



## **MEDPRO** High-Level Stakeholders Meeting in Cairo

### **Session 5: Energy**

#### **Final Scenarios and Policy Implications & Recommendations**

### **Energy Subsidies: Issues and Alternatives**

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# Outline



1. Universal Energy Subsidies: a complex & pressing issue
2. Alternatives: Targeted support-Jordan's experience & best practices
3. Lessons on targeted support

# 1. Universal Energy Subsidies: a complex & pressing issue



Excessive energy bills (high consumption x prices/revenues) harm living standards and socio-economic development leading to energy poverty (access limited) & poverty

→ MED South response: **universal energy price consumption subsidies** (all customers) for fuels and network energies

- Egypt (% of customer prices): 75% for diesel, 90% LPG, 80% natural gas, 30% electricity
- Politically & socially hyper-sensitive

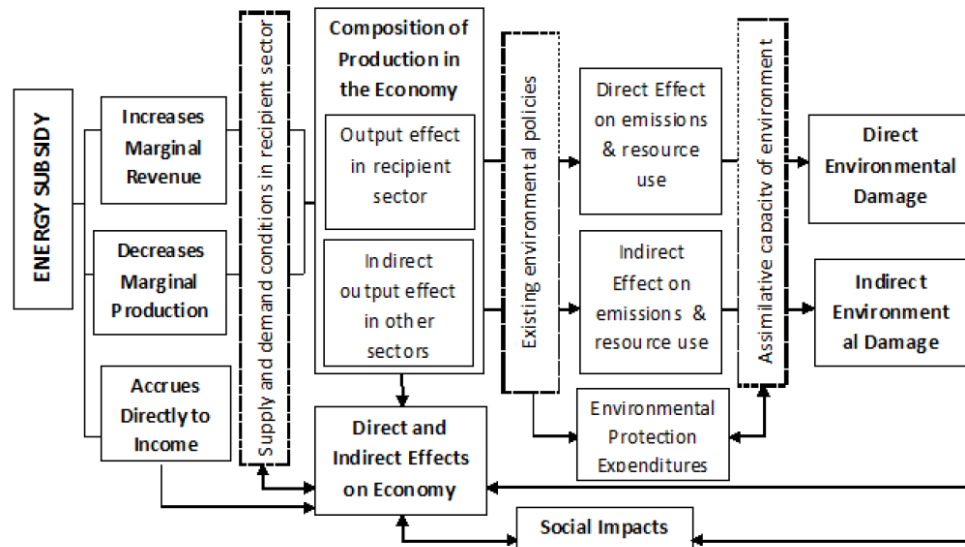
➤ **Diagnostic:** little efficient and unsustainable

- Inefficient to mitigate energy poverty: limited impact for the poor as restricted access and low consumption
- Unfair: 70% of subsidies benefit the wealthiest (Egypt: 20% richest receive 40%) but cost paid by all
- Costly: high burden for state budgets (EGY: 20%, 12% GDP 2010)
- Detrimental to demand control, EE and RE
- Create shortage at expense of households and businesses
- Encourage smuggling and pollution

# Energy Subsidies (UNEP)



Fig. 1.1 Social, Economic, and Environmental Impacts of Energy Subsidies (UNEP)



Source: adapted from UNEP (2004)

## 2. Alternatives: Targeted support Jordan's experience & best practices



### A. 1<sup>st</sup> Reform phase (2005/2010)

1. Gradual phasing out of universal fuel price subsidies (2008: 5% → 2010: 2% of GDP); oil product prices liberalized (except for LPG) with automatic fuel price adjustment mechanism

### 2. Targeted support/main tools

- Targeted subsidies by National Aid Fund → individual safety net cash assistance in the winter (households below USD 1,100/year) and social assistance: monthly aid of USD 40 per family member with maximum of USD 250
- Lifeline (or “block”) electricity tariff (4 tranches up to >500 kWh/month)
- Increase of civil servant salaries (~ 60% of population)

→ Targeted support: 30-50% cheaper than initial subsidies



## B. 2<sup>nd</sup> Reform phase (2011/2012)

### ➤ **2011: Partial return to fuel subsidies & electricity price imbalances**

- Back to fuel price subsidies for oil products (% of customer prices): 20% for diesel, 84% LPG (USD 230m/y)
- Electricity prices below cost: Generation cost/20c€/kWh vs. retail prices/9c€/kWh (56% subsidy) → NEPCO 2011 losses: \$2bn or 12% of GDP

### ➤ **2012: New reform**

- Sudden phase out of fuel subsidies (Nov.) without safety net → riots
- Targeted subsidies by National Aid Fund
- Planned increase of “block” electricity tariff for >600-700 kWh tranche

→ Incentives for:

- ❖ EE: NEEAP (National Energy Efficiency Action Plan) approved, focus on Standards and Labels for appliances, audits and investment co-financed by JREEEF-EE&RE fund)
- ❖ RE: SWH (compulsory for most buildings from April 2013), PV net metering (residential & commercial), to speed up large RE investment procurement

### 3. Lessons on targeted support



#### 1. Tools

1. Accurate and up to date statistical system on social, economic and energy situation → demand surveys and database
2. Effective individual database of vulnerable households by dedicated public agency
3. Field and simulation studies and surveys by multi-skill teams inc. sociology
4. Neutral and clear communication

#### 2. Steps

1. Targeted support studies & pilots to design specific scheme
2. Clear & gradual path of reforms: phase out of universal subsidies compensated by targeted support to vulnerable families with mix tools (cash, tariff, salaries increase...etc.) and close monitoring
3. Ensure security of supply (limit shortages)

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