



Fossil-Fuel Subsidy Reform and Schemes in Mexico

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Part 1: “La Reforma Energetica”



Main elements of the energy reform:

- Opening of energy markets and transformation of PEMEX and CFE in Productive SOE's
- Liberalisation of price of gasoline, diesel and LPG (which reached a peak of USD 20 billion in 2012)
- Carbon tax and voluntary carbon market (pilot phase)
- Unbundling of the electricity sector and important participation of private RE generators

... and endorsement of relevant international commitments supporting FFSR



**FFSR Communiqué presented at COP21
(Paris, 2015)**



**Ministerial Declaration on FFSR presented at WTO's
MC11 (Buenos Aires, 2017)**

Mexico's efforts to phase out and rationalise its fossil-fuel subsidies

A report on the G20 peer-review of inefficient fossil-fuel subsidies that encourage wasteful consumption in Mexico



**G20 GERMANY 2017
HAMBURG**

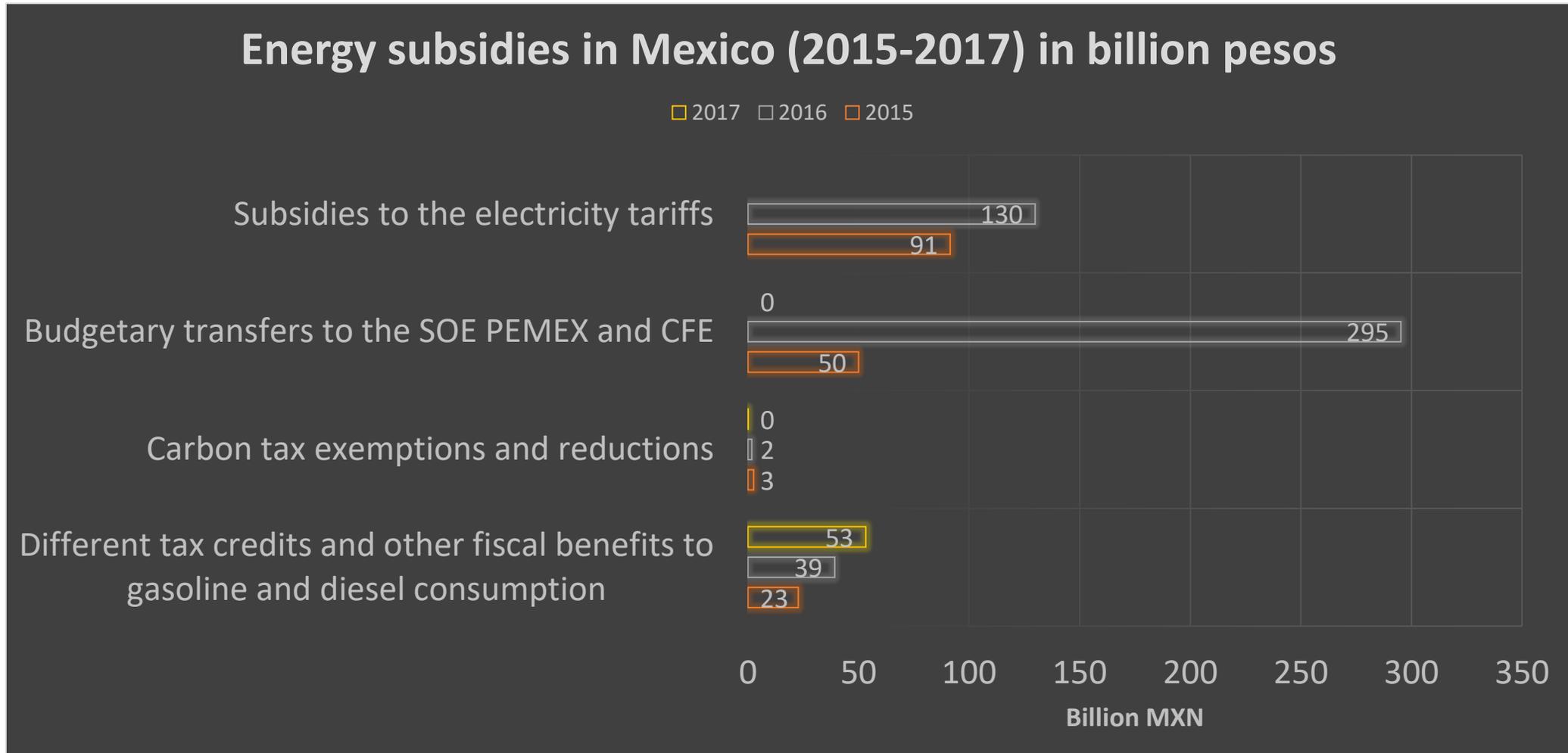
Prepared by the members of the peer-review team: China, Germany, Indonesia, Italy, New Zealand, the United States, and the OECD (Chair of the peer-review).

15 November 2017

Result: “El gasolinazo”



Part 2: current schemes



Part 2: FF's under AMLO



Some AMLO's proposals on energy:

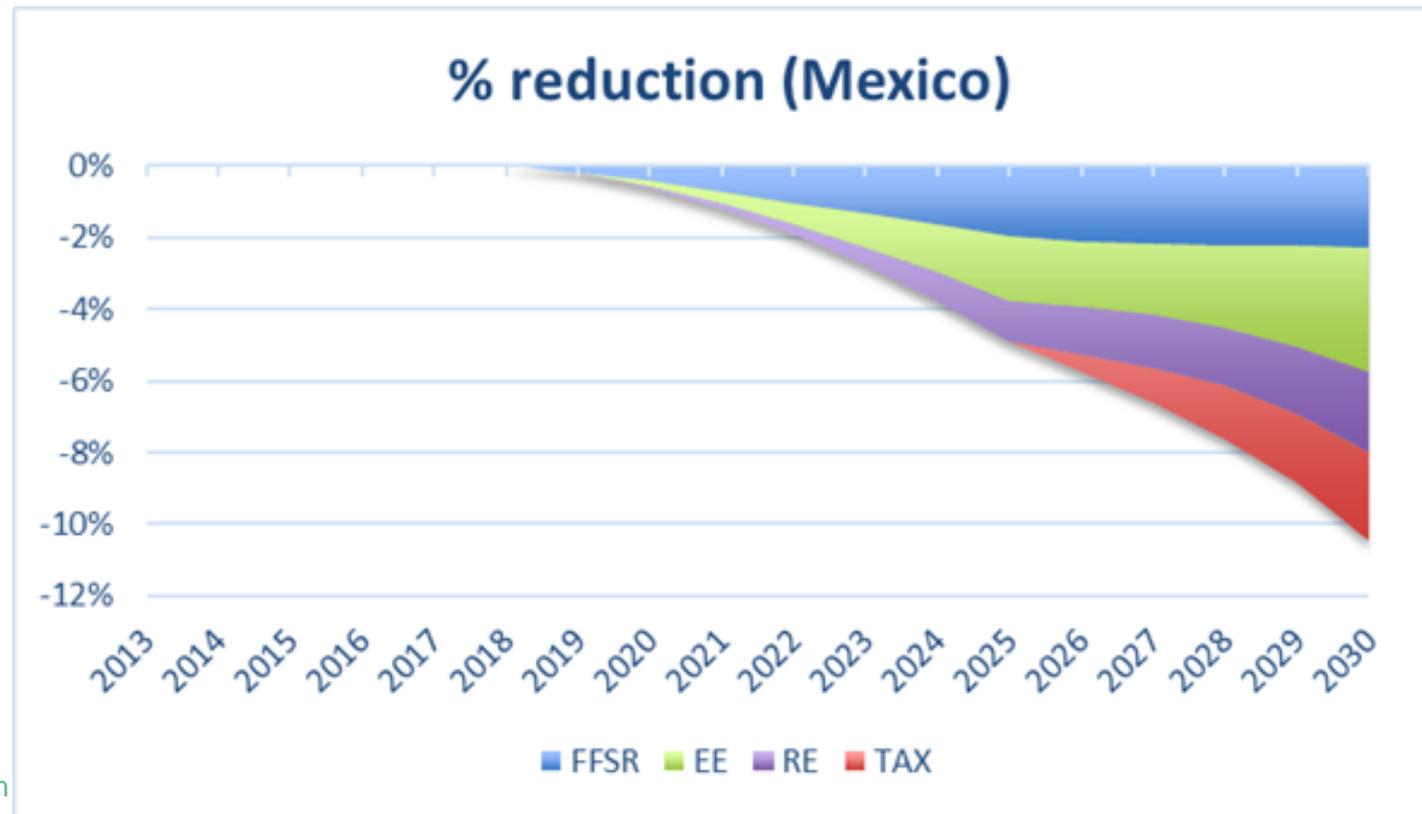
- Refineries: upgrade existing ones and build a new one in Tabasco
 - Eliminate theft of gasoline and diesel (equivalent to MXN 60 billion in 2017)
 - Invest in oil and gas E&P (MXN 75 billion measures to support PEMEX with this goal have already been approved)
 - Avoid “gasolinazos” (gasoline and diesel price increases above inflation)
- ... and his general motto: “el bienestar”

The climate co-benefits of reforming FFS



The estimated cost of extreme climate events in Mexico between 2001 and 2013 is estimated at MXN 338 billion (INECC)

The reform of FFS combined with carbon tax and partial support to EE and RE could result in a reduction of >10% of carbon emissions by 2030

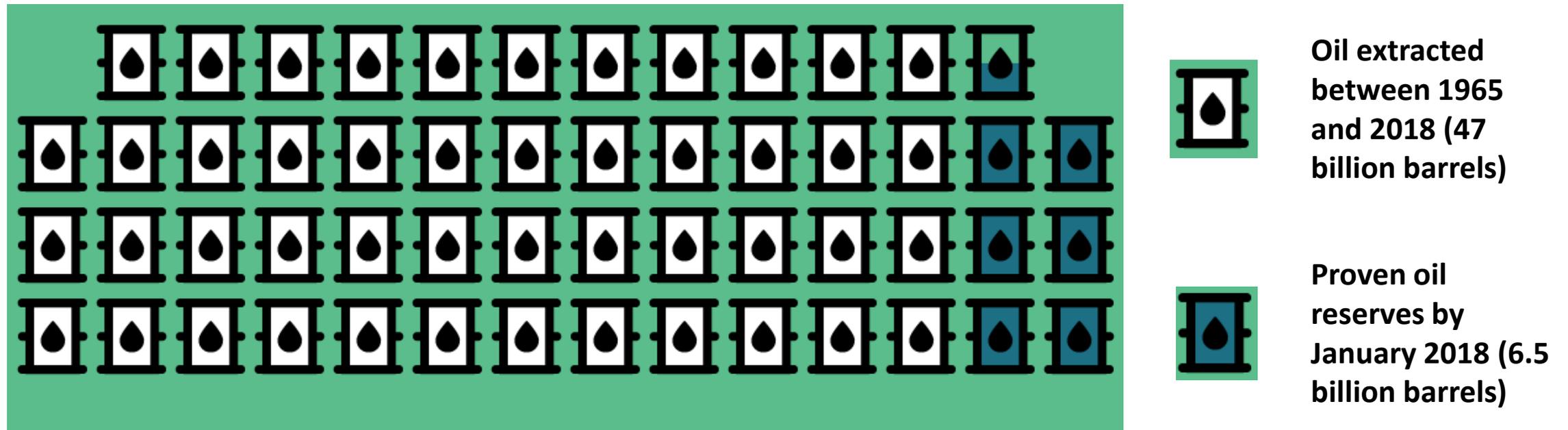


The challenge: oil & gas reserves are depleting



In January 2018, proven oil reserves would provide for 9 more years of oil extraction, at the current rate. Their value (2018 prices) represented USD 400 billion (1/3 of Mexico's GDP)

Natural gas reserves would provide for the next 3 years at current extraction rate. Currently, around half of the gas used in the country is imported, mostly from the USA.



Conclusions and recommendations



- **Electricity tariffs offer an important reform opportunity** : at USD 6.8 billion in 2016, their reform can create significant fiscal space to support more targeted, sustainable and efficient alternatives, focusing on those that needed it most. There are also significant climate co-benefits
- **FF taxation schemes are important tools to capture the rent from oil & gas**: at an average of USD 39 billion in 2016/17, this rent can be used to support the energy transition and the “bienestar” and sustainable development objectives.
- **Define how the energy transition should be**: complete a clear cost-benefit analysis of the current oil & gas strategy, evaluating also cleaner alternatives (renewables) and considering an optimal use of fiscal resources, as well as social development and climate targets.
- **Avoid blanket subsidies**: these have demonstrated to be a regressive policy that benefits mostly the groups that don't need it and have a high opportunity cost. Targeted subsidies have proved to be more efficient measures.
- **Communicate reform**: communications can help avoid “gasolinazos” by explaining the negative aspects of subsidies and the alternatives



Thank you

More information

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Sources:

“Más allá de los combustibles fósiles: transición fiscal en México” (GSI & LINGO, forthcoming)

“Improving and Refocusing Electricity Subsidies. Options for optimization in Mexico.”

https://www.energypartnership.mx/fileadmin/user_upload/mexico/media_elements/reports/ElectricitySubsidies-MEX.pdf

Raising ambition via fossil fuel subsidy reform: GHG emissions Country modelling results from 26 countries (GSI, forthcoming)