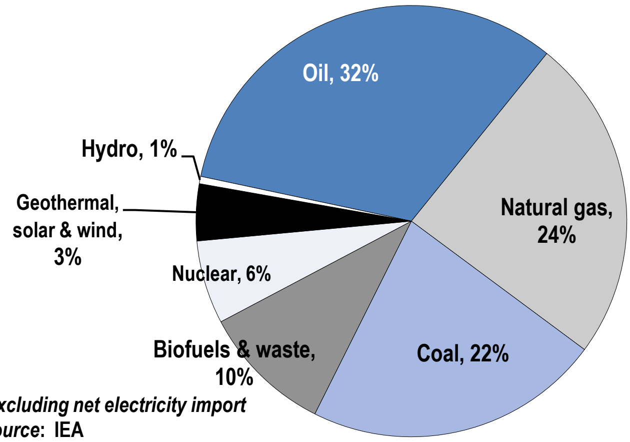
Germany

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).

Energy resources and market structure

Germany's proven reserves of oil and natural gas are modest and have been dwindling in recent years after decades of production. As of 2017, indigenous production met 3.9% of the country's crude-oil use, 11.9% of its natural-gas use, and 51.4% of the country's coal use. Once considered the engine of its economy, Germany's hard-coal mining industry closed its last active mine on December 2018 with the government also ending most direct financial support to this industry. Germany remains however as the world's largest producer of lignite, which is extracted from open-cast mines and does not receive direct support.

Total Primary Energy Supply* in 2017



***excluding net electricity import**
***Source*: IEA**

Germany has a relatively balanced mix of fuels in its total primary energy supply with a significant contribution from renewables (14% in 2017). However, following the government's decision to phase out nuclear energy production by 2022 in the wake of the Fukushima nuclear power plant accident in Japan, the share of electricity produced from lignite in 2013 rose to 25%, its highest level since 1990, until slightly declining again to around 23% in 2017. The country's remaining electricity needs in 2017 were met by renewables (34%), hard coal (14%), nuclear energy (12%), and natural gas (13%).

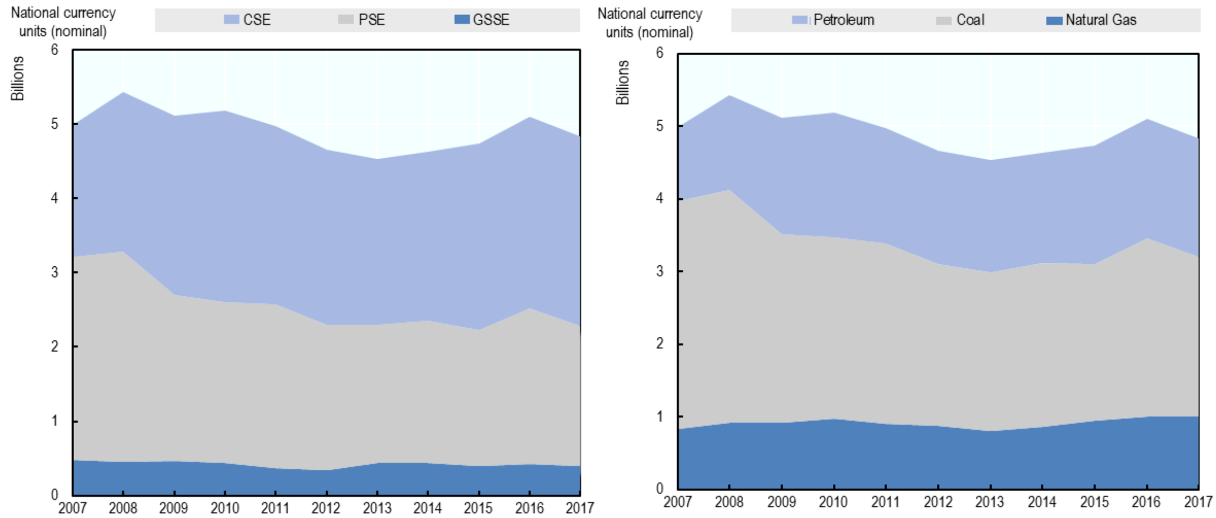
The German energy industry has traditionally been privately owned, though there are still a large number of small electricity and gas distribution companies that are either wholly or partially owned by municipalities. In contrast to the coal industry, the German oil industry retains a relatively large number of operators and ranks among the largest oil refiners in the world. It is fully liberalised, with no government ownership.

Since the Energy Industry Act of 1998, German grid operators have been subject to regulation by the Federal Network Agency (*Bundesnetzagentur*) and by regulatory authorities in the individual German states (*Länder*). The gas sector is also regulated by the Federal Network Agency, although German municipal utilities (known as *Stadtwerke*) that sell gas to distributors and end users are overseen by *Länder* authorities. Two dominant players, E.ON and RWE, continue to retain large market shares in both the natural-gas and electricity markets.

Energy prices and taxes

Prices of all forms of energy in Germany are set freely by the market, as required by EU competition law. Energy products are also subject to value added tax at a standard rate of 19%. With the Ecological Tax Reform Act (*Gesetz zum Einstieg in die ökologische Steuerreform*), Germany introduced an electricity duty in 1999. In addition, modifications were made to the Mineral Oil Duty Act, including gradual increases in the tax rate for fuel. In 2006, the Mineral Oil Duty Act was replaced by the Energy Duty Act, which for the first time provided for taxation of coal and lignite used by households for energy purposes.

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



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

Recent trends and developments in support

December 2018 marks the end of the German government's direct financial support to the coal mining industry, following the closure of the country's last black coal mine. Prior to this, the most important measure supporting the production of fossil fuels in Germany was the government's financial assistance to the hard-coal industry, which was highly uneconomic. The cost of producing coal in Germany was far above the price of imported coal, with this difference resulting in direct support to Ruhrkohle AG (RAG). RAG also received support for closing down its mines.

Consumer support has risen throughout the last decade and consists largely of: tax relief for energy-intensive industrial processes that use coal and natural gas; tax exemptions for sea and air navigation with the exception of private non-commercial purposes; a lowered tax rate on natural and petroleum gas used as propellant; and, as is the case in most OECD countries, a lower tax on diesel than on gasoline and a tax refund for diesel used in agriculture and forestry.

Examples of Measures	
Combined state aid in North Rhine-Westphalia (1998-)	This measure covers payments by the Federal Government and the state of North Rhine-Westphalia to support Germany's hard-coal industry. Payments were gradually phased out in a socially acceptable manner by 2018 in accordance with EU rules.
Manufacturer privilege (1930-)	This provision exempts the coal, natural gas, and petroleum products that manufacturers of energy products (e.g. refiners) use as process energy (as opposed to feedstock) from energy duty. This exemption is prescribed by the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity. Total revenue forgone due to this measure amounted to EUR 350 million in 2017.