Climate Parliament

Driving The transition to clean energy

A FIVE-POINT PLAN

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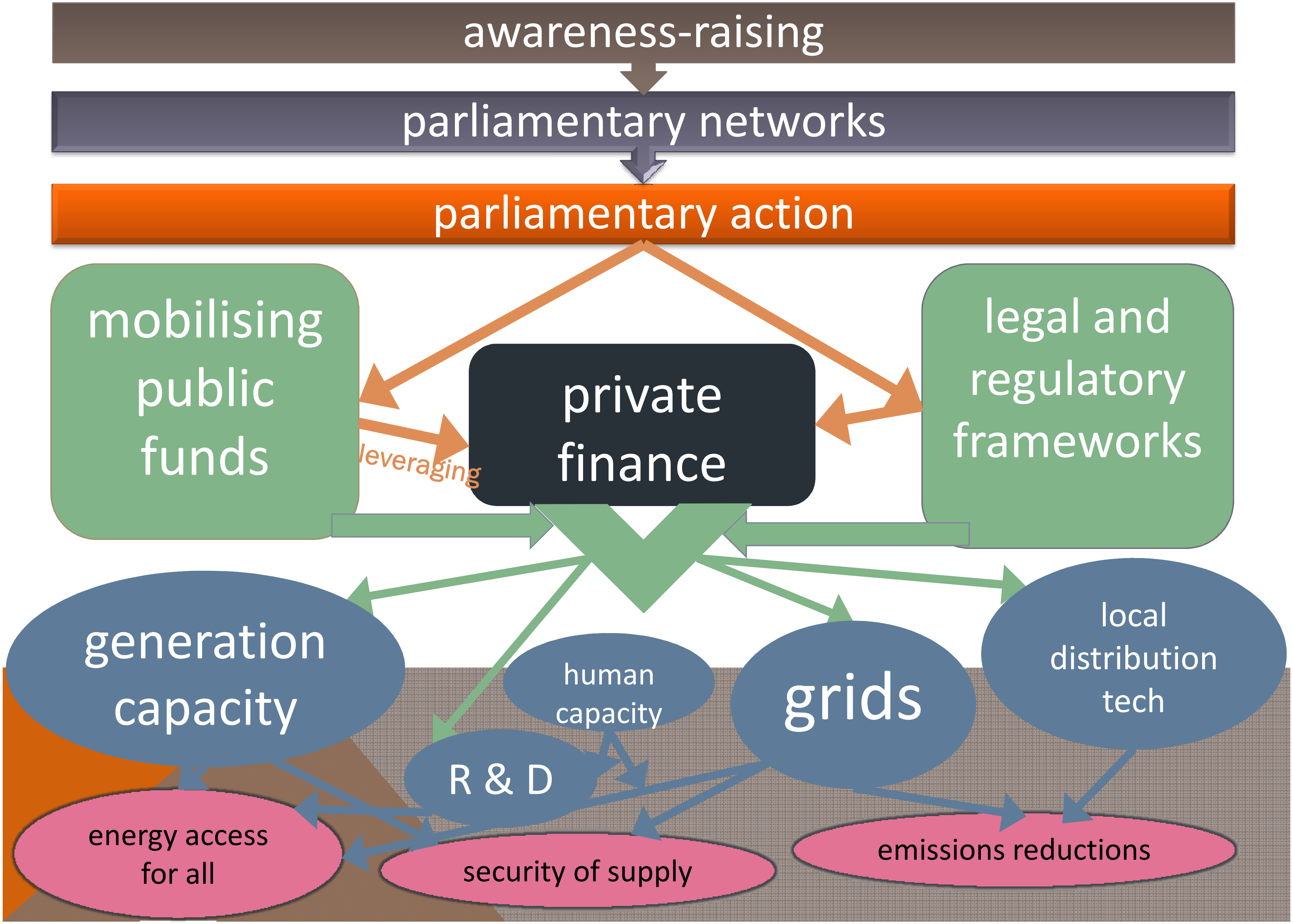
Climate Parliament

Legislators working worldwide to combat climate change

- Global network of elected legislators
- Only international parliamentary network focused on renewable energy
- Secretariat – staff in India, Morocco, Senegal, South Africa, and UK
- Support MPs to take action – national initiatives and coordinated multilateral initiatives



awareness-raising
parliamentary networks
parliamentary action
mobilising public funds
leveraging
private finance
legal and regulatory frameworks
generation capacity
human capacity
grids
local distribution tech
R & D
energy access for all
security of supply
emissions reductions

A FIVE-POINT PLAN

1) INVEST IN TRANSMISSION GRIDS

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2) PHASE OUT FOSSIL FUEL SUBSIDES

INTERNATIONAL MONETARY FUND

January 28, 2013

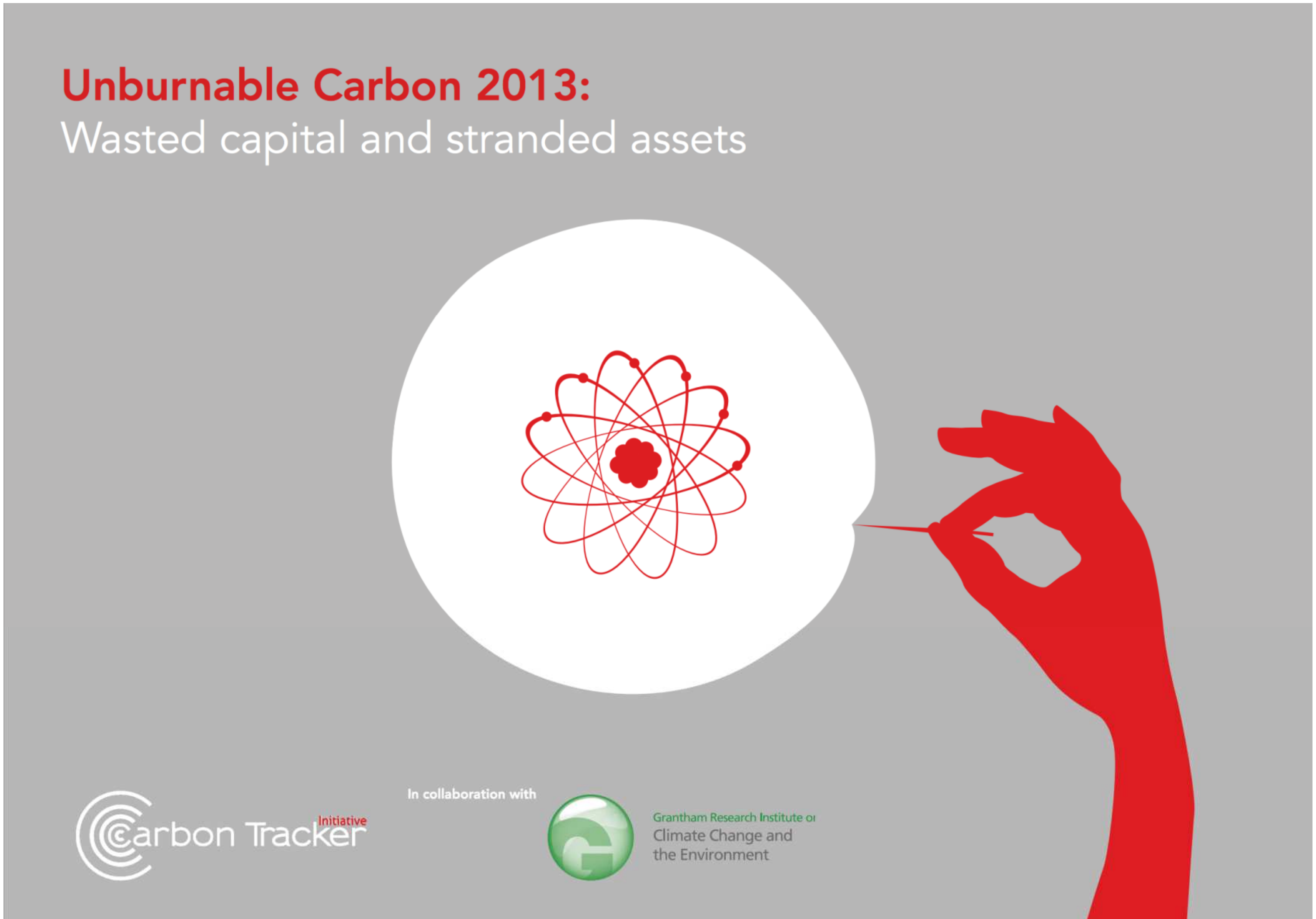
ENERGY SUBSIDY REFORM: LESSONS AND IMPLICATIONS

EXECUTIVE SUMMARY

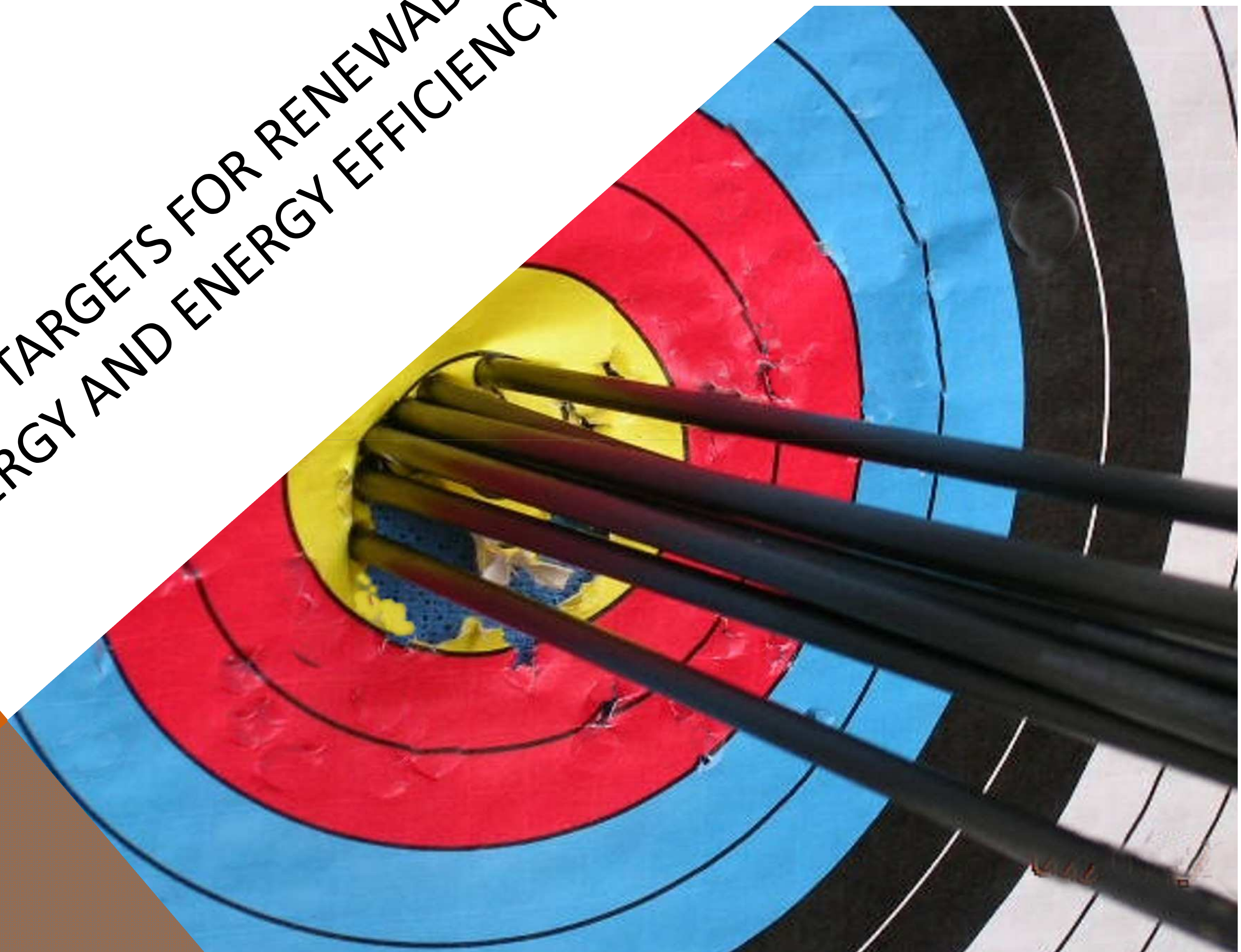
Energy subsidies have wide-ranging economic consequences. While aimed at protecting consumers, subsidies aggravate fiscal imbalances, crowd-out priority public spending, and depress private investment, including in the energy sector. Subsidies also distort resource allocation by encouraging excessive energy consumption, artificially promoting capital-intensive industries, reducing incentives for investment in renewable energy, and accelerating the depletion of natural resources. Most subsidy benefits are captured by higher-income households, reinforcing inequality. Even future generations are affected through the damaging effects of increased energy consumption on global warming. This paper provides: (i) the most comprehensive estimates of energy subsidies currently available for 176 countries; and (ii) an analysis of "how to do" energy subsidy reform, drawing on insights from 22 country case studies undertaken by IMF staff and analyses carried out by other institutions.

Energy subsidies are pervasive and impose substantial fiscal and economic costs in most regions. On a "pre-tax" basis, subsidies for petroleum products, electricity, natural gas, and coal reached $480 billion in 2011 (0.7 percent of global GDP or 2 percent of total government revenues). The cost of subsidies is especially acute in oil exporters, which account for about two-thirds of the total. On a "post-tax" basis—which also factors in the negative externalities from energy consumption—subsidies are much higher at $1.9 trillion (2½ percent of global GDP or 8 percent of total government revenues). The advanced economies account for about 40 percent of the global post-tax total, while oil exporters account for about one-third. Removing these subsidies could lead to a 13 percent decline in CO_2 emissions and generate positive spillover effects by reducing global energy demand.

Country experiences suggest there are six key elements for subsidy reform. These are: (i) a comprehensive energy sector reform plan entailing clear long-term objectives, analysis of the impact of reforms, and consultation with stakeholders; (ii) an extensive communications strategy, supported by improvements in transparency, such as the dissemination of information on the magnitude of subsidies and the recording of subsidies in the budget; (iii) appropriately phased price increases, which can be sequenced differently across energy products; (iv) improving the efficiency of state-owned enterprises to reduce producer subsidies; (v) targeted measures to protect the poor; and (vi) institutional reforms that depoliticize energy pricing, such as the introduction of automatic pricing mechanisms.


Unburnable Carbon 2013:
Wasted capital and stranded assets
In collaboration with
Carbon Tracker Initiative
Grantham Research Institute o
Climate Change and
the Environment

3) SET TARGETS FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY



4) INCENTIVISE THE PRIVATE SECTOR

TRADITIONAL INCENTIVES, e.g.
tax credits/reductions/exemptions
capital subsidies/grants

Feed-In Tariffs (FITs)

RISK-SHARING, e.g.
Loan guarantees
Backing green bonds
PPPs

5) ELECTRIFY TRANSPORTATION AND HEATING

FIVE-POINT PLAN

1) Invest in transmission grids
2) Phase out fossil fuel subsidies
3) Set targets for renewable energy and energy efficiency
4) Incentivise the private sector
5) Electrify transportation and heating

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