ENERGY SUBSIDIES IN EU’s
EASTERN PARTNERSHIP COUNTRIES:
SOME COMPARISONS

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“Green” Policy Goal: Level playing field and support for energy efficiency and renewables

Fossil fuels get more subsidies than RE and EE measures
Energy Subsidies: an old topic in new packaging for EaP region
Energy Subsidies: familiar content in a new region for international experts

SPECIAL FLAVOUR!
CROSS-SUBSIDISATION!
### What do countries include in the national definition of subsidies?

<table>
<thead>
<tr>
<th>EaP Country</th>
<th>Direct budget transfers</th>
<th>Tax revenue foregone</th>
<th>Induced transfers (regulated prices)</th>
<th>Transfer of risk to government</th>
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<td>Ukraine</td>
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- **Covered by the national definitions of both “subsidy” and “state support”**
- **Covered only the national definition of “state support”**
- **Covered by the national definitions of neither “subsidy” nor “state support”**
Energy subsidies (bottom-up inventory approach) and government deficit as percentage of GDP in select countries in 2014*

Government deficit data based on EUROSTAT, energy subsidies based on authors’ findings

* The value of energy subsidies in Ukraine was extraordinarily high in 2014, in both 2013 and 2015 it was significantly lower
• AZ and BY regulate fuel prices is AZ. In other countries fuel prices are market-based.

• Excise tax rates lower than in the EU. Diesel exempt from VAT in AM

• Some countries differentiate excise rates based on ecological class (Euro-2,3,4,5), some do not yet

• Some countries (e.g. UA, MD) used the recent decrease of the world oil price as a window of opportunity to increase excise tax rates on transport fuels

• If excise rates are too low for one fuel, they can provoke fuel-switching. For instance, low excise rates on diesel in MD are designed to benefit farmers, but may also lead to drivers switching to city vehicles with diesel engines
ELECTRICITY, GAS & HEAT TARIFFS

- Energy mix and cost of generation varies largely among countries, making it difficult to compare tariffs
- Tariffs need to be subsidized for socially vulnerable groups via targeted schemes
- Social protection measures include lifeline tariffs for electricity (e.g. preferential tariffs for households with consumption up to 250 kWh per month in AM) and means-tested subsidization, especially for heat (e.g. subsidies conferred to households under a certain level of income in UA and BY). Means-tested subsidies may have a negative side effect of discouraging energy efficiency.
Energy subsidy reform requires complementary policies. Subsidy targeting is a major issue for the EaP region, which requires both planning and investment.

### Industry/business
- Support to restructure sectors e.g. retraining programmes
- Measures to improve energy efficiency
- Investments in infrastructure

### Social
- Cash transfers: (un)conditional
  - Social safety nets, pensions, health insurance
  - Increase (minimum) wages
  - Pro-poor expenditure

### Energy
- Investment in renewable or alternative energies, rural electrification, etc.
- Energy conservation, energy security, energy efficiency policies

### Macro-economic
- Policies to manage inflation
- Strengthen market forces and encourage competition

### Banking
- Can help roll out cash transfers
- Credit facilities, e.g. for SMEs and micro-credit

### Transport
- Expanding public transport systems
- Alternatives for freight (rail or inland waterways)
- Transitional support for taxi drivers
Thank you!

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