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POSITION ON THE REVISION OF THE ENERGY TAXATION DIRECTIVE (ETD)

Acknowledging the EU-wide climate neutrality goal in 2050 with enabling measures and the importance of well-designed taxes as right price signals, PGNiG believes that the revision of the Energy Taxation Directive (ETD) should take into account EU energy policy objectives as enshrined in Article 194 TFEU: security, competitiveness and sustainability. Moreover, it should contribute to the goals of the Energy Union: to give EU consumers - households and businesses - secure, sustainable, competitive and affordable energy. .

While reviewing the Energy Taxation Directive, the following issues should be addressed:

1. A balanced and comprehensive approach

The revision of the ETD requires taking into account the impact on all energy policy pillars. Issues related to competitiveness, security and sustainability should be equally considered. Therefore, developing a minimum tax rates methodology needs a balanced approach. It shall not be based on GHG emissions criteria only but requires to be balanced with calculating energy content. Moreover, in order to incentivise a switch from high emission sources to gas a factor including the extent of a decarbonisation contribution could also be developed (e.g. as a quantified tax reduction factor). There is a need for a sustainable mix of criteria that will avoid double-taxation and allow for different fuels to contribute to emission reduction.

Importantly, energy affordability should be a valid perspective reflecting differences in market developments and the broadly accepted need to pursue a just energy transition. In this context, we recognise Member States' national circumstances, their right to choose between different energy sources and adopt a suitable energy taxation policy. In developing the nominal rates Member States should not be bound by the same methodology that is applied at the EU level for minimum rates.

2. Ensuring the tax incentives for the natural gas as a transition fuel towards climate neutrality

Natural gas is a transition fuel towards climate neutrality. Coal-to-gas switching, according to the IEA, reduces emissions by 50% for producing electricity and by 33% for providing heat.¹ Compressed

¹ International Energy Agency, The Role of Gas in Today's Energy Transitions:
<https://www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions>.

natural gas (CNG/LNG) has a clear sustainable advantage in the transport sector compared to Diesel NOx as emissions are reduced from 30% to 60%.² Natural gas contributes significantly to energy security as a back-up fuel for intermittent RES generation guaranteeing thus stability of an energy system. Natural gas cogeneration (CHP) offers cost-efficient emission reduction. Natural gas plays a prominent role as a process fuel in some energy intensive industries (e.g. paper and pulp industry, fertilizer industry). It can be complemented by other clean gases like biomethane.

A taxation scheme should reflect the transitional role of natural gas and be kept at minimal excise rate. It should be coherent with the coal-to-gas switch strategy and contribute to energy affordability. Taxation of energy products taking into account greenhouse gas could undermine the important role of natural gas on the way towards climate neutrality. Instead, methodology that would include the extent of a decarbonisation contribution (e.g. as quantified tax reduction factor) could also be developed. This would allow emission reduction provided by such sources like natural gas when switching from coal to be a factor in determining minimum taxation rates.

Moreover, the ETD should allow for natural gas industry to fulfil its role as a natural partner in developing biogas/biomethane and hydrogen (green and blue H₂) markets. Natural gas infrastructure can, with some necessary investments, serve as infrastructure for biomethane and hydrogen purposes, in particular in terms of transport and storage. Natural gas used for the purpose of electricity and heating generation (including CHP), transport and industry can be a way to introduce new gases.

3. Avoiding excessive burden on sectors already operating under the ETS system

The impact of taxation regime should be carefully analysed in view of industry competitiveness as well as the potential for a global emission reduction effort. Additional taxation of sectors already covered by the EU ETS could result in excessive burden. It would have therefore a negative impact on the EU energy market and the EU industry leading to a carbon leakage, lowered international competitiveness and an economic slowdown. A thorough analysis of the economic impact is in particular necessary in the context of tackling the COVID 19 pandemic downturn. Moreover, carbon leakage could lead to the increase in global emissions. Whereas avoiding carbon leakage would allow for the EU industry to advance solutions for carbon neutral economy. For this purpose natural gas—as the transition fuel—needs to be considered as a source of emission reduction and a pathway towards biogas/biomethane and hydrogen. Therefore, its positive impact on the cost-effective European Green Deal implementation should be recognized in the ETD review.

4. Providing exemption from excise tax for maritime transport

Tax exemptions for alternative fuels (including natural gas) for the maritime sector is an opportunity to reduce emissions in this particular sector. Maritime transport is responsible for 13,3% of greenhouse gas (GHG) emissions in the transport sector.³ According to the SEA/SGMF study, LNG

² <https://www.ngva.eu/medias/natural-gas-a-solution-for-a-clean-and-decarbonized-transport-system/>.

³ European Environment Agency, Greenhouse gas emissions from transport in Europe:

<https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases/transport->

bunkering could lead to 21% GHG reductions when compared with current oil-based marine fuels over the entire life-cycle from Well-to-Wake (WtW). It also confirms that emissions of other local pollutants, such as sulphur oxides (SOx), nitrogen oxides (NOx) and particulate matter (PM), are close to zero when using LNG compared with current conventional oil-based marine fuels.⁴ A possibility to apply tax exemptions for the maritime sector will contribute to LNG bunkering development and support EU climate policy.

5. Providing exemptions for energy products for individual heating sources in households

Maintaining the possibility of granting exemptions for individual heating sources, if individual installations use natural gas, is crucial. Gas-fuelled heating devices are characterized by high efficiency. Analysis of pollutant indicators shows that natural gas is the cleanest available fuel for individual heating installations. Pollutant emission factors i.e.: benzo(a)pyrene, sulphur, nitrogen oxides and carbon monoxide are relatively low in individual gas-fuelled heating plants.⁵ Air quality goals are part of EU environmental legislation and policy.

Moreover, this issue should be considered from the energy poverty perspective. European Commission's data suggest that between 50 and 125 million Europeans are unable to afford proper indoor thermal comfort.⁶ Therefore, energy taxation schemes should facilitate the modernization of heating systems.

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⁴ <https://sea-lng.org/independent-study-reveals-lng-reduces-shipping-ghg-emissions-by-up-to-21/>.

⁵ European Environmental Agency:

www.eea.europa.eu/publications/emep-eea-guidebook-2013/part-b-sectoral-guidance-chapters/1-energy/1-a-combustion/1-a-4-small-combustion.

⁶ https://ec.europa.eu/energy/eu-buildings-factsheets-topics-tree/energy-poverty_en