Fiscal Reforms for Low Carbon Growth in the Mediterranean
Villa Valmer, Marseille, 18-19 October 2018

Background

In December 2017, participants at the *One Planet Summit* cautioned that "we are losing the battle" on climate change and we are "nowhere near" being able to contain rising temperatures to between 1.5°C to 2°C. Altering the trajectory of carbon emissions will require operationalizing the Paris Accord's Nationally Determined Contributions (NDCs) through public policies, public and private investments, and innovative financial instruments. Finance ministers are pivotal to achieving these objectives. From tax instruments to strengthening social and economic resilience, finance ministers have a wide range of policy instruments with which to fight climate change and manage the transition towards low carbon development. Key ingredients for a fiscal reform to move from fossil fuels to low carbon forms of energy include:

- Fossil fuels subsidy removal;
- Environmental tax reform;
- Incentives for the use of Renewable Energy Sources (RES).

Together, these policy measures send price signals to reduce emissions of carbon dioxide, and provide incentives for desirable activities like innovation and investments in energy efficiency. In addition, environmental revenues can be a much-needed source of domestic resources, which can be channeled towards reducing distortionary taxes or increased spending for adaptation or the provision of public goods like health and education.

Moreover, fiscal reform and regional energy market integration need to move in harmony. Regional market integration has a key role to play in the energy transition, as it is one of the options to provide the flexibility that electricity systems need to accommodate a large RES penetration. However, the benefits of regional electricity market integration can be reaped only if the interconnection infrastructure exists to enable trade and if no other barriers hinder trade, such as differences across countries in pricing and taxation regimes.

Objectives

The objectives of the workshop are: (i) to discuss the fiscal reforms that are critical for a low carbon energy transition in the Mediterranean and (ii) to share country experiences and knowledge on the design of fiscal reforms conducive to the energy transition. Countries that are just starting on the long path of energy pricing reforms can learn from those that have successfully implemented these reforms.

Audience

The workshop is intended for finance ministries of Southern and Eastern Mediterranean Countries (SEMC), regulators, large energy consumers, consumer associations, energy companies and all relevant SEMC stakeholders.

Agenda

Thursday, 18 October 2018

9:45 Registration and Welcoming Coffee

10:15 Introduction and Welcome: *Miria Pigato, Climate Lead, Macroeconomics, Trade and Investment Global Practice, World Bank; and Blanca Moreno-Dodson, Manager, Center for Mediterranean Integration (CMI)*

10:30 Session 1 - Fossil Fuel Subsidy Reform: Why, How and When

Globally, fossil fuel subsidies to consumers stand at USD 260 billion annually, compared with USD 140 billion in subsidies towards renewable electricity. Middle East and North Africa (MENA) account for 30% of fossil fuel subsidies, USD 80 billion. Although the Middle East remains the region with the largest share of total subsidies (some 30% of the total), the estimated value of these subsidies has declined sharply, from around USD 120 billion in 2015 to USD 80 billion the following year (IEA, 2017). As governments are under pressure to reduce current and fiscal deficit, subsidy reform has gained a new momentum in the region, mainly in oil-importing countries – Morocco, Jordan, Egypt – but also in some oil exporters.

Yet, reforming energy subsidies is complex and politically sensitive. Reforms take time and careful planning of policy actions on several fronts. Political economy factors must be considered and carefully communicated. The Energy Subsidy Reform Assessment Framework (ESRAF) is an integrated approach to carry out a comprehensive assessment of subsidies introduced by the World Bank and the Energy Sector Management Assistance Program (ESMAP). ESRAF helps Governments to design a reform program that is socially responsible, politically feasible and economically sustainable. Lessons from the experience of countries in the region (such as Morocco, Jordan or Egypt) or elsewhere (such as Mexico or Philippines) will be highlighted.

Moderator: Sudarshan Gooptu, Global Lead, Fiscal Policy, World Bank

The session will cover the following topics:

- Overview of energy subsidy reforms in the region (Algeria, Tunisia, Morocco, Egypt, Lebanon, Jordan) with a focus on the pricing of fossil fuels, and experiences of reform
- Energy subsidies, public investment and growth
- Designing effective reform packages and the World Bank's ESRAF

- Reforming energy subsidies: the case of Egypt

Speakers: Bertha Gabriela C. Mundaca, Consultant, World Bank; Paolo Verme, Lead Economist, World Bank; Thomas Flochel, ESMAP, World Bank; Moheb Malak, Senior Economist, Macro-Fiscal Policy Unit, Ministry of Finance, Egypt

12:30 Lunch

14:00 Session 2 - Environmental Tax Reforms: Rationale, Benefits and Pitfalls

Economists agree that environmental taxation improves efficiency, provides incentives to develop low-carbon energy alternatives and brings revenues. However, despite its obvious advantages, Environmental Tax Reform (ETR) − which refers to a range of fiscal instruments that can raise revenue, while simultaneously furthering environmental taxation – is lagging. For instance, a recent report (OECD, Taxing Energy Use 2018) found that in 2015 carbon and other taxes on energy use across 42 OECD and G20 economies were too low to contribute to a reduction in global warming. Moreover, between 2005 and 2014, revenue from environmental taxes shrank to 6.5% of total tax revenue, and the G7 average was just 5.3%.

The session will discuss the rational, benefits and pitfalls of ETR in both developed and developing countries. It will argue that ETR is particularly effective in low-income countries where it is more likely to yield a 'triple dividend': cutting pollution, raising economic activity, and generating substantial direct, non-economic welfare benefits, such as human health improvements, reduced congestion, and safer roads. And it will discuss the status of energy price reforms in MENA countries and potential for ETR.

Moderator: Miria Pigato, Climate Lead, Macroeconomics, Trade and Investment Global Practice, World Bank

Speakers:

- *Anil Markandya, Professor of Economics, Basque Centre for Climate Change* will provide an overview of key issues in designing and implementing ETRs. Besides reducing emissions and promoting improvements in the well-being of the population, ETRs can raise output and employment, particularly in countries with significant unemployment. Potential benefits arise by shifting taxation from employment to emissions where there is a large informal sector.
- *Kurt Van Dender, Center for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD)* will argue that the key to unlocking the potential of environmental taxes is to increase awareness that they are 'good tax policy' as long as rates and base are well chosen, and judicious use is made of the revenues. Integrating ETR with overall tax policy is a prerequisite to realizing the full potential from environmental taxation. Country experiences on how this can be achieved will be discussed.
- *Mario Mansour, Deputy Chief, Tax Policy Division, Fiscal Affairs Department, International Monetary Fund (IMF)* will present the current state of play of taxation

in MENA. He will argue that it is inequitable, regressive, and that environmental taxes are absent. Energy price reforms are one step in the right direction, but not enough. He will discuss possible options (higher excises on petroleum products, excises on cars; congestion charges etc.) and their implications for revenue and tax burden distribution.

16:00 Coffee Break

16:15 Bringing All Together: Interactive Group Discussion Among Participants

17:30 End of Day 1

19:30 Dinner at Une Table au Sud, 2, quai du port, 13002 Marseille

Friday, 19 October 2018

9:15 Welcoming Coffee

9:45 Session 3 - Promoting the Use of Zero-carbon Energy: RES Support Schemes

The fiscal regime, besides discouraging the use of high carbon forms of energy, also needs to provide incentives for the use of energy sources which do not emit CO2. RES support schemes provide such incentives, especially until RES become competitive with conventional alternatives, and can be funded in part from the revenues generated by environmental taxes and fossil fuel subsidy discontinuation. One widely used form of support is the Feed-in Tariff (FiT), which has different fiscal implications depending on how these tariffs are structured. As the cost of renewable energy sources falls, and markets globalize, there is a need to continuously adapt RES support schemes to changing market conditions. Auctions are being increasingly adopted, given their ability for real-price discovery. The success of an auction in achieving policy deployment and development objectives relies on its design. The choice of policy instrument should depend on the specific country conditions, state of the energy market, technology and objectives to achieve. In many contexts, auctions are used for large-scale projects and feed-in tariffs and premiums for small-scale installations. In this session, the participants will hear about the different support schemes and get guidance on their fiscal implications, and suitability based on policy objectives and market conditions.

Moderator: Silvia Pariente-David, Senior Advisor, CMI

The session will cover the following topics:

- Overview and comparison of different support schemes: FiT, Feed-in Premium, auctions
  Prof. Jacques Percebois, Professor Emeritus at the University of Montpellier, Director of CREDEN and Associate Researcher at the Chair “Climate Economics”, University Paris Dauphine

- The evolution toward market mechanisms such as auctions in the European Union under the new RES Directive
  Prof. Dr. Mario Ragwitz, Deputy Director and Head of Business Unit Renewable Energies, Fraunhofer-Institute for Systems and Innovation Research ISI, Germany
- Support schemes in SEMC
  Emanuela Menichetti, Director, Renewable Energy and Electricity Division, Observatoire Méditerranéen de l'Energie (OME)
- The need for harmonization of support schemes and energy subsidies to enable regional energy market integration
  Waleed Saleh I. Alsuraih, Lead Energy Specialist, World Bank

12:00 Conclusions: *Blanca Moreno-Dodson, Manager, CMI*

12:30 Lunch

14:00 End of Workshop