Public consultation on the revision of the Energy Taxation Directive (ETD)

Draft Eurelectric position

Eurelectric welcomes the objective of the European Commission to review the Energy Taxation Directive (ETD) as part of the new Green Deal.

EU rules on energy taxation are not delivering anymore the same positive contribution as when they first came into force in 2003, and are no longer suited to address the historic challenge of climate change and the related transitions. In particular, as underlined in our Consultation answer, we believe that the ETD has a role to play in supporting the transition towards climate neutrality. The ETD should thus be revised in order to contribute to the building of a single energy market and the promotion of electricity as part of the solution.

First, we believe that the review of the ETD should give the opportunity to better allocate the weight of taxes on the different energy carriers in order to encourage and promote the decarbonisation, particularly through electrification of the economy and the use of electric solutions at consumer level. Taxes and levies in electricity bills account for up to 70% of the bill in some Member States thus discouraging the use of electricity based technologies and services. Limiting the combined weight of taxes on electricity will help make electricity more affordable, and contribute to minimizing the social and distributional impacts of decarbonisation policies.

Regarding energy poverty, Eurelectric supports the use of social welfare tools to alleviate vulnerable households struggling to pay their bills. Social welfare tools may vary from Member State to Member State and should primarily be financed by State income - i.e. through income taxation. In this context, considering the progressive nature of taxation, this would allow for a fair burden-sharing across the population. More generally, it is also possible to compensate low-income households for being more affected by the impact of the transition, i.e. for the distributional effects of climate and energy policies. Our "E-quality study", published in June 2020, indeed shows that it is possible to combine tools at EU and Member State level to compensate for the negative distributional effects. For instance, compensation funds, in the form of lump-sum transfers or tax reductions, financed to some extent via recycling of revenues coming from other energy or climate policies, can prove to be efficient in tackling distributional impacts of decarbonisation policy measures. The reduction of taxation on the electricity bill would have the same quantitative effects. These options can be combined and considered as a measure which may be adapted at EU and national level depending on their political feasibility and the existing regulatory framework. In this regard, conducting a thorough assessment of possible economic and social impacts would be extremely relevant to assess different policy options.

The need to address the issue of disparities between energy carriers should also allow that externalities of fossil fuels are properly reflected. To tackle this, the revised ETD must integrate climatic performance of energy sources, at a level which is consistent with the EU climate objectives for 2030 and 2050. Taking into account the real climate impact of all energy carriers and ensuring a level-playing field between them is essential. As an example, we would like to highlight the challenge of clean hydrogen produced from renewable energy sources, e.g. from electrolysis with renewable electricity, is facing regarding competitiveness. Thus, we believe clean hydrogen is a key component of the 2050 transition for hard to abate sectors such as industry or heavy duty transport despite the fact that is it currently more costly than other forms of hydrogen production.

Sectorial application of the ETD should also be carefully applied. Tax exemptions on aviation and maritime fuels should therefore be partially removed to encourage the switch to cleaner transportation mode, and totally removed when a cleaner alternative solution will be available. Regarding e-mobility, we believe that an appropriate taxation scheme should be defined in order to incentivize consumers to use EVs. Moreover, taxation rules on energy consumption should unlock the flexibility potential of EV batteries, which can bring a high potential of additional flexibility to the electricity system, thus optimizing the integration of EVs and supporting the integration of renewable energies. The revised ETD should set a tax exemption for electricity stored in the EV battery from the grid to provide grid services, in order to avoid double taxation.

Other sectors which are not exposed to a meaningful carbon price signal could be incentivised either by potentially extending the ETS scope or by carbon pricing measures, using the most efficient tool for each sector. The introduction of the CO2 component must be done in coordination with EU-ETS in order to have a complementary, harmonised and holistic framework. The new framework should also ensure full consistency with the new the Carbon pricing border adjustment mechanisms (CBAM).

Finally, we wish to highlight the responsibility endorsed by the suppliers on behalf of Member-States for tax collection and the financial responsibility in case of non-payment by the final customer. Consequently, the possibility to recover the tax in case of unpaid operations should be explicitly integrated and mentioned in the ETD.