



# **RECENT DEVELOPMENTS ON FOSSIL FUEL SUBSIDIES IN MEXICO**

**SENER**

SECRETARÍA DE ENERGÍA

**CÉSAR ALEJANDRO HERNÁNDEZ ALVA, PHD**

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- Between 2006 and 2011 the Fossil Fuel subsidies in Mexico on electricity, gasoline and diesel averaged 1.79% of the GDP
- Only on gas and diesel these subsidies averaged around 0.6% of the GDP.
- These subsidies came with special distributive problems:
  - Finance Ministry estimated that for each peso assigned to the poorest 20% of the population, 19.5 pesos were given to the richest 20%.
- The Mexican government phased out the subsidies on gasolines, diesel, and LPG at a moderated rate (1% per month in case of gasoline and diesel).
- Gradual increase of final consumer prices plus the reduction on international input prices made subsidies to finally disappear in 2015.
- Nowadays gasoline and diesel have an explicit tax rate

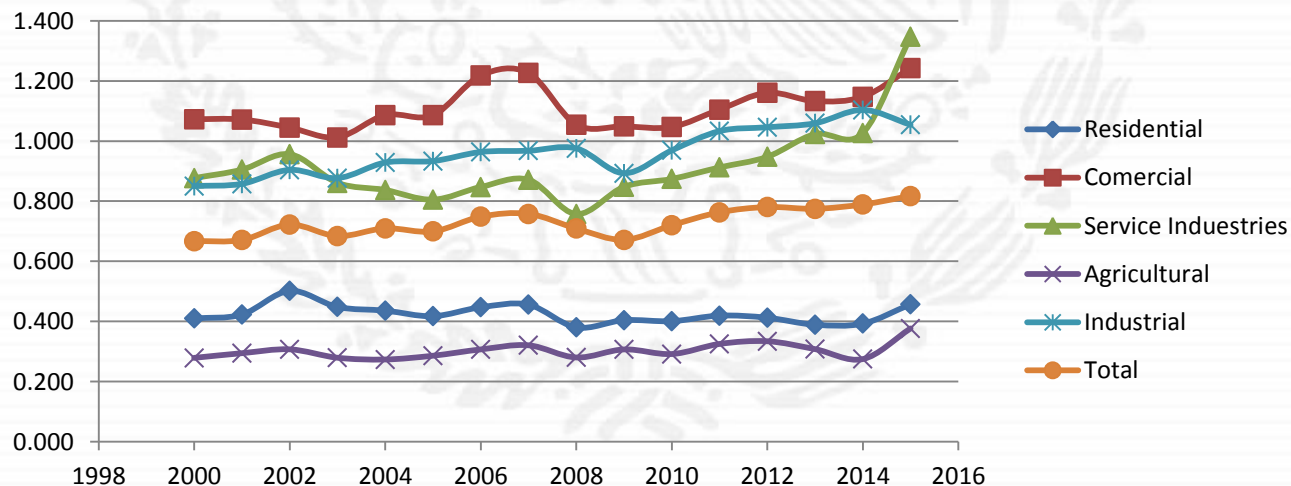
- In 2011 the subsidy to fossil fuels amounted an **1.95% of GDP**, by 2015 this proportion represented **0.33% of GDP**.

### Energy subsidies as % of GDP

Year	2011	2015
Gasoline and diesel	1.01%	0.00%
LP Gas	0.32%	0.00%
Electricity	0.61%	0.33%
<b>Total</b>	<b>1.95%</b>	<b>0.33%</b>

- Between 2010 and 2015 average revenue from electricity rates increased from 70% to 82% of total cost, due mainly to cost reduction.
- Residential and Agricultural tariffs receive a subsidy of 60% of their cost.
- Competition will erode in the next years cross subsidies coming from industrial and commercial rates.
- From 2016 on, a share of subsidies resources will come from the budget.

**Price / Cost relationship**



## WHAT'S NEXT: EXPLICIT BUDGET TRANSFERS FOR ELECTRICITY HOUSEHOLD SUBSIDIES

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- Until 2015, subsidies on electricity rates came from two sources: Cross subsidies from other rates and from the State Owned Enterprise equity.
- The two type of users that receive a subsidy are the households and agricultural producers.
- Since 2016, the Federal Budget has an explicit amount to pay a share of this subsidies.
- Federal Budget transfers were USD 1.5 bn in 2015, and 2.2 are proposed in 2016, out of total estimated subsidy of 5.5 bn.
- Competition for public resources will provide an important pressure for these subsidies to be rationalized , contrary to the former regime, where no explicit political discussion on the destiny of these resources took place.

## TRANSITION TO FUEL PRICES LIBERALIZATION

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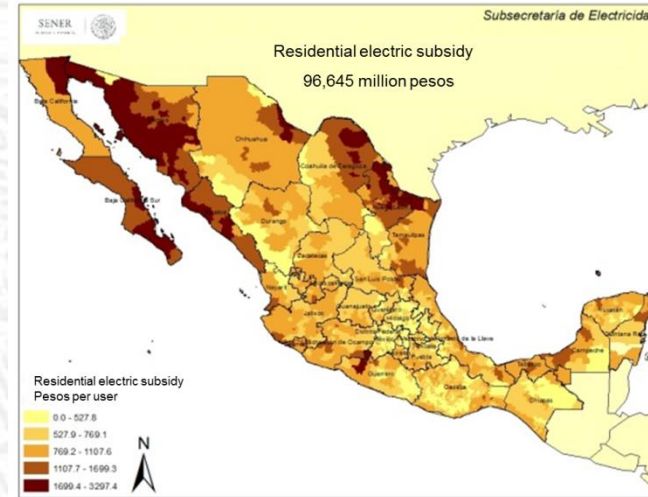
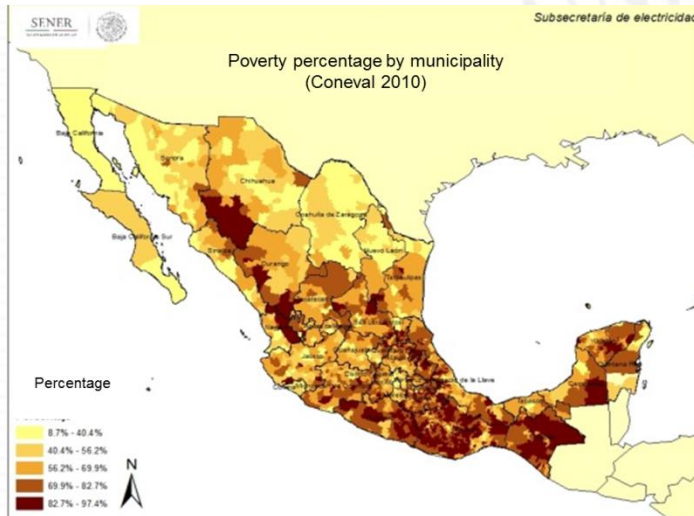
### Short term challenge

- The Ministry of Finance (SHCP) has proposed the **liberalization of gasoline and diesel prices for 2017**, while including mechanisms to control unjustified high prices
- The SHCP will cap prices until a competitive market exists. A methodology for those regulated prices will be published by the end of 2016.
- Market participants will report the transaction volumes and prices to the Energy Regulation Commission (CRE). An aggregate of the volumes and prices will be published periodically, in order to promote transparency and fairness.
- Service stations will be permanently obligated to inform the CRE the charged prices. In case there is an increment in the prices that does not correspond to market conditions, the CRE will inform the SHCP so they can implement regulated prices.

### Long term challenge

- To keep taxation in the next oil prices hike, since increased oil revenues provides a political pressure to decrease it.
- Mexican Oil Fund limits this risk, as contribution to Federal Budget from oil revenues is capped.

- Subsidies in Electric Sector could be rationalized.



% of people living in extreme poverty

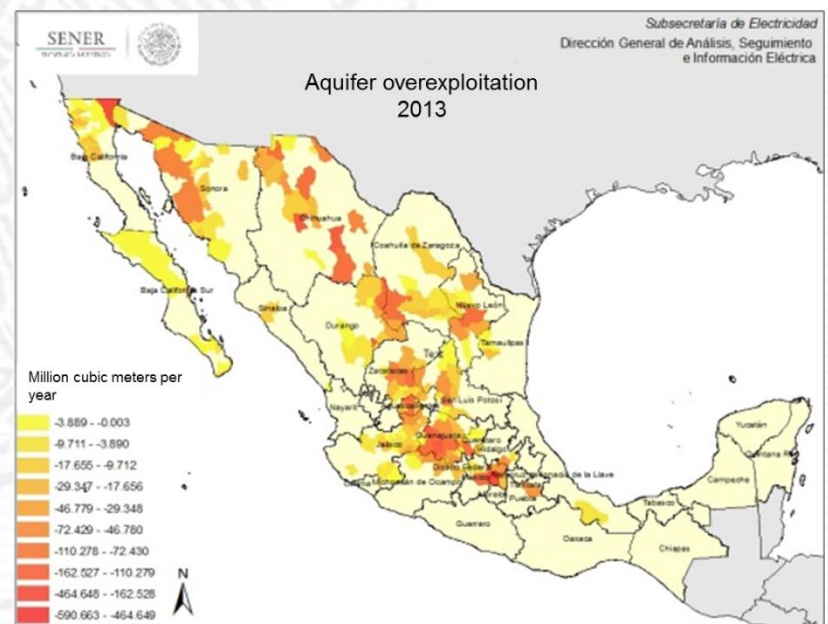
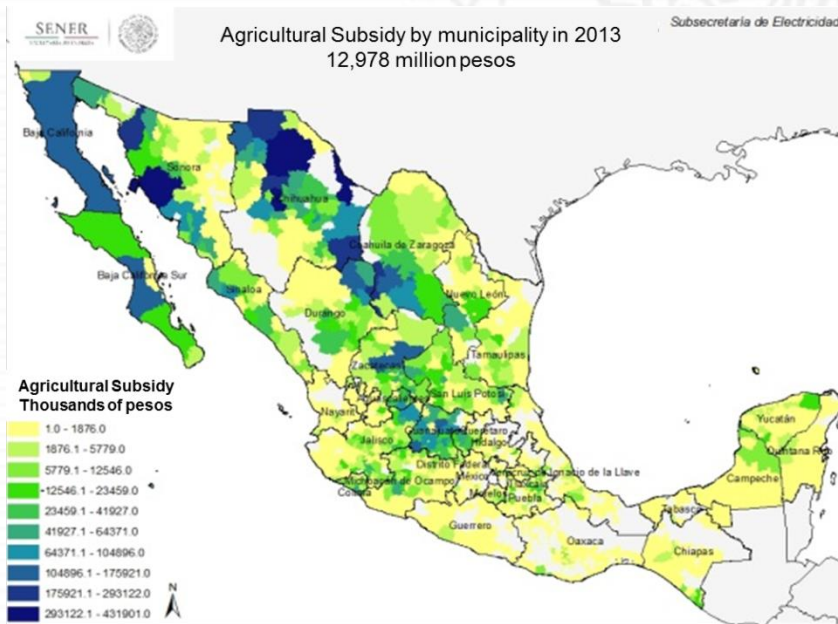
Extreme poverty vs. Subsidy per state population

- Furthermore: Electric rates have a complex tariff system divided by consumption sectors:
  - Domestic: 8 tariffs, 7 receive subsidies.
  - Agricultural: 4 tariffs that receive subsidies.

- Subsidies to electricity is likely to contribute to the aquifer overexploitation in large agricultural districts.

## Agricultural Subsidy

## Aquifer overexploitation







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