



Reforming fossil-fuel subsidies: Will it make a difference?

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Subsidies and their evaluation



- Subsidies as means to ensure adoption of useful policies/**acceptability**, e.g. ETR
- Subsidies to **help create and develop markets** – innovation, new technologies, but avoid lock-in effects
- But need to ensure efficient use. Introduction of **sunset date** and **regular evaluation**:
- No subsidy introduced with explicit objective to **harm environment**. However, this might be side effect. Insufficient evaluation also helps to ensure their persistence.

- **Europe 2020** strategy: Stresses need to adapt our economic structures to increasing resource scarcity (*sustainable growth*), calls for phasing out of EHS by MS (limiting exceptions to people with social needs).
 - Economically inefficient, environmentally damaging, socially inefficient. Also, context of economic crisis => need for smart fiscal consolidation with EHS reform as possible source
- **Roadmap to a resource-efficient Europe**: stresses negative effects of EHS and benefits of reform; calls on MS to submit plans to phase them out by 2020; need for transitional measures (equity, competitiveness).
- **Circular Economy Communication**: EHS phase out as element to unlock investment in RE

- EHS reform supports 2 **policy priorities** of Europe 2020: resource efficiency and budgetary consolidation.
- **European Semester**: Annual monitoring of Europe 2020.
 - Last **Annual Growth Surveys** call for reform of EHS by MS (http://ec.europa.eu/europe2020/pdf/2014/ags2014_en.pdf)
 - **BE** and **FR** received **Country-specific Recommendations** (CSR) to phase out EHS
- **7th EAP**: Phasing out EHS part of priority objective 6, applies to EU and MS, with target date of 2020. MS to report via their annual National Reform Programmes under Europe 2020.
- Link to **international commitments**, e.g. G-20

- Challenge of **identification and quantification**, assessment of harmfulness
- Focus on concrete subsidies – **fossil-fuel subsidies** as first step. contradiction with climate and resource-efficiency objectives most evident.
- **Social issues and vested interests** – reform creates losers. Hence need for transitional measures. Reflection of other policy objectives.
 - Issue plays significant role in recent **State aid modernisation**

- OECD study identifies, documents and estimates **budgetary transfers and tax expenditures** for fossil fuels for all 34 OECD countries
 - Covers both production and consumption subsidies
 - Includes sub-national jurisdictions for federal countries.
- **Complementary study for 6 MS not in OECD**, following same approach and methodology
- Thus data for 26 MS (no data available for MT), based on **same methodology** for 2011.
- Tool to create **transparency** - reform requires review of what measures are in place, their incidence, their cost etc.

Fossil-fuel subsidies – Results, 2011



Member State		FFS in m€	Population	FFS/capita	Env taxes	% ENV taxes
Austria	AT	392,42	8.404.252	46,69	6.782,72	5,79%
Belgium	BE	2.138,77	11.000.638	194,42	7.324,00	29,20%
Bulgaria	BG	35,89	7.369.431	4,87	1.051,22	3,41%
Cyprus	CY	20,00	839.751	23,82	506,00	3,95%
Czech Rep	CZ	154,92	10.486.731	14,77	3.570,99	4,34%
Denmark	DK	981,00	5.560.628	176,42	9.445,88	10,39%
Estonia	EE	75,06	1.340.194	56,01	426,00	17,62%
Finland	FI	106,92	5.375.276	19,89	4.975,00	2,15%
France	FR	2.753,88	65.048.412	42,34	35.919,00	7,67%
Germany	DE	5.095,22	81.751.602	62,33	54.669,00	9,32%
Greece	EL	208,00	11.309.885	18,39	5.488,00	3,79%
Hungary	HU	318,22	9.985.722	31,87	2.545,34	12,50%
Ireland	IE	78,20	4.570.127	17,11	3.689,86	2,12%
Italy	IT	2.124,00	60.626.442	35,03	40.424,60	5,25%
Latvia	LV	106,22	2.074.605	51,20	432,80	24,54%
Lithuania	LT	50,83	3.052.588	16,65	512,22	9,92%
Luxembourg	LUX	3,66	511.840	7,15	958,00	0,38%
The Netherlands	NL	339,34	16.655.799	20,37	23.536,00	1,44%
Poland	PL	783,91	38.529.866	20,35	9.157,88	8,56%
Portugal	PT	143,30	10.572.157	13,55	4.306,39	3,33%
Romania	RO	153,75	21.413.815	7,18	2.502,80	6,14%
Slovakia	SK	164,95	5.392.446	30,59	1.230,05	13,41%
Slovenia	SI	140,47	2.050.189	68,52	1.290,73	10,88%
Spain	ES	1.865,29	46.152.926	40,42	17.333,00	10,76%
Sweden	SE	2.219,00	9.415.570	235,67	9.558,99	23,21%
United Kingdom	UK	4.807,21	62.498.612	76,92	44.608,55	10,78%
USA		9.670,00	313.914.040	30,80		

Interpretation of results



- Countries vary in terms of their **transparency in reporting** support
- **Benchmarks** are critical, especially for tax expenditures. Here benchmarks of individual countries were used.
- Hence, caution required in interpreting **aggregation** of totals across MS.
- However, aggregation of all measures for each MS individually is sound.
- Analysis of **impacts** of support measures foreseen. Linked to discussion on energy costs.
- If FFS are pre-condition for higher environmental taxes, then both could rise in absolute terms, leaving ratio unchanged.

EU Specificities



- MS account for more than half of all OECD-wide support to **coal** production or use.
 - Support dominated by DE, followed by ES and PL
 - However, council decision on state aid to coal from 2010 imposes their gradual phasing out until 2018
- EU is marginal as concerns **oil and gas** subsidies
 - Exceptions: UK and Estonia
 - Might changes with trend towards shale gas in some MS
- On consumption side, EU is major user of fossil fuels and high **energy-tax** region
 - But significant excise duty exemptions and reductions plus reduced VAT rates possible under VAT directives

Study to support phasing out of EHS (2012)



- **Broad definition of EHS** (including also **non-action**, i.e. lack of full cost pricing or not internalising externalities)
- Identification of **key types of EHS**
- In-depth analysis of **30 cases of EHS** in EU Member States – in many cases difficult to quantify; sectors covered:
 - Agriculture and land
 - Climate change, energy and transport
 - Fisheries, Food, Forestry
 - Materials
 - Waste, Water
- **Practical recommendations to MS** on phasing out and reforming EHS to support economic and resource efficiency. They go into more detail than Country Specific Recommendations under the European Semester process.

Study to support phasing out of EHS (2012)



10 successful cases of EHS reform:

- Energy and transport: NL, DE, SE, AT
- Waste and materials: UK
- Water: DE, CZ

Several conditions for success, each case has its specificities:

- Change in political priorities: i.e. NL
- EU legislation: i.e. DE, CZ
- Budgetary needs: i.e. AT, CZ
- Public pressure: i.e. DE, AT

Modelling of milestones for achieving Resource efficiency (2013)



EHS modelling – complete phase out of FFS

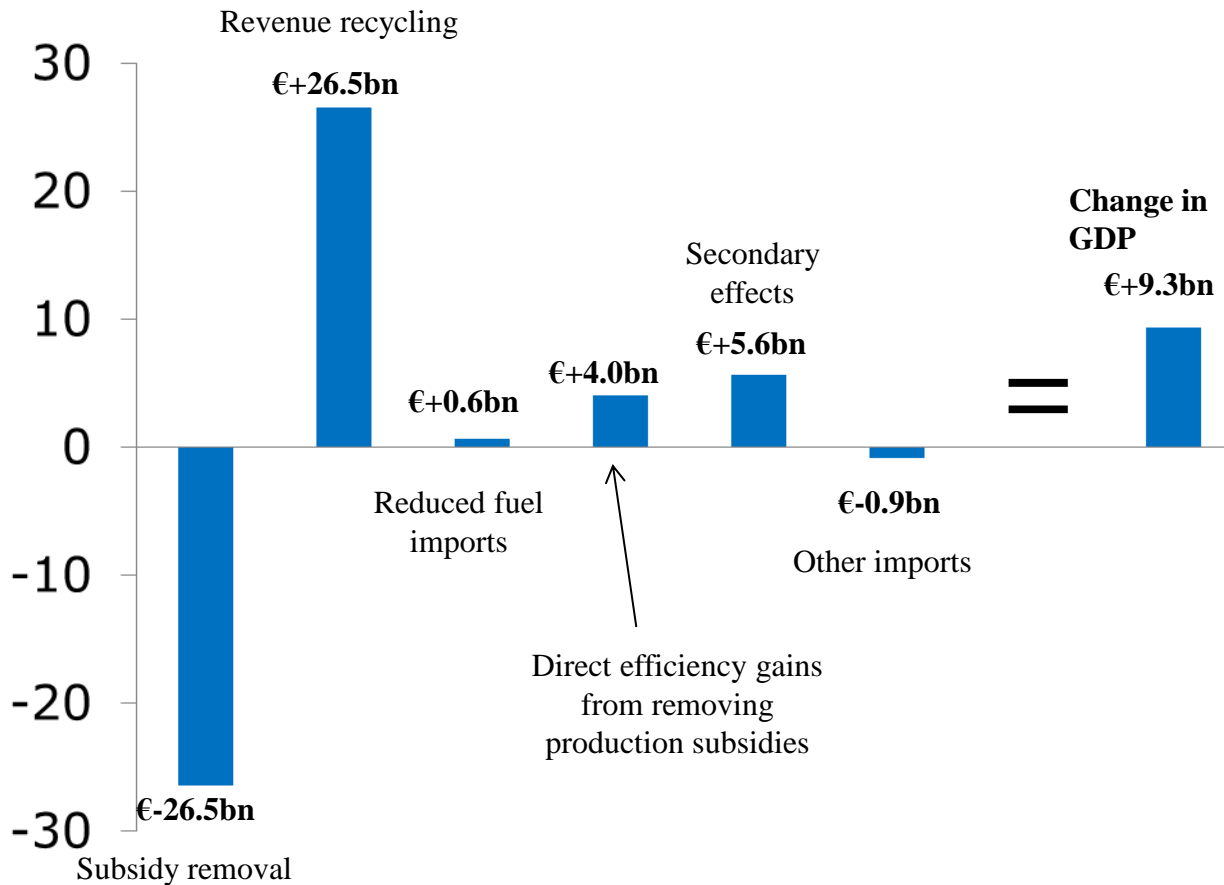
- **Data input: OECD inventory complemented by the Commission**
- **Case studies**
 - Germany - focusing on the tax exemptions for heavy industry.
 - UK - focusing on the reduced VAT rate on fuels and also possibly exemptions from minimum excise duty rates for households.
 - Belgium/Italy, compared with UK (similar subsidies)
 - France - grouping the subsidies into broad sectoral categories.
 - Finland/Sweden - focus on recent reductions in subsidies.

Results: combined effects of removing FFS in Europe are small but positive: positive impact on GDP, modest reduction in primary energy consumption and CO₂ emissions

Modelling of milestones for achieving Resource efficiency (2013)



FFS removal - annual changes and contribution to EU GDP, 2020 (current prices)



Increasing comparability between Member States (2014)



- **Enhancing comparability of data on estimated budgetary support and tax expenditures for fossil fuels**
 - **Additional areas covered:** R&D, infrastructure, reduced royalty payments and corporate tax rates
 - **Unified definition** of a fossil fuel subsidy
 - **Methodology**
 - Data input: "transfer measurement" approach for budgetary support, benchmarks for tax expenditures
 - **Results:**
 - direct budgetary support to producers and consumers limited in the EU – around 6bn euro in total
 - Excise taxes expenditures substantial – around 28bn euro in total
 - VAT reductions not applied broadly – around 5bn euro in total
 - Reductions in corporate income tax and royalty schemes – no benchmark possible, scattered data
 - **EU wide support 39bn euro** (vs. 25bn defined by the OECD)

- Commission assessment, mainly based on specific **Guidelines**.
- **State aid modernisation (SAM)** exercise calls for phasing out of EHS. Basis for review of various guidelines:
- Guidelines on **aid for environmental protection and energy**; closely linked to climate-related measures. Essentially about environmentally-beneficial subsidies, but potential trade-offs :
 - Tax exemptions for energy-intensive companies; however link to commitments by companies; might also be pre-condition for higher overall environmental taxes.
 - Aid for generation adequacy: Might involve aid for fossil fuels, but GL stress preference for demand-side management and interconnectors.
- Other guidelines: RAG, State-aid regime to coal, IPCEI



Thank you!

http://ec.europa.eu/environment/resource_efficiency/

http://ec.europa.eu/europe2020/index_en.htm

<http://ec.europa.eu/environment/enveco/mbi.htm>