

# Fossil Fuel Subsidies and Tax Expenditure

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Jeevani D Kotinkaduwa  
Department of Fiscal Policy  
Ministry of Finance, Economic Stabilization and National Policies, Sri Lanka

## Fossil Fuel Subsidies (FFS)

- Fossil fuels are a leading contributor to global human induced greenhouse gas emissions which undermine global efforts to mitigate climate change.
- A fossil-fuel subsidy is a government intervention that provides an advantage or preference for the production or consumption of fossil fuels over alternatives.
- This can take the form of ;
  - A direct transfer of funds
  - Preferential tax treatment
  - Price support to lower fuel prices below market prices

## Implications on FFS

- Worsen local pollution problems, causing further damage to human health and the environment
- Undermine global efforts to mitigate climate change
- Cause pressure on public budgets
- Depleting scarce fiscal resources that could be better spent on other strategic investments
- Distort the costs and prices that many producers, investors, and consumers use to make decisions, perpetuating older technologies and carbon-intensive modes of production

## Reform initiatives against FFS

- Governments have committed to phasing out inefficient FFS in the context of the G20, G7 and APEC forums
- The importance of measuring FFS has been recognized in the SDG process with a dedicated indicator
- SDG 12 “Ensure sustainable consumption and production patterns” incorporates the target to “rationalize inefficient FFS that encourage wasteful consumption by removing market distortions” (Target 12.c).
- 12.c.1 - “Amount of fossil-fuel subsidies per unit of GDP (production and consumption)”

## Externalities and Social Costs of FF

- The true price of carbon and other pollutants are not reflected in the actual cost of fossil fuels and fossil-derived products.
- Fossil fuel externalities, including societal costs, environmental costs, and health costs, are largely overlooked in the process of incentivizing fossil fuel production through policy mechanisms.
- The undervaluation of fossil fuel externalities disproportionately affects communities that are the most vulnerable to the health and environmental impacts of fossil fuel combustion and extraction.
- minority and low-income populations that are more likely to live near facilities that produce high amounts of pollutants, such as ports, airports, highways, and petrochemical refineries.
- Addressing fossil fuel externalities could save taxpayers billions of dollars in societal costs and improve the health and quality of life for many people.

## Successful Stories

- Poorly planned fossil fuel subsidy reforms can lead to price increases that could impact the poorest and trigger social unrest.
- Beyond being environmentally impactful, such reforms must be socially and economically fair to be accepted by citizens.
- Policy makers should be well aware about fossil fuel subsidy reform policies, the best practices, lessons learned, comparative advantages and distributional impacts of such policies.

# Removing Subsidies for Gasoline and Diesel Consumption in Indonesia

- In mid-November 2014, the government increased gasoline prices by 31 percent and diesel by 36 percent.
- At the end of December 2014, it announced the complete removal of gasoline subsidies and the introduction of a “fixed price” subsidy on diesel, where the per-litre level of subsidization would remain fixed.
- For both fuels, the plan was for prices to be frequently adjusted to match international oil price fluctuations.
- Indonesia saved 15.6 billion USD by reforming untargeted subsidies for gasoline and diesel in 2015.

<https://www.iisd.org/system/files/publications/stories-g20-indonesia-en.pdf>

# Removing Subsidies for Fossil Fuel Exploration and Development in Canada

- Since 2011, the Government of Canada has either completely phased out or reformed seven policies that subsidized the production of oil, gas and coal across the country.
- These reforms have primarily affected tax expenditures that benefitted exploration and development activities.
- The reforms implemented between 2011 and 2022 are estimated to result in additional savings of approximately 260 million USD annually.

<https://www.iisd.org/system/files/publications/stories-g20-canada-en.pdf>



# Removing Subsidies for Oil Production in Argentina

- Argentina went for a restructuring of the system of direct budgetary transfers to oil enterprises (discontinuation of programs such as: Support for Small Crude Oil Refiners; Export Stimulus of Crude Oil Surplus; Incentive to the Production of Crude Oil).
- In 2016 the value of these incentives was 914 million USD, and in 2017 it was 134 million USD.
- In 2017 the estimated savings was at least 780 million USD as a result of reforms that reduced the incentives (direct budget transfers) to oil producers.

<https://www.iisd.org/system/files/publications/stories-g20-argentina-en.pdf>

# Governance of the EU-Wide Phase-Out of Fossil Fuel Subsidies by 2020

- EU phase-out of subsidies to hard coal mining (by 2018)
- Wider full EU phase-out of subsidies to production and consumption of fossil fuels by 2020
- The EU significantly reduced its own fiscal (budgetary) support to fossil fuels, with only 515 million EUR provided per year for oil and gas production in the EU budget between 2014 and 2016

<https://www.iisd.org/system/files/publications/stories-g20-eu-en.pdf>

## Fuel subsidy in Sri Lanka

- In Sri Lanka, fuel subsidy is where the government pays the difference between the high global fuel price and the price it is sold at the pump to cushion the people.
- Pump prices of petrol and diesel in Sri Lanka were lower than in most neighboring countries.
- It was ranked 50th lowest from 170 countries listed, with almost all those having lower fuel prices than Sri Lanka.
- Sri Lanka then becomes a country having the lowest pump prices for a non-oil producing country.

## Initiatives taken by Sri Lanka

- Widespread practice of cushioning people from fuel price shocks in the long term, no longer works and it has also come to a point where the country can no more afford it.
- What is needed is not just a temporary tiding over in terms of the fuel over-consumption, but a permanent policy that will make fuel use sustainable.
- By the end of 2022, a cost reflective pricing mechanism was introduced for fuel.
- The formula is based on six factors, which includes costs related to unloading, taxation, production, operational & administration as well as profit margin, and contribution to the Fuel Price Stabilization Fund.

**Thank you**