



Evaluating policy coherence: the case of environmentally harmful subsidies

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Kris Bachus

Daniela Kletzan



Centre of expertise for sustainable development

WIFO

 **AUSTRIAN INSTITUTE OF
ECONOMIC RESEARCH**



Outline

- Definition and typology EHS
- Measuring EHS
- Casestudy: EHS for Energy in Flanders
- Casestudy: EHS for Energy in Austria
- Comparison & Conclusions



The issue and definition of environmentally harmful subsidies (EHS)

- Sustainable Development requires integrated assessment of economic, ecological and social effects
- Integration of the environment/SD in other policy areas => coherent, target oriented policy design
- Economic instruments (taxes, subsidies, etc.) are regarded as central for environmental/sustainability policy
- But many counterproductive support measures are in place:

"...financial supports and regulations that are put in place to enhance the competitiveness of certain products, processes or regions, and that, together with the prevailing taxation jurisdiction, (unintentionally) discriminate against sound environmental practices"
(OECD, 1998)



A typology of subsidies

- Direct transfers (expenditures)
 - Investment subsidies
 - Feed-in tariffs
- Indirect subsidies (reduced tax revenue)
 - Tax concessions or exemptions,
 - Tax allowances, preferential tax rates (e.g. preferential excise tax rates for diesel fuel)
- Provision of goods or services below cost
- Regulatory measures



Measuring EHS

- Direct transfers: relatively easy
- Tax expenditures: revenue forgone: revenue the government would have realized if all taxpayers payed the ‘normal’ tariff
- But, more basic question: which subsidies are environmentally harmful?



Measuring EHS: the OECD-checklist

- OECD-checklist: rough idea of harmfulness
- includes:
 - Policy filter: other policy instruments
 - Are environmentally friendly alternatives available?
 - Does the subsidy increase production?
 - Subsidies on output more significant than input, which is more significant than income



Case Study on Energy in Flanders (I)

1. Social measures

- Social measures with regard to gas and electricity
- Lower gas and electricity prices for poor people
- Free 100kWh electricity for each citizen
- Excise reduction on heating fuel
- Social heating fund
- Reduced VAT level on household use of solid fuel (coal)
- Allowance employees of the old coal mines
- Public service obligations of Flemish network managing companies



Case Study on Energy in Flanders (II)

2. Economic support measures:
 - Federal contribution reduction for electricity for large consumers
 - Energy tax reduction for electricity for large consumers
 - Energy tax reduction for gas for large consumers
 - R & D on nuclear scission
 - Market protecting measures for gas and electricity
 - Non-internalized external costs (€ 572 mio)



Case Study on Energy in Flanders (III)

3. Environmental measures:
 - Federal contribution reduction for sustainable electricity
 - Tax refund for energy saving investments
 - Subsidy for energy saving measures for households



Case Study on Energy in Flanders (IV)

- Final list:

- Tax reductions for large consumers for electricity and gas (€ 120 mio)
- Reduced VAT level on household use of solid fuel(coal)
- R & D for nuclear scission
- Allowance employees of the old coal mines
- Non-internalized external costs (€ 572 mio)

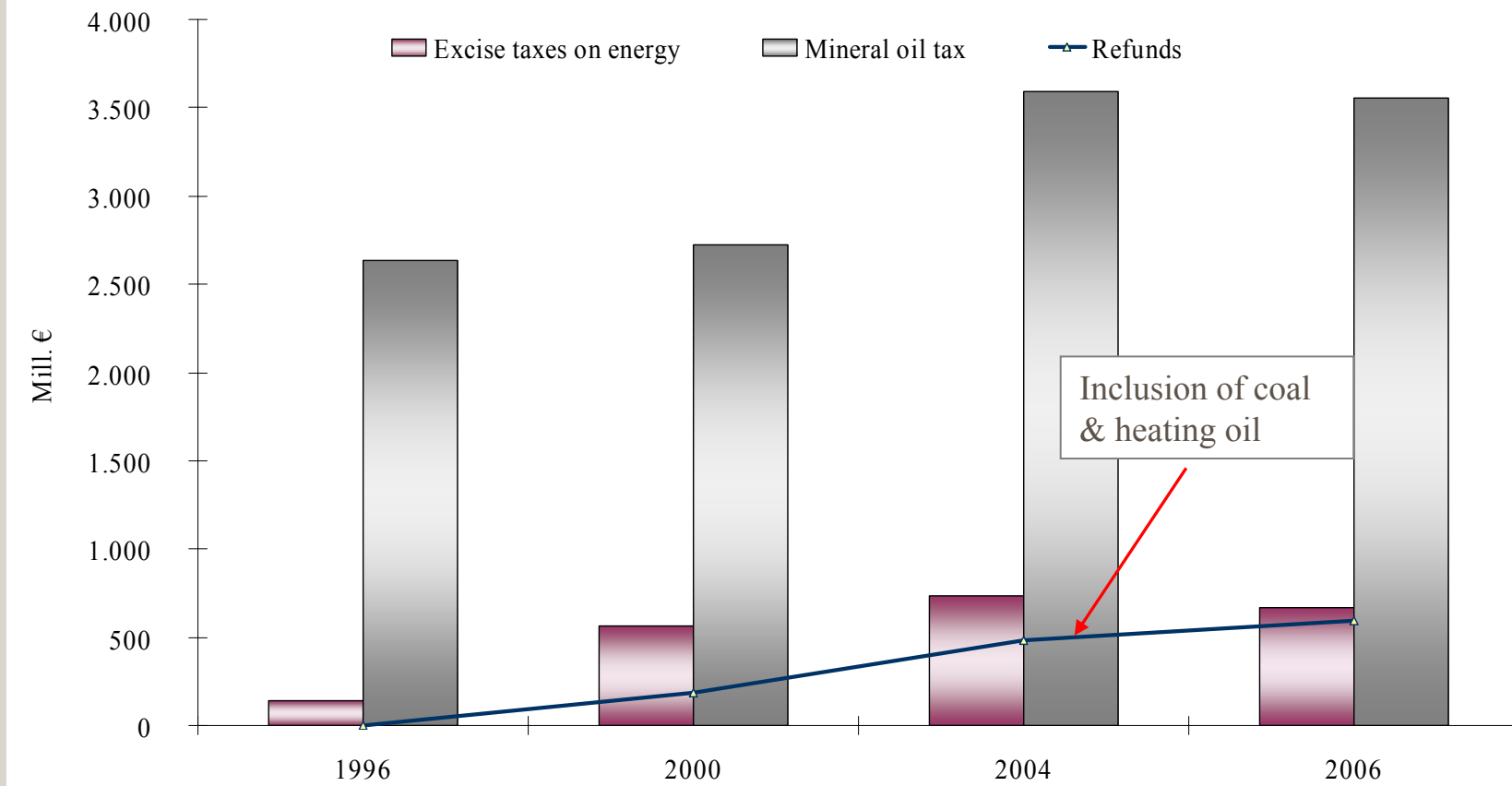
- Total: € 737.175.000



Case Study on Energy in Austria (I)

- Major part of EHS for Energy are tax provisions
- Energy taxation: mineral oil tax & energy taxes on electricity, natural gas and coal
- Tax rates for fossil fuels do not reflect emission intensity
- Refund of taxes (electricity, heating fuels) for energy intensive companies (taxes > 0.5 percent of net production value)
- Refunds amount to 1/3 of total energy tax revenues (~**500 mill. €**) and increasing
- General tax exemptions for energy suppliers, aviation, non-energetic use of fossil fuels

Case Study on Energy in Austria (II)



Source: WIFO, Federal Ministry of Finance



Case Study on Energy in Austria (III)

- Subsidies for energy R&D: total 34 mill. € (2% of R&D subsidies)
 - R&D in fossil fuels + nuclear = **3,6 mill. €**(10,6%)
- Non-internalized external costs: **not quantified** yet
- Subsidies for coal mines (remediation measures) and tax exemption for coal were phased out
- Regulatory measures:
 - Efficient & effective support scheme for renewable electricity?
 - Energy efficiency standards in building regulations?
- Funding for energy efficiency measures, R&D and climate research sufficient?



Comparison of EHS in Flanders and Austria

- **In both countries EHS, i.e. incoherent policies, are in place (economic/trade policy overrules environmental concerns)**
- **Similar measures are identified (tax reductions/ refunds for energy intensive companies, nuclear R&D)**
- **Tax cuts used all over Europe to protect competitiveness and permitted by EU Energy Taxation Directive**



Conclusions

- There is still a long way to go to in order to integrate the environment/SD in other policy areas
- Most of these support measures are largely unknown to the public
- For competitiveness issues unilateral policy changes are improbable (decision on EU level, 2020 climate & energy package)
- gradual refund mechanisms would provide more incentives for energy saving
- External costs have to be taken into account

But:

Energy is only one chapter of the story; EHS in transport are likely to be much higher => future work!

Thank you for your attention!

Kris.bachus@hiva.kuleuven.be

Daniela.Kletzan@wifo.ac.at



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