



QUNO

Quaker United Nations Office

Tax expenditures related to the consumption of fossil fuels

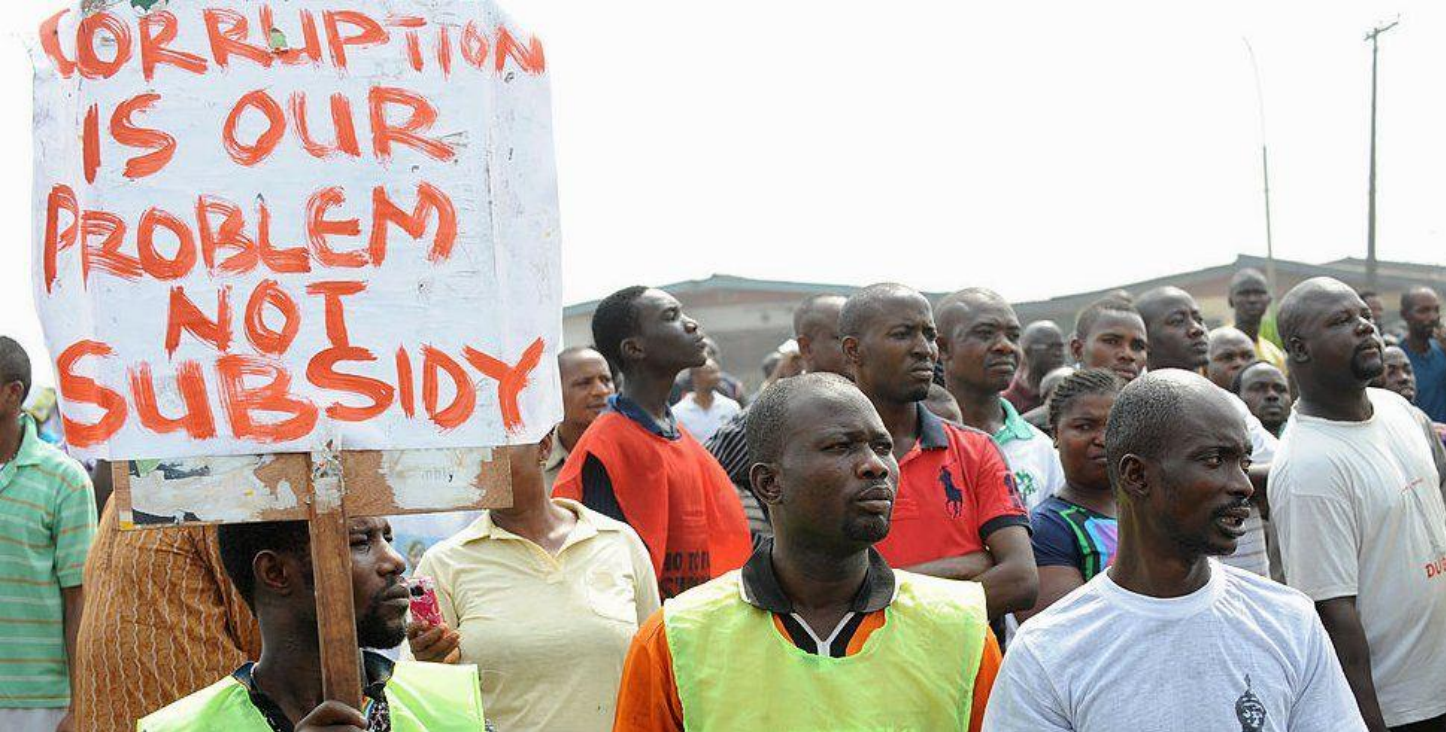
CEP & IDOS Conference on Tax Expenditures and Public Scrutiny
10 October 2023, Zurich

Ronald Steenblik

Senior Technical Advisor, Quaker United Nations Office (QUNO)

Tara Laan

Senior Associate, International Institute for Sustainable Development

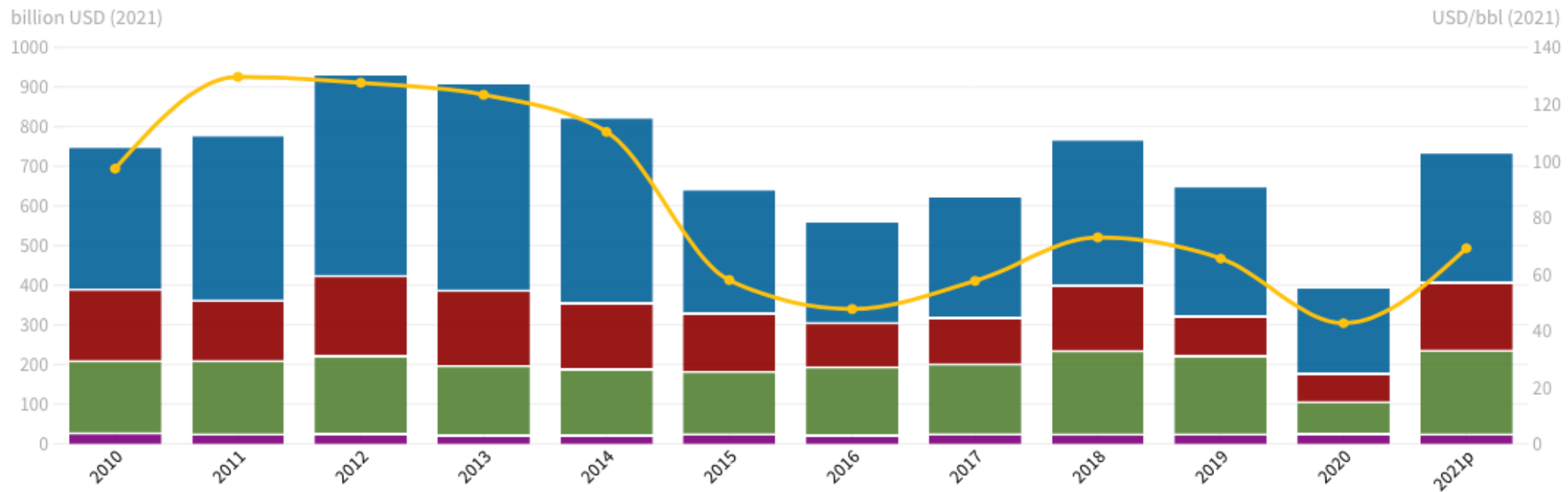


Fossil fuel subsidies are a *BIG* topic

- Both reforms and perceived lack of reform have led to civil unrest, in many countries.
- Tax expenditures form a significant share of many countries' total government support to fossil fuels, particularly in OECD member countries.

Fossil fuel support by energy product: OECD-IEA combined estimates (82 economies)

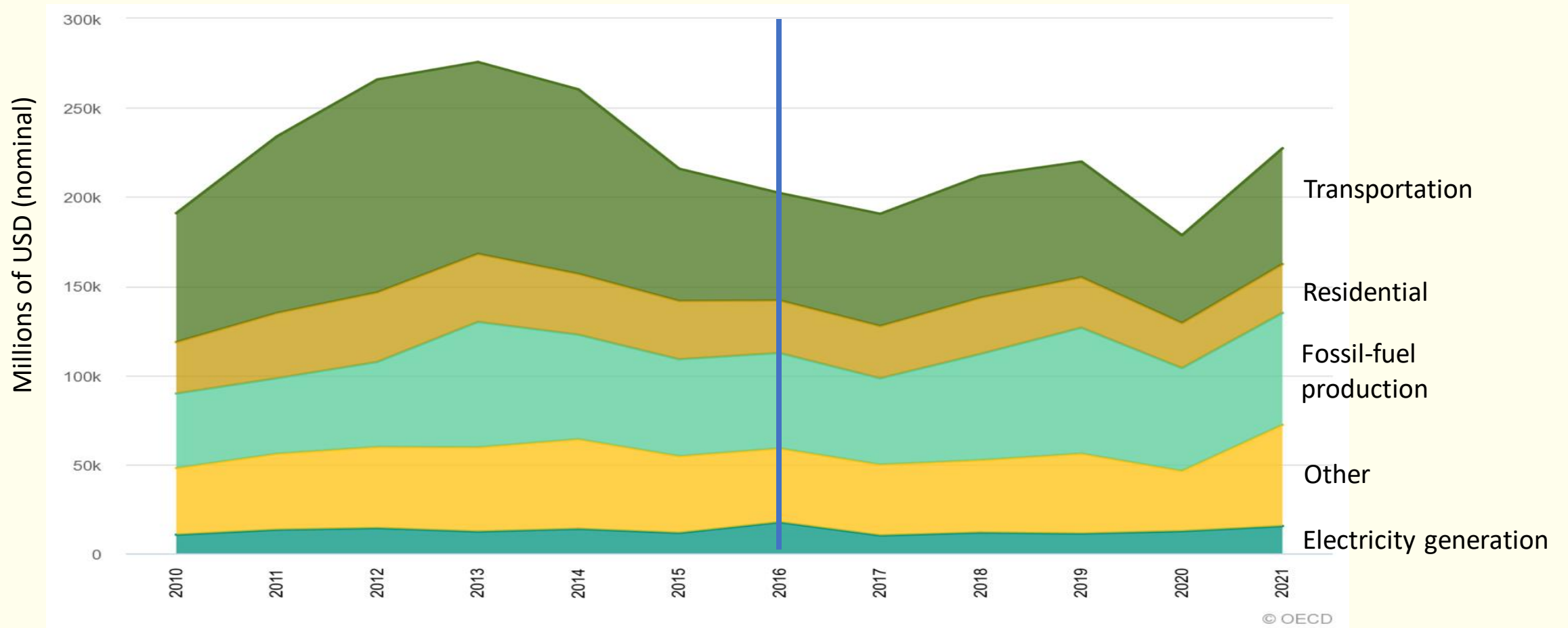
Price of oil Coal Electricity Natural Gas Petroleum



Note: The OECD-IEA combined estimates covers 82 economies, representing the total resulting from merging IEA price-gap estimates and OECD Inventory estimates from OECD, G20 and Eastern Partnership (EaP) countries. Data are expressed in constant 2021 US dollars. Data for 2021 are on a preliminary basis. Economies covered are: Australia, Austria, Belgium, Brazil, Canada, Chile, the People's Republic of China, Colombia, Costa Rica, Czech Republic, Germany, Denmark, Estonia, Finland, France, Greece, Hungary, Indonesia, India, Ireland, Iceland, Israel, Italy, Japan, Korea, Luxembourg, Latvia, Lithuania, Mexico, Netherlands, Norway, New Zealand, Poland, Portugal, Russian Federation, Slovakia, Slovenia, Spain, Sweden, Switzerland, Republic of Türkiye, United Kingdom, United States, South Africa, Armenia, Belarus, Georgia, Moldova, Algeria, Angola, Argentina, Azerbaijan, Bahrain, Bangladesh, Bolivia, Brunei Darussalam, Ecuador, Egypt, El Salvador, Gabon, Ghana, Iraq, Iran, Kazakhstan, Kuwait, Libya, Malaysia, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Sri Lanka, Chinese Taipei, Thailand, Trinidad and Tobago, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan, Venezuela, and Viet Nam.

Source: OECD Inventory of support measures for fossil fuels and IEA analysis.

OECD Inventory of fossil fuel support, 2010-21

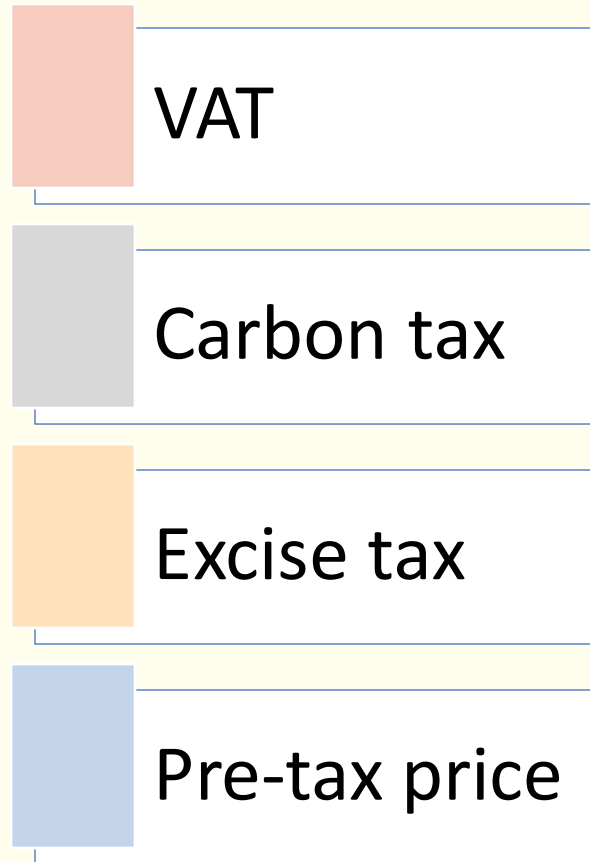


Source: <https://www.oecd.org/fossil-fuels/>

The current state of data on tax expenditures related to fossil fuels

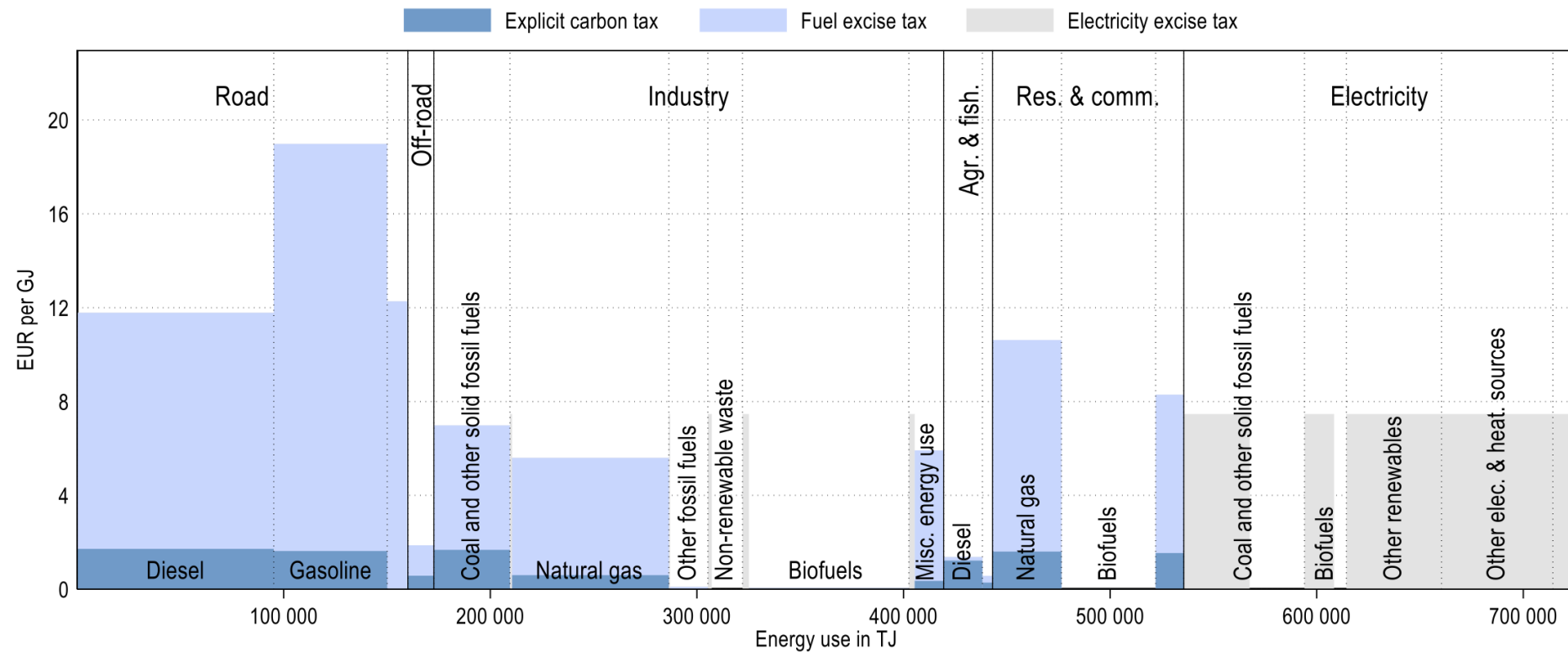
- Most of the 51 countries, and most of their sub-national governments, included in the OECD's Inventory of government support for fossil fuels produce tax-expenditure reports
- In 2022, Redonda et al. gathered data on more than 200 tax expenditure provisions reported by 39 countries *not* included in the OECD Inventory.
- These tax expenditures totalled more than USD 6 billion between 2015 and 2020 (around USD 1 billion annually), averaging 0.3% of GDP/year and reaching as high as 4.9% of GDP in Niger in 2019.
- However, their search also uncovered serious data gaps in the reporting by these 39 countries that likely understate the true size and reach of tax expenditures related to fossil fuels.
- That more than 100 countries worldwide do not report on tax expenditures at all, and are thus not included in the GTED, further aggravates this problem.

Taxes on fossil fuels and types of tax expenditures



- Exemption
- Reduction
- Rebate (partial or full)
- Credit
- Deferral
- Evasion

Effective energy tax rates in Denmark: Average by sector, energy category and end-use energy (electricity or other), rate in EUR per GJ



Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018), World Energy Statistics and Balances. The figure groups energy categories that represent less than 2% of the horizontal axis into “miscellaneous energy use”, which is not always labelled.



QUNO

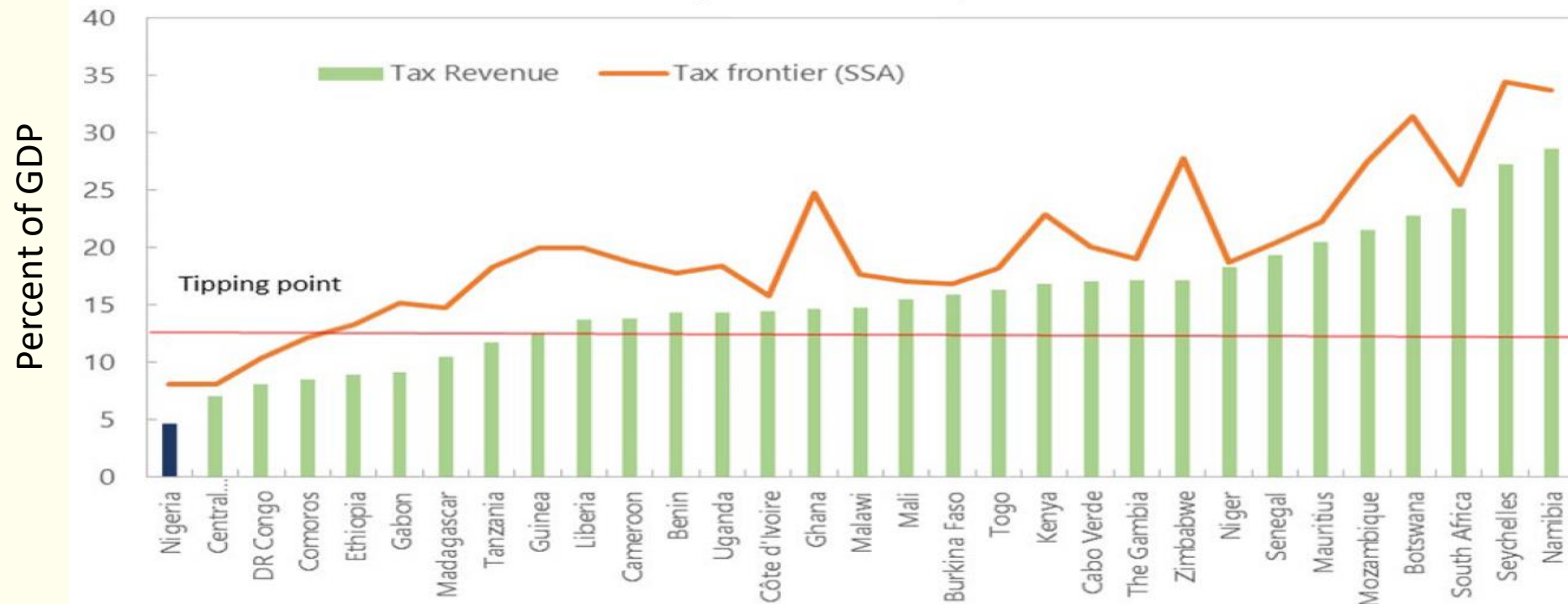
Quaker United Nations Office

**What do we mean by reform,
and what criteria?**

Need and potential for reform will vary by country, taking into consideration ...

- How near the country is to its “tax frontier”, or “theoretical tax capacity”.
- How far it is from the optimal level and mix of taxation needed to internalize externalities, especially environmental externalities.
- What would be the distributional consequences (progressive, regressive, or neutral) of the tax or taxes, in interaction with other policies.

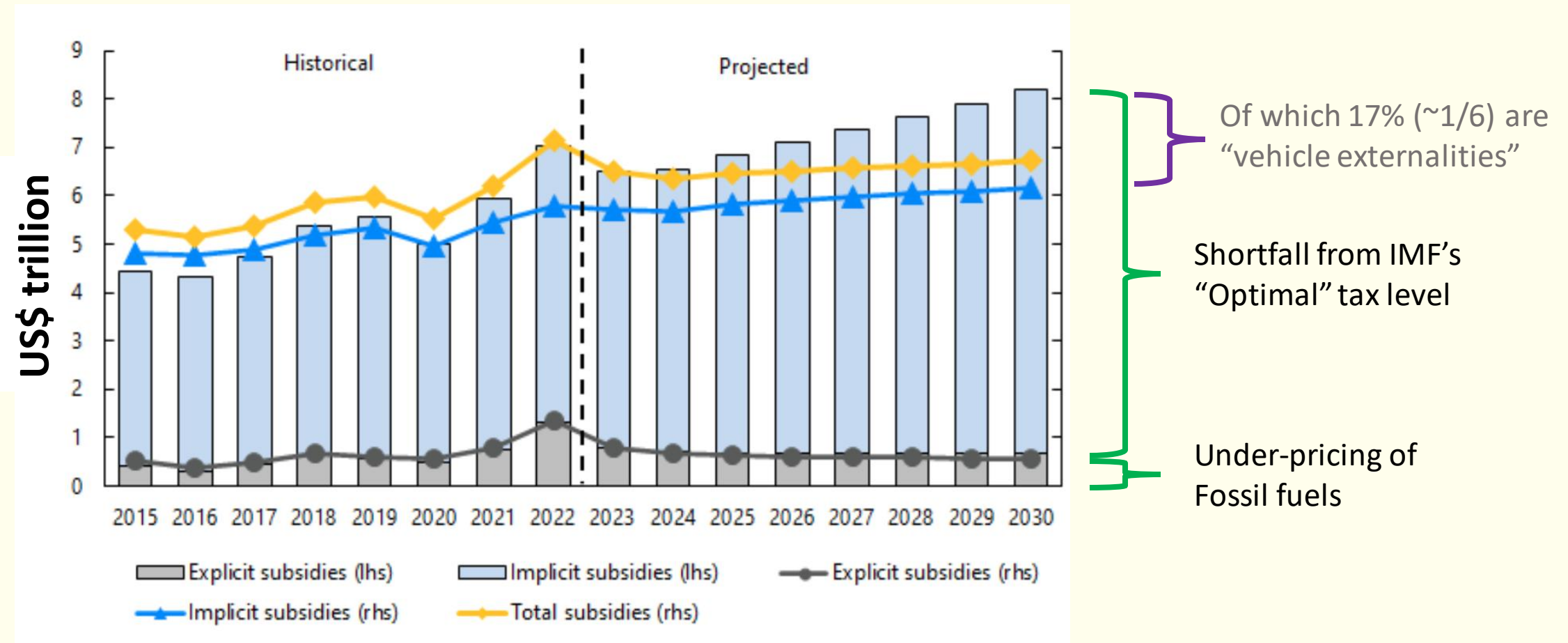
Estimates of tax revenues and tax frontiers for countries in Sub-Saharan Africa



Note: Tax frontier (or tax capacity) is defined as the highest level of tax revenue that a country can be expected to achieve given certain economic and institutional conditions. Tax revenue is 2021 data, and tax frontier estimates are based on SSA sample of IMF REO (2018).

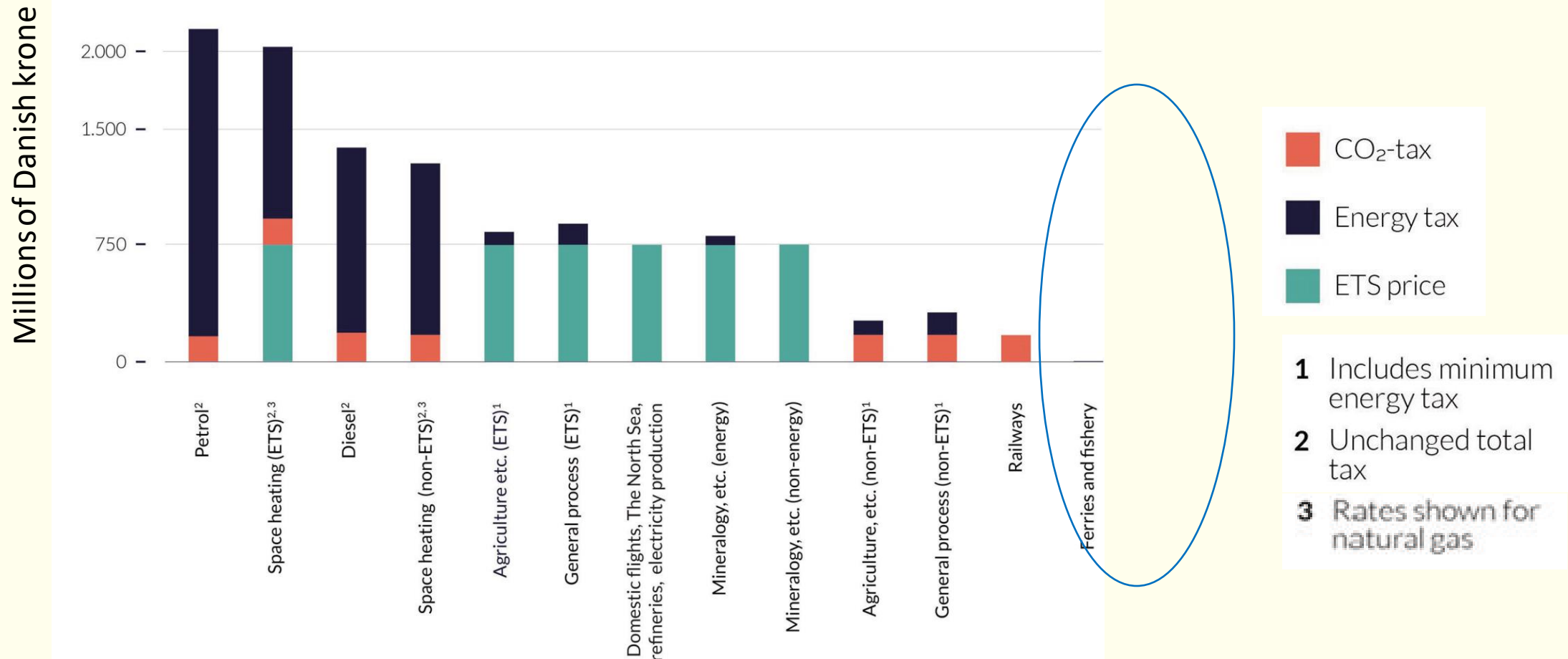
Source: I. Jung (2023), "Nigeria's tax revenues mobilization: Lessons from successful revenue reform episodes" (p. 6) based on IMF Sub-Saharan Africa Regional Economic Outlook (2018) and the World Economic Outlook database.

IMF estimates of consumer price subsidies and non-internalized externalities associated with fossil fuel and electricity consumption



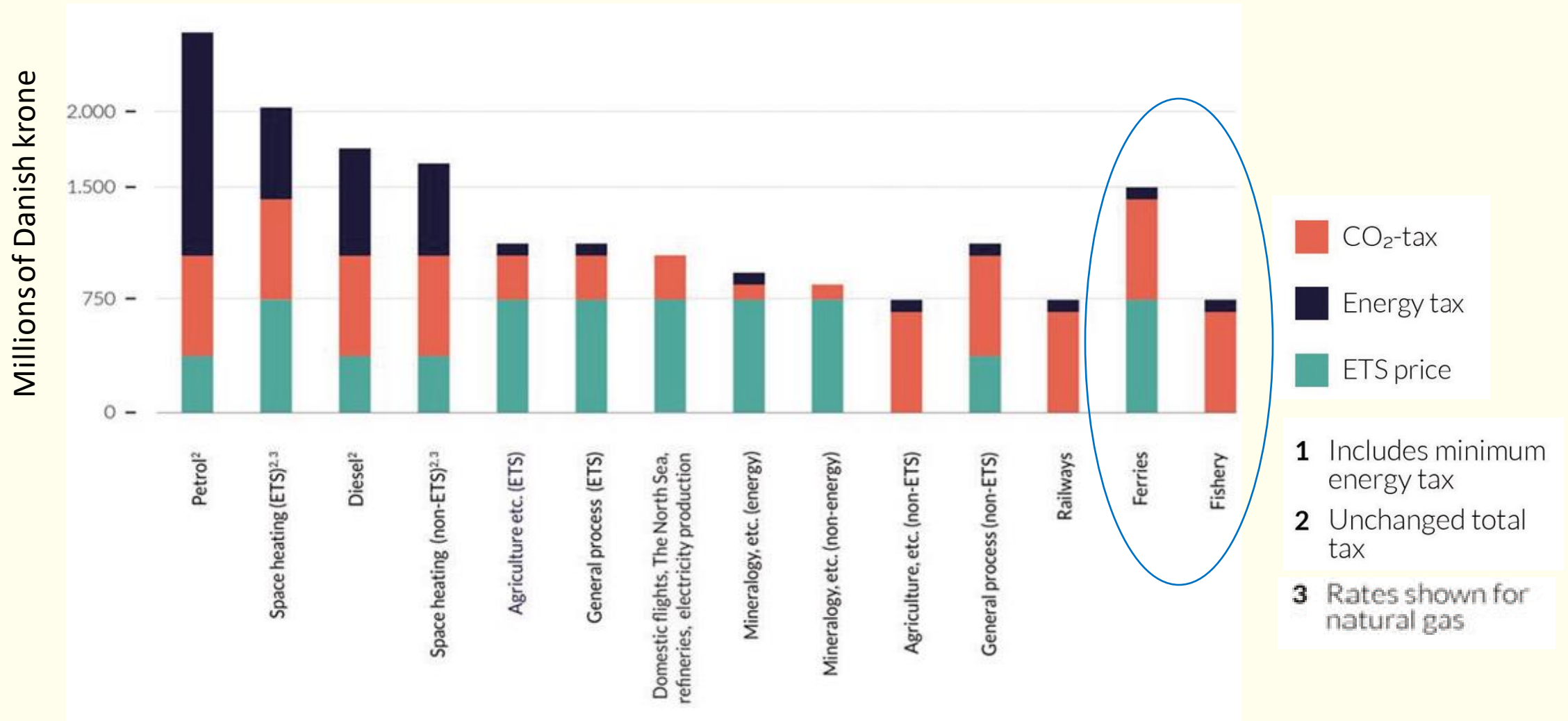
Source: Adaptation of graph at the IMF's web page on "Fossil Fuel Subsidies", <https://www.imf.org/en/Topics/climate-change/energy-subsidies>

Revenues from taxes on energy in Denmark, 2021 (forecast?)



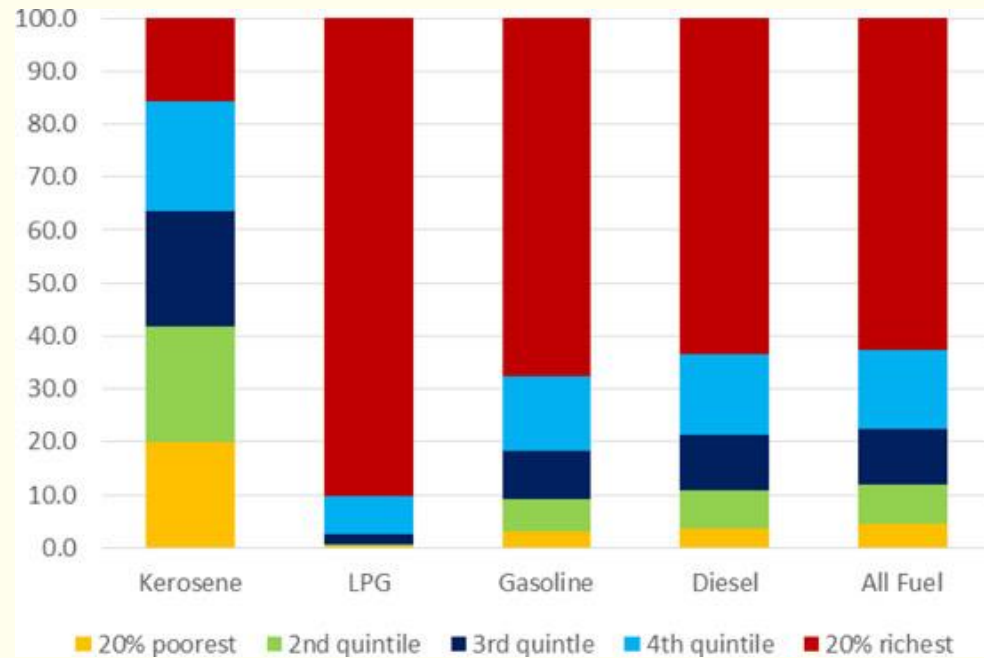
Source: Netherlands, Tweede Kamer de Staten General, "Nota over de toestand van 's rijks financiën" (Den Haag, Sept. 2023), p. 382

Revenues from taxes on energy in Denmark, projected for 2030 under its planned “Green Tax Reform”: a less skewed distribution



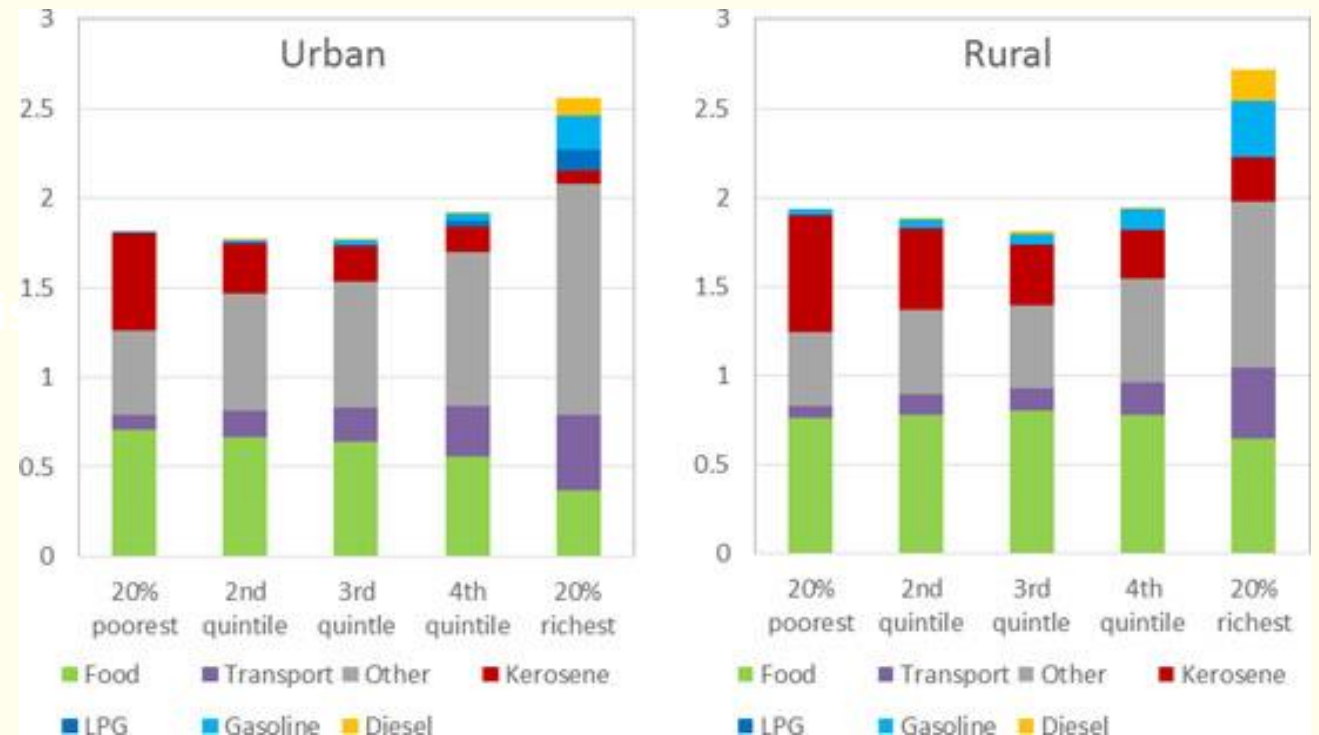
Source: Netherlands, Tweede Kamer de Staten General, “Nota over de toestand van ‘s rijks financiën” (Den Haag, Sept. 2023), p. 382

Estimated subsidy share for five fuels in Mozambique, by household income quintile*



*Based on INE 2008 Household Survey, Arndt et al. (2012), and IMF staff estimates.

Distribution of the welfare impact of a hypothetical 20% increase in fuel prices in Mozambique in August 2015, by household income quintile



Source: International Monetary Fund. Fiscal Affairs Dept. (2015), "Republic of Mozambique: Technical Assistance Report on Fuel Subsidy and Pricing Reform", Vol. 2015: No. 17, DOI: <https://doi.org/10.5089/9798400231438.002>

What improves chances of success

- A plan.
- The political will to resist vested interests.
- Effective social-assistance schemes targeted at the most vulnerable households.
- Effective and early communication.



QUNO

Quaker United Nations Office

Thank You!

Ronald.Steenblik@Gmail.com