



## Downstream

### Fuel Price Policy

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Much is said, with very few correct arguments and much populism, about the pricing of fuels. The main problem is the absence of information and therefore the ease with which the main victims are deceived about the alleged benefits of cheaper fuel.

I will try to add my thoughts on each of the issues involved in these topics and my arguments on why it is important for society to have reasonably high fuel prices.

It seems that when we talk about these price issues we forget that fossil fuels are made from non-renewable raw materials, whose main characteristic is that they are finite. That is, one day they will run out and for that reason they should be used with caution and responsibility, which human beings only do when motivated to do so. That motivation comes from price signals and regulation, whose main purpose should be precisely to ensure that shortages are signaled properly.

As if that were not enough, the use of fossil fuels is related to higher greenhouse gas emissions. But also their use requires huge public investments in transport infrastructure and public healthcare.

In Colombia there are only about 4 million vehicles which belong to just over 1 million people, indicating that for a country of about 47 million, it is obviously a minority who either enjoys a policy of low prices or would have to pay a rational price.

Of course, fuel is part of the value chain and for that reason, prices, and more importantly, changes in prices, are reflected in changes in price indices. The key thing is to be clear about how much it affects inflation and, again, who hurts the most.

Serious and independent studies estimate that the weight of fuel in the family consumption basket is no greater than 2%. Now if we do the same analysis on different social strata we see fuel weight varies considerably, being higher in the top economic percentile of the population for the simple reason that this group directly consumes fuel in their cars and not indirectly by using it in a public transportation system.

The negative infrastructure and environmental impacts of fossil fuels fully justify high taxes but also, taxes on fuels are the most progressive and efficient that exist. The reasons for this are quite simple: they end up being paid by those with a higher economic status and the state collects them with absolutely minimal cost.

Their proponents justify price reductions, because among other things, they would improve the competitiveness of domestic industry but this reason that not only has failed to have been proven but is clearly contraindicated by experiences in other countries.

One merely needs to view the industrial output of nations such as Venezuela and Iran which "enjoy" the lowest fuel prices in the world. Export products of these two nations simply

do not exist because they have no productive industry despite having the lowest fuel and other energy prices. Moreover, countries like Germany, Japan or Korea that flood the world with their manufactured goods pay some of the highest prices in the world.

Holding fuel prices constantly low when the raw material price is volatile requires allocating a sum of public resources dramatically high for any country. In Colombia in the year in which crude oil prices exceeded US\$140 per barrel, the total subsidy to keep end-user prices flat was more than CoP\$5B (US\$2.75B), a figure which at the time was equivalent to the sum of all social investments different from transfers done by the state at that time.

Sadly the poor have been used to justify yet another subsidy for the rich and they have been convinced that subsidies are a social payment, when in fact these are condemning them to continue to have poor health care, poor education, a slow justice system, a still poor public transport system, overuse of public space for vehicles, poor care for the elderly and children; in short a whole lot of social tragedies that could be better served by higher prices for fuels that generate income to the state in terms of tax revenue and dividends, instead of using public funds to hold down fuel prices, which only benefit a fraction of the population.