

Finland

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 and 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

Finland has no known resources of coal, crude oil or natural gas. As a result, around 44% of Finland's energy needs are met through imports, mostly from neighbouring Russia. Energy intensity and energy consumption per capita are both very high due to the country's relatively large heavy industry and its cold climate.

The country does boast 9.3 million hectares of peat lands. Peat fuels almost 5% of the country's electric power production (3.3 TWh in 2018), and 15% of district heating.

Finland's fossil energy market is dominated by a few large companies with ownership ties to the state, and the private sector's role being relatively smaller than that of other OECD countries. For example, the government has a 50.1% stake in Vapo Oy, one of the world's largest peat producers. As demand for energy peat in Finland is expected to halve in the next 10-15 years, Vapo decided in December 2019 to discontinue energy peat production in about 90 of its sites. Energy peat now represents less than a quarter of the Vapo Group's total turnover.

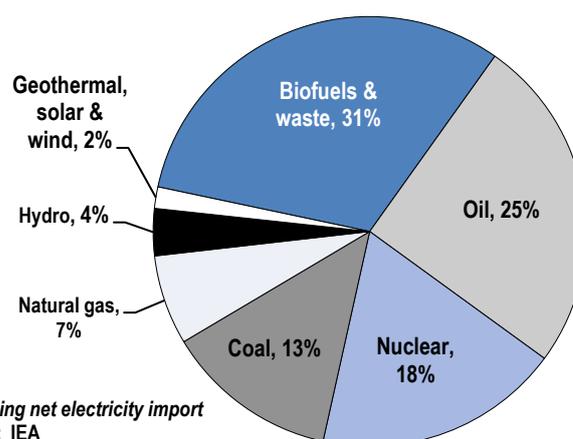
In a similar vein, the state maintains a 44.7% controlling interest in Neste, which dominates the Finnish petroleum market. Over the past decade, Neste has, however, developed from being a regional oil refining company to now engage in renewable and circular solutions. Neste uses at their renewables refineries approximately 10 different sustainably-produced raw materials, mainly waste and residue based. These currently account for 80% of annual renewable raw material inputs, the target being 100% in 2025.

The Finnish gas market was opened to competition on 1 January 2020. Third parties have equal and non-discriminatory opportunities for network access in the natural gas transmission and distribution networks including interconnectors from Russia and Estonia. The transmission system operator Gasgrid Finland is responsible for selling transmission capacity in the system and shippers and traders are responsible for selling natural gas. Gasgrid Finland is owned by the state. The 1 200 km transmission network is interconnected with the gas networks in Russia and Estonia. Finland's retail electricity market is fully liberalised and customers are free to choose their supplier. Grid companies have an obligation to connect customers, i.e. access for small independent electricity producers is guaranteed. Monitoring occurs through the Energy Authority (*Energiavirasto*), which oversees electricity and natural gas markets in Finland.

Energy prices and taxes

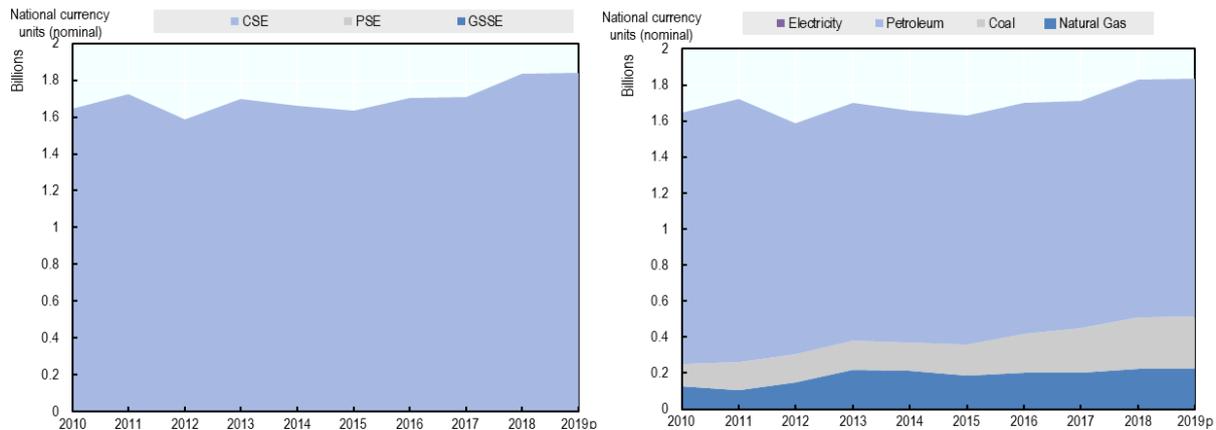
The country's retail and wholesale electricity prices are unregulated. Electricity can be traded through bilateral contracts and via the power exchanges Nord Pool and EPEX SPOT. Finland has a comprehensive set of energy-

Total Primary Energy Supply* in 2018



taxation rules imposed on electricity, coal, natural gas, peat, biofuels such as tall oil, and liquid fuels. Rates are based on a fuel's energy content, lifetime carbon dioxide emissions, and type of use (e.g., reduced rates for industry and agriculture). A strategic stockpile fee and an oil pollution levy also apply.

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



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

Recent development and trends in support

In 2011, Finland completely reformed its energy taxation structure on both transport and heating fuels, and as a result taxes on different energy sources are now determined based on both their energy content and the level of lifetime carbon dioxide emissions. Following the 2011 reforms, many tax expenditures related to energy have been halted or terminated.

However, peat has been an exception to this rule, and is subjected to a separate energy-tax regime that assigns a smaller energy tax rate on a per-unit-of-energy basis than for other heating fuels. The energy tax levied on peat, which only started in 2011, was anticipated to increase from EUR 1.9/MWh in 2012 to EUR 5.9/MWh in 2015. However, the maximum tax rate was not implemented as scheduled, and instead the government rolled back the peat energy tax rate to its pre-adjustment level in 2016 until reaching EUR 3.0/MWh in 2019. Small-scale heating plants that use peat and generate less than 5000 MWh a year are exempt from the energy tax.

In Finland, the vast majority of support measures are tax expenditure items geared towards lowering the cost of energy consumption in industry, transport and agriculture sectors. The two largest measures are the reduced energy tax rate on diesel used for transport (benchmarked against the rate for transport fuels, with passenger car drivers compensating the reduced rate through an additional circulation tax) and the reduced energy tax rate for light fuel used in mobile machinery (with transport fuel rates as its benchmark). Recently, the government set a target to halt the use of oil heating in all local and central government properties by 2024.

Examples of measures

Energy-Tax Rebates for Certain Fuels Used in Agriculture (2005-)

This measure provides the agricultural sector with an energy-tax rebate on its consumption of light and heavy fuel oil, and electricity. First introduced in 2006, its scope was increased in 2011 when reduced rates were applied to biofuel oil used for heating. Latest figures put this support at EUR 55 million in 2019.

Reduced Energy-Tax Rate for Light Fuel Oil Used in Mobile Machinery (1958-)

This measure pertains to the reduced energy tax applied to light fuel used in mobile machinery. Since 2011, the reduced rates are evaluated based on energy content and CO₂ emissions. Latest figures in 2019 show EUR 456 million worth of foregone revenue as a result of reduced tax rates under this measure.