



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

### Energy resources and market structure

Luxembourg produces no fossil fuels, refines no petroleum, and half of its electricity is imported. Imported oil accounts for some 58% of its total primary energy supply, followed by natural gas (28%), biofuels and waste (3%), and coal (2%). Net imports of electricity supply 8% of the country's energy needs, and the remaining 1% came from renewable energy sources, mostly hydro-electricity and wind power.

Oil's dominance in Luxembourg's energy supply is explained in large part by sales of diesel fuel and gasoline to foreign drivers—truckers crossing Luxembourg and cross-border commuters—who take advantage of the country's lower excise taxes on these fuels compared with the taxes applied by neighbouring EU Member States. Domestic transport-fuel use is estimated to account for only one-fifth of total transport-fuel use in Luxembourg's road-transport sector.

Luxembourg meets its minimum oil stockholding obligations as a member of the IEA and the European Union by obliging all oil importers to maintain stocks of petroleum products equivalent to at least 90 days of deliveries into domestic consumption during the previous calendar year. However, some 85% of this storage capacity is located outside of the country. The government is currently considering whether to create a national stockholding agency and to expand domestic storage capacity.

Luxembourg's natural-gas market is dominated by a small number of vertically integrated companies. Creos Luxembourg S.A. (formerly SOTEG) owns and operates the transmission system, and it supplies the majority of the market. Creos also operates one of the two main electricity-transmission systems in the country. The State of Luxembourg and municipalities maintain minority ownership of the company, via direct shareholdings and through the Société Nationale de Crédit et d'Investissement. The other main electricity grid operator is the Société de Transport de l'Electricité (SOTEL). Some electricity-distribution companies are owned by municipalities.

### Prices, taxes and support mechanisms

Luxembourg maintains a price-smoothing mechanism for oil products through a signed agreement with the national oil-industry federation. This mechanism sets a maximum price for oil products sold to the end-consumer, including gasoline, automotive diesel, heating oil, and liquefied petroleum gas (LPG). The pricing formula is based on the published price of oil products (Platt's Antwerp CIF product prices), to which the government adds a standard cost of transport from Antwerp to Luxembourg, a standard distribution margin covering the profits of the importers and the filling stations, and the cost of compulsory storage. These different costs are determined by the government after discussion with the oil companies' association (*Groupement Pétrolier Luxembourgeois*) and the retailers.

Both Luxembourg's natural-gas and electricity markets are regulated by the *Institut Luxembourgeois de Régulation* (ILR), whose responsibilities include monitoring competition and preventing the abuse of dominant position. ILR also sets the calculation method for approved network tariffs and the conditions for access to the network. The ILR is funded by the network operators.

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Electricity prices before taxes are higher than in almost any other OECD country, especially for smaller companies and households. These high ex-tax prices are partly explained by the small market size and the large share of costly underground distribution cables.

Luxembourg charges a reduced rate of VAT on coal and coke, and on mineral oil used for heating—12%, compared with the normal VAT of 15%. A lower VAT rate of 6% is applied to motor fuels and to natural gas and LPG used in heating and in industrial and commercial activities. The government now levies excise duties on diesel at a rate of EUR 0.335 per litre, which is above the EU-mandated minimum levels of taxation on energy products. This puts Luxembourg's excise duties on diesel closer to those of Belgium, France, and Germany (EUR 0.43, EUR 0.43, and EUR 0.47 per litre, respectively), which maintain levels well above the European minimum. Agricultural use of petroleum fuels is exempted from excise tax.

## **Data documentation**

### ***General notes***

The fiscal year in Luxembourg coincides with the calendar year. Following OECD convention, amounts prior to 1999 are expressed as “euro-fixed series,” meaning that we apply the fixed EMU conversion rate (1 EUR = 40.339 LUF) to data initially expressed in the Luxembourg franc (LUF).

### ***Consumer Support Estimate***

#### *Reduced Rate of VAT for Solid Mineral Fuel and Heating Fuel (no data available)*

A 12% VAT rate is applied to the supply of coal and coke and mineral oil used for heating in Luxembourg.

No estimates of the revenue foregone due this provision are available.

Sources: Administration des Douanes et Accises (2012), Administration de l'Enregistrement et des Domaines (2012).

#### *Reduced Rate of VAT for Natural Gas and LPG (no data available)*

A 6% VAT rate is applied to the supply of natural gas, LPG, and electricity in Luxembourg. From 1 January 2009, heat and wood used for heating have also been subject to this reduced VAT rate.

No estimates of the revenue foregone due this provision are available.

Sources: Administration des Douanes et Accises (2012), Administration de l'Enregistrement et des Domaines (2012).

#### *Reduced Rate of Excise for Certain Uses of Petroleum Fuels (data for 2007- )*

Sales of certain petroleum products (diesel fuel and LPG) in Luxembourg are subject to a lower rate of excise duty when used in agriculture, horticulture, or for heating purposes.

We estimate the revenue foregone due to these reduced rates of excise by using data from the IEA's Energy Balances on fuel use in Luxembourg's agriculture and residential sectors. The benchmark rates of excise duty we adopt for estimation purposes are those applying to the use of diesel fuel and LPG in

the industrial and commercial sector (EUR 0.021002 per litre for diesel fuel, and EUR 0.037184 per kilogram for LPG).

Sources: Administration des Douanes et Accises (2012), IEA.

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*Excise Tax Exemption for Coal and Natural Gas (no data available)*

The use of coal, coke, biofuels used in pure form, and natural gas used as fuel or in co-generation is subject to a zero rate of excise duty.

No estimates of the revenue foregone due this provision are available.

Sources: Administration des Douanes et Accises (2012).

## **Sources**

### **Policies or transfers**

Administration des Douanes et Accises (2012), *Tableau des taux d'accise applicables au Luxembourg*, Le Gouvernement du Grand-Duché de Luxembourg, Available at:  
[www.do.etat.lu/acc/taux\\_et\\_timbres/taux\\_nationaux.htm](http://www.do.etat.lu/acc/taux_et_timbres/taux_nationaux.htm).

Administration de l'Enregistrement et des Domaines (2012), *Texte coordonné de la loi du 12 Février 1979 concernant la taxe sur la valeur ajoutée*, Le Gouvernement du Grand-Duché de Luxembourg, Available at:  
[www.aed.public.lu/tva/loi/index.html](http://www.aed.public.lu/tva/loi/index.html).

### **Energy statistics**

IEA (2011), *Energy Balances of OECD Countries*, International Energy Agency, Paris.