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Eurogas recommendations on the OECD Report "Inventory of estimated budgetary support and tax expenditures for fossil fuels"

In 2011, the Organisation for Economic Co-operation and Development (OECD) published its first report entitled "Inventory of estimated budgetary support and tax expenditures for fossil fuels" [1] and released its update in February 2013.[2]

The OECD report and subsequent update provide preliminary quantitative estimates of direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in selected OECD member countries. They aim to support analysis to achieve the objective set by the G20 leaders to rationalise and phase out inefficient fossil-fuel subsidies in the medium term.

Eurogas supports the removal of inappropriate production and consumption subsidies, whatever the energy source is, and supports initiatives aimed at further development that tackles environmental issues such as climate change.

As this report is frequently mentioned in the context of gas as a fuel, **Eurogas would like to rectify the erroneous impression that gas enjoys important subsidies in the EU and wishes to warn against a prejudiced perspective for natural gas.**

Eurogas also recalls that among all the hydrocarbon fuels, natural gas produces the lowest CO_2 emissions per unit of energy. Natural gas, especially if it replaces other more polluting fossil fuels or if it provides back-up to intermittent renewable energy sources, will make a valuable efficient and effective contribution towards CO_2 reduction objectives and towards sustainability in general. EU policy frameworks should be supportive of this potential and the taxation features should therefore take care not to result in a deterioration of the relative competitiveness of gas versus other less efficient or more polluting fuels.

We understand the objective of the OECD study, as presented in the report, to get a handle on features of the examined OECD countries in order to reconsider related policy issues without evaluating or judging them. Nevertheless, the perception of the title of the study and the way it is presented in the media and how it is picked up might be misleading and create particular prejudices against natural gas.

In this context, **it is useful to clarify the definition of an "energy subsidy".** The International Energy Agency defines an energy subsidy as "any government action directed primarily at the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by energy consumers".

In the OECD report, however, various measures that have an impact on fossil fuel consumption are generalised and referred to as "subsidies". Some of these measures support industry (e.g. investment grants), whereas others create an additional burden (e.g. regulated prices). Thus, the definition of subsidies in this report remains quite large. This current broad definition captures many diverse forms of support, direct and indirect. The type of support or relief should be considered, as well as their beneficiaries.

The OECD states that the scope of what is considered "support" is deliberately broad, and is broader than some conceptions of "subsidies". However, it goes far beyond what is commonly considered to be a subsidy, and can therefore lead to misinterpretations. To avoid that risk, **Eurogas recommends that the term "conception of 'subsidy'" as well as the qualifier "inefficient" are defined more precisely in the first chapter of the OECD report**. Furthermore, the report mentions social tariffs for natural gas, special heating grants, reduced VAT rates for district heating, and energy tax breaks for agriculture and manufacturing, energy-intensive processes and other industrial users. The reported subsidies should not be considered as subsidies to natural gas because it is not natural gas as a fuel that is being "subsidised" but certain industries that are being helped by tax caps, for example, or certain consumers that are

[1] www.oecd.org/site/tadffss/48805150.pdf
[2] www.oecd-ilibrary.org/environment/inventory-of-estimated-budgetary-support-and-tax-expenditures-for-fossil-fuels-2013_9789264187610-en

protected via reduced VAT rates. Reference to subsidies is misleading in this context and refers to elements of broader industrial and social policy frameworks. With respect to the taxation of energy products, **Eurogas** is aware of the large differences between tax systems and approaches, and **sees room for more harmonisation in the medium term in order to increase transparency and market development**.

One should not only consider subsidies to fossil fuels but also the distorting effect of subsidies in general to all forms of energy production and consumption. The choice of the most sustainable sources of energy and energy technologies should be in line with competitive/market principles and structures, and consistent with the Emissions Trading System (ETS) and operation of the carbon market.

Along with energy efficiency and renewable energy sources, **natural gas is a natural choice for efficient and economic solutions in power and heat production, manufacturing processes, domestic and natural space heating, as well as transport.**

In conclusion, gas production and consumption in the EU cannot be considered to benefit from important subsidies and are limited to support given to certain industries or protected customers. Given the potential of subsidies to distort the market, subsidies for the development of low-carbon technologies should be well-targeted and limited in time. The choice of mature low-carbon technologies should primarily be influenced by an overall greenhouse gas reduction target, the ETS and other technology-neutral measures in the non-ETS sectors. Taxation should take account of environmental benefits, including those of gas. In this context, **gas offers a broad variety of solutions for a sustainable low-carbon energy supply with positive effects for both the economy and the environment.**

Note to Editors: Eurogas is an association representing about 50 companies and associations engaged in the wholesale, retail and distribution of gas in Europe. Eurogas provides data and information relevant to EU decision makers and opinion formers in making the right policy choices.

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