

# Why energy subsidies matter?

Inventory of energy subsidies in the EU's Eastern Partnership Countries

Activity Description  
(2015-2016)

Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine

**EaPGREEN**  
Partnership for Environment and Growth



This project is funded by the EU



# Why this activity?



The **economic cost of environmentally-harmful energy** subsidies can represent a significant burden on a country's finances, weaken its growth potential and encourage wasteful energy consumption. Energy subsidies tend to accrue not to the poorest, but rather to the largest and economically powerful recipients.

Subsidies to energy production and consumption distort costs and prices and lead to inefficiencies in the economy. By encouraging use of fossil fuels and discouraging production of low-carbon fuels, such subsidies undermine the development and commercialisation of renewable energy and other alternative technologies and can lead to increased CO<sub>2</sub> and other greenhouse gas emissions.

There is some evidence that energy subsidies in the EU's Eastern Partnership (EaP) countries may be significant but their exact size and impact remain unknown. The European Union regional project "Greening Economies in the Eastern Neighbourhood" (EaP GREEN), that supports Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine, launched an analysis of energy subsidies in the EaP countries. This work will fill the information gap and promote subsidy reforms that can contribute to greening the economy by decoupling growth from environmental degradation and resource depletion, and by adopting sustainable consumption and production.

## DID YOU KNOW?

*... that in 2012, subsidies for oil, coal, gas and electricity totalled about USD 2 bln in Azerbaijan (about 3.3% of GDP) and about USD 11 bln in Ukraine (about 6% of GDP), according to the International Energy Agency.*



## Scope - this activity aims to analyse:

- Both consumer and producer energy subsidies: these include subsidies to coal, natural gas, oil and related petroleum products (particularly those used in the public sector), electricity and heat generation based on fossil fuels.
- Subsidies related to the generation of energy from renewable resources but will exclude subsidies to nuclear energy.
- Four major types of subsidies: direct budget transfers, tax expenditure, transfer of risk to government, induced transfers (income or price support).
- The experience of six EaP countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine as part of the EU's "Greening Economies in the Eastern Neighbourhood (EaP GREEN)" project.

# Objectives

- Review and develop a consistent and comprehensive description of environmentally-harmful and economically inefficient energy subsidy schemes in the EaP countries and provide robust estimates of their volumes by using an internationally recognised methodology.
- Raise awareness of policy makers in EaP countries of existing energy subsidies and their potential economic, social and environmental impacts.
- Contribute to increased transparency of energy subsidies and build political support for their reform.

## Benefits of reforming harmful energy subsidies

The positive outcomes of energy subsidy reform can be multiple. These can include among others:

- Fiscal gains for governments (fiscal savings or reducing debt).
- Reallocating public funding to more productive sectors and for social services to vulnerable groups of the population.
- Savings in energy use and reducing the use of resource intensive inputs and subsequent decrease in pollution levels and CO<sub>2</sub> emissions.
- Fixing market distortions.

## Activities' timeframe

This activity is organised around four major elements over the period 2015 - 2016:

- Identification of the main subsidy schemes in the countries.
- Subsidy quantification and development of detailed country-level analyses.
- Preparation of a policy report.
- Policy dialogue through country-level stakeholder meetings.

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### Useful links:

<http://www.oecd.org/site/tadffss/data/>

[http://www.oecd.org/env/outreach/energy\\_subsidies.pdf](http://www.oecd.org/env/outreach/energy_subsidies.pdf)

<http://www.green-economies-eap.org/>



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The “Greening Economies in the Eastern Neighbourhood” (EaP GREEN) Project is being implemented by OECD in cooperation with UNECE, UNEP, and UNIDO to assist the six European Union’s Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) in their transition to green economies by decoupling economic growth from environmental degradation and resource depletion.

The Project is financed by the European Commission, the four implementing organisations and other donors. More information about EaP GREEN: <http://www.green-economies-eap.org>.

This activity is implemented by the OECD with the participation of the Global Subsidies Initiative of the International Institute for Sustainable Development.



The Organisation for Economic Co-operation and Development (OECD) is a unique forum where the governments work together to address the economic, social, environmental and governance challenges of globalisation. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxemburg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

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