ETD Consultation Contribution

October 2020

Public Consultation: Public consultation on the revision of the Energy Taxation Directive (ETD)

The Green Deal recognises that energy-intensive industries (EIIs), such as chemicals, are indispensable for Europe's transition toward 2050 climate neutrality, as solution providers to multiple value chains. Climate neutrality by 2050 means going through a deep transformation within just one or two investment cycles. The EU chemical industry intends to grasp the opportunities arising from the transition to a climate neutral and circular economy.

Cefic supports the EU's ambition to become climate neutral by 2050. An entirely new industrial policy focus must be deployed to unlock the huge scale of investments required.

1. **Managing the different global speeds.** To maintain industry competitiveness the ETD Review needs to consider the global perspective, especially when the speed of transformation is different from the rest of the world and cost of carbon in the EU is expected to increase further.
   While absolute levels of taxation are a matter for Member States, Cefic recognises that the Energy Taxation Directive with harmonised minimum levels of taxation may not be the optimal instrument to avoid distorting of competition: Member states may fix higher tax rates and extra surcharges thereby potentially distorting competition. In order to level the EU energy cost conditions for industry, turning minimum into maximum levels of taxation would be advisable that take in to account international competitiveness conditions. .

2. **The ETD review should assure that industry gets access to abundant climate-friendly energy and feedstock at an affordable price.** Transformation will require electrification and switching to alternative feedstock sources. Significant investments will have to take place in Europe in order to meet industry's need for large quantities of energy. The EU should also develop a strategy for potential imports of low-carbon energy carriers from regions with greater or more cost-effective potential. It is important that Member States can continue to exempt EIIs from excise duties related to energy consumption. Cefic recommends maintaining the current ETD out of scope practices.
3. **Infrastructure and integration.** Europe needs to focus investments on climate friendly energy generation and consumption, electrification, heat, hydrogen, other energy carriers and pipelines. The ETD review needs to complement these investments by circulating taxes back into the necessary infrastructure. The Energy Taxation Directive must remain in line with the EU's climate and clean energy objectives in order to secure a coherent approach. For example, possible exemptions from levels of taxation for energy products and electricity used and produced in combined heat and power (CHP) units need to ensure the further development of this highly efficient energy generation method. Energy represents an important share of the chemical industry's operating costs.
4. **Policies towards climate-friendly transformation should be technology-neutral to support cost-effective solutions.** First commercial applications of breakthrough technologies need to happen by 2030. Technology-neutral innovation policies should help accelerate this development right now and should not be hampered by taxation. New complementary technologies such as chemical

recycling, carbon capture and utilisation (CCU), combined with a single market for co-products and waste will require extra amounts of energy but are needed in the transition to circularity

5. **Supportive financial and market frameworks for large and small companies.** The European legislative framework should incentivise the development of markets and value chains for energy efficient EU production. The ETD review is an essential part of this. A long-term, competitiveness-proof and climate friendly ETD framework should encourage efficient energy use, focusing on avoidable energy use while non-avoidable energy use should not be burdened with undue policy costs. Energy poverty should better be addressed through (national) social policies rather than as part of the ETD.

6. **Taxation is an instrument that can induce behavioral change provided adequate alternatives are available**. CO2 costs, which are already covered by the EU Emissions Trading Scheme for EIIs, should not be regulated in the ETD in order to avoid inefficiencies from regulatory overlap. To avoid such double taxation, energy products to produce electricity are currently exempted from the ETD. However, electricity as secondary energy carrier is taxed while electrification is one way for industry to reduce emissions. Therefore, manufacturing sectors should be enabled to electrify under the reviewed ETD.

7. **Taxation on transport** (internalization of external costs) should not prevail over multimodal optimization or making reliable and efficient low emission alternatives available. It would harm industry's competitiveness without any structural improvement in transport emissions. Focus should be on stimulating demand for low emission alternatives, considering the impacts on supply chain cost and lead time.

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About Cefic:
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 16% of world chemicals production.