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Fossil Fuel Subsidy Reform in Indonesia and Mexico - IEA Study Results

Paris, October 13, 2016

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Subsidy Reform Design Stages

Detailed elaboration – and costing – of various reform options, speeds and scenarios.



Identification of effects of reform scenarios on specific groups & interests



Understanding preferences & acceptable trade-offs for groups/interests via scenario testing, and the design of compensation mechanisms



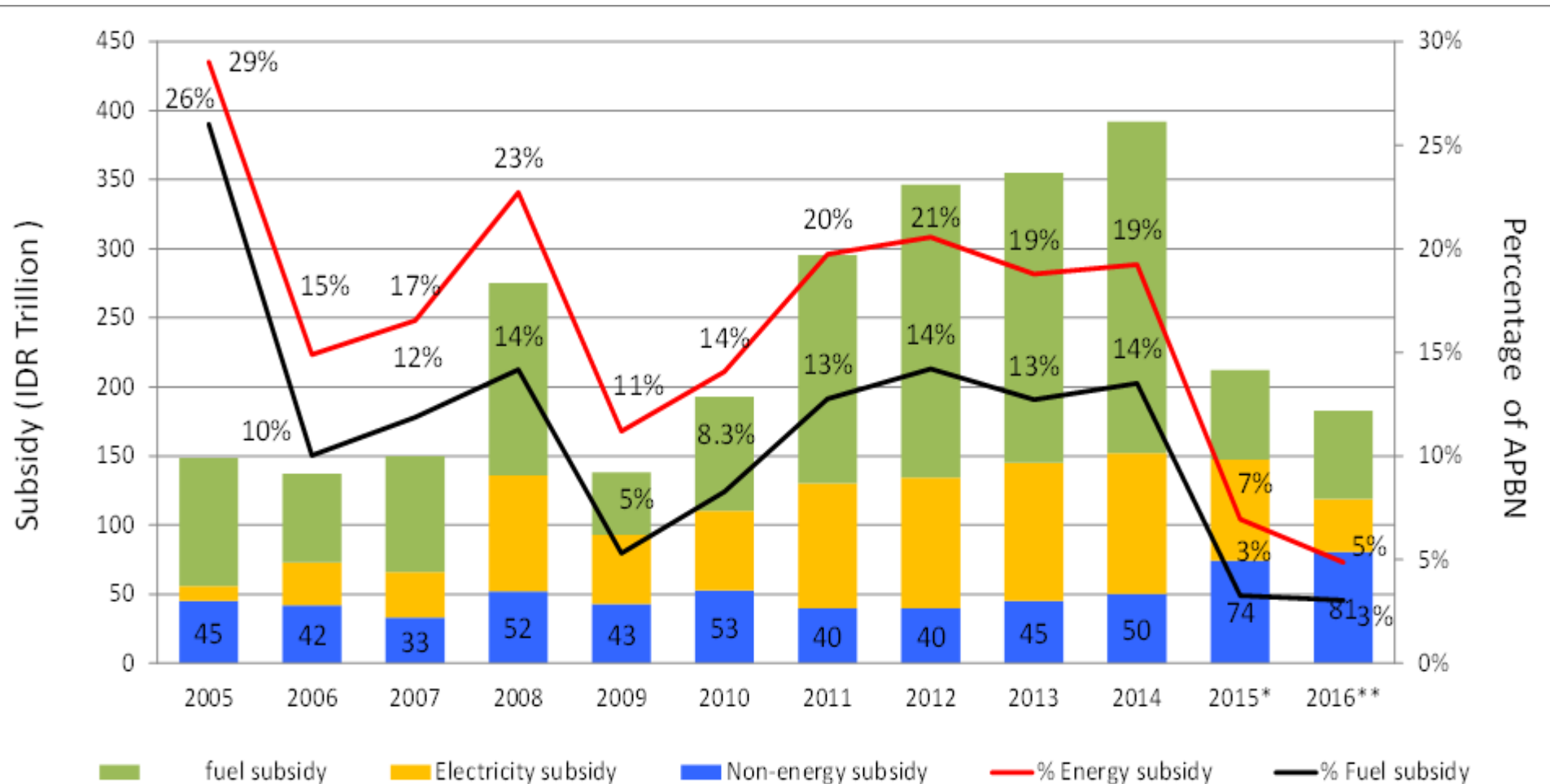
Adoption of political strategy of engagement including a granular communications strategy

Rationale Behind Case Studies

Mexico	2011	2012	2013	2014
GDP per capita (USD PPP)	15 748	16 287	16 244	17 352
Fiscal deficit/GDP	-2.5	-2.6	-2.4	-4.1
Fuel subsidies/GDP*	1.6	1.5	1.0	0.4
Electricity subsidies/GDP**	0.1	0.1	0.2	0.1
Indonesia	2011	2012	2013	2014
GDP per capita (USD PPP)	8 841	9 443	10 037	10 588
Fiscal deficit/GDP	-1.1	-1.5	-2.3	-2.3
Fuel subsidies/GDP*	3.0	3.6	3.2	3.1
Electricity subsidies/GDP**	0.7	0.7	0.9	0.9

Indonesia's turnaround

Total budgetary subsidies and their energy components in Indonesia, 2005-16



A long road to success

Year	Fuel	Pricing reform
2008	Gasoline, diesel, and kerosene	Price increases of 33% for gasoline, 28% for diesel, and 25% for kerosene in May. Gasoline / diesel prices were lowered by 20% and 15%, respectively, in December, as international oil prices eased.
2009	Gasoline and diesel	Prices decreased by 11% and 7% respectively in January leaving gasoline prices the same as diesel prices (that is, close to 2005 levels).
2013	Gasoline and diesel	One-off price increases averaging 40%.
2014	Gasoline and diesel	Price increases of 31% and 36%, respectively.
2015	Gasoline and diesel	Subsidies for gasoline entirely removed, but low oil prices see this result in a price decline of about 12%. Diesel subsidies reduced to IDR 1 000 per litre.
2016	Diesel	Removal of diesel subsidy.

Proposed pricing framework

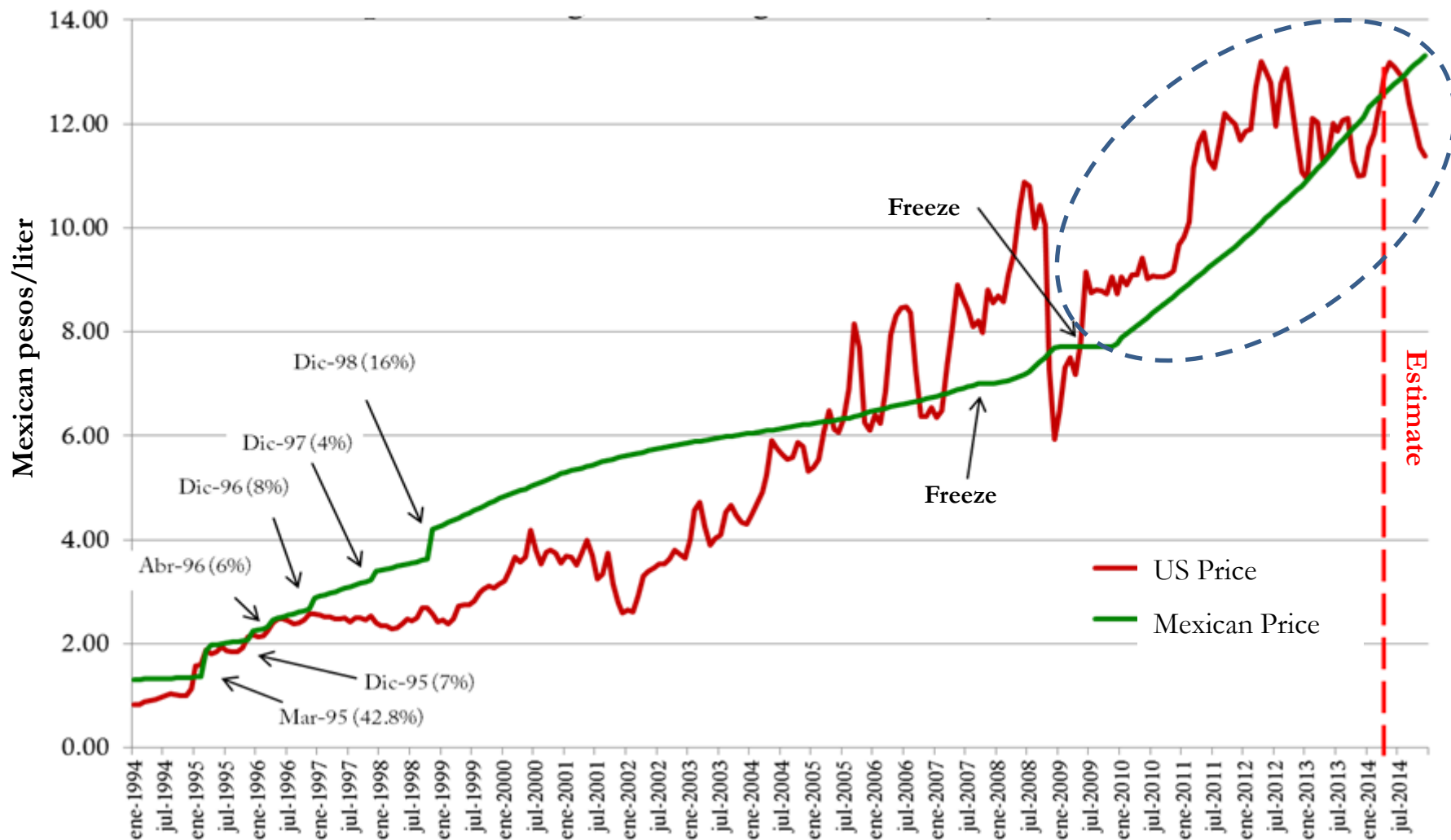
Associate explicitly domestic retail prices and international or import prices.

Establish a price band either side of the retail price.



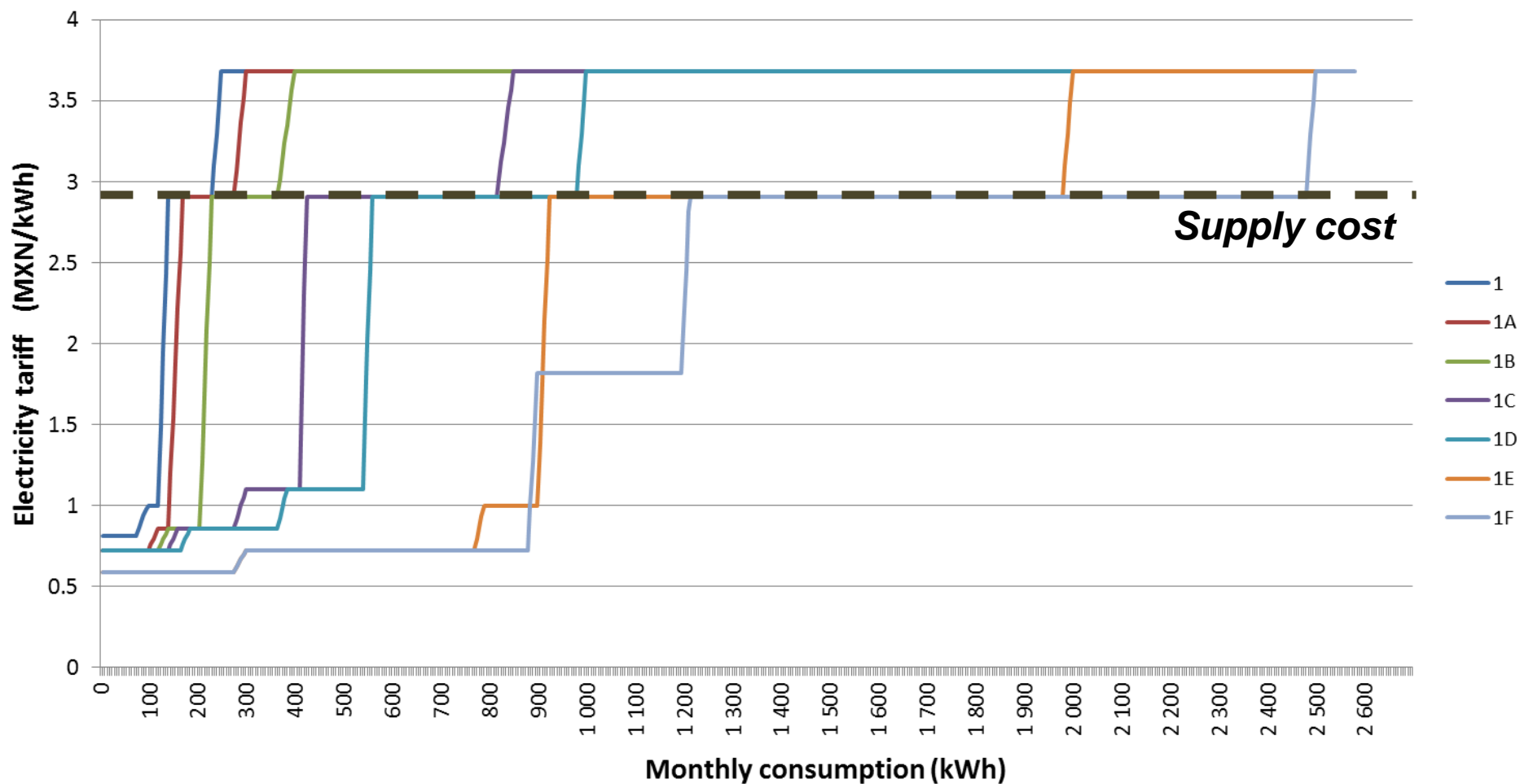
Mexico: gradual progress on gasoline and diesel since 2010

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Source: Mexican Finance Ministry

Electricity subsidies remain



Impact analysis of electricity tariff structure reform options

- Nationwide household-level database of monthly electricity bills

Low impact

- two-part tariff
- changes to summer months
- merging of tariff categories

High impact

- Volume differentiated tariff
- Extension of highest tariff category (DAC)

Tariff reform option	Impact				
	Aggregate subsidy	Mean tariff	Tariffs for low deciles	Tariffs for middle deciles	Tariffs for upper deciles
Instant liberalisation	↓↓↓↓↓	↑↑↑↑↑	+/-	↑↑↑↑↑	↑↑↑↑
Two-part tariff for all (MXN 52)	↓↓↓	↑↑	+/-	↑↑	↑
Two-part tariff for all (MXN 20)	↓	↑	+/-	↑	↑
Two-part tariff – large consumers	↓	+/-	+/-	↑	↑
Summer month changes	↓	+/-	+/-	+/-	↑
Simplified tariff groups	↓	+/-	+/-	+/-	+/-
VDT	↓↓↓↓↓	↑↑↑↑	↑↑↑↑	↑↑↑↑	↑↑↑↑
VDT with low consumption gratis	↓↓↓↓↓	↑↑	↓↓↓	↑↑↑↑	↑↑↑↑
DAC to top 20%	↓↓↓	↑	+/-	+/-	↑↑↑↑
DAC to top 50%	↓↓↓↓↓	↑↑	+/-	↑↑↑↑	↑↑↑↑

Policy design: different approaches

- Fuels sector: Mexico's gradual approach vs. Indonesia's large one-off price increases.
- Electricity sector: Mexico's structural changes vs. Indonesia's focus on changes to tariff structure.

Public consultation: Need for more comprehensive strategy and wider set of tools.

Communications policy

- Develop more nuanced and targeted messages addressed to specific constituencies.
- Communication will be key to sustaining reforms during future periods of high oil prices.

Muchas gracias!

Teri makasi!

Thank you!