close account of OPEC's perspective on energy subsidies. He points out that the rationale for regulating energy prices, of protecting consumers against price rises and fluctuations, is today still as valid as ten years ago; this is in view not only of the potentially damaging effect of considerable price rises on emerging countries' macroeconomic stability, but also in view of an estimated 2.7 billion people in the developing world who until now are unable to afford access to non-traditional sources of energy such as fossil fuels. Rather than condemning subsidies per se, he argues that the way in which subsidies should be assessed is to distinguish between efficient and inefficient subsidies.

Fatih Birol, Chief Economist at the IEA and responsible for the IEA's

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annual *World Energy Outlook*, offers an alternative view. He proposes a general rethink of fossil fuel subsidies, which in his view have many unintended consequences that contradict their original rationale. Under his assessment, the removal of fossil fuel subsidies could mean a triple-win situation for reforming economies: by cutting global primary energy demand, the removal of these subsidies could be an integral building block for tackling climate change; contribute towards greater energy security in both importing and exporting countries via reduced imports and increased availability of fossil fuels for exports; and make consumers globally more responsive to oil price fluctuations, and hence reduce volatility in international energy markets.

Several authors in this issue look more closely at specific country experience with the use and reform of energy subsidies. Paul Segal, Economics Lecturer at Sussex University, calls for the reform of fuel subsidies based on his observation of Mexico's case. Describing subsidies as 'both extremely popular and wholly unjustifiable', Segal proposes that alternative ways of distributing Mexico's oil revenues do exist, via a resource dividend, targeted or universal, models of which are already in place such as under the *Alaska Permanent Fund* or *Bolivia's Renta Dignidad*.

Anupama Sen of Oxford Institute for Energy Studies assesses the reform of energy prices in India. Highlighting first steps in the right direction, Sen emphasises that India's energy pricing system is still in transition. While some problems have now been displaced from one sector to the other, she also points out that the longevity of India's reforms will still need to be proven following the country's next general elections in 2014.

Damian Tobin focuses on subsidies in the petrochemical sector. He shows how in the Chinese case, economic necessity, mostly as a result of rapid growth of manufacturing in China, has forced the state to abandon the large-scale subsidisation of petrochemical products. He argues that the removal of subsidies has led to a remarkable and unusual opening up of China's state-driven petrochemical sector. However, China's pricing reform has also exposed refineries to volatile international prices without addressing the problems of small-scale and variable throughput; as well as to the political risk as the state retains the ability to force refiners to absorb increases in international prices.

Hamid Tabatabai and Shirin Narwani follow up more closely the Iranian subsidy reform. Tabatabai offers an overview of the reform process since December 2010. He concludes that 'the Iran model of reforming the system of energy subsidies is a bold attempt at pursuing the twin objectives of enhancing economic efficiency and social justice at the same time' but argues that 'while the extent of its success so far may be judged differently, its longer-term impact remains to be seen.' Narwani shares this assessment; in her view, the reform has succeeded in cutting energy demand beyond expectations, but the long-term viability of the country's compensatory scheme remains doubtful.

James Henderson discusses the case of Russia, which underwent a comprehensive, gradual reform of energy prices since the breakup of the Soviet Union. He suggests Russia's only remaining exception to the reform of energy prices, natural gas, has only been made possible by relatively higher netback prices for Russian gas exports, but that this factor hasn't saved the country considerable distortions on its domestic energy market.

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