

## GIE on the Energy Taxation Directive revision

Gas Infrastructure Europe (GIE) is the association of the European gas infrastructure operators: gas transmission networks, storages, and LNG terminals. It represents 70 members from 26 European countries. GIE members are committed to help deliver EU's goal in being the first continent achieving climate neutrality by 2050. Thus, the following aspects are crucial for the revision of the Energy Taxation Directive (ETD):

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

As stated 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 gas (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 do not consider the origin of the product, neither its sustainability.

Furthermore, **local pollutants emissions (particulate matter, NOx, SOx) 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”.

Therefore, the ETD should consider not only GHG emissions, but also the local pollutants as well as externalities along the whole value chain consistently with a LCA approach.

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

On 16 September 2020, 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 with relation to GHG content to avoid its double taxation. The same should be considered when designing ETD revised rules for industry sectors with risks of carbon leakage.

Furthermore, 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 benefits** compared to production from energy crops, which are in competition with food crops. 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 renewable and low-carbon gases will play in the European energy transition.**

Renewable and low-carbon gases play an important role in the 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 significantly,** creates local energy sources and local jobs, and participates in the development of circular economy when produced from wastes.

**Renewable and low-carbon gases** (i.e. biomethane, hydrogen) **can be used in some proportions in current natural gas infrastructures** (pipes, NGV stations, downstream devices, etc.) with some adaptations and significant investments in some cases. 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 should recognize climate and environmental benefits offered by natural gas**

There is untapped potential to achieve fast and significant emission reductions with **the switch from carbon-intensive fuel, such as coal, lignite and heavy fuel oil, towards low emission natural gas.** This is a “no-regrets” option; natural gas can quickly substitute coal, lignite and oil in the power generation, heating and industrial sectors. Moreover, **the gas infrastructure will help accommodate the increasing uptake of renewable energy sources, inter alia via sector coupling, and pave the way towards the use of renewable and low-carbon gases in the medium- to long-term.** Transitioning to natural gas will have a significant, immediate and sustainable effect on the reduction of emissions in the parts of the EU with current high dependency on coal, lignite and oil without a significant increase in costs, thus contributing towards efforts focused on ensuring a just transition and acceptance by end users and civil society.

**Natural gas can also have an immediate and tangible positive effect on health problems faced by EU citizens;** air pollution resulting from burning high-emission fuels (including NO<sub>x</sub>, SO<sub>x</sub> and particles) constitutes a serious health problem in many communities. A shift from waste burning, coal, lignite and oil to natural gas in the heating and electricity sector will significantly reduce the level of air pollution in a timely and cost-efficient manner. This could also result in tens of thousands lives being saved annually.

**An increased use of natural gas in the energy mix may well provide the flexibility needed to integrate an increasing share of variable renewable energy sources such as wind and solar into the electricity system, whilst guaranteeing secure and resilient access to electricity, storage, heat and mobility for EU consumers.**

The gas grids contribute to the deployment of renewable gases (biogas, green hydrogen, synthetic methane) through **adapting the existing infrastructure** or by considering relevant requirements for new investments.

**Principle 5: The ETD revision should support the development of CNG and LNG due to their benefits in transport, i.e. for heavy transportation, public transportation or users with long distance and frequent needs (daily or infra-daily).**

**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 transport** (in particular for users with long-distance and frequent travel needs and for heavy vehicles, such as 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 CO<sub>2</sub> 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**.

In conclusion, the ETD revision should be designed to promote the most economic and efficient techs and options in reducing negative externalities. Consequently, the possibility for MSs to fix a proper nominal tax rate value, even below the minimum threshold if justified in light of the above, must be preserved.

**Finally, based on the previous principles, GIE considers that the following policy considerations will be essential:**

**Policy ask 1:** The minimum tax rates of energy products should be based on greenhouse gas emissions, accounted for through a LCA.

**Policy ask 2:** Set up a mandatory tax reduction for renewable and low-carbon gases (i.e. biomethane, synthetic methane, hydrogen), ensuring direct taxation advantage for renewable and low-carbon gases (i.e. biomethane, synthetic methane, hydrogen).

**Policy ask 3:** CNG and LNG should present differentiated tax treatments, due to their environmental benefits and no lock-in, and the possibility for MSs to fix a proper nominal tax rate value, even lower the minimum threshold, must be kept.

**Policy ask 4:** Natural gas taxation level should be considered for its environmental benefits (savings in emissions) by switching from coal (solid fossil fuels) to gas. The ETD revision should reflect its lower GHG-emissions levels compared to other fossil fuels and its potential for immediate emissions reductions.

**Policy ask 5:** ETD revision and EU ETS scheme must have distinct scopes and double taxation avoided, meaning that energy consumption under EU ETS (or on the carbon leakage risk list) should be taken into account by ETD revision rules.

**Other policy asks:**

- Member States must be provided with flexibility to design tailor made green solutions consistent with their energy mix and regional context. ETD revision should consider and reward the investments made toward achieving reduction of carbon.