

Uruguay

Macroeconomic and policy context

| Key statistics | |
|---|-------------------|
| GDP growth (annual) (2007-2017) | 4.0% |
| GDP growth (annual, per capita) (2007-2017) | 3.7% |
| CO ₂ emissions growth (annual) (2007-2017) | 7.0% |
| CO ₂ emissions growth (annual, per capita) (2007-2017) | 6.7% |
| Main combustible energy source; corresponding share of CO ₂ emissions (2017) | Biofuels 63.1% |
| Non-combustible energy sources; share of primary energy use (2017) | 19.3% |
| Total energy self-sufficiency (%) (2017) | 62.0% |
| Share of population with access to electricity (2018) SDG 7.1.1 | 100.0% |
| Share of population with access to clean cooking (2018) SDG 7.1.2 | 95.0% |
| Tax-to-GDP ratio (2017) | 29.0% |

Sources as specified in TEU-SD brochure.

Between 2007 and 2017, Uruguay's GDP grew by an average of 4.0% per year in total, and 3.7% per capita. Over the same period, energy-related CO₂ emissions increased by 7.0% per year in total, and 6.7% per capita. In 2017, biofuels were the main source of energy related CO₂ emissions with a share of 63.1%, up from 30.7% in 2007, while diesel, the main fossil fuel used in Uruguay, accounted for 15.5%, down from 35.5% in 2007. Non-combustible energy sources, mainly hydropower in Uruguay, accounted for 19.3% of primary energy use in 2017, down from 24.1% in 2007. Uruguay is a net energy and oil importer with complete access to electricity across its population.

The government of Uruguay has committed to pursuing sustainable development policies focused on strengthening Uruguay's resilience and adaptive capacity and expanding domestic renewable energy production in its First Nationally Determined Contribution. In this NDC, Uruguay committed to an unconditional CO₂ emissions reduction

target of 24% per GDP unit by 2025, relative to 1990 base levels. Uruguay's tax-to-GDP ratio of 29.2% is lower than the OECD average¹ of 33.9%, but higher than the LAC and Africa averages of 22.8% and 17.2%, respectively.

Taxes and subsidies on energy use, 2018

Uruguay does not have an explicit carbon tax, nor a CO₂ emissions trading system. However, it does collect energy taxes, including:

- ◆ An excise tax on fuel.
- ◆ An excise tax on electricity consumption.

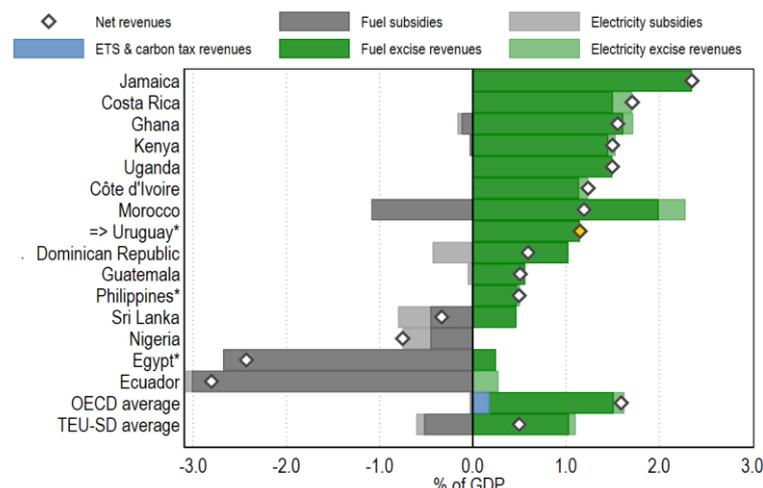
TEU-SD classified no measures as subsidies on energy use in Uruguay in 2018.

Net energy tax revenues, 2018

Net energy tax revenues are a bottom-up estimate of the net revenues resulting from taxes and subsidies on energy use.

Net energy tax revenues in Uruguay represent 1.1% of GDP in 2018, contributing positively to domestic resource mobilisation. Compared to the other countries considered in TEU-SD and OECD countries:

- ◆ Revenues from fuel and electricity excise taxes as a share of GDP are low relative to OECD countries, and similar to the TEU-SD average.



* Since 2018, Egypt has phased out most subsidies on energy use and the Philippines have implemented a major tax reform. In Uruguay, certain fuels like diesel attract VAT but not an excise.

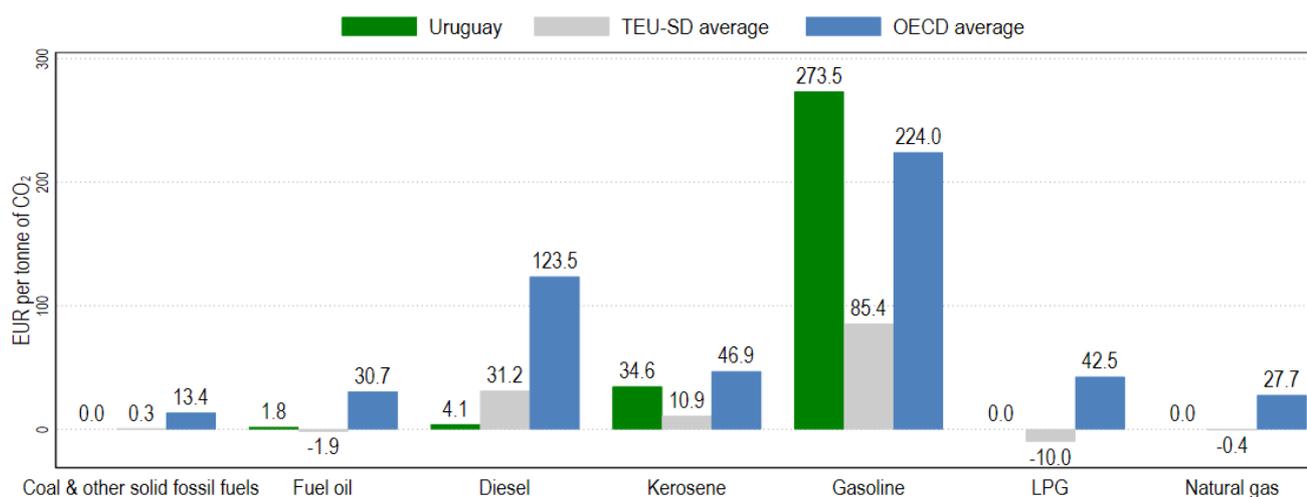
¹ Averages across countries refer to the simple, unweighted average.

- ◆ Similar to many OECD countries, but unlike other TEU-SD countries, Uruguay has no fuel or electricity subsidies.

Average effective carbon rates by fuel, 2018

The Effective Carbon Rate (ECR) is the total price that applies to CO₂ emissions from energy use as a result of taxes and emissions trading, net of fuel subsidies. A higher ECR encourages consumers and producers to use cleaner energy sources or reduce energy use, avoiding CO₂ emissions and local pollution, while taxes and permit auctioning raise public revenue.

- ◆ Coal, fuel oil, diesel, LPG and natural gas, primarily used in the industrial, road and residential & commercial sectors, face the lowest ECRs. These sectors represent 54.2%, 24.5% and 12.3% of Uruguay's CO₂ emissions, respectively.
- ◆ Kerosene and gasoline face the highest ECRs. Gasoline is a predominantly used in the road sector, which accounts for 24.5% of Uruguay's CO₂ emissions.



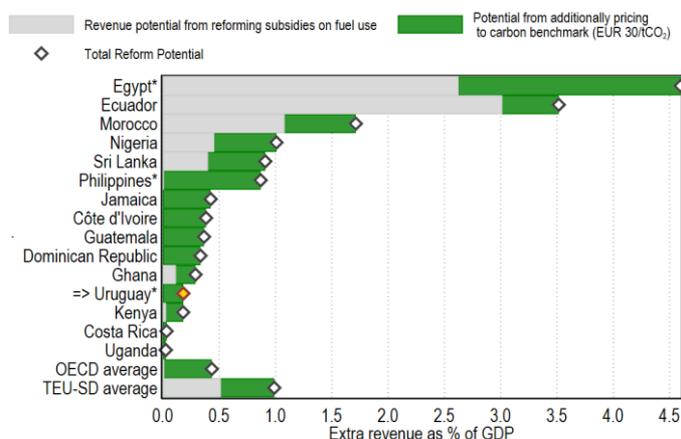
Uruguay has low effective carbon rates relative to the OECD average, with the exception of gasoline. Compared to other TEU-SD countries:

- ◆ The ECR is high for kerosene and gasoline relative to the TEU-SD average.
- ◆ For diesel, the ECR is lower than the TEU-SD average.
- ◆ LPG is not subsidised, unlike in some other TEU-SD countries.

Revenue potential from carbon price reform

By how much would tax revenues increase if ECRs were raised to reach a carbon benchmark of EUR 30/tCO₂ for all fossil fuels? The benchmark of EUR 30 is a low-end estimate of the climate damage caused by each tonne of CO₂ emitted. An equitable reform package is critical to ensuring that vulnerable groups, which also tend to be those that are disproportionately affected by climate change, will be able to access clean energy.

Tax revenues could increase by 0.2% of GDP if ECRs were raised to reach the benchmark rate of EUR 30/tCO₂ for all fossil fuels, an increase that is below the TEU-SD and OECD averages. One reason is that fossil fuel use in Uruguay is concentrated in the road sector, where gasoline is already taxed above the level of the low-end benchmark.



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