Ympäristöministeriö
Miljöministeriet
Ministry of the Environment

Experiences with Self Review of Fossil Fuel Subsidies in Finland

Outi Honkatukia
Chief Negotiator for Climate Change
UNFCCC Focal Point
Finland

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Why assess subsidies?

To identify…

the good

relevant, targeted, effective, positive impacts,
few negative effects

the bad

no longer relevant, waste of money,
important negative effects

the ugly

Badly designed, inefficient, badly targeted,
potential for negative effects

To develop a roadmap for subsidy reform

Assessment of fossil fuel and other environmentally harmful subsidies in Finland

- 2013: 1st systematic assessment (2009-2012)
- 2015: focus on biodiversity & trends in support (2010-2015)
- All support measures
  - Incl. EU-wide measures (e.g. emission trading)
  - Measures with indirect environmental impact
- Tax support, exemptions, budget support etc.
- 400 measures, 50 analysed in detail
- Potentially harmful subsidies in energy, transport and agriculture
- Tax support dominate in energy and transport
- Budgetary support dominates in agriculture

Some lessons learned

- Government ministries/agencies best placed to compile subsidy data & prepare 1st draft of the review
  - Access to budget information & tax support measures
  - Research difficult to outsource
  - Information held within & understood by governments
- Capacity & resources needed to deliver
- Phased approach:
  - Gathering of technical information
  - Stakeholder consultations (political level, NGOs & interest groups) at a later stage

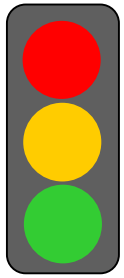
OECD/EU assessment tool (*)

I. Screening of subsidies

II. Potential for reform

III. Wider assessment

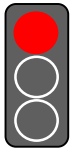
IV. Opportunities for action



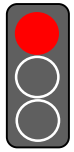
- **Political will, courage, decision!**

(*) EU study (2010): Environmentally Harmful Subsidies: Identification and Assessments

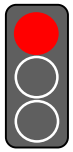
Energy sector



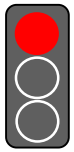
- Tax rebate (energy intensive industry)



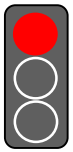
- Lower tax rate applied to industry & greenhouses



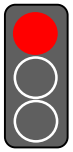
- Lower tax rate for peat



- Free allocation of ETS emission permits

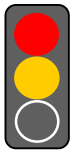


- Tax rebate for energy use in agriculture

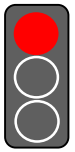


Total > 800 m€ /year

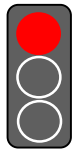
Transport



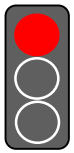
- Diesel vs. petrol



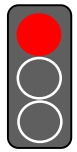
- Machinery



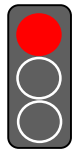
- Compensation for using own car



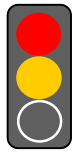
- Free parking



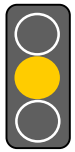
- Commuting to work



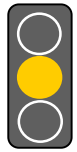
- Company cars



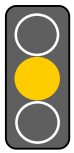
- Tax when moving abroad



- Camper vans



- Taxis



Total > 1,8 bn €

Subsidy reforms in 2014

- Energy taxation tightened 😊
- CO2 tax on heating, power plant & machinery fuels increased 😊
- Tax on transport fuels increased 😊
- Motor vehicle tax on cars & vans increased 😊
- Liquefied petroleum gas made taxable 😊
- Car tax reduction on taxis & cars imported as removal goods reduced/abolished 😊
- Right to deduct commuting expenses reduced 😊

Examples of other developments

- Increased competition and lower ticket prices in long distance bus transport ➡ reduction in tax support on commuting to work 😊
- New scheme to compensate for indirect costs of EU Emission Trading Scheme ➡ increase in fossil fuel subsidies ☹

2015 report on biodiversity impacts
Analytical framework

Public sector support

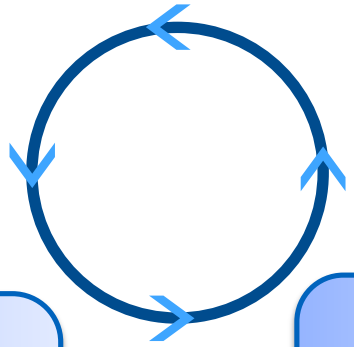
•Tax subsidies
•Direct budgetary support
•Indirect support

Policy action
Sustainable use of natural resources, Nature conservation

Impact on biodiversity

Are there efforts to mitigate the impact?

Driving forces
Agriculture
Forestry
Industry….

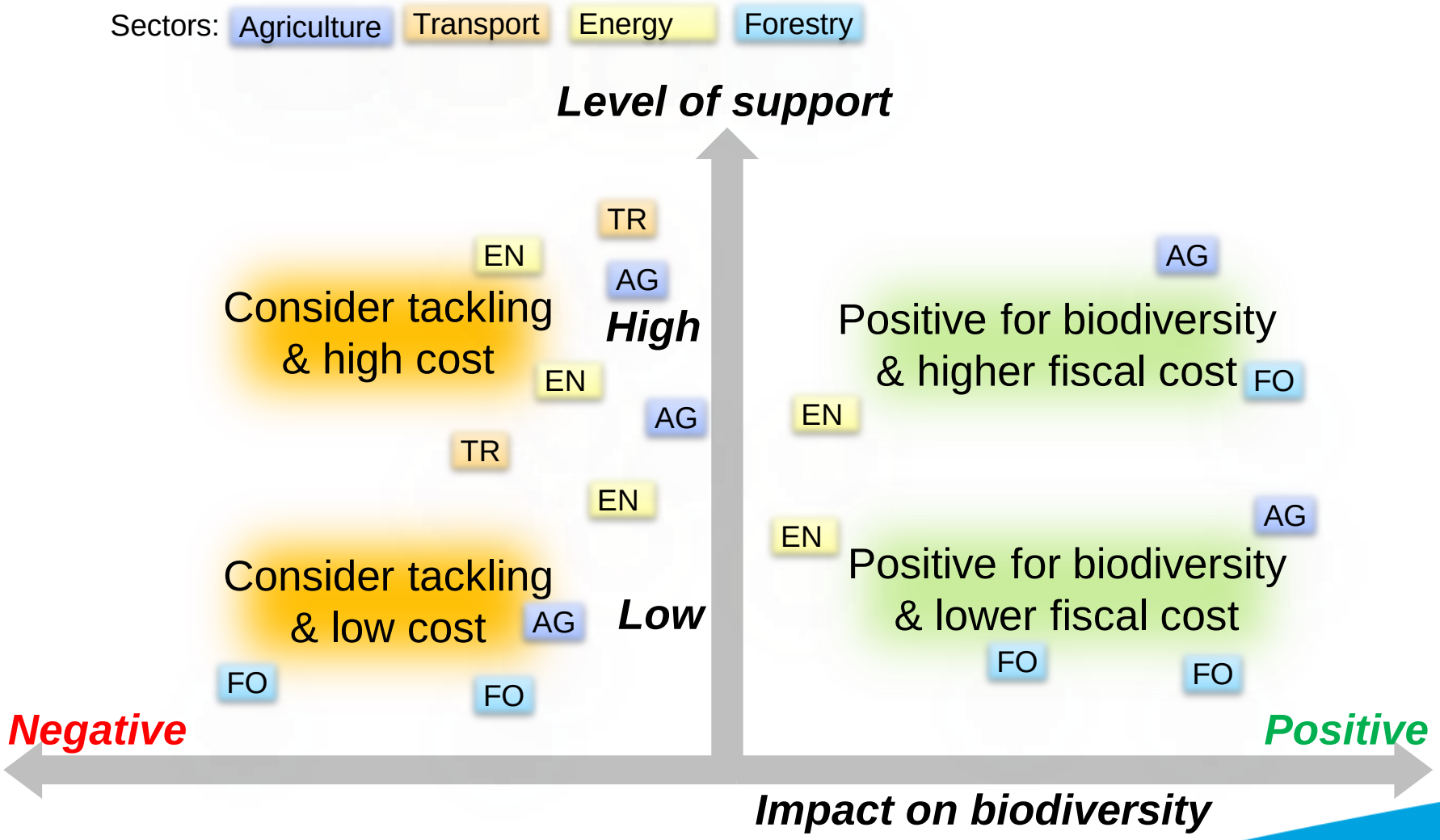


Impacts
Decline in ecosystem services
Health impacts…

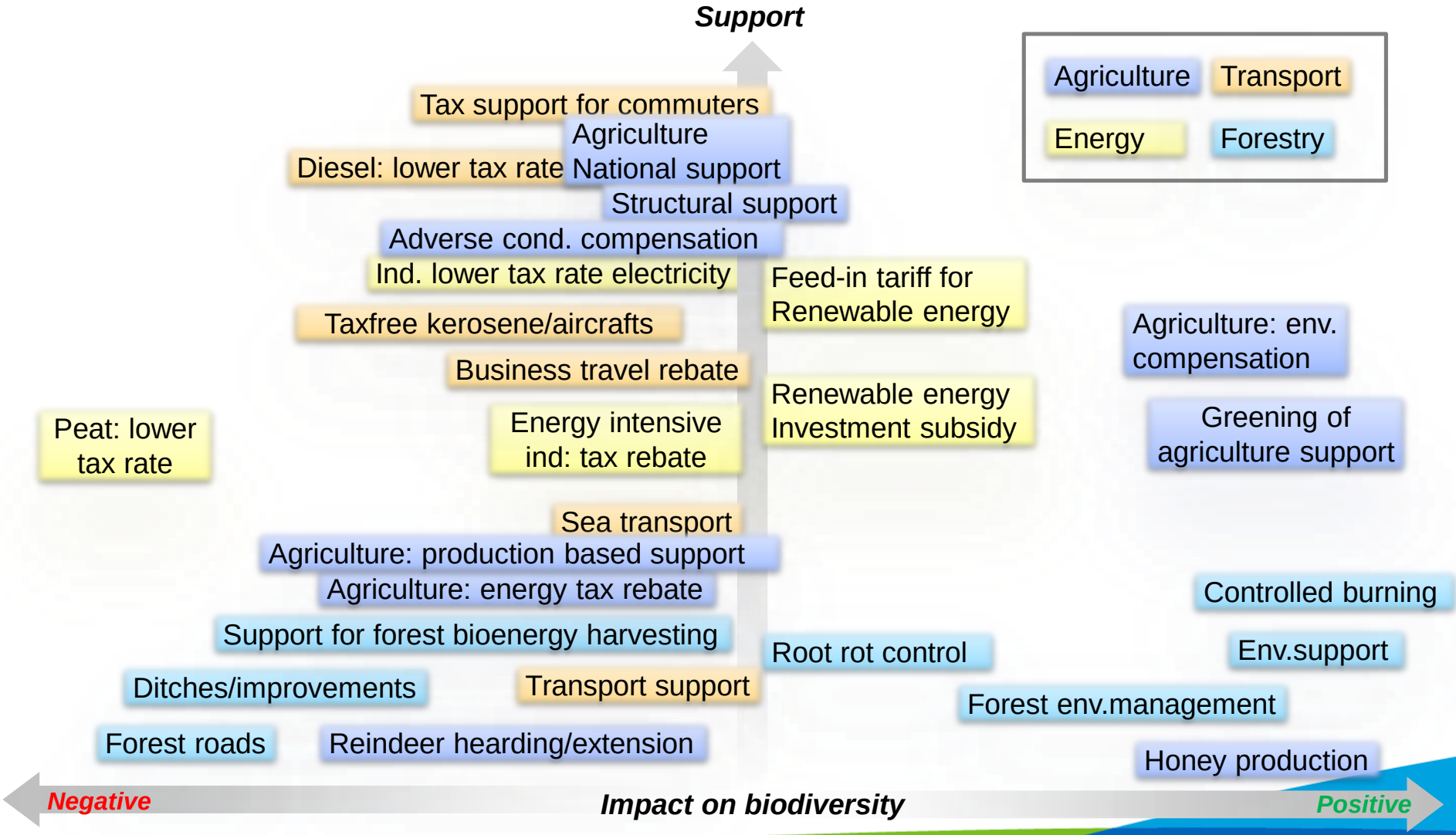
Pressures
Land use changes
Eutrophication
Fragmentation…

State
Biological state
Ecosystems
Physical state…

Visualisation of assessment used in 2015 report



2015 report on biodiversity impacts
Illustration of results



Observations

- Externalities, regulations, hidden support?
- No environmentally harmful budget support
- Mainly tax support or rebates (difficult to quantify and assess impacts)
- Some potentially harmful subsidies could be reformed at national level
- Changes to biggest subsidies should be done at global or at least EU level (competitiveness, carbon leakage etc.)

Observations (2)

- Correlation between tax rate and harmful subsidies → countries with higher taxes have more subsidies
- International comparisons difficult
  - SE study: ETS free allocation excluded
  - DE study: EU CAP excluded
- EU ETS: full auctioning 2027 → partial pricing
- Environmental impacts often not assessed
- Subsidies need to be assessed together with other policy measures

Observations (3)

- Environment angle is narrow, reform can have wider economic and social benefits
- Subsidy can seem wasteful even when not damaging the environment
- Reform can free resources than can be directed to other policy priorities
- Also ”green” subsidies can be badly designed, poorly targeted, costly and cause market distortions!

Objectives vs. reality

- Subsidies launched with good intentions
  - Food production (EU CAP)
  - Energy security, diversification (peat, coal)
  - Technology/industry support (renewables)
  - Competitiveness (energy tax exemptions)
  - Social & poverty issues (fossil fuels, electricity)
  - Climate policy (biofuels & renewables)
  - Environmental concerns
- Objectives can become outdated (self-sufficiency)
- Objectives can differ from actual impacts (biofuels)
- Instrument can be wrong or badly designed
- Unforeseen environmental impacts
- Slows down structural change

I. Initial screening

1. Does the subsidy exist?
2. Does it affect environment?
3. Sectoral importance?
4. Ecocomic & social importance?
5. Reform barriers?
6. Data availability?

II. Assessment tool

1. Does support increase production?
2. Do other policies limit environmental impacts?
3. Are more environmentally friendly options available or being developed?

III. Wider assessment

1. Policy objectives?
2. Are the set objectives met?
3. Is it cost effective?
4. What are its economic, social & other impacts?
5. What are the long term impacts?

IV. Reform opportunities

1. What can be done?
2. Costs and benefits of different options?
3. Who lose? Possible compensation?
4. Factors affecting success

Will subsidy reform benefit the environment?

1. Conditionality leads to higher production? **No →**
   ↓ **Yes**
2. Policy filter limits environmental damage? **Yes →**
   ↓ **No**
3. More benign alternatives available or emerging? **No →**
   ↓ **Yes**

Reform not likely to benefit the environment

➢ **Reform likely to benefit the environment**

How to reform?

€ $ £ ¥ ?	Timeline: Slow	Timeline: Fast
Yes	*Cash-out*	*Buy-out*
No	*Squeeze-out*	*Cut-out*

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Thank you!

Outi.Honkatukia@ym.fi

Twitter: @paaneuvottelija