

Session V | Impact on Energy-Intensive Sectors: Firms and Employment

Moderator's talking points

Good morning Ladies and Gentlemen.

This session will now delve into another crucial dimension that policy makers have to grapple with when designing and implementing Energy Subsidy Reforms – the impacts of these reforms on firms that are energy intensive users of fossil fuels today and related employment effects. The transport sector is one such sector that will see its costs rise from fuel price increases, with direct repercussions for the population both in terms of their personal mobility, but also through the price level through freight transport, and employment. How countries accompany this sector will have direct repercussions on the social acceptability of the reforms. In many countries, energy price reforms also affect the manufacturing industries significantly. It may require dedicated policies by government to accompany these firms in investing in energy efficiency improvements and facilitate the transition to cleaner fuels and renewable energy. Finally, industries where the reduction in support through energy subsidies causes major losses in competitiveness and leads to firm closures, comprehensive government support may be needed in the form of retraining and social services, to reduce the costs borne by worker communities. All such measures will imply future fiscal costs for the Government that need to be planned for.

We will look at three experiences that yield valuable lessons in this regard:

- I. The manufacturing sector;
- II. The case of the State of Alberta in Canada in its transition out of coal using a well-designed and articulated energy transition strategy.
- III. Country experiences from the Transport Sector

It is worth pointing out that industry impacts are not always negative. In fact, empirical evidence from Indonesia and Mexico shows that higher fuel prices that follow from the removal of energy subsidies may actually improve firm performance. This finding is due to firms adopting more productive and energy efficient capital rather than increasing output prices to pass through the fuel price hike to its consumers. It appears that a rise in fuel prices in countries where prices are very low incentivizes firms to become more efficient and invest in innovation that improves firm productivity. This finding nuances the perceived negative impact of higher fuel prices (or environmental taxes) on productivity and international competitiveness of domestic firms as a deterrent to fossil fuel and environmental tax reforms.

How do governments use transfers to support transport sector operators in times of fuel price hikes? Have SMEs been able to cope well with the increased fuel price volatility and fuel price increases? An example from the State of Alberta in Canada's comprehensive energy transition strategy in its transition out of coal teaches us accompanying industries that will not survive a reform of energy subsidies? These are the questions that the panelists discussed to provide lessons for others wishing to embark on or fine-tune their own energy subsidy reforms.