



GOGLA Industry Opinion towards Kerosene Subsidies

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Background

In developing countries with low electrification and inadequate energy supply, the cost of energy is an economic burden on all people, but especially on those already trapped in a vicious energy-poverty cycle. Several tools and initiatives have been developed in response to broad public agreement to address this inequity. Subsidized kerosene, with the aim to reduce energy cost for low-income households and business user, is one of them.

Considerable funds are allocated for this purpose: the annual global cost of subsidies across the entire energy sector (coal, natural gas, petroleum fuels, and electricity), including negative externalities, reached \$1.9 trillion in 2011 or 2.5% of global GDP. Petroleum fuel subsidies alone amounted to US\$879 billion (IMF 2013).

Fuel subsidies are routinely criticized for failing to achieve intended goals by not reaching the poorest consumers. According to the International Monetary Fund (IMF), the richest 20% of households in low-and middle-income countries capture six times more in total fuel product subsidies (43%) than the poorest 20% of households (7%). (IMF, 2013)

Additionally, fossil-fuel subsidization inflates true demand through artificially low prices, which inadvertently distorts markets, impedes progress towards more efficient and cleaner solutions, and runs contrary to sound environmental and human health policies. The IMF estimates that removing fossil fuel subsidies could lead to a 13% decline in CO₂ emissions (IMF, 2013).

Industry Position

The members of GOGLA hold the view that kerosene subsidies exacerbate existing energy inefficiencies. Subsidies on lighting fuels slow the progress of market mechanisms that have already begun to introduce better alternatives, for example solar lighting systems that offer safer, more reliable, and more economical long-term solutions, by eliminating recurrent operating costs altogether. The market prospects of unsubsidized incumbent technologies like off-grid solar-lighting systems are undercut if they are placed in competition with subsidized fossil fuel-based lighting.

Subsidies also represent high costs to governments, competing with other social funding needs like healthcare, education or infrastructure, where a higher potential for social development is possible. Even though current kerosene subsidy levels indeed have a downward (but unequal) effect on the direct cost of lighting to consumers, the total costs to the general public—inclusive of negative externalities—are significantly higher than those of more efficient and unsubsidized alternatives.

Recommended Action

GOGLA recommends a gradual reduction of subsidies and a redirection of resources saved into social services of the governments since an immediate and complete elimination of subsidies on kerosene would translate into a direct increase of lighting costs for energy poor households and small businesses. Simultaneously the transition to sustainable, modern off-grid lighting should be fostered, by creating awareness and opportunities.

Sources / Further Readings

IMF. 2013: “Energy Subsidy Reform: Lessons and Implications”. International Monetary Fund



UNEP. 2014: "Lifting the Darkness - Effects of Fuel Subsidies". United Nations Environment Program