

# Fossil fuels subsidy removal and the EU Green Deal policy mix design

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## **Abstract**

We examine the linkages between instruments available in the EU Green Deal and how their interactions impact on the sustainable energy transition process. An energy-economic dynamic CGE model is developed merging GTAP utilities for the energy sector and related greenhouse gas emissions. The model is used for simulating several policy scenarios starting from a business as usual case where the economic impacts related to the COVID-19 pandemic for 2020 are included. The instruments tested as part of the EU Green Deal are the removal of consumption subsidies to fossil fuels, a carbon price and the public support to clean energy technologies. The main novelty of the modelling approach is based on a revenue recycling mechanism to finance the Innovation Fund for supporting the development and adoption of renewable sources and energy efficient technologies. By testing different combinations of instruments we find that a full reuse of revenues to foster the clean energy technologies trajectory is a win-win solution for a sustainable and decarbonised EU economy.

## **Keywords**

Clean energy technologies; Climate policy mix design; EU Green Deal; Fossil fuels subsidy removal.

**J.E.L.:** C68; H23; Q54

## **Disclaimer**

The views expressed in this contribution are those of the authors and do not necessarily reflect an official position of the European Commission.

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