

EEB's reply to the public consultation on the Inception Impact Assessment on the revision of the Energy Taxation Directive 2003/96/EC

1 April 2020

The EEB welcomes the opportunity to comment on the European Commission's **Inception Impact Assessment for the revision of the Energy Taxation Directive (ETD)**. We agree with the analysis carried out by the European Commission pointing out the lack of consistency of the current energy taxation regime with the objective set in the European Green Deal of achieving climate-neutrality by 2050 at the latest. We believe that the current Energy Taxation Directive setting minimum taxation regimes for motor and heating fuels (oil and gas) represents a **major loophole in the EU's climate and energy policy package**. The policy options to align the ETD with the European Green Deal should address four key priorities.

1) Redirect fiscal instruments for a green recovery stimulus

As economic stimulus packages are discussed and implemented in response to the Covid-19 epidemic, it is important that these facilitate a **green recovery and prevent a dangerous return to business as usual**, as climate change will remain one of the biggest threats of the 21st century.

Fiscal instruments are an essential policy option to complement the existing climate and energy regulatory framework and accelerate the transformation towards a carbon-free, circular and clean economy. They can play an important role both in sending a price signal to the economy and by changing people's behaviours. Moreover, **public revenues** generated can be used to fairly redistribute the economic burden across society and support the most vulnerable, while also providing an opportunity to **reduce labour taxation**.

2) Tax all energy products based on their energy and carbon content to tackle emissions in transport and buildings

"Polluter pays" principle should be the by default measure for all economic activities, with an aim to assign a proportionate price to environmental negative externalities deriving from energy production and use. Therefore, **all energy products should be taxed according to their energy and carbon content**. This must complement the price signal provided by the ETS and be consistent with a clear pathway to reach climate neutrality as soon as possible, and no later than 2050.

The revision of the ETD is a unique opportunity to **address GHG emissions reductions in non-ETS sectors, specifically transport and buildings**. Currently, there are no other feasible policy options to address emissions in these two sectors, and an extension of the EU ETS is not foreseeable in the short to medium term, due to several technical and economic reasons. The EU ETS, which is the main binding instrument both at EU and national level (while the two energy targets on RES and EE are only binding at EU level) covers less than half of EU's GHG emissions and has not worked as a driver towards a wider decarbonisation of the economy.

3) Remove all subsidies to fossil fuels and accelerate decarbonisation of the grid

There is a huge untapped potential in the transport and heating sectors, where **current taxation in most of the Member States does not factor in the externalities of climate change and wider pollution and associated impacts**.

This situation is the result of too much discretion left to the Member States in the form of exemptions or reductions, which has eventually made the ETD not only an ineffective tool but a clear obstacle when it comes to contributing to climate objectives. The long list of allowed exemptions or reduced rates of taxation must be significantly reviewed in order to **remove all subsidies to fossil fuels**. Exemptions for entire sectors such as aviation and maritime, or for specific fuels such as gas and LNG are no longer defensible or appropriate.

At the same time, creating advantageous conditions for **new alternative fuels**, such as hydrogen, must be very carefully assessed, to avoid repeating the mistakes made with promoting biofuels. In order to focus on hard-to-abate emissions and favour the most climate-effective implementation of hydrogen infrastructure and markets, **only Green Hydrogen destined to industry use should enjoy reduced taxation**. Hydrogen from fossil fuels should be taxed as other fossil gaseous fuels, i.e. based on its carbon intensity.

There must be a systematic and transparent assessment of which exemptions are still merited and on what grounds. **Only those exemptions for which there remains a clear and defensible need in the context of EGD and Paris Agreement climate objective, should remain and they should be timebound and undergo regular review clauses**.

We understand that offering extensive exemptions was a necessary approach to get Member States' buy in at the time of the adoption of the Directive. However, with today's scientific evidence of the climate crisis and related future risks, progress in ensuring cost-effective fossil-free renewable energy and the need to accelerate the decarbonisation of energy production - including energy grid infrastructure - and consumption (transport, buildings, industry, agriculture), the number of exemptions must be significantly reduced.

Social provisions related to energy poverty should focus on providing alternative finance to households in need and discontinue generalized policies of low pricing, which in some Member States are hampering the uptake of efficiency measures.

A more targeted approach will also generate additional funds to pay for the needed economic stimulus to help raise revenues for **driving the industrial transformation in the post COVID-19**.

Finally, when it comes to fossil fuels, the ETD must align with the strict environmental criteria set by the **EU Taxonomy Regulation** – which will be reviewed every 5 years – as well as with the **EIB's new lending policy**.

4) Make energy taxation a key component in the National Energy and Climate Plans

Experience with **carbon taxes** in several Member States has shown that those who have been the frontrunners and the most ambitious (i.e. the Nordic countries) have managed to accelerate the decarbonisation of transport and heating. However, cumulative fiscal measures adopted by the Member States are still largely insufficient to have an impact on the overall EU's economy shift towards climate-neutrality (only 15 Member States have introduced them and with ample differences both in sector scope and tax amount). **A more coordinated collective effort at EU level is needed.**

For this reason, in its assessment of the **National Energy and Climate Plans (NECPs)** the European Commission should evaluate regularly the use of energy taxation for its contribution to the climate objectives, identify inconsistencies and failures and indicate remedies for a targeted use, and encourage wider and more ambitious use of carbon pricing. This will strengthen the NECPs and facilitate GHG emissions reductions and meeting the Paris and Carbon Neutrality commitments.

A coordinated effort to promote decentralised renewable energy production and self-consumption should be favoured, as currently not all Member States have in place taxation schemes to favour self-consumption and smart metering. In some Member States, **gas for heating is still granted better taxation conditions than heating from renewable energy and heat pumps.**