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POLICY POSITION ON ENERGY TAXATION

Executive Summary

The FIA European Bureau supports the European Union in its endeavours to achieve climate neutrality and at the same time supports measures that make the desired change in mobility reliable and affordable for consumers. Consumer acceptance is particularly important for the success of the transformation to greenhouse-neutral mobility.

The FIA European Bureau believes that a revision of the Energy Taxation Directive can help achieve the European Union climate ambitions. Road transport, as a sector with high energy consumption, can further contribute to reducing greenhouse gas emissions if the right framework conditions are set.

The provisions contained in the Energy Taxation Directive should be further developed in line with the environmental objectives. A stronger orientation of the minimum tax rates to CO_2 emissions can ecologically align the tax incentives with the choice of fuel.

Greenhouse gas emissions of different energy sources should be treated in the same way, regardless of the type of use or the user. The climate effect of CO_2 from commercial and non-commercial fuel burning is the same, so should be the tax.

In order to ensure its effectiveness, acceptance and efficiency, the reform should take into account the interaction with the other initiatives within the framework of the Green Deal as well as certain national contexts, remain coherent with all road transport measures and ensure that at the time of the reform the changes remain financially neutral for the consumer. The adaptation of the taxation framework should therefore also be progressive to allow users to adapt and be accompanied by awareness raising initiatives.

Background

In December 2019, the European Commission presented its initiative for a "Green Deal". One of the goals is to achieve climate neutrality in transport by 2050. In line with its commitment to become climate neutral by 2050, the European Union is reviewing its political and regulatory framework to ensure that its goals are achieved. This also includes a proposal for a review of the Energy Taxation Directive in June 2021.

Amongst the tried and tested regulatory tools that currently incentivise greenhouse gas emission savings are energy taxes levied through national taxation frameworks within the boundaries set by the European Energy Taxation Directive 2003/96. In place since 2003, the Energy Taxation Directive prescribes minimum taxation rates across the European Union for the most common energy carriers and defines a series of exemptions for specific uses and in specific Member States[1].

Taxes account for a significant share of the final price consumers pay for energy around the European Union and have a strong impact on consumption and investment patterns, the type of energy consumed and their use[2].

The steering objectives are reflected by the different rates of energy taxation in the EU Member States, with variations between household and industrial use, and between different energy carriers. For instance, in road transport, the current European Energy Taxation Directive prescribes that fuel is taxed at an equivalent minimum of 150 €/t CO_2 for petrol, 125 €/t CO_2 for diesel, and 69 €/t CO_2 for LPG[3]. In this, the current taxation framework implies that existing fuel duties already more than cover climate emission costs for Euro 4 petrol and diesel passenger cars, including well-to-tank emissions[4].

At the same time, energy taxes – in particular excise duties on petroleum products – are an important and stable source of revenue for the EU Member States (on average nearly 5% of their total tax revenue). In 2016, national governments collected €280 billion (roughly 1.9% of EU GDP) through energy taxation. In 2016, fuel taxes in road transport represented €198 billion[5].

The debate on the revision of the Energy Taxation Directive has been going on for several years. The main criticisms that are up for discussion are as follows:

- Absence of a signal to consider greenhouse gas emissions or the energy content in energy products

[1] Excise duty rates applicable in the EU (on 1 January 2019)
[2] OECD Taxing Energy Use 2018 (2019)
[3] Corresponding to the minimum taxation rate set in Directive 2003/96 of 0.359 €/l with emissions of 2.39 kg CO_2/l for petrol, to the minimum taxation rate of 0.330 €/l with emissions of 2.64 kg CO_2/l for diesel, and to the minimum taxation rate of 0.125 €/kg (1 l LPG weighs 550 g) with emissions 1.66 kg of CO_2/l for LPG. CO_2 content however varies according to the fuel quality, in particular for LPG. In comparison, EU allowances (EUA) traded in September 2020 at roughly 25 €/t carbon dioxide on the spot market. One EUA gives the holder the right to emit one tonne of carbon dioxide, or the equivalent amount of two more powerful greenhouse gases, nitrous oxide (N_2O) and perfluorocarbons (PFCs).
[4] IAI/EE/CE (2020), Review of the European Commission study "Sustainable Transport Infrastructure Charging and Internalisation of Transport Externalities" (STICITE) and the "Handbook on the external costs of transport version 2019" compiled by CE Delft, pages 94-95.
[5] CE Delft (2019), Transport taxeses and charges in Europe, pages 69-70 & 186-187, PPS (purchasing power standard) adjusted figures

- Lack of incentives to develop alternative energies
- No adequate delimitation from the EU Emissions Trading System (EU ETS), which allows both double taxation and gaps in the avoidance options

The European Commission intends to revising the objectives of the Directive, its social impact and the included compensation measures, the contained standard rules and sectoral exceptions, as well as the treatment of lower carbon products such as advanced biofuels and synthetic fuels, hydrogen, Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG).

FIA European Bureau Position

The revision of the Energy Taxation Directive could entail higher energy prices for consumers in road transport and aviation in particular. The revision must therefore be viewed in direct connection with other measures addressed by the Green Deal. Concerning road transport, the reform of the Eurovignette Directive and the considerations on integrating the transport sector in the ETS, changes to the CO_2 fleet limit value legislation or quotas for the admixture of alternative fuels would inevitably have an indirect or direct effect on the mobility costs of many consumers in Europe.

Consumer acceptance is particularly important for the success of the transformation to greenhouse-neutral mobility. The necessary transformation must not lead to excessive demands on consumers. When implementing the individual measures of the Green Deal, attention must be paid both to the need for consumers to adapt over time and to a balanced relationship between benefits and costs. Policy makers should furthermore strive towards clearly informing about the possible impact of their policies on the short, medium and longer term.

Energy carriers should be fiscally treated in an equal manner, irrespective of the type of use or user. This will ensure that emission avoidance costs are levelled for different types of uses or users. So far, the minimum tax rates are based on volume. A stronger orientation of the minimum tax rates to CO_2 emissions will environmentally align the taxation framework.

Any reform of energy taxation must not lead to discrimination against non-commercial users. At present, Member States may differentiate the tax treatment between commercial and non-commercial use of diesel as a motor fuel[6]. This possibility should be deleted. A distinction in the taxation of energy consumption of commercial and non-commercial fuel is not appropriate, in particular with regard to the substantial increase of CO_2 emissions related to the transport of goods. The climate effect of CO_2 from commercial and non-commercial fuel burning is the same, so should be the tax.

The FIA European Bureau further believes that the Energy Taxation Directive needs to be revised in order to take into account the changed energy mix with higher shares of renewables and electricity, supporting self-consumption and small producers of electricity coming from renewables and incentivising alternative energy carriers such as sustainable biofuels and hydrogen.

[6] Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity, article 7 paragraph 2

A long-term stable framework supported by a revised Energy Taxation Directive will foster investments in alternative fuels. The creation of fiscal and financial incentives for fuels with increasing proportions of alternative components and simultaneously increasing the use of alternative fuels (including blending) could further support this, giving the needed planning certainty.

The FIA European Bureau further believes that policies should be designed to ensure maximum coherence with the existing measures in road transport and fairly share the burden between the different sectors, based on the cost efficiency of savings. The reform of energy taxation therefore needs to be done in conjunction with the revision of other policy and regulatory instruments that have converging steering effects such as vehicle taxation, road charging, promotion of alternative fuels (including blending), and the EU Emissions Trading System.

Carbon emissions being already highly taxed in road transport, the reform should ensure that the possible shift in taxes and charges remains cost neutral for the motorist[7].

In accordance with the need for cost neutral changes, the Energy Taxation Directive should not include greenhouse gas emissions within its scope that are already subject to the carbon price of the EU Emissions Trading System. Should the inclusion of road transport in the EU Emissions Trading System however be considered, the energy taxation framework needs to be adapted accordingly for the reform to be financially neutral for the consumer.

Research shows that short-term demand is rather price inelastic, thus price increases have only a negligible immediate effect on demand. The revision of the Energy Taxation Directive should therefore take into account the need for professional and private users to adapt to a new taxation framework by foreseeing a progressive and appropriately long transition phase. Planning certainty would also sustain consumer acceptance of climate policy decisions.

Consumers need the certainty that the vehicle they have purchased under a certain taxation regime can continue to be used and will not suffer a politically induced loss of value. The transition to low carbon mobility should involve and benefit consumers, whilst making sure vulnerable consumers are not unduly penalised.

FIA European Bureau research

The FIA European Bureau engages in European research and innovation programmes to support and promote the development and the deployment of safe, clean, energy efficient mobility, such as:

ELVITEN

The ELVITEN project which focuses on demonstrating the benefits of light electric vehicles (such as e-bikes and scooters);

[7] Damert et al, (2018) Cambridge Econometrics (2014)

The Green Vehicle Index (GVI) project which promotes the development of vehicles that are clean, energy efficient and environmentally friendly.

The MODALES project which encourages the adoption of driving behaviour and vehicle maintenance that can help lower emissions.

For more information, see the FIA Region I website.

Fédération Internationale de l'Automobile (FIA) European Bureau

The FIA European Bureau, based in Brussels, is a consumer body comprising 103 Mobility Clubs that represent over 36 million members from across Europe, the Middle East and Africa. The FIA represents the interests of our members as motorists, riders, pedestrians and passengers. We work to ensure safe, affordable, clean and efficient mobility for all. Learn more at www.fiaregion1.com

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