SKATTE- OG VÆKSTMINISTERIET

Fossil Fuel Subsidies in Denmark

Inventory of fossil subsidies in Denmark in 2030

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Documentation of the Danish approach for identifying fossil fuel subsidies

The following summarizes the Danish approach to identifying which policies should be included in an inventory of fossil fuel support. The aim is to develop a nuanced approach that identifies both direct support for fossil fuels and helps identify measures that indirectly incentivize their use.

Under current rules (i.e. when reforms that are currently being implemented are fully phased in) Denmark has no direct or indirect subsidies tied to the use of fossil fuels. The paper describes the overarching methodical approach and lists now abolished indirect fossil fuel subsidies which were recently removed due the Danish *Green Tax Reform for Industries etc.*

Description of the methodical approach

The methodology for identifying fossil fuel subsidies is based on the general principle that such subsidies are present only when fossil fuel use is taxed more leniently than alternative energy sources. In other words, total taxation on a given economic activity should be lower when fossil fuels are used compared to when renewable energy sources are employed.

In addition, subsidies may take the form of tax exemptions or preferential fiscal provisions directly associated with the extraction or production of fossil fuels, except in cases where the same activity is also subject to specific taxation, resulting in a higher net tax burden. A specific measure should therefore not be classified as a fossil fuel subsidy if the production or use of the fossil fuel effectively is subject to a higher level of taxation than a given threshold.

Specifically, the consumption of fossil fuels is not regarded as being subsidized or supported if the overall tax burden (including EU-regulation) results in a total level of taxation equal to or above the expected ETS price in 2030. As described in further detail below, the estimate for the ETS price in 2030 used is DKK 750 (approx. € 100).[1]

It is proposed that fossil fuel support measures can be categorized into two overarching levels: 1) Direct transfers or subsidies for fossil fuels and 2) tax expenditures related to the use of fossil fuels.

ETS price

The expected ETS price in 2030 is based on projections from the Danish Ministry of Finance. The methodology builds on the notion that ETS quotas can be seen as any other financial asset, and their value is projected as such.

The choice to use the 2030 ETS price estimate instead of the current ETS price reflects the fact that all ongoing reforms will be fully implemented and have taken full effect by 2030, thereby making it the appropriate benchmark for comparison.

[1] The calculations behind and figures shown in this note are based on ETS1. The calculations do not consider ETS2, but the conclusions are the same when ETS2 becomes operational in 2027 since the taxation of activities covered by ETS2 will be above the ETS price as well.

Fossil fuel subsidies phased out due to Green Tax Reform for Industry etc.

The identification of potential Danish fossil fuel subsidies is based on two key publications: *Skatteøkonomisk Redegørelse 2023*[2], which provides a comprehensive inventory of all tax expenditures, and *Fremtidens Erhvervsstøtte,* where an expert-group examined all Danish business support programs[3].

Denmark has already taken substantial steps towards phasing out tax expenditures related to the use of fossil fuels with the recent *Green Tax Reform for Industry etc. (2022)*. Denmark has not had direct support or subsidies for an extended period, but there have previously been tax expenditures, which lowered or fully exempted taxes on fossil fuels in some activities.

Prior to the reform and during the implementation six different tax expenditures could potentially be categorized as fossil fuel subsidies, *c.f. table 1*. Whilst these tax expenditures did not result in negative effective carbon tax rates, they were measures which led to a lower level of taxation for specific activities and where the activities had an effective carbon tax below the threshold defined by the EU-ETS carbon price.

The tax expenditures in table 1 have been or are phased out with the *Danish Green Tax Reform for Industry etc.* Denmark has no remaining tax expenditures directly connected to the use of fossil fuels.

Table 1. Fossil fuel subsidies phased out due to *Danish Green Tax Reform for Industry etc.*

	Fiscal cost
Tax expenditures	*DKK Million (2024 price level)*
Exemption of fuels used in domestic shipping from energy and Carbon taxes	1,280
Exemption of fuels used for domestic aviation from energy and Carbon taxes	180
Exemption of fuels used for railway transport from Energy and Carbon taxes.	240
Base allowance in Carbon taxes for business with heavy processes which are not included in EU's ETS.	60
Reductions and exemptions from energy taxes for agriculture etc. and miscellaneous processes.[1]	840
Total	**2,600**

Notes: Fiscal costs have been projected from 2023 price level to 2024 price level based on the growth in nominal GDP.
1) When the carbon tax was introduced, it corresponded to the ETS price, but later increases in the latter has not been followed by corresponding rate increases.
Soruce: *Skatteøkonomisk Redegørelse 2023 (publication by the Ministry of Taxation and Wealth in Danish).*

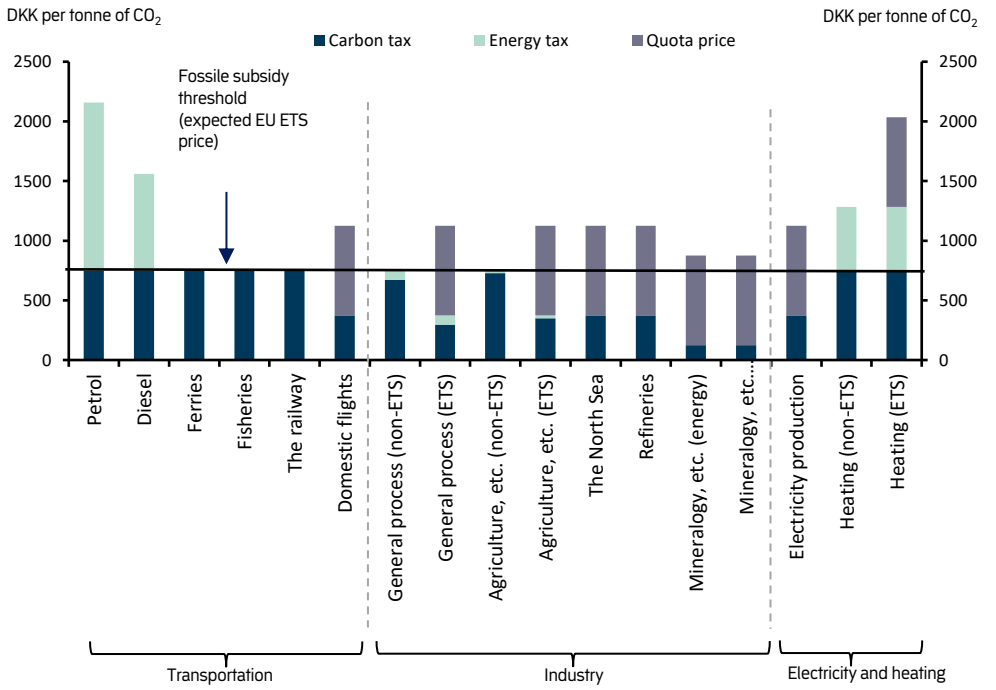
The Green Tax Reform for Industry etc. additionally introduces taxes on CO_2e-emissions in multiple industries and activities. This enhances the point that fossil fuel use in Denmark is taxed and decreases the possibility that policies like tax expenditures could indirectly cause fossil fuels to become net subsidized.

For illustrative purposes, figure 1 shows the structure of the taxation of energy use across sectors in 2030. The figure shows that no sector is taxed below DKK 750, corresponding to approx. €100.

[2] Publication by Danish Ministry of Taxation and Wealth on tax policy and economic analysis.

[3] Both publications are available in Danish on the website of the Danish Ministry of Taxation and Wealtg: *Skatte- og Vækstministeriet | svmn.dk*.

Figure 1. Corporate taxation in Denmark, oil and gas extraction and other sectors



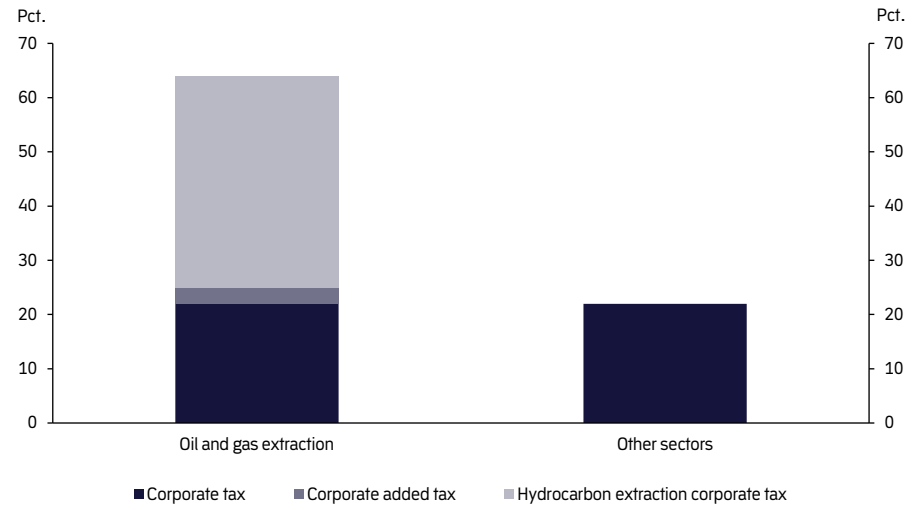
Note: All taxes shown are in 2022 prices. The ETS price in 2030 is expected to be approx. €100. Quota prices shown for sectors covered by ETS1. ETS2 is not included in the figure.
Source: Danish Ministry of Taxation and Growth.

Illustrative example: Taxation of the oil and gas extraction sector

Danish companies operating in the oil and gas extraction sector are subject to taxation through the standard corporate tax rate of 22 pct. and an added corporate tax rate of 3 pct. points for companies in the sector. In addition to the corporate taxation, the sector is subject to a carbon tax of 64 pct. on the income after corporate tax, equivalent to 39 pct. on the pretax income.

Total marginal taxation of earnings in the sector thus equals 64 pct. In that respect, the taxation of companies in this sector is more severe compared to other sectors, *cf. figure 2.*

Figure 2. Corporate taxation in Denmark, oil and gas extraction and other sectors



Note: Companies in the oil and gas sector are partly owned by the state through the North Sea Fund. As such, the total contribution to public finances from the sector exceeds the direct tax income.
Source: Danish Ministry of Taxation and Growth.

Companies in the oil and gas extraction sector have access to a special *investment window* scheme allowing deductions for capital investments in advance. The investments are deducted in the carbon tax. Some might view this scheme as a subsidy. However, when considered in the broader context, the tax burden remains significantly higher for companies in this sector compared to other sectors.

This means that the tax deductions these companies have access to, should be seen in conjunction with the high marginal taxation of oil and gas extraction. Oil and gas extraction activities are always subject to higher taxation than other activities, and companies engaged in the production of fossil fuels in the North Sea are subject to higher taxation than other companies with activities in Denmark. Therefore, the tax deductions are not considered to be a fossil fuel subsidy.