

## **“Summary of Progress Reports on the Commitment to Rationalize and Phase Out Inefficient Fossil Fuel Subsidies**

Inefficient fossil-fuel subsidies that encourage wasteful consumption have been a focus of G20 work since September 2009. At the 2009 Pittsburgh Summit, the commitment “to phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest” was announced by the Leaders.

In light of this commitment, Leaders called on their Energy and Finance Ministers, based on national circumstances, to develop and report implementation strategies and timeframes. In 2010, an experts group on inefficient fossil fuel subsidies that encourage wasteful consumption was established. All twenty countries participated and completed a comprehensive review of fossil fuel subsidy programs in their own countries. Since that time, a yearly report on country progress towards identifying and reforming inefficient fossil fuel subsidies that encourage wasteful consumption has been reported to the G20 and several reports on toolkits and options from selected intergovernmental organizations was commissioned.

In 2013, G20 Finance Ministers committed to develop and undertake a voluntary peer review process and report to G20 Leaders on the outcomes of the peer reviews. In 2014, China and the United States agreed to be the first countries to engage in mutual peer reviews. Moreover, World Bank Group prepared a report on transitional policies to assist the poor while rationalizing and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption.

At the Brisbane Summit last year, G20 Leaders reaffirmed their commitment to rationalize and phase out inefficient fossil fuel subsidies that encourage wasteful consumption, recognizing the need to support the poor.

### **Steps Taken This Year**

As in previous years, members were invited this year to submit reports on their progress in rationalizing and phasing out inefficient fossil fuel subsidies that encourage wasteful consumption. Azerbaijan, Ghana, Gambia, Singapore and Norway (invited guests) were also invited to submit reports. Of the 17 responses, 7 indicated having no inefficient fossil fuel subsidies that encourage wasteful consumption to report.

This year in the ESWG meetings, it was reiterated that inefficient fossil fuel subsidies that encourage wasteful consumption remain a serious problem and in most cases contribute to wasteful energy consumption, despite a growing number of countries making commitments to reform them. Recent progress to reform and/or phase out inefficient fossil fuel subsidies by some countries was highlighted during discussions. An update on the progress of the peer review process was also provided to the members.

To summarize these steps this year, a joint update report on recent progress in reform and/or phasing out of inefficient fossil fuel subsidies that encourage wasteful consumption was prepared in consultation with the World Bank, IEF and OECD.



**Synopsis of Progress Report**

Argentina	On 1st April 2015, the “Household Program” (“Programa Hogar”) has been put in place, which consists of guaranteeing direct access to butane gas (10 kilogram bottle) at popular prices-and without intermediaries- to low-income households that do not have direct access to natural gas networks.
Australia	Australia reaffirms that it does not have domestic fossil fuel subsidies that are inefficient or that encourage wasteful consumption.
Azerbaijan	No Report
Brazil	As in previous years, Brazil has not identified any inefficient subsidy regarding either the production or consumption of fossil fuels.
Canada	Canada has phased out, or is in the course of phasing out, a number of income tax preferences in the resource sector.
China	No Report
European Union	Council Decision 2010/7878/EU stipulates the phase-out of subsidies for the production of coal from uncompetitive mines by the end of 2018. More generally, the Europe 2020 Strategy (2010) and the recent European Union Package (2015) call the Member states phase out environmentally harmful subsidies.
France	France does not have subsidies that lower the price of fossil fuels below international market prices. Traditionally, France, taxes fossil fuels consumption by means of energy (excise) taxes, levied on the quantity of energy products once these are released for consumption.
Germany	The German Federal Government, the state of North Rhine-Westphalia, Saarland, RAG AG and the Mining, Chemical and Energy Industrial Union (IG BCE) agreed to discontinue subsidized German coal mining in a socially acceptable manner by the end of 2018. In 2015, only three mines are left. The next mine will be closed at the end of 2015.
Ghana	Ghana has since June 2015 liberalised petroleum product prices. A full deregulated market prevails.
Gambia	No Report
India	India is committed to making essential fuels, particularly cooking and lighting fuels available to the common man at affordable prices. Direct benefits transfer scheme called the ‘PAHAL’ s has been launched on 2014. LPG consumers who have joined the PAHAL get the LPG cylinders At market price and receive LPG subsidy (as per their entitlement) directly into their bank accounts. More than 2.5 million LPG consumers who can afford market prices have voluntarily given up LPG subsidy. This scheme has enabled substantial reduction in subsidy.
Indonesia	No Report
Italy	Italy does not have subsidies that lower the price of fossil fuels below international market price levels. While not having any consumer subsidies, Italy identified the CIP6 scheme as a producer subsidy proposed for reform. It regards incentives to renewable energies but also includes subsidies to fossil power plants. Not only did Italy abolish the CIP6 scheme, but it also decided to consider an accelerated phasing-out process for the existing conventions.
Japan	As in previous years, Japan reports that it has no inefficient fossil fuel subsidies.
Korea	No Report
Mexico	Starting on January 1st, 2015 and until December 31st, 2017, regulation on maximum prices will be established by the Federal Government through an agreement that should foresee adjustments consistently with expected inflation in the economy, relative differences for transportation costs among regions, and different distribution modalities. Starting on January 1st, 2018, prices will be determined by the market.
Norway	No Report
Russia	Russia reports that it has no inefficient fossil fuel subsidies. Russian ultimate consumers are not subsidized by the state.
Saudi Arabia	No Report
Singapore	Singapore reports that it has no inefficient fossil fuel subsidies.
South Africa	No Report
Spain	No Report
Turkey	Through rehabilitation of Turkish Coal Enterprises, the inefficient producer side subsidy is planned to be removed over the medium term. The Ministry of Energy and Natural Resources, the Undersecretariat of Treasury and the Ministry of Development have been working on a study plan.
United Kingdom	UK reports that it has no inefficient fossil fuel subsidies.
United States	Fiscal Year 2016 Budget proposal would eliminate the preferential treatment of fossil fuels (production fossil fuel subsidies) in the United States tax code. The United States Congress must pass enabling legislation for the proposals to become law. The United States does not currently have any consumption fossil fuel subsidies that it intends to eliminate.

**G20 Country Progress Reports on the  
G20 Commitment to Rationalize and Phase Out  
Inefficient Fossil Fuel Subsidies**

**September 2015**

## Argentina

### **Policies for gradual rationalization of inefficient fossil fuel subsidies that encourage wasteful consumption**

#### **Listed Subsidies**

Two subsidies were listed in previous Argentina's submissions as considered for rationalization: *Butane Gas Subsidy* ("Garrafa para todos") and *Residential Consumption of Natural Gas and Liquefied Gas Subsidy*. Recently, the *Butane Gas Subsidy* has been replaced by "Household Program" ("*Programa Hogar*"), as will be explained in this document.

As both measures play an important social role, it is crucial to implement specific policies to mitigate the undesirable negative effects of subsidy reduction on low income population.

As included in previous reports, we state that those subsidies will be reduced in line with the completion of high priority public works on energy infrastructure. Some of them are currently in progress, whereas others are planned for the nearby future. The proposed policies have the aim of ensuring energy supply to household users and productive activities, which constitute the main driver of economic growth, without disregarding social aspects which are considered the cornerstone of economic policy.

Among these public works, the Project of GNEA Pipeline (after Spanish: Gasoducto del Noreste Argentino – Northeastern Argentine Pipeline) will be a complement to the current transportation system of natural gas in the Northeastern region of the country, which does not count with any provision of this fuel yet. Regarding households, the use of bottled natural gas will be replaced by this safer and better-quality energy source. This infrastructure project is currently under tender process.

#### **Other policies for energy subsidies reduction**

In addition to the above mentioned list, the Argentine government has decided to reform the subsidies policies in order to improve competitiveness, reinforce the industrialization process and guarantee universal access to public services.

With this in mind, in December 2011, the Argentine national government has launched a plan to gradually reduce subsidies on natural gas and electricity consumption. Although subsidies on natural gas and electricity markets are not considered an inefficient fossil fuel subsidy, it is worth mentioning this program as it refers to an overall reform regarding energy markets.

In order to achieve the objectives in the aforementioned plan, a working group comprising authorities and staff from the Ministry of Economy and Public Finance and the Ministry of Federal Planning, Public Investment and Services has been put to work aiming to analyze and determine the incidence of subsidies currently in place. This working group provides analytical support for developing regulation that is necessary to carry out the adjustments of subsidy policies.

In the natural gas market, the subsidy is meant to reduce the impact of natural gas import costs on the demand. This policy is implemented through subsidized unit values charged to specific user types, and exemptions surcharged to certain demand segments. The subsidy reduction policy is carried out by increasing unit values of the specific surcharge, and then removing the exceptions on certain demand segments.

On the other hand, in the electricity market, subsidies are implemented by charging only a part of the inherent global cost incurred to supply that electricity. In consequence, the policy designed to reduce subsidies consists of transferring the whole cost of electricity supply by applying non-subsidized reference prices for the wholesale electricity market. These reference prices are then charged on specific demand segments.

The reduction of these subsidies is not planned to affect all demand segments of natural gas and electricity, but only those segments and economic activities that are able to afford the increasing costs of supply.

As a result of the impact analysis of the subsidies, in April 2014 the “Programme for Rational Use of Natural Gas” was launched with the objective of promoting responsible energy consumption by ensuring a greater efficiency in subsidies’ distribution as well as the protection of energy consumption levels of low-income sectors.

The program rewards users that reduce their consumption in more than a 20% with respect to the same month of the previous year, in such a manner that they pay a much lesser price than those consumers that have not reduced so. It is estimated that those changes have saved the Argentine government a total of USD 1 billion (approximately Argentine pesos \$9 billion), and the savings have been destined to cover costs of public services and financing of social expenditure.

In order to strengthen policies aimed at promoting social inclusion, the program does not affect users who, for climatic reasons, consume higher levels of natural gas; users of bottled natural gas; and users who live in low-income households and that are dependant on the use of the service.

In the same way, the industrial sector remains unchanged as it is considered a central driving force of the model of economic growth with social inclusion, launched since 2003.

Thus, the new program aims to discourage irrational and inefficient natural gas consumption, as well as ensure its use in low and low-middle income households, which generally are among the population segments with the lowest levels of consumption.

On 1st April 2015 the “Household Program” (“Programa Hogar”) has been put in place, which consists of guaranteeing direct access to butane gas (10 kilogram bottle) at popular prices –and without intermediaries- to low-income households that do not have direct access to natural gas networks. The implementation of this new Program replaces the previous program named “Butane Gas Subsidy”, through a transition from a scheme that subsidized supply to one that currently subsidizes demand, ensuring in this way the utilization by the end user. It is a distributional income policy that redirects the public subsidies to those sectors that are most in need and that do not count with access to natural gas pipelines. The Program is implemented in the context of energy policies aimed at social inclusion, and thus, cannot be classified as inefficient or that derives in a wasteful consumption. On the contrary, the Program ensures a distributional and equity goal, granting the subsidy to the most vulnerable households and contemplating their specific needs.

## Brazil

As reported to the G20 in previous years, Brazil has not identified any inefficient subsidy regarding either the production or consumption of fossil fuels. For the sake of completeness, the following list examines developments related to government measures in the energy sector associated with the consumption or production of fossil fuels.

### 1. Power Generation in Isolated Electrical Systems

The Account for Fuel Consumption (CCC, acronym in Portuguese) is responsible for the power generation cost leveling mechanism in the electrical systems not connected to the Brazilian national interconnected transmission grid. In September 2012, the CCC was merged with the Energetic Development Account (CDE, acronym in Portuguese), which assumed its function. The expenses covered by CDE allow Brazilians who live in less developed regions of the country (primarily areas in the Amazon region), where power is predominantly derived from expensive liquid fossil fuels, to have access to electricity at the same price paid by those living in more developed areas, which are connected to the grid. Despite its social nature, the benefit is expected to sharply decrease once most of these regions are being connected to the national electric grid, which transmits cheap and renewable hydroelectric energy throughout the whole country, as occurred recently in parts of the states of Amazonas and Acre, both in Brazil's North Region.

**Annual cost (2014):** US\$ 2 billion (R\$ 4.6 billion)

### 2. Fuel Costs for Coal Power Plants

The payment of fuel costs for national coal power through the Energetic Development Account (CDE, acronym in Portuguese) plants in Brazil is a temporary mechanism, resulting from the transition between regulatory models in the Brazilian Power industry during the 1990s. These plants' Power Selling Contracts depend upon the fuel cost recovery mechanism, are legally binding and, as such, have to be preserved. The legislation that created the transition mechanism commands its extinction in 2027. Furthermore, it establishes a limit for overall expenditure on this sort of benefit, and such limit has already been practically reached by the payments made to current plants.

The National Energy Agency (ANEEL), regulator body of the Brazilian electric system, is examining regulatory changes which could reduce the reimbursements significantly (up to 1/3 of current expense). But the process is still in progress.

**Annual cost (2014):** US\$ 477 million (R\$ 1.1 billion) (expected to end in 2027).

### 3. Equalization for the price for maritime diesel Program

The Brazilian Government has in place a system of equalization for the price for maritime diesel used in the fisheries sector since 1997. This is an ongoing program.

The main objective of this Program is to equalize the price of maritime diesel paid by fishing companies or fishermen with the price in the international market. The payment made under this Program encompasses the reimbursement of the difference between the price of maritime diesel in Brazil and international markets, limited to 25% of the price of maritime diesel at the refinery level.

This Program is operated by the Ministry of Fisheries and Aquaculture in conjunction with PETROBRAS – the Brazilian state-controlled oil company. All information related to prices, including the international price as well as the national price at the refinery level, are provided to the Ministry of Fisheries and Aquaculture by PETROBRAS in accordance with current market conditions for maritime diesel. The reference international price used is “Marine Gas Oil” (MGO), bunker price.

In order to benefit from this equalization scheme the fishing companies or fishermen must comply with administrative procedures set by regulation by the Ministry of Fisheries and Aquaculture, which take into account vessel control and other administrative issues. In 2014, 1,888 beneficiaries and 2,940 vessels qualified for the Program.

A sustainability analysis is made on a continuous basis in order to verify if all persons or vessels engaged in fishing operations are complying with all legal and normative aspects in Brazil, including the ones related to sustainability.

**Annual cost (2014):** USD 2.5 million (R\$ 5.8 million).

## Canada

### **Part 1: Inefficient fossil fuel subsidies proposed for reform in an implementation strategy reported to the G-20**

Consistent with the G20 commitment, Canada has phased out, or is in the course of phasing out, a number of income tax preferences in the resource sector.

#### **Accelerated Capital Cost Allowance for Oil Sands (Past Action Reported in Canada's Implementation Strategy)**

Accelerated capital cost allowance (CCA) was previously provided for tangible assets acquired for use in new oil sands projects or major project expansions. The accelerated CCA was an additional allowance that supplemented the regular CCA claim (25 per cent on a declining balance basis). The additional allowance allowed the taxpayer to deduct in computing income for a taxation year up to 100 per cent of the undepreciated cost of the eligible assets, not exceeding the taxpayer's income for the year from the project.

The revenue cost of providing accelerated CCA for oil sands was volatile and could vary considerably from year to year based on project and industry factors. The average cost on a current cash-flow basis over the period 2007-2011 was forecast as \$300 million per year.

Additional details on the phase-out of accelerated CCA for oil sands projects can be found on pages 408 to 411 of the 2007 Budget: <http://www.budget.gc.ca/2007/pdf/bp2007e.pdf>

#### **Intangible Capital Expenses in Oil Sands Projects (New Action Announced in 2011)**

Budget 2011 announced changes to better align the deduction rates for intangible costs in the oil sands sector with rates in the conventional oil and gas sector.

##### Oil Sands Properties

The cost of acquiring oil sands leases and other oil sands resource property generally could be treated as Canadian development expense (CDE), which is deductible at the rate of 30 per cent per year on a declining balance basis. Budget 2011 announced that the cost of oil sands leases and other oil sands resource property would be treated as Canadian oil and gas property expense and thus be eligible for deduction at 10 per cent per year. This change also applies to oil shale property, which is treated in a manner similar to oil sands resource property.

##### Pre-Production Development Expenses of Oil Sands Mines

Development expenses incurred for the purpose of bringing a new oil sands mine into production in reasonable commercial quantities are treated as Canadian exploration expense (CEE), which can be deducted in full in the year incurred. This includes such expenses as the cost of clearing land or removing overburden in order to expose the oil sands prior to the start of mining operations. Budget 2011 announced that these expenses would be treated as CDE, which is deductible at the rate of 30 per cent per year on a declining balance basis. This change also applies to pre-production development expenses in respect of oil shale mines.

These changes were forecast to increase federal revenues by approximately \$15 million in 2011–12 and \$30 million in 2012–13.

Additional details on the reduction of deduction rates for intangible capital expenses in oil sands projects can be found on pages 310 to 312 of the 2011 Budget: <http://www.budget.gc.ca/2011/plan/Budget2011-eng.pdf>

**The Atlantic Investment Tax Credit – Oil & Gas and Mining  
(New Action Announced in 2012)**

The Atlantic Investment Tax Credit (AITC) is a 10-per-cent credit available for certain investments in new buildings, machinery and equipment used in the Atlantic region and the Gaspé Peninsula. The credit supports investments in farming, fishing, logging, manufacturing and processing, oil & gas, and mining.

Budget 2012 announced the phase-out of the AITC for investments in the oil and gas and mining sectors.

The phase-out was forecast to increase federal revenues by approximately \$135 million over the period 2012-13 to 2016-17.

Additional details on the phase-out of the AITC for the oil & gas and mining sectors can be found on pages 407 to 409 of the 2012 Budget: <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

**Accelerated Capital Cost Allowance for Mining  
(New Action Announced in 2013)**

Accelerated CCA is provided for certain assets acquired for use in new mines or eligible mine expansions. The accelerated CCA is an additional allowance that supplements the regular CCA claim (25 per cent on a declining balance basis). The additional allowance allows the taxpayer to deduct in computing income for a taxation year up to 100 per cent of the remaining cost of the eligible assets, not exceeding the taxpayer's income for the year from the project.

Budget 2013 announced the phase-out of accelerated CCA for mining over the 2017 to 2020 calendar years. This measure affects the mining sector generally, including coal producers.

The phase-out was forecast to increase federal revenues by approximately \$10 million in 2017-18.

Additional details on the phase-out of the accelerated CCA for the mining sector can be found on pages 353 to 356 of the 2013 Budget: <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf>

**Pre-production Mine Development Expenses  
(New Action Announced in 2013)**

Pre-production mine development expenses are intangible expenses incurred for the purpose of bringing a new mine into production. These expenses are treated as Canadian exploration expense and may be deducted in full in the year incurred or carried forward indefinitely for use in future years. In contrast, intangible mine development expenses incurred after a mine comes into production are treated as Canadian development expense (CDE) and are deductible at a rate of 30 per cent per year on a declining-balance basis. In the oil and gas sector, intangible pre- and post-production development expenses are both treated as CDE.

Budget 2013 announced that pre-production mine development expenses would be treated as CDE. This change will help to better align the deductions available for expenses in the mining sector with those available in the oil and gas sector. This measure affects the mining sector generally, including coal producers.

These changes were forecast to increase federal revenues by approximately \$45 million over the period from 2015-16 to 2017-18.

Additional details on the reduction of deduction rates for intangible capital expenses in oil sands projects can be found on pages 353 to 356 of the 2013 Budget: <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf>

**Part 2: Implementation strategies and timeframes for rationalizing and phasing out subsidies described in Part 1**

**Accelerated Capital Cost Allowance for Oil Sands**

The accelerated CCA for oil sands projects was phased out over the 2011-2015 period. The accelerated CCA was maintained for oil sands assets acquired before March 19, 2007 and assets acquired before 2012 that are part of a project phase on which major construction began before March 19, 2007. For other assets, the accelerated CCA was gradually reduced over the years 2011 to 2014, to 90 per cent, 80 per cent, 60 per cent, and 30 per cent, respectively, of the otherwise allowable accelerated CCA. No accelerated CCA may be claimed on these assets after 2014.

The Department of Finance is responsible for the development and evaluation of federal taxation policies and legislation.

**Intangible Capital Expenses in Oil Sands Projects**

The change related to oil sands resource properties is generally effective for acquisitions made after March 21, 2011.

For pre-production development expenses for oil sands mines, the previous CEE treatment was maintained for expenses incurred before March 22, 2011, and for expenses incurred before 2015 for new mines on which major construction began before March 22, 2011. For other expenses, the transition from CEE treatment to CDE treatment is being phased in over the 2013-2016 period. Taxpayers will allocate pre-production development costs proportionally to the two resource expense categories according to the following schedule based on the year in which the expense is incurred:

Year	2011	2012	2013	2014	2015	2016
CEE proportion	100%	100%	80%	60%	30%	--
CDE proportion	--	--	20%	40%	70%	100%

The Department of Finance is responsible for the development and evaluation of federal taxation policies and legislation.

**The Atlantic Investment Tax Credit – Oil & Gas and Mining**

The AITC applies at a rate of 10 per cent for eligible oil & gas and mining assets acquired before 2014 and at a rate of 5 per cent in 2014 and 2015. The credit is generally not available for such assets acquired after 2015.

Transitional relief was, however, provided in recognition of the long timelines involved in some oil & gas and mining projects. The AITC continues to apply at a rate of 10 per cent for assets acquired by a taxpayer before 2017 either:

- under a written agreement entered into by the taxpayer before March 29, 2012; or
- as part of a project phase where

- the construction of the project phase was started by, or on behalf of, the taxpayer before March 29, 2012, or
- the engineering and design work for the construction of the project phase, as evidenced in writing, was started by, or on behalf of, the taxpayer before March 29, 2012.

The Department of Finance is responsible for the development and evaluation of federal taxation policies and legislation.

**Accelerated Capital Cost Allowance for Mining**

The accelerated CCA for capital assets used in new mines and major mine expansions will be phased out over the 2017-2020 period. A taxpayer will be allowed to claim a percentage of the amount of the additional allowance otherwise permitted under the existing rules according to the following schedule:

Year	2013-2016	2017	2018	2019	2020	After 2020
Percentage	100%	90%	80%	60%	30%	0%

The measure generally applies to assets acquired on or after March 21, 2013. In recognition of the long time-frames involved in developing mining projects, the accelerated CCA will be maintained for mining assets acquired before March 21, 2013 and assets acquired before 2018 for a new mine or mine expansion either:

- under an agreement entered into by the taxpayer before March 21, 2013; or
- as part of the development of a new mine or as part of a mine expansion where
  - the construction was started by, or on behalf of, the taxpayer before March 21, 2013; or
  - the engineering and design work for the construction, as evidenced in writing, was started by, or on behalf of, the taxpayer before March 21, 2013.

The Department of Finance is responsible for the development and evaluation of federal taxation policies and legislation.

**Pre-production Mine Development Expenses**

The transition from CEE to CDE treatment of pre-production mine development expenses is being phased in, with pre-production mine development expenses being allocated proportionally to CEE and CDE according to the following schedule based on the calendar year in which the expense is incurred:

Year	2013	2014	2015	2016	2017	After 2017
CEE proportion	100%	100%	80%	60%	30%	--
CDE proportion	--	--	20%	40%	70%	100%

The measure applies generally to expenses incurred on or after March 21, 2013. In recognition of the long time-frames involved in developing mining projects, the previous CEE treatment for pre-production mine development expenses was maintained for expenses incurred before March 21, 2013 and will also apply for expenses incurred before 2017 either:

- under an agreement entered into by the taxpayer before March 21, 2013; or
- as part of the development of a new mine where
  - the construction was started by, or on behalf of, the taxpayer before March 21, 2013; or

- the engineering and design work for the construction, as evidenced in writing, was started by, or on behalf of, the taxpayer before March 21, 2013.

The Department of Finance is responsible for the development and evaluation of federal taxation policies and legislation.

**Part 3: Current status of implementation strategies and timeframes for rationalizing and phasing out inefficient fossil fuel subsidies**

**Accelerated Capital Cost Allowance for Oil Sands**

The final regulations implementing the phase-out of accelerated CCA for oil sands were published in Canada Gazette Part II on February 16, 2011. <http://www.gazette.gc.ca/rp-pr/p2/2011/2011-02-16/html/sor-dors9-eng.html>

**Intangible Capital Expenses in Oil Sands Projects**

The legislation implementing the changes related to the intangible capital expenses in oil sands projects has been enacted. Bill C-13 received Royal Assent on December 15, 2011. <http://www.parl.gc.ca/HousePublications/Publication.aspx?Docid=5339192&file=4>

**The Atlantic Investment Tax Credit – Oil & Gas and Mining**

The legislation implementing the changes relating to the phase-out of the AITC for investments in the oil and gas and mining sectors has been enacted. Bill C-45 received Royal Assent on December 14, 2012.

<http://www.parl.gc.ca/LegisInfo/BillDetails.aspx?Language=E&Mode=1&billId=5754371>

**Accelerated Capital Cost Allowance for Mining**

The legislation implementing the phase-out of the accelerated CCA for capital assets used in new mines and major expansions has been enacted. Bill C-4 received Royal Assent on December 12, 2013. <http://www.parl.gc.ca/LEGISInfo/BillDetails.aspx?Language=E&Mode=1&billId=6258538>

**Pre-production Mine Development Expenses**

The legislation implementing the changes relating to the tax treatment of pre-production mine development expenses has been enacted. Bill C-4 received Royal Assent on December 12, 2013. <http://www.parl.gc.ca/LEGISInfo/BillDetails.aspx?Language=E&Mode=1&billId=6258538>

## European Union

### 1. THE EUROPEAN UNION FRAMEWORK FOR ENERGY TAXATION

#### Introduction

Traditionally the EU member states have taxed energy consumption by means of energy taxes (excise duties, energy taxes, or CO<sub>2</sub> taxes for example). These taxes are always “specific taxes” – they are levied on the quantity of energy products once these are released for consumption.<sup>1</sup> In practice in most cases such taxes are levied once the finished product leaves the refinery. This means that such taxes are relatively easy to administer, since they are applied only once and the number of taxpayers is limited. These taxes are then included in the final price of energy paid by all consumers, be they private individuals or industry. Normally different rates of taxation apply to different uses of the energy products also with industry generally benefitting from lower levels of taxation in order to preserve its international competitiveness. In practical terms this is often handled by means of refunds but also by applying differentiated tax rates at release for consumption.

Taxes related to energy use are well-established measures in all Member States of the European Union. Although their main purpose has traditionally been to raise revenues, they also contribute to reducing energy consumption by raising the price of energy and the costs associated with the use of energy-using goods and services. They thus support in a general way the goals of improving energy efficiency and fighting climate change. Energy taxes also act as a “shock absorber” by damping the impact of energy price swings on the EU economy, as long as the tax base is the quantity of the energy and not its monetary value. In this way, and by reducing overall energy consumption, they contribute to security of supply.

#### Details of the legislation

At the EU level the harmonisation is restricted to taxation of energy products and electricity and it started in 1992 with the latest relevant legislation dating back to 2003<sup>2</sup>. A Directive sets common rules for what should be taxable and when it should be taxable and what tax reductions and exemptions are allowed and under which conditions.

Energy products are only taxed when they are used as **motor or heating fuel**, and not when they are used as raw materials (e.g. for the production of plastics) or for the purposes of chemical reduction or in electrolytic, metallurgical and mineralogical processes (e.g. for the production of steel and other metals or the production of cement). As a result of international agreements, and due to the international nature of shipping, energy products supplied for use as fuel for the purpose of air navigation and sea navigation are exempt from taxation.

**Taxable products** are described by references to some of the product codes in the Combined nomenclature which is based on the Harmonised System (HS) run by the World Customs Organisation. In general taxable products are:

- mineral oils (e.g. gasoline, diesel, LPG, kerosene, heavy fuel oil, as well as vegetable oils, etc.),
- natural gas,
- coal and other solid hydrocarbons,
- electricity (irrespective of its origin); energy products used in electricity generation are in principle exempt from the harmonised energy tax.

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<sup>1</sup> Some EU countries also levy specific taxes on goods that use energy as a primary input, such as motor cars, when they are bought for consumption purposes.

<sup>2</sup> Council Directive 2003/96/EC of 27 October 2003 Restructuring the Community Framework for the Taxation of Energy Products and Electricity, see [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2003/l\\_283/l\\_28320031031en00510070.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2003/l_283/l_28320031031en00510070.pdf)

In order to avoid fraud, any product used as motor fuels is taxable as well as any hydrocarbon used as heating fuel. As a consequence, non-fossil energies used as motor fuels are taxable at the rate of the equivalent fossil fuel. The legislation provides EU Member States with the option to apply a reduced level of taxation or even exempt from taxation fuels of bio origin but only up to the point that the tax reduction is not over-compensating for the extra costs involved in the manufacture of such products. Several Member States are using that option, to a varying degree.

When it comes to tax rates, EU legislation only sets **minimum levels of taxation**. These are shown in table 1 below. Above these minima EU Member States are free to set their own national rates as they see fit.

Table 1: Minimum levels of taxation as set by the Energy Taxation Directive

Energy product and taxable unit	EU minimum tax rates in EUR/USD <sup>3</sup> according to use			
	Motor fuel used as propellant	Motor fuel in off-road use (agriculture, stationary motors)	Heating (business use)	Heating (non business use)
Unleaded petrol (1000 l)	359/397.1	-	-	-
Gas oil (1000 l)	330/365	21/23.2	21/23.2	21/23.2
Kerosene (1000 l)	330/365	21/23.2	0	0
Heavy fuel oil (1000 kg)	-	-	15/16.6	15/16.6
LPG (1000 kg)	125/138.3	41/45.3	0	0
Natural gas (GJ)	2.6/2.9	0.3/0.33	0.15/0.17	0.3/0.33
Coal and coke (GJ)	-	-	0.15/0.17	0.3/0.33

The minimum level of taxation for electricity is EUR 0.5 (USD 0.55) for business use and EUR 1 (USD 1.1) for non-business use.

Note: The volumes are measured at a temperature of 15° C.

The current minimum rates are most commonly based on the volume of the energy product consumed, they reflect historic levels of taxation in force in Member States and usually differ by product.

In certain cases the Energy Taxation Directive allows EU Member States to apply tax reductions down to zero for energy-intensive businesses and tax rates down to 50 % of the minimum levels set in EU law for business entities which are not energy-intensive in specific conditions. Businesses that benefit from tax reductions below the minimum levels of taxation should in any case be parties to agreements, tradable permit schemes or equivalent arrangements which lead to the achievement of environmental objectives or increased energy efficiency, broadly equivalent to what would have been achieved if the minimum levels of taxation had been applied.

<sup>3</sup> ECB exchange rate on 18 August 2015(1.106 \$/€).

Detailed information on the **rates actually applied by Member States** is regularly published by the European Commission in the overview called "Excise duty tables – Energy products and Electricity"<sup>4</sup>.

## **2. SUBSIDY CONTROL – STATE AID**

EU state aid rules in the Treaty on the Functioning of the European Union (TFEU, Articles 107 and 108) forbid State aid in general. State aid rules aim to ensure that government interventions do not distort competition and trade inside the EU internal market. They should in principle ensure that national subsidies to undertakings are justified by wider socio-economic considerations. This means that public support can only be granted if the European Commission declares it compatible with the TFEU, under the applicable State aid rules.

As stated above, energy taxes in the EU Member States are subject to a minimum harmonised tax level set in the Energy Taxation Directive (ETD)<sup>5</sup>, but EU Member States can apply tax reductions to their national tax rate which under certain conditions can also go down below these minimum rates.

As long as the minimum rates and conditions of the ETD are respected, the General Block Exemption Regulation (GBER) considers aid schemes in the form of reductions in environmental taxes as compatible with the internal market within the meaning of Article 107(3) of the TFEU and exempts Member States from notification. Where the minimum rates and conditions of the ETD are not respected or the ETD does not apply, the compatibility of the measure would need to be assessed under t, i.e. the Energy and Environmental Aid Guidelines (EEAG)<sup>6</sup>. Such reductions or exemptions from energy taxes have an indirect environmental objective by facilitating the introduction or modification of the normal, higher tax rate on other companies, which are not threatened with losing their competitiveness due to the tax.

Until 2008 the exemptions were granted when a new environmental tax was introduced or significantly modified, provided that the companies subject to such exemptions delivered an environmental objective fixed in an agreement linked to the tax exemption. As of 2008, the then revised Environmental Aid Guidelines<sup>7</sup> required that tax reductions going below the EU harmonised level of the energy taxes are subject to a test which aims to assess if companies are able to pass on a significant cost increase due to the tax if they are subject to international competition. Also, companies need to pay either in principle 20% of the national tax or enter into environmental agreements. The conditions of the 2008 Environmental Aid Guidelines were largely taken over in the 2014 EEAG.

A number of EU Member States give state aid to the coal sector. This aid is regulated under a specific EU regulation, and must decline over time. Council Decision 2010/787/EU<sup>8</sup> stipulates the phase-out of subsidies for the production of coal from uncompetitive mines by the end of 2018. In 2013 the aid to coal sector amounted to €2.2 billion. Of the total amount of aid about 30% is granted to cover inherited liabilities of the coal industry – such as welfare or retraining payments to former miners, or payments to repair environmental damage. Payments for these purposes support neither production nor consumption of fossil fuels.

## **3. OTHER INITIATIVES**

More generally, the Europe 2020 strategy (2010) and the recent Energy Union Package (2015) call the Member States to phase out environmentally harmful subsidies. The EU Council Conclusions on

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<sup>4</sup> [http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/excise\\_duties/energy\\_products/rates/excise\\_duties-part\\_ii\\_energy\\_products\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/energy_products/rates/excise_duties-part_ii_energy_products_en.pdf)

<sup>5</sup> 2003/96/EC

<sup>6</sup> Guidelines on State Aid for Environmental Protection and Energy 2014-2020, Official Journal C 200 of 28.06.2014, p.1

<sup>7</sup> Community Guidelines on State Aid for Environmental Protection”, Official Journal C 82 of 01.04.2008

<sup>8</sup> Official Journal L 336 , 21.12.2010, p. 24-29

"Economic Aspects of the Roadmap to a Resource-Efficient Europe" (2012) call "for the rationalization and the phasing out of environmentally or economically harmful subsidies including fossil fuels" while inviting the Member States to consider the use of appropriate social instruments for the most vulnerable groups of population.<sup>9</sup> This was confirmed by the European Council conclusions (May 2013) to facilitate investments in new and intelligent energy infrastructure.

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<sup>9</sup> [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ecofin/128089.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/128089.pdf)

## France

### France's list of exemptions from fossil fuel excise taxes

Based on the IEA's approach to fossil fuel subsidies, we can define fossil fuel subsidies as:

“A fossil-fuel subsidy is any government measure or program with the objective or direct consequence of reducing below world-market prices, including all costs of transport, refining and distribution, the effective cost for fossil fuels paid by final consumers, or of reducing the costs or increasing the revenues of fossil-fuel producing companies”.

Traditionally, France, as most of the other EU member states, taxes fossil fuels consumption by means of energy (excise) taxes, levied on the quantity of energy products once these are released for consumption. These taxes help raise revenues, but also contribute to reducing fossil fuel consumption by raising the price of energy and energy-using goods and services. They thus support in a general way the goals of improving energy efficiency, fighting climate change and contributing to energy security. It is important to note that article 32 of the finance law for 2014 has introduced within energy excise taxes a carbon component which is progressive and proportional to the CO<sub>2</sub> emissions of fossil products. The value of the ton of CO<sub>2</sub> is set at 7 euros in 2014, 14.5 euros in 2015 and 22 euros in 2016.

The level of taxation levied on gasoline is high in France with respect to international standards. According to EC and EIA data, in 2014, the retail price for gasoline was 198 US cents per litre, well above, for instance, that of the United States (89 US cents/litre).

In some cases, reduced rates of duty apply to specific sectors, in order to preserve their international competitiveness. Reduced rates may also apply to sectors (such as public transportation) which produce positive externalities.

The following list, distributed confidentially to G20 members involved in this consultation process, corresponds to the excise tax exemptions currently existing in France on fossil fuels. These are well above the minimum levels of taxation fixed by the European Council directive of October 2003 restructuring the Community framework for the taxation of energy products and electricity<sup>10</sup>. Moreover, the price paid by the corresponding final users remains well above a European reference price, which corresponds to the European average price without value added tax and excise duty. Therefore, according to IEA's definition for fossil fuel subsidies, these exonerations cannot be considered as fossil fuel subsidies.

<sup>10</sup> Minimum levels of taxation as set by the Energy Taxation Directive:

Energy product and taxable unit	minimum tax rates in EUR/USD according to use			
	Motor fuel use	Off-road use (agriculture, stationary motors)	Heating (business use)	Heating (non business use)
Petrol (1000 l)	359/485	-	-	-
Gas oil (1000 l)	330/446	21/28.4	21/28.4	21/28.4
Kerosene (1000 l)	330/446	-	0	0
HFO (1000 kg)	-	-	15/20.3	15/20.3
LPG (1000 kg)	125/169	41/55.4	0	0
Natural gas (GJ)	2.6/3.5	0.3/0.4	0.15/0.2	0.3/0.4
Coal and coke (GJ)	-	-	0.15/0.2	0.3/0.4
Electricity (MWh)	0.5/0.7, 1.0/1.4	-	0.5/0.7	1.0/1.4

N°	Name	Cost in 2014		Reference price : European average price of energy without value added tax and excise duty (€/hl)	Price in France for final users (€/hl)	Difference (€/hl)
800101	Fuel tax exemption for fuel products used by some boats	265 M€	Gasoil	68.05	75.66	7.61
800103	Reduced fuel tax rates for fuels used by taxi drivers.	24 M€	Eurosuper and gasoil	68.05	111.90	43.85
800109	Fuel tax exemptions for domestic flights	300 M€	Gasoil	68.05	75.66	7.61
800201	Reduced fuel tax rate for home heating oil used as diesel fuel for off road uses.	1700 M€	Fuel oil	64.02	87.84	23.82
800302	Reduced tax rate on fuels used in Corsica	1 M€	Eurosuper	64.30	144.37	80.07
800403	Fiscal refund of part of fuel tax rate on gasoil used by some trucks	405 M€	Gasoil	68.05	122.69	54.64
800404	Fiscal refund of part of fuel tax rate on gasoil used for public transportation	42 M€	Gasoil	68.05	122.69	54.64
800405	Partial fiscal refund of the tax on energy products paid by farmers.	117 M€	Fuel oil	64.02	79.99	15.97

## Germany

### 1. Hard coal mining subsidy proposed for reform in an implementation strategy reported to the G-20

As part of the G-20 initiative to phase out inefficient fossil-fuel subsidies, Germany selected hard coal subsidies. The German Federal Government, the state of North Rhine-Westphalia, Saarland, RAG AG and the Mining, Chemical and Energy Industrial Union (IG BCE) agreed to discontinue subsidized German coal mining in a socially acceptable manner by the end of 2018. The Federal Government, the state of North Rhine-Westphalia and Saarland are jointly providing the state aid required during the phase-out period to 2018. RAG AG will also make its own contribution to the financing of coal production. The Federal Government, North Rhine-Westphalia, Saarland and RAG concluded a framework agreement on 14 August 2007 which regulates the basis for the phase out, as well as the amount, domestic distribution of and conditions for financial assistance. The agreement also stipulates that subsidies are subject to approval by the European Commission.

Coal mining is still important to the regional economy in the Ruhr area. Past experience has shown that structural change and the creation of promising employment alternatives require sufficient time and a favourable socio-economic environment. The regional unemployment rate remains above the national average. The process for phasing out subsidized mining by the end of 2018 that is stipulated in the agreement is also intended to protect the regional structural progress which can already be seen.

As part of the discontinuation of subsidized coal mining by 2018, the customers of German coal in the power-producing and iron-producing industries are to be given sufficient time to adapt their plant and supply structures to the new conditions as well. The Hard Coal Financing Act (*Steinkohlefinanzierungsgesetz*) introduced on 28 December 2007 against this background regulates the financing of:

1. the sale of German coal for use in power plants and producing steel in blast furnaces up to 2018
2. the costs for mining companies that arise from permanent closures
3. site contamination and perpetual liabilities in coal mining
4. the socially acceptable process of adjustment for older employees in the German coal mining sector

Perpetual liabilities in mining cover the tasks that have to be undertaken after closure, especially mine-water drainage and groundwater treatment. To finance the perpetual liabilities once mining is discontinued in 2018, the RAG Foundation (RAG-Stiftung) was established under civil law in 2007 and acquired the shares of the previous RAG AG shareholders for €1 each ([www.rag-stiftung.de/en/home](http://www.rag-stiftung.de/en/home)). While RAG AG's mining division remains with the RAG Foundation, the sale of the non-mining operations bundled under the umbrella of Evonik Industries AG is intended to finance the perpetual liabilities. The financing of the perpetual liabilities is secured via a contract on this matter that was concluded between North Rhine-Westphalia, Saarland and the RAG Foundation on 14 August 2007. In the event that the RAG Foundation does not have sufficient assets to cover the perpetual liabilities, the Federal Government bears one third of the contingent liability assumed by North Rhine-Westphalia and Saarland in the contract.

### 2. Implementation strategy and timeframe for rationalizing and phasing out hard coal subsidies

According to the closure plan for German coal mining approved by the European Commission in December 2011, German coal mining **production** is to be reduced from 12.4m tce in 2011 to 4m tce in

2018, the cut-off point for the final two mines. From 2019 onwards, subsidized coal will no longer be produced in Germany. The planned closure of the final two mines in 2018 will mark the conclusion of a process of restructuring that has been underway for decades and which has already led to substantial reductions in production. In 1990 the level of coal production was still 71.0m tce. In 2014 only 7.8m tce of hard coal have been produced.

Production capacities have been reduced continuously since 2007 under the closure plan for German coal mining. Five mines have been closed from 2007 till 2012. Among this, in June 2012 the last mine in Saarland was closed.

At present, three mines are still in operation – two in the Ruhr area and one near the town of Ibbenbüren (in North Rhine Westphalia). The next mine will be closed in the Ruhr area at the end of 2015. By way of comparison, coal was being produced at a total of 27 mines back in 1990. The remaining mines are to be closed till 2018.

The **subsidies** granted for coal mining in Germany serve to implement the phase-out by the end of 2018 in a socially acceptable manner. The state aid will be lowered continuously up until 2018. It has already been reduced significantly. Between 2000 and 2014 it was cut by around 67%.

State aid programming assumes from 2014 onwards there will be proceeds of an average €55/tce from the sale of coal. Higher profits lead to cuts in the aid actually granted. The world-market prices for steam coal currently stand at around €70/tce, which means there is still potential for reductions.

Only a part of the aid is granted for promoting the sale of coal; a large part, which is growing as coal production declines, serves to finance the costs of closure and of contaminated sites. The level of sales aid as a percentage of overall state aid is expected to decline from almost 43% in 2014 to around 30% in 2018.

Year	2014	2015	2016	2017	2018
Total state aid (€m)	1,649	1,503	1,225	1,182	1,091

In addition to the state aid set out in the above table, the Hard Coal Financing Act and the framework agreement provide for additional assistance towards the burdens companies will incur from 2018 onwards as a result of the closures. This includes an amount of up to €1,047m to compensate for the costs of closure that are to be financed from 2018 onwards, to which RAG AG will contribute €32m. An amount of up to €2,182m (of which RAG AG will contribute €61m) will serve to compensate for the burdens of ongoing obligations following the permanent discontinuation of subsidized coal mining in Germany. This only includes such obligations that are not perpetual liabilities.

In 2014 the **workforce** in the German coal mining sector decreased by 2,400 to 12,100. The workforce reduction has been implemented in a socially acceptable manner – i.e. without operational redundancies. Miners commute from their home in Saarland to their new working-place in North Rhine-Westphalia. The further reduction in the workforce foreseen in the closure plan is also to be conducted in a socially acceptable manner. A system for early retirement, which is already in place and applies until 2022, is a primary tool in this regard. Further measures will be required to reduce the number of younger employees not eligible for early retirement in the period under consideration.

### **3. Current status of implementation strategies and timeframes for rationalizing and phasing out inefficient fossil-fuel subsidies**

In 2015, only three mines are left. Germany will further reduce workforce in a socially acceptable manner till 2018. The next mine will be closed at the end of 2015

## **India**

### **Rationalizing and Phasing out Inefficient Fossil Fuel Subsidies–Present status in India**

In the first G20 Pittsburgh leaders' summit held in September, 2009, it had been decided to rationalize and eliminate inefficient fossil fuel subsidies, in a manner that wasteful energy consumption is avoided while, recognizing the importance of providing essential energy services to those in need. Individual member countries have undertaken the process of rationalization of such subsidies.

It was decided amongst the Energy Sub-group members in 2010 that all the countries would provide their own definition of inefficient subsidies since the group was not able to arrive at a single definition of subsidies and more so 'inefficient subsidies'. The following definition of subsidy has been adopted in India:

“A fossil fuel subsidy is any Government measure or budgetary support that has a consequence of reducing the effective cost for fossil fuel paid by consumer, (after accounting for taxes on these fuels) or of reducing the costs or increasing the revenue of fossil fuel producing companies”.

The Government is committed to making essential fuels, particularly cooking and lighting fuels available to the common man at affordable prices. In view of the importance of the household fuels, namely Kerosene for Public Distribution System (PDS) and Domestic LPG, the subsidies on these products are being given.

Prices of Petrol were made market determined since 25th June, 2010. In October 2014, the Government deregulated the price of Diesel. As a result, the subsidy on Diesel has come down from Rs.628.37 billion in 2013-14 to Rs.109.35 billion in 2014-15. In view of the importance of providing clean household fuels for cooking and lighting, subsidy is continued for domestic LPG and PDS Kerosene.

Direct benefits transfer scheme (DBT) called the 'PAHAL' scheme has been launched in 154 identified districts on 15.11.2014 and in remaining districts of the country on 1st January 2015. "PAHAL" is acknowledged [by the Guinness Book of World Records] as the largest cash transfer programme in the world. As on 13.8.2015, 139 million LPG consumers have joined the PAHAL scheme. LPG consumers who have joined the PAHAL scheme get the LPG cylinders at market price and receive LPG subsidy (as per their entitlement) directly into their bank accounts. Moreover, so far, more than 2.5 million LPG consumers who can afford market prices have voluntarily given up LPG subsidy. This scheme has enabled substantial reduction in subsidy.

## Italy

Italy considers favorably the International Energy Agency's (IEA) definition of fossil fuel subsidies as: "any government measure or program with the objective or direct consequence of reducing below world-market prices, including all costs of transport, refining and distribution, the effective cost for fossil fuels paid by final consumers, or of reducing the costs or increasing the revenues of fossil-fuel producing companies".

However, and according to this definition, Italy as much as most other EU member states does not have subsidies that lower the price of fossil fuels below international market price levels. Furthermore, State aid within the EU is clearly limited by the Treaty on the Functioning of the European Union (TFEU), which forbids any public support not compatible with the TFEU.

The Italian tax measures do not represent subsidies on the basis of the IEA's definition. Nevertheless for transparency reasons it is important to remark that the final price paid for fossil fuels in Italy (and in Europe) is the result of the world price plus the industrial costs (refinery, storage, distribution, margin) plus taxation (excise duties, VAT, other taxes).

While not having any Consumer subsidies, Italy identified the **CIP6 scheme** (resolution n.6 of the Interministerial Price Committee of 1992) as a Producer subsidy proposed for reform and reported to the G-20. It regards incentives to renewable energies but also includes subsidies to fossil power plants.

### **Part 1: Inefficient fossil fuel subsidies proposed for reform in an implementation strategy reported to the G-20**

**CIP6 scheme** (resolution n.6 of the Interministerial Price Committee of 1992)

This scheme was introduced by law in 1992 with the aim of promoting the development of new electricity capacity produced by renewables as well as "equivalent-to-renewable sources", including fossil fuels. The scheme ended in 2007, but it is expected to produce effects until 2020 when the last contract signed under the scheme will come to the end.

The relevant ministries and government bodies involved in implementing the subsidy program are the Ministry of Economic Development and its operator of energy services, the Gestore dei Servizi Energetici (GSE). <http://www.sviluppoeconomico.gov.it><http://www.gse.it>

### **Part 2: Implementation strategies and timeframes for rationalizing and phasing out subsidies described in Part 1**

**CIP6 scheme** – anticipated resolution strategy

Not only did Italy abolish the CIP6 scheme, but it also decided to consider an accelerated phasing-out process for the existing conventions. Hence, in July 2009 the Authority for Electrical Energy and Gas (AEEG) was asked to elaborate proposals for the Ministry of Economic Development on how to have energy producers withdraw their CIP6 contracts, on a voluntary basis, and under most convenient economic terms for all parties. The AEEG's proposals (deliberation PAS 22/09) led to the Ministry of Economic Development's decree (law n. 99/2009), called "Mechanism for the anticipated resolution of the CIP6/92 conventions". Procedures and timeframes for the determination of the corresponding compensation settlements were defined in further decrees, approved in December 2009, August and October 2010.

### **Part 3: Current status of implementation strategies and timeframes for rationalizing and phasing out inefficient fossil fuel subsidies**

**CIP6 scheme** – anticipated resolution: current status

To date the Ministry of Economic Development and GSE's efforts and negotiations with private operators have led to the anticipated resolution of 10, equivalent to an installed capacity of 1.000 MW. The cost of the anticipated phasing-out of these first 10 conventions is approx. 430 million€, primarily for compensation payments, while the equivalent incentives without contract resolution would have cost approx. 690 million€. Consequently, the economic convenience for the system is about 260 million€. The described anticipated subsidy resolution mechanism is being carried forward, and shall lead to further cost savings in years to come.

## Mexico

### Part 1

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- The Mexican Special Excise Tax on gasoline and diesel has a provision that allows for negative revenue collection when international reference prices are above domestic prices. This could be interpreted as a subsidy, but is not designed as such. The Mexican government considers this a mechanism that allows the smoothing of the impact of international price shocks on consumers. However, the ability to increase gasoline prices remains in the hands of the Ministry of Finance.
- The policy on prices for gasoline and diesel was established by the Mexican Congress through the Hydrocarbons Law in 2014, which gives the faculty of setting maximum prices to the Executive branch. This implies the possibility of having prices lower than the maximum price set by the Executive.
- During the last eight years, domestic fuel prices in Mexico have been lower than their international references, leading to a net subsidy to consumers.
  - Collection from the Special Excise Tax on gasoline (IEPS) averaged 1% of GDP from 1980 to 2005.
  - In 2013, the negative collection of the tax reached 0.7% of GDP.
- This situation has led to a series of distortions, including an excessive consumption of fuels in comparison to other economies with similar levels of development and even when compared with some industrial economies.
- The fuel subsidy is highly regressive: 33% of the total subsidy is captured by the richest 10% of the population, 50% by the richest 20%, and only 1.6% by the poorest 10%.

### Parts 2 and 3

- In 2014, the legal framework allows the Executive to set retail prices of gasoline, diesel, and LP gas; hence, no action from the Legislative power was required in order to modify fossil fuel prices. Considering these factors, the Mexican Government applied a policy of gradual monthly increases to domestic fuel prices.
  - In 2014, regular gasoline prices increased 0.09 pesos per liter per month. In addition with the one-time increase due to a carbon excise tax (0.10 pesos per liter in January), this implied an annual growth of 9.7% during 2014.
  - The gap between domestic and US prices of regular gasoline closed after September 2013 and the subsidy for 2014 was of 0.22% of GDP.
- Starting on January 1<sup>st</sup>, 2015 and until December 31<sup>st</sup>, 2017, regulation on maximum prices will be established by the Federal Government through an agreement that should foresee adjustments consistently with expected inflation in the economy, relative differences for transportation costs among regions, and different distribution modalities.
  - On January 1<sup>st</sup>, 2015, the Federal Government announced a single increase of 1.9% for the prices of gasoline, diesel, and LP gas for 2015.
  - The expected tax/subsidy for 2015 is approximately of 1.00% of GDP.
- Starting on January 1<sup>st</sup>, 2018, prices will be determined by the market.

## Russia

After additional analysis and research we discovered that inefficient fossil fuel subsidies encouraging wasteful consumption do not exist in the Russian Federation. Moreover Russian ultimate consumers are not subsidized by the state. At the same time the Russian Federation implements a strategy for phasing out over the medium and long term wasteful consumption of all energy resources (including fossil fuels) within the framework of the Energy Strategy 2030, the state program “Energy Saving and Increase of Energy Efficiency for the period until 2020”, the Concept of Long-Term Social and Economic Development for the period till 2030 and the Program of Development of Coal Industry in Russia for the Period till 2030.

Russian domestic oil market is totally free of state intervention in pricing mechanisms and is functioning on market basis.

At the current stage gas wholesale market for industrial consumers is characterized with a high level of competition among multiple independent suppliers.

Its reform was undergoing in 2011-2014 according to the Decree of the Government №1205 dated December 31, 2010, providing a transition to the regulation system of wholesale gas prices based on price formula. This formula was supposed to ensure equal yield from gas deliveries to domestic and foreign markets during the transition period (2011-2014). Thereby, gas prices during 2013-2014 were recalculated quarterly in accordance with the approved formula.

The transition to the formula pricing mechanism for the wholesale gas prices and the changes in the existing legal framework show the consistent trend in convergence of internal and external gas prices.

The Energy Strategy 2030 provides for the elaboration of further steps in order to improve the regulation of retail energy prices for population, taking into account the development of targeted social support system and the improvement of the system of rational consumption system of energy resources for household needs.

As for the Russian coal industry for the previous decade it was one of the main recipients of state financial aid due to its ineffectiveness accompanied with the large number of population involved. To make the industry self-sufficient the Government has launched its profound modernization. Its main goals are set in the Program of Development of Coal Industry in Russia for the Period till 2030. Among them are to increase coal extraction from 358 mln. tons in 2014 to 480 mln. tons, to achieve 100% renovation of productive capacities and to reach the level of productiveness of 9000 tons per capita in the industry annually.

At the current stage this industry is fully private-controlled and does not receive any subsidies leading to market distortions.

As a whole Russian energy sector is functioning on a market basis and is well connected to the external markets with no legal obstacles or barriers preventing domestic producers from reaching them. That results in exporting the resources to foreign markets being a constant alternative for Russian producers, taking into consideration that there is adequate transport infrastructure.

Another priority for the state energy policy is to improve the functioning of the whole energy sector and to implement initiatives aimed at increasing energy saving and energy efficiency by fully applying the «Energy Saving and Increase of Energy Efficiency for the period until 2020» State Program.

The Program is aimed at ensuring the increase of competitiveness, financial stability, energy and ecological security of the Russian economy, as well as increase of the level and quality of life due to the potential of the energy saving and increase of energy efficiency on the basis of modernization, technological development and transfer to rational and ecologically responsible use of all energy resources.

The major aim of the Program is to decrease the GDP energy intensity lesser than by 13.5% against the level of 2007 due to the program activities only, with a 5,6% decrease achieved by 2015.

The main instruments of the Program's implementation are:

- Co-financing of the best regional energy efficiency programs;
- Government loan guarantees to the enterprises for the implementation of the energy efficiency increase programs;
- Creation of state information system in the sphere of energy efficiency increase;
- Training of people responsible for energy efficiency increase, formation of economic model of public behavior;
- Methodical and normative provision of energy efficiency.

The implementation of the strategy and solution of the problem of energy saving and increase of energy efficiency are to a great extent long-term issues. That is determined by the necessity to change the system of relations within the energy markets as well as to change and modernize considerable part of industrial, engineer and social infrastructure and its further development on the basis of the new technologies.

## Turkey

### **Part 1: Inefficient fossil fuel subsidies proposed for reform in an implementation strategy reported to the G-20**

One subsidy listed last year in the Turkey's submission was capital injection to Turkish Hard Coal Company (TTK).

**Overview:** Turkish Hard Coal Company, which is a state owned enterprise, produces hard coal and sells majority (around 60 %) of its production to private power plants . Total share of TTK in Turkish hard coal market is approximately %4. The average selling price, which is equal to market price, is not high enough to cover the production costs. In this context, capital transfers from the budget (through Treasury) have been made to sustain the financial viability of TTK. Amount of capital injection was around US\$ 270 million in 2011, US\$ 255 million in 2012,US\$ 298 million in 2013 and US\$ 288 million in 2014.

Since Turkey has limited local resources to meet the increasing energy demand, usage of domestic hard coal is important in terms of energy supply security. On the other hand, due to geological conditions of region where TTK's coal mines are operating, the production is labor intensive. So, it is also important for the regional economy.

### **Part 2: Implementation strategies and timeframes for rationalizing and phasing out subsidies described in Part 1**

Through rehabilitation of TTK, the inefficient producer side subsidy is planned to be removed over the medium term. The Ministry of Energy and Natural Resources, The Undersecretariat of Treasury and The Ministry of Development have been working on a study plan. This study is progressed in accordance with the Annual Programmes (\*) coordinated by the Ministry of Development. In the meantime, to increase the factor productivity and reduce the loss, total employment of TTK has been decreased by %13,8 between 2009 and 2014.

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(\* )

*2009 Annual Program (English):*

*(<http://www.mod.gov.tr/Lists/AnnualPrograms/Attachments/3/2009%20Annual%20Programme.pdf>)*

*2010 Annual Program (English):*

*(<http://www.mod.gov.tr/Lists/AnnualPrograms/Attachments/4/2010%20Annual%20Programme.pdf>),*

*2011 Annual Program (English):*

*(<http://www.mod.gov.tr/Lists/AnnualPrograms/Attachments/5/2011%20Annual%20Programme.pdf>),*

*2012 Annual Program (Turkish):*

*([http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/2/2012\\_Y%C4%B1l%C4%B1\\_Program%C4%B1.pdf](http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/2/2012_Y%C4%B1l%C4%B1_Program%C4%B1.pdf)).*

### **Part 3: Current status of implementation strategies and time frames for rationalizing and phasing out inefficient fossil fuel subsidies**

The Ministry of Energy and Natural Resources, The Undersecretariat of Treasury and The Ministry of Development have been working on a report which includes data related to financial status of the Turkish Hard Coal Company, production and the annual cost of the subsidies. After the completion of the report, these parties are going to work on rehabilitation plan that will be accomplished over the medium term. The parties are expected to develop measures which would decrease the production costs or increase the income from the sales. Since the rehabilitation plan would have social and economic outcomes, related parties, trade unions and non-governmental organizations should reach a consensus. Besides, the public support is as also crucial since the economy of Zonguldak region mainly depends on the mining sector. Turkey will continue to monitor the implementation strategy and follow the best implementation examples and case studies in order to rationalize/phase out inefficient fossil fuel subsidies in a socially acceptable manner.

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*2013 Annual Program (Turkish):*

*([http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/1/2013\\_Y%C4%B1l%C4%B1\\_Program%C4%B1.doc](http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/1/2013_Y%C4%B1l%C4%B1_Program%C4%B1.doc))*

*2014 Annual Program (Turkish):*

*([http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/22/PROGRAM\\_2014.docx](http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/22/PROGRAM_2014.docx))*

*2015 Annual Program (Turkish):*

*([http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/24/2015\\_program%C4%B1\\_15\\_12\\_2014.pdf](http://www.kalkinma.gov.tr/Lists/YillikProgramlar/Attachments/24/2015_program%C4%B1_15_12_2014.pdf))*

## United States

### Part 1: Identification and Analysis of Fossil Fuel Provisions

#### Production Fossil Fuel Subsidies

There are a number of tax preferences, described below, available in the United States to producers of fossil fuels. The preferences below are all permanent provisions in the tax code. The annual revenue costs estimated for each provision are taken from the Mid-Session Review of the Budget of the United States Government, Fiscal Year 2016, which is available here: <http://www.whitehouse.gov/omb/budget/msr>. Provision descriptions are derived from the General Explanation of the Administration's Revenue Proposal, sometimes referred to as the Treasury Green Book, which is available here: [http://www.treasury.gov/resource-center/tax-policy/Pages/general\\_explanation.aspx](http://www.treasury.gov/resource-center/tax-policy/Pages/general_explanation.aspx)

In total, the United States government has identified eleven Federal fossil fuel production tax provisions, as shown below. Combined, these provisions total USD 4.3 billion in annual revenue cost (nominal annual average figure based on the 10-year revenue estimate).

<b>Production Tax Provision</b>	<b>Fossil Fuel Targeted</b>	<b>Description</b>	<b>Analysis</b>	<b>Expiration</b>	<b>Annual Revenue Cost (million)<sup>1</sup></b>
<b>Expensing of intangible drilling costs</b>	Oil Natural Gas	Taxpayers may elect to currently deduct intangible drilling costs (IDCs) paid or incurred with respect to the development of an oil or natural gas property located in the United States. For an integrated oil company that has elected to expense IDCs, 30 percent of the IDCs on productive wells must be capitalized and amortized over a 60-month period.	The expensing, rather than capitalization, of IDCs provides a tax preference to the oil and natural gas industry. Requiring capitalization of IDCs would place the oil and natural gas industry on a cost recovery system similar to that employed by other industries and reduce economic distortions. This provision, like other oil and natural gas preferences the Administration proposes to repeal, distorts markets by encouraging more investment in the oil and natural gas industry than would occur under a neutral tax system. This market distortion is detrimental to long-term energy security and is also inconsistent with the Administration's policy of supporting a clean energy economy, reducing our reliance on oil, and cutting carbon pollution. Moreover, the tax subsidy for oil and natural gas must ultimately be financed with taxes that result in underinvestment in other, potentially more productive, areas of the economy.	None	\$1,629

<b>Production Tax Provision</b>	<b>Fossil Fuel Targeted</b>	<b>Description</b>	<b>Analysis</b>	<b>Expiration</b>	<b>Annual Revenue Cost (million)<sup>1</sup></b>
<b>Percentage depletion for oil and natural gas wells</b>	Oil Natural Gas	<p>Depletion is available to any person having an economic interest in a producing oil and natural gas property. There are generally two types of depletion – cost and percentage depletion. Cost depletion is limited to the taxpayer’s basis in the property, whereas percentage depletion is not limited by the basis, but is subject to other limitations.</p> <p>Percentage depletion for producing oil and natural gas property (15 percent rate) is available only to independent producers and royalty owners and is limited to average production of 1,000 barrels of oil per day or its natural gas equivalent. The percentage depletion deduction is further generally limited to the lesser of 65 percent of the taxable income before the depletion allowance or 100 percent of the taxable income from the property before the depletion allowance.</p>	<p>Percentage depletion effectively provides a lower rate of tax with respect to a favored source of income relative to cost depletion. Cost depletion computed by reference to the taxpayer’s basis in the property would place oil and natural gas producers on a cost recovery system similar to that employed by other industries and reduce economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.</p>	None	\$966
<b>Domestic manufacturing deduction for fossil fuels</b>	Oil Natural Gas Coal Lignite Oil Shale	<p>A deduction is allowed with respect to income attributable to domestic manufacturing and production activities. For taxable years beginning after 2009, the manufacturing deduction is generally equal to nine percent of the lesser of qualified production activities income for the taxable year or taxable income for the taxable year, limited to 50 percent of the W-2 wages of the taxpayer for the taxable year. The deduction for income from oil and natural gas production activities is computed at a six-percent rate.</p> <p>This deduction is widely available and not targeted at fossil fuel industries.</p>	<p>The manufacturing deduction, which is available to all taxpayers that generate qualified production activities income, effectively provides a lower rate of tax for income from certain activities, including the production of fossil fuels. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.</p>	None	\$1,049

<b>Production Tax Provision</b>	<b>Fossil Fuel Targeted</b>	<b>Description</b>	<b>Analysis</b>	<b>Expiration</b>	<b>Annual Revenue Cost (million)<sup>1</sup></b>
<b>Two year amortization period for geological &amp; geophysical expenditures</b>	Oil Natural Gas	Geological and geophysical expenditures incurred by independent producers in connection with domestic oil and natural gas exploration may be amortized over two years. For integrated oil companies, these costs must be amortized over seven years.	The accelerated amortization of geological and geophysical expenditures incurred by independent producers provides a tax preference to the oil and natural gas industry. Increasing the amortization period for geological and geophysical expenditures incurred by independent oil and natural gas producers from two years to seven years would provide a more accurate reflection of their income and more consistent tax treatment for all oil and natural gas producers. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$288
<b>Percentage depletion for hard mineral fossil fuels</b>	Coal Lignite Oil Shale	Percentage depletion is available for coal and lignite (10 percent rate) and oil shale (15 percent rate). The percentage depletion deduction is generally subject to the alternative minimum tax at a 20 percent rate to the extent it exceeds the adjusted basis of the property. The deduction may not exceed 50 percent of the net income from the mineral property in any year.	Percentage depletion, rather than cost depletion, effectively provides a lower rate of tax with respect to a favored source of income. Cost depletion computed by reference to the taxpayer's basis in the property would place these fossil fuel industries on a cost recovery system similar to that employed by other industries and reduce economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$209
<b>Expensing of exploration and development costs for hard mineral fuels</b>	Coal Lignite Oil Shale	Mining companies may elect to deduct 70 percent of domestic exploration and development costs. The 30 percent of expenses that cannot be deducted must be capitalized and amortized over a 60-month period. Taxpayers may also elect to capitalize mine exploration and development expenses and amortize them over a 10-year period. If this election is made, the expenses will not be tax preference items under the alternative minimum tax.	The expensing of exploration and development costs relating to coal and other hard mineral fossil fuels provides a tax preference to the these fossil fuel industries. Capitalization of exploration and development costs relating to coal and other hard mineral fossil fuels would place taxpayers in that industry on a cost recovery system similar to that employed by other industries and reduce economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$53

<b>Production Tax Provision</b>	<b>Fossil Fuel Targeted</b>	<b>Description</b>	<b>Analysis</b>	<b>Expiration</b>	<b>Annual Revenue Cost (million)<sup>1</sup></b>
<b>Capital gains treatment for royalties of coal</b>	Coal Lignite	Royalties received on the disposition of coal generally qualify for treatment as long-term capital gain and the royalty owner does not qualify for percentage depletion with respect to the coal. This treatment does not apply unless the taxpayer has been the owner of the mineral in place for at least one year before it is mined. The treatment also does not apply to income realized as a co-adventurer, partner, or principal in the mining of the mineral or to certain related party transactions.	The capital gain treatment of coal and lignite royalties provides a tax preference to these fossil fuel industries. Treating royalties as ordinary income would place taxpayers in that industry on a cost recovery system similar to that employed by other industries and reduce economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$31
<b>Deduction for tertiary injectants</b>	Oil	Taxpayers engaged in petroleum extraction activities may generally deduct qualified tertiary injectant expenses incurred while applying a tertiary recovery method to increase the recovery of crude oil.	The deduction, rather than capitalization, of tertiary injectants provides a tax preference to the oil and natural gas industries. Capitalization of tertiary injectants would place the oil and natural gas industry on a cost recovery system similar to that employed by other industries and reduces economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$10
<b>Exception to passive loss limitation for working interests in oil and natural gas properties</b>	Oil Natural Gas	Under normal rules, passive losses that remain after being netted against passive income generally can only be carried forward to offset passive income in future years. The exception permits losses from working interests in oil and gas properties to offset active income. The exception is only available if the working interest is owned in a way that does not limit the taxpayer's liability.	The special tax treatment of working interests in oil and natural gas properties provides a tax preference to the oil and natural gas industries. Eliminating the working interest exception would subject oil and natural gas properties to the same limitations as other activities and reduce economic distortions. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	None	\$19

<b>Production Tax Provision</b>	<b>Fossil Fuel Targeted</b>	<b>Description</b>	<b>Analysis</b>	<b>Expiration</b>	<b>Annual Revenue Cost (million)<sup>1</sup></b>
<b>Enhanced oil recovery (EOR) credit</b>	Oil	<p>Provides a 15 percent credit for expenses associated with an EOR project in the United States. An EOR project is a project that involves the use of one or more tertiary recovery methods to significantly increase the amount of recoverable crude oil.</p> <p>The credit is phased out when the reference price of oil exceeds a statutory amount indexed to inflation.</p>	The credit provides a tax preference to the oil and natural gas industries. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	<p>None</p> <p>Currently phased out due to high oil prices.</p>	\$0
<b>Marginal wells credit</b>	Oil Natural Gas	Production tax credit for marginal wells or wells that have an average daily production of not more than 25 barrels per day. The credit is phased out when the reference price of oil exceeds a statutory amount indexed to inflation.	The credit provides a tax preference to the oil and natural gas industries. See expensing of intangible drilling costs for further analysis of the effects of fossil fuel tax preferences.	<p>None</p> <p>Currently phased out due to high oil and natural gas prices.</p>	\$0

<sup>1</sup> Nominal annual average figure based on the 10-year revenue estimate, Table S-8, Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2016.

## Consumption Fossil Fuel Subsidies

There is one consumption subsidy that is funded by the Federal government in the United States. It is targeted at low-income households, and benefits are typically dispersed as a lump sum credit on a household's utility bill. Because the program is a targeted transfer that helps low-income households obtain essential energy services and does not encourage wasteful consumption, this program is not proposed for phase-out. Further information about the program can be obtained at: [www.acf.hhs.gov/programs/liheap](http://www.acf.hhs.gov/programs/liheap) and <http://liheap.ncat.org/>

Consumption Subsidy	Description	Analysis	Expiration	Annual Revenue Cost (million \$)
<p><b>Low Income Home Energy Assistance Program (LIHEAP)</b></p>	<p>A discretionary block grant awarded to States, territories, and tribes and tribal organizations to provide home heating and cooling energy assistance to low-income households. Grantees may use a portion of their LIHEAP funds for low-cost residential weatherization services and for program administration. Federal guidelines limit eligibility to households with incomes up to 150% of poverty or 60% of State median income. In FY 2012, the average LIHEAP heating benefit (heating and winter crisis benefits combined) was \$587 representing 63.7% of average home heating expenditures for LIHEAP households.</p>	<p>LIHEAP assistance is targeted to vulnerable households (those with elderly, disabled or young children) and to the poorest (those with the highest energy burdens relative to their income). These households are targeted as they may face serious health and safety risks if they do not have adequate heating and cooling in their homes. In FY 2012, 32% of LIHEAP households that received heating assistance had an elderly member, 35% included a disabled member, and 21% had a child under 5 years old. The weighted average energy burden among LIHEAP heating recipient households was 12%, compared to 9% among all low-income households.</p> <p>Leveraged resources: LIHEAP grants to state, tribes, and territories also leverages other energy related resources, such as discounted utility rates, weatherization assistance, telephone discounts, and other private and public resources. During Fiscal Year 2010, these grantees leveraged a total of \$2.996 billion from their private and public partners.</p>	<p>Authorization expired at the end of FY 2007. Congress continues to provide annual appropriations.</p>	<p>\$3,400 for FY 2016</p>

## Part 2: Implementation Strategies and Timeframes for Phase-Out of Fossil Fuel Tax Provisions

### Production Fossil Fuel Subsidies

For all of the production fossil fuel subsidies listed in Part 1, the Obama Administration's Fiscal Year 2016 Budget proposal would eliminate the preferential treatment of fossil fuels in the United States tax code. However, the President is unable to unilaterally alter the tax code. The United States Congress must pass enabling legislation for the proposals to become law.

<b>Production Tax Provision</b>	<b>Strategy and Timeframe</b>	<b>Implementation</b>
<b>Expensing of intangible drilling costs</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal expensing of intangible drilling costs and 60-month amortization of capitalized intangible drilling costs. Intangible drilling costs would be capitalized as depreciable or depletable property, depending on the nature of the cost incurred, in accordance with the generally applicable rules. The proposal would be effective for costs paid or incurred after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Percentage depletion for oil and natural gas wells</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal percentage depletion with respect to oil and natural gas wells. Taxpayers would be permitted to claim cost depletion on their adjusted basis, if any, in oil and natural gas wells. The proposal would be effective for taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Domestic manufacturing deduction for fossil fuels</b>	The Administration's Fiscal Year 2016 Budget proposal would exclude from the definition of domestic production gross receipts all gross receipts derived from the sale, exchange or other disposition of oil, natural gas or a primary product thereof and of coal, other hard mineral fossil fuels, or a primary product thereof for taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Two year amortization period for geological &amp; geophysical expenditures</b>	The Administration's Fiscal Year 2016 Budget proposal would increase the amortization period from two to seven years for geological and geophysical expenditures incurred by independent producers in connection with all oil and natural gas exploration in the United States. Seven year amortization would apply even if the property is abandoned and any remaining basis of the abandoned property would be recovered over the remainder of the seven year period. The proposal would be effective for amounts paid or incurred after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.

<b>Production Tax Provision</b>	<b>Strategy and Timeframe</b>	<b>Implementation</b>
<b>Percentage depletion for hard mineral fossil fuels</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal percentage depletion with respect to coal and other hard mineral fossil fuels. The other hard mineral fossil fuels for which no percentage depletion would be allowed include lignite and oil shale to which a 15 percent depletion rate applies. Taxpayers would be permitted to claim cost depletion on their adjusted basis, if any, in coal and other hard mineral fossil fuel properties. The proposal would be effective for taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Expensing of exploration and development costs for hard mineral fuels</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal expensing, 60-month amortization, and 10 year amortization of exploration and development costs relating to coal and other hard mineral fossil fuels. The costs would be capitalized as depreciable or depletable property, depending on the nature of the cost incurred, in accordance with the generally applicable rules. The other hard mineral fossil fuels for which expensing, 60 month amortization, and 10 year amortization would not be allowed include lignite and oil shale to which a 15 percent depletion rate applies. The proposal would be effective for costs paid or incurred after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Capital gains treatment for royalties of coal</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal capital gain treatment of coal and lignite royalties and would tax those royalties as ordinary income. The proposal would be effective for amounts realized in taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Deduction for tertiary injectants</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal the deduction for qualified tertiary injectant expenses for amounts paid or incurred after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Exception to passive loss limitation for working interests in oil and natural gas properties</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal the exception from the passive loss rules for working interests in oil and natural gas properties for taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.

<b>Production Tax Provision</b>	<b>Strategy and Timeframe</b>	<b>Implementation</b>
<b>Enhanced oil recovery (EOR) credit</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal the investment tax credit for enhanced oil recovery projects beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.
<b>Marginal wells credit</b>	The Administration's Fiscal Year 2016 Budget proposal would repeal the production tax credit for oil and natural gas from marginal wells for production in taxable years beginning after December 31, 2015.	The United States Congress must pass enabling legislation for this proposal to become law.

### **Consumption Fossil Fuel Subsidies**

The United States does not currently have any consumption fossil fuel subsidies that it intends to eliminate.

## **Part 3: Current Status of Phase-Out Strategies**

### **Production Fossil Fuel Subsidies**

No actions have been implemented to date on any United States production fossil fuel subsidies. The United States Congress must pass enabling legislation for phase-out of these subsidies to begin.

### **Consumption Fossil Fuel Subsidies**

The United States does not currently have any consumption fossil fuel subsidies that it intends to eliminate.