

Pricing electricity and supporting renewables in Heavily Energy Subsidized Economies

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Abstract

Heavily Energy Subsidized Economies' energy subsidies cost the budget on average 4% of GDP in 2014. Resource rents permit administratively undemanding transfers to citizens to maintain political support, whose removal will be resisted, despite resulting inefficient consumption and lock-in risk. Collapsing energy prices delivering severe fiscal shocks combined with growing concerns over climate change damage make carefully designed reforms both urgent and politically more acceptable. Political logic suggests designing reforms that compensate vocal interest groups. The paper presents evidence on the magnitude and impacts of oil, gas and electricity subsidies, and discusses how the electricity sector can be weaned off subsidies, enabling CCGTs and unsubsidized renewables to reduce carbon emissions.

Keywords Energy subsidies, interest group politics, reforming electricity tariffs, renewables.

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