Revision of the Energy Taxation Directive (ETD)

Accompanying document to Eni's response to the European Commission Public Consultation on the ETD

We are in agreement with the European Commission's 2019 evaluation of the ETD, which finds that the Directive does not adequately promote greenhouse gas emission reductions, energy efficiency, or alternative fuels, including hydrogen and advanced biofuels. We also agree that the ETD does not provide sufficient incentives for investments in innovative clean technologies as ***it does not sufficiently recognise the contribution of the options which have the lowest environmental footprint and the highest efficiency, and of those technologies enabling the transition towards a climate neutral system (including storage and CCS)***. As such, the current ETD is not conducive of the decarbonisation objectives pursued by the Green Deal.

Therefore, the ETD should undergo an extensive revision to adequately address key policy objectives linked to the achievement of a revised 2030 target and climate neutrality in 2050.

Moving from the principle, which we support, that minimum rate should be defined on both energy and carbon content and calculated according to ***CO2 emissions per unit of energy supplied***, such revision should take into account the following considerations:

Policy integration on climate action

From an internal market point of view, and while acknowledging the competence also laying with Member States in the matter, ***a harmonised revision of the taxation framework at EU level is welcome***, in order to ensure a well-functioning market, especially as Member States' efforts to pursue decarbonisation will have to intensify due to a steeper trajectory towards 2030. Furthermore, to the same end, we believe it is necessary to avoid as much as possible any distortions of trade and competition between energy sources, energy sectors and energy consumers and suppliers across the EU.

From a climate policy perspective, taxation is one instrument among a number of others that have a direct impact on the price of energy products. First and foremost, the EU ETS is currently the flagship EU climate policy instrument and, in our view, it is the most cost effective tool for reducing greenhouse gas emissions in the power and industry sectors. For these reasons, ***emissions from installations already covered by the EU ETS shall not be subject to an additional burden resulting from a CO2-tax, as the latter will constitute a double taxation***.

More specifically, for energy-intensive industries competing globally, it is important to ensure that the special tax treatment of energy products and electricity used by ***energy intensive sectors*** is kept as it is defined in the current ETD framework. Indeed, for these companies, an increase in the energy cost could result in a significant loss of competitiveness in the international markets and this increases the risk of carbon leakage.

Moreover, Eni believes that ***Combined Heat and Power (CHP) assets can play a major role in contributing to a cost-effective decarbonization***, leveraging on existing assets and promoting an efficient use of energy sources. We therefore deem necessary that the revised ETD maintains the possibility for Member States to define, where needed, a differentiated fiscal treatment for CHP generation, including district heating.

Sector-specific considerations – Transport

As a matter of principle, a taxation system should ***gradually be applied to all transport modes and to all energy carriers with transport as final use***, in order to support the decarbonisation of the sector. Equally, any sectoral exemption rightly considering the specificity of the transport sector should be harmonised at EU level as much as possible, to ensure competition in the internal market and avoid carbon leakage.

Furthermore, per the general principle of taxing according to carbon intensity, it is key to foresee tax rates for energy vectors that are calculated according to CO2 emissions per unit of energy supplied, thus ***recognising the contribution of low-carbon products to decarbonisation objectives***. This would tackle the shortcomings linked to the fact that, currently, biofuels are subject to the same excise duties as traditional fuels to which they are blended. In order to redress this and in line with the objectives outlined in the Renewable Energy Directive, a correction factor should be introduced to take into account the emission savings and the lower energy density of biofuels compared to their fossil versions.

With regards to advanced biofuels, Eni is actively working to become palm oil free by 2023, by using 2nd generation and Advanced feedstocks. To achieve this objective Eni relies on different kind of residues and waste as on not edible crops growing in pre-desertic areas or as intermediate cultivation, thus not in competition with food and feed.

Being consistent with the objective of ***mainstreaming circularity*** in all industrial and energy processes, reducing waste and increase recycling, ***the positive environmental externalities linked to fuels from by-products and waste*** should be recognised by the taxation system by means of differentiated rates. Such rates should be defined by keeping into account the renewable energy content used in the production process and its efficiency (e.g. with high-efficiency co-generation). This assessment should stretch across the whole production-to-use cycle. Exemptions or reduced rates for biofuels and waste-based fuels would also stimulate R&D crucially needed to decarbonize hard to abate sectors.

Making the transition to low-carbon mobility affordable to citizens

It is key to mitigate the effects on final users (i.e. citizens) linked to higher taxes on fossil products used in transport. In order for this increased burden not to be only perceived by carriers, independent workers and the most vulnerable groups in the society (in particular relying on diesel vs. gasoline), it appears crucial for the envisaged ETD revision to ***re-allocate such increased revenues within the same sector***, i.e. by compensating such increased costs with measures promoting the most affordable and ready-to-use low carbon mobility solutions, ***pursuing both a redistributive and environmentally savvy approach***. This could be done by:

- Using the increased revenues to finance the introduction of a ***fiscal correction factor for low-carbon fuels up to 100% exemption for those that are entirely renewable-based***, thus incentivising the end use of the product.
- Subsidising the r***enewal of the fleet to make the most efficient solutions affordable for citizens in the shortest time-frame***. The substitution of the oldest and most polluting vehicles with low-emission vehicles and promoting the switch from Euro 0-4 to Euro 6 is seen as the most impactful solution to achieve the highest amount of emission reduction in the shortest time frame.

A phased approach for the maritime and aviation sectors

The taxation system, both at EU and national level, should also consider whether there is a market-available low-carbon or renewable option for a specific sector or product, or whether incremental decarbonisation is the way forward to decarbonize. This is the case of aviation and maritime transport, where ***a gradual approach to taxation is required***. For these sectors, different mechanisms including mandatory blending of sustainable aviation fuels (SAF) are being assessed. Since SAF's costs are currently more than double those of the traditional applying product, these obligations risk having a considerable impact on prices. ***The simultaneous application of these incremental costs and of a newly established taxation for the sector risks producing a too high pressure on prices, without creating an actual leverage for alternative transport solutions***.

Technology neutrality and carbon content certification

In order to support the steeper decarbonization trajectory foreseen by revised 2030 targets and to achieve climate neutrality in 2050, the ***contribution of all the available products and technologies should be leveraged***. This principle also applies to taxation and the ETD should be revised by taking into account the approaches foreseen by the Smart Sector Integration and Hydrogen Strategies.

To do so, minimum rates should be foreseen based on ***a comprehensive classification covering renewable, decarbonized and low-carbon fuels based on a technologically neutral standardized life-cycle analysis*** assessing the product's GHG emissions and resulting contribution to decarbonization.

Such classification, currently being assessed in the context of the review of the Renewable Energy Directive, should function as ***a common reference instrument also used to develop one standardized system for Guarantees of Origin (GO)***. This should be linked to a certification scheme for renewables and non-renewable carbon products, including clean hydrogen (produced via all available decarbonized technologies).

The possibility for this mechanisms to be enhanced to serve wider purposes than the ones currently foreseen, and in particular the interlinkages with the definition of a comprehensive taxation system (with carbon content at its core) should be carefully assessed as a promising route. Indeed, an enhanced GO system at EU level would promote a neutral and healthy competition between different energy sources and technologies, thus supporting the uptake of low-carbon fuels and gasses and helping kick-start a hydrogen market in Europe.

Lastly, regarding storage systems, it is necessary to avoid the risk of any form of double taxation. Therefore, the ***electricity withdrawn by storage systems should not be considered as a final consumption***.

Just Transition

As argued above, and in consideration of the ***energy poverty*** issues faced by a number of EU countries, the ETD review should list the support to a Just Transition as one of its key pursued objectives. While we believe, as argued above, that to a certain extent intra-sector allocation of revenues is needed to ensure the financing of the transition for hard to decarbonize sectors, we are equally convinced that some ***accompanying measures are needed to take into account the impact that decarbonizing measures based on carbon pricing may have on the society and the economy***, and most particularly on its ***most exposed groups***.

Equally, the environmental and climate protection agenda leading the review of the ETD should be complemented by the pursue within the Directive of other objectives having an impact on the society at large, including ensuring an ***industrial future for Europe and its competitiveness at global level, as well as employment***.

Simplification and transparency

Since taxation as a policy instrument has a direct and highly perceived impact on end users and consumers' choices, it is of vital importance to consider simplification and transparency as part of the revision of the ETD, to secure public support for the transition.

As producers and suppliers of energy products, we support the ***simplification of the energy tax system in order to send the right signals and orientate investments and consumers' choices*** towards the energy transition. Furthermore, the revision should aim at addressing the intricacies and high ***costs of processing and managing the fiscal system for suppliers and customers***, dealing with an exceptionally high number of specific applications and arrangements agreed at different governance level.

Finally, actions should be taken to increase the transparency of the energy fiscal system, which should not lead to distortions or undue costs for ***energy suppliers who should only be intermediates in the energy collection process*** and not bear the ultimate costs of the exercise.