

Philippines

Macroeconomic and policy context

Key statistics	
GDP growth (annual) (2007-2017)	5.6%
GDP growth (annual, per capita) (2007-2017)	3.9%
CO ₂ emissions growth (annual) (2007-2017)	5.1%
CO ₂ emissions growth (annual, per capita) (2007-2017)	3.4%
Main combustible energy source; corresponding share of CO ₂ emissions (2017)	Coal, 39.0%
Non-combustible energy sources; share of primary energy use (2017)	17.5%
Total energy self-sufficiency (2017)	49%
Share of population with access to electricity (2018) SDG 7.1.1	95.0%
Share of population with access to clean cooking (2018) SDG 7.1.2	46.0%
Tax-to-GDP ratio (2017)	17.5%

Sources as specified in TEU-SD brochure.

Between 2007 and 2017, the Philippines' GDP grew by an average of 5.6% per year in total, and 3.9% per capita. Over the same period, energy-related CO₂ emissions increased by 5.1% per year in total, and 3.4% per capita. Coal and other solid fossil fuels accounted for 39.0% of CO₂ emissions from energy use in 2017, up from 22.1% in 2007. Non-combustible energy sources, mainly geothermal energy in the Philippines, accounted for 17.5% of primary energy use in 2017. The Philippines is a net energy importer and a net oil importer. Almost all of the population has access to electricity but 46.0% to clean cooking.

The government of the Philippines has committed to pursuing inclusive, sustainable economic development policies that address the Philippines' vulnerability to climate change in its First Intended Nationally Determined Contribution. In this NDC¹, the Philippines set a GHG emissions reduction target of 70% by 2030, relative to the BAU scenario. With a tax-to-GDP ratio of 17.5% that is lower than the OECD and LAC averages² of 33.9% and 22.8% respectively and not significantly higher than the Africa average of 17.2%, domestic resource mobilisation will be key

to ensuring the Philippines' sustained economic growth.

Taxes and subsidies on energy use, 2018

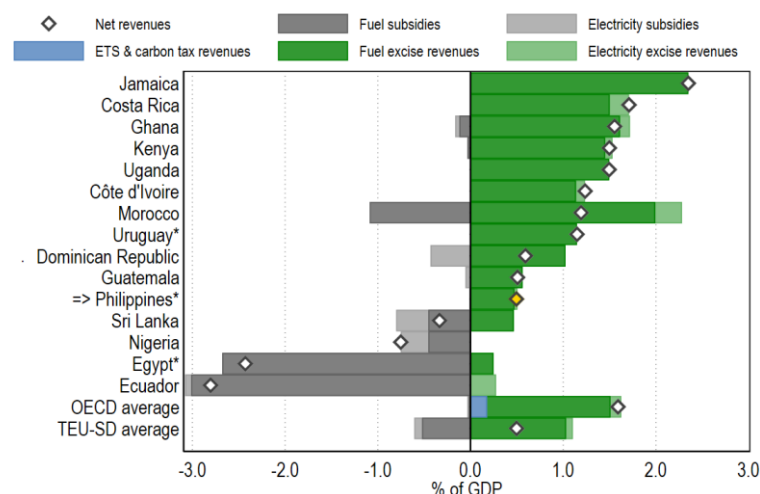
The Philippines does not have an explicit carbon tax, nor a CO₂ emissions trading system. However, it does collect energy taxes, including excise taxes on fuels and electricity consumption. TEU-SD classified two measures as subsidies on energy use:

- ◆ A programme designed to mitigate the effects of the increase in excise taxes for operators of public utility jeepneys (the most common form of public transport in the Philippines), through the provision of fuel cash cards.
- ◆ Direct budgetary support to the National Power Corporation from the national government.

Net energy tax revenues, 2018

Net energy tax revenues are a bottom-up estimate of the net revenues resulting from taxes and subsidies on energy use.

Net energy tax revenues in the Philippines represent 0.5% of GDP in 2018, contributing positively to domestic resource



* Since 2018, Egypt has phased out most subsidies on energy use and the Philippines have implemented a major tax reform. In Uruguay, certain fuels like diesel attract VAT but not an excise.

¹ The target as specified in Intended NDC as the First NDC was not available in the UNFCCC registry at the time of writing.

² Averages across countries refer to the simple, unweighted average.

mobilisation as taxes exceed subsidies. Compared to the other countries considered in TEU-SD and OECD countries:

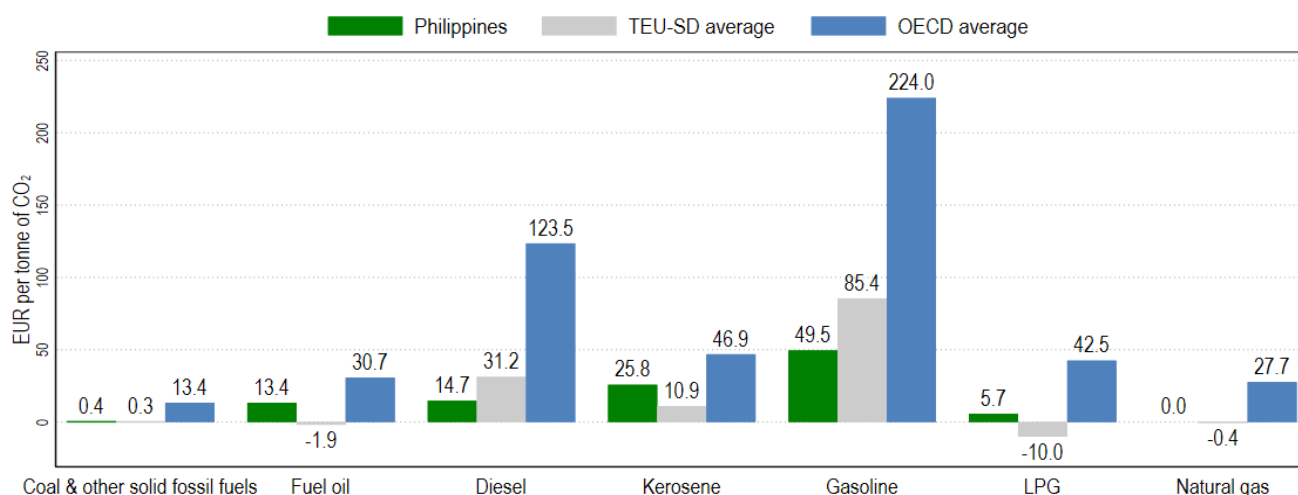
- ◆ Revenues from fuel and electricity excise taxes are low relative to GDP.
- ◆ Fuel and electricity subsidies make up a very small fraction of GDP (barely visible in the figure).

Recent developments: Following the TRAIN Act of 2017, the statutory rates of excise taxes on fuels have increased annually, some at a rapid rate. For instance, the excise tax rates on diesel and fuel increased by 140% between 2018 and 2020. As a result, excise revenue is likely to have increased since 2018.

Average effective carbon rates by fuel, 2018

The Effective Carbon Rate (ECR) is the total price that applies to CO₂ emissions from energy use as a result of taxes and emissions trading, net of fuel subsidies. A higher ECR encourages consumers and producers to use cleaner energy sources or reduce energy use, avoiding CO₂ emissions and local pollution, while taxes and permit auctioning raise public revenue.

- ◆ Coal and natural gas, which are the main fuels used for power generation in the Philippines, face the lowest ECRs. Electricity accounts for 38.8% of the Philippines' emissions from energy use.
- ◆ Diesel and gasoline, the dominant fuels in road transport, face the highest ECRs. The road sector accounts for 18.7% of the Philippines' emissions from energy use.



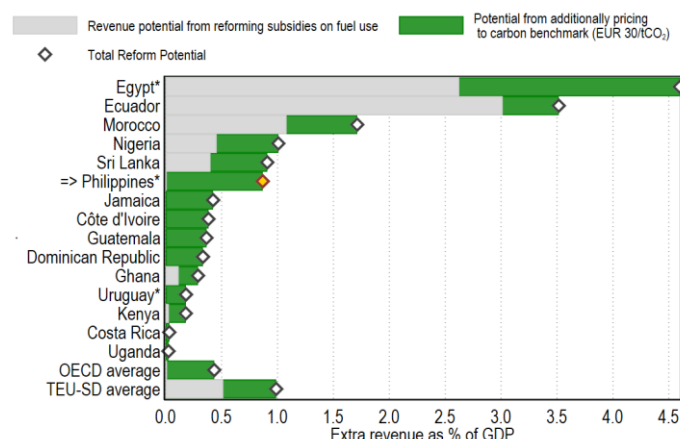
The Philippines has low effective carbon rates relative to the OECD average. Compared to other TEU-SD countries:

- ◆ The ECR is relatively high for LPG consumption, as the rate for other TEU-SD countries is negative on average (implying that carbon use is de facto subsidised).
- ◆ For diesel and gasoline, the ECR is lower than the TEU-SD average.

Revenue potential from carbon price reform

By how much would tax revenues increase if ECRs were raised to reach EUR 30/tCO₂ for all fossil fuels? The benchmark of EUR 30 is a low-end estimate of the climate damage caused by each tonne of CO₂ emitted. An equitable reform package is critical to ensuring that vulnerable groups, which also tend to be those that are disproportionately affected by climate change, will be able to access clean energy.

Tax revenues could increase by almost 0.9% of GDP if ECRs were raised to reach the benchmark rate of EUR 30/tCO₂ for all fossil fuels, an increase similar to the TEU-SD average. Planned increases in excise taxes in the subsequent phases of the TRAIN act should bring ECRs closer to the benchmark rate, further increasing government revenue and contributing to domestic resource mobilisation. As fuel subsidies are presently low in the Philippines, the potential for revenue from reforming such subsidies is limited, which is similar to the majority of TEU-SD countries.



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