



DRAFT SUMMARY OF THE POLICY PAPER ON THE REVISION OF THE ENERGY TAX DIRECTIVE

1. A Call for Action

The Stern report showed very clearly the dimension of external cost of unregulated continued use of fossil fuels for energy production.¹ Those externalities will increase in reality in the form of future costs, if prices, the main economic parameters in markets do not reflect the whole cost of commodities and neglect the scarcity of global resources. In the circumstances of a rapidly accelerating destabilisation of the world's climate, doing "too little, too late" will lead to disaster. On the other hand, most of the European Member States are burdened by unemployment, which could be remedied by lowering wage costs. **It is clear that fiscal reforms should aim at shifting the revenue base for national budgets from taxing labour and enterprise towards taxing resource and energy use as well as environmental impacts in order to tackle both the climate crisis and the economic crisis.** This would help to stimulate a sustainable economic development. This means, that economic activities will no longer undermine the preconditions for their own persistence in the future.

2. An Important Window of Opportunity: Revision of the Energy Tax Directive

The existing Energy Tax Directive 2003/96/EC, started as an internal market harmonisation instrument. The highest minimum tax rates were introduced for oil fuels (excluding international aviation and shipping). Coal and electricity minimum tax rates were introduced but at extremely low levels.²

The European Commission's recent **proposal has three advantages**, compared to the existing Directive:³

- It introduces a CO₂ tax quite distinct from the general energy tax.
- It changes the tax base of the latter from the metric unit of *1000 litre* to the energy unit of *Gigajoule*, thereby relating it to the calorific (= energy content) content of each fuel.

The proposal provides, therefore, **two important environmental tax incentives**: the first, to reduce CO₂ emissions and the second, to switch to more energy efficient fuels and/or technologies for energy production. In practice it must give a big push to the use of renewable energy sources (RES) and encourage more efficient technologies in the use of carbon fuels.

- Another environmentally reasonable feature is the prescription of the tax structure e.g. for all heating fuels and for all transport fuels (Article 4.3). The structure of the given minimum tax rates have to be mirrored in most cases by higher national tax rate structure. This provides for a **fair and environmentally sound level playing field e.g. for all heating fuels**.

We welcome those elements and strongly recommend, that they remain in the new Directive.

3. Further need for Improvement of the Energy Tax Directive

Although the proposed changes are in the right direction, **the actual size of the steps taken is inadequate**. The minimum energy taxation more or less remains the same. The new element is simply the CO₂ tax, which for motor fuels is fixed at a minimum of 0,03 € per kg and for heating and other low

¹ See: http://www.hm-treasury.gov.uk/sternreview_index.htm

² See the actual rates in Annex I, Tables A, B and C of Directive 2003/96/EC of 27.10.2003

³ See: [http://www.foes.de/pdf/Energy%20Taxation%20Interservice%20proposal2%20\(2\).pdf](http://www.foes.de/pdf/Energy%20Taxation%20Interservice%20proposal2%20(2).pdf)

taxed uses at 0,01 € per kg (equivalent to 30 and 10 euros per ton). This – even if not watered down in the process of adoption of the Directive – is substantial but not sufficient, as a market signal for a change in consumption patterns. Furthermore, **neither does it offset the increase of inflation** over the last and future years, e.g. by proposing to establish an escalator which was a useful tool to gradually introduce such taxation as has been proven by the United Kingdom and Germany. Various studies for the European Emissions Trading System (ETS) indicate that only market prices above the level of 35 € per tonne of CO₂ represent an effective incentive to reduce emissions. **To achieve a 20% reduction of ghg by 2020, then a tax of 52-143 € pertonne is necessary according to the petrE study.**⁴ A 30% reduction might require a tax of 204 € per tonne. We urge the European Commission to integrate elements in the new Directive, ensuring:

- Adequate price increases in order to internalise external cost and achieve changes in consumers, producers and manufacturers behaviour. This would lead to markets, in which the sum of rational decisions of individual actors do not endanger the existence of global ecosystems.
- That price increases are not (over-)compensated by inflation.

4. Comprehensive Policy Package

As the Energy Tax Directive (ETD) alone will not solve the whole problem, it stands to reason that this instrument has to be carefully embedded in a comprehensive policy package. In the context of Environmental Fiscal Reform there are several **further instruments complementing the ETD**, to resolve the climate crisis, keep future cost down and generate revenue for labour market interventions or debt repayment:

- The **European Emissions Trading Scheme** (EU ETS) must be significantly improved in order to give the right signals to complement the ETD. **Emission rights must be fully auctioned** in order to induce real cost for carbon and **coverage should be expanded** to cover sea, air and land transport.
- Environmentally Harmful Subsidies (EHS) and tax exemptions should be phased out. This requires the presentation of the long promised **Roadmap to abolish EHS** by the Commission.
- Introduction of cost-effective **road, land, air and sea-use pricing schemes** so that all forms of activities, e.g. transport, fully cover their external costs.
- Whether a **Border Tax Adjustment** system could be introduced to encounter potential competitive disadvantages of European industry branches in the internal market, remains to be seen, also depending on the outcome of the climate negotiations. But it should be considered as a potential means.
- The interplay between EU ETS sectors and the sectors concerned by the ETD has to be thoroughly designed. It would be easy to release the EU ETS sectors from the CO₂-part of the ETD, to avoid double regulations. There are, however, good arguments that a partial overlap could be justified.

5. Concluding Remark

“*Getting prices right*” is not just an environmental slogan, but a serious economic and social necessity. It leads to the restructuring of industry, the growth of new technology and jobs, as well as big gains in efficiency. At the same time, it protects the urban and rural environment, social cohesion and the quality of life.

⁴ See: <http://www.petre.org.uk/pdf/london2009/Hector%20Pollitt.pdf>