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Revision of the Energy Tax Directive – additional comment to public consultation questionnaire

Business and Science Poland would like to raise the attention to the below additional key aspects that should be considered in the revision process of the Energy Tax Directive rules in the following areas:

I. Energy prices vs risk of increasing inflation

Energy taxation can be an important policy tool provided that legislation is up-to-date with technology developments and reduce rather than increase administrative burdens. <u>Increase in the tax differences between fossil fuels and alternative fuels should be closely linked to real possibilities of switching to alternative solutions given the time horizon of policy ambition for 2030</u>. Currently, the availability of cost-efficient zero-emission alternatives, especially in heavy duty transport, is noteworthy. Therefore, **the mechanism of gradual raising of minimum tax rates** as well as the **differentiation between commercial and non-commercial use of fossil fuels** should be considered until zero-emission alternatives appear on sufficient scale. If there is no alternative, increasing tax rates, especially for diesel, will only be an inflationary factor, as well as will disproportionally decrease competitiveness of companies in the Member States with the highest shares in international road freight transport.

II. Cost of transformation vs risk of energy poverty

It should be taken into account that, despite the cohesion policy pursued for many recent years, differences in GDP, wealth of the society and purchasing power in individual EU countries are still very clear. Since taxation generally represents a large part of consumer energy prices (10-15% in case of central and eastern Europeans), setting excessively **high minimum tax rates on prevalent fossil fuels would be a disproportionate burden for less prosperous countries.** It should also be in mind that high energy and fuel prices translate into higher prices for basic goods, which in turn hits harder the poorer UE nations. <u>The current volume-based taxation should be reformed in a way to design mechanisms that would allow linking the minimum tax rates to GDP and the purchasing power of citizens in particular EU Member States.</u>

III. BioCNG/bioLNG

The decarbonisation potential of bioCNG/bioLNG in transport sector should be properly taken into account, when elaborating ETD draft. This is one of the few technologies allowing for fast and large scale positive climate effect, therefore appropriate tax incentives are needed.

IV. Aviation and shipping

The issue of increasing fiscal burdens in the aviation and shipping sectors should be approached cautiously because of the **potential for deterioration of the competitiveness of EU companies** operating in these industries, relative to their non-EU competitors. This is particularly evident, e.g. in the case of Baltic sea shipping, where it is possible to supply fuels in non-EU ports. In the event of significant price differences, being a consequence of excessive fiscal burdens, customers would be buying fuel outside

+ 32 487 24 58 58 info@zpbsp.com Rue Belliard 40, 1000 Brussels Książęca 4, 00-498 Warsaw www.zpbsp.com
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the EU, which not only would hit emissions reduction efforts, but also deteriorate the situation of EU companies. Therefore, maritime and aviation fuels should be still exempted from taxation.

It should also be noted that aircraft is not able to switch to alternative energy sources (like hydrogen or electricity) in the foreseeable future.

V. Non-ferrous metals:

From a competitiveness perspective, given the high costs of energy for the production of non-ferrous metals (e.g electricity represents up to 40% of the production costs) the industries already have the highest incentive to be as energy efficient as possible. From a regulatory perspective, NFM industry is included in the EU ETS and thus, subject to stringent CO_2 emissions reductions and energy efficiency requirements. Its contribution to protecting the environment and climate is thus already ensured through measures other than the ETD and thus, policymakers should be careful to avoid double taxation.

Looking ahead, it is essential that Article 2 (4) be preserved. Article 2 (4) provides that various industrial production processes are exempt from taxation. This includes the use of energy products and electricity, etc. for dual use energy products and for electricity used mainly for the purposes of chemical reduction, electrolysis and processes in the metal industry. The tax exemption of these processes is accurate and serves to maintain the competitiveness of energy-intensive production.

Similarly, Article 17 of the ETD provides that under certain conditions, Member States can apply tax reductions in favour of energy-intensive businesses and undertakings which have concluded agreements leading to the achievement of environmental protection objectives or to improvements in energy efficiency. For energy intensive industries, the possibility to apply tax reductions in Article 17 is a very important measure. If an energy intensive metals business exposed to global competition is charged with an energy tax, given our price taker status, we cannot pass on additional costs into production prices and thus, the competitiveness of Europe's industry will be jeopardized.

About BSP

Business and Science Poland (BSP) connects the experience of leading Polish enterprises with the EU agenda. We represent the knowledge and interests of successful entities, which employ over 100 000 workers in Poland, EU and globally. We are committed to advancing the values of EU Common Market in sync with the needs to transform it responsibly and effectively.

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