

WINDFALL TAXES FOR WINDFALL PROFITS: A DELPHI APPROACH FOR WESTERN BALKANS 6 COUNTRIES

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Abstract

The energy crisis caused by the war in Ukraine has brought in the agenda of the most developed economies the need to introduce windfall taxes. Windfall taxes are not a new thing in policymaking since their application was very usual especially during crises. Although the application of windfall taxes has always caused great debates, it seems that the greatest economies do not compromise with the windfall profits. It was the September of 2022, when the European Commission announced that the European Union (EU) will start to implement windfall taxes for the companies which have experienced windfall profits due to the energy crisis. Following the practice of the EU, the windfall taxes have become part of the agenda in policy making even in some countries of Western Balkans 6 (WB6)², a region that aims to join the EU. Albania, North Macedonia and Montenegro have already introduced plans to apply windfall taxes, but Serbia, Kosovo and Bosnia & Herzegovina still have not introduced any action in this direction. Bearing in mind that the windfall profits are present also in these countries and the crisis is on high levels, this paper aims to analyze and argue the need for windfall taxes in this region. This study will employ Delphi Technique with 7 experts, to create a base for windfall taxes in this region. The paper concludes Western Balkans countries need to introduce windfall taxes for the energy companies to promote redistribution principles. The study also concludes that the whole region of WB6 needs to make fundamental reforms on promoting renewable energy since it is very dependent on coal based energy production.

Keywords: energy crisis, fiscal policies, public revenues, renewable energy, Delphi technique.

JEL classification: H12, H21, H23, H30.

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² Western Balkans 6 (WB6) is consisted of Kosovo, Albania, North Macedonia, Bosnia & Herzegovina, Serbia & Montenegro.

1. INTRODUCTION

The energy crisis caused by the war in Ukraine has brought in the agenda of the most developed economies the need to introduce windfall taxes. Windfall taxes are not a new thing in policymaking since their application was very usual especially during crises. Looking back in history, the first windfall taxes were introduced in 1917, in the United States of America with the War Revenue Act due to the First World War (Blakey, 1917). After that, was the Second World War that brought again the need for new windfall taxes and furthermore those taxes were also applied during the 80s crises and during the crises of 2008. Now as we stated, they are back again with the crises caused from the post COVID-19 situation and war in Ukraine. Although the application of windfall taxes has always caused great debates, it seems that the greatest economies do not compromise with the windfall profits. As Nicolay et al. (2023), pointed out, the windfall profits do not happen as a result of planned actions, but from unexpected changes in market conditions, therefore governments tax higher these categories.

It was the September of 2022, when Ursula von der Leyen, the President of the European Commission announced that the European Union (EU) will start to implement windfall taxes for the energy, oil and gas companies whose revenues do not reflect their production costs (Rankin, 2022). Furthermore, Rankin (2022), pointed out that the windfall taxes were not presented as taxes, but as solidarity contributions from those who benefited the most from the crises, to the citizens and businesses who are in need the most. The windfall taxes are applicable to the companies whose profits since 2018 have been increased at least for 120%, and those companies are subject to a tax rate of at least 33% (Nicolay et al. 2023). Although the tax rate was introduced to 33%, EU members are independent to decide for the rate and we can mention the case of Greece, where the windfall tax rate is up to 90% (Bausgard & Vernon, 2022).

Following the practice of the EU, the windfall taxes have become part of the agenda in policy making even in some countries of Western Balkans 6 (WB6), a region that aims to join the EU. Albania, North Macedonia and Montenegro have already introduced plans to apply windfall taxes, but Serbia, Kosovo and Bosnia & Herzegovina still have not introduced any action in this direction. Bearing in mind that the windfall profits are present also in these countries and the crisis is on high levels, this paper aims to argue the need for windfall taxes and reforms in the energy sector in this region. This would be achieved through Delphi Technique with 7 experts from Kosovo. The paper concludes that Western Balkans countries need to introduce windfall taxes for the energy companies to promote redistribution principle. The study also concludes that the whole region of WB6 needs to make fundamental reforms on promoting renewable energy since it is very dependent on coal based energy production.

The contribution of this study is twofold. First, to our knowledge, this study is the first one that analyses the energy sector of the WB6 region from the perspective of the crisis caused by the war in Ukraine and second, it is the first one that offers a

Delphi approach regarding energy sector for the whole region of WB6 following the practices of EU.

The paper is organized as follows: the next part will present the biggest debates in literature regarding the application of windfall taxes. The third part will present the methodology, the fourth part will discuss the results and the last part will present the conclusions.

2. LITERATURE REVIEW

As was stated in the previous part, the application of windfall taxes has always caused big debates in policymaking and as well in academia. In policymaking the debate most of the time is built around the need for windfall taxes to avoid imperfect competition (Azemar et al. 2022). On the other hand, the academia tries to argue pros and cons of these taxes from different perspectives. While in most of the other topics, the literature offers two opposing directions of studies, in the case of windfall taxes the opposing views and arguments are found within the same studies. There is not a straightforward way of supporting or opposing windfall taxes since their application as it mentioned by Bexheti et al. (2023), is specific during very specific times. The support of windfall taxes is based in the principle of redistribution and the need to offer fairer systems for citizens, but at the same time the arguments to oppose windfall taxes are based in the possibility that these taxes can reduce investments, can shift profits in tax havens, can lose confidence in tax system and can create uncertainty for new investments (Nicolay et al. 2023, Turco et al. 2023; Francois et al. 2022; Hebous et al. 2022; Baunsgaard & Vernon, 2022; Arnold, 2014 and Chennells, 1997).

Although the literature offers studies that shows the necessity of windfall taxes especially during war periods and crisis times (Douglas, 1943; Billing & Oats, 2014; Azemar et al. 2022), the authors Francois et al. (2022), pointed out that the energy crisis of 2022 linked with the war in Ukraine is a whole new situation and the application of windfall taxes could not be the same as it was let's say back in the times of World War II. This statement by Francois et al. (2022), is argued due to the fact that in the twenty-first century the global economic face is different from the past because nowadays companies can operate without boundaries due to globalization. Therefore, they can shift profits in tax haven countries and can move their investments in other countries (Francois et al. 2022). Anyway, the situation of the energy crisis is different since the markets that trade with energy cannot be treated the same as other markets. To trade with energy, it is a well-known fact that countries need to be interconnected and shifting energy production from a region to another one is not a simple task and always feasible. There are a lot of factors such as geographical and climatic ones that are determinant in the market that produce and trade energy (Bridge et al. 2013). Meantime it is worth mentioning that energy companies face a lot of procedures regarding their investments. Different policies for energy transition and climate crisis combined with the geographical factors are being a very important part of decision making in the energy sector. Bridge et al. (2013), concludes that energy transition cannot be seen as an isolated process within

the country, but it should be seen as a geographically constituted process, therefore the complexity of the energy market is multidimensional. At this point we focus on the need for a unified framework regarding the energy sector including the decisions for the application of windfall taxes as the main focus of this paper.

Verbruggen (2008), points out the fact that the policymakers should create strategies to avoid ad-hoc policies and ad-hoc windfall profits. Regarding the energy sector Verbruggen (2008), shows that windfall profits can be avoided just by investing in climate protection and energy transition. According to Verbruggen (2008), only a sustainable, effective and efficient energy sector within the climate protection programs can lead to a stable situation. It is more than understandable that windfall taxes do not present the optimal policy since the application of windfall taxes are being object of reviews and opinions given by courts including constitutional courts in different countries (Amorello & Ronco, 2017), but the world is facing with windfall profits and more taxes should be applied. It is time for the countries to create sustainable policies to avoid the possibilities for windfall profits, but when they happen the governments should take concrete steps. As the world is experiencing huge windfall profits especially in the energy sector, the windfall taxes are a must for the redistribution principle to offer a fairer system for the citizens.

The application of new taxes is always debatable therefore governments are assisted by experts of the field including the ones from academia and other groups of interest. In fact, this study will simulate a similar situation to present results for the implementation of windfall taxes in Western Balkans 6, but first we will present the energy sector in this region.

The energy production in the countries of Western Balkans 6 is very inefficient one. Most of the production in this region is dependent on coal resources (except Albania) and although concrete strategies are created to transform the energy from inefficient one to efficient one there is a large room for improvements.

First of all it is worth to mention that the wars in the end of the 20th century in this region have destroyed a lot the energy infrastructure (EA & UNDP, 2008 & Konxheli, 2018), and meantime in this region are present obstacles for regional electricity market development (Energy Community, 2023). But this region is considered with a huge potential for sustainable energy development (We-Balkans, 2023) and this is the reason the energy sector in this region is supported very much by the European Union. WE-Balkans (2023), reported that between the years 2015-2020, this region has benefited approximately 1 billion euros grants in transport and energy projects, but the gaps are still present. As it is known these countries are candidates/potential candidates to join the European Union and the support for the energy sector from the EU is also due to the requirements that this region needs to fulfill in the path towards integration into the big family of Europe (Konxheli & Kadriu, 2018).

The energy crisis of 2022 has also impacted this region, showing the need for regional market development and a sustainable green energy market. In fact, excluding the climate factors, this region could have face in better ways the energy

crisis if the mutual cross border interconnections would be in place and production capacities would be better optimized. Although this region is a coal rich one, it is still depended on imports. It is a fact that exports are not excluded, but this imbalance has created difficulties for citizens of these countries since the prices of energy have been increased a lot. In one hand the electricity market of the region is not optimized because the imports and exports have created gaps in market and on the other hand these markets have created opportunities for windfall profits. We are seeing that the imbalance of market that exists in this region is very challenging and having in mind that the interventions through mutual market and green energy cannot happened overnight the policymakers through fiscal policy changes need to balance the unfairness and to promote redistribution principle.

It was mentioned above that the windfall taxes are being applied in Europe and are being discussed to be applied in some countries of WB6. Albania is the only country in this region that has approved a law for windfall taxes for the electricity companies who have benefited from the increase of energy prices. According to the Official Journal no.8 of Albania (2023), the windfall profits will be taxed for 50% in Albania in 2023 if the average annual price of energy in Hungarian Power Exchange will be more than 180 EUR/MWh. North Macedonia and Montenegro are discussing the possibility to introduce windfall taxes but there is not yet an approval by the respective parliaments of these countries. In North Macedonia, the government has proposed to apply the windfall taxes of 30% for all the companies who have experienced increased profits above 20% with the average profits of the period 2018-2021 (Bexheti et al. 2023). In Montenegro KPMG (2023), has reported that windfall taxes are being discussed to be applied at the rate of 33%. As was stated, Kosovo, Serbia and Bosnia & Herzegovina are not planning to introduce windfall taxes although windfall profits are present also in these countries. In Kosovo, the public company Kosovo Energy Corporation J.S.C. has reported an increase of net profit in 2022 from 2021 for approximately 115% (GAP Institute, 2022). Similar situations with windfall profits are found also in Bosnia & Herzegovina and in Serbia.

To summarize, we can see that the application of windfall taxes is a very complex task to be implemented especially during the situation created by the energy crisis linked with war in Ukraine. On one hand are citizens who are paying very expensive prices for the services and products that are essential for them, like electricity and on the other hand are companies which are realizing their biggest profits. This situation requires a very critical and detailed analysis therefore this paper will analyze this situation from the perspective of Western Balkan 6 countries. Filling this gap in literature, this paper for our knowledge will be first one to treat the need for windfall taxes through a Delphi technique.

3. METHODOLOGY

As was mentioned, this paper employs the Delphi technique with 7 experts to show the need for the windfall taxes in WB6. Although the main focus of this paper is on windfall taxes since the energy crisis has created a momentum for their application, the Delphi will be used also to review the needs for the reforms in the

energy sector in this region. The group of experts are located in Kosovo with extensive experience in fiscal policies. They work in government, NGO-s and in academia.

Delphi technique is an interactive and systematic approach used to get consensus about different issues (Gennisen et al.2015). This technique was firstly introduced in 1950 by Norman Dalkey for a military project which aimed to collect opinions of different experts from the perspective of Soviet strategic planners to reduce munitions (Skulmoski et al. 2007). Since then this technique was applied also in different researches and in policymaking. In the field of fiscal policies this technique was applied in the study Guglyuvatty and Stoianoff, (2015). The authors mentioned above have presented the benefits of Delphi technique to facilitate transparent and informative policy including the tax one. Guglyuvatty and Stoianoff, (2015), show that political decisions are not always rational therefore a critical evaluation is always needed. Delphi can be used as a very useful tool in policy making especially in the cases where the debates are very extensive, and the situation requires independent opinions. The Delphi technique is usually run in two or more rounds until the consensus is achieved about different questions. Since this paper is focused on fiscal policies regarding the energy sector, we have asked the group of experts to identify fields for intervention on fiscal policies that could strengthen the energy sector in Western Balkans 6. The answers are analyzed through reading and re-reading, coding and identification of basic themes. After the identification of basic themes, we will draft the list of actions that matter in the energy crisis management and in reforming the energy sector in Western Balkans 6.

4. DATA ANALYSIS AND RESULTS

The consensus on fields that need an intervention regarding the energy sector in Western Balkans 6 was achieved after the third round of Delphi. Delphi Technique was run in three rounds and identified fields for intervention on fiscal policies that could strengthen the energy sector in Western Balkan 6. A 100% consensus in the first round was achieved on applying windfall taxes for the energy sector. All the respondents have put the need for implementing windfall taxes because of the redistribution principle. Coal dependence production was another theme identified. All the answers have shown the need of this region to be oriented in green energy production. Another theme that has an importance in the energy sector of this region is the need of strengthening the interconnection borders in WB6. Just with increased market cooperation, the production would be optimized, and energy prices would be more affordable for this region. The need to introduce and to strengthen of carbon taxes was another theme mentioned in the answers since the air pollution in this region is on high levels. This proposal is line with the conclusion of Bexheti et al (2023). Old infrastructure and the need to modernize the infrastructure are linked with each other, but the expensive investments are an issue to be considered. Therefore, mutual investments need to be done. Political challenges in this region, from the past and high inflation seem to be very actual issues since they were part of

discussions made with the group of experts. Themes identified from rounds of Delphi are listed in the table below:

Table 1. *Identified actions for energy fiscal issues in Western Balkans 6*

No.	Theme
1	Application of windfall taxes
2	Moving on from critical dependence on coal production base
3	Transforming into green production
4	Increasing interconnections in this region
5	Applying carbon taxes
6	Reducing air pollution
7	Investments to renew actual old infrastructure
8	Expensive investments should be affordable through mutual investments

Source: Respondents' answers – Delphi Technique

The above 10 identified actions should serve as a starting point for fundamental reforms in this region. The energy crisis caused by the war in Ukraine has shown that the energy prices play a crucial role in the inflation rate therefore states should be prepared for difficult times. This is achieved through investing in green energy and the transformation of the energy sector, but since this requires time, at this moment it is mandatory to apply windfall taxes for windfall profits.

Group of experts have also put focus on the aging workforce, brain drain of energy professionals and the fundamental need of reforms in the education system. The energy developments need to be followed by the education system and this is a must to do policy.

5. CONCLUSION

Following the practices of the European Union on applying windfall taxes for windfall profits, this paper aimed to show the need for their application in Western Balkans 6 countries. Although the main focus of the paper was to promote the role of windfall taxes, it also analyzed the challenges regarding the energy sector in this region. The paper employed Delphi Technique with 7 experts to achieve consensus on the steps that governments need to be taking to strengthen the energy sector in this region. The Delphi technique has shown that this region needs to introduce windfall taxes for the energy companies to promote redistribution principles. The study also concludes that the whole region of WB6 needs to make fundamental reforms on promoting renewable energy since it is very dependent on coal based energy production. Future studies need to focus on human capital development as a critical factor for a sustainable energy sector.

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