

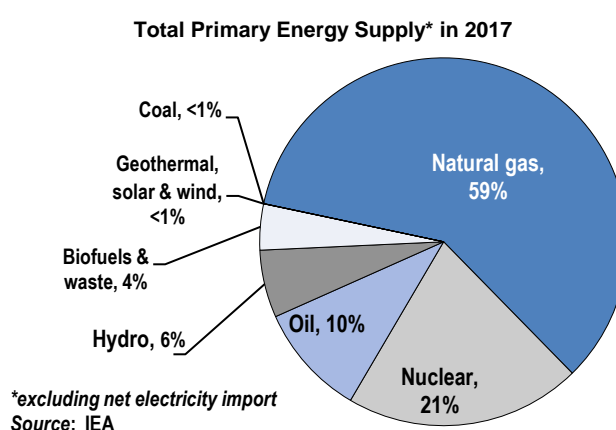
## Armenia

*The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).*

### Energy resources and market structure

Armenia has no indigenous fossil-fuel resources and relies on domestically-generated electricity and imported natural gas to meet the majority of its energy consumption needs.

Imported natural gas predominates the total primary energy supply in Armenia accounting for 59% of Armenia's TPES and 85% of the fossil fuel (including jet fuel) consumption in 2017. Gas imports come mostly from Russia - nearly 84% in 2017 and the rest from Iran in exchange for electricity exports.



The Energy Sector is by far the biggest source of GHG emissions in the country. In 2017 its share of the total greenhouse emissions was 70 % (7087.4 Gg CO<sub>2</sub>eq). The energy sector emissions in 2017 made 31.2% of 1990 emissions level and were 7.0 % higher than those in 2016. Over 83% of CO<sub>2</sub> emissions from fuel combustion in 2017 originates from natural gas. This is due to a very high gas deliverability level in the country (96%), its common use for heating and cooking, being less expensive than electricity, as well as its widespread use in transport on account of its affordability compared to gasoline.

The main power generation capacities in Armenia are the country's nuclear power plant (33.7% of generation), natural gas fired thermal power plants (18.1% of generation), large hydropower plants (37.0% of generation) as well as small renewables such as small hydro, wind and solar power plants (11.1% of total electricity generation in 2017). At present, renewable energy consists mainly of hydropower (small to large HPPs) with solar energy seeing rapid growth in recent years.

Armenia has interconnections with neighboring countries – Iran and Georgia, allowing for power exchange in both directions. It actively exports electricity with Iran in exchange for natural gas deliveries.

### Energy prices and taxes

Armenia's energy sector is a well-known example of a drastic tariff reform following the collapse of the Soviet Union and the ensuing energy crisis of the early 1990s.

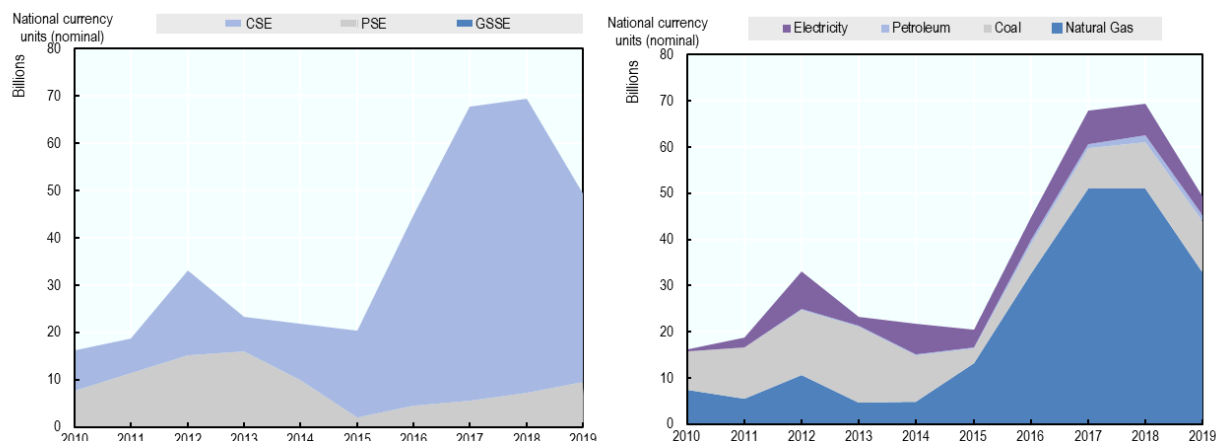
The Public Services Regulatory Commission (PSRC) of Armenia, the independent regulator, regulates producer, consumer as well as transmission and distribution prices for natural gas and electricity. With the entirety of electricity and natural gas consumers having meters installed, there is no connection to the grid without a meter.

Consumer prices for natural gas are set higher than import prices. Large consumers pay less than smaller ones, reflecting Armenia's commitment to abandon subsidisation of natural gas consumption. Consumer electricity prices are higher for end consumer groups with lower voltage connections, and lower for consumers with higher voltage connections. Household consumers pay the highest price. This price structure reflects the increasing cost

of distribution at lower voltages (due to losses). Thus, there are no cross-subsidies from industrial to household consumers in Armenia, unlike in several other countries of the EU Eastern Partnership (EaP) and Central Asia.

Gasoline and diesel prices in Armenia are not regulated. However, the State Commission for the Protection of Economic Competition (SCPEC) monitors gasoline and diesel prices and ensures that there should be no cartel pricing and super profits in any market segment.

### Total support for fossil fuels in Armenia by fuel type (right) and support indicator (left)\*



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

\*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries. The data for 2019 are preliminary.

### Recent developments and trends in support

The current analysis has revealed only very limited subsidies in Armenia, which do not appear to create significant distortions in energy consumer choices. The identified subsidies belong to two categories: support to vulnerable groups in the form of direct budget transfers (but provided to the utilities selling at a loss rather than to consumers themselves), and government revenue foregone from under-taxing fuels. The beneficiaries of all these subsidies are consumers. The Government of Armenia foregoes revenue by under-taxing certain fossil fuels: an exemption for imported diesel (from VAT at the flat rate of 20% for all products), by far the largest fossil fuel subsidy in Armenia (2011 – 2015), and for imported natural gas (2011 – 2019) as well as for compressed natural gas (2011 – 2015) (from excise tax applicable at different rates to other fuels).

The VAT exemption for diesel was eliminated under the new Tax Code taking effect on 1 January 2018. However, in order to mitigate the impact of increased diesel price for agriculture, excise tax was reduced from the current AMD 35 000/tonne to AMD 13 000/tonne.

As of May 2016, excise tax was also levied on compressed natural gas (CNG), an important transport fuel in Armenia. To this end, the legislation on excise tax was amended in October 2015. Excise tax on CNG is paid by firms that serve vehicles by filling engines with CNG, at a rate of AMD 8 330 (since May 2016) and AMD 25 000 (since Jan 2018) per 1 000 m<sup>3</sup>.

Examples of measures	
<b>Social support to households in RA border communities</b>	The government of the RA compensates at least 50% of electricity and natural gas fees to border community customers, aimed at contributing to poverty reduction in rural areas.
<b>Exemption of imported natural gas from excise tax</b>	This measure aims to reduce end-price of natural gas for households, electricity generation, industry, transport and other consumers. In Armenia, natural gas accounts for about 62% of the nation's total final energy consumption in 2018, of which all of it is imported. Recent years have seen an unprecedented expansion of natural gas distribution networks, with the gasification rate reaching 96% in 2018.