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

Energy resources and market structure

Fossil fuels accounted for over 70% of the Slovak Republic's total primary energy supply (TPES) in 2010. Natural gas made up the largest share of TPES (30%), followed by oil (21%) and coal (20%). The rest of the country's demand was met by a mix of nuclear power (22%) and renewable energy (7%). The Slovak Republic, with its limited energy resources, imports almost 80% of its TPES. Almost all petroleum products are imported from Russia. In 2010, most electricity was generated from nuclear energy (53%), followed by coal (15%) and hydropower (20%). Only 7% and 2%, respectively, was generated from natural gas and oil. The amounts of natural gas used in the transformation sector are expected to be raised by the increased deployment of combined-cycle gas turbines. The country's energy mix has been steadily moving away from coal as the dominant energy source, which has been largely replaced by natural gas and nuclear energy. Coal is the only source of fuel whose consumption is expected to decline significantly over the coming years.

The Slovak Republic's natural gas supply comes almost entirely from Russia. The state remains in control of the gas monopoly, which has a strategic role in the country. SPP (Slovensky Plynarensky Priemysl), the dominant natural-gas importer, remains the parent company of the transmission system operator, Eustream, and the main distribution system operator, SPP Distribucia. Eustream, which transports Russian natural gas to Western and Southern Europe, is one of the biggest transmission system operators on the continent. Apart from SPP Distribucia, there are a few small, independent local distribution companies that are active in the market. Nafta and Pozagas are two storage-system operators. Nafta is partially owned by SPP (56%) and E.ON Ruhrgas (40%), while the shares of Pozagas are in the hands of SPP (35%), Nafta (35%) and GDF (30%). SPP is the leading supplier of natural gas with a market share of over 80%. The company is 51% state-owned; the rest of its shares belong to a consortium of E.ON Ruhrgas and GDF. Other natural gas suppliers are local branches of international firms, e.g. RWE Gas, VNG and Shell.

Crude oil is imported almost entirely from Russia, while the Slovak Republic has small reserves of crude oil located in the west of the country, in the Gbely area and in the Vienna basin. Crude oil is refined and exported, mostly as diesel, to neighbouring countries, primarily Austria and the Czech Republic. Nafta a.s. is involved in natural gas production and building and operating underground gas-storage facilities. Most of the oil infrastructure is operated by two companies, Transpetrol and Slovnaft. Transpetrol (fully state-owned) is the only operator of the crude pipeline network, while Slovnaft (owned by the Hungarian MOL group) operates the country's refinery and product-pipeline network. Slovnaft commands a dominant position in the domestic market, supplying nearly two-thirds of all transport fuels.

In 2010, only about 15% of the coal consumed was met by domestic mines. Lignite is still mined by three companies at five underground mines. Although the Slovak Republic has substantial deposits of lignite, it intends to gradually reduce its lignite production.

Since the collapse of the Communist bloc, the Slovak Republic has gradually been introducing a market-based regulatory framework for the energy sector and a programme of restructuring of state-owned energy enterprises. The three biggest energy companies have been privatised, either partially or entirely. The last

liberalisation package was introduced in March 2011. Currently, all consumers can choose their electricity and natural gas suppliers. Despite the fact that gas transmission and distribution were unbundled in 2006, the switching of natural gas suppliers has not been fully effective due to the monopolistic nature of the sector.

Prices, taxes and support mechanisms

The Regulatory Office for Network Industries (RONI) is responsible for electricity and natural gas price regulation. End-user prices of both electricity and natural gas for households are regulated by RONI, with the objective of attaining cost-effective prices defined as prices that at the same time would secure sufficient maintenance and investment in the country's energy infrastructure and would protect the rights of the most vulnerable households. Prices of oil products and coal are no longer regulated.

The current law on taxation of electricity, coal and natural gas was implemented in 2007 (Act No. 609/2007). The tax on electricity is imposed on all electricity, with the exception of electricity produced from renewable-energy sources. Some electricity uses and users are exempt from the tax: electricity used in public transport, in the transport of goods, for energy-intensive processes and combined heat and power (CHP) generation. The Slovak Republic also levies a tax on coal and natural gas, except for coal or natural gas used in CHP generation, public transport and goods transportation. Mineral oils are subject to an excise tax as stipulated by Act No. 98/2004. Diesel used in agriculture, biofuels and LPG were formerly exempt from the excise tax, but all these exemptions were abolished in 2011. Since 2004, a full VAT rate (currently 20%) has been levied on all sales of energy.

Since 2005, electricity produced from domestic coal has been supported through a refund of the production costs of electricity produced from domestic coal. The burden of this refund falls partially on electricity consumers (and is reflected in higher electricity prices) and partially on the budget chapter of the Ministry of the Economy. Currently, there is one power plant that benefits from this support measure – the Nováky thermal power plant. There are also plans to finance retrofitting of this power plant from public resources. The Slovak Republic still provides some investment aid to the coal-mining sector, which is in line with the EU's legal framework for authorisation of aid to the coal sector.[1] Until the end of 2010, direct subsidies for lignite mining were aimed at both raising accessibility of lignite reserves and reduction and liquidation of currently operating mines, and at covering inherited social liabilities, such as pension payments to miners. The amount of these direct subsidies in the period between 2004 and 2010 totalled about SKK 848 million or EUR 28.1 million. As of 2011, state aid is granted only for the closure of uncompetitive coal mines.

Data documentation

General notes

The fiscal year in the Slovak Republic coincides with the calendar year. Data prior to 2009 was converted to "euro-fixed series" by the Ministry of Finance (unless otherwise specified).

[1] This legal framework, until 31 December 2010, had been determined by the Council Regulation 1407/2002/EC of 23 July 2002 on State aid to the coal industry, which allowed member states to gent aid to the coal industry under certain conditions. On 10 December 2010 the European Union adopted the Council Decision 2010/787/EC, which currently allows member states to grant aid for closure of uncompetitive coal mines provided the supported coal mines close before 31 December 2018.

Producer Support Estimate

Raising Accessibility of Lignite Reserves in Hornonitranske Bane, Prievidza, a.s. (data for 2006-2010)

Direct grants for raising accessibility of lignite reserves at the Hornonitranske Bane, Prievidza, a.s., a joint-stock lignite-mining company, were provided by the state in the period between 2006 and 2010. The joint-stock company submitted a plan in which it envisaged extracting 12.2 million tonnes of lignite in three extraction areas: Nováky, Cígel' and Handlová in the period between 2005 and 2010.

The scheme was launched by the government decision N 324/2005 of 27 January 2006 and approved by the European Commission's decision K(2006)92.

Annual payments have been allocated to PSE as they directly support extraction of lignite.

Sources: Ministry of Finance (2011); Ministry of the Economy.

Tag: SVK_dt_01

Consumer Support Estimate

Feed-In Tariff for Domestic Lignite (data for 2007-)

Electricity produced from domestic coal has been supported in the Slovak Republic since 2005. Since producing electricity from lignite is significantly more expensive than electricity production from other energy sources, those power plants that produce electricity from domestic lignite are refunded for this activity (up to 15% of total electricity generation can be subject to such a refund). The amount of the refund is determined annually by RONI that publishes the subsidy amount per every MWh of lignite-fired electricity fed to the network. RONI also sets the annual price of lignite.

Currently, the only power plant benefitting from this scheme is the Nováky thermal power plant. In 2011, the measure was extended until 2020, with the possibility of further extension until 2035.

Data estimates are available from 2007.

Sources: IFP (2011); National Reform Programme of the Slovak Republic for 2011-2014; IEA Review of the Energy Policies of Slovakia 2010.

Tag: SVK_dt_02

Exemptions from the Coal Tax (data for 2008-)

As stipulated by § 19 of the Act No. 609/2007, use of coal is fully exempt from the coal tax, if it is used: (a) for dual use, i.e. as fuel and for other purposes; (b) in mineralogical processes; (c) for a purpose other than that of a motor fuel or fuel for heat generation; (d) in the combined generation of electricity and heat; (e) in electricity generation; (f) for production of coke and semi-coke; (g) in commercial activities directly related to railroad or river transportation of persons or cargo; (h) by households; (i) for operational and technological purposes in a mining and coal processing company; (j) in the generation of heat for households.

The scheme was introduced on 1 May 2004. Data are available for the period 2008-10. Payments pertaining to production of coke and semi-coke are excluded from the estimates as the primary aim of this particular part of the tax exemption is to avoid double taxation.

Tax exemption for coal used (j) in the generation of heat for households was abolished as of 1 January 2011.

Sources: Act No. 609/2007; Ministry of Finance.

Tag: SVK_te_01

Exemptions from the Natural Gas Tax (data for 2008-)

As stipulated by § 31 of Act No. 609/2007, use of natural gas is fully exempt from the natural gas tax, if it is used: (a) for dual use, i.e. as fuel and for other purposes; (b) in mineralogical processes; (c) for a purpose other than that of a motor fuel or fuel for heat generation; (d) in the combined generation of electricity and heat; (e) in electricity generation; (f) as a motor fuel; (g) by households; (h) for operational and technological purposes in a gas undertaking, including losses in a technologically justified quantity;[2;](i) in the generation of heat for households; (j) in commercial activities directly related to railroad or river transportation of persons or cargo.

The scheme was introduced on 1 May 2004. Data are available for the period 2008-10. Tax exemption for natural gas used (f) as motor fuel and (i) in the generation of heat for households was abolished as of 1 January 2011.

Sources: Act No. 609/2007; Ministry of Finance.

Tag: SVK_te_02

Reduced Excise Duty on Red Diesel (data for 2005-2010)

As stipulated by the Article 7 of the Act No. 98/2004 on the Excise Duty on Mineral Oil, a reduced excise-tax rate on diesel applies to diesel used for (a) railroad transportation of persons or cargo and for repair and maintenance of the railway network, (b) machines used in agriculture, and (c) stationary engines and equipment for electricity production. Diesel used for such purposes is dyed red, hence the name "red diesel" ("*červena nafta*"). The scheme was introduced on 1 May 2004 was abolished as of 1 January 2011.

Data for the period 2005-2007 were provided by the Ministry of Agriculture — these estimates encompass only tax expenditures related to a reduced excise-tax rate on diesel used as fuel in machines for agriculture. We expressed data for this period, following the OECD convention, as "euro-fixed series", meaning that the fixed EMU conversion rate (1 EUR = 30.1260 SKK) was applied to data initially expressed in Slovak koruna (SKK).

Data for the period 2008-2010 were provided by the Ministry of Finance — these estimates encompass all tax expenditures related to use of red diesel.

[2] This also applies to natural gas transmission and distribution if the Customs Office assesses, on the basis of a decision by the Regulatory Office for Network Industries, that the incurred losses of natural gas correspond to the character of activity of the gas undertaking and to the usual quantity of losses of another natural gas undertaking that performs identical or similar activities.

Sources: Ministry of Agriculture; Ministry of Finance.

Tag: SVK_te_03

Reduced Excise Duty on LPG (data for 2008-2010)

As stipulated by the File 253 of the Amendments to Act No. 98/2004 on the Excise Duty on Mineral Oil, an excise tax exemption applies to LPG used as fuel. The scheme was introduced on 1 July 2008 and it was abolished as of 1 January 2011.

Sources: Ministry of Finance.

Tag: SVK_te_04

Coal Allowances for Former Miners and Miners' Widows (data for 2007-)

Traditional in-kind benefits for miners include free provision of coal which used to serve heating and water-warming purposes. Since 16 January 1992, such allowances are granted to the former miners and miners' widows who have been approved by an expert commission once they meet certain conditions.

Sources: Ministry of the Economy.

Tag: SVK_dt_06

General Services Support Estimate

Severance Payments for Miners Laid Off by Hornonitranske Bane, Prievidza, a.s. (data for 2005)

Severance payments for miners laid off by the Hornonitranske Bane, Prievidza, a.s, a joint-stock lignite-mining company, were provided in a form of a one-off direct grant paid out in 2005, as stipulated in the government decision N 168/2005 from 7 April 2005.

Since the grant did not increase the current production or consumption of lignite, the payments have been allocated to GSSE.

Sources: Ministry of Finance (2011); Ministry of the Economy.

Tag: SVK_dt_03

Retirements Benefits for Miners from Hornonitranske Bane, Prievidza, a.s. (data for 2005-2006)

Retirement benefits for miners from the Hornonitranske Bane, Prievidza, a.s., a joint-stock coal-mining company, were provided in a form of two direct payments of equal amounts in 2005 and 2006 as stipulated by two government decisions, N 419/2005 of 6 October 2005 and N 387/2006 of 13 September 2006 respectively.

Since these grants did not increase the current production or consumption of lignite, the payments have been allocated to GSSE.

Sources: Ministry of Finance (2011); Ministry of the Economy.

Tag: SVK_dt_04

Support for Phasing Out Mining Activity by Baňa Dolina, Vel'ký Krtíš, a.s. (data for 2004-2010)

Direct grants for phasing out mining activity at the lignite mines owned by the Baňa Dolina, Vel'ký Krtíš, a.s, a joint stock coal-mining company, were provided by the state in the period between 2004 and 2010, as stipulated by the government decision NN 9/2006.

Since these payments did not increase the current production or consumption of lignite, they are allocated to GSSE.

Sources: Ministry of Finance (2011); Ministry of the Economy.

Tag: SVK_dt_05

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