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# Nearly 42 billion euros in subsidies detrimental to environmental protection efforts

## New report by Federal Environment Agency shows how to phase out unecological subsidies

Subsidies amounting to some 42 billion euros for 2006 in Germany had a negative impact on health and the environment, is the conclusion reached by a Federal Environment Agency study about the adverse consequences of subsidies in Germany, *Umweltschädliche Subventionen in Deutschland*. The variety of negative effects ranges from acceleration of climate change and impairment of water, soil and air quality, to an increase in land use and decimation of the diversity of species. "Subsidies that harm the environment counteract the many efforts made in environmental protection", said UBA President Prof. Andreas Troge. "Whilst we are spending a great deal of money to protect the environment on the one hand, we are financing market distortions at the cost of that very environment on the other, and that is contradictory to ecologically and economically sustainable budget policy. If the issue of subsidies detrimental to the environment is not addressed, we will be left with the disincentives of the past and must now and in future take all the more countermeasures to safeguard environmental quality. Our motto must be to safeguard and improve the quality of the environment with more consistency and fewer instruments."

Researchers at UBA analysed some of the major subsidies granted by the federal government in the areas of energy supply and use, transport, building and housing, and agriculture. These are the sectors causing the greatest environmental problems and which benefit most from subsidies that harm the environment. As the study did not take funding programmes at the *Laender* and municipal levels into account, the real amount in subsidies in Germany is even higher than 42 billion euros.

Both public budgets and the environment would benefit from a phasing out of harmful subsidies. The amounts saved could be used to reduce taxes or to finance future central issues such as climate protection and education. Moreover, the burden on the state and its citizens would become lighter as follow-up costs associated with environmentally harmful subsidies, e.g. both material and health damage, would no longer be incurred.

One prominent example is the various subsidies provided for in energy and electricity tax law, amounting to about 5 billion euros annually. This includes the general power and energy tax rebates granted to the manufacturing industry and the agricultural and forestry sectors, as well as the rules applicable to the most energy-intensive users (so-called "Spitzenausgleich") as concerns the environmental tax scheme. These subsidies foster energy consumption, is therefore contradictory to the goals of climate protection, and should be phased out completely. At the very least, only those companies that are able to produce a verified energy management system and which implement any and all economically efficient energy-saving measures available should receive energy tax advantages. This recommendation has already been made in the Federal Government integrated energy and climate programme of August 2007.

Another example of an environmentally detrimental subsidy is the exemption of the commercial aviation sector from the energy tax on kerosene. According to UBA estimates, the state thereby loses tax revenues amounting to 6.9 billion euros annually. This indirect subsidisation of air traffic distorts competition at the expense of means of transport that produce lower emissions and more ecological, such as the railways. This unequal treatment of the different means of transport is neither economically nor ecologically sensible, nor otherwise justifiable. On account of flight altitude, greenhouse gas emissions from air traffic do 2 to 5 times more damage to the climate than ground-level emissions. In addition to including the air traffic industry in EU emissions trading, which both the EU Parliament and the European Council have approved, UBA also recommends the introduction of a kerosene tax that is as broadly applicable as possible, or at the very least, imposed throughout the EU. Both examples show that unecological subsidies not only harm the environment and thereby later incur higher environmental protection costs, they are also quite often unfounded and economically unviable.

The phasing out of subsidies called for by many stakeholders should not occur according to the so-called "lawn mower principle", but instead, unnecessary or environmentally detrimental subsidies should be identified and abolished. New subsidies should only be introduced by the state if they prove to be effective and cause no serious negative environmental effects. The legislator therefore ought to initiate a system of controlling subsidies in relation to environmental protection, carrying out an "environmental check" for possible negative impact on the environment, and subject subsidies to regular scrutiny in terms of their efficiency and success.

"We must aim for completely rounded sustainable finance policy which is systematic in its consideration of environmental concerns", said UBA President Troke.

The full report *Umweltschädliche Subventionen in Deutschland* (in German) can be downloaded from <http://www.umweltdaten.de/publikationen/fpdf-l/3659.pdf>.

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