



Food and Energy Crisis: Opportunities and Challenges

“Management of Taxes, Subsidies and Price Signals”

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Presentation Outline

- **Introduction**
- **Oil Price Dilemma and Challenges**
- **Energy and the Economy**
 - Market Structure
- **Existing Tax Regime**
 - Petroleum
 - Special Consumption Tax (SCT)
 - CET
 - Electricity
 - Rate Structure
- **Impact and Implication**
- **Government's Response**
- **Concluding Remarks**

Introduction

- Jamaica is an oil importing developing country
- Imported petroleum satisfies more than **90%** of country's energy needs
- Highly susceptible to global market conditions

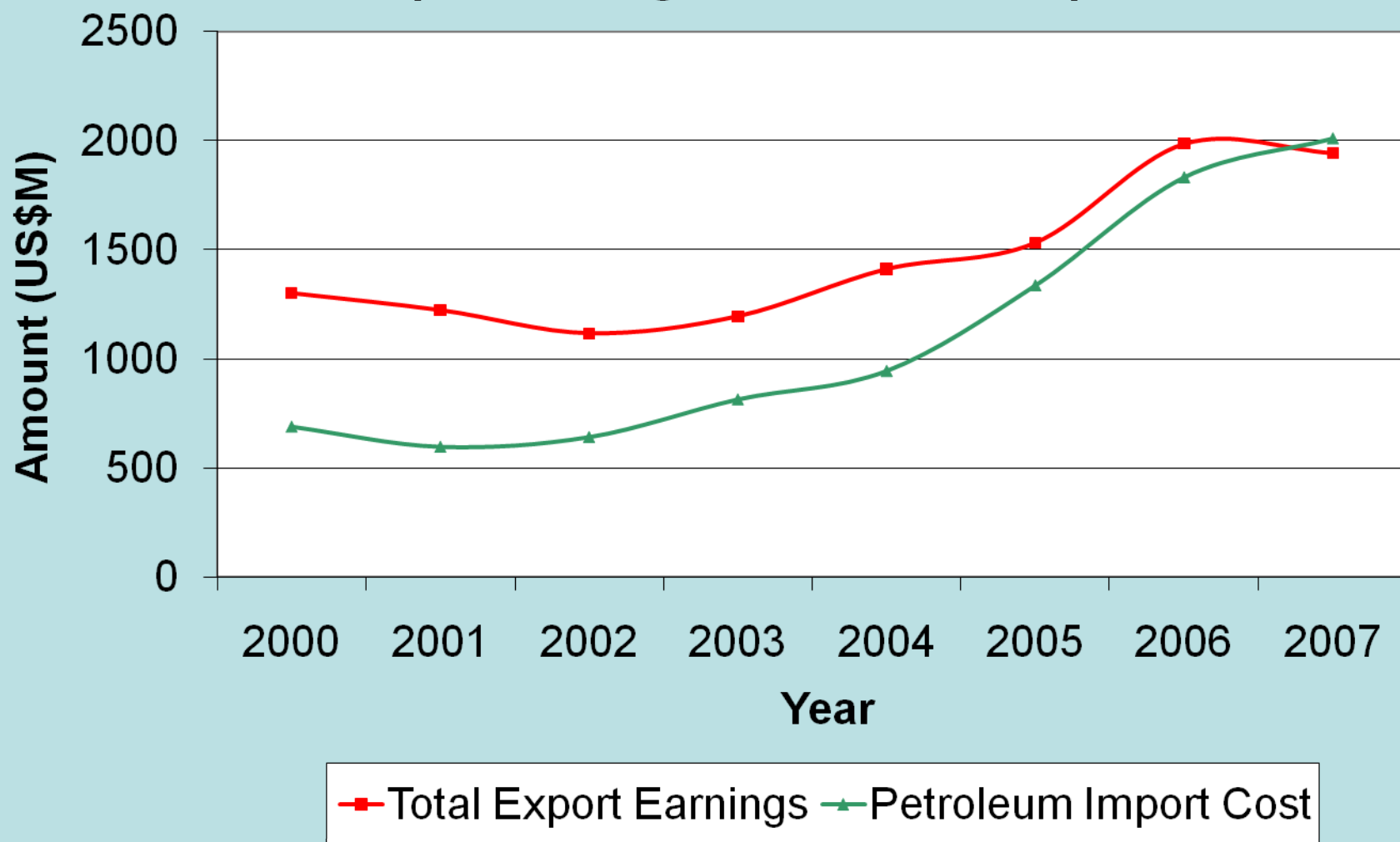
Oil Price Dilemma and Challenges

- **Influences of global economy**
 - Emerging markets (China, India)
 - Reserves
 - Rate of new discoveries
 - Volatility of oil prices
 - **Market speculation**
 - **Geopolitical developments**
 - **Changes in production strategies**
 - **Uncertainty in supplies**
- **Crude and product prices**
 - Currently exceeds US\$115/bls

Structure of the Economy

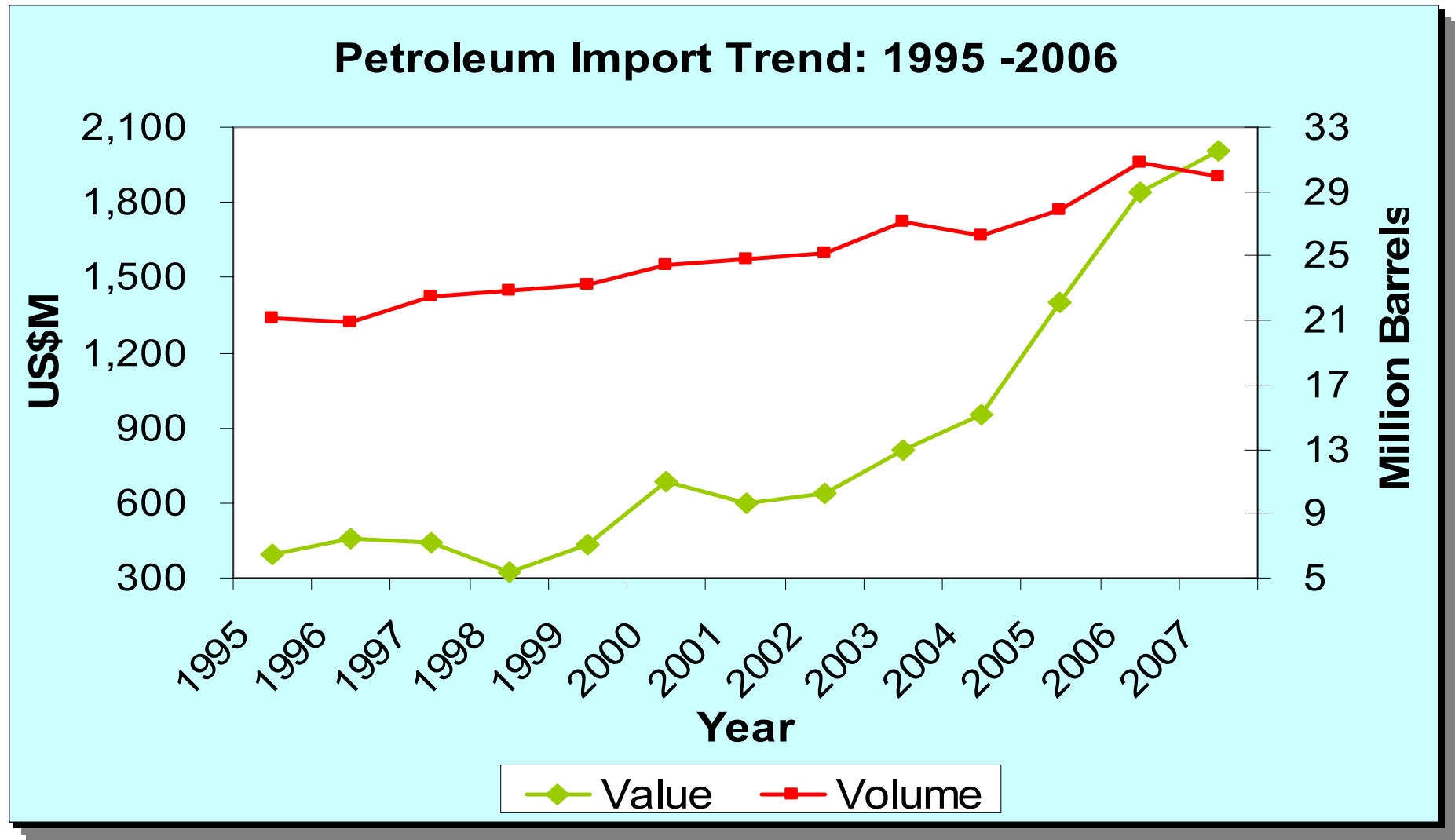
- **Services**
 - Tourism
 - Electricity and water
 - ICT
 - Transportation
 - Financial Services
- **Goods**
 - Manufacturing
 - Mining (bauxite) and quarrying
 - Agriculture

Export Earnings vs. Petroleum Import Cost

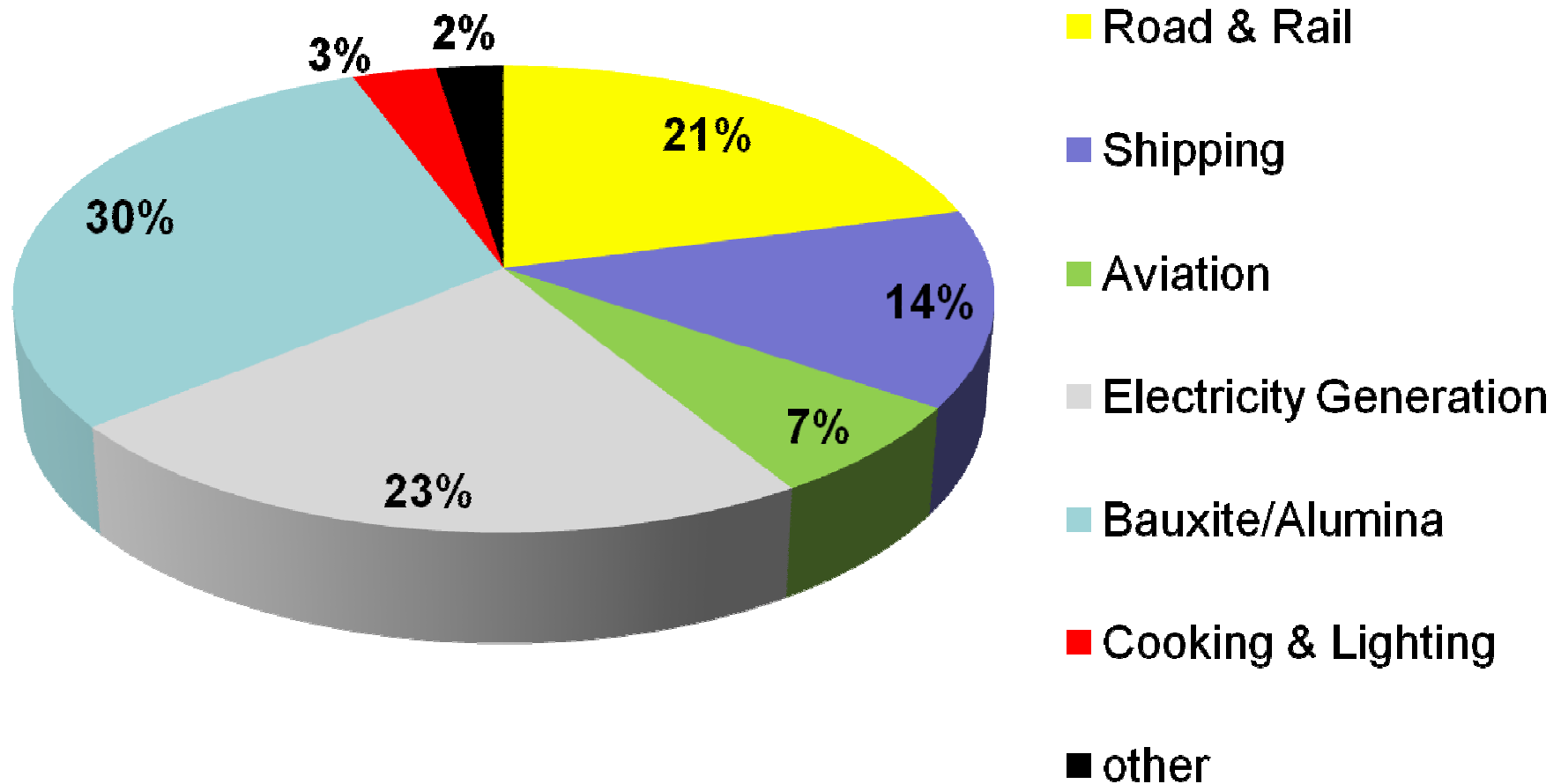


* 2007 Export earnings data is preliminary

Volume and Cost of Petroleum Imports

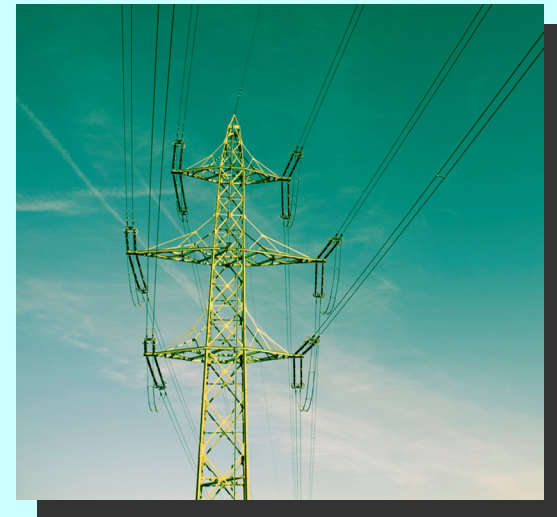


Local Petroleum Consumption



Structure of Energy Market

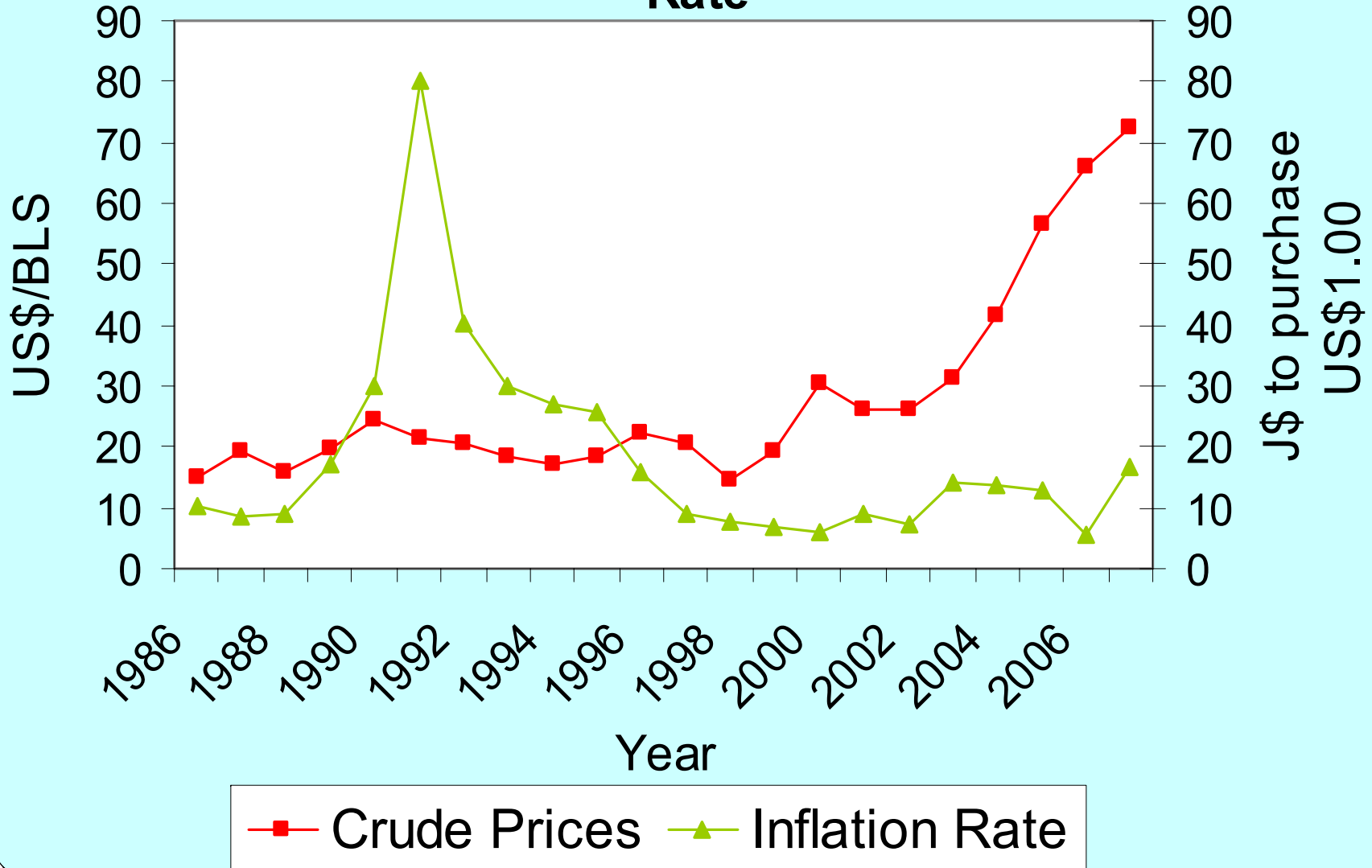
- **Petroleum Sector**
 - Liberalized market
 - One refinery: State owned
- **Electricity Sector**
 - Liberalized generation
 - Monopoly type structure for transmission and distribution



Macroeconomic Impact

- **Value of the local currency**
- **Balance of Trade**
- **Inflation**
- **Price sensitivity analysis**
- **Imported inputs for agricultural production**

Movement in Annual Crude Prices and Inflation Rate



Existing Tax Regime

- Common External Tariff
- Special Consumption Tax (SCT) on petroleum

Product	2007 Tax Rate (US ¢/litre)	2006 Retail Prices (US cents/litre) Amount Paid in Taxes	2007 Retail Prices (US cents/litre) Amount Paid in Taxes
LPG	0.06	49.69.....0.11%	54.61.....0.10%
Kerosene	8.72	70.45.....12.37%	75.37...11.56%
Regular Gasoline	10.65	79.58.....13.38%	84.82...12.56%
Premium Gasoline	11.19	84.23.....13.29%	89.50...12.51%
ADO	9.65	74.42.....12.97%	80.31...12.02%
Heavy Fuel Oil	0.22	36.45.....0.60%	42.89.....0.51%

Impact and Implication

- **Past experiences**

- World Bank programme

- Devaluation of dollar in 1986
- Subsidies on 11 food items
- Programme rationalized and phased out in 1990

- Government sponsored: Q1 2008

- US\$6.5M applied on basic food items
- US\$1M for fertilizers

Government's Response

- **Breaking dependency on imported oil**
 - Energy Policy
 - o Petroleum tax regime to enhance efficiency and conservation
 - o Sustainable source of funds to support road maintenance
 - Energy Conservation and Efficiency (ECE) Policy
- **Diversification of energy mix**
 - Renewable energy potential
 - Expansion of the wind farm
 - Ethanol for transport sector
- **Fiscal Incentives**
 - Tax exempted efficiency items
 - Opportunities for renewable energy development



Concluding Remarks

- **Targeted subsidy – short-term measure**
 - Unsustainable over the longer term
- **Tax regime to support fiscal objectives**
 - Improve energy efficiency
 - Equilibrium in balance of trade
 - Reduce spending on imported petroleum
- **Price signals – strategy for behavioural change**
 - Invest in alternative sources
- **Joint venture opportunities**

Thank You... The End



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