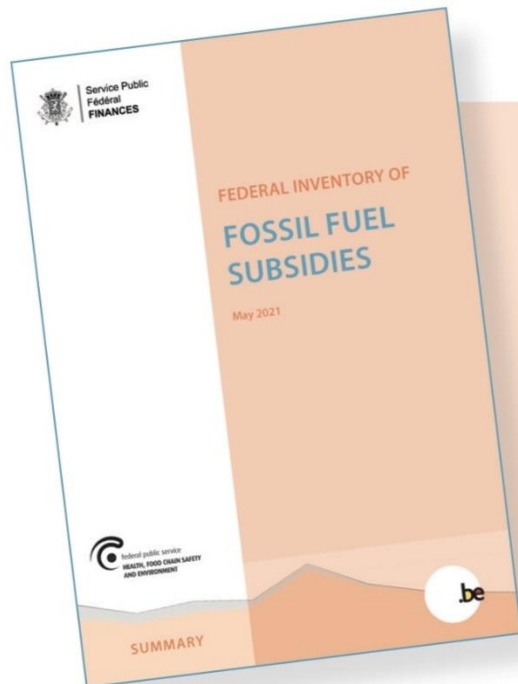


Belgian Federal Inventory of fossil fuel subsidies

Presentation by Jean-Baptiste Traversa (Federal Public Service Finance - Research Department - Tax Policy Unit)

and Samantha Haulotte (Federal Public Service Health - DG Environment - Climate change Department)

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This Report is edited by and available at the following federal public services (FPS):

FPS Finance

Strategic Expertise and Support - Research Department - Tax Policy Unit
Boulevard du Roi Albert II 33 box 22, 1030 Brussels

FPS Health, Food Chain Safety and Environment

DG Environment - Climate Change Service
Avenue Galilée 5/2 – 1210 Brussels

Federal Inventory of fossil fuel subsidies

- Background
- Methodology
- Main results
- Conclusions and way forward
- Annex with sectorial results

COP 26 reference to fossil fuel subsidies

- *Article 36, Glasgow Climate Pact*

*Calls upon Parties to accelerate the development, deployment and dissemination of technologies, and the adoption of policies, to transition towards low-emission energy systems, including by rapidly scaling up the deployment of clean power generation and energy efficiency measures, **including accelerating efforts towards the phase-down of unabated coal power and inefficient fossil fuel subsidies**, recognizing the need for support towards a just transition.*

- 1st mention in UNFCCC context

Fossil fuel subsidies

Background

The federal Inventory of fossil fuel subsidies

- is a response to the first requirement of the National Energy and Climate Plan to compile and evaluate existing fossil fuel subsidies at federal level
- provides the framework for responding to the second requirement of NECP regarding FFS, i.e. the reform and /or phasing out of these subsidies

The NECP requirement stems from the requirement of EU regulation on Governance of Energy Union and Climate Action (2018/1999/EU)

Fossil fuel subsidies

Methodology

- Survey of the literature and of the various approaches
 - Price-gap approach (IMF)
 - Bottom-up approach (OECD, WTO)
- Reasons for not adopting the price-gap approach
 - No direct quantification of subsidies, valuation depends on assumptions on production costs (pre-tax subsidies) and on external costs (post-tax subsidies)
- Distinction between direct and indirect subsidies
 - Direct subsidies: relate directly to consumption of fossil fuels
 - Indirect subsidies: relate to an activity that relies heavily on the use of fossil fuels (VAT exemption on airplane tickets, company car regime)

Fossil fuel subsidies

Methodology

- The bottom-up approach lists two main categories of subsidies
 - Transfers (direct expenditures) - amounts directly available from budgetary documents
 - Tax expenditures : should be included in Tax expenditures reports
- Tax expenditures: need for a benchmark
 - PIT, CIT and VAT : reference to the Tax Expenditure report
 - PIT, CIT
 - Any tax credit = tax expenditure
 - Depreciation in excess of double declining balance method : tax expenditure
 - Benchmark for the company car regime and other fringe benefits = taxation of wage income
 - VAT
 - Reduced rates = tax expenditures
 - Zero rating of plane tickets included in the FFS Inventory

Fossil fuel subsidies

Methodology

Benchmark for excise duties

- Tax Expenditure report: benchmark on a product by product basis
- In the FFS report: single benchmark
 - There is no reason for having rates that vary according to energy sources
 - If we stick to the « product by product approach », there should be no FFS if the rate for a specific energy carrier is zero (Kerosene)
 - Benchmark : excise duty on unleaded petrol in TOE or GJ
 - There is no FFS if the tax rate of a specific energy source expressed in TOE or GJ is equivalent to the benchmark

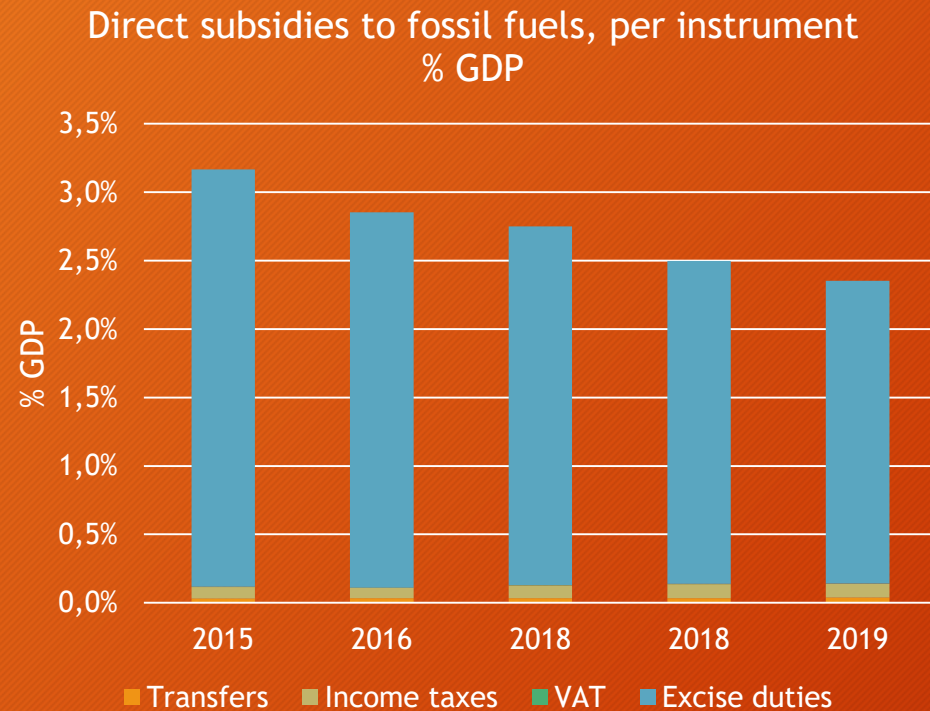
Fossil fuel subsidies

Methodology

	Excise duty rate		Energy equivalent		Excise duties per energy equivalent		Subsidy
	Unit	Amount	toe	GJ	toe	GJ	
Unleaded petrol	1.000 l	600,16	0,86	36,00	697,86	16,67	0,00
High sulphur gasoil	1.000 l	615,87	0,98	41,02	628,44	15,01	68,03
Low sulphur gasoil	1.000 l	600,16	0,98	41,02	612,41	14,63	83,74
Kerosene	1.000 l	632,53	0,83	34,83	760,25	18,16	set to 0
Heavy fuel oil	1.000 kg	16,35	0,95	39,85	17,17	0,41	648,02
LPG	1.000 kg	44,68	1,10	45,84	40,80	0,97	719,48
Natural gas	MWh	1,00	0,09	3,60	11,60	0,28	59,02
Coal and coke	1.000 kg	11,76	0,62	25,91	18,99	0,45	420,22
Lignite	1.000 kg	11,76	0,41	16,95	29,03	0,69	270,88

Fossil fuel subsidies

Main results

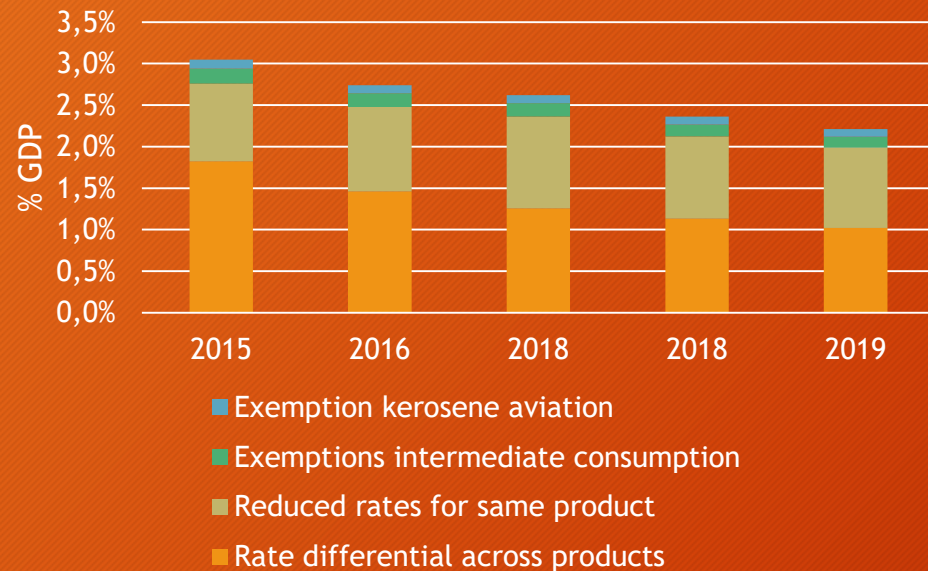


- Decreasing over the period 2015-2019
- At the end of the period: 2.4% GDP, i.e. 11.2 billion €
- Mainly excise duties
 - Minor role of transfers and income taxes
 - Marginal role of value added tax

Fossil fuel subsidies

Main results

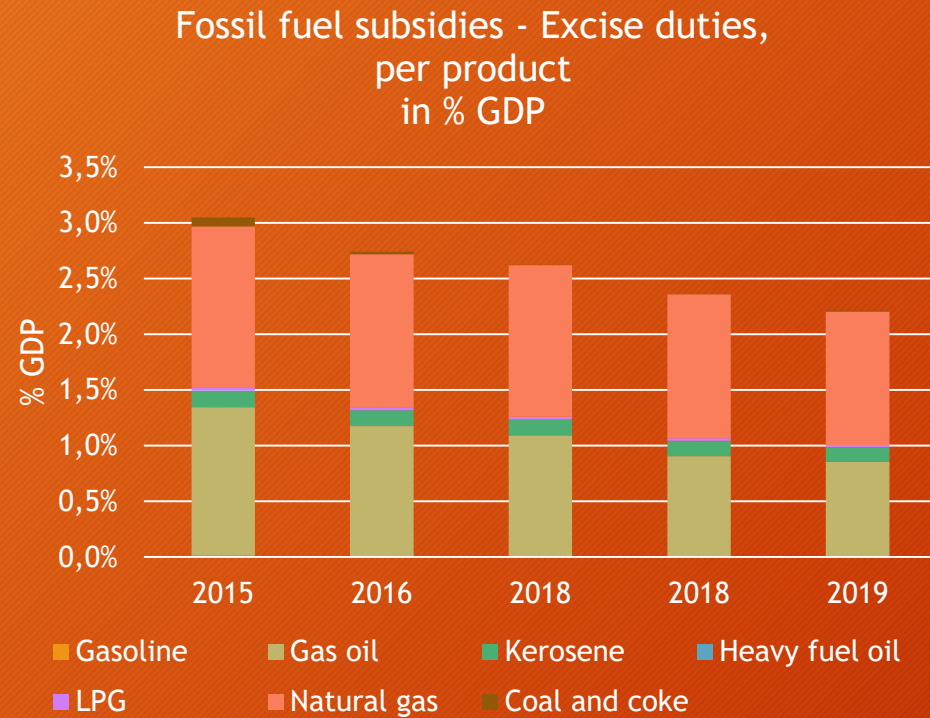
Fossil fuel subsidies - Excise duties,
per type of subsidy
in % GDP



- For excise duties, the two most important items are
 - rate differential across products (not included in the tax expenditures report)
 - and specific rates for some products (here estimated with unleaded petrol as benchmark)

Fossil fuel subsidies

Main results

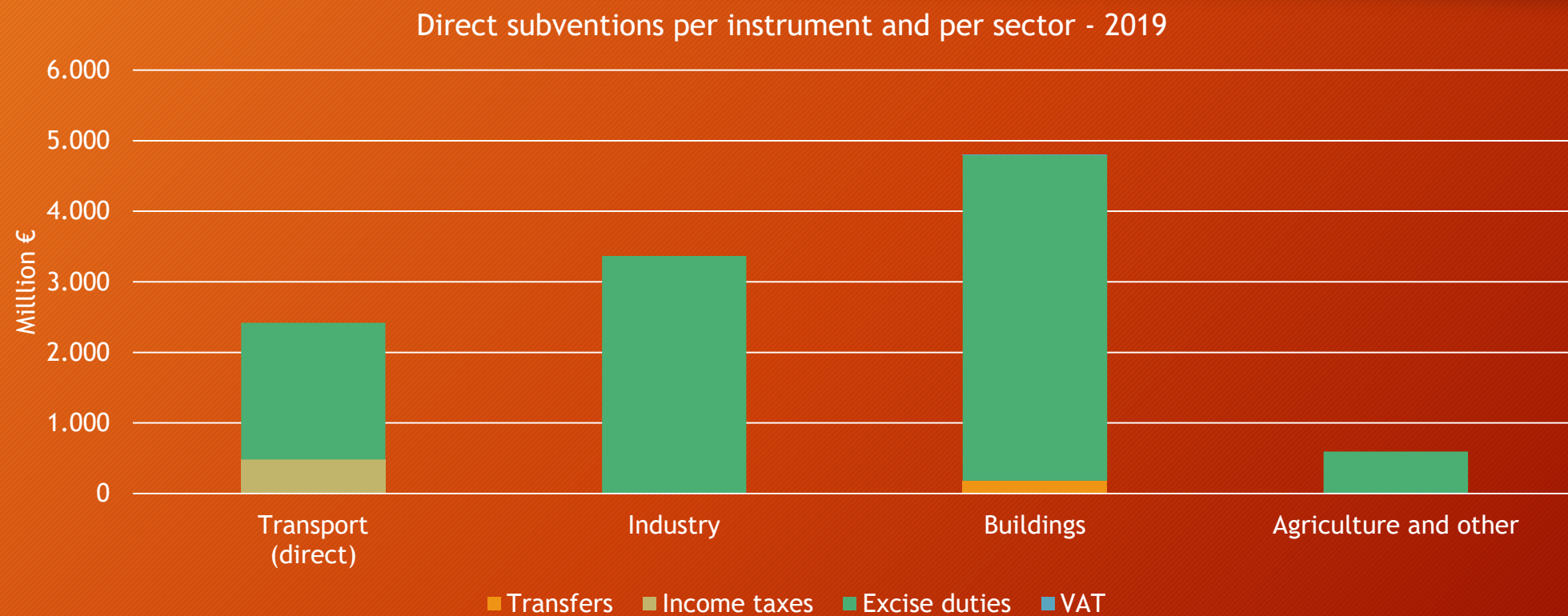


The major part of the subsidies granted by the excise duties concerns

- gas oil
- natural gas

Fossil fuel subsidies

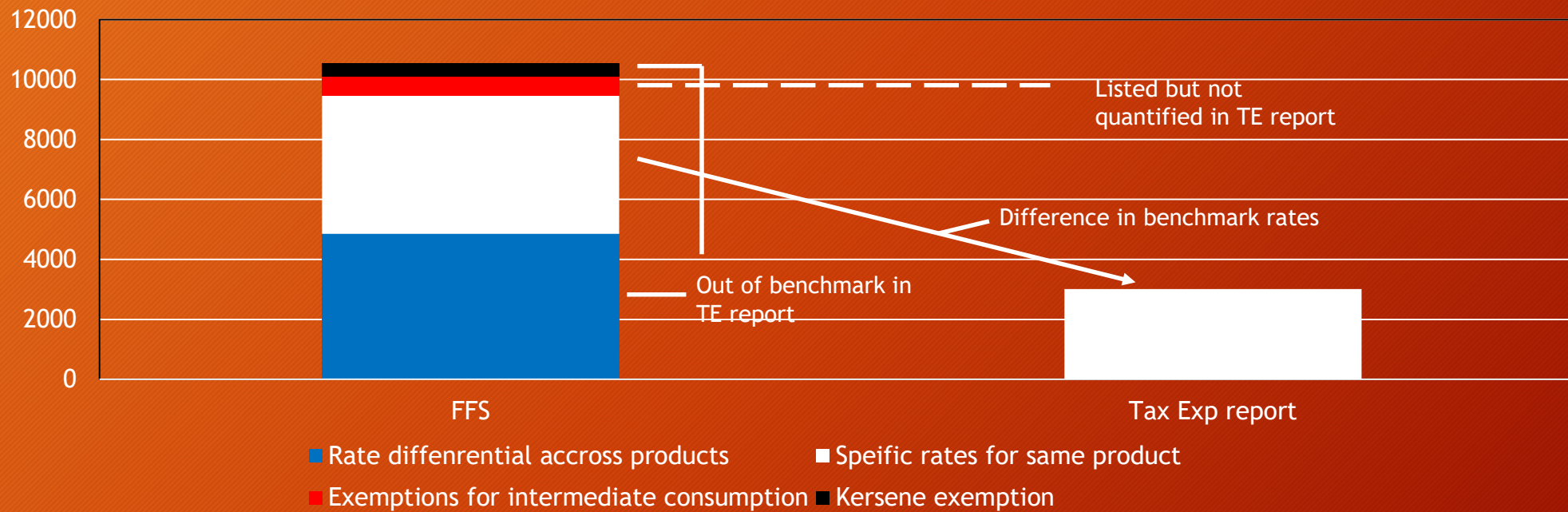
Main results



Fossil fuel subsidies

Main results

FFS - Excise duties - Alternative benchmarks



Fossil fuels subsidies. *Summary table*

	Millions of euros	% of subtotal
Transport		
Fuel cards	480.8	19.9%
Base rate differential across products	267.1	11.0%
Partial refund of professional use of diesel	981.0	40.6%
Exemption for inland navigation	133.0	5.5%
Exemption for dredging activities	89.5	3.7%
Excise duty exemption for aviation kerosene	446.5	18.5%
Other	20.7	0.9%
<i>Subtotal - direct subsidies</i>	<i>2,418.6</i>	<i>100.0%</i>
Company cars	1,968.3	
VAT exemption for airplane tickets	228.3	
<i>Subtotal - indirect subsidies</i>	<i>2,196.5</i>	
Total Transport	4,615.1	
Industry		
Base rate differential across products	1,887.7	56.1%
Reduced rate – diesel	415.0	12.3%
Reduced rate - natural gas	964.1	28.6%
Other	98.9	2.9%
Total Industry	3,365.7	100.0%
Buildings		
Transfers to individuals (social tariffs etc.)	181.9	3.8%
Base rate differential across products	2,440.3	50.8%
Heating oil exemption	2,126.7	44.3%
Other	56.4	1.2%
Total Buildings	4,805.3	100.0%
Agriculture and other activities		
Base rate differential across products	240.4	40.4%
Exemptions on intermediate consumption	354.4	59.6%
Total Agriculture and other activities	594.8	100.0%

Conclusions

Second stage : the phasing-out

- After identification of subsidies, the second requirement of the National Energy and Climate Plan is about establishing phasing out plans
- The *specific objectives of some subsidies* (among which social objectives) will have to be taken into account when recommending reforms
 - How to reconcile the abolishment of environmentally harmful effects with the achievement of the specific objectives identified through other, non-environmentally harmful means

Conclusions

Such fossil fuel subsidies reform :

- should be contributing to achievement of BE medium and long terme GHG emission reduction targets
- is in line with statement in last federal government agreement:
« Taxation will be analysed with a view to making it more climate and environment friendly »
- *is currently the subject of a study, the conclusions of which are expected by the end of the first quarter of 2022*

Publication / Contact information

- Publication

An electronic copy of the full Report (only in French and Dutch) and of the Summary (also in French and Dutch) may be downloaded at:

https://finance.belgium.be/en/figures_and_analysis/analysis/inventory-fossil-fuels-subsidies

<https://climat.be/2050-en/complementary-analyses>

- Contact information

giovanbattista.traversa@minfin.fed.be

Christian_valenduc@outlook.be

samantha.haulotte@health.fgov.be

vincent.vansteenbergh@health.fgov.be

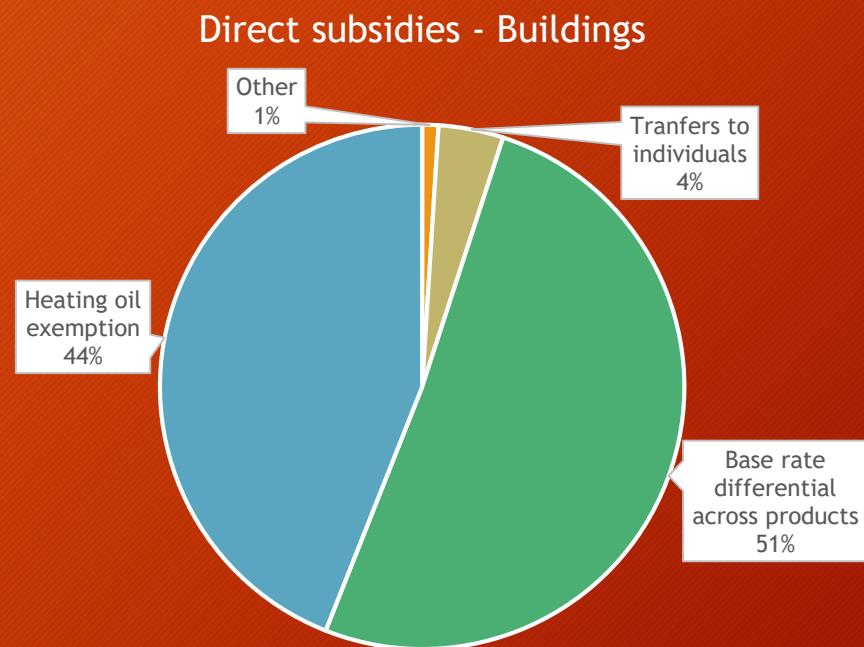
Annex

Sectorial results

Sectorial results - Buildings - 2019

	Million €
Transfers	182.0
Federal social tariff – Natural gas	89.0
Federal social tariff - Electricity (adjusted for the electricity mix)	39.0
POSW (*) Energy Access Support Fund - natural gas	25.0
POSW Energy Access Support Fund – electricity	34.0
Fuel Oil Fund	17.0
VAT reduced rate on coal	4.5
Excise duties	4,567.0
Rate differential across products	2,440.3
Specific rates for the same product (heating oil)	2,126.7

* POSW: Public Organisation for Social Well-being



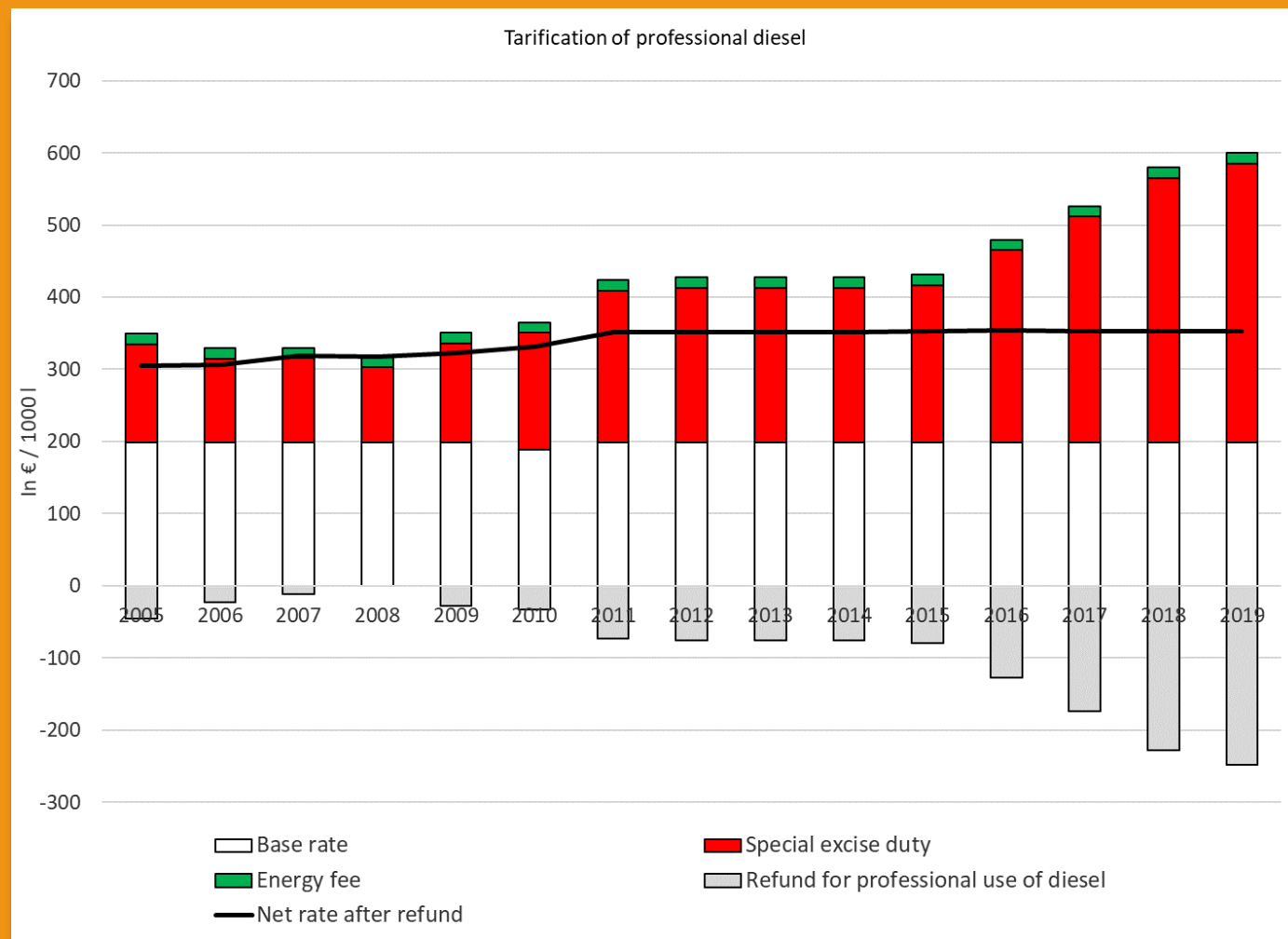
Sectorial results -Transport -2019

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Base rate differential across products	267.1
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Sectorial results -Transport -2019

Professional diesel

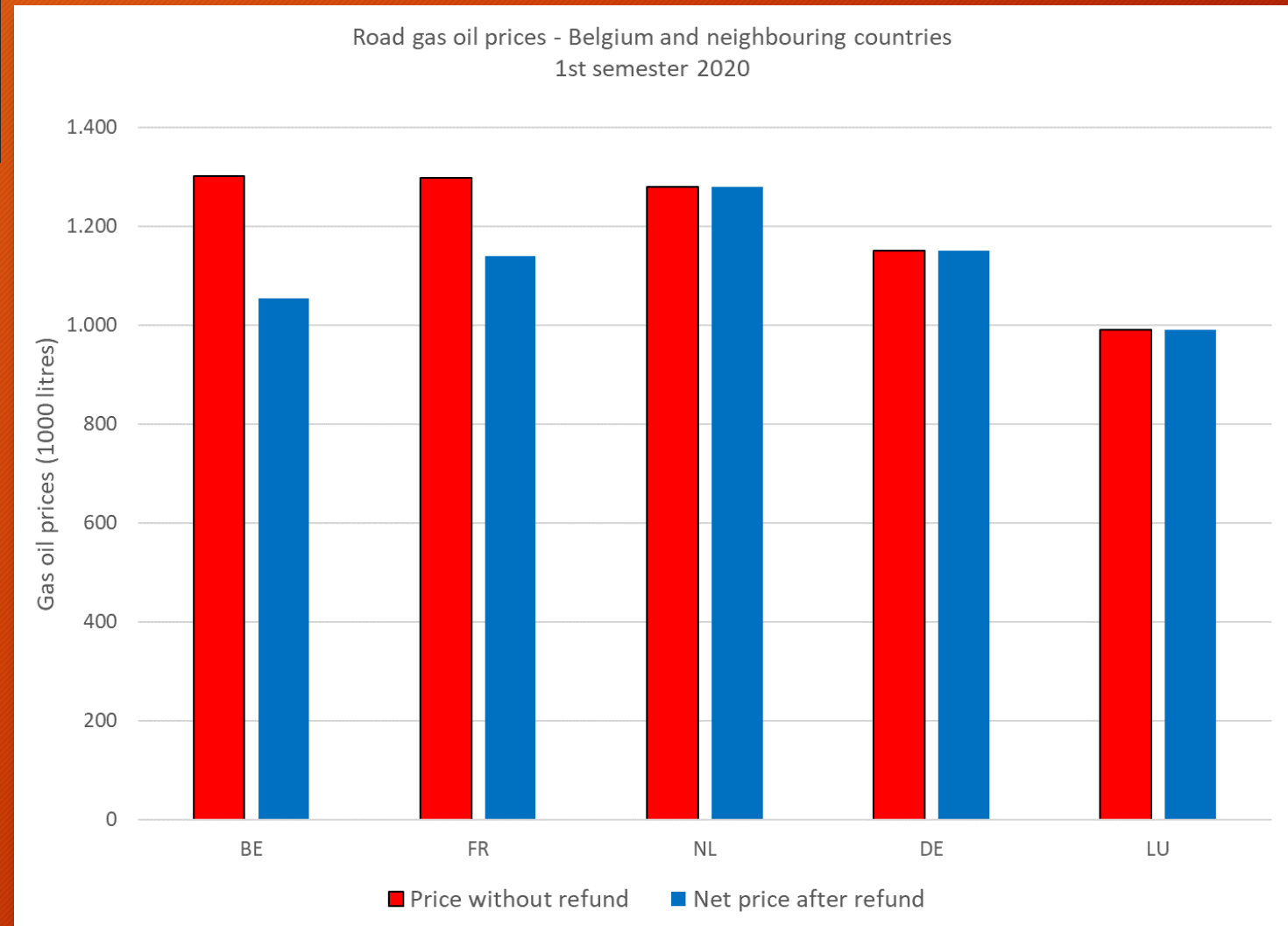
- Increase of the refund in parallel with the evolution of the special excise duty
- Four sectors :
 - freight transport (the most important)
 - coaches
 - taxis
 - transport of disabled people



Sectorial results -Transport -2019

Professional diesel

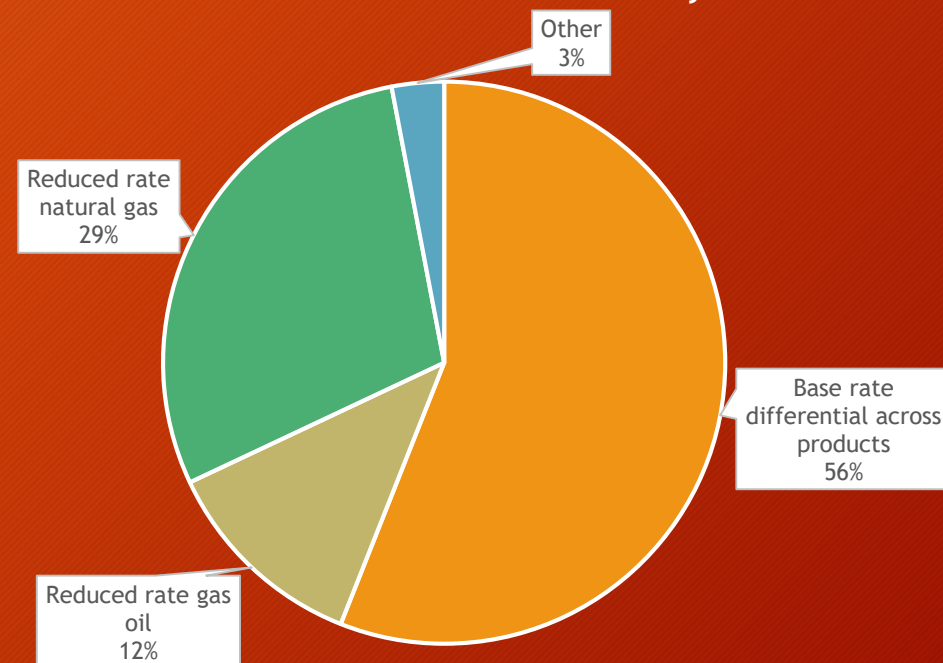
- Competitiveness argument is not relevant:
- Foreign carriers operating on Belgian territory are eligible for reimbursement
- The comparison of prices after refund is to Belgium's advantage



Sectorial results - Industry - 2019

Type of subvention	Million €	% total
Base rate differential across products	1,887.7	56.1%
Reduced rate gas oil	415.0	12.3%
Reduced rate natural gas	964.1	28.6%
Other	98.9	2.9%
Total	3,365.7	100.0%

Detail of subventions - Industry



Sectorial results - Agriculture - 2019

Subsidies agriculture - 2019

