

GREEN GROWTH AND FOSSIL FUEL FISCAL POLICIES



Empowered lives.
Resilient nations.

HOW MUCH IS VIET NAM SPENDING ON FOSSIL FUEL SUBSIDIES?

CONSUMPTION SUBSIDIES FOR FOSSIL FUELS IN VIET NAM 2007- 2012 (price-gap approach, in billion US\$)

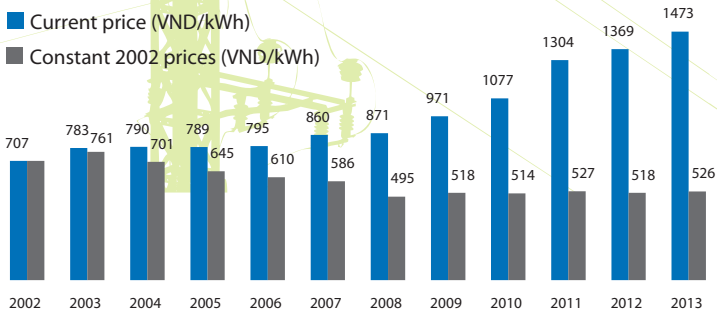
Energy Source	2007	2008	2009	2010	2011	2012
Oil	0.32	1.09	0	1.09	1.15	0.33
Gas	0.09	0.21	0.13	0.19	0.18	0.23
Coal	0.01	0.01	0.01	0.02	0.02	0.03
Electricity	1.68	2.25	1.06	3.19	2.98	2.86
Total	2.1	3.56	1.2	4.49	4.33	3.45

Source: International Energy Agency (IEA)

ARE ELECTRICITY PRICES REALLY INCREASING?

The popular perception is that energy prices have increased significantly. Although there have been significant price increases in average retail price, in constant 2002 prices, average retail prices remained almost same in 2008-2013 and lower than those in 2002-2007.

AVERAGE ELECTRICITY TARIFFS (VND/KWH)



Source: Vu et al., 2013, updated with State Bank of Viet Nam data

WHY REFORM?

- **Enhance national energy security**
 - Consumption of coal, gas and petroleum is increasing. Viet Nam will become a net importer of fossil fuels in near future. Increased exposure to international fossil fuel prices will require increasing transfers to energy SOEs or to consumers if domestic prices remain low.
- **Enhance energy efficiency**
 - Energy intensity is high in Viet Nam. Subsidies encourage inefficiencies and provide little incentive for energy efficiency.
- **Improve reliability of energy supply**
 - Rising energy demand is outpacing investments into capacity and supply constraints lead to regular power cuts. Current prices and monopoly structure of energy sector provide little incentive for investment.
- **Higher GDP growth medium to long-term**
- **Improve equity and inclusiveness**
 - Current subsidies are moderately regressive, i.e. they benefit higher energy consumers/ richer citizens more.
 - Subsidy phase out will free up resources for priority investments and mitigation measures for vulnerable households and businesses.
- **Reduce environmental and health impacts**

WHAT ARE SUBSIDIES?

Subsidies are any government intervention that reduces the cost of fossil fuels below what it would be without that intervention.



HOW ARE SUBSIDIES OCCURRING?

Most subsidies are indirect, through preferential treatment of energy producers and distributors, mainly state owned enterprises (SOEs) by for example low interest credit for investment, low costs for inputs such as land and coal (for electricity). This results in substantial foregone revenue (low taxes and no profits) and increasing debt.

HOW DO ELECTRICITY PRICES COMPARE TO OTHER COUNTRIES?

Country	US cents/kWh	Year
Australia	22 - 46.56	2013
Brazil	34.20	2013
China	7.5 - 10.7	2013
Viet Nam	7.0	2013
Germany	31.41	2012
India	8.0 - 12.0	2012
Indonesia	8.75	2012
Japan	20 - 24	2012
Malaysia	7.09 - 14.76	2012
Philippines	30.46	2012

Source: http://energyusecalculator.com/global_electricity_prices.htm, and Vu et al., 2013 (updated)

COMPREHENSIVE ENERGY SECTOR REFORM IS KEY

Reforms should focus on:

- Enhancing competition in energy markets
- Improving transparency of price setting mechanisms and introducing cost-reflective pricing
- Improving efficiency and transparency of energy SOEs
- Strengthening and ensuring independence of electricity and petroleum market regulators
- Introducing incentives to attract on-grid renewable power investments
- Moving towards carbon pricing

HOW CAN SHORT-TERM PAIN BE MITIGATED?

- Higher energy consumers prices affect purchasing power of households. Poorer households will be significantly more vulnerable. Mitigation measures should therefore focus on low-income households.
- Some measures are already in place but cash transfers to poor and vulnerable households should be expanded and integrated in broader social protection framework.
- Support to SMEs and selected enterprises to encourage energy efficiency.

Green Growth and Fossil Fuel Fiscal Policies in Viet Nam – Recommendations for a Roadmap for Policy Reform based on extensive research over past 3 years. Researchers from the Central Institute for Economic Management (CIEM); the Centre for Analysis and Forecasting under Viet Nam Academy of Social Sciences (CAF/VASS); the Institute of Energy; the Institute of Finance; the Energy Alliance; the Global Subsidy Initiative/ International Institute for Sustainable Development informed the discussion paper and their research reports are also available. A complete set of papers can be found under:

http://www.vn.undp.org/content/vietnam/en/home/library/environment_climate/green_growth_and_fossil_fuel_fiscal_policies_in_viet_nam/