Responding to rising global energy prices

Mobilising revenue through environmentally related taxes

The example of fossil fuel extraction in Senegal

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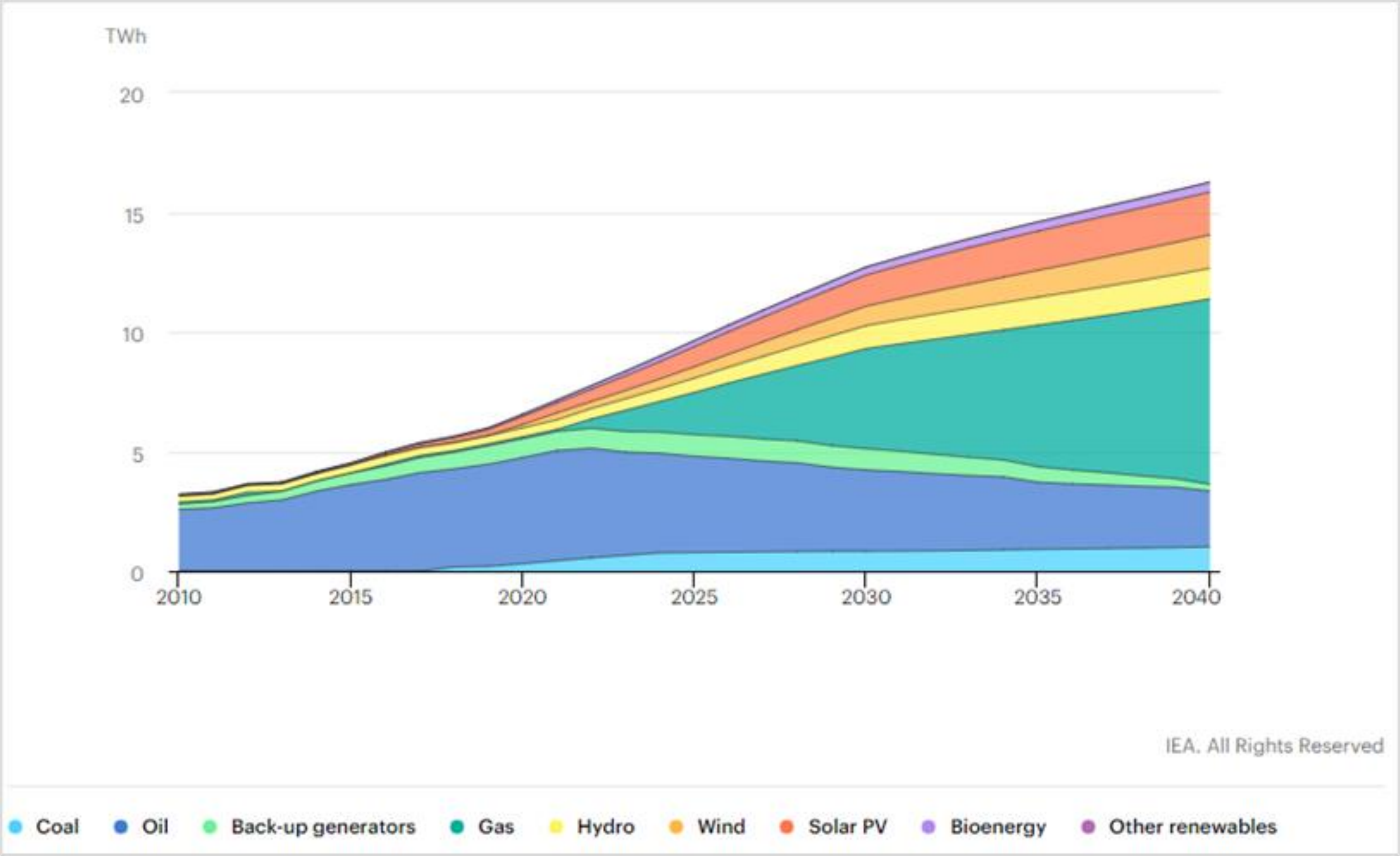
The context in Senegal: fiscal and economic policy challenges

Discovery of offshore gas: government aims to realise a gas-to-power plan and a 50% drop in the electricity price

Transformation of the power sector in Senegal to 2040



Gas-to-power plan
50% fall in electricity prices

100% energy access by 2025

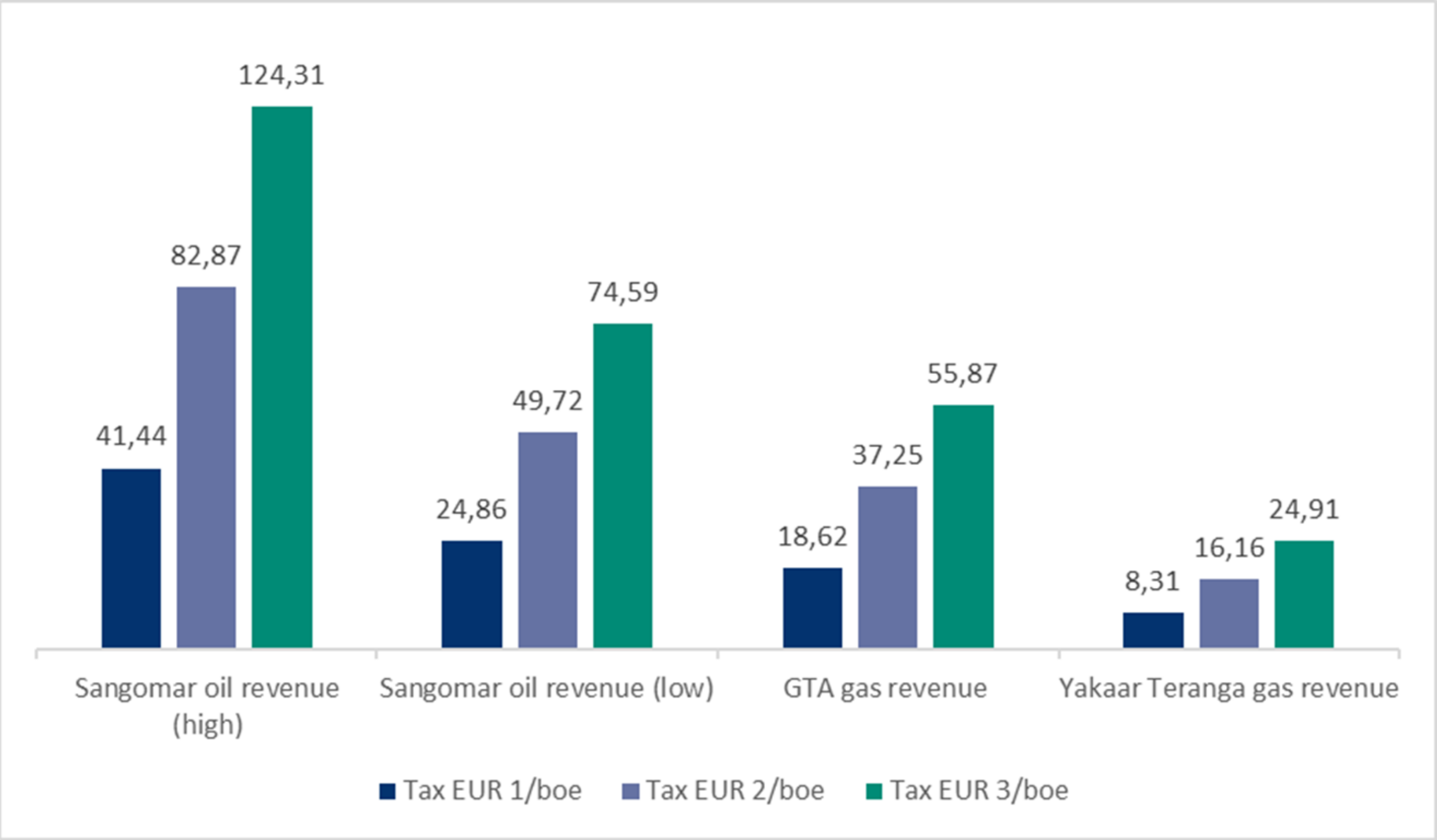
IEA (2019), *Senegal Energy Outlook*, IEA, Paris https://www.iea.org/articles/senegal-energy-outlook

The legal case for the introduction of an environmental tax on oil and gas extraction

1. Fiscal stabilization clauses – i.e. an agreement to ‘freeze’ the tax regime – within concession agreements for oil and gas extraction cover the Petroleum Code 1998.
2. But the Environment Code of 1983 was already in place when fiscal stabilization clauses were negotiated.
3. Environment Code envisages introduction of measures to manage marine pollution - opens up a legal route to introduce a tax on all oil and gas extraction
4. Profitability of projects has increased dramatically – governments have a strong hand to negotiate tax reforms.
5. In other countries, e.g. DRC, renegotiation has paved way for successful cooperation between private parties and government

Proposal: an upstream tax on oil and gas extraction

- Tax rates: **EUR 1, 2 or 3 per barrel.**
- Revenue potential:
  - **5.9% of total tax revenue (high)**
  - **0.9% (high) - 0.3% (low) of GDP**



Final comments

- High oil and gas prices have created an opportunity for some countries to siphon off additional revenue from the extractive industries.
- Governments have a strong negotiating hand in the current economic context.
- Revenues raised can finance efforts to improve energy access through investment in infrastructure and large- and small-scale renewable energy.
- Investing in renewable energy transition and low-emissions fuels such as natural gas is a key enabler of fossil fuel subsidy reform – the two are closely linked.
- Affordable substitutions must be available to minimise the risk of fuel switching to biomass or kerosene when fossil fuel subsidies are reformed.

Thank you very much for your attention!

**I am looking forward to
your questions and comments!**

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