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Fossil fuel reform in developing states: The case of Trinidad and Tobago, a petroleum producing small Island developing State

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ABSTRACT

Trinidad and Tobago is an oil exporting small island developing state (SIDS) with a 0.12% contribution to global emissions and with important socio-economic challenges. It has producer, electricity and transport fuel subsidies. It is at an interesting juncture in subsidy reform: the government faces the embeddedness of distributive justice norms that are contested by fiscal prudence and environmental stewardship norms. The value of the paper is twofold. First it develops a ***subsidy intractability framework*** to explain reform global narratives that highlights: **the power of agents, the nature of contested economic, justice and environmental norms and the availability of mechanisms for reform**. Second, this framework is used to explain reform narratives and trajectories in Trinidad and Tobago using data from public documents and from a unique elite survey of former and present heads of state, politicians, policy makers and stakeholders. Even in conditions of falling oil prices and national revenue and pressures to reduce emissions, where redistributive justice arguments are heavily embedded in public discourses, those aspects of the subsidy that have developmental or distributive justice goals are more intractable. The results of the study have implications for carbon emission reduction strategies in developing states with fossil fuel reserves.

1. Introduction

Subsidies are an important part of the global economy, they are a significant part of global spending, especially (twice as high) in oil exporting states. The negative effects of fuel subsidies on the environment and on development have led emission reduction lobbies and international financial institutions to pressure states to reduce them and are partly responsible for the recent wave of subsidy reform in developing states. Trinidad and Tobago has producer subsidies to encourage foreign investment in oil and gas as well as consumer subsidies for electricity and transport fuels. The paper tried to understand what accounts for the subsidy reform trajectory taken by Trinidad and Tobago. To do so, using debates in the literature, it creates a subsidy intractability framework that includes the three main drivers/obstacles to subsidy reform: agents, norms and available administrative mechanisms for reform. It applies the framework to the Trinidad and Tobago case to understand for example why producer and some consumer subsidies (electricity and some transport fuels) continue while reform is almost complete for other transport fuels. Trinidad and Tobago was chosen because rarely do fuel subsidy reform debates focus on SIDS to examine the conflicting environmental stewardship and energy justice normative debates of energy producing SIDS. Trinidad and Tobago provides an interesting case study, with three scenarios that rarely coincide: first, as all SIDS it is very vulnerable to the climate consequences of burning fossil fuels: including rising sea levels and extreme climatic events. Second, it is a fossil fuel producer that subsidies the industry and its products: it has an indigenous petroleum industry- one of the first in the world and is under pressure to develop a green growth and renewable energy development path away from fossil fuels. Third, it has challenging socio-economic realities that it shares in common with other SIDS and fossil fuels in redistributive justice narratives are seen as part of the solution for economic and social development. The study used official and publicly available documents from government, the local chambers of commerce, the local media together with an elite survey that elicited the views of former and serving politicians, the private sector (including persons from labour unions and the chambers of energy and commerce) and senior public servants in the ministries relating to energy and to the economy. The spread of respondents was the most comprehensive for Trinidad and Tobago or for any other SIDS' country case study on fuel subsidy policy to date. The responses gave a very good indication of how experts understood the nature of the debates, pressures and mechanisms to keep and remove the subsidy.

Changing global macro-economic conditions and lower oil and gas

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revenues forced the government to reduce social spending including part of the transport subsidy (fiscal prudence norm) but the trajectory and adjustment was shaped by redistributive justice considerations. The study found that where the goal of the subsidy was help redistribute the wealth from the indigenous petroleum resources (redistributive justice norm) to promote commercial and industrial development or to lower the cost of public transportation to lower income groups, the subsidy continued to be intractable even with the economic downturn. Environmental and economic prudence norms did not easily trump redistributive justice ones but were only invoked as a justification to remove subsidies that would benefit the wealthy (transport fuels for private vehicles used by middle and upper income groups). Lack of data on the real cost of the subsidy (the in-transparent nature of the subsidy) helped entrench perceptions of the subsidy's redistributive value and contributed to its intractability as did the absence of new and alternative pro-poor subsidy substitutes. In this case the government already had comprehensive and generous social programs giving less room to show how gains from subsidy removal could be diverted to help the poor.

2. The subsidy intractability framework

2.1. *The subsidy intractability framework*

The literature and studies on fossil fuel subsidy continuance or removal oscillate between the norms of redistributive justice, fiscal prudence and environmental stewardship. Liberal and developmental economists, environmentalists and politicians hold different positions in the subsidy debate. Some developmental economists argue that fuel subsidies protect the poor from international fuel price fluctuations and transfer profits from national resources to the needy. Liberal economists and the multilateral financial institutions argue that subsides are an inefficient way to attend to the needs of the poor (del Granado and Coady, 2012; Vagliasindi, 2012; Yates, 2014). Governments often use subsidies to secure temporary political survival even when they threaten medium term government revenue. It is not clear that the removal of subsidies will lead to greater investment in clean energy as subsidy removal may cause energy demand and prices to fall which may also diminish the incentive to explore low carbon alternatives (Schwanitz et al., 2014) however green lobbies oppose fuel subsidies because they encourage overconsumption of energy, create pressure for environmental degradation (greater demand for transportation networks and travel); increase carbon emissions and reduce incentives for the development of clean and fuel efficient technologies. The paper divided, and the figure below illustrates, the "***subsidy intractability framework***". It includes the three main elements highlighted in the literature that shape subsidy reform: the relative power of actors or agents holding different agendas in the reform debate; the contesting and conflicting norms in the debates and the capacity of the state to employ mechanisms to manage the fuel subsidy reform process. Figs. 1–8.

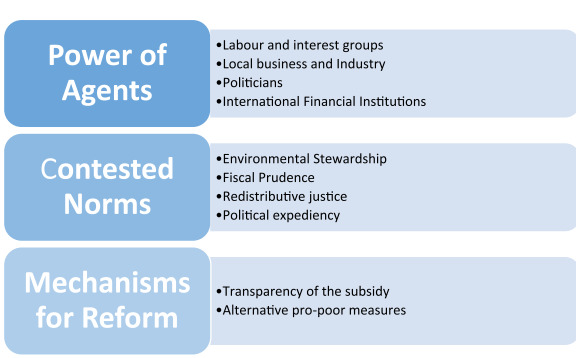

Fig. 1. Subsidy Intractability Framework.

2.2. *The Power of agents*

Pro and anti-subsidy lobbies comprising industry, politicians, labour and elite interest groups, development partners and International Financial Institutions (Lockwood, 2015) are generally reported to be the main agents involved in keeping or removing subsidies. Powerful interest groups in the recent past responded to subsidy reform by threatening or causing social turmoil. In 2012 for example, an attempt to almost double fuel prices in Nigeria (from about USD $0.41 per litre to about $0.89) led to nationwide strikes and a partial reversal of the subsidy to about $0.61. Subsidy reforms in Indonesia in 2013 and Yemen in 2014 led to similar social upheavals (Lockwood, 2015). Industries in sensitive sectors of a national economy have been important actors in subsidy reform policy. In the past, the agricultural sector (as was the case in India) (Victor, 2009) and energy intensive industries (cement, steel in the US for example) have been particularly sensitive to fuel price fluctuations and had significant leverage since subsidy removal would increase production costs, threaten labour markets and reduce export competitiveness (Moor, 2001; Van Beers and De Moor, 2001). Subsidies are sometimes used by politicians to maintain political and social stability and political patronage- as for example in the case of the former Soviet Union that used consumer subsidies in the new republics and Eastern Europe for this purpose. Politicians have substantial control over subsidy trajectories in countries with weak parliamentary democracies but are constrained when a robust and technically sound public service is able to steer subsidy reform. External agencies are the main sources of the pressure for reform in developing states. The main international actors that actively support the reform agenda are the EU, the UNFCCC and multilateral financial institutions (Whitley, 2013; Rashchupkina, 2015). The multilateral financial and development institutions encourage reform on the grounds that subsidies are inefficient and unsustainable and have used conditionalities (as in Indonesia for example) to leverage energy and subsidy reform (although more recently this type of conditionality is less used).

2.3. *Normative debate in subsidy reform*

Lower energy prices indirectly contribute to lower food, transport and domestic production costs (Soile et al., 2014) and subsides in these areas are important especially for in energy producing developing countries and were aggressively employed by the Organization of the Petroleum Exporting Countries (OPEC) member states (Hochman and Zilberman, 2015). Although fuel subsidies are inefficient, in some cases, the distributional impacts of subsidy removal (Mathur and Morris, 2014), and the indirect effects on poorer populations (Siddig et al., 2014; Jiang et al., 2015) are larger than the direct effects (Jiang et al., 2015)- some sellers for example increased profits by price mark ups on the pretext increased production costs after the removal of the subsidy (Dartanto, 2013). Indirect fuel subsidies to industry are also based on redistributive justice arguments- they channel national wealth to productive sectors that can further national economic development. They include tax credits, exemptions, allowances, tax exclusions and deductions, deferrals, preferential tax treatment, the supply of government infrastructure and support for research and development, subsidised inputs, budget transfers, preferential loans etc. The US government for example employed indirect subsidies in the 1990s to increase indigenous petroleum production in the Gulf of Mexico and in the 19th century to give attractive extractive rights to the coal industry.

The justice argument is contested however by fiscal and economic prudence norms. Policies to reduce subsidies and find indigenous renewable energy solutions are more palatable for net energy importing developing states since high global energy prices put pressure on the current accounts and policies to substitute locally based renewables respond to both environmental and economic imperatives (Vagliasindi,