

## GRTgaz Position on the Energy Taxation Directive revision Oct. 2020

As a leading gas infrastructure operator fully committed to the Paris Agreement and to the European Commission's ambition to reach climate neutrality by 2050, GRTgaz welcomes the opportunity to provide its views on the forthcoming revision of the Energy Taxation Directive through this open public consultation.

This revision will be a milestone in the implementation of the European Green Deal and will represent a significant contribution in achieving climate neutrality by 2050. Adequate taxation mechanisms are fundamental to provide the right price signals and incentives for fostering strategic sustainability activities. Acknowledging the thriving evolutions of the EU Energy market, especially on renewable and low carbon gases, a coherent and efficient taxation framework at the EU level is required to support the integration of renewable energies into the network and the scaling-up of clean energy technologies.

In this prospect, we welcome the ambition of the Commission in reviewing this directive for addressing the challenges identified in the evaluation published in 2019. Based on our expertise and experience as a French TSO, GRTgaz considers several principles to highlight for the revision of the Energy Taxation Directive.

### Several principles that the Energy Taxation Directive (ETD) revision should take into account

#### Principle 1: The ETD revision should consider the externalities of the energy products.

As written in the public consultation document, "the revision of the Energy Taxation Directive is an **integral part of the European Green Deal** and should be focused on environmental issues". Thus, contrary to the initial 2003 ETD, **environmental externalities should be considered in taxation levels of energy products.**

As a priority, **greenhouse gases (GHG) emissions should be accounted for through a Life Cycle Assessment (LCA)** approach : to this day, this is the most relevant tool to evaluate the environmental impact of a product on climate change, as the emissions from combustion during use are not sufficient to reflect global environmental performance of a product. GHG emissions during use does not take into account the origin of the product, neither its sustainability.

Besides, **local pollutants emissions** (particulates, NO<sub>x</sub>, SO<sub>x</sub>) **should also be considered** due to their sanitary impacts on the citizens of Europe. According to the European Environment Agency, "around **90 % of city dwellers in Europe are exposed to pollutants at concentrations higher than the air quality levels** deemed harmful to health".

More generally, any measurable positive environmental externality (e.g. regarding water quality, biodiversity, etc.) should be considered and allow for tax reductions or exemptions.

*Principle 2: The ETD revision ambition should be consistent with the Green Deal and other EU environmental directives and regulations.*

On the 16<sup>th</sup> of September this year, the EU announced plans to target a 55% cut in greenhouse gas emissions by 2030 compared to 1990 (vs an initial target of 40%). To reach this ambitious target, **mechanisms like the EU Emissions Trading Scheme (EU ETS) and the ETD revision** must be adapted and reinforced.

**ETD revision and EU ETS scopes must be complementary with distinct application perimeters** (product or use), **in order to avoid any double environmental taxation**. If the EU ETS scope is extended to road transport and/or building heating, these uses should be exempted from the scope of ETD revision. Industry sectors with risks of carbon leakage should also be excluded from the scope of ETD revision.

Besides, to ensure consistency with the Renewable Energy Directive II (RED II), **taxation of biofuels** (bioliquids, biogases) **should be coherent with the sustainability criteria set up in RED II** (e.g. article 29). For instance, **biomethane production from wastes** (agriculture, etc.) **or water treatment plants should be recognized for their environmental**. Operationally, the ETD could for instance base taxation differentiations based on the Guarantee of Origin (GO) system described at the article 19 of RED II.

*Principle 3: The ETD revision should recognize the large role that will play renewable gases in the European energy transition.*

**Renewable gases can be produced from various sources**: methanization, pyrogasification or from micro-algae cultivation for biomethane; or mainly from electrolysis for hydrogen. Methanization is a mature technology, with 16 000+ biogas production units (mainly producing power and heat through CHP engines) and 600+ biomethane production units in Europe at end-2018. **In LCA accounting, biomethane from methanization reduces GHG emissions by 80% on avg. (compared to natural gas)**, creates local energy sources and local jobs, and participates in the development of circular economy when produced from wastes.

**Biomethane and hydrogen** (blended in small proportions) **can be used in current natural gas infrastructures** (pipes, NGV stations, downstream devices, etc.). Thus ETD revision should take into account that transition from natural gas to renewable gases will be progressive, and energy taxation levels in the ETD revision should be set up to support the transition and maintain the current gas infrastructures for future renewable gases volumes.

*Principle 4: The ETD revision should support the development of CNG and LNG due to their benefits, especially for heavy transportation.*

**CNG and LNG vehicles are mature technologies** (1,9 Million vehicles in Europe) **which present strong advantages compared to gasoline and gasoil** : CO<sub>2</sub> emissions reductions (-10/20% for CNG/LNG ; -80% for bioCNG/bioLNG), local pollutants emissions reductions (NOx, particulates), noise reduction, etc. On the other part, autonomy and refueling time of CNG/LNG vehicles are similar to petrol/gasoil. Thus, **they present strong benefits for heavy transportation** (trucks, coaches, vessels), where electricity vehicles (with battery or hydrogen) are not mature yet.

Even for light vehicles, **BioCNG can present better environmental performances compared to electric cars**, if one considers the emissions through a LCA analysis, due to

the CO2 content of the batteries. However, these emissions from the construction of the batteries (which mainly come from outside Europe) are still not covered by an EU carbon border tax.

Even if the market mainly develops through fossil CNG/LNG today, **the biomethane market develops in parallel and bioCNG/bioLNG will progressively be blended in the CNG/LNG mix**. Indeed, CNG and bioCNG (respect. LNG and bioLNG) have got exactly the same characteristics and properties: hence, **the current development of infrastructures/technologies for LNG and CNG** (and more widely for gas) **will be used by bioCNG and bioLNG in the future, without any lock-in issues**.

**Based on the previous findings and principles, GRTgaz stands for 5 main policy asks:**

**Policy ask 1:** The minimum tax rates of energy products should be based on greenhouse gases emissions, accounted for through a Life Cycle Assessment (LCA)  
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**Policy ask 2:** more generally, all measurable positive environmental externalities – first of all reduction of local pollutants with an impact on air quality (NOx, particulates), but possibly also preservation of water quality, biodiversity, etc. - should be considered and should allow for exemptions and tax reductions

**Policy ask 3:** consistently with the 2 previous points, a mandatory tax reduction for biomethane compared to fossil fuels taxation level, ensuring a direct taxation advantage for biomethane, should be put into place

**Policy ask 4:** CNG and LNG should present differentiated tax treatments, due to their environmental benefits and absence of lock-in issues.

**Policy ask 5:** ETD revision and EU ETS scheme must have distinct scopes, which means that energy consumption under EU ETS (or on the carbon leakage risk list) should be exempted from ETD revision rules.