



Fossil Fuels Subsidies

Lessons from Brazil

Professor Adilson de Oliveira
Colégio Brasileiro de Altos Estudos/UFRJ



Content

- **Rationale for subsidies**
- **Historical process**
- **Liberalization**
- **Lessons**



RATIONALE

- **Infancy**
 - **Soft financing**
- **Industrialization**
 - **Levies and cross subsidies**
- **Regional and social disparities**
 - **Cross subsidies**
- **Macroeconomic stabilization**
 - **Oil fund (taxpayers)**



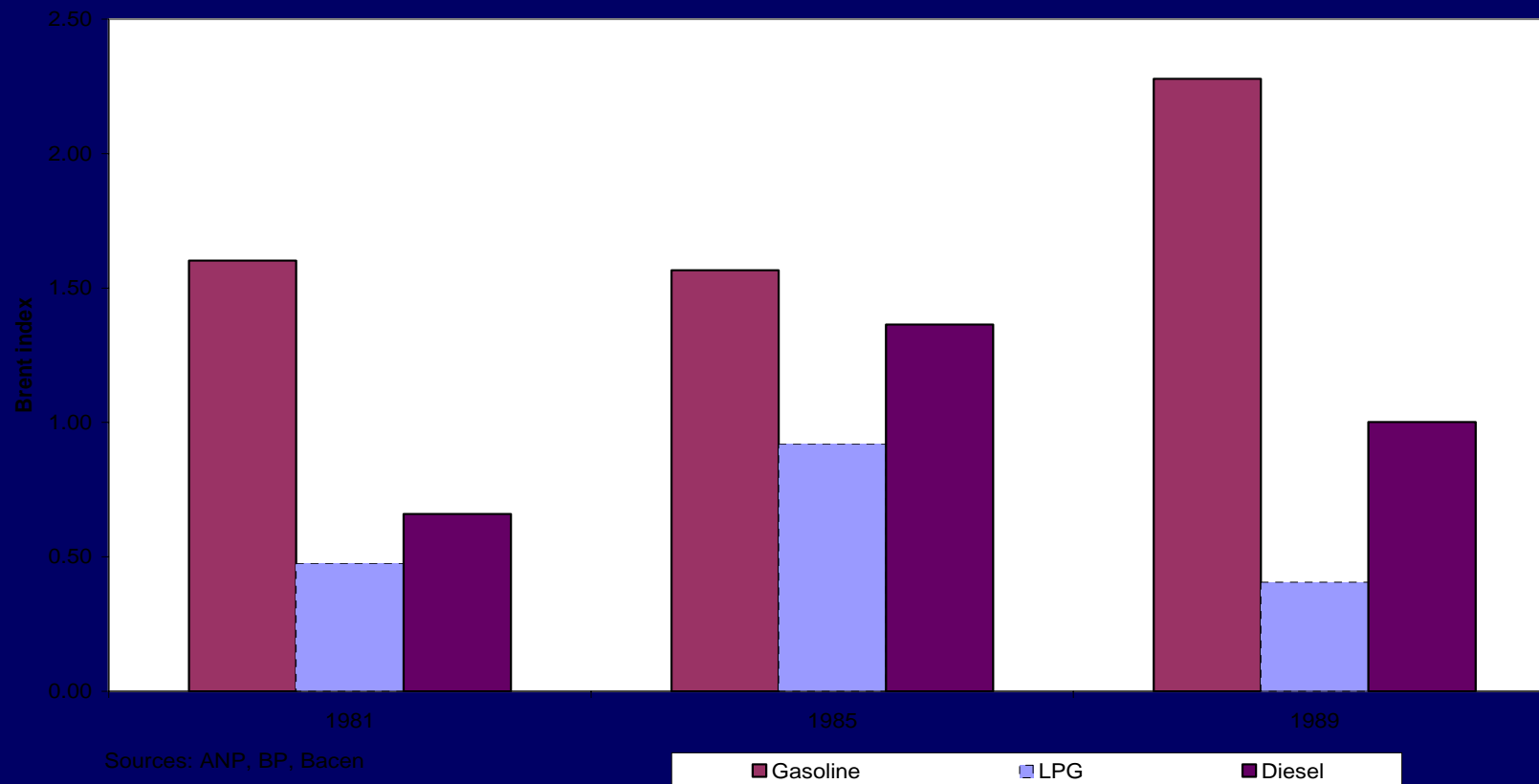
Historical Process

1930-1960	Soft loans to fund energy infrastructure Prices based on import parity Subsidies along Brazil's coastline
1953	Creation of Petrobras
1960-1970	Levies and cross-subsidies
1980-1990	"Oil fund"
1988	New Constitution: competitive licensing processes
1991-2002	Liberalization of petroleum prices
1995	Petrobras monopoly removed
1997	Act 9.478: oil regulations
2001	CIDE levy introduced on ex-refinery prices
2001	Energy crisis
2008	CIDE used in response to high oil prices
2009	Petrosal bills



Ex-Refinery Prices (1980's)

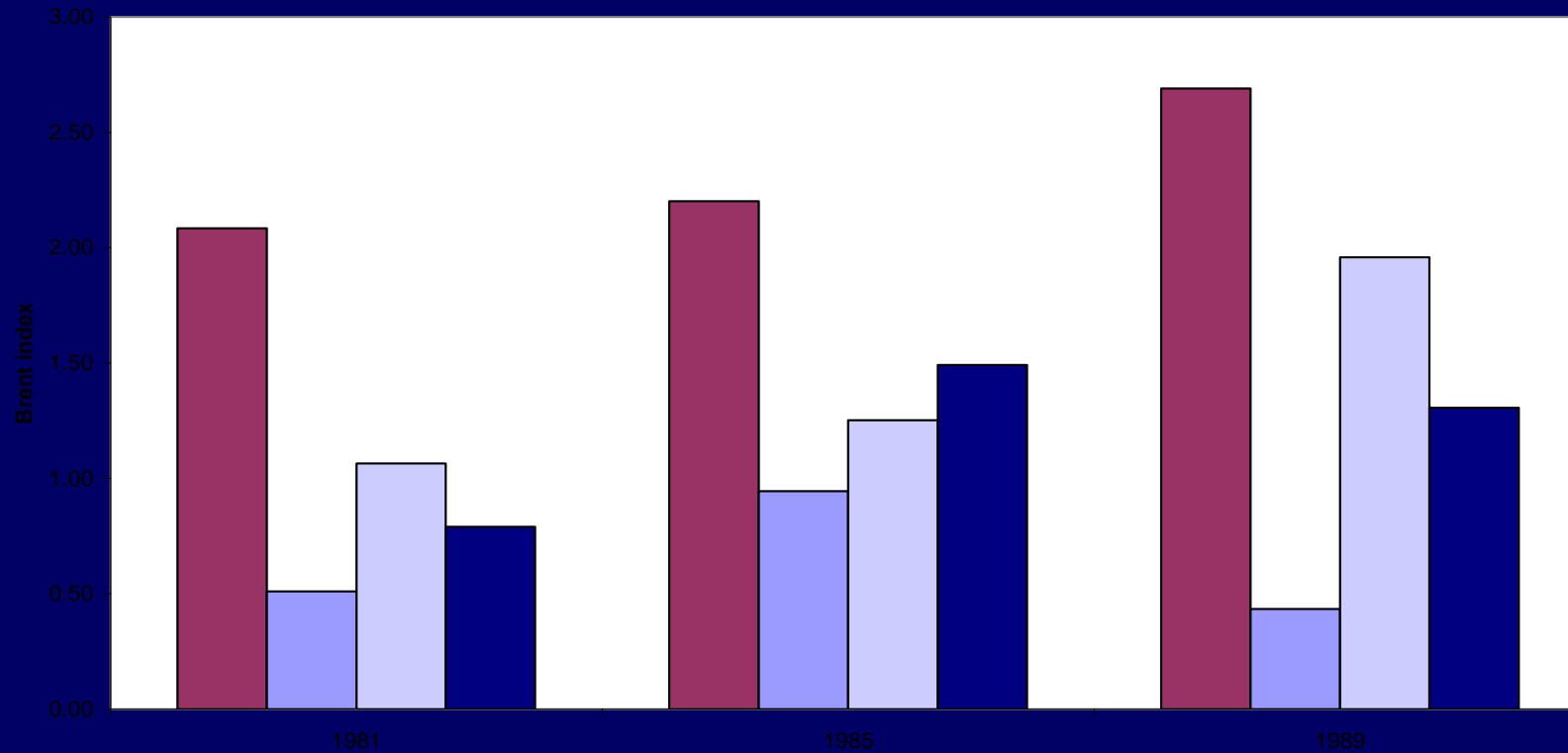
Oil byproducts relative ex-refinery prices





ERP+Taxes and Levies (1980's)

Oil byproducts relative ex-refinery prices including levys and taxes



Sources: ANP, Bacen, BP

■ Gasoline ■ LPG ■ Ethanol ■ Diesel



LIBERALIZATION

- Oil monopoly removed
- ANP
- Price liberalization
- Petrobras monopoly erosion



Price Liberalization Program

Year	Liberalization
1991	lubricants, residuals, kerosene for final consumers
1993	gasoline for airplanes for final consumers
1996	ethanol and gasoline for final consumers
1997	asphalt for final consumers
1998	LPG for final consumers
1999	gasoline and fuel oil at refineries gates
2000	naphtha for petrochemicals at refineries gates
2001	gasoline, diesel and LPG prices adjusted to Brent Prices each three months



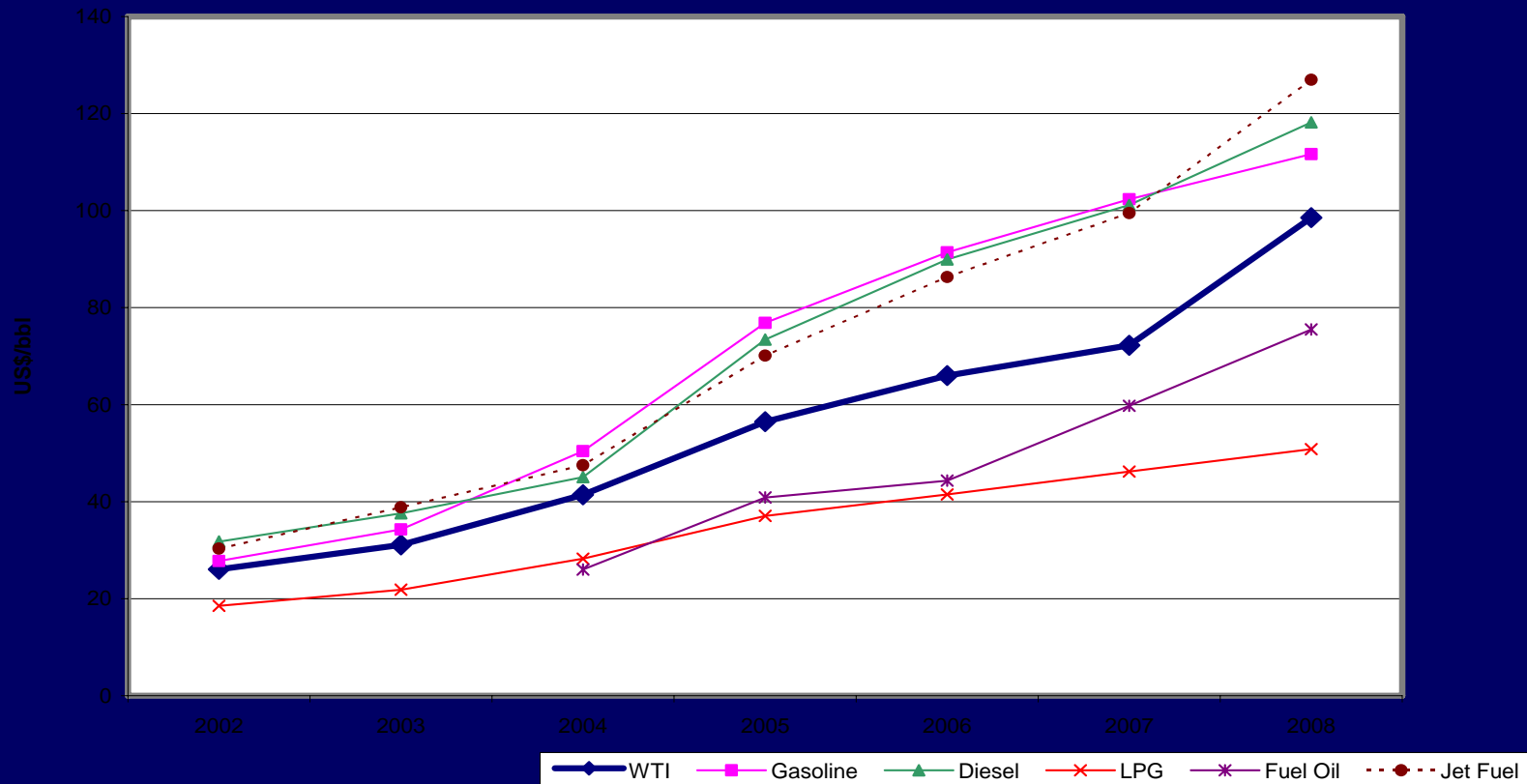
REACTION

- ❑ Historical business relations broken
- ❑ Power rationing
- ❑ Liberalization stalled
- ❑ Economic crisis



Pricing Policy

Oil Byproducts Prices

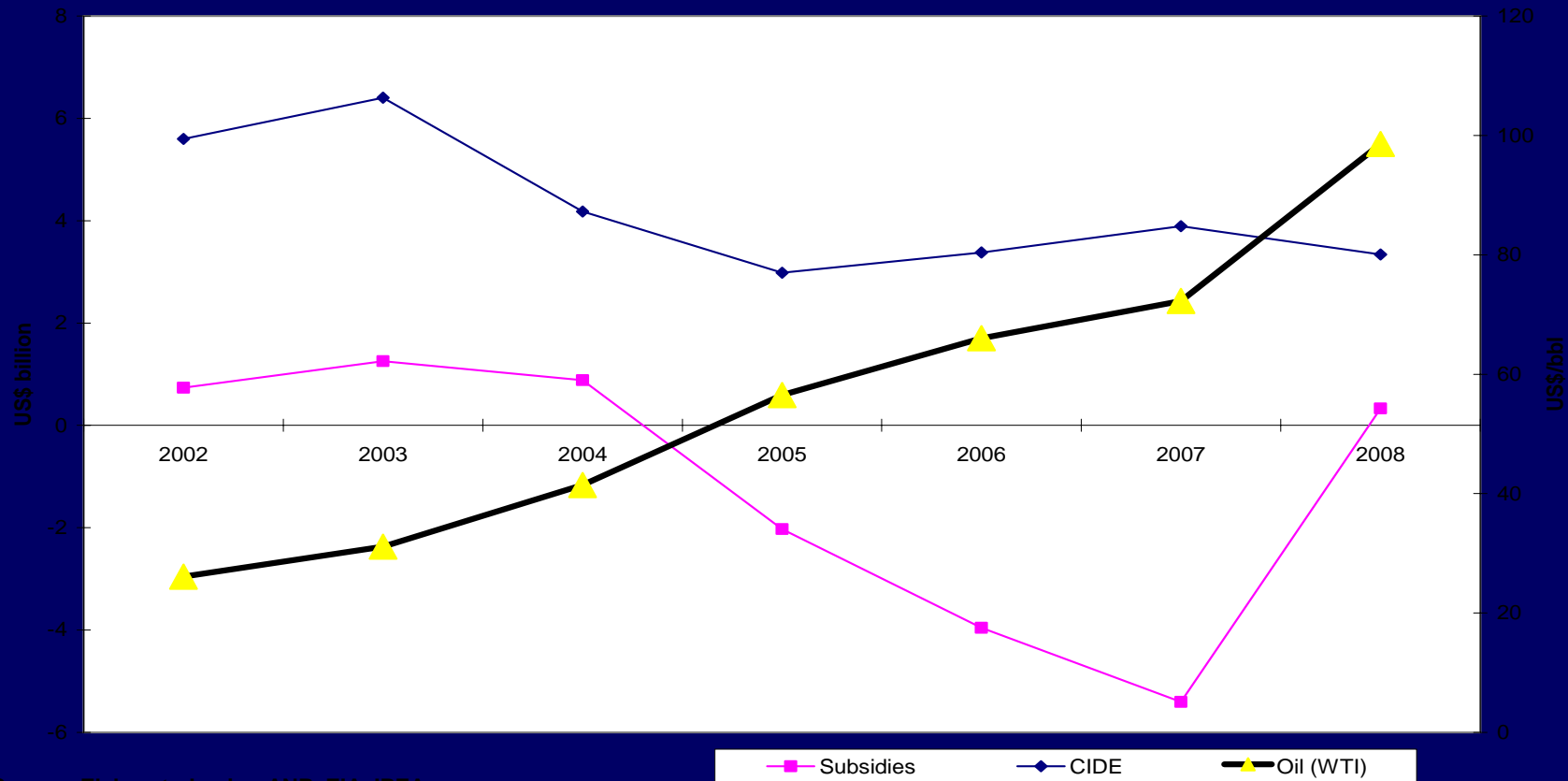


Source: Elaborated using ANP, EIA, IPEA



CIDE and Subsidies

Subsidies and CIDE Levy



Source: Elaborated using ANP, EIA, IPEA



LESSONS

- ❑ Energy subsidies can hinder economic growth
- ❑ Subsidies become entrenched
- ❑ Partial reforms are fragile



OBRIGADO PELA ATENÇÃO