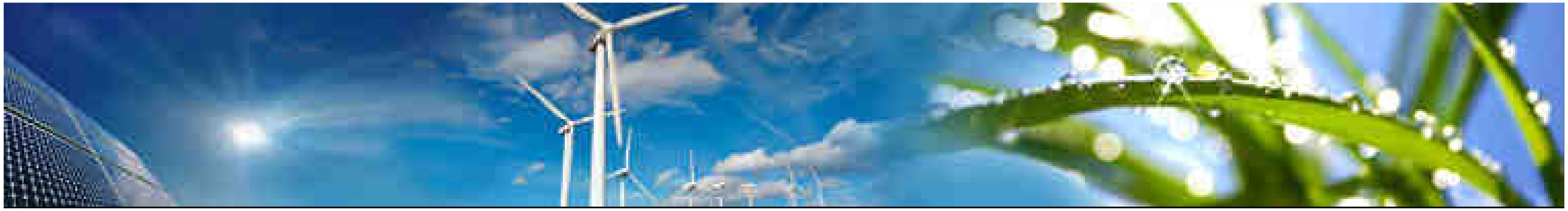

Green Budget Europe’s Analysis of the proposed revisions to the Energy Tax Directive

Presentation at the Annual Conference by GBE and the Danish Ecological Council at the

European Environment Agency, Copenhagen, 15.09.2011 (update 19.09.2011)

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Energy taxation on EU-level

On the one hand:

- **Legal requirement for unanimity voting makes progress very difficult.**
- **Steps so far:**

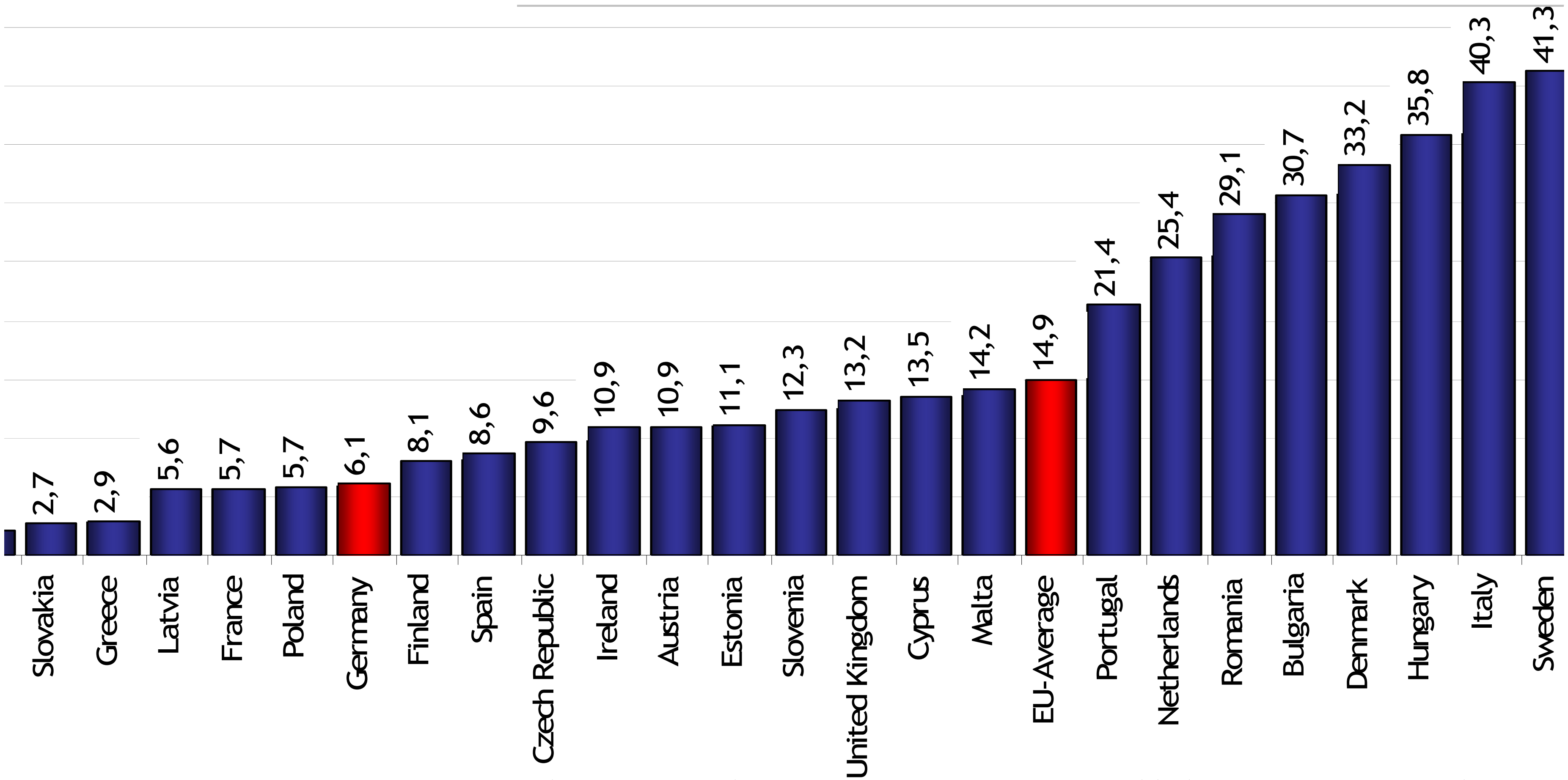
  - 1993: Minimum tax rates for all oil products were introduced when the internal market came into force

  - 2004: Broadening this principle of minimum tax rates to all other energy products whilst increasing the minimum rate for mineral oil taxes (EU-energy tax directive)
  The then forthcoming accession made the modest breakthrough possible as acceding countries would likely have to do more than the then EU-15.

On the other hand:

- **The EU is the first and only region which requires an energy taxation from all Member States. Several Member States made positive experiences with ETR/EFR, hence this potential should be further exploited.**
- **On 13.04.2011, the European Commission published a proposal for a revision of the Energy Tax Directive:**
  http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/468&format=HTML&aged=0&language=en&guiLanguage=en

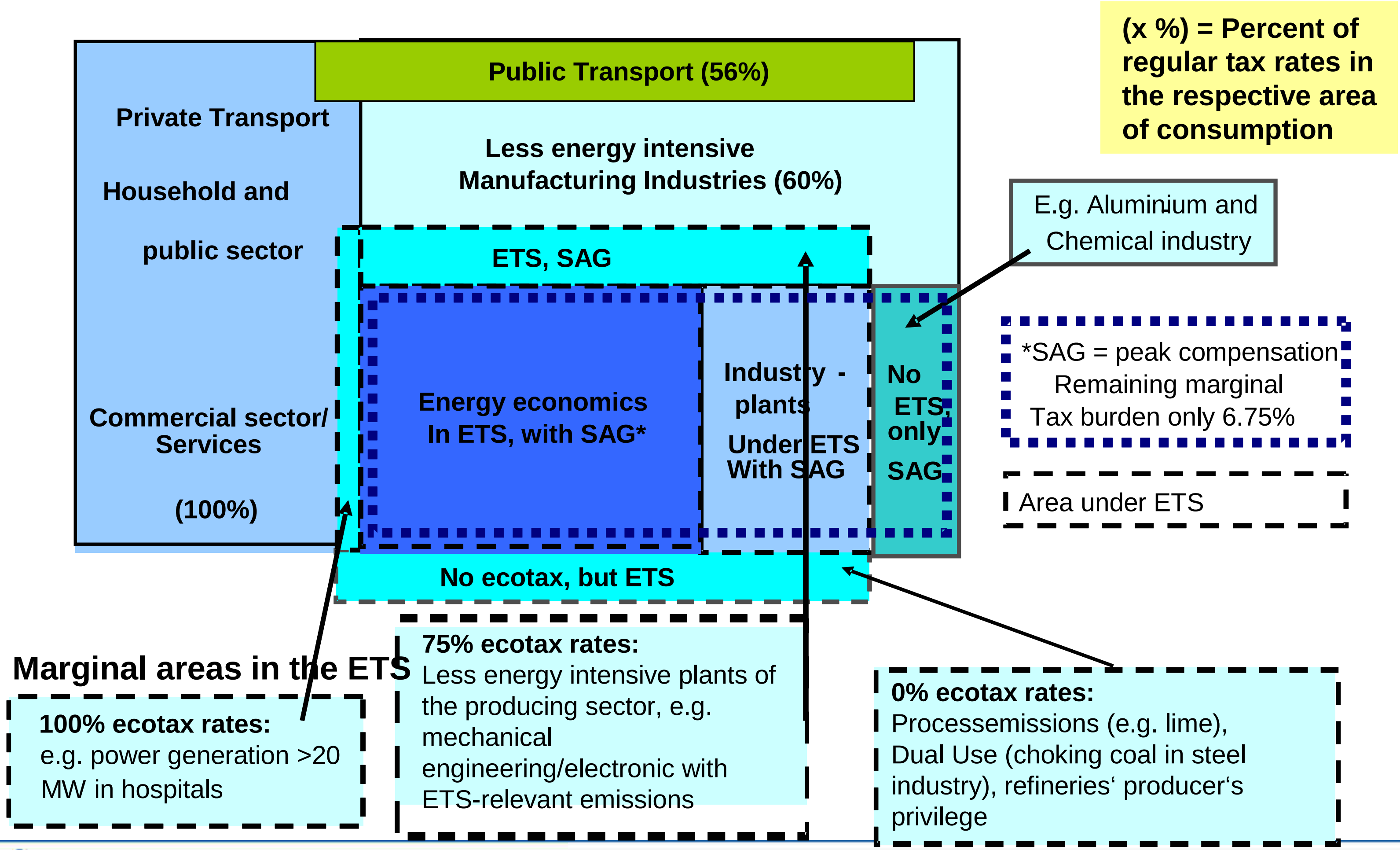
EFR-Elements: Taxes on light heating fuel in Europe (€-Cent/liter)



Strong variety in the EU, but Germany still has to catch up

INTERPLAY OF ECOTAX AND EMISSIONS TRADING IS QUITE COMPLEX

OVERLAPS OF ECOTAX AND EMISSIONS TRADING IN DE



Quelle: FÖS-Analyse

Motor fuels

- **New minimum rates introduced in stages until 2018**
  - Tax based on CO_2 emissions: 20€/t CO_2 as of 2013
  - Tax based on energy content: gradual increase to 9.6€/GJ by 2018
- **This results in the following overall rates expressed in current units (numbers in red = changes due to new directive):**

	Current rate	1/1/2013	1/1/2015	1/1/2018
Petrol (euro per 1000 litres)	359	359	359	359
Diesel (euro per 1000 litres)	330	359	382	412
Kerosene (euro per 1000 litres)	330	350	370	386
LPG (euro per 1000 Kg)	125	125	311	501
Natural gas (euro per GJ)	2.6	2.6	6.6	10.8

Evaluation of the new energy tax proposal

Introducing a CO_2-element

+ Right approach, better reflection of carbon and thus climate relevant issues.

- Level of tax rate is much too low and only derived from the assumption of 20 Euro/ton of CO_2.

PETR-Study indicates that a tax rate of 52-143 Euro/ton of CO_2 may be necessary for achieving -20% GHG-target by 2020 (http://www.petre.org.uk/).
For a 30% reduction 204 Euro/ton CO_2 would be necessary.

Energy and carbon content are the new tax bases instead of volume oriented ones

+ Right approach

- But energy and CO_2-content are not equally reflected (50:50), the energy content is a bit more dominant.

Raising actual diesel tax levels 10% over petrol tax levels, in 2023 at the latest

+ Right approach

- But if energy and CO_2-content were fully reflected, the rates would have to be 16% higher

- There should be a much earlier introduction, preferably in 2018, but no later than 2020.

Private households continue to be allowed exempted from taxation

+ Energy related taxation for transport fuels is €9.6 per GJ (raised from €8.9GJ) while for heating fuels (for electricity) it is €0.15 per GJ. Different tax rates on stationary and mobile emissions sources are principally reasonable
- The exemption clause for private households should be removed.
- Higher proposed minimum tax rates for heating fuels should be included as the current proposed tax rate is 63 times lower than for transport fuels – a not justifiable difference.
- In the past, this difference has proven to be a strong incentive for tax evasion, as household fuel is illegally channeled for transport use. In some Member States, contraband trade results in more than €1bn in tax losses each year

24% of GHG emissions in the EU-27 are attributable to private households, and energy saving potentials in the building sector are considerable and cost-effective. Exempting households from CO2 tax will also put (existing or future) large-scale district heating systems – often an important environmental improvement – at a competitive disadvantage.

Possibility of full tax exemption for biofuels

- The exemption from the CO_2 tax is currently limited to fuels that comply with the sustainability criteria in the Renewable Energy Directive.

+ This exemption should be further limited according to the Directive 2009/28/EC10 on the CO_2 emission savings. This means that the CO_2 tax exemption for biofuels and bioliquids which provide greenhouse gas savings of at least 35% should be valid only until the end of 2016. From 2017, the limit should be 50% and from 2018 onwards it should be 60%.

+ In a nutshell: Tax exemption should be graded depending on the GHG-impact.

Inflation correction

+ Right approach

- It should also correct for past devaluation of rates due to inflation. Since the entry into force of the current directive EC 2003/96, cumulative inflation has amounted to ca. 23% on 2004 levels. This is far higher than the increase of minimum tax levels set out by the revision.
In Germany since 2003 alone, tax rates were devaluated by 0.07 Euro/ liter. This equals more than two steps of the 5x3Ct-increase of the ecotax
- It keeps incentives just stable, but no strengthened ones and no steady increase in real fuel taxes
- No force for low-tax MS to move and hence no ease for high tax MS to move

No abolition of the bans on fuel tax for aviation, shipping, fisheries

- Not justifiable, particularly since aviation emissions are strongly increasing
EU-ETS will hardly reduce these emissions

- EU-Commission should push MS for providing good examples, also globally

Inclusion of nuclear fuels in energy taxation

- The ETD revision does not address the issue of nuclear fuels or their exemption from the energy component of the proposed tax.

- Yet the externalities associated with the use of nuclear power, the potential risk in the event of a nuclear accident, and the requirement for a level playing field between different energy sources, all justify the inclusion of a minimum tax rate on nuclear fuel rods in the Directive.

- This minimum tax rate should correspond with the financial advantage enjoyed by nuclear power as a result of increased electricity prices resulting from the EU ETS.

Some arguments for successful negotiations

Emphasise that

- Share of environmental taxes of total tax revenues has gone down in MS

- Situation would though be much worse without EU minimum tax

- Higher fuel taxes can save jobs

- ‘95 g CO_2/km’-target for cars can be met without 50% diesel cars

Strategy for successful negotiations

- High-tax countries: create support for EU reform

- Two-track-approach for low-tax countries:
  1. Brief Governments regarding positive impacts, how to mitigate/compensate negative impacts, what arguments to use against usual critics, how to communicate these publically
  2. 'Name and shame' strategy

- Negotiate the ETD as far as possible to come to an adoption in December 2012 when the EU budget will have to be adopted by unanimity anyway and use it as bargaining chip by net payer member states.

Thank you for your attention!

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