MINISTRY OF FINANCE

Environmentally harmful subsidies

Sustainable development budgeting - Carbon-neutral and resource-wise Finland

- Finland's budget proposal for 2019 included a chapter 6 in the general strategy and outlook section of the budget
- Contains an overview of the appropriations relevant to the priority area of a carbon-neutral and resource-wise Finland. (Promoting biodiversity and the wellbeing of the environment and nature, reduce emissions, advance bio-economy solutions, and develop Finland towards a low-carbon society)
  - The chapter includes information on appropriations, taxes and environmentally harmful subsidies.
  - Transparency crucial also on negative effects
  - In conclusion, our results show that the amount of positive subsidies was 1,7 bn €
  - However, we still have about 3,5 bn € of environmentally harmful subsidies

Assessment of subsidies – why?

- Need for a thorough assessment to gain sufficient knowledge base
- Information needed to reach subsidy reform
- Assessment of subsidies important:
  - **the good** (relevant, targeted, effective, positive impacts, few negative effect)
  - **the bad** (no longer relevant, waste of money, important negative effects)
  - **the ugly** (Badly designed, inefficient, badly targeted, potential for negative effects)

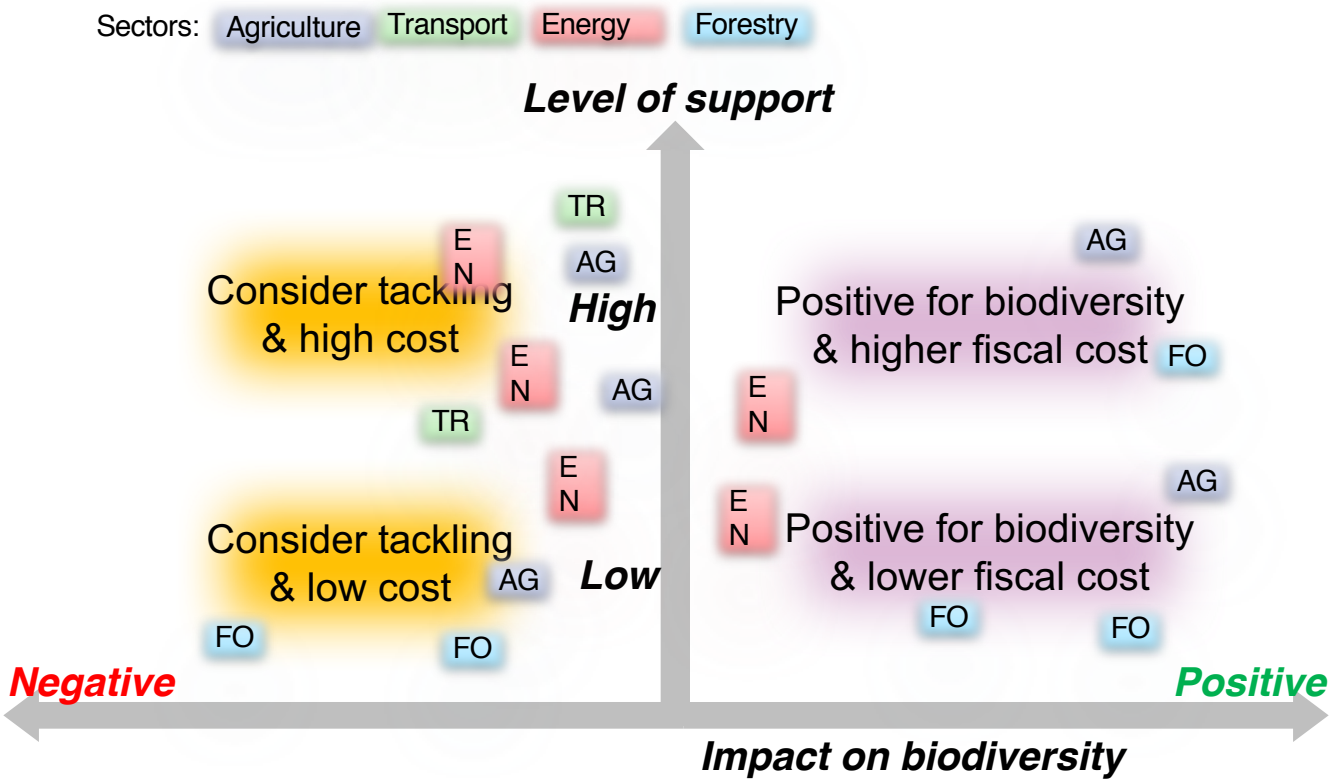
Assessment of fossil fuel and other environmentally harmful subsidies in Finland

- 2013: 1st systematic assessment (2009-2012)
- 2015: focus on biodiversity & trends in support (2010-2015)
- Assessments cover all support measures
  - Incl. EU-wide measures (e.g. emission trading)
  - Measures with indirect environmental impact
- Tax support, exemptions, budget support etc.
- 400 measures, 50 analysed in detail
- Potentially harmful subsidies in energy, transport and agriculture
- Tax support dominates in energy and transport
- Budgetary support dominates in agriculture

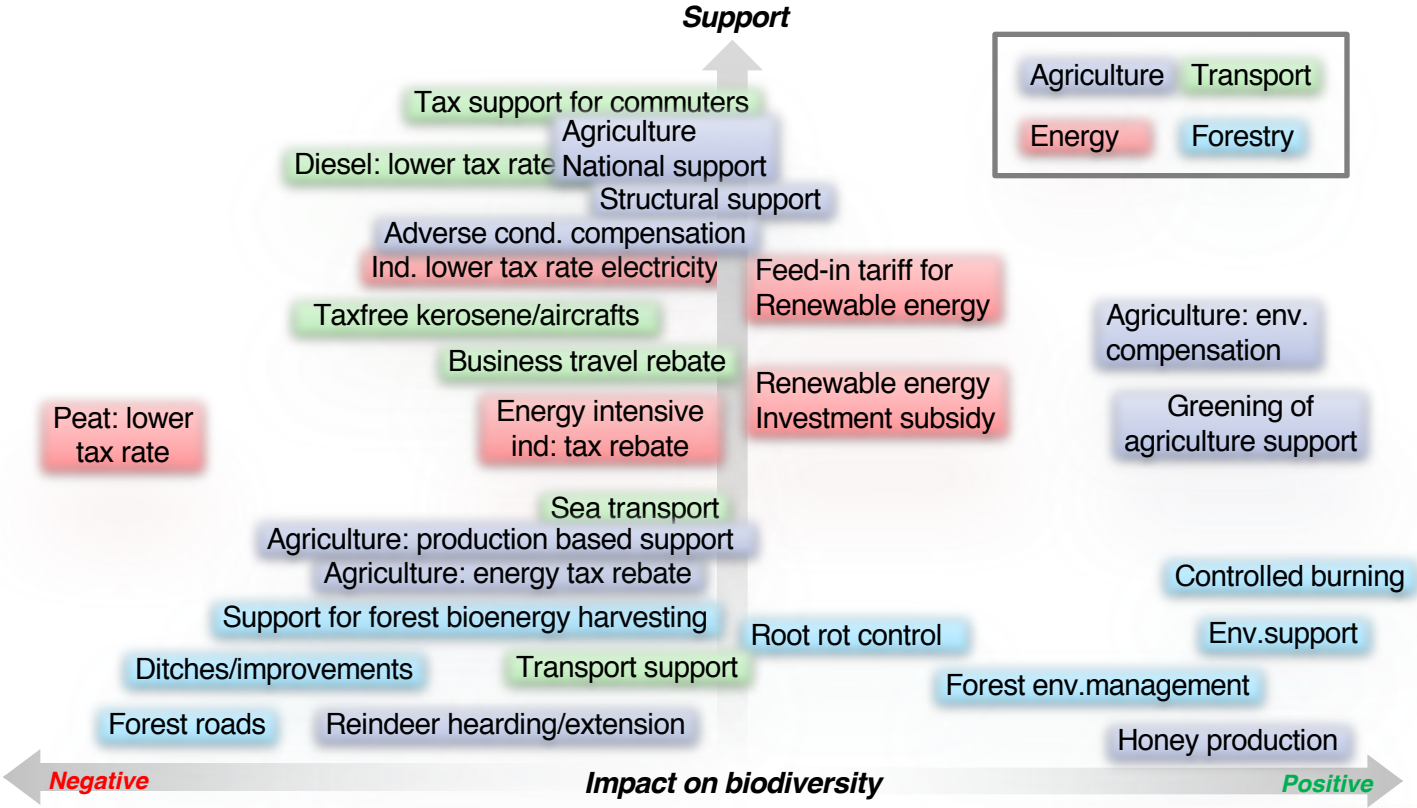
Some lessons learned

- Government ministries/agencies best placed to compile subsidy data & prepare 1st draft of the review
  - Access to budget information & tax support measures
  - Research difficult to outsource
  - Information held within & understood by governments
- Capacity & resources needed to deliver
- Phased approach:
  - Gathering of technical information
  - Stakeholder consultations (political level, NGOs & interest groups) at a later stage

Visualisation of assessment used in 2015 report



2015 report on biodiversity impacts
Illustration of results



Objectives vs. reality

- Subsidies launched with good intentions
  - Food production (EU CAP)
  - Energy security, diversification (peat, coal)
  - Technology/industry support (renewables)
  - Competitiveness (energy tax exemptions)
  - Social & poverty issues (fossil fuels, electricity)
  - Climate policy (biofuels & renewables)
  - Environmental concerns
- Objectives can become outdated (self-sufficiency)
- Objectives can differ from actual impacts (biofuels)
- Instrument can be wrong or badly designed
- Unforeseen environmental impacts
- Slows down structural change

Assessment as part of sustainable development budgeting; budget proposal 2019

- As part of Finland's sustainable development budgeting, the previously mentioned studies were updated in the ministry of Finance.
- We heavily relied on the previous studies.
- Updated figures, deletion of a few no-longer relevant subsidies and an addition of one which had been introduced after those studies.
- No new assessment, but transparency and publication of updated figures.

Environmentally harmful subsidies in 2019

❑ Energy sector => in total 1 bn€

Tax rebate (energy intensive industry)
Lower tax rate applied to industry & greenhouses
Lower tax rate for peat
Free allocation of ETS emission permits

❑ Transport sector => 1,5 bn €

Diesel vs. petrol
Machinery
Commuting to work
Camper vans

❑ Agriculture => 1 bn €

Tax rebate for energy use in agriculture

Agricultural support (budget support)

IN TOTAL 3,5 BN EUROS (Finnish national budget 55 bn €)

Tax reforms in 2015-2019

- Energy tax levels increased (+)
- CO2 tax on heating, power plant & machinery fuels increased and harmonized with the CO2 tax of motor fuels (+)
- Life-cycle emissions of heating, power plant & machinery fuels taken into account in the basis of CO2-tax (+)
  - Not just those emissions that are generated by the burning of the fuel are taken into account (as was before), but also the emissions from production and transport of the fuel.
  - (Life-cycle emissions have been taken into account in the motor fuel taxation since 2012.)
- Car tax was decreased in phases in 2016-2019. Makes acquiring cars more attractive (-). However, tax decreases were targeted primarily to low-emission cars (+)
- Motor vehicle tax on cars & vans was increased in 2017 (+) and decreased at the beginning of 2019 (-). Net effect (+)

Observations

- Environment angle is narrow, reform can have wider economic and social benefits
- Subsidy can seem wasteful even when not damaging the environment
- Reform can free resources than can be directed to other policy priorities
- Also ”green” subsidies can be badly designed, poorly targeted, costly and cause market distortions!
- Substantial reform politically difficult, takes time
- Step by step approach most realistic

MINISTRY OF FINANCE