

AGFW's position paper on the revision of the Energy Taxation Directive

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The AGFW, the German association on district heating and cooling and CHP (Combined Heat and Power), welcomes the possibility to voice its opinion on the review of the Energy Taxation Directive. The AGFW is convinced that this revision poses a unique opportunity to position the national energy taxation frameworks as central enabling pillars of the European energy sectors green transformation. In the light of this consideration, AGFW would like to outline several areas within the current framework, where additional adjustments could provide an important stimulus for the further decarbonisation of the energy sector.

Firstly, the upcoming revision should be guided by the overall ambition of aligning the general direction of the directives legislative scope with Europe's common climate ambitions and thus unlock its future potential as a crucial regulatory tool in driving the green transition forward. Accordingly, the inclusion of a framework promoting the establishment of CO₂-taxation mechanisms for emissions falling outside the current ETS scheme on Member State level would constitute an important step in this regard. In order not to create inconsistencies that would distort the existing climate policy framework a regulatory overlap in particular with the ETS needs to be avoided. Such a CO₂ steering mechanism should therefore be closely aligned with the further development of the ETS mechanism and would thus naturally need to entail exemptions for power plants, especially CHP-plants supplying DH-networks, which are already covered through the ETS. With respect to the concrete design of this pricing mechanism, AGFW suggests to likewise correlate the respective tax brackets with the development of ETS carbon prices. That way, the ETS in conjunction with national CO₂-taxation mechanism would concertedly and gradually establish a comprehensive European carbon price for energy usage. In addition, the Directive's current exemption list within Art. 15 should be revised in accordance with the EU's climate agenda. Here, especially the current tax reductions foreseen for goods listed in section h) could be limited in order to facilitate the crucial decarbonisation process of the European heating and cooling sector, as this would create a level playing field between the different heating and cooling systems by reducing the current subsidisation advantages enjoyed by especially carbon intensive heating systems and furthermore gradually lead to the desired approximation of nominal and minimum energy taxation rates across Member States frameworks, underscoring the coherence of the European single market.

However, AGFW is of the opinion that the steering effect created by the reduction of carbon intensive subsidies as well as through the introduction of a carbon taxation mechanism should be accompanied by socio-economic compensatory mechanisms to reduce the additional financial burden that is in particular imposed on medium and lower income households, as well as non-ETS business customers. With respect to the socio-economic dimension within our sector it is therefore important to maintain the Directives non-applicability on output taxation of *heating* and furthermore extend it to *cooling* as well. Moreover, as legislative measures in Germany have shown, compensatory schemes outside the energy tax framework have proved to be effective in reducing the financial burden for individual households and business customers as well as to provide additional decarbonisation incentives for the heating and cooling sector. As a general approach shifting taxation from labour on to carbon intensive energy resources would help to unlock additional private investment potential to support the Directives carbon steering effects.

Finally, AGFW emphasises that the Directives future scope should put a stronger emphasis on sector integration as part of a common regulatory framework to promote the development of power-to-x technologies. As a first step, that would also strengthen the internal coherence of the directive as well as to overcome the unfair treatment of efficient and environmental friendly CHP in comparison to conventional electricity generation, Article 15 should be amended as to reflect the taxation exception under Art 14 and accordingly foresee a mandatory taxation exception for energy products and electricity used for High-Efficiency CHP (as defined in Directive 2012/27/EU) from the excise tax. Furthermore, it would be desirable to include taxation exceptions for energy products and electricity used in sector integration technologies either as mandatory exceptions within the scope of Art. 14 or at least as voluntary exceptions within Member States purview under Art. 15. Accordingly such exceptions should be connected to the carbon intensity of the respective technology in order to ensure the compatibility with the common climate ambitions.