Assessment and Implications of Rationalizing and Phasing Out Fossil-Fuel Subsidies

Executive summary

The project assessed implications of removal of taxes and subsidies in petroleum products on different sectoral energy demand. In order to do this Big Bang and Linear Removal scenarios were considered. As a part of the Big Bang scenario, complete removal in tax and subsidy levels in the key petroleum products were considered. Further, impact of such a removal on the energy demand of sectors like agriculture, industry, and transport was estimated. Another scenario which was conducted comprised a linear removal scenario. Within such a scenario, a linear removal of subsidies in petroleum products was considered. The impact of such a linear subsidy removal on sectoral energy demand was estimated.

Moreover, the price elasticity of the fossil fuels was estimated in order to envisage how the demand of the fossil fuels can change in case of a variation in the fossil fuel prices triggered by subsidy and tax changes. This was buttressed by an uncertainty analysis to indicate the sensitivity of the final retail prices of fossil fuels on the corresponding retail price components.

Based on the findings of such a scenario based analysis, sector specific policy recommendations were made.