



SHCP

SECRETARÍA DE HACIENDA
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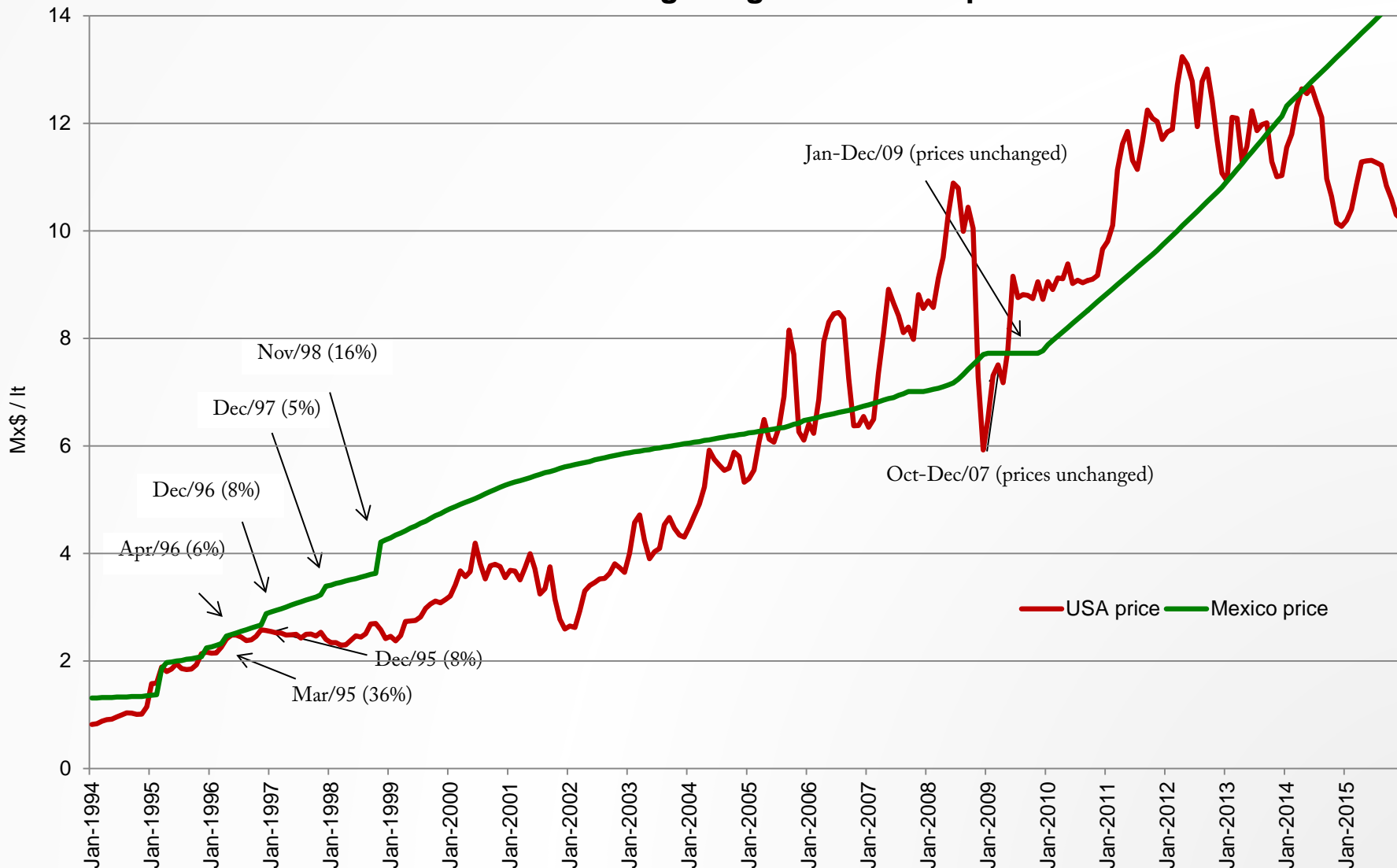
Fossil-fuel subsidy reform in Mexico

Green Growth &
Sustainable Development Forum

November 2014

Retail Prices in Mexico do not accurately follow international prices (USA).

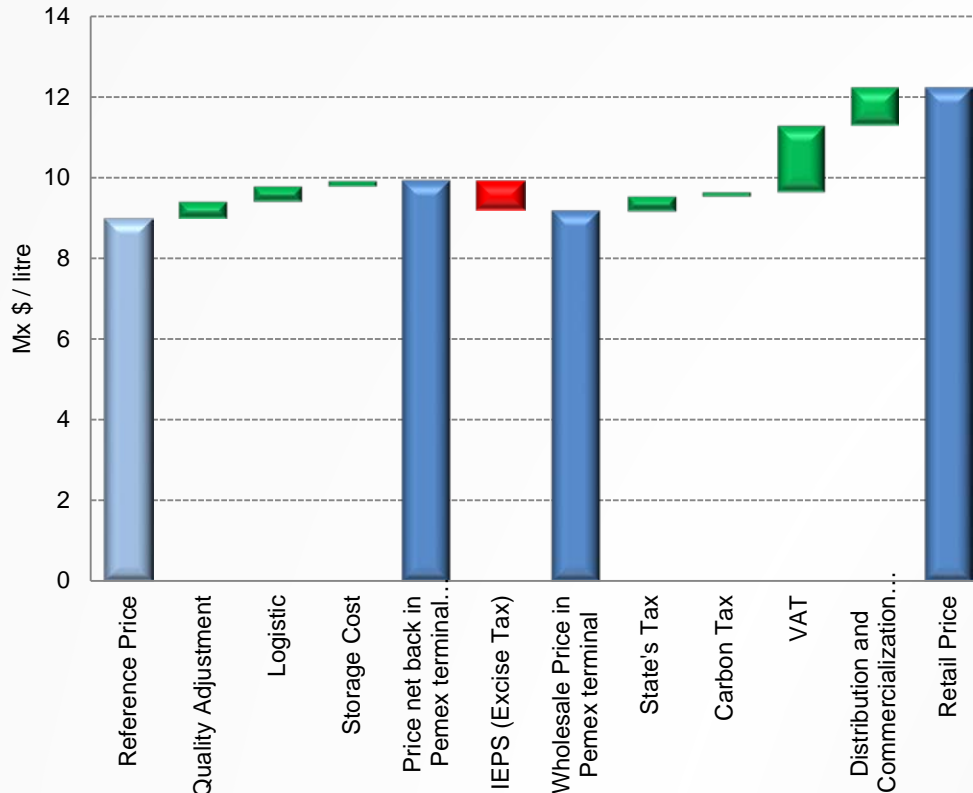
Mexico and USA regular gasoline retail prices



Source: SHCP-SSI, with EIA and Pemex data, September 2014.

A measure of subsidies is the negative excise tax (IEPS) imposed on fossil fuels.

Components of the retail price of gasoline and diesel



Source: SHCP-SSI (March 2014).

Gasoline and diesel are taxed with an excise tax (*Impuesto Especial sobre Producción y Servicios, IEPS*).

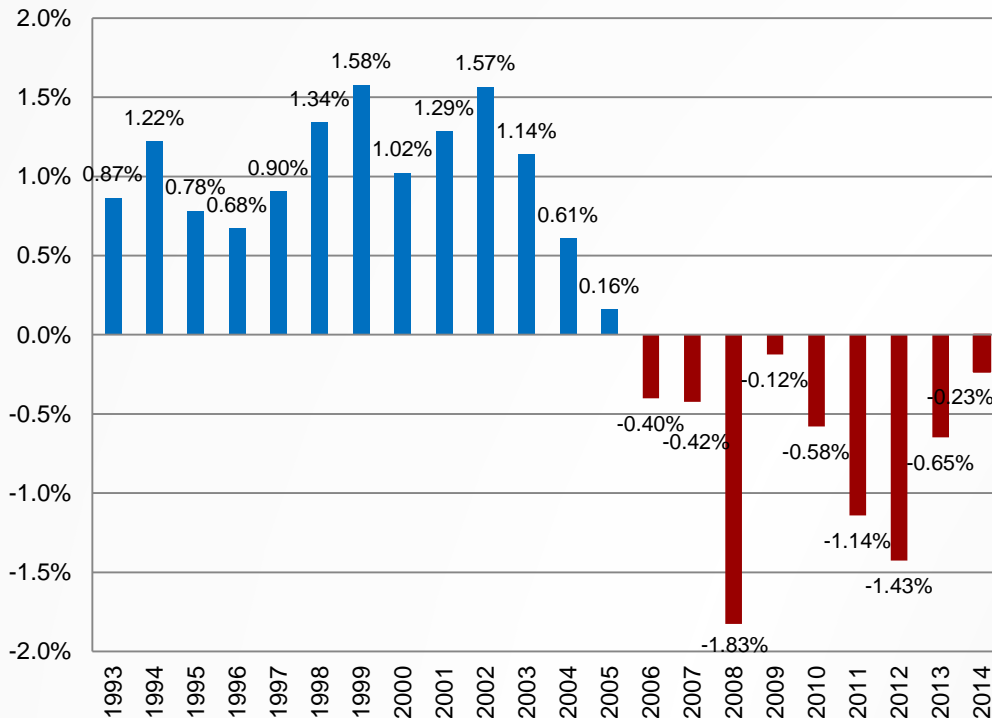
The tax rates are calculated every month as the ratio of (adjusted) retail prices over (adjusted) international prices (spot prices in Houston, TX).

If the international price is higher (lower) than the retail price, the excise tax would be negative (positive).

Two additional excise taxes are imposed on gasoline and diesel: a carbon tax (started on January 2014) and a IEPS for states.

A tax turned into a subsidy...

**Impact of Implicit Subsidies on Gasoline and Diesel
(% of GDP)**



Source: SHCP-SSI.

Up to 2005 the Mexican Government collected a positive tax.

From 2006 up to this year, the tax has been negative: consumers are subsidized.

In 2008 the subsidy reached 1.8% of Mexican GDP.

The subsidy will be reduced to 0.3% of GDP during this year, and it is expected that next year the tax collection will be positive.

Subsidies distort relative prices and decisions made by consumers.

Country	2010 Per-capita consumption
USA	1,662
Canada	1,255
Saudi Arabia	851
United Arab Emirates	587
Venezuela	542
Japan	457
Mexico	377
Germany	325
UK	324
Russia	315
Italy	231
Chile	194
France	165
Spain	165
Argentina	135
Brazil	115
China	69

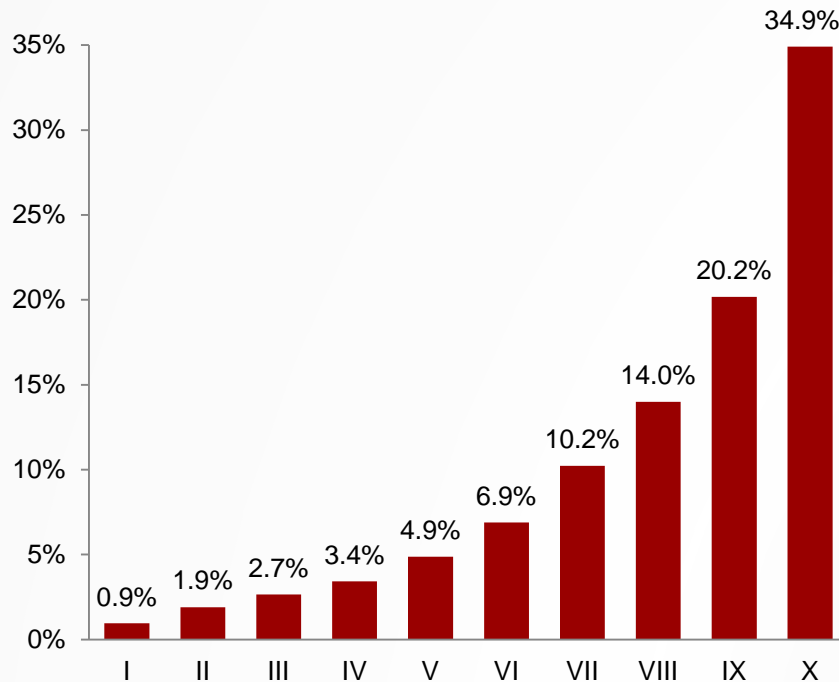
Per capita consumption of regular gasoline in Mexico is 227% higher than that of Brazil (another oil country) and 94% higher than Chile.

Mexican per capita consumption is 118% higher than that of Spain and France, countries with GDP per capita 3 y 4 times higher than Mexico's.

Fuente: UPINT, con datos del Banco Mundial y la EIA.

Subsidies associated to consumption levels are regressive.

Consumption of regular gasoline per income deciles

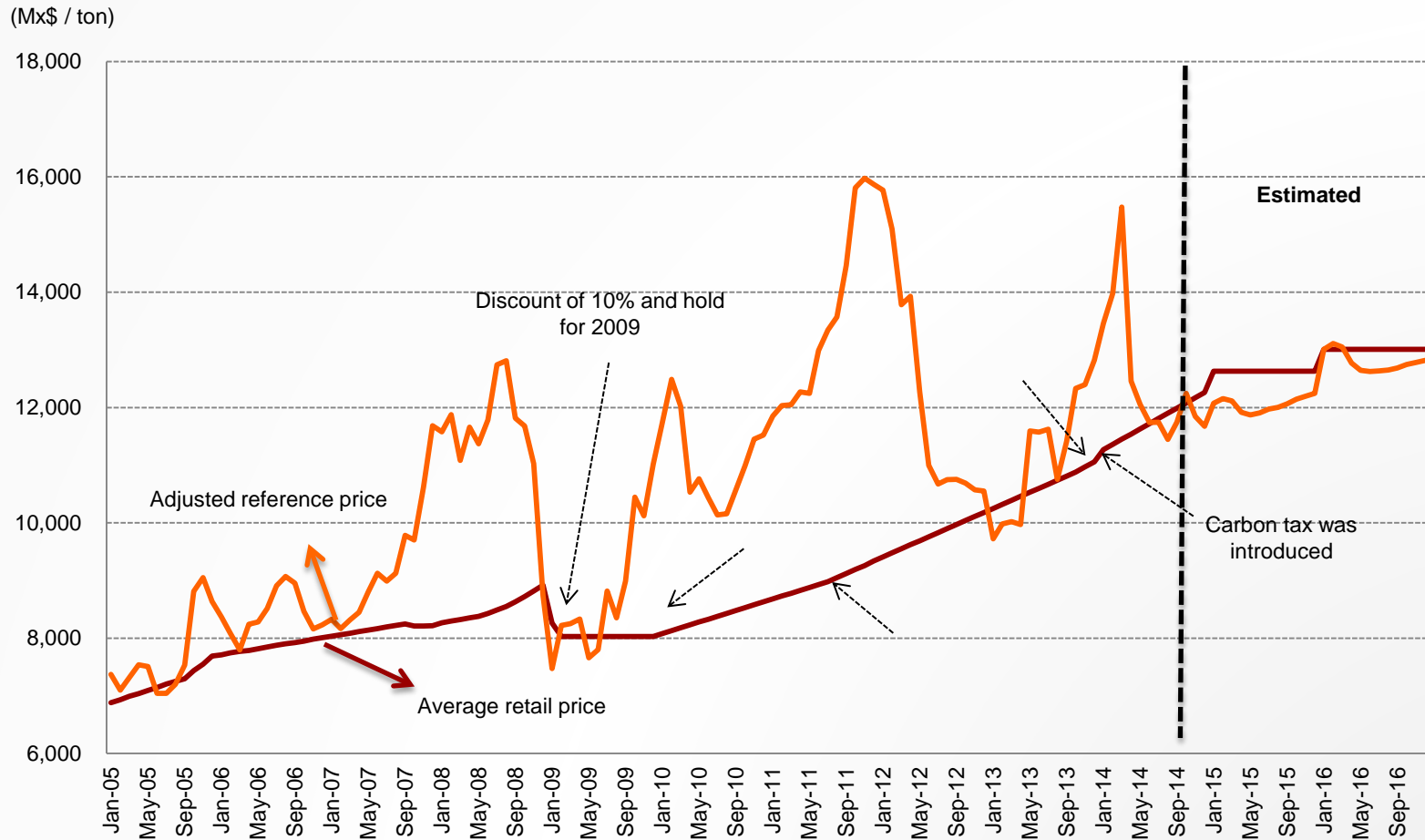


Source: SHCP-SSI, with data of INEGI, Household Income-Expenditure Survey, 2012.

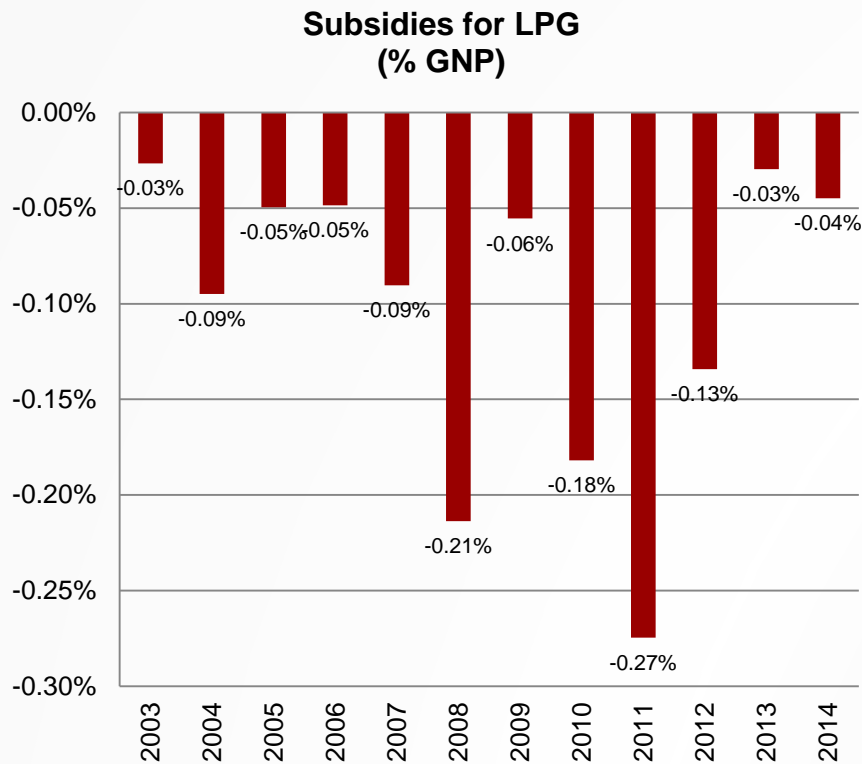
The richest 20% households concentrate more than 50% of the subsidies for gasoline.

On the other hand, the poorest 30% households concentrate only the 0.9% of this subsidy.

The same story is true for LPG prices.



For the last 14 years LPG has been subsidized.

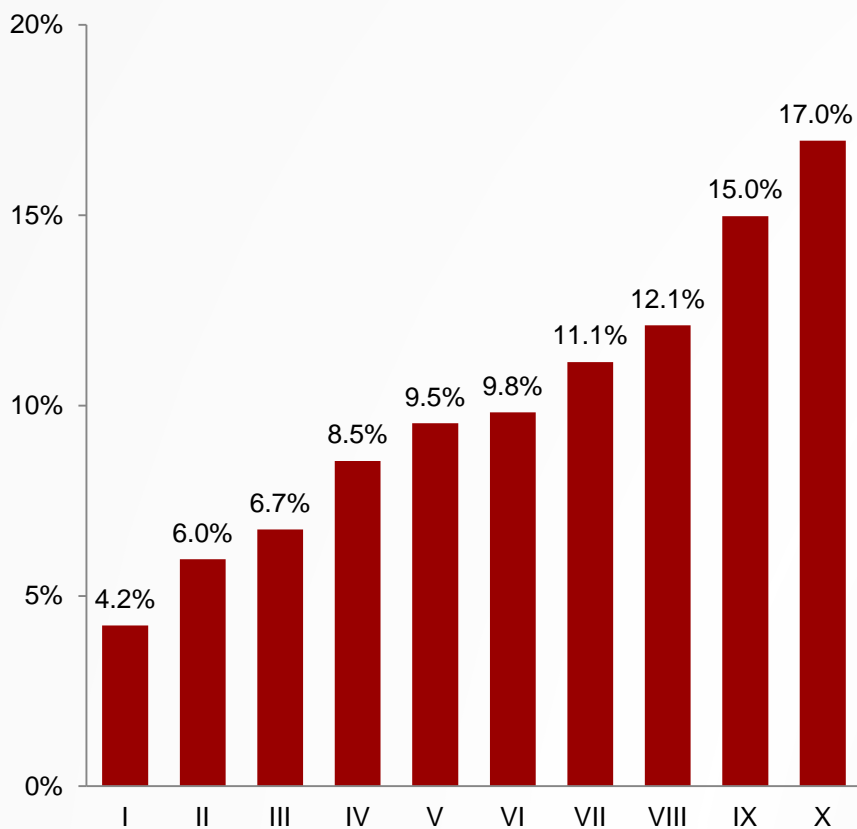


The subsidy is calculated as the difference between the (adjusted) retail prices and the (adjusted) international prices (spot prices in Houston, TX).

Due to an increasing the retail price (about 8% a year) and decreasing international prices, the subsidy has diminished to 0.04% of GDP in 2014.

Source: SHCP-SSI using Pemex data (october 2014).

PRICING POLICY AND IMPLICIT SUBSIDIES FOSSIL FUELS



The richest 20% households concentrate 32% of the subsidies of LPG.

On the other hand, the poorest 30% households receive only the 16.9% of this subsidy.

Source: SHCP-SSI, using data from INEGI Household Income-Expenditure Survey, 2012.

The reform will stop subsidies for fossil fuels.

In December 2013 the Constitution was amended.

- Profit sharing, Production Sharing contracts for exploration and extraction of oil and natural gas.
- Private (both foreign and domestic) investors can refine oil, process natural gas, transport and deliver oil and natural gas derivatives, that potentially attract new investment.

In August 2014 additional laws were enacted.

- The governance of PEMEX was reformed, with a Board that for the first time will comprise independent Directors responsible for establishing the company's strategic vision of the company supported by committees.
- A new upstream regulator will award and administer the contracts.
- Revenues from oil and gas production will be managed by a new autonomous entity, the Mexican Petroleum Fund for Stabilization and Development.
- **A transitory mechanism for gasoline and LPG pricing has been established.**
 - From 2015 through 2017, the Federal Government will determine maximum gasoline and diesel prices, consistent with expected inflation and international prices.
 - **Beginning in 2018, gasoline prices will be liberalized** and determined by market conditions.
 - From 2015 to 2016, maximum prices will be determined by the Federal Government consistent with expected inflation and international prices.
 - **From 2017 on, prices will be liberalized, and a subsidy for rural and urban poor must be in place.**