



ADVERTISEMENT



Ads by Google

Send feedback

Why this ad?

ECONOMICS & FINANCE CLIMATE CHANGE ENERGY ENVIRONMENT FOSSIL FUELS OECD OIL

How Covid-19 could help eliminate fossil fuel subsidies

As oil-exporting countries struggle to respond to the crisis, there is a way to make critical fiscal resources available

By [Mario Pezzini and Håvard Halland](#) June 4, 2020

[f](#) [in](#) [t](#) [✉](#) [📄](#)



Photo: Yegor Aleyev/Tass/PA Images

The Covid-19 pandemic has hit oil-exporting countries at the worst possible moment. Severely strained health systems, and the need for economic stimulus, call for unprecedented growth in public spending. At the same time, oil export revenues have plummeted, following the demand collapse caused by the pandemic and a breakdown of traditional price-setting mechanisms. As a result, many oil exporters in the low- and middle-income category will struggle to muster anything near the level of expenditure required for an efficient response to the virus.

In the most oil-dependent countries, oil exports account for 60 per cent or more of fiscal revenue—in some cases above 90 per cent. Assuming an average oil price of \$30 per barrel, these revenues could by [International Energy Agency](#) estimates fall by as much as 50 to 85 per cent in 2020. To make matters worse, several oil-exporting countries are already fiscally constrained, with debt levels higher than they were ahead of the 2008 financial crisis and indebted national oil companies.

A number of oil-exporting countries subsidise the production and consumption of petroleum products. Commonly, governments require their national oil companies (NOCs) to sell refined petroleum products to domestic consumers at subsidised prices that are well below global market prices. NOCs and their governments thereby forego of much of the revenue that exporting the crude would have brought in global markets. Fossil fuel subsidies deprive governments of revenues that are now essential to fighting the Covid-19 pandemic. At the same time, these subsidies encourage wasteful domestic fossil fuel consumption, and lead to increased emissions of greenhouse gases and air pollution.

While fossil fuel subsidies are prevalent in countries at all income levels, middle-income oil exporters have the highest subsidies as a share of GDP. These subsidies can be as high as 2 to 10 per cent, and in some countries reach 15 per cent and above. After declining for several years, subsidies have been increasing again, to about \$340bn per year according to joint OECD and IEA estimates.

ADVERTISEMENT

FISHER INVESTMENTS NORDEN



Vurderer du å flytte til utlandet

Although governments may have intended subsidies to make energy more affordable to the poor, they are in practice often inefficiently targeted and disproportionately benefit wealthier groups. Nonetheless, fossil fuel subsidies have proved remarkably hard to get rid of, partly for political reasons. Influential groups frequently exercise pressure on governments to retain the subsidies. Furthermore, the access to cheap fuel can be part of governments' social contract with citizens, as a way of sharing national resource endowments.

The coronavirus pandemic could alter this equilibrium, for two reasons.

First, governments can now argue that the increased public health costs, economic stimulus and other expenditures associated with the pandemic make fossil fuel subsidies unaffordable. The main advantage of this argument is that it is true. Citizens and companies are less likely to object to the removal of subsidies when it is clear that retaining them will reduce the government's ability to provide urgent health care and economic stimulus. Moreover, the low current oil price means that the removal of subsidies will have less impact on gasoline prices at the pump and on other consumer prices.

Second, the Covid-19 crisis could make it easier for governments to commit in a credible way to reallocate savings, generated by the elimination of subsidies, to better health care and other priorities that are urgent during the pandemic. In countries with little trust in government, citizens may not have believed that the payoff from eliminating fossil fuel subsidies would benefit them. Now, during the crisis, government action against the pandemic is to some extent observable. The crisis could therefore be a political window of opportunity for governments to reallocate fiscal means to essential public services.

ADVERTISEMENT

FISHER INVESTMENTS NORDEN



Vurderer du å flytte til utlandet når du blir pensjonist?

For personer med en portefølje på 3 millioner kr, få denne guiden og regelmessige oppdateringer.

[Lær mer!](#)

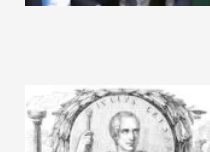
ADVERTISEMENT

Popular in Economics & Finance



Rishi Sunak: the price of neglect

[Tom Clark](#)



The strange reason why the tax year ends on 5th April

[Patricia Fara](#)



Will Russia default on its sovereign debt?

[Vicky Pryor](#)



Why China can't ride to Russia's financial rescue

[Megan Greene](#)

ADVERTISEMENT

Latest Edition



Does the British monarchy need to shrink to survive? Historian Alex von Tunzelmann considers the future of the

institution, plus Joris Luyendijk on the Dutch option. Peter Ricketts argues we need action not words on Ukraine. Emily Maitlis on the new man in her life: J Edgar Hoover. Plus: Colm Tóibín on not being an Irish nationalist

[Join Now](#)

ADVERTISEMENT

FISHER INVESTMENTS NORDEN



Vurderer du å flytte til utlandet når du blir pensjonist?

For personer med en portefølje på 3 millioner kr, få denne guiden og regelmessige oppdateringer.

[Lær mer!](#)

Governments that eliminate subsidies should do so while considering their country's specific circumstances. Targeted support for the poorest groups affected, which are already suffering under the pandemic, is likely to reduce resistance to reform. To retain citizen support for subsidy reform after the pandemic ends, it will be important for governments to maintain visible improvements to health and other public services.

The pandemic is altering the economics of fuel consumption, with far less transport use than in normal times. Dependence on the type of subsidies, the savings from eliminating them will therefore be lower than in normal times—also because of the low oil price. Nonetheless, these savings are available. As the public health crisis and the economic situation normalise, the savings from having eliminated fossil fuel subsidies will grow, too.

The outcome could be a permanent reallocation of large amounts of capital to health and other essential public services. Furthermore, channelling some of these savings towards clean energy would help secure our climate goals and reduce air pollution, which disproportionately affects the poor. Governments now have a rare window of opportunity, and should take this chance for decisive action.

ADVERTISEMENT



Vurderer du å flytte til utlandet når du blir pensjonist?

For personer med en portefølje på 3 millioner kr, få denne guiden og regelmessige oppdateringer. [Lær mer!](#)

Mario Pezzini is director of the OECD Development Centre and special adviser to the OECD Secretary-General on development. Håvard Halland is a senior economist at the OECD Development Centre

Mario Pezzini is director of the OECD Development Centre and special adviser to the OECD Secretary-General on development. Håvard Halland is a senior economist at the OECD Development Centre

[MORE STORIES BY MARIO PEZZINI AND HÅVARD HALLAND](#)

Mario Pezzini and Håvard Halland

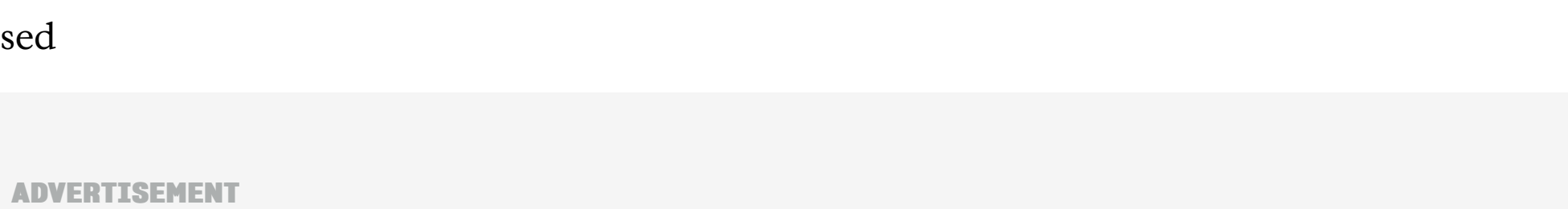
Mario Pezzini is director of the OECD Development Centre and special adviser to the OECD Secretary-General on development. Håvard Halland is a senior economist at the OECD Development Centre

Mario Pezzini is director of the OECD Development Centre and special adviser to the OECD Secretary-General on development. Håvard Halland is a senior economist at the OECD Development Centre

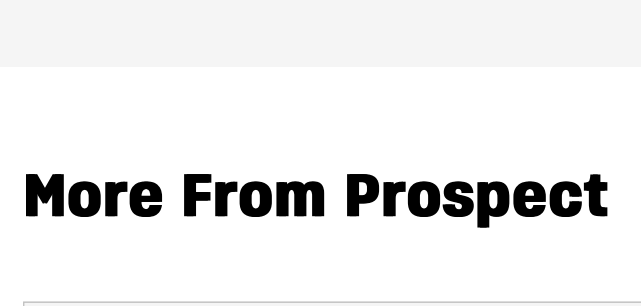
[MORE STORIES BY MARIO PEZZINI AND HÅVARD HALLAND](#)

Comments are closed

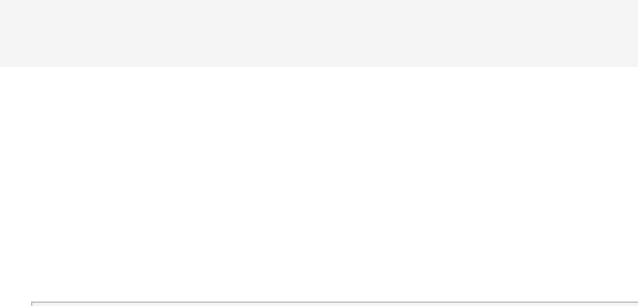
ADVERTISEMENT



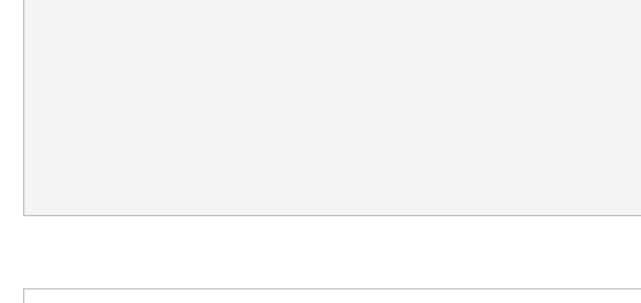
More From Prospect



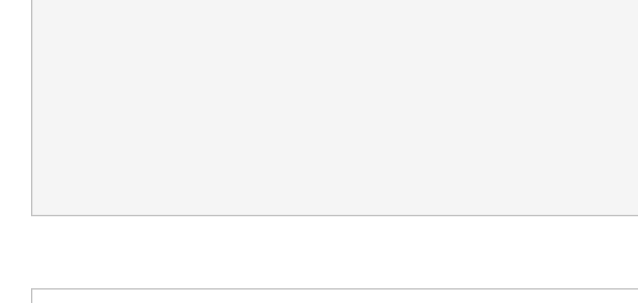
ECONOMICS & FINANCE
Will Russia default on its sovereign debt?
[Vicky Pryor](#) March 31, 2022



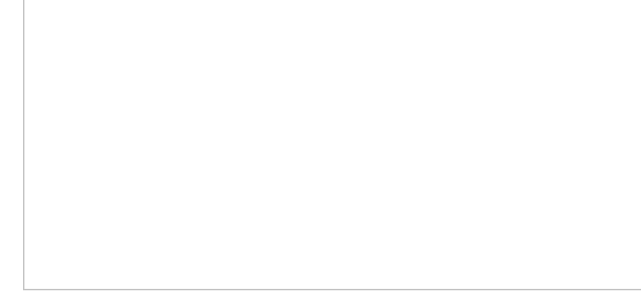
POLITICS
The end of German illusions
[Paul Lever](#) March 31, 2022



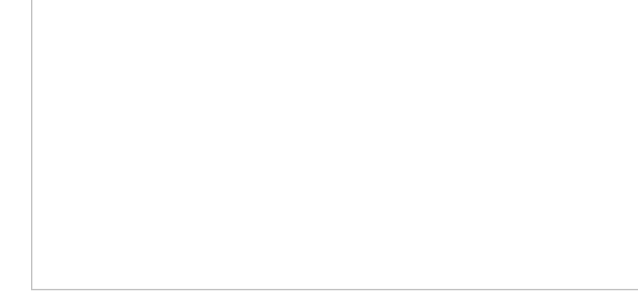
WORLD
Thirty years since Bosnia, another tyrant massacres Europe's people
[Oliver Kamm](#) March 31, 2022



SCIENCE & TECHNOLOGY
Spending £4bn on a new nuclear at Sizewell will not solve the UK's energy problems
[Nick Butler](#) March 30, 2022



POLITICS
How Macron turned centrism into an insurgency movement
[Andrew Adonis](#) March 30, 2022



POLITICS
The war in Ukraine doesn't give Johnson a free pass on Partygate
[Rachel Sylvester](#) March 28, 2022

ABOUT

[About us](#)
[Staff](#)

SUBSCRIBE

[Subscribe](#)

CONTACT

[Contact us](#)
[Jobs and vacancies](#)

FOLLOW

[f](#) [t](#) [in](#) [📡](#)