# Press Release No. 32/2010

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Umwelt Bundes Amt
Für Mensch und Umwelt

# Federal Environment Agency: Unecological subsidies cost 48 billion euros

## Relieve budget, protect environment – Federal Environment Agency presents report on subsidies

**Subsidies harmful to the environment are costing 48 billion euros in tax revenues every year, or about one fifth of the federal budget. That trend is unfortunately on the rise. About one half of all subsidies foster the use of fossil fuels, rendering some efforts in environmental protection void. "In times of record debt, ecologically harmful subsidies must be put subjected to serious review. A phase-out mustn't be indiscriminate, instead it must address these unecological subsidies directly," said Jochen Flasbarth, President of the Federal Environment Agency (UBA). The latest UBA study provides solid guidance to decision-makers in financial politics. "The crisis provides a unique opportunity to do some financial housekeeping. Unecological subsidies exert a double burden on the budget: with additional expenditures and revenue shortfalls today, and through increased costs for clean-up of damage to the environment and public health tomorrow," continued Flasbarth.**

The UBA study shows that since 2006 there has been no overall progress made in phasing out these environmentally harmful subsidies, as total expenditures for subsidies rose from about 42 billion in 2006 to some 48 billion in 2008. Subsidies, particularly in the energy and transport sectors, showed a sharp rise. One positive development was a slight decline in the building and residential housing sectors, which can be traced to the gradual phasing out of the homeowner tax allowance.

The volume of subsidies harmful to the environment which are granted in Germany is actually well above the 48 billion euros calculated by UBA, as the study limited itself almost exclusively to consideration of subsidies given at the federal level. Grant programs at *Laender* and municipal level, as well as those funded by the EU budget, were only partly taken into consideration. The wide range of ecologically harmful grants takes a toll on virtually every environmental asset, from doing damage to waters, soil and air to boosting land consumption and causing loss of biological diversity.

One half of the unecological subsidies, roughly 24 billion euros, directly favours fossil fuels and thus counteracts climate protection efforts. There are, for example, electricity and energy tax allowances granted to the manufacturing industry and to agricultural and forest management, the eco-tax cap granted to the manufacturing industry, and tax relief for certain energy-intensive processes and procedures—all of which result in revenue shortfalls of more than 5 billion euros. These subsidies result in lowering energy prices and catapulting energy consumption. From an environmental and climate protection angle they should be phased out, while retaining hardship provisions for industries that are particularly energy-intensive and internationally competitive. In the short term, subsidies must at the very least be conditional on stricter requirements, for example on the introduction of an energy management system. The current taxation of company fleet vehicles encourages the private use of a company car as opposed to a privately owned one. This adds to the pollution produced by road traffic, whereas even a moderate reform could generate an annual one half billion euros in additional tax revenues.

Commercial aviation has long benefited from the tax exemption on kerosene. Moreover, no value added tax is charged for international flights. As a result, the state lost 11.5 billion euros in tax revenues in 2008. The subsidisation of aviation distorts competitiveness to the disadvantage of rail and other more environmentally friendly modes of transport. One half of the 11.5 billion euros lost through unecological subsidies in the transport sector can be accounted for by aviation. UBA deems it appropriate to levy the most wide-ranging kerosene tax possible-- applicable throughout the EU at the least- as well as charging an EU-wide value added tax on transnational flights within the Union in the medium term.

The main focus of sustainable financial politics should be placed on the environmental compatibility of all revenue and expenditure policy decisions. "A systematic environmental review of subsidies would make sense," continued UBA President Flasbarth. The money saved could be channeled to finance urgent tasks of the future, for example education and climate protection, or to consolidate public-sector budgets.

Germany has also committed to phase out subsidies at the international level. The Kyoto Protocol explicitly calls for an end to subsidies that inhibit the reduction of greenhouse gases. The G20 resolutions made in Pittsburgh in September 2009 committed Germany to a phase-out of fossil fuel subsidisation in the medium term. Nevertheless, the federal government alone lent direct support to the hard coal mining industry with funding totaling 1.9 billion euros in 2008. Such support subsidies granted to this economic sector is unecological on the one hand, and mining results in grave follow-up costs on the other, which thus strengthens the argument to phase out hard coal subsidisation more vigorously and quickly than planned.

The background paper (German) (*Umweltschädliche Subventionen in Deutschland - Aktualisierung für 2008 [Environmentally unfriendly subsidies in Germany - 2008 Update]*) is here: http://www.umweltdaten.de/publikationen/fpdf-l/3780.pdf. The new comprehensive study on unecological subsidies is due to be published shortly.

A previous study based on data for 2006 (*Umweltschädliche Subventionen in Deutschland [Environmentally unfriendly subsidies in Germany]*) is available here: http://www.umweltdaten.de/publikationen/fpdf-l/3659.pdf.

Dessau-Roßlau, 4 June 2010