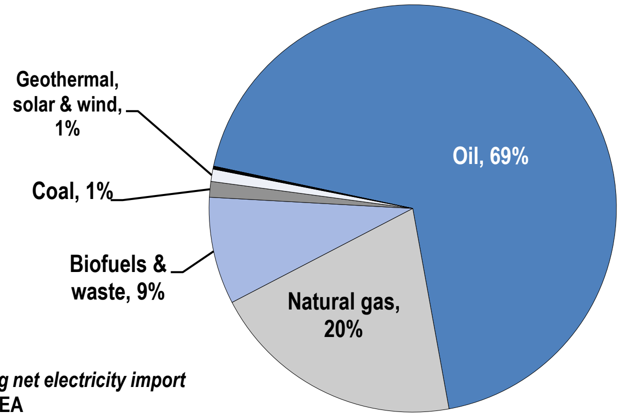
Luxembourg

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

Luxembourg produces no fossil fuels nor does it refine any petroleum. About half of the electricity is imported. The dominance of imported oil in the total primary energy supply can be explained by the sale of petroleum products to truckers crossing Luxembourg and cross-border commuters who take advantage of the country's lower excise taxes on these fuels compared with neighbouring states.

Total Primary Energy Supply* in 2018



**excluding net electricity import*
Source: IEA

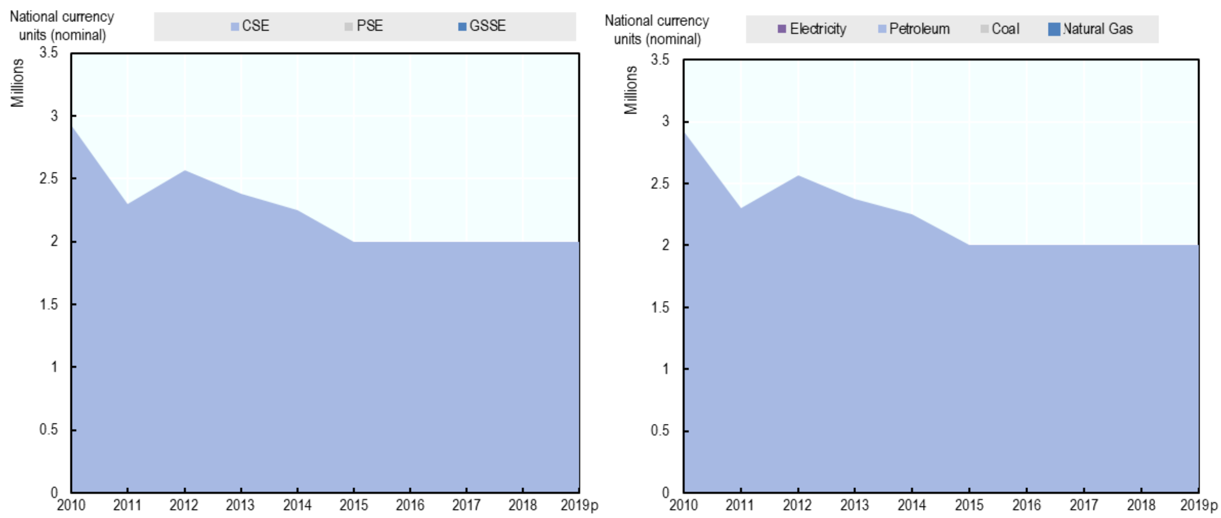
Luxembourg meets its minimum oil stockholding obligations as a member of the IEA and the EU by obliging all oil importers to maintain stocks of petroleum products equivalent to at least 90 days of deliveries into domestic consumption during the previous calendar year. Eighty-five per cent (85%) of the storage capacity however is located outside the country.

Luxembourg's natural-gas market is dominated by a small number of vertically integrated companies. Creos Luxembourg S.A. (formerly SOTEG) owns and operates the transmission system, and it supplies the majority of the market. Most of Creos' shares are owned by various private utilities, though the State maintains minority ownership. Creos also operates one of the two main electricity-transmission systems in the country. The State of Luxembourg owns about 40% of the company, via direct shareholdings and through the Société Nationale de Crédit et d'Investissement. The other main electricity grid operator is the Société de Transport de l'Electricité (SOTEL). Most of the electricity-distribution companies are owned by municipalities.

Energy prices and taxes

Luxembourg sets a maximum price for oil products sold to the end-user using a price-setting mechanism through a signed agreement with oil importing companies. Gasoline, liquefied petroleum gas (LPG), diesel, and heating oil are all subject to this maximum price. The pricing formula is based on Platt's Antwerp CIF product prices to which the standard transport price from Antwerp to Luxembourg, the standard distribution margin covering the profits of importers and filling stations, and the cost of compulsory storage is added. The different costs are determined by the government after discussion with the oil companies' association (Groupement Petrolier Luxembourgeois) and the retailers. There is a four-day delay between the time prices are quoted and the time retailers are able to adjust to a new maximum rate. Luxembourg's natural-gas and electricity markets are regulated by the *Institut Luxembourgeois de Régulation* (ILR), whose responsibilities include monitoring competition and preventing the abuse of dominant position. Because of the small size of the market and the large share of costly underground distribution cables, electricity prices before taxes are higher than in almost any other OECD country. Luxembourg charges a reduced rate of VAT of 14% on solid mineral fuel,

Total support for fossil fuels in Luxembourg by support indicator (left) and fuel type (right)



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

kerosene and mineral oil used for heating compared with the general VAT rate of 17% (from 2015). An even lower rate of 8% is applied to LPG, natural gas suitable for heating, lighting, and motor fuel. In recent years, the excise rate on gasoline increased twice, by EUR 0.02/litre in 2007 and by EUR 0.01/litre as per May 2019. Adjustments on diesel excise tax occurred more frequently and almost on an annual basis at EUR 0.265/litre in 2005 to appreciate to EUR 0.33/litre by 2012 until reaching its current level at EUR 0.355/litre in 2019. These increases were dubbed “Kyoto-cent”, introduced as an incentive for consumers to reduce fuel consumption. With the promulgation of the *Modified Law of 17 December 2010 fixing excise rates and similar taxes on energy products, electricity, manufactured tobacco products, alcohol and alcoholic beverages*, rates were further modified. For a thousand litres at 15°C, leaded gasoline and unleaded gasoline with sulphur content lower than 50 mg/kg both pay an excise of EUR 20, while gas oil with sulphur content of less than 50 mg/kg pay EUR 25.

Recent developments and trends in support

An excise duty of EUR 0.355 per litre on diesel has been applied since the promulgation of the 2003 EU directive on setting minimum levels of taxation on diesel products. Luxembourg’s excise duties are thus much closer to the levels seen in Belgium, France, and Germany than before. Since 2007, the government has set preferential excise duties for certain sectors and users. As of 2016, this was the only active measure to support fossil fuel consumption.

Examples of measures	
Reduced rate of VAT for mineral fuels (2007-)	Since 1 January 2007, solid mineral fuel such as coke and coal, kerosene and mineral oil for the purposes of heating have been subject to lower VAT rate of 14% compared to the general 17% VAT, in effect since 1 January 2015.
Reduced rate of excise for certain uses of petroleum fuel (2007-)	Sales of certain petroleum products (diesel fuel, LPG, kerosene) in Luxembourg are subject to a lower rate of excise duty when used in agriculture, horticulture, or for heating purposes. The loss in revenue in 2018 is estimated to be around EUR 2.0 million.

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