



Potentially Environmentally Damaging Subsidies

London Group on Environmental Accounting – Session 4

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Overview

- Potentially environmentally damaging subsidies (PEDS) 2022 data collection: Main features
- Main results
- Co-ordination inside the European Commission

PEDS 2022 data collection: Main features (1/3)

- General features:
 - Data on fossil fuel subsidies (and other damaging products/activities) and carbon pricing.
 - Presented by institutional sectors: Corporations, further broken down by NACE A*10, and Households
 - Years: 2018 to 2021.
 - Catalogue of measures: Special kind of metadata sheet to provide details on subsidies and taxes (actually included and potentially ones)
 - Particular case of implicit transfers: No table for data reporting, but can be reported in free format and details on them also possible in the Catalogue of measures.

PEDS 2022 data collection: Main features (2/3)

- Links and files:
 - [PEDS 2022 questionnaire – launched in December 2022](#)



PEDS 2022
Questionnaire

- [PEDS guidance material – launched in December 2022](#), update based on findings from the next data collection and contacts with other stakeholders, pending:



PEDS 2022
guidance material

PEDS 2022 data collection: Main features (3/3)

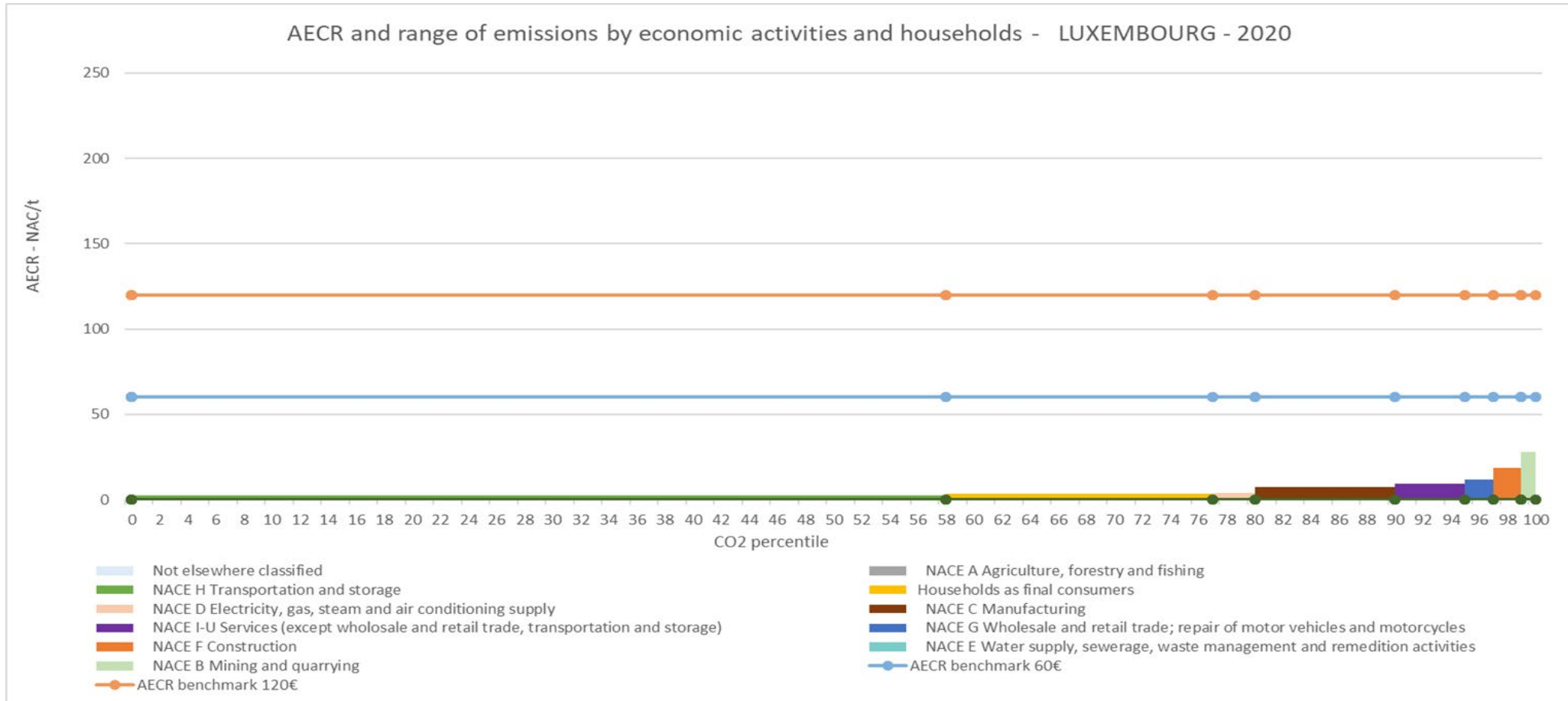
- Specific aspects concerning definitions and scope:
 - *Transfers** for reporting: ESA 2010 transfers: D3 (Subsidies), D6 (Social contributions and benefits), D7 (Other current transfers) and D9 (Capital transfers).
 - Fossil fuels (energy products P08-P20 in PEFA) are damaging by default. Some criterion set up for other damaging subsidies (ex. counterfactual criterion developed by DG ENV).
 - Subsidies on the production side (including downstream and upstream activities) and consumption side (direct link between supporting measure and damaging product). Delineation of subsidies on the consumption may also be revised.
 - Taxes: ESA 2010 transfers: CO₂-specific taxes, excise taxes and emissions trading scheme payments. In ESA-2010 terminology, same scope as ETEA: D2 (Taxes) and D5 (Social).
 - CO₂ Emissions excludes those not derived from fossil fuel combustion (i.e. not 1.A in CRF)

* 'Subsidies' term usually applied to refer to subsidies (D3) and other transfers.

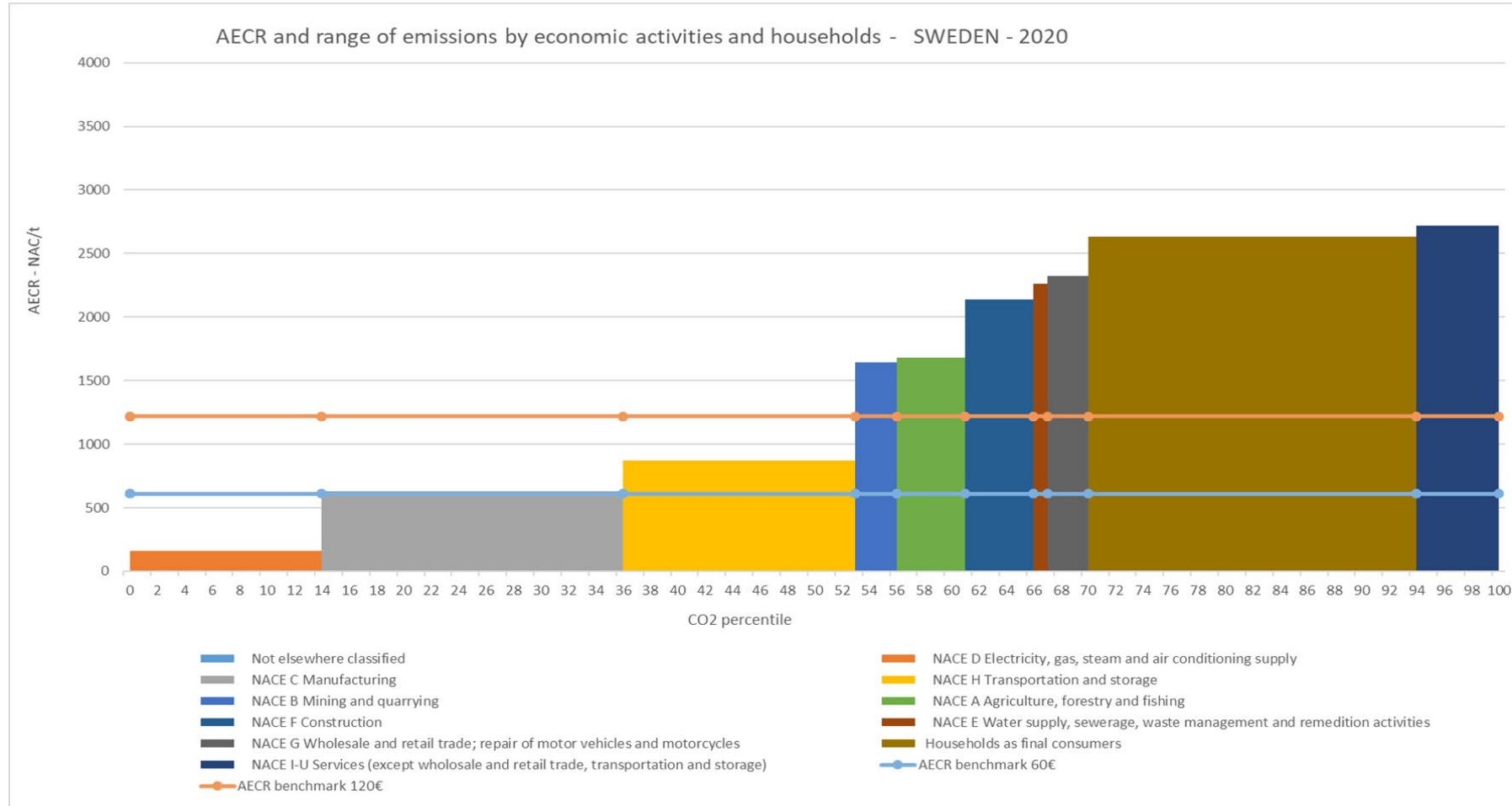
Main results (1/5)

- 6 countries reported: All of them reporting fossil fuel subsidies, 2 not reporting other PEDS, one country providing some data on implicit transfers, and most of them filling in the 'Catalogue of measures' with sufficient details.
- Reporting of fossil fuel subsidies and/or other damaging subsidies insufficient to extract conclusions for the moment.
- Average effective carbon rates, easier to compile as AEA, PEFA and ETEA can be used as data sources.
- Hereinafter, two examples on how AEER can be combined with the percentage of emissions to which they refer:

Main results (2/5)



Main results (3/5)



Main results (4/5)

- Results – reporting year 2020:
 - For Luxembourg, 100% of CO2 of emissions originated from fossil fuel combustion are taxed below the minimum 60 EUR/tonne OECD benchmark ([See OECD](#)), while Sweden is taxing the lowest percentage of emissions (only 15%*) falling below that benchmark.
 - If the benchmark is 120 EUR/tonne, Malta is also presenting 100% of emissions originated from fossil fuels taxed below the benchmark, while Sweden is also taxing the lowest percentage of emissions (53%) falling below that benchmark.
 - Typically, NACE C, D and H are paying below those benchmarks. Notably, the first two are paying taxes for their CO2 below the benchmarks for all reporting countries. On the contrary, households as final consumers are usually paying large taxes per CO2 tonne, with the remarkable exception of Luxembourg (4 EUR/tonne)
 - Highest average effective carbon rate in all reporting countries is for Sweden, with 259.36 EUR/tonne, allocated to NACE I-U.

*Newest dataset, pending to be validated, previously 19%.

Main results (5/5)

- Limitations of the previous results:
 - Role of residents and non-residents unclear, but potentially relevant for some countries, such as Luxembourg or Malta.
 - These results reflect who is actually paying, but not necessarily tax burden. It can be particularly relevant for excise taxes, who may be paid by the final and intermediate consumers and collected by fossil fuel sellers and affecting margins by producers.
 - Average effective carbon rates, as any average, has limitations, especially compared to marginal carbon rates and more relevant in activities with large emissions. In those cases, it may exist a large gap between less and highest taxed emissions within the same NACE.
 - Compilation practices, mostly due to PEDS being in the first data collections: Coverage, availability of data sources, lack of expertise, need of deepening in the guidance material, etc.

Co-ordination inside the European Commission (1/2)

- Directorate General Environment (European Commission) is developing metrics of the so-called Environmental Harmful Subsidies (EHS), for non-energy subsidies. Simultaneously, Directorate General Energy work on energy subsidies. No overlap between DG ENV and DG ENER.
- Similarly, DG ENV and Eurostat are in close co-operation to avoid overlaps, and to take advantages of synergies.
- As a result, PEDS may focus on energy subsidies only in the future (avoid double reporting by countries with DG ENV EHS project)

Co-ordination inside the European Commission (2/2)

Recent technical in-house Commission meetings focused on the approach to capture **implicit transfers** and criterion applied to determine the scope of 'damaging':

- For implicit transfers, Eurostat is not collecting data, as such. This choice is due to measurement problems to ensure comparability across countries, compatibility with ESA-2010 and accuracy issues.
 - Most used methods may incur in systematic overestimation of tax abatements due to the failure to incorporate behavioural change.
- DG ENV proposes the so-called 'counterfactual' criterion to determine whether a subsidy is in scope i.e. 'harmful'.
 - If a determined parameter of the environment is better in the absence of such a measure.
- This general statement embeds multiple decisions concerning the product, who receives the subsidy, how direct is the impact of the subsidy in the amounts consumed of a specific product, effects on complementary and substitutive products, etc.

Questions

Thank you

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