

# ENERGY SUBSIDIES IN EU's EASTERN PARTNERSHIP COUNTRIES: SOME COMPARISONS

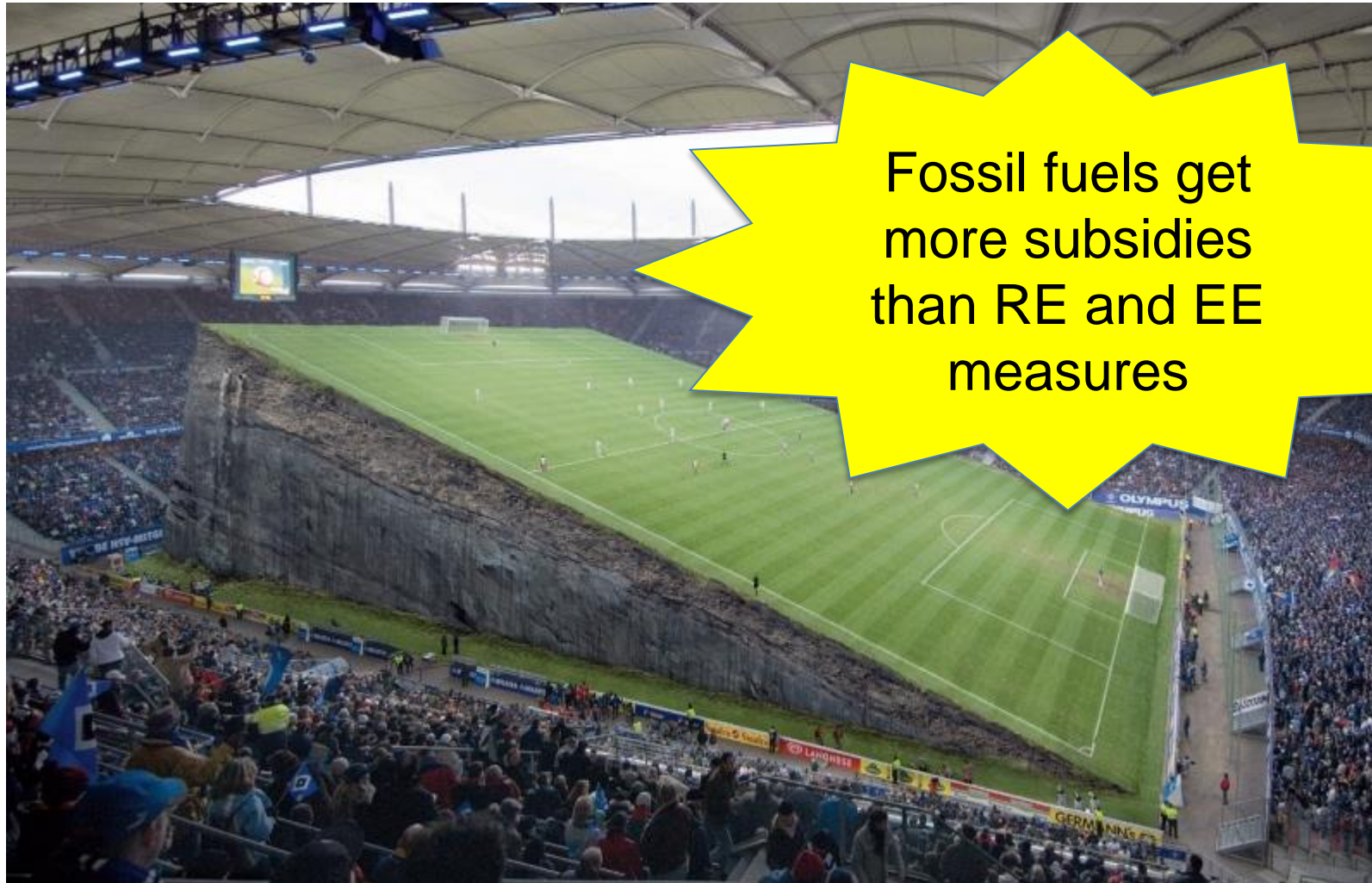
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# “Green” Policy Goal: Level playing field and support for energy efficiency and renewables





# Energy Subsidies: an old topic in new packaging for EaP region





# Energy Subsidies: familiar content in a new region for international experts

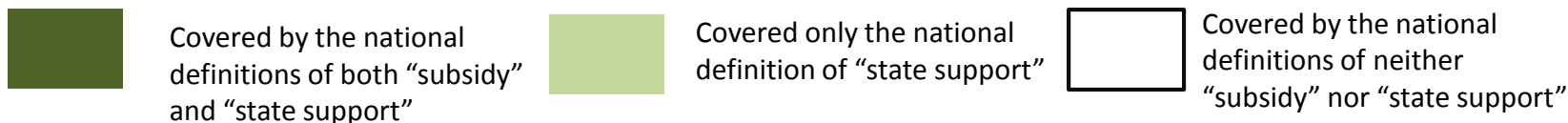







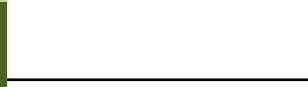
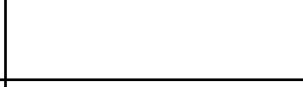




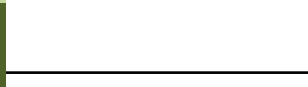





**SPECIAL  
FLAVOUR!  
CROSS-  
SUBSIDISATION!**





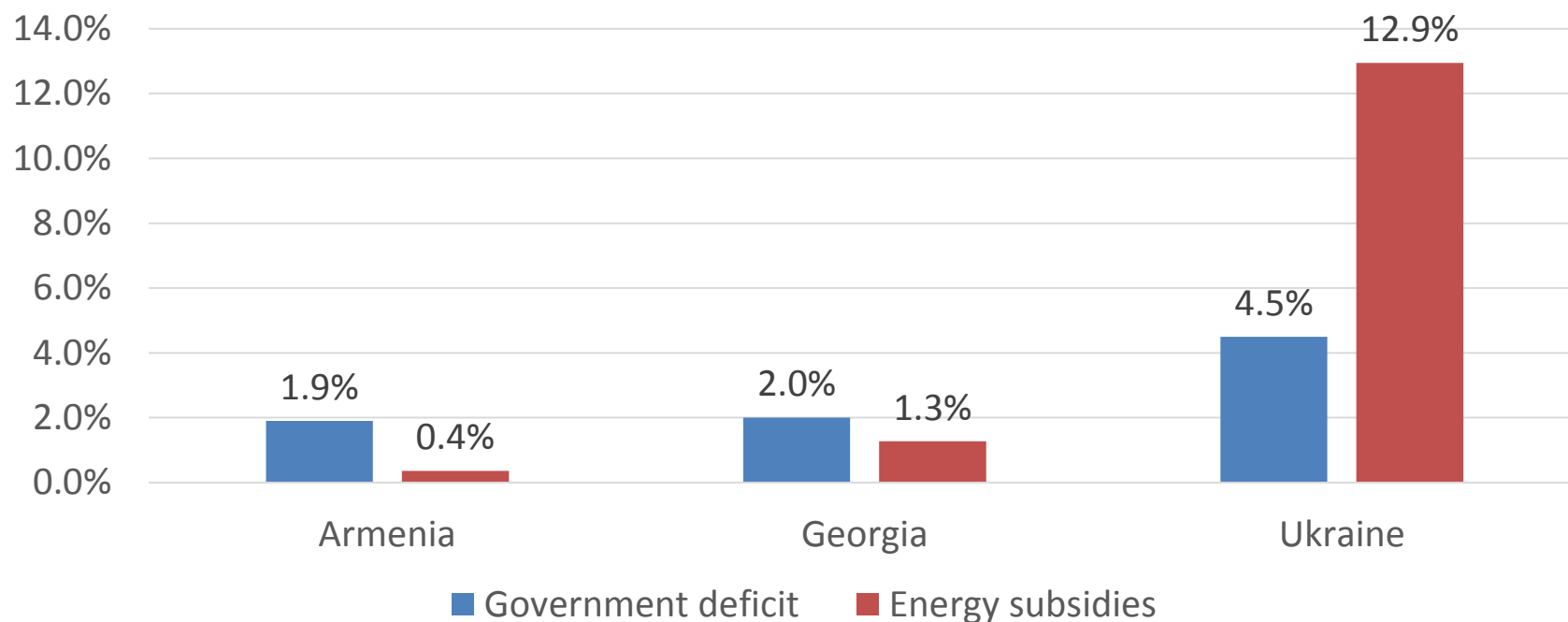
# What do countries include in the national definition of subsidies?



EaP Country	Direct budget transfers	Tax revenue foregone	Induced transfers (regulated prices)	Transfer of risk to government
Armenia				
Azerbaijan				
Belarus				
Georgia				
Moldova				
Ukraine				



# 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



# TRANSPORT FUELS

- 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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