



AFG vision on the Revision of the Energy Taxation Directive

AFG welcomes the opportunity to present, in addition of our answers to the questionnaire, this position paper on the revision of the **Energy Taxation Directive 2003/96/EC (ETD)**. In November 2019, the European Council concluded that the ETD is outdated and that the Commission should come up with a legislative proposal. On the 11th of December 2019, the revision of the ETD was listed among the legislative files to be updated as part of the Green Deal.

AFG perfectly shares the objective to align the ETD with the EU energy and climate policies as we truly think it can be a powerful tool to further promote renewable and decarbonised energy.

As a gas & renewable gas association, we seek particularly to implement long term taxation dispositions that take well into account the environmental advantages of gas and green gas (including renewable and low carbon Hydrogen) while addressing their consumption.

Our priorities for the ETD

AFG considers taxation an efficient energy policy tool. At the same time, we recognise that certain aspects of the ETD require revision:

1. Energy efficiency. **For either climate goals, or environmental and economical competitiveness, the best energy is the one which remains unused.** As such, we strongly believe that taxation should first and foremost emphasize on reducing energy consumption and supporting energy efficiency.
2. Technology neutrality. The ETD revision must ensure a level playing field for all commercially mature clean energy technologies. Furthermore, adequate, and visible price signals for end-consumers reflecting both energy content and CO2 intensity must be put in place.
 - a. AFG advocates for a technology neutral approach, therefore all emissions saving technologies such as gas in transport (CNG / LNG/ H2) should receive the same treatment as electric vehicles.
3. Taxing end uses consumption only. Taxation should continue to be applied only to end use leaving all energy supplies within the energy sector untaxed. This includes energy conversion and storage across all forms of energy to enable energy system integration.
4. "climate coherent" incentive taxation for renewable and low carbon gases. **Clean energy such as renewable and low carbon gases along with other clean energy sources should benefit from favorable taxation or tax exemptions in order to foster their demand**, thus their quicker development. It should be mandatory for member states to integrate environmental components in the energy taxation in order to send accurate market signals for industrial and

private consumers. Likewise, it should be prohibited for member states to apply carbon taxation for decarbonized energy.

- a. Biomethane, a renewable and decarbonized bio-energy with multiple other positive externalities, is a key component for a decarbonized, flexible and secured European energy mix, in perfect complement with green electricity.

As such, biomethane must be recognized as a climate-friendly energy through taxation and should benefit from coherent, incentive tax exemption or differentiation to foster its development.

In particular, we fully support the Commission's approach (as discussed during ETS revision) which requires that biomethane must respect RED II's GHG emission reduction and sustainability criteria in order to be exempted from carbon tax.

In order to have an incentive effect on the consumer's choice and engagement, it is key that this tax "advantage" is applied on the voluntary consumptions of biomethane and not diluted in the entire consumption of gas based on the biomethane incorporation in the gas grid. Without a strict separation between the taxation weighing on fossil energy supplies and that weighing on green energy supplies, demand will not be sufficiently shifting. This is all the more important given the increasing consumers 'will to be part of the energy transition.

- b. All renewable solutions used in road transport such as Bio CNG, Bio LNG, synthetic gases, clean h₂, renewable and low carbon electricity should be **tax exempted**.
- c. Regarding the conditions for a differentiated tax treatment of LNG/CNG: LNG and CNG should receive in the long term lower tax treatments as they have lower carbon emissions than gasoline and diesel. A system of taxation based on a "life cycle analysis" of vehicles should be implemented, including **tax reduction for fuels listed in the Alternative Fuels Infrastructure Directive (DAFI)**.
- d. Biopropane/Biobutane/BioLPG: BioLPG, also known as bio-propane (RED II, Annex III), is a renewable gaseous fuel that provides up to 80% emissions reduction. It is estimated that there are already over 2,000,000 LPG boilers¹ in the EU that can lock-into lower CO₂ emissions cost-effectively. This means that over time, carbon and air pollutant emissions from off-grid heat generation can be increasingly reduced. The Energy Taxation Directive can play a role in increasing, alongside other available renewable fuels, the use of bioLPG.

¹ Mapping and analyses of the current and future (2020 - 2030) heating/cooling fuel deployment (fossil/renewables) (2016) Prepared for the European Commission

We believe that the ETD should move towards a system reflecting the environmental impact of energy products along their lifecycle, while keeping some derogatory measures to avoid distributional effects:

- **A taxation system based on the energy content of fuels to incentivize energy consumption reductions**

We support the idea of having a fiscal base linked to energy content rather than non-energy units like the volume. Reducing consumption and increasing energy efficiency is the fastest and easiest way to decarbonise to meet the EU emissions reduction objectives. No innovation will ever be as strong to lessen environmental consequences as a non-consumption of energy. This evolution would allow to better reflect the efficiency of energy products, aligning the ETD with EU climate objectives.

- **Setting a taxation system giving the opportunity for Member States to tax fuels based on their GHG lifecycle impact**

We support the idea of having a fiscal base linked to energy content and carbon content rather than non-energy units like the volume.

We suggest that the carbon content of each energy products shall not only be calculated at the consumption but along the lifecycle (extraction, production and transport) of the fuel, from Well to Wheel.

In this regard, the consideration for emission at the tailpipe (which make a case for electromobility) cannot reflect the environmental cost of a transport means.

- Indeed, the electricity consumed by a "zero-emission" battery vehicle (BEV) depends on the carbon content of the electricity generated at the moment of the load: if the EU average carbon intensity of the electricity is 295g CO₂eq/kWh, it is 773 g in Poland, 440 g CO₂eq/kWh in Germany² and 56 in France. The e-mobility in Poland and Germany would be worse than diesel while in France it is better.
- For a given hydrogen electric vehicle (HEV), depending the hydrogen is produced from Steam methane reforming without CCS (grey H₂) or SMR with CCS (blue hydrogen) or electrolysis using so called green electricity (green H₂), HEV would emit more than diesel on a WtW analysis for grey H₂, would be equivalent to NGV with blue H₂ and very low emission with green H₂ similar to bioNGV.
- Finally, the construction of so-called "zero-emission" vehicles require raw materials and natural resources which may be difficult to recycle (eg batteries for EVs).
 - The French Petroleum and New Energies Institute (Ifpen), a public body, analysed³ the full-life carbon footprint of all types of vehicles (NGV, bioNGV, diesel, gasoline, electric vehicles, batterie and hybrid) for segments (light vehicles, buses, heavy-

² Diesel = 330 g CO₂ eq/kWh (base carbone ADEME)

³ IFPEN survey 09/23/2020: <https://www.ifpennergiesnouvelles.fr/article/analyse-du-cycle-vie-acv-des-vehicules-fonctionnant-au-gnv-et-biognv>

duty...): in all cases examined, bioNGV vehicles emit less CO₂ in full life cycle analysis than electric vehicles, having in mind the French decarbonized electricity mix (56 g CO₂ eq/ kWh). This study reveals in particular the importance to reasoning both in well-to-wheel and cradle-to-grave approaches to be consistent in the carbon footprint assessment in mobility.

This new system will be the most appropriate to align the ETD with future objectives of the EU to reach -55% of GHG emissions compared to 1990 in 2030 and *in fine* to reach climate neutrality by 2050.

Furthermore the Commission has underlined that the current rules regarding tax exemptions and reductions must be updated. We agree that the revision of the ETS is the opportunity to reduce tax loopholes. Still, enforcing a fiscal scheme based on energy content and carbon content of the fuels might generate several distributional effects on businesses and clean technologies development. Therefore, a smart and fair reorganisation of the tax exemptions and reductions is needed.

- **Mandatory tax exemption or reduction for renewable energies in EU ETS.**

To help the EU achieving its renewable energy objectives, the ETS should make it mandatory to Member States to give a preferential tax treatment to renewable energies (including renewable gases) from taxation. Regarding the specific case of biomass, the ETS should recognise its GHG emissions reduction contribution. In the Commission's ETD proposal from 2011, biomass products got a CO₂ content of 0 only if they were respecting the sustainability criteria of the renewable energy directive. If they weren't meeting the criteria, they were taxed as their fossil fuel equivalent. We fully support that the updated ETD biomass products must respect both GHG emission reduction and sustainability criteria in RED II to get a neutral CO₂ content.

- **Mandatory tax reduction for fuels listed in the Alternative Fuels Infrastructure Directive (DAFI).**

Today, the ETD allows Member States to reduce or exempt from taxation fuels used in different vehicles notwithstanding the type of fuel. This possibility should be reinforced by introducing, when relevant, mandatory tax reduction when these vehicles are using an alternative fuel listed in DAFI. In the transport sector and off road applications significant emission reduction can be achieved by phasing out diesel with alternative fuels. Therefore, a preferential tax treatment would help reduce emissions and improve consistency between DAFI and the ETD.

AFG shares the view that the ETD is not contributing to the climate and energy objectives of the European Union:

AFG considers the non ETS sectors of transport and buildings should be covered by a market-oriented and technology neutral CO₂-pricing mechanism in the Energy Taxation System. This will ensure a level playing field concerning the competition of different forms of energy and technologies. Therefore, the inclusion of these sectors into the ETS is not commended as it would result in switching systems and cause a potential delay in its mobilization as a new instrument.

Gas vehicles (NGV/LNG/LPG) are a big alternative to diesel. They reduce nitrogen oxides (Nox) by 30-70%, particulate emissions by 95% and up to 20% for CO₂ (compared to diesel). BioNGV and BioLPG vehicles reduce CO₂ emissions by more than 80%, nitrogen oxides (NOx) emissions by 30-70% and particulate emissions by 95%.

- **We believe that the directive should include environmental impacts** (air pollution vs air quality) for maritime transport.

LNG eliminates Sulphur emissions and particulate emissions, drastically reduce nitrogen oxide (NOx) emissions, and reduce carbon dioxide (CO₂) emissions by nearly a quarter. ⁴This reduction in GHGs varies between 7 and 21% when the analysis is conducted "from well to Wake" according to the detailed conclusions of the firm Thinkstep⁵.

LNG thus meets IMO's 2030 objectives. They are the most successful and relevant alternatives to petroleum-based marine fuels.⁶ Adding decarbonized methane either from biomass or green electricity will enable LNG to meet 2050 target earlier than required.

- **Cold Ironing for shipping should be incentivized by fully exempting electricity from any tax when this electricity is coming from the grid or from local generator run with a fuel listed in DAFI.**

⁴ Ibid.

⁵ Firm study Thinkstep : <https://www.thinkstep.com/content/addendum-life-cycle-ghg-emission-study-use-lng-marine-fuel>

⁶ Study Shell, in partnership with the German Transport Research Institute (DLR) and the Technical University of Hamburg, May 2019

In conclusion, our main recommendations are the following:

- A taxation system based on the energy content of fuels to incentivize energy consumption reductions
- Setting a taxation system giving the opportunity for Member States to tax fuels based on their GHG lifecycle analysis
- Mandatory “climate coherent” incentive taxation for renewable and low carbon gases
- Mandatory tax exemption or reduction for renewable energies.
- Mandatory tax reduction for fuels listed in the Alternative Fuels Infrastructure Directive (DAFI).
- Mandatory integration of environmental components in energy taxation policy
- Tax exemption for electricity provided during port call (cold ironing)
- Include environmental impacts (air pollution vs air quality) for maritime transport.



AFG remains at the disposal of the European Commission to further discuss the points raised in this position paper.