The retail price of Gasoline is at least as high as the price of the United States and below the price level of Poland. Note: At these levels, countries are effectively using taxes to generate revenues and to encourage energy efficiency in the transport sector.
Policy Recommendations

The pricing of transport fuels is a major concern in many countries – often associated with high financial burdens, social unrest and concerns over macroeconomic stability. A sound fuel pricing policy would aim at mitigating these effects. Further, it would help shift people and goods to more sustainable modes, encourage dense and smart cities, and foster more efficient vehicles. This would, inter alia, result in less reliance on fossil energy resources, improved air quality and reduced congestion. The following principles can guide the development of more sustainable fuel price policies:
1. Pricing Principles

Apply cost coverage. Fuel prices should cover the full costs of production, import, transport and refining, including depreciation and external costs of production (e.g. environmental costs) in order to maintain a viable up- and downstream industry.

Countries are increasingly employing this pricing principle, to a bigger extent toward gasoline, less for diesel: margins, levies and taxes represent a considerable share of the retail price in most countries today. However, exchange rate fluctuations pose an increasing challenge to many countries.

Apply fuel taxes. Fuel taxes contribute to the development of the transport sector (e.g. for financing road maintenance, public transport subsidies, technology innovation programmes), and can also be applied to the general state budget (e.g. for financing health services, education and security).

Rule of thumb for financing road maintenance: prices should include a minimum added tax of 10 US-cents per litre. As fuel taxes are straightforward to collect, they are a major source of revenue in many countries. Additionally, fuel should be subject to full VAT as any other good.

Internalise external effects of the transport sector. Fuel pricing should reflect the costs of external effects of the transport sector (e.g. CO₂ emissions, noise, accidents, congestion) by implementing measures such as an Eco-tax or Road Safety Cent.

The inclusion of external costs increases fuel prices, which generally shifts driving behaviour towards more sustainable transport modes.

2. Price Regulation Principles

Reflect changes in costs and inflation. Fuel prices adjustments should reflect changes in cost of production/import, transport and refinery, including depreciation and external costs of production (e.g. environmental costs) and changes in exchange rates. Fuel pricing schemes should also allow for adjustment to inflation.

Ad-hoc pricing schemes lack a proper legal framework, information and monitoring, and are often associated with fuel subsidies. The implementation of an automatic, statutorily regulated pricing/adjustment mechanism that fully reflects all costs is a useful tool to provide transparent and depoliticized fuel pricing. Automatic pricing can be used as a transitory mean, e.g. on the way to deregulation. Deregulated prices require a mature market with a sufficient number of players in the market, strong regulatory oversight and alert media/civil society.

Limit budgetary consequences. Regular fuel price adjustments limit budgetary impacts.

Properly applied price adjustments or an automatic pricing mechanism limits the impact of external price shocks. Additionally, in the case of subsidisation of selected products, the provision of “smart cards” helps to better administer and regulate individual fuel consumption, and thus, to better manage the total amount of fuel subsidies.

3. Transparency Principles

Institutional stakeholders in price setting are known. Information on institutional stakeholders involved in determination of price levels and elaboration of price adjustments should be made available.

Principles of price setting are transparent. Information on pricing determinants, update frequency and the underlying formula (if automatic mechanisms are applied) should be publicised.

Information on price composition is available. Information on taxation levels and composition of fuel prices should be made available.

Information on prices and price setting is made easily available to public. Comprehensive and easy-to-access information should be displayed on the web, including: current price data for all fuel products; timelines of prices; price components (production and/or import prices, taxation levels, and other charges); description of structure and modus operandi of pricing mechanisms (if applied); and underlying legislation.

Since fuel prices and fuel subsidies rank high on political agendas and are deeply embedded in the public interest, increased transparency and the provision of information in terms of price setting, composition, adjustment and level of subsidisation not only contributes to the discussion, but also improves public awareness and understanding of this issue.

4. Enforcement Principles

Application and realisation of pricing policy must be monitored, supervised and enforced. Regulated prices or transparency regulations should be enforced; complementary measures should be taken to prevent black markets, smuggling and adulteration (e.g. kerosene and diesel).

Smuggling and adulteration is often present in countries with drastic price differences between various products (e.g. significantly different pricing of diesel and kerosene can encourage adulteration).
More Information

- International Fuel Prices: [www.giz.de/fuelprices](http://www.giz.de/fuelprices)
- Sustainable Urban Transport including Sustainable Transport: Sourcebook for Policy-makers in Developing Cities: [www.sutp.org](http://www.sutp.org)
- GIZ Transport and Mobility: [www.giz.de/transport](http://www.giz.de/transport)
- Find trainings, webinars and e-learning on sustainable urban transport worldwide here: [www.capsut.org](http://www.capsut.org)
- German Partnership for Sustainable Mobility: [www.german-sustainable-mobility.de](http://www.german-sustainable-mobility.de)

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Published by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
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