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Energy Subsidy Reform: Lessons and Implications, by Benedict Clements et al.

Woody Scott

Energy Subsidy Reform: Lessons and Implications by Benedict Clements, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne & Carlo Sdralevich (International Monetary Fund; 183 pages; 2013)

Significant debate has centered on the use of government subsidies in the fossil fuel industries. Proposals vary from increasing subsidies to stimulate economic activity, to decreasing or ending fossil fuel subsidies outright. Rather than engaging in political debate, the authors of *Energy Subsidy Reform: Lesson and Implications* provide insightful analysis of 22 case studies from around the world. The case studies, focusing on fossil fuel production and use, encompass 176 countries covering five economic zones. Regrettably absent are Western Europe and North America. However, the authors' focus is on energy subsidy reform in emerging and non-traditional production markets, and not established markets. The authors present summaries and analysis of the individual case studies to provide a global snapshot of the economic, social, and environmental effects of energy subsidies. The authors' analysis also reveals six primary elements of energy subsidy reforms. The elements are: (1) comprehensive energy sector reform planning with clear long term objectives; (2) extensive communication strategies including transparency and budgetary inclusion of the subsidies; (3) appropriately-phased price increases; (4) reduced producer subsidies via the increased efficiency of state-owned enterprises; (5) protection of the poor through targeted measures; and (6) politically neutral energy pricing through institutional reforms. The principle purpose of the authors' analysis is to determine best practices in energy subsidy reform and to illustrate successes and failures of such reforms. This goal may seem quixotic, given that solutions are often tailored to diverse regions and may not be readily transferable. However, the authors do successfully advance the discourse on energy subsidies in a more holistic, long-term direction.

The introductory chapters offer an exceptional foundation for the overall organization of the book. After orienting the reader in the field, the authors group the case studies into the respective economic zones. This layout provides two advantages. First, it allows the reader to view the studies in manageable quantities. Second, the organization allows the reader to comprehend how energy subsidy reforms are treated in similar economic zones. The comparative analysis allows the reader to see overarching solutions in a complex field.

The authors suggest that a holistic view of energy subsidies reveals wide-ranging consequences and, in particular, substantial, long-term fiscal costs. By acknowledging that energy subsidies affect more than short-term economic factors, the authors pull in secondary considerations, such as non-equity capital shifting from the general populace to corporations and the rich, environmental sustainability, and other non-monetary opportunity costs. The broader focus is not only refreshing, but crucial to aid parties in developing arguments against traditional economic expenditures used in energy subsidies. No longer are parties limited to short-term factors such as increases in consumer discretionary income and economic job creation. This refocusing will allow proponents of energy subsidy reform to introduce a more holistic approach into the discussion.

Proponents of reform may also find helpful the authors' comment that non-standardized energy subsidies encourage a wide array of consequences not typically considered in the analysis, including gaming of the system and increased consumption of the underlying energy. In today's global economy, for example, actors can obtain products in high subsidy areas and then transfer them to low subsidy areas. The transfer results in higher price points, thereby maximizing profits. This scheme – termed arbitrage – yields significant gains to the actor at the expense of the governmental entity supplying the original subsidy. In addition, the depression of energy prices in subsidized areas may result in non-sustainable increased consumption. Because energy costs are depressed, there is no need to practice energy conservation methods or to seek alternative energy production such as renewables. Finally, the subsidies can repress research into energy conservation methods and alternative energy sources.

Consumer dependence on traditional subsidies also creates resistance to reform. This is especially true in the case of low-income consumers. Low-income consumers often feel the brunt of energy subsidy reform via increased energy costs and stagnated economic opportunities. These consumers are also typically forced to focus on short-term effects based on their day-to-day existence. The authors note successful implementations of reform must begin with reassuring the populace that reforms are necessary for long-term sustainability and provide the greatest economic benefit. Successful energy reforms are also dependent on a governmental entity's ability to efficiently reallocate expenditures and savings to programs promoting the greater public good.

Energy Subsidy Reform: Lessons and Implications is not an easy read. By necessity, due to the complexity of the field, the analysis is data and definition intensive. The material is further complicated by differences between the case studies with respect to terms and modes of analysis. Rather than shy away from these complications, the authors embrace the similarities of the studies to provide their findings and suggestions. The authors also spend a significant portion of the introductory chapters educating the reader to jargon and calculations. This education is crucial, as it allows the reader to understand the subsequent, thoughtful analysis.

The authors lead the reader to question whether the global economy and population would be better served by refocusing expenditures away from traditional subsidies and towards long-term sustainability. The reframing of the discussion will be crucial as the global populace shifts from a fossil fuel-based energy economy to an energy economy that recognizes the long-term costs associated with so-called cheap energy. Because this book provides technical insight unavailable to the traditional reformer, it is likely to be valuable to anyone seeking to shift the paradigm.

Scott Woody
Class of 2017
University of New Mexico School of Law