



Distributive Effects of Fossil Fuel Subsidies in Latin America and the Caribbean

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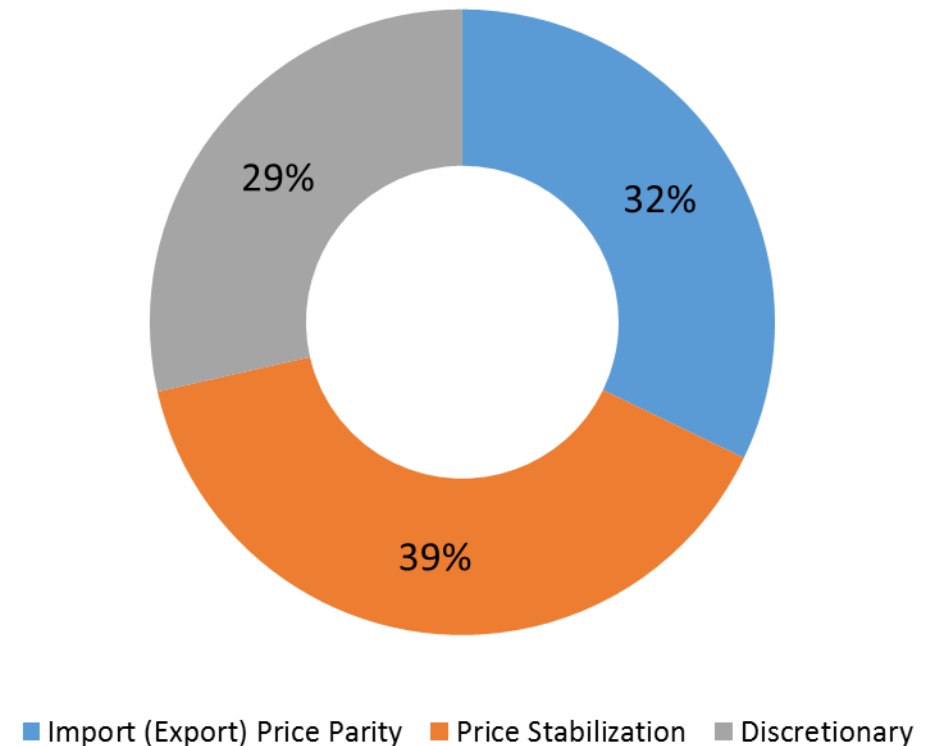
Types of Fuel Pricing Mechanisms

- Pricing mechanisms can be defined as:

Import (Export) Price Parity:	Adhere to import (export) price parity, established taxes, and commercial margins either officially through a formula regulated by government or not
Price Stabilization:	Offer tools within the pricing mechanism to buffer retail prices from changes in international fuel prices
Discretionary:	Prices are set at government's discretion

- Can deviate in practice from official fuel pricing policy
- Can vary by fuel type within countries

De Facto Pricing Mechanisms for Fuels in LAC
(2008-2014)



Trends in Fuel Pricing Mechanisms

- Correlation between Discretionary pricing mechanisms and divergence from international prices
- Countries with **Discretionary** mechanisms have **higher subsidy rates**
- Countries with **Import (Export) Price Parity** mechanisms have **lower subsidy rates** and, if present, subsidies are explicit
- Existence of **subsidies** in countries with **Price Stabilization** mechanisms **varies**. If present, **subsidies** are also **lower**

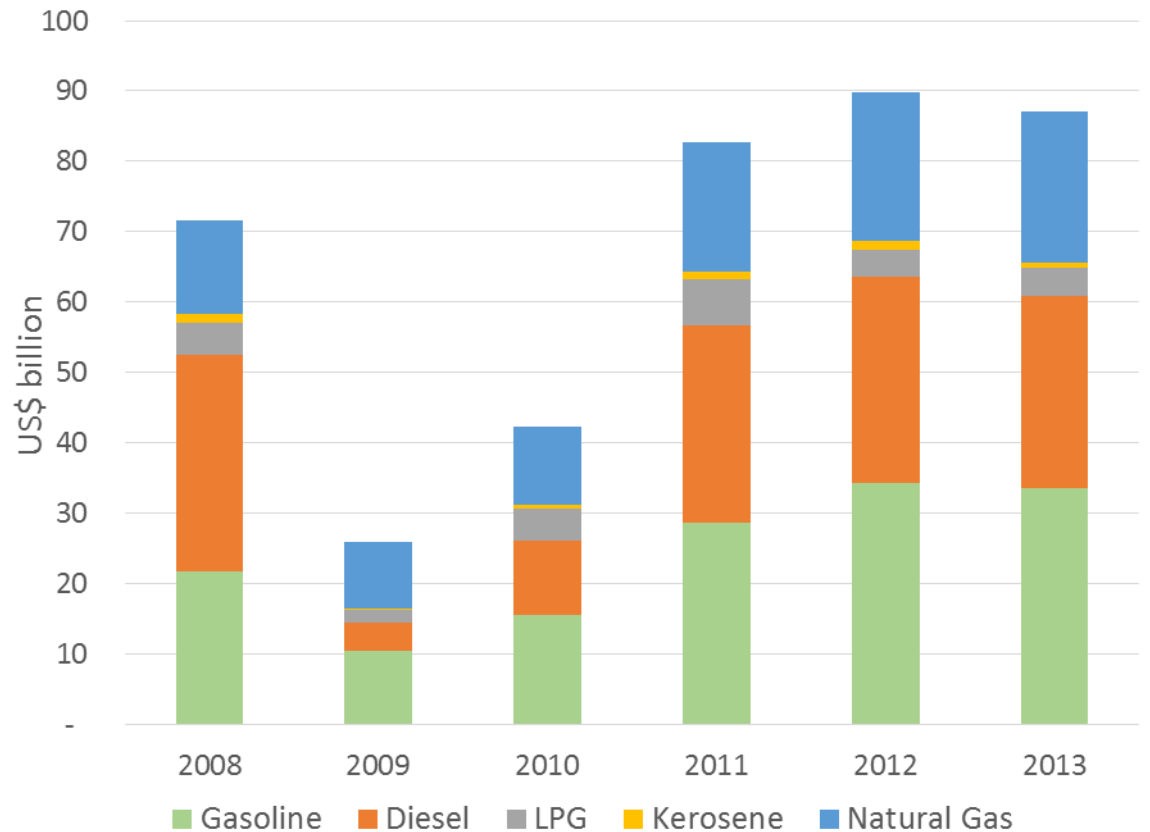
Trends in Pricing Mechanisms by Fuel Type

Tools generally used by countries to subsidize or stabilize prices of particular fuels:

Fuel	Tool
Gasoline	discretionary policies, tax adjustments
Diesel	discretionary policies, tax adjustments
LPG	discretionary policies, tax adjustments, explicit subsidies
Kerosene	discretionary policies
Natural Gas	discretionary policies

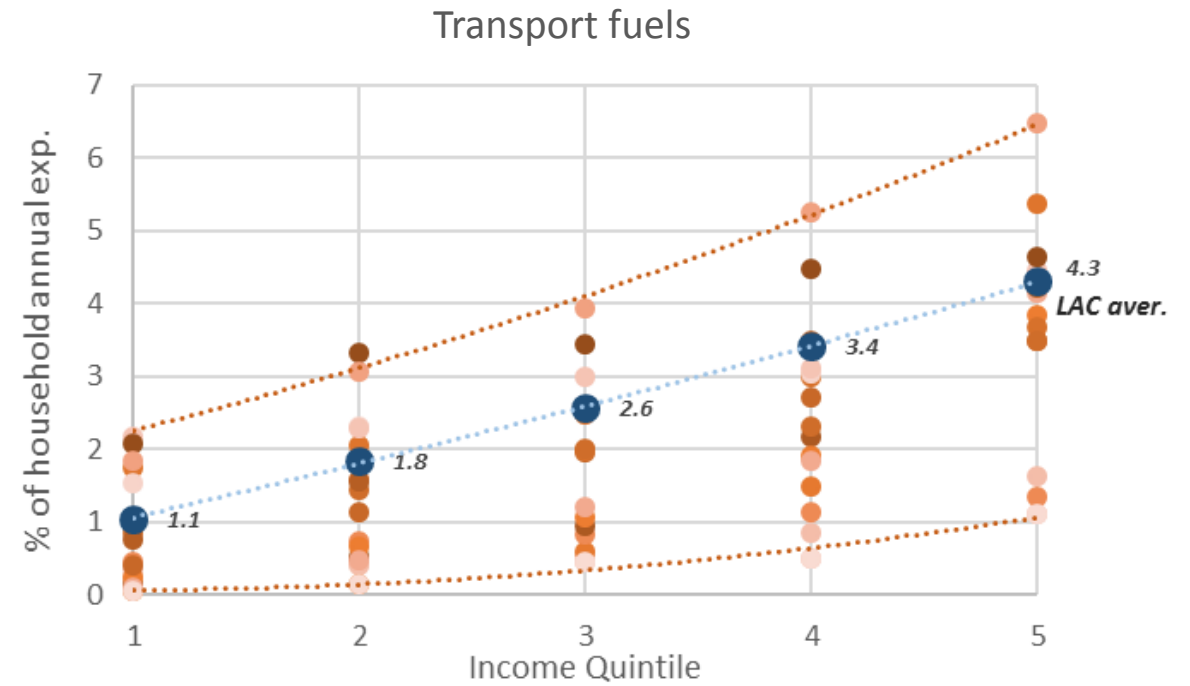
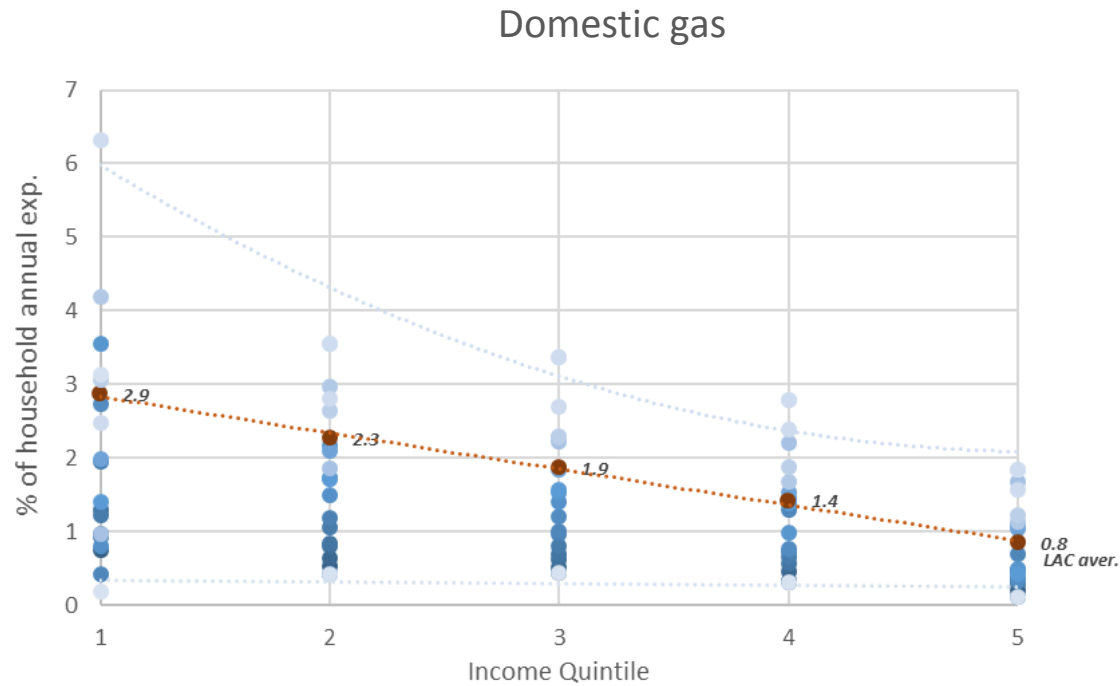
Fuel Subsidies in LAC

(2008-2013)



Dispersion of consumption patterns

Household expenditure share by Income quintile

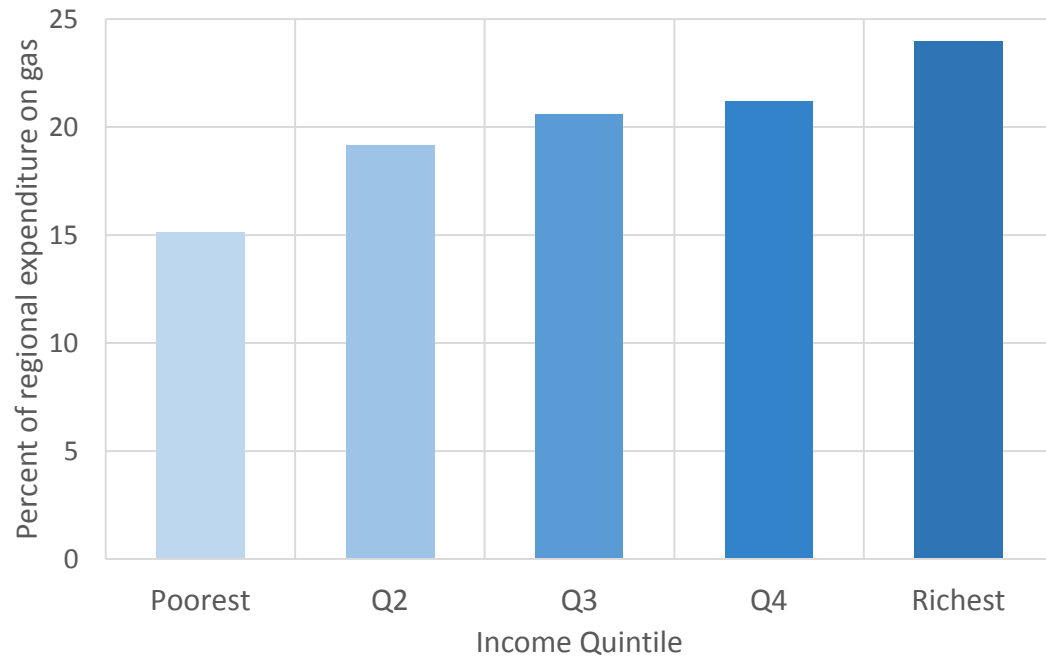


Based on household surveys. 20 countries in the case of domestic gas, and 17 countries for transport fuels.

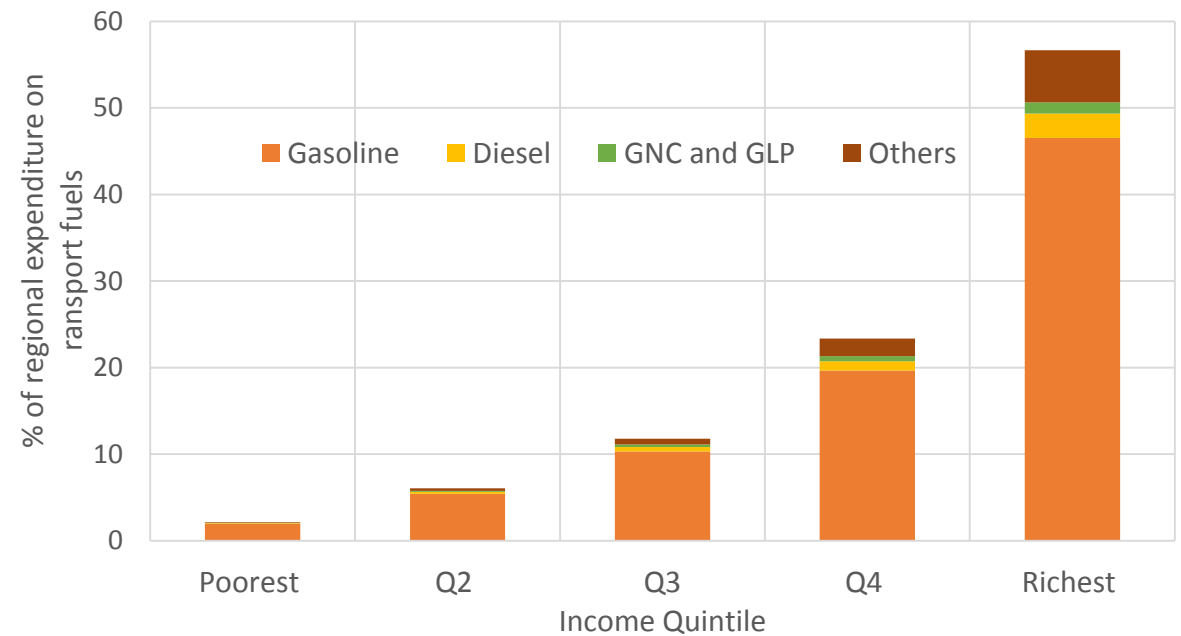
Concentration on higher income groups

Share of the regional fuel expenditure

Domestic gas



Transport fuels

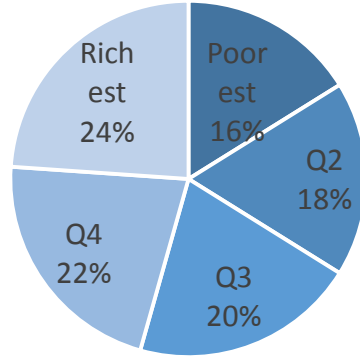


Based on household surveys. 20 countries in the case of domestic gas, and 17 countries in the case of transport fuels for private transportation.

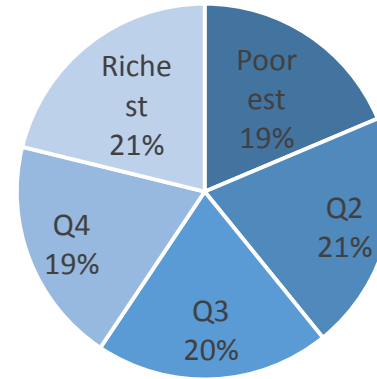
Concentration on higher income groups big countries (Share of national expenditure)

Domestic gas

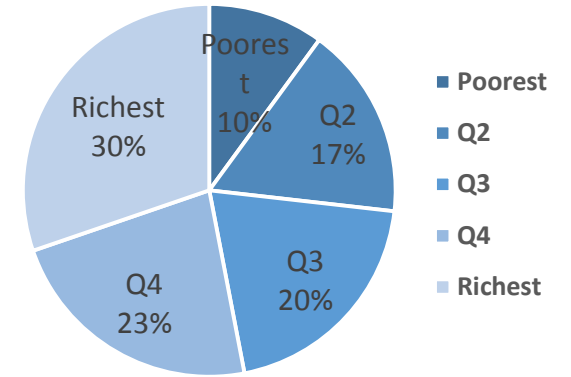
Argentina



Brazil

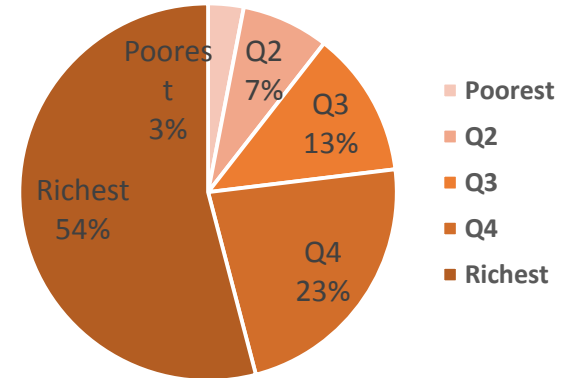
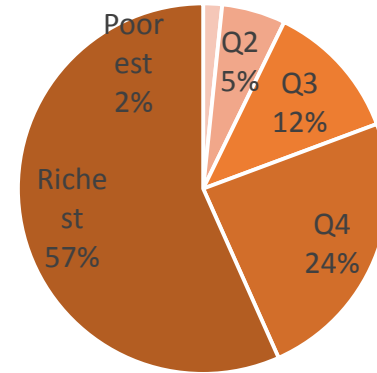
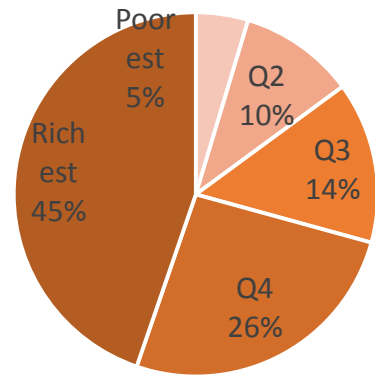


Mexico



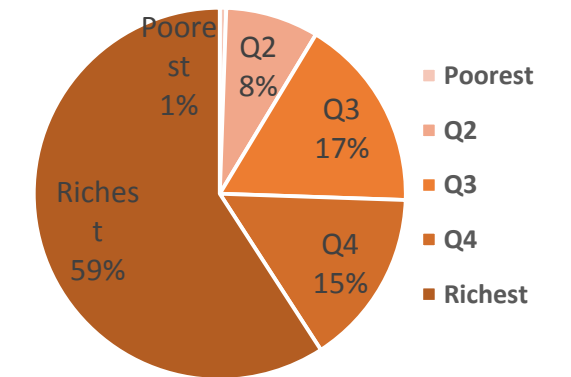
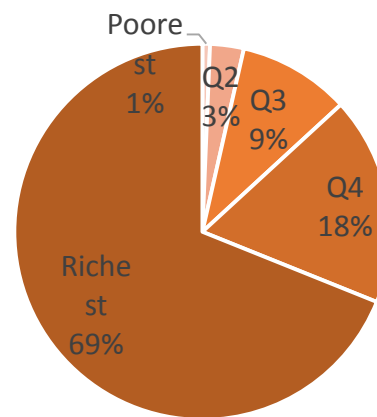
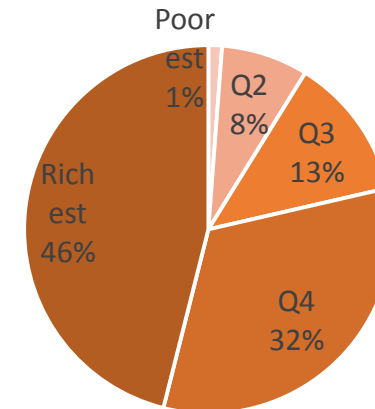
- Poorest
- Q2
- Q3
- Q4
- Richest

Gasoline



- Poorest
- Q2
- Q3
- Q4
- Richest

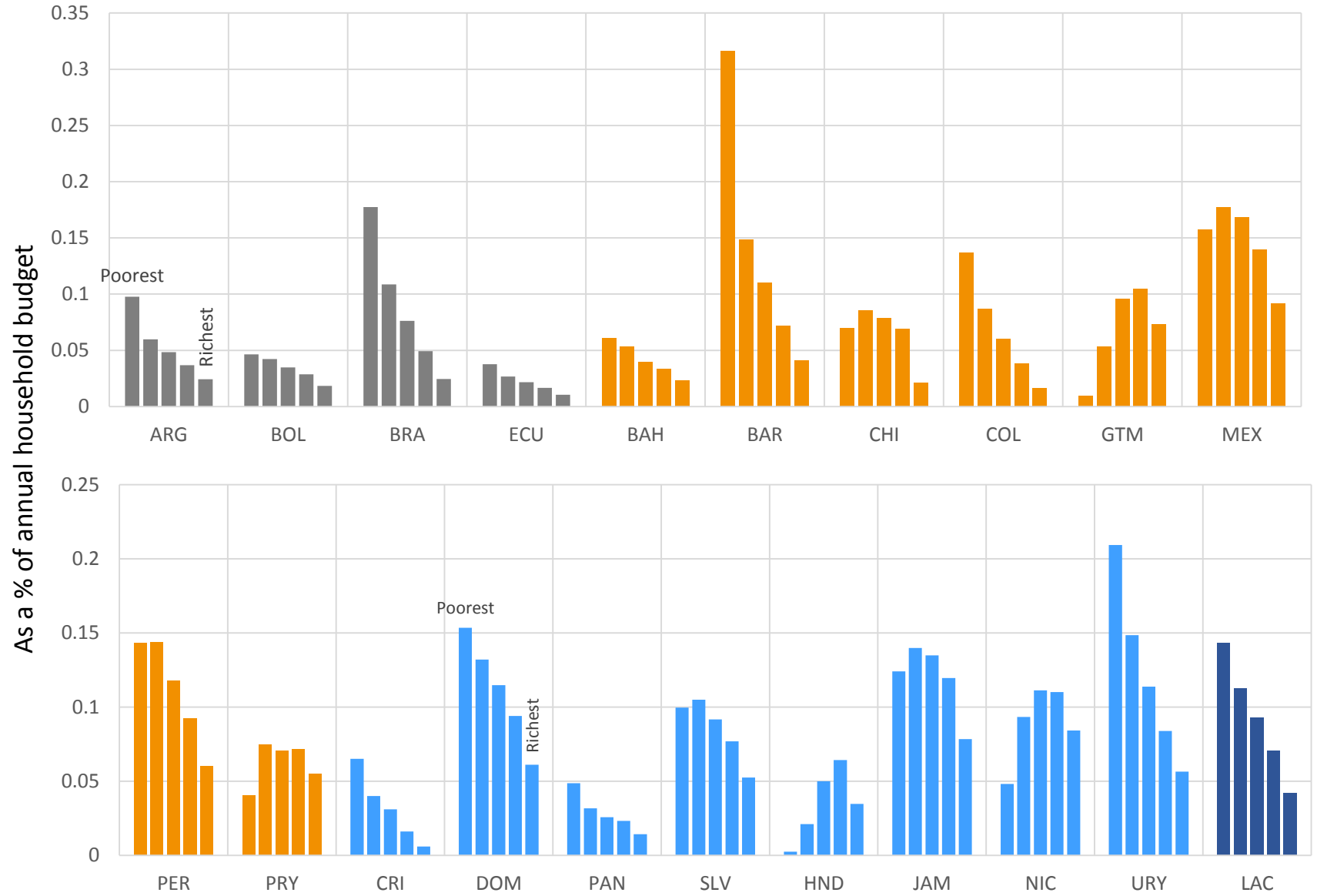
Diesel



- Poorest
- Q2
- Q3
- Q4
- Richest

Simulating a 5% increase in domestic gas prices

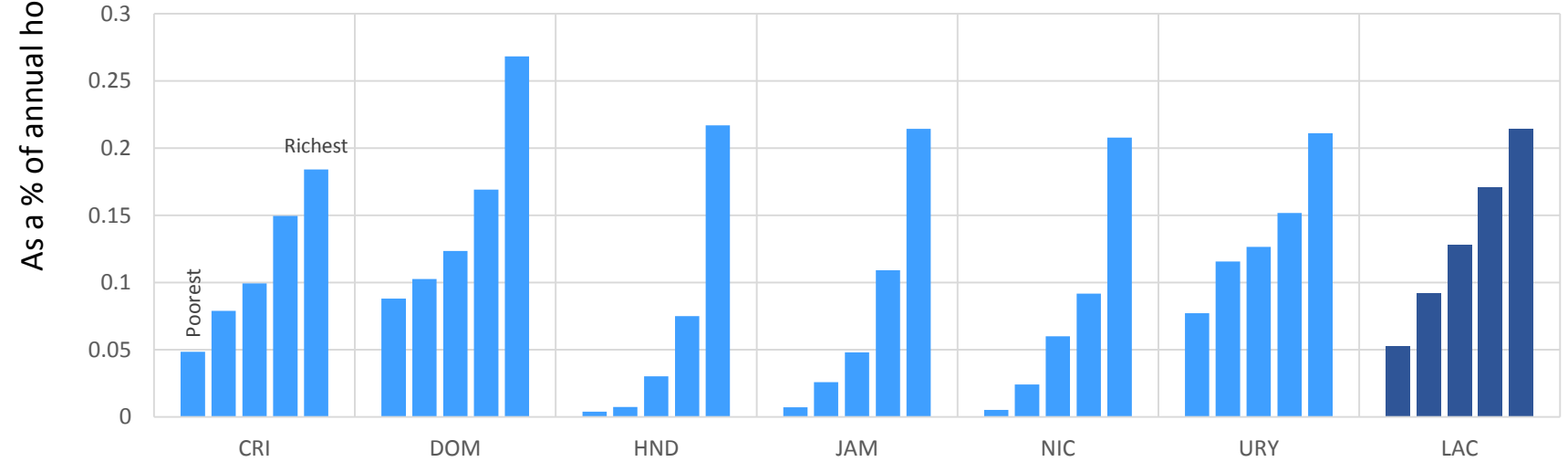
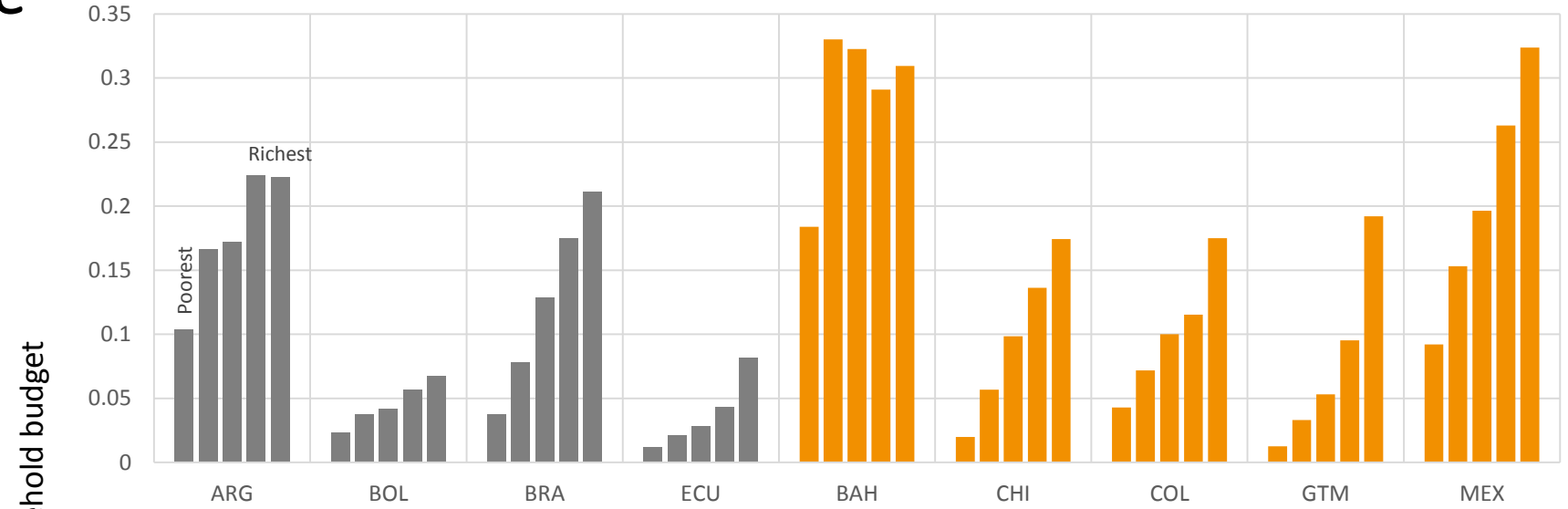
■ : Discretionary
■ : Price stabilization
■ : IPP
 CRI, DOM, PAN, and SLV have LPG subsidy



Based on household surveys of 20 countries.

Simulating a 5% increase in gasoline

- : Discretionary
 - : Price stabilization
 - : IPP
- CRI, DOM, PAN, and SLV have LPG subsidy



Based on household surveys of 12 countries.

Conclusions:

- Discretionary price mechanisms are common in oil and gas abundant countries.
- Market disconnected pricing policies benefit the high income groups. Pricing mechanisms are highly regressive.
- For domestic gas, high income groups get most of the subsidies. There are significant challenges for adequately targeting beneficiaries.
- Due to the distributional characteristics of transport fuels, pricing mechanisms are highly regressive.
- Eliminating subsidies on transport fuels would have greater impact on the high income groups (household sector).

Appendixes

Oil price fluctuations (2011-2016)

WTI Real & Nominal

