

Chile

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Owing to its mountainous geography, Chile has significant hydroelectric resources that contributed to 29% of the country's electricity supply in 2018, down from 36% in 2010 and 50% in 2005. Chile has experienced severe supply disruptions (e.g. droughts or earthquakes) rendering annual hydroelectricity output highly variable. Biomass in the form of firewood is mostly used for heating and cooking and accounts for around 40% of final energy consumption in Chile's residential sector. With little indigenous production of fossil fuels, Chile imports 69% of its Total Primary Energy Supply (TPES) in the form of oil products, coal, and natural gas. The country's imports of natural-gas were solely met by Argentina until 2009, when two liquefied natural gas (LNG) terminals became operational to allow for a greater diversification of suppliers, which now include Trinidad and Tobago, Equatorial Guinea, the United States, Norway and to a lesser extent, the Middle East.

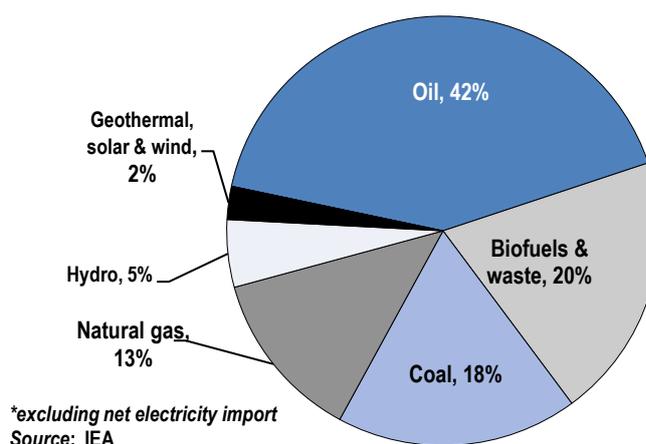
Under the Chilean Constitution, the exploration and extraction of crude oil and natural gas can be carried out either directly by the national oil company ENAP (*Empresa Nacional del Petróleo*) or by private companies where contracts are established with the Chilean state. Private companies can also participate in imports, refining, storage, and distribution activities. As the owner of the country's three refineries, ENAP remains the leading company in oil extraction and refining. It does not compete directly in the retail sector, however. ENAP owns natural-gas transmission pipelines in the far south of the country but other companies also operate three major pipelines in the populous central core of the country as well as three pipelines in the northern region.

The pioneering privatisation and liberalisation of Chile's electricity sector, starting in the 1980s, was completed in 1998 with the sale of the last state-owned utility, Edelsysen (*Empresa Eléctrica de Aisén S.*). While there are many distinct power grids in the country, the *Sistema Eléctrico Nacional* is by far the major one, resulting from the merger, in 2017, of the northern and central-southern grids. In 2016, ENAP was authorised to enter the electricity market and develop projects.

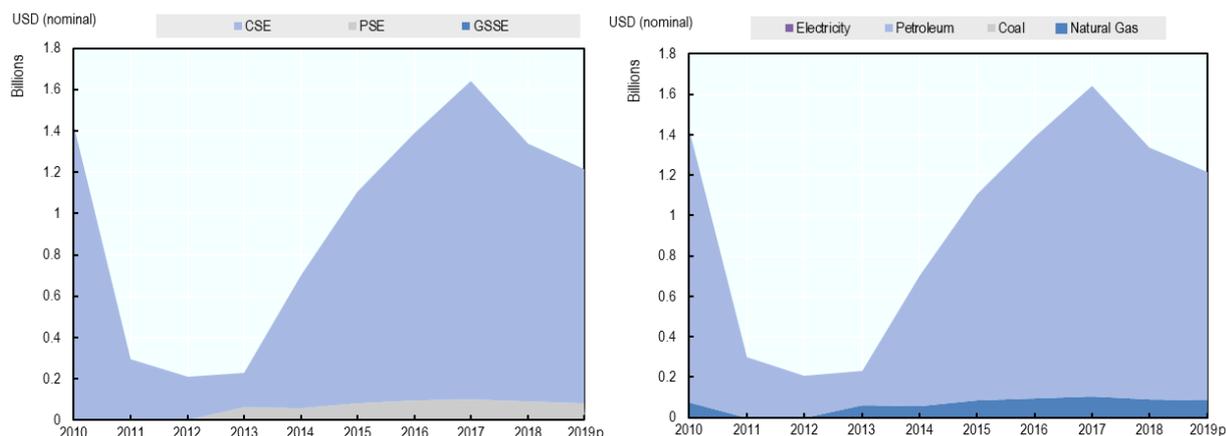
Energy prices and taxes

In Chile, prices for petroleum-based fuels are set freely by the market. A Specific Excise Tax (*Impuesto Específico para Combustibles*, IEC) is levied on transport fuels such as gasoline, liquefied petroleum gas (LPG), compressed natural gas, and diesel. The latter can be recovered as credit in industrial activities, applicable only for road use. The tax rates are expressed in UTM (*Unidad Tributaria Mensual*), an inflation-tracking currency unit. The IEC has a fixed and a variable component. The floating component was implemented in 2011 and increases or decreases the final rate of the IEC, in order to reduce price volatility for final consumers. Domestic kerosene is covered by the *Fondo de Estabilización de Precios del Petróleo* (FEPP), described in the following section. However, the low level of taxes keep end-user fuel prices relatively low compared to other IEA countries.

Total Primary Energy Supply* in 2018



Total support for fossil fuels in Chile by support indicator (left) and fuel type (right), in USD (nominal)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

Recent developments and trends in support

Since 1991, the Government of Chile has introduced two different price-stabilisation funds for petroleum products. One is the *Fondo de Estabilización de Precios del Petróleo* (FEPP) and the other was the *Fondo de Estabilización de Precios de los Combustibles* (FEPCO). Both shared the objective of partially insulating the Chilean economy from fluctuations in the world price of oil. When world prices were high (low), previously accumulated revenues would be used to lower (or raise) domestic prices, thereby applying a tax credit (or taxing) the consumption of petroleum products. The FEPCO programme was then introduced in 2005 to counterbalance a sharp increase in fuel prices that the Petroleum Price Stabilisation Fund (FEPP) alone could not address. Over the period between January 2007 and July 2009, credits under FEPCO outweighed taxes by USD 288 million. To maintain a positive balance in the fund in the face of these outflows, the government injected more than USD 760 million, of which only USD 362 million remained when the fund effectively ceased to operate in August 2010. FEPCO has since been replaced by a new system of floating excise taxes, the SIPCO (*Sistema de Protección al Contribuyente antes las Variaciones en los Precios Internacionales de los Combustibles*), which was then itself replaced by the MEPCO (*Mecanismo de Estabilización de Precios de los Combustibles*) starting in 2014, which administered an estimated USD 1.2 billion in 2017. The FEPP still operates but since 2011, only covers kerosene for heating in domestic use.

There has been an observed increasing trend in Chile's total support from 2013 which registered a peak in FY 2017. The retreat in support amounts seen from FY 2018 can be traced to the observed decrease in calculated support in MEPCO for motor gasoline due to wide movements in the differentials and the relative strengthening of the Chilean peso for 2018. Most of Chile's identified support measures benefit the transport sector (84% of total support estimate(TSE)), with measures benefitting fossil-fuel production (7%) and industrial, commercial and agricultural sectors (9% of TSE) far behind.

Examples of measures

Fuel Price Stabilisation Fund (FEPCO) (2005-2010)

The FEPCO operated between 2005 and 2010 and has since been discontinued, which alone explains the large decrease in support observed after 2010. Together with the FEPP, the FEPCO was Chile's second price-stabilisation fund. The scheme did not prove self-financing, requiring injections of funds by the government, and leading to its eventual termination in August 2010.

Fuel Price Stabilisation Mechanism (MEPCO) (2014-present)

The MEPCO was established in July 2014 as a successor to the SIPCO to smooth fuel prices. In order to avoid high price variations, the National Energy Commission weekly adjusts the specific excise tax variable component (*Impuesto Específico para Combustibles*, IEC).