

MAP-Workshop:

Exchange on key topics discussed in national
EITI MSGs

Environmental and renewable aspects in Germany's EITI reporting

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Florian Zerzawy • Researcher Energy Policy
Green Budget Germany



Environmental reporting

Reasoning for environmental reporting from CSO point of view

- Contribution of extractives to state revenues through taxes and fees are the benefits, but at what cost?
- Water and air pollution, greenhouse gases of fossil fuels
 - To which extent do extractive companies pay for these costs (i.e. are costs internalized)?

First German EITI Report

- Covers financial year 2016
- Was published in summer 2017 (updated version in October 2018)
- 2018: Validation on basis of first report

D-EITI Deutschland
Extractive
Industries
Transparency
Initiative



REPORT FOR 2016

Validation

- May 2019 Board decision: Germany was found to have made satisfactory progress in implementing the EITI standard: The EITI Board commended Germany's efforts to increase the relevance of EITI implementation **by addressing environmental aspects, subsidies and renewable energy.**
- Statement by International Secretariat: „Germany's 2016 EITI Report covered **environmental aspects and subsidies.** It explained **how environmental impacts are compensated for** and **how the state can guarantee that the cost of rehabilitating sites does not fall on the taxpayer.** The report also **disclosed the amount of water consumed by the extractive sector** in each state and described the rules and **fees for water usage.** [...] The German EITI has also **shed light on subsidies received by the extractive sector.** Hard coal production in Germany is no longer competitive due to high production costs, and the sector has been subsidised. In 2007, an agreement was reached to phase out subsidies in a socially responsible manner by the end of 2018. The EITI Report showed that in **2016 subsidies to the coal sector totalled nearly EUR1.3 billion.** In the same year, **total gross government revenue** from the extractive sector was less than **EUR500 million.** [...]”

Environmental reporting in Germany's first EITI Report

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Dealing with interventions in nature



- Federal Nature Conservation Act (BNatSchG): legal environmental framework for mining (and other business) activities
 - Obligation to rehabilitate (re-naturate) site after closure of mine
 - Compensatory measures on external surfaces (e.g. reforestation) are necessary if certain landscape or biotope structures cannot be restored or if specific measures are necessary for reasons of species protection.
 - If compensation measures are not possible: compensation payments
 - Recipient of compensation payment is local nature conservation agency which has to use it for compensation measures

Environmental payments: Follow-up costs for rehabilitation of sites



- Companies are obliged to create and maintain long-term accounting provisions ('financing provisions') for rehabilitation of the sites.
- Provisions made by companies which must publish their annual financial statements are shown transparently at <http://www.bundesanzeiger.de>
- Authorities can ask for other implementation securities (i.e. cash, payment to a fund etc.) to ensure that rehabilitation costs are covered even in case of insolvency, but they rarely do. This is especially important for lignite extraction (coal-phase out in Germany by 2038).

Environmental payments: Royalties

- Only for free-to-mine natural resources: Resources that do not belong to anyone and the states grants the right to exploit the natural resource (e.g. fossil fuels, metals, NOT: Gravel, sand, natural rocks)
- If the extracted free-to-mine natural resources can be used for financial gain, the permit holder must pay extraction royalties. The standard rate for extraction royalties is 10% of the market value.
- States (Länder) may stipulate different regulations in their legislation for the calculation of royalties under certain conditions.
- Result: Royalties vary greatly between German states and mining activity. High rates on oil and gas in Lower Saxony and Schleswig-Holstein, no royalties for lignite and hard coal.
- Total volume of royalty payments is low: 2016 approx. 232 mio. Euro (0.02% of total federal state income)

Environmental payments: Royalties

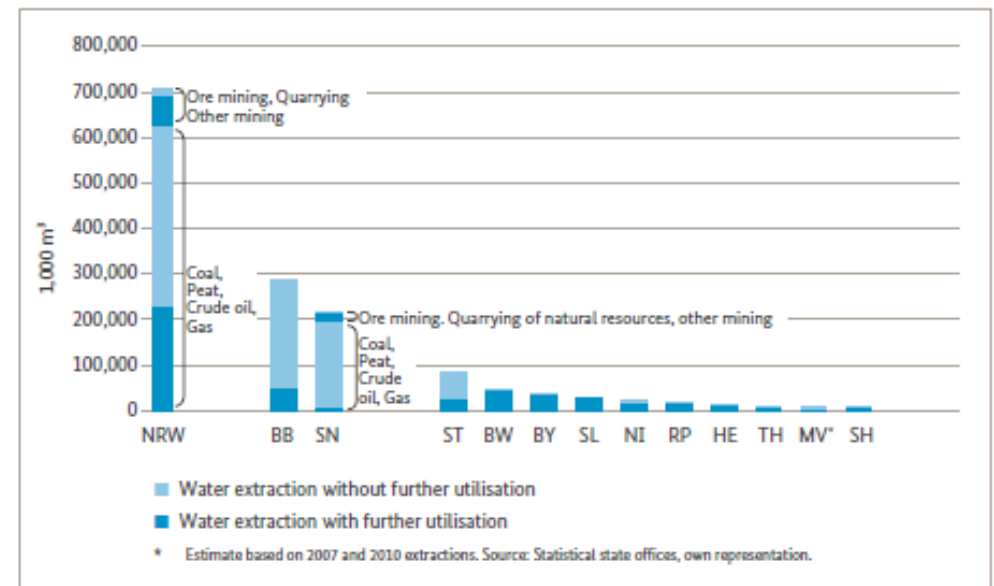
Federal State	Legal basis	Minesite royalties	Extraction royalties**	
			Levy rates	Special regulations
Lower Saxony	<ul style="list-style-type: none"> Lower Saxony Ordinance (VO) on minesite and extraction royalties, December 11, 2010 (Lower Saxony Legal Gazette – Nds. GBl, Page 395), last amended by the VO of December 15, 2014 (Nds. GBl, Page 273). 	<ul style="list-style-type: none"> Crude oil, natural gas, €20 for each km² or fraction thereof for the first year¹ Maximum rate: €80 	<ul style="list-style-type: none"> Crude oil: 18% of the market value for crude oil extracted from the Bramberge, Emlichheim, Georgsdorf, Ringe and Rühlermoor Valendis deposits Natural gas: 30% of the assessed rate⁸ multiplied by the taxable volume Brine: 1% or 0.5%⁵ 	<ul style="list-style-type: none"> 100% exemption <ul style="list-style-type: none"> Geothermal energy Natural brine, extracted for balneological purposes Sulphur Crude oil: site conditioning costs at the levy rate for the taxable areas², as well as <ul style="list-style-type: none"> 50% in the case of extraction using tertiary procedures Natural gas: site conditioning costs at the levy rate², and <ul style="list-style-type: none"> 50% in the case of extraction from a deposit (1.) in the area of the continental shelf or (2.) in coastal waters using production platforms 75% in the year extraction was started, and in the following 5 calendar years (in the case of extraction from deposit areas with an average effective permeability below 0.6 millidarcy) 40% in the case of extraction from almost depleted deposits with an average extraction rate of less than 4,500 m³/h.
Sachsen	<ul style="list-style-type: none"> Saxon State Ministry of Economy, Labour and Transport VO of July 21, 1997 on minesite and extraction royalties (FFAVO); legally amended as of January 1, 2009; last amended by VO of June 20, 2012 (Saxon GVBl, Page 442). 		<ul style="list-style-type: none"> Assessed at market value <ul style="list-style-type: none"> Fluorite <ul style="list-style-type: none"> > 280 €/ton: 1% > 320 €/ton: 2% > 360 €/ton: 4% > 400 €/ton: 10% Gravels and gravel sands: 8% Natural stone: 4% 	<ul style="list-style-type: none"> 100% exemption <ul style="list-style-type: none"> Lignite Geothermal energy Fluorite < 280 €/ton Marble Barite Brine Free-to-mine natural resources extracted together with fluorite

Environmental payments: water fees



- Most Federal States levy consumption-related fees for the use of ground and surface water. But fee level is rather low and several exemptions for extractive (and other) water users
- The German Federal Environment Agency provides an overview of the relevant fee levy rates in the natural resources sector (based on MSG initiative)
- publicly-accessible source of information on the amount of revenue from water abstraction fees paid by the natural resources sector does not exist

Figure 4: Water extraction in the natural resources sector by state in 2013 (in thousands of m³)



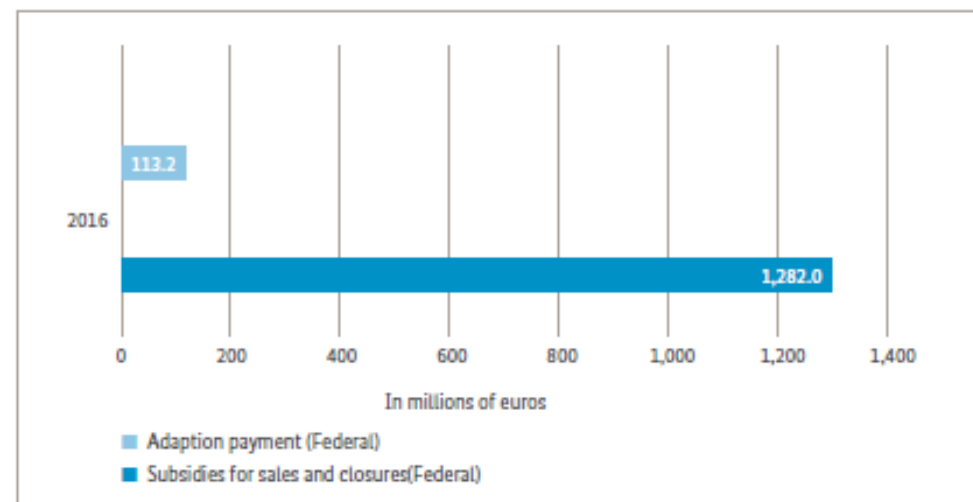
Environmental harmful subsidies



Subsidies for hard coal

- Hard coal mining has been subsidized over decades in Germany, because it was not competitive. At the end of 2018, the last hard coal mine was shut down.
- Adaptation payments (payments to employees that lost their job due to closure of mines) will continue until 2027

Figure 5: Subsidies in the German hard coal industry 2016



For detailed source information see final note⁴⁶. Own presentation.

Environmental harmful subsidies



Subsidies for electricity and energy use

- Energy subsidies are relevant for extractive sector, e.g. tax relief for fossil fuels and (fossil-dominated) electricity used in the sector.
- The Member States of the European Union have an obligation to annually publish comprehensive information on the granting of state aid on a detailed aid website; this applies to tax concessions from July 1, 2016 (detailed data not yet included in the first report)

Table 8: Selected energy and electricity tax concessions²³ for the entire production industry²⁴

Law or Act	Year	2013	2014	(Target) 2015	(Target) 2016
General tax relief (§ 54 EnergieStG)		€145 million	€153 million	€160 million	€160 million
General tax relief (§ 9b StromStG)		€975 million	€1,038 million	€1,000 million	€1,000 million
Peak balancing (§ 55 EnergieStG)		€167 million	€197 million	€180 million	€180 million
Peak balancing (§ 10 StromStG)		€1,870 million	€1,911 million	€1,900 million	€1,900 million
Manufacturer privilege (§§ 26, 37, 44, 47 EnergieStG)		€350 million	€350 million	€350 million	€350 million

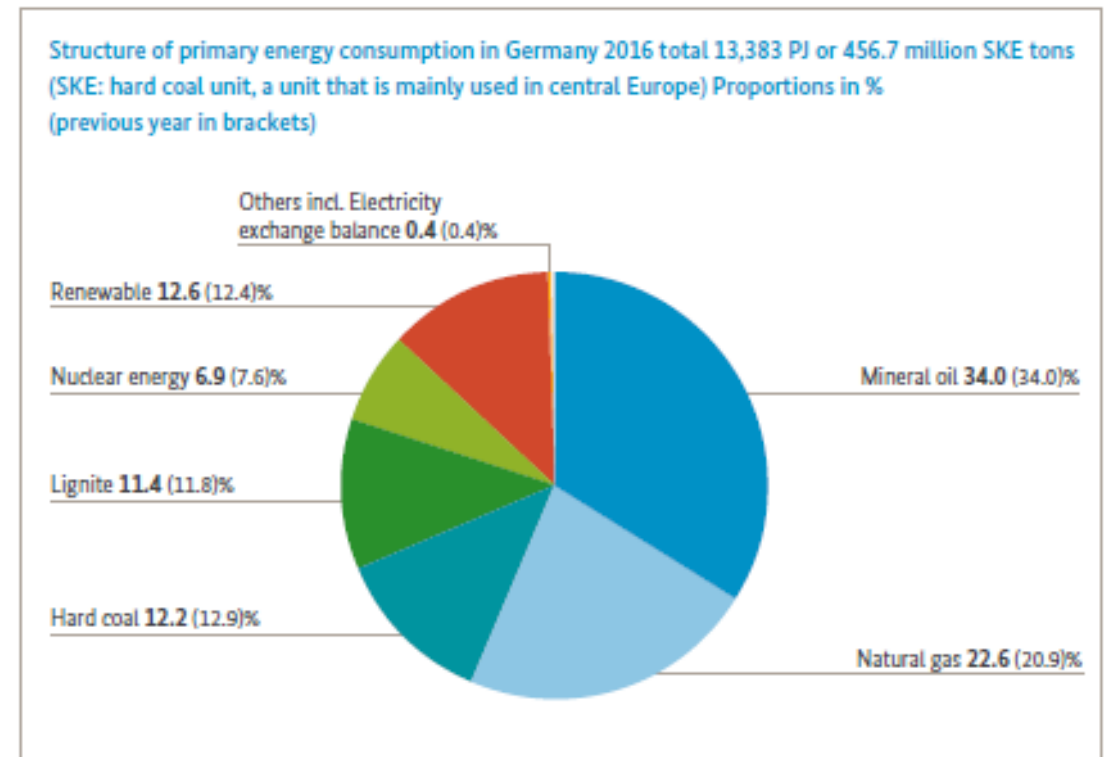
Source: 25th Subsidy Report of the Federal Government 2015.²⁵

Renewable energies



- Renewable energies make a large and growing contribution to Germany's energy supply
- The contribution to the electricity sector is particularly high; more than 30 % of the gross electricity consumption is covered by renewable sources
- The expansion of renewable energies helps to avoid greenhouse gas emissions and reduces the use of fossil energy sources which are mainly imported.

Figure 8: Structure of the primary energy consumption in Germany in 2016



CSO views on environmental reporting in first EITI report



Dealing with interventions in nature

- ▲ Information on legal framework
- ▲ Lack of transparency and problems with law enforcement are addressed (wrt to detailed regulations in the 16 states)
- ▼ No information on compensation payments

Follow-up-costs

- ▲ Information on legal framework
- ▼ No information on amount of provisions and implementation securities of the mining companies

CSO views on environmental reporting in first EITI report



Water fees

- ▲ Comprehensive information on water fees
- ▼ Payments not part of disclosure by companies and reconciliation



Subsidies

- ▲ Comprehensive information on status quo of subsidies in the sector
- ▼ No specific data for the extractive industry (except for hard coal)
- ▼ Payments not part of disclosure by companies and reconciliation

CSO views on environmental reporting in first EITI report

Renewable Energies



- ▲ Information that energy transition contributes to climate change mitigation and to phase out fossil fuels
- ▼ No information on climate impact of fossil fuels

Conclusion: We are working on improvements regarding environmental reporting, for the second report and also with regard to new requirements of EITI standard. But it is not easy as the other stakeholder groups are reluctant to go beyond the information in the first report.

Many thanks for your
attention!

Green Budget Germany
Schwedenstraße 15a | 13357 Berlin | Germany
+49 (0)30 - 76 23 991 - 30 | foes@foes.de

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