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GRDF vision on the Revision of the Energy Taxation Directive

Towards a socially fair system based on GHG emissions

GRDF 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 In November 2019, the European Council concluded that the ETD is outdated and that the Commission should come up with a legislative proposal[1]. On the 11^{th} of December 2019, the revision of the ETD was listed among the legislative files to be updated as part of the Green Deal[2].

GRDF shares the view that the ETD is currently not contributing to the climate and energy objectives of the European Union. For either climate goals, or environmental and economical competitivity, 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. On the remaining energy consumption, the ETD should ensure energy products can be taxed on their carbon content in each Member State. That said, please find below our main recommendations:

Setting a taxation system reflecting the environmental impact of energy products. We support the idea of having a fiscal base linked to energy content rather than energy 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. Besides, we suggest that the ETD should allow Member States to add a carbon component adapted to their national specificities to the taxation scheme. In order to ensure full decarbonisation of the EU, the carbon content of each energy products should be calculated by taking into account the carbon lifecycle of the products and not only the carbon emissions at the consumption, thus reducing the risks of carbon dumping between Member States and carbon leakage outside the EU. It will send the right price signals to ensure European investments are decided in the best ways to decarbonise the EU.

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. The Commission has underlined that the current rules regarding tax exemptions and reductions must be updated. We agree that the revision of the ETD is the opportunity to reduce tax loopholes. Still, enforcing this new fiscal scheme might generate several distributional effects on businesses and clean technologies development. Therefore, a smart and fair reorganisation of the tax emptions and reductions is needed.

Mandatory tax exemption or reduction for renewable energies. To help the EU achieves its renewable energy objectives, the ETD should make it mandatory for Member States to give a preferential tax treatment to renewable energies (including renewable gases). Regarding the specific case of biomass, the ETD should recognise its GHG emissions reduction contribution. In the Commission's ETD proposal from 2011, biomass products got a CO_2 content of 0 only if they were respecting the sustainability

[1] http://data.consilium. europa.eu/doc/document/ST14608-2019-INIT/en/pdf
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX%3A52019DC0640

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 in the updated ETD biomass products must respect both GHG emission reduction and sustainability criteria in RED II to get a CO_2 content of 0. Nevertheless, we believe that biomass productions that do not reach the level of emissions reduction set in RED II but still significantly reduce GHG emissions compared to fossil fuels should still get a preferential tax treatment (e.g an optional tax reduction for low-carbon gases).

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 has created a fiscal loophole advantaging diesel mobility. We believe that this option should be kept only for fuels listed in DAFI. In the transport sector (maritime, inland waterways, road), significant emissions reduction can be achieved by phasing out heavy oil and diesel with alternative fuels such as biogas, hydrogen and synthetic fuels. Therefore, a preferential tax treatment would help reduce emissions and improve consistency between DAFI and the ETD.

A fiscal scheme for the industry considering the risks of carbon leakage. Today, the industry sector is often using fossil fuels such as oil, coal and gas. We agree that this sector should accelerate its transition to cleaner alternatives such as biogas and hydrogen. However, we ask the Commission to set up an appropriate fiscal scheme considering the risks of carbon leakage for the industry or fiscal dumping between Member States. The ETD and the Carbon Border Adjustment Mechanism currently under discussions must be complementary.

Promoting a tax redistribution system to finance clean technologies. According to the think tank Bruegel, in 2018, *transport and heating accounted for about 1.3 billion tonnes of CO_2. Placing an additional €50 per tonne carbon price on those fuels would result in an additional €65 billion per year in revenues*[3]. These additional revenues should be earmarked to finance clean technologies and renewable energies that provide many positive externalities that still must be internalised**.** The tax earnings could be directed to research and development programs, as well as industrial programs that would boost the competitiveness of EU's economy. Eventually, we could also set up a system where the tax revenues from each fossil fuel energy product finance the renewable or decarbonised equivalent. For instance, tax collected on natural gas would finance biomethane development.

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

[3] https://www.bruegel.org/wp-content/uploads/2020/07/PB-2020-02-finalv2.pdf