Belgian federal Inventory of fossil fuel subsidies

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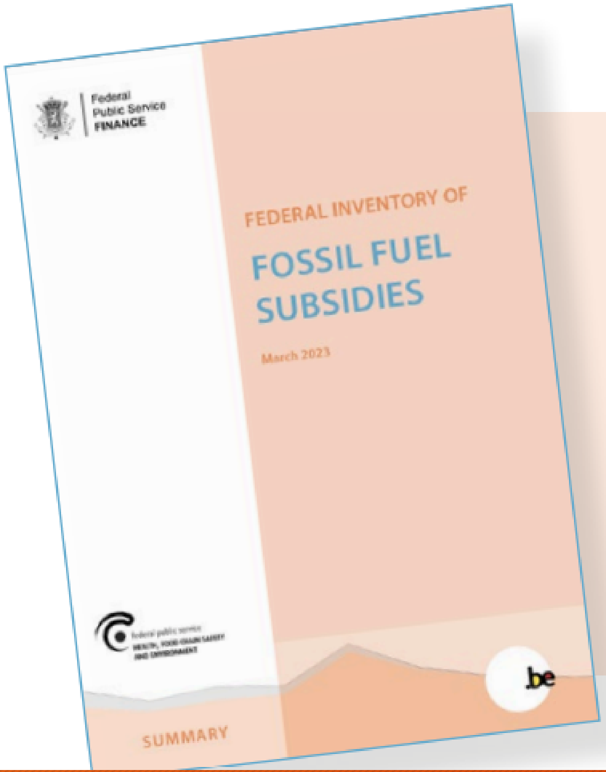

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Federal Inventory of fossil fuel subsidies

- Background
- Methodology
- Main results
- Conclusions and way forward

UNFCCC context

- *Article 36, Glasgow Climate Pact (2021) – reaffirmed in COP 27*

*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 phase-out of inefficient fossil fuel subsidies**, recognizing the need for support towards a just transition.*

- 1st mention in UNFCCC context

** UNFCCC - United Nations Framework Convention On Climate Change*

COP 28 – GLOBAL STOCKTAKE DECISION

- *(d)* ***Transitioning away from fossil fuels*** *in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science;*

- *(h)* ***Phasing out inefficient fossil fuel subsidies*** *that do not address energy poverty or just transitions, as soon as possible;*

COP 28 - Joint Statement on Fossil Fuel Subsidies

- Initiative from NL and signed by BE together with 11 other countries
- *'urge all parties at COP28 to urgently implement their commitment of phasing out inefficient fossil fuel subsidies made in the Glasgow Climate Pact and to take practical action along a clear timeline'*

✓ Commitment to transparency and development of comprehensive methodological framework

✓ Identification of international barriers preventing phase-out

✓ Set up international dialogue on national phase out FFS

Fossil fuel subsidies
Background

The federal Inventory of fossil fuel subsidies (1st edition 2021, update April 2023, to be regularly updated)

- 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
- **new reporting obligations** as part of implementation 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: <u>single benchmark</u>
  - ➢ There is no reason for having rates that vary across 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 : <u>excise duty on unleaded petrol in TOE or GJ</u>
    - There is no FFS if the tax rate of a specific energy source expressed in TOE or GJ is equivalent to the benchmark

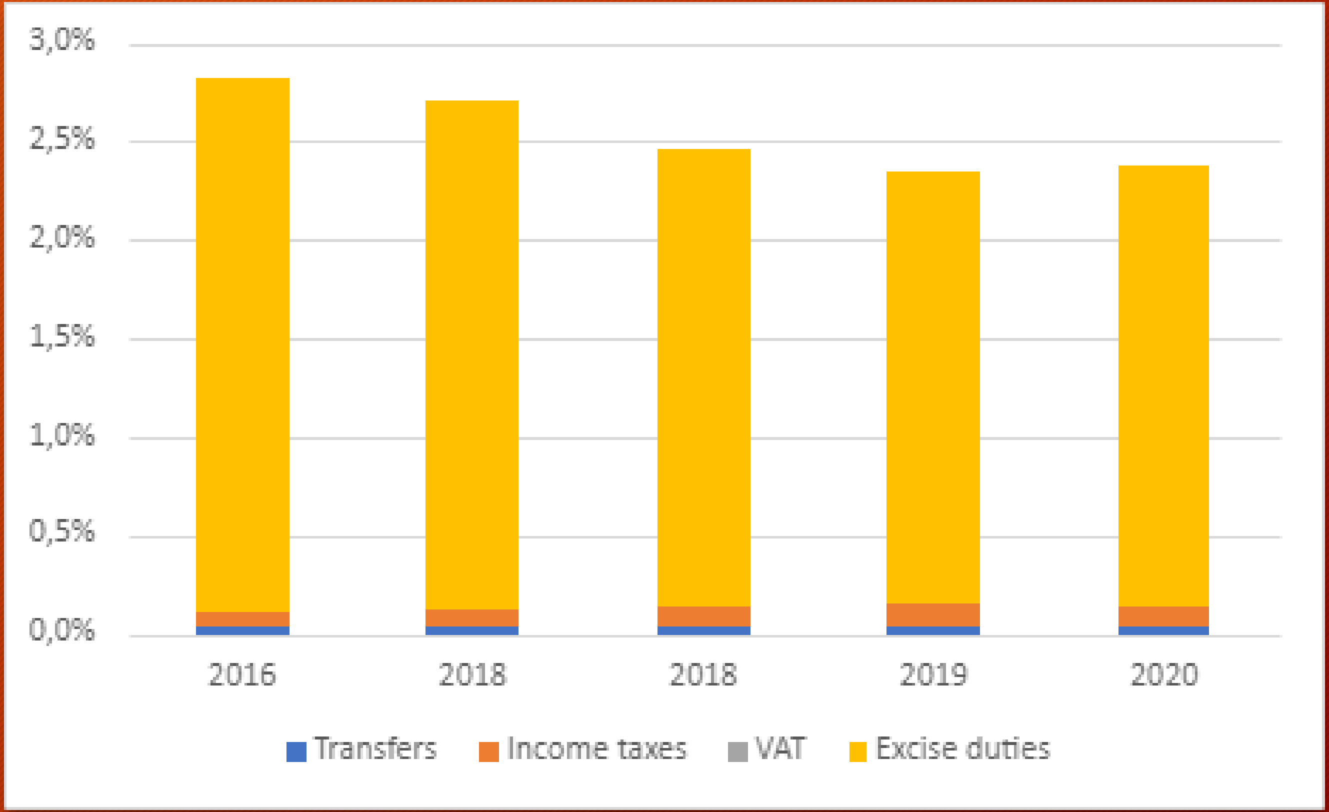
Fossil fuel subsidies
Methodology

	Excise duty rate		Energy equivalent		Excise duties per energy equivalent		Subsidy
	Unit	Amount	toe	GJ	toe	GJ	
Unleaded petrol	1,000 l	600.16	0.76	31.85	788.88	18.84	0.00
High sulphur gasoil	1,000 l	615.87	0.87	36.35	709.40	16.94	69.00
Low sulphur gasoil	1,000 l	600.16	0.87	36.35	691.30	16.51	84.71
High sulphur heating oil	1,000 l	18.65	0.87	36.35	21.48	0.51	666.22
Low sulphur heating oil	1,000 l	17.26	0.87	36.35	19.88	0.47	667.62
Kerosene	1,000 l	632.53	0.84	35.04	755.79	18.05	set to 0
Heavy fuel oil	1,000 kg	16.35	0.96	40.40	16.94	0.40	744.87
LPG	1,000 kg	44.68	1.13	47.30	39.55	0.94	846.55
Natural gas	MWh	1.00	0.09	3.60	11.60	0.28	66.83
Coal and coke	1,000 kg	11.76	0.67	28.20	17.46	0.42	519.59
Lignite	1,000 kg	11.76	0.28	11.90	41.37	0.99	212.46

Fossil fuel subsidies
Main results

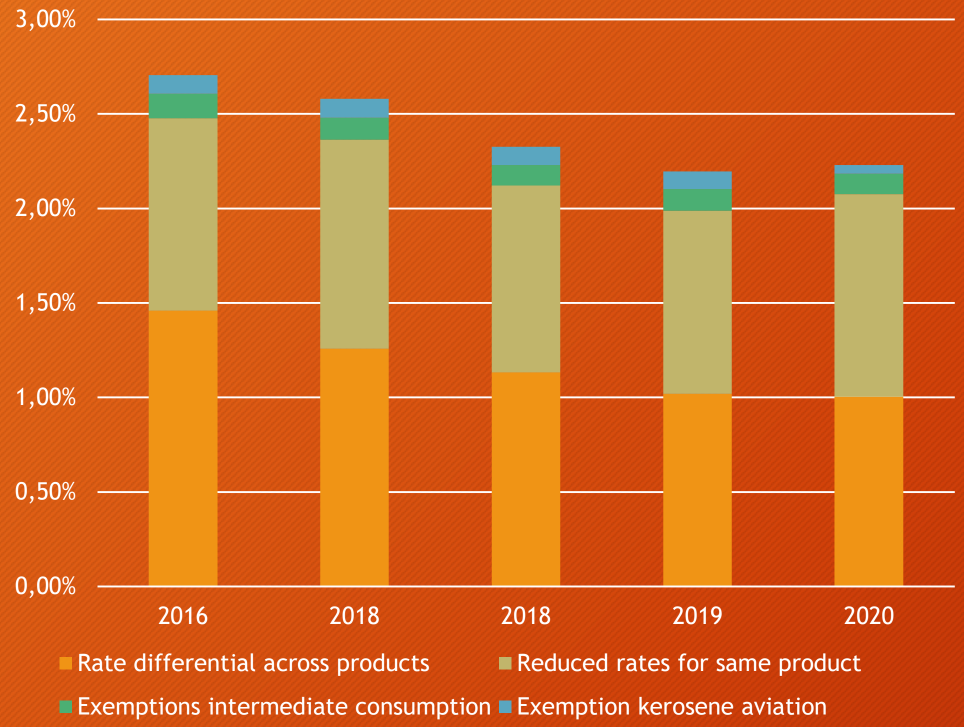
- Decreasing over the period 2016-2019
- At the end of the period: 2.4% GDP, i.e. 10.9 billion €
- Mainly excise duties
  - Minor role of transfers and income taxes
  - Marginal role of value added tax

Direct subsidies to fossil fuels, per instrument
% GDP



Fossil fuel subsidies
Main results

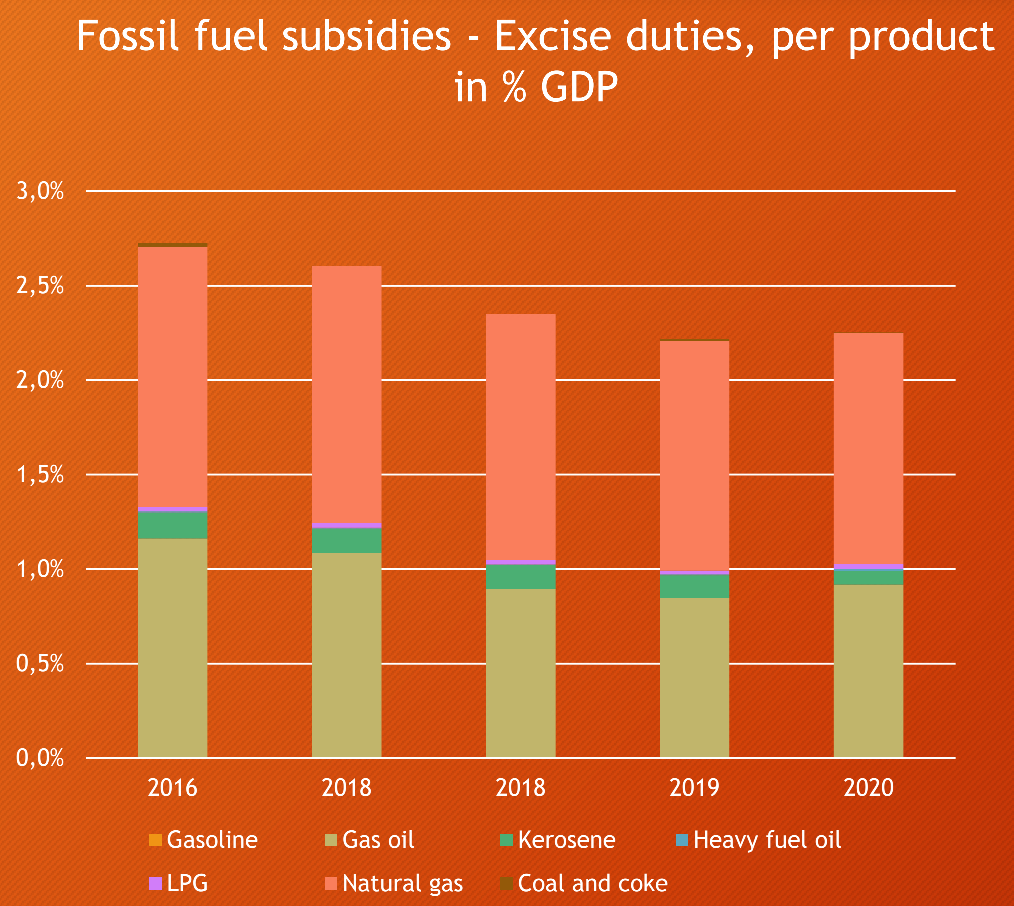
Fossil fuel subsidies - Excise duties, per type of subsidy in % GDP



For excise duties, the two most important items are

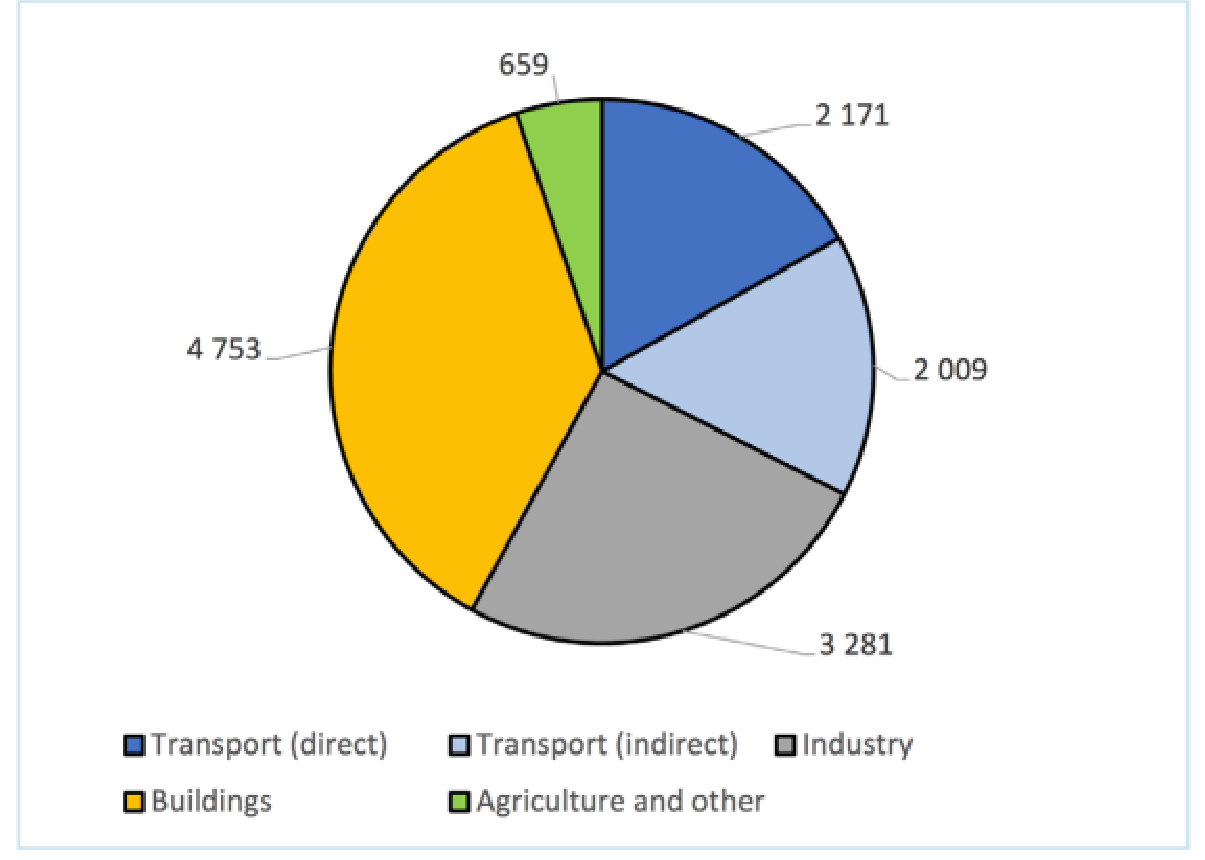
- rate differential across products (not included in the tax expenditures report)
- and specific rates for some products (here estimated with unleaded petrol as benchmark)

Fossil fuel subsidies
Main results



- The major part of the subsidies is granted by the excise duties and concerns
  - gas oil
  - natural gas

Fossil fuel subsidies
Main results

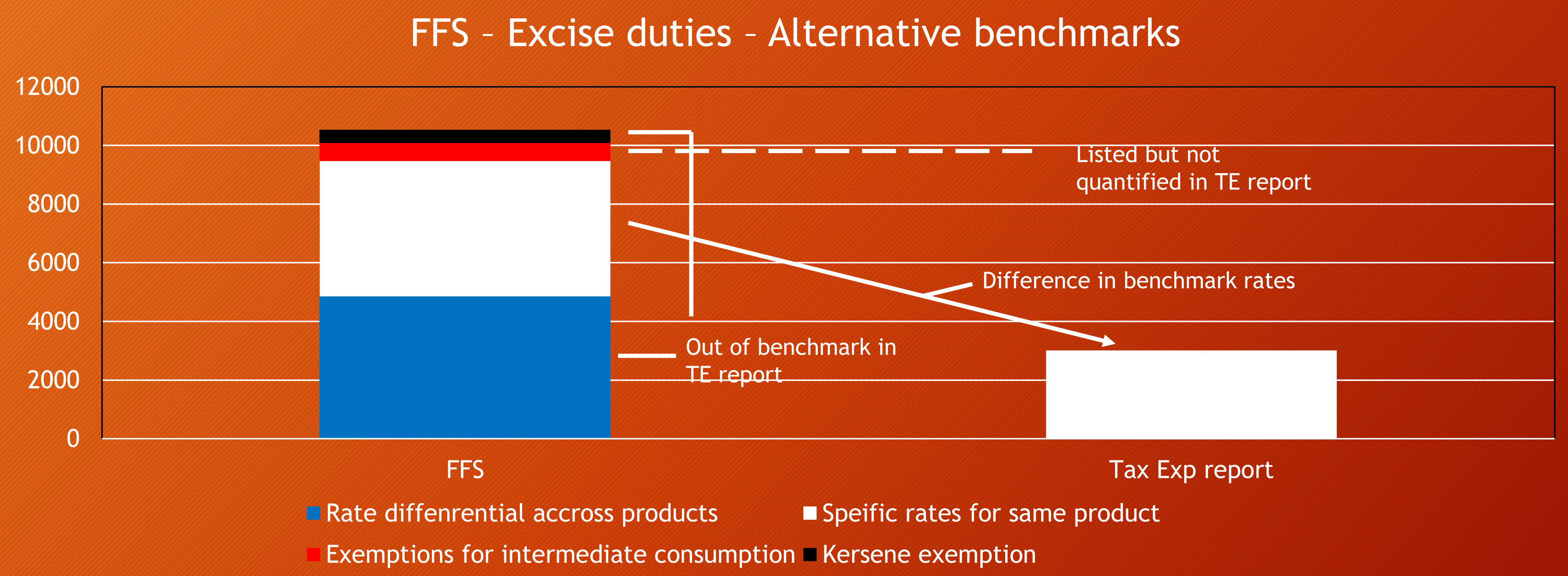


Breakdown of subsidies by sector, 2020 (millions €)

- **Transport:** 20% direct subsidies + important indirect subventions
- **Industry:** 30.2 % direct subsidies
- **Buildings:** 43.8 % direct subsidies
- **Agriculture and other activities:** 6% direct subsidies

- Amounts and ratios to be correlated to the relative importance of the various sectors

Fossil fuel subsidies
Main results



Fossil fuels subsidies
Main subsidies by sector, 2020

Direct vs indirect subsidy	SECTORS	Millions €	% GDP
	TRANSPORT		
Direct	Partial reimbursement of professional diesel	1,230.5	0.27
Direct	Fuel cards	492.0	0.11
Indirect	Company cars regime	1,947.2	0.42
	INDUSTRY		
Direct	Reduced excise duties – natural gas	911.2	0.20
	BUILDINGS		
Direct	Heating oil exemption of excise duties	2,260	0.49

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**
- JUST TRANSITION ASPECTS

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 / phasing out:

- should be contributing to achievement of BE long term GHG emission reduction targets
- is in line with statement last federal government agreement (2020):

« Taxation will be analysed with a view to making it more climate and environment friendly »

- *is one of the key topics of recent study by TML, HIVA and USL, Proposal for a green tax reform, the conclusions of which are available here*

What's next?

- **Extending the scope in next FFS Inventory**: feedstocks and financial support to fossil fuels
- Besides fossil fuel subsidies: current work on **Environmentally harmful Subsidies**

- also in context of UN Biodiversity Conference (COP15)
- guidance to be issued shortly by COM
- biannual reporting as of 2025
- aims at identifying non-energy subsidies/complementary to reporting of energy subsidies, in particular fossil fuels

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

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