Energy Taxation Directive review – Inception impact assessment

A Eurelectric comments paper

April 2020

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Electrification & Sustainability Committee
Generation & Environment Committee
Markets & Investments Committee
Distribution & Market Facilitation Committee
Customers & Retail Services Committee

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Committed to deliver carbon neutrality by 2045, Eurelectric strongly supports the ambition of the European Commission to achieve net-zero emission in the EU by 2050. Our industry is ready to actively contribute to decarbonising the European economy, in particular by promoting the key role of smart and efficient electrification in transport, building and industry.

Eurelectric strongly supports the objective of the European Commission to review the Energy Taxation Directive (ETD) as part of the new Green Deal[1].

Energy taxation has a key role to play to deliver decarbonisation through electrification. **The current energy taxation Directive was adopted nearly 20 years ago and is in its current form no longer suited to address the historic challenge of climate change and the related transitions.**

The publication of this Inception Impact Assessment is a first encouraging step of this review process.

To ensure a fit-for-purpose revision of the current rules, we urge for the following points to be taken into account:

1. **Convergence of fiscal rules between Member States must be achieved in order to adequately contribute to the functioning of the Internal Energy Market**.

   The 2019 ETD Evaluation[2] demonstrated that the rates currently applied by MS differ significantly from each other and from the minimum rates defined in the original text. This leads to severe market fragmentation and situations in which, for example, "renewable energy can be taxed at a higher rate than a competing fossil fuel, as long as the minimum rates are respected". While taking into account the large diversity of economies and the different starting points on path to the energy transition among Member States, such distortions must be gradually removed if Europe is to meet its climate ambitions.

2. **Current disparities between energy carriers must be addressed to ensure that externalities of fossil fuels are properly reflected.**

   This mainly relates to externalities from GHG emissions. Currently, CO2 pricing applies to electricity through the EU ETS but only marginally to fossil alternatives in the transport and building sector, thus disincentivising the use of electricity. Taking into account the real climate impact of all energy carriers and ensuring a level-playing field between them is essential. Moreover, the current lack of harmonisation of energy taxation rates at EU level creates an uneven playing field between competing energies as it does not take into account their CO2 emissions. To tackle this, the revised ETD must integrate climatic performance of energy sources, at a level which is consistent with the EU climate objectives for 2030 and 2050.

3. **Sectorial discrepancies must be tackled.**

   Eurelectric therefore asks that tax exemptions on aviation and maritime fuels are partially removed to encourage the switch to cleaner transportation modes. Those exemptions would then totally removed when a cleaner alternative solution will be available. Particularly for maritime, the use of shore-side electricity should be incentivised. Other sectors which are not exposed to a meaningful carbon price signal could be incentivised either by potentially extending the ETS scope or by carbon pricing measures, using the most efficient tool for each

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[1] Taking into account its fundamentally different views on the revision of the Energy Taxation Directive, the Polish Electricity Association (PKEE) will submit separate position on the Inception Impact Assessment.

[2] COMMISSION STAFF WORKING DOCUMENT EVALUATION of the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, 11 September 2019.

sector. The introduction of the CO2 component must be done in coordination with EU-ETS in order to have a complementary, harmonised and holistic framework.

In addition, the review should remove double taxation for flexibility tools such as storage, batteries or power-to-gas facilities, as they will play a key role in decarbonising the economy and in integrating the growing shares of renewables.

4. **The ETD must be made compliant with the neutrality objectives by reviewing its scope and product coverage**.

   Today, the electricity bill is often used to finance a large number of low carbon policies- such as RES deployment and energy efficiency. Taxes and levies in electricity bills account for up to 70% of the bill in some Member States thus artificially increasing prices and discouraging the use of electricity based technologies and services. Limiting the weight of taxes on electricity will help make electricity more affordable for household consumers, and contribute to minimizing the social and distributional impacts which the Commission rightfully wishes to address. It would also directly boost the competitiveness of European businesses, particularly energy- and electro intensive industries.

In conclusion, Eurelectric fully supports an ambitious review of the Energy Taxation Directive to ensure that the taxation framework contributes to and enables achieving Europe’s decarbonisation objectives. Though it is a responsibility of the Member States, a revision of the Energy Taxation Directive should reflect the role of electricity in decarbonisation at European level. On the ongoing discussions on the change in voting procedure, Eurelectric is currently discussing internally to define a position to be communicated in the consultation on this file in Q2 2020.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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