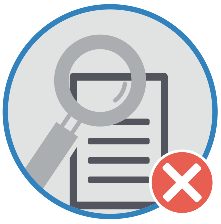
Mexico

G20 coal subsidies



Mexico **lacks transparency** on financial flows between the coal-mining sector and the public budget

Coal and Mexico's economy

US$18,029	5,637	1	11%
GDP per capita, PPP (2016–2017 average)	2016 imports (kilotonne oil equivalent)	2016 exports (kilotonne oil equivalent)	Share in power mix (by generation)

Key findings

- Mexico's quantified subsidies for coal consumption are limited to carbon tax exemptions and reductions, valued at MEX$66 million (US$3.4 million) a year.
- Transparency is lacking on financial flows between the coal-mining sector and the public purse. Also, carbon capture and storage (CCS) technologies in Mexico are classified as 'clean energy' and can benefit from clean energy certificates, despite their use in coal-fired power.
- Official power sector plans announced a net reduction of 800 megawatts (MW) of coal power capacity by 2029.[1]

Prominence of fossil fuels and subsidy phase-out commitments

- Mexico's previous administration implemented an 'Energy Reform' of the hydrocarbon and electricity sectors, including a progressive programme of reform to gasoline, diesel[2] and liquefied petroleum gas consumption subsidies.
- Mexico obtains 81% of its electricity from fossil fuels (IEA, 2019).
- As a member of the G20, Mexico has committed to the phase-out of inefficient fossil fuel subsidies over the medium term, as agreed in 2009 (G20, 2009). As a signatory of the Convention on Biological Diversity (Aichi Target 3), it has also committed to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020 (UN, 1992).
- Mexico is in the Powering Past Coal Alliance and the Extractive Industries Transparency Initiative (EITI).

1 This case study is based on the National Development Program for the National Electric System (PRODESEN in Spanish) 2018–2032, as this report was already in production by the time of publication of the new PRODESEN 2019–2033.

2 However, the current administration has reversed the increase of gasoline and diesel prices through a tax on production and services (Impuesto Especial sobre Producción y Servicios – IEPS).

Government support to coal and coal-fired power production

- The Ministry of Energy's annual plan for the electricity sector includes initiatives to reduce coal power capacity by 800 MW by 2029. Initiatives include: (1) upgrading an existing coal power plant; (2) a new coal-based fluidised bed combustion power plant by 2024; and (3) the decommissioning of four coal power plants (accounting for 25% of current coal capacity) by 2029 (Secretaría de Energía, n.d.).
- Mexico has no state-owned mining companies. Coal mining is carried out by private companies and the fiscal regime is opaque – Article 69 of the Fiscal Code and a confidentiality clause in Article 7 of the Mining Act protect information on production, benefits and economic flows from private companies (Government of Mexico, 2014a, 2018; Natural Resource Governance Institute, 2017).
- In 2014, Mexico introduced clean energy certificates to incentivise renewables. Thermal power plants with CCS were classified as 'clean energy' (Government of Mexico, 2014b). To date, no CCS power plant has been built (Secretaría de Energía, n.d.).

Government support to coal and coal-fired power consumption

- In 2014, Mexico introduced a carbon tax on the production or import of fossil fuels[3] according to their carbon emissions. Fuel production (including coal) without combustion is exempt. Emission data indicate that the tax on coal and its derivates is lower than it should be.
- Mexican Fiscal Code Article 58 stipulates a discounted income tax rate of 6% on gross income from the sale of energy minerals (Government of Mexico, 2018). Standard income tax is 30% of net income. The total subsidy is unclear due to lack of transparency.

Government support to the transition away from coal and coal-fired power

- No policies or mechanisms to transition away from coal were identified during this research.

Mexico's government support to coal and coal-fired power production and consumption
MEX$ millions, 2016–2017 annual average

Instrument	Coal production[i]	Coal-fired power	Coal consumption[ii]	Transition support[iii]
Fiscal support (budgetary transfers and tax exemptions)	none identified	19,285[iv]	66	none identified
Public finance	none identified	none identified	none identified	none identified
State-owned enterprise investment	none identified	none identified	none identified	none identified

Note: for more detail and sources see the Mexico data sheet available at odi.org/g20-coal-subsidies/mexico.

[i] This category includes support for coal exploration, mining, processing and transportation.

[ii] This category includes support for consumption of coal-fired power, and of coal other than for its use for coal-fired power generation (or for co-generation of power and heat).

[iii] This category includes support for closing down mining sites, and for workers and communities in their transition away from coal and coal-fired power.

[iv] This total is calculated based on budgetary support for state-owned utility Federal Electricity Commission (Comisión Federal de Electricidad, CFE) and on federal aid for electricity tariffs. The amount of support that benefits coal is estimated based on coal's share in power generation in accordance with the report's methodology. However, it must be noted that in the specific case of Mexico and CFE, the proportion of this support that can be attributed to coal use is not clear. Therefore these support numbers must be interpreted with caution.

3 Although the carbon tax applies to the production or import of coal, for the purpose of this study, these subsidies have been considered as 'coal-fired power consumption' because the tax is passed on to the consumer and around 90% of the coal produced or imported in Mexico is used to produce electricity (IEA, 2016).

References

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UN – United Nations (1992) Convention on Biological Diversity. 1760 UNTS 20619, entered into force 29 December 1993 (www.cbd.int/convention/text/default.shtml)

This country study is one in an 18-part series. The country findings are collated in the summary report, which you can find at **odi.org/g20-coal-subsidies** along with full references, acknowledgements and further information about methodology and data sources.

Unreferenced information in this summary is from the analysis conducted for this report, available in the Mexico data sheet at **odi.org/g20-coal-subsidies/mexico**.

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