CHAPTER 3

Reforming energy subsidies in the Middle East and North Africa: Easy pickings for climate policy or a political bombshell?

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INTRODUCTION

Economists have proposed carbon pricing to reduce the accumulation of greenhouse gas (GHG) emissions that can remain in the atmosphere for centuries and destabilise the global climate (Rezai and van der Ploeg 2014, van den Bremer and van der Ploeg 2021). One approach to putting a price on carbon is to tax GHG emissions based on the carbon content of the fossil fuels that produce them.

The policy debate has shifted from the need for carbon pricing to how to address its distributional implications, such as equity considerations and political feasibility (Klenert et al. 2018). The introduction of a gas tax in France is a case in point. The tax was a major cause of nationwide protests that lasted from late 2018 to the spring of 2021. The 'yellow vest' protests, which resulted in removal of the tax, are a stark reminder of the importance of distributional considerations and the need to garner popular support for bold climate policy action.

In the Middle East and North Africa (MENA) region, energy consumption is heavily subsidised, which has harmful environmental consequences. When energy is subsidised, the prices of energy products are well below those that would prevail under carbon pricing designed to account for environmental externalities. Unsurprisingly, then, many economists and policymakers see reform of energy subsidies, specifically fuel subsidies, as a 'low-hanging fruit' – both as a means to protect the environment as well as a way to create significant fiscal space (Coady et al. 2019).

1 The views expressed in this chapter are those of the authors and do not necessarily represent the views of the African Development Bank and the World Bank.