IRELAND: INVENTORY OF ESTIMATED BUDGETARY SUPPORT AND TAX EXPENDITURES FOR FOSSIL-FUELS

Energy resources and market structure

Ireland has few fossil-energy resources and is highly dependent on energy imports. The only indigenously produced energy sources are peat, combustible renewables and waste, and small volumes of natural gas. Oil accounts for half of the country's primary energy supply, all of which is imported, while gas contributes another 32%. All but 7% of the gas consumed is imported via an interconnector with the United Kingdom; domestic production has been declining for several years with the depletion of mature fields and delays to the start-up of the Corrib field, which was discovered in 1997. Imported coal and indigenously-produced peat, which is used for electricity generation and heating purposes, each meet 7% of the country's energy needs. The share of renewable energy is currently relatively small, but the government plans to increase production substantially to reduce dependence on imported energy and lower greenhouse-gas emissions.

The energy sector is characterised by a mixture of private and public ownership. The oil industry, which is fully deregulated, is entirely in private hands, with several companies competing in the retail sector. For several decades, the state-owned Irish National Petroleum Company operated Ireland's sole petroleum refinery, in Cork. In 2001, however, the 75 000 bpd Whitegate refinery, and the associated oil terminal on Whiddy Island, were sold to Tosco Corporation (now a subsidiary of Conoco-Phillips) for USD 100 million. As part of the deal, the company promised to maintain or expand production at the refinery through 2016, and to keep on all the staff with no redundancies. The refinery today supplies around 41% of the Republic's demand for petroleum products.

State-owned companies dominate the electricity, natural-gas and peat sectors. The Electricity Supply Board (ESB) holds two-thirds of generating capacity, though its share has been falling as new power producers have entered the market. It also owns the transmission system, the operation of which is the responsibility of another state-owned body, EirGrid, as well as the distribution network. Bord Gáis Éireann (BGE) owns the gas transmission and distribution network, operating the transmission system through a subsidiary company. Retail competition has developed to only a relatively small degree. Bord na Móna, a partially state-owned company, is the country's main peat producer.

Prices, taxes and support mechanisms

The prices of all forms of energy are deregulated, with the exception of electricity and natural gas. All customers can opt to switch supplies from incumbent to competing suppliers, who offer prices freely determined by the market. The electricity and gas tariffs of ESD and BGE for small and medium-sized customers, as well as network charges, are regulated by the Commission for Energy Regulation (CER) on a cost-of-service basis. Fuels and energy services are subject to VAT at a special rate of 13.5%, with the exception of gasoline and diesel fuel used on roads, for which the standard rate of 23% is applied. Excise taxes (including a national oil-reserve levy) are levied on all oil products. There are no excise taxes on natural gas, peat, coal or electricity.

The main form of public support to fossil energy other than the low rate of VAT is a subsidy to peat production. This takes the form of a Public Service Obligation (PSO) levy to support the higher cost of ESB's purchases of electricity generated from peat, which are mandated by the government. The mechanism has been

approved by the European Commission through to 2019. The costs recovered through the PSO levy, calculated by the CER, correspond to the additional costs of the power purchases over and above the cost of electricity purchased at market prices.

Data documentation

General notes

The fiscal year in Ireland coincides with the calendar year. Following OECD convention, amounts prior to 1999 are expressed as "euro-fixed series," meaning that we applied the fixed EMU conversion rate (1 EUR = 0.788 IEP) to data initially expressed in the Irish Pound (IEP).

Producer Support Estimate

Public Service Obligation for Peat (data for 2004-)

The Public Service Obligation (PSO) is a levy charged on all final electricity consumers to finance purchases of peat-generated power by the Electricity Supply Board (ESB). The costs of generating electricity using peat usually exceed the market price. ESB is therefore compensated through PSO-financed transfers for its mandatory purchases of peat-generated electricity. The value of the PSO is set on an annual basis by the Commission for Energy Regulation (CER) to meet the additional costs incurred by ESB. The legal basis for the PSO scheme is set out in the Electricity Regulation Act of 1999. Support to peat-fired power plants is expected to cease by 2020.

Although the PSO scheme applies to certain renewable energy sources too, we only report here the part that concerns peat-fired power plants such as the Lough Ree and Edenderry plants.

We allocate this measure to the PSE since it guarantees demand for peat produced in Ireland, thereby providing higher returns to peat producers. While the fiscal year in Ireland matches the calendar year, PSO periods run from 1 October to 30 September of the following year. Accordingly, data reported for the year 2010 cover the period running from 1 October 2009 to 30 September 2010. The PSO levy was exceptionally negative for the period running from October 2008 to September 2009.

Sources: CER (various years).

Tag: IRL_dt_01

Expensing of Exploration and Development Costs (no data available)

The upstream oil and gas sector in Ireland attracts a specific corporate income-tax rate of 25%, as compared to the 12.5% rate that applies to most other sectors. Full deductions are, however, allowed for exploration, development, and field-abandonment costs in the year in which they are incurred. Unclaimed deductions can be carried forward for an unlimited amount of time. Petroleum activities in Ireland are also subject to a ring fence, which acts to prevent losses from extraction activities to be set off against profits arising from non-petroleum-related activities for tax purposes. In addition, the Irish government does not levy any royalties, nor does it participate in projects through production-sharing contracts.

Starting in January 2007, licenses issued after that date are now also subject to a Petroleum Resource Rent Tax (PRRT) as provided for in the 2008 Finance Act. The PRRT is a progressive tax on the profits from oil and gas extraction. Its rates range from 5% to 15% depending on field profitability.

No estimates of the revenue foregone due to the expensing of exploration and development costs are available.

Sources: Department of Communications, Energy and Natural Resources (2011).

Consumer Support Estimate

Reduced VAT Rate for Certain Energy Products (no data available)

A reduced rate of VAT (13.5%) is applied to sales of certain fuels in Ireland. Eligible products include coal, peat, natural gas, electricity, kerosene-type jet fuel, dyed diesel, and hydrocarbon oils used for domestic or industrial heating purposes. The on-road use of gasoline, diesel, and LPG remains taxed at the standard 23% rate.

No estimates of the revenue foregone due to the reduced rate of VAT are available.

Sources: Revenue (2008).

Sources

Policies or transfers

CER (various years), *Public Service Obligation Levy – Decision Paper*, Commission for Energy Regulation, Available at: *www.cer.ie/en/renewables-decision-documents.aspx#PSODecisions*

Department of Communications, Energy and Natural Resources (2011), *Petroleum Taxation in Ireland*, Government of Ireland, Available at: *www.dcenr.gov.ie/NR/rdonlyres/E226421F-47B6-42DB-9458-C5EF0EE61930/0/PetroleumTaxationinIreland.pdf*

Revenue (2008), *VAT Guide*, Indirect Taxes Division, Irish Tax and Customs, Available at: *www.revenue.ie/en/tax/vat/leaflets/index.html*