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E.ON's response: consultation on the revision of the Energy Taxation Directive

E.ON welcomes the European Commission's initiative to revise the Energy Taxation Directive in order to align it with the Green Deal, Paris climate objectives and the broader trends of electrification and decentralization. Such a need to realign the ETD was supported by the Council in 2019, which stated that "while the directive initially made a positive contribution to the internal market, current rules do not contribute to the new EU regulatory framework and policy objectives in the area of climate and energy".

Taxation policy can become one of the most meaningful and effective, yet untapped, instruments to steer the European economy and consumer behavior patterns towards more sustainable choices. Net-neutrality by 2050 requires a timely re-alignment of the policy framework around the "polluter pays" principle. This means that deliberations on the new Energy Taxation Directive should aim to:

- **Align energy taxation with broader EU climate objectives** by steering consumer choices towards decarbonized solutions, notably electrification;
- **Help reduce divergence of energy taxes** across Member States and safeguard the integrity of the **single energy market**;
- **Redefine the role of energy taxation beyond raising revenue**, while being mindful of its distributional effects on vulnerable segments of the society.

While industry has reacted early-on and secured significant improvements in energy intensity of their operations in order to reduce costs and stay competitive, little incentive exists for individual consumers. E.ON agrees with the Commission's own assessment on the ETD that, at its inception the ETD had helped prevent an "energy tax race to the bottom" by maintaining an effective minimum. **However, maintaining this approach does not capture its potential to act as a policy tool to encourage consistent and sufficient levels of climate action across different Member States.**

As a result, a Union-level mechanism that will help Member States set energy tax rates that are proportional to the associated emissions will be essential to: steer consumption patterns, promote fuel-switching and the use of renewable energy via accelerated electrification, while contributing to overall EU policy coherence and reduce divergences that jeopardize the single market. **The cost of externalities from fossil fuels (health, climate abatement, climate adaptation) should be accounted.** Meanwhile, special considerations and exemptions should be given to energy uses that are in line with broader EU climate goals, such as electrification, EVs, grid storage and the production of green hydrogen. The minimum rates provided in the current ETD are not based on any such specific logic.

1. Zero tax on electricity to unlock potential for a net-zero future

Electricity generation has decarbonized at the fastest rate. As clean technologies continue to become cheaper and Member States commit to phasing out coal, this trend is likely to continue. In the context of ambitious EU climate objectives, this makes electricity the most suitable energy carrier to serve the mobility and heating needs of European citizens and decarbonize some parts of industry. **Yet the decarbonization potential of fuel switching from fossil fuel to electricity is hampered by high retail electricity prices faced by regular consumers.** Indeed, **taxes and levies can account for up to 70%** of the electricity bill faced by regular consumers in some Member States.

The adverse effect of high taxes and levies on electrification is further exacerbated by the potentially regressive nature of such burden being disproportionately placed on households.

The review of ETD must therefore account for the developments in the generation mix, the potential of decentralized production, and stimulate further electrification of these sectors, **by removing minimum taxation rates on electricity and enabling Member States to reduce taxes and levies on electricity to zero.**

Additionally, in order to incentivize investments in Power-to-Gas (P2G) facilities, particularly in the context of EU's broader strategy to promote the use of hydrogen in hard-to-abate sectors, the ETD should also provide that they are not be categorized as end-user and face double taxation, should an agreement fail to be reached on the issue of reducing taxation on electricity to zero.

2. ETD revision should mitigate further market fragmentation

In some Member States, in addition to fulfilling its fiscal attribute, energy taxation already has a role in addressing environmental challenges, taking into account the carbon content of different energy products. **But having divergent national tax rates above the minimum threshold leads to the fragmentation of the internal market.** New technologies, not covered under the 2003 ETD, allow for some MSs to apply their own classifications.

ETD should address the risk of growing distortion and prop up the internal market, to make the European economy fit for the bold transformation envisaged in the decades to come. **Providing clear guidelines on how to set taxation rates based on environmental impact could mitigate this and improve coherence between MSs.** This would also help all European countries differentiate between new lower-carbon energy carriers like biogas or hydrogen, from their fossil counterpart.

3. Lower taxes on electricity could be budget-neutral

In page 4 of this consultation, we disagreed with the statement that "the ETD should ensure adequate amounts of tax revenues". While energy taxation is an important revenue stream for all countries, E.ON believes that the new **ETD should encourage MSs to use energy taxation primarily as a way to steer energy consumption towards decarbonized options and beyond the current sole focus on raising budget revenues.** Therefore, EON belives that the reduction in electricity taxes could be budget-neutral as a package deal with higher rates for carbon-intensive energy carriers (in proportionality with emissions) in the transportation and building sectors. **If such additional revenue streams for the governments from existing und new carbon pricing mechanisms, are taken into consideration, a budget-neutrality in the field of taxation *only* is not necessary.**

Relieving the electricity prices of taxes <u>and</u> levies can have two other important positive effects for the economy. Firstly, it **fosters the competitiveness of energy-intensive European industry, by covering the price differential compared with non-EU regions.** Supporting the industrial sector should be key, but not via a complex and bureaucratic special exemption regime, but by **rendering exemptions unnecessary when taxes and levies on electricity will be allowed by the new ETD to converge to zero**.

And secondly an unburdened electricity price helps address social aspects, by **making it more affordable for all consumers and freeing up money for them to spend elsewhere.** Both these gains would support the economic recovery in the next years.

E.ON is fully committed to accelerating electrification by completely removing the adverse effects of taxation and levies on electricity – for industrial consumer and for every European citizen.