MEETING ON FOSSIL-FUEL SUBSIDIES IN ARMENIA
IN THE CONTEXT OF THE SDG REPORTING FRAMEWORK
16 NOVEMBER 2021

WHY MONITORING FFSs MATTERS AND WHAT WE KNOW ABOUT THE FFSs LANDSCAPE IN THE EAP COUNTRIES

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Why monitor fossil-fuel subsidies (FFSs)?

- **FFSs are economically inefficient**: FFSs modify the costs and prices and lead to inefficiencies in capital allocation in the economy, can hold back commercialization of new low-carbon technologies.
- **FFSs are environmentally harmful**: cheap fuel leads to overconsumption and makes economies more energy- and carbon-intensive.
- **FFSs are not particularly equitable**: they often benefit the rich and powerful more than the poor and vulnerable.
- **Untargeted FFSs are costly**: they can be a drain on public budgets and lead to reduced spending elsewhere.
- **FFS are a popular and politically attractive policy instrument but difficult to dismantle and reform**: due to lobbying interests and corruption schemes.
Given that FFSs come in many different forms and given their significance in the economy, regularly identifying, measuring and reporting FFSs can:

- inform the decision-making process and help policy makers better understand where these subsidies are, how big they are, who benefits from them, which subsidies may need urgent reform

- increase transparency in subsidy allocation and improve trust in government

- improve communication on FFSs across the government and the public at large

- facilitate subsidy reporting to international bodies such as the World Trade Organization, OECD, UN

Why measure FFSs?
What does OECD do to support countries to track down FFSs?

- OECD has extensively analysed government support measures in both member countries and key emerging G20 economies over the years.
- Main tool - the OECD Inventory of Support Measures for Fossil Fuels and the related database, currently the database includes 50 countries and 1,300 individual measures.
- Since 2020, EU Eastern Partnership (EaP) countries included in the OECD Inventory – important milestone on achieving transparency.
- The EaP country analysis follows the OECD methodology for measuring government support that goes to fossil fuels.
Coverage of the 2020 OECD study on fossil-fuel subsidies in EaP countries

- **Geographic coverage**: Six EaP countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine

- **Scope of the study** – measures that support producers and consumers of:
  - Coal
  - Oil and liquid petroleum products used in the transport sector
  - Natural gas
  - Electricity / heat generated from fossil fuels

- **Categories of subsidies covered**
  - Direct budget transfers
  - Tax expenditure (and other revenue foregone as a result of deviating from a benchmark tax treatment, e.g. reduction or exemption of excise taxes on fuel consumption)
Quantified fossil-fuel subsidies in EaP countries, 2016-2020, million USD nominal

Note: Users of tax expenditure estimates should bear in mind that the Inventory records tax expenditures as estimates of revenue that is foregone due to a particular feature of the tax system that reduces or postpones tax relative to a jurisdiction’s benchmark tax system, to the benefit of fossil fuels. Hence, (i) tax expenditure estimates could increase either because of greater concessions, relative to the benchmark tax treatment, or because of an increase in the benchmark itself; (ii) international comparison of tax expenditures could be misleading, due to country-specific benchmark tax treatments.
Quantified fossil-fuel subsidies in EaP countries, 2016-2020, million USD
General government deficit/surplus and quantified fossil-fuel subsidies as a share of GDP in 2019

- Armenia: Deficit/surplus of government budget = -3%
- Azerbaijan: Deficit/surplus of government budget = -2%
- Belarus: Deficit/surplus of government budget = -1%
- Georgia: Deficit/surplus of government budget = 0%
- Moldova: Deficit/surplus of government budget = 1%
- Ukraine: Deficit/surplus of government budget = 2%

Fossil fuel subsidies:
- Armenia: Fossil fuel subsidies = -3%
- Azerbaijan: Fossil fuel subsidies = -2%
- Belarus: Fossil fuel subsidies = -1%
- Georgia: Fossil fuel subsidies = 0%
- Moldova: Fossil fuel subsidies = 1%
- Ukraine: Fossil fuel subsidies = 2%
<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita fossil-fuel subsidies in 2020, USD</th>
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<tbody>
<tr>
<td>Armenia</td>
<td>4</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>103.65</td>
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<tr>
<td>Belarus</td>
<td>7.65</td>
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<td>Georgia</td>
<td>13.5</td>
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<tr>
<td>Ukraine</td>
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</tbody>
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Source: FossilFuelSubsidyTracker.org
Quantified fossil-fuel subsidies in EaP countries by type of fuel in 2020, USD million
Quantified fossil-fuel subsidies in EaP countries by type of support mechanism in 2020, million USD

- Armenia
- Azerbaijan
- Belarus
- Georgia
- Moldova
- Ukraine

**Direct transfer**

**Tax expenditure**
Quantified fossil-fuel subsidies in EaP countries by beneficiary (PSE/CSE) indicator, 2020, USD million
Examples of FFSs reform

• In 2016, Armenia phased out excise exemption for compressed natural gas worth around USD 9 million per year, there are currently only 3 ongoing support schemes

• Belarus terminated VAT exemptions for natural gas and electricity for households in January 2016, ending a subsidy worth USD 200 million per year

• Ukraine eliminated several budget transfers recently but, at the same time, introduced new *ad hoc* measures to deal with emergencies and arrears in the energy sector
What will the FFSs future look like?

• Given the intensification of decarbonisation efforts across the world, FFSs will undergo further increased scrutiny.

• Future FFS volumes will be impacted, among others, by:
  - levels of energy consumption
  - international prices of fossil fuels
  - the speed of FFSs reform
  - introduction of a carbon price/tax

• Few countries see FFS reform as a smart tool to mitigate climate change in NDCs and many do not tax carbon.

• Until now, the need for FFS measuring and reporting largely driven by international processes, to make it sustainable – more efforts are needed at the national level.
OECD work on FFSs in the EaP region

Inventory of Energy subsidies in the EU’s Eastern Partnership Countries (2018)


Fossil-Fuel Subsidies in the EU’s Eastern Partner Countries: Estimates and Recent Policy Developments (2021)

OECD FFSs database: housed in the [OECD.Stat portal](https://www.oecd.org/fossil-fuels/countrydata/).