EUROPEAN ENVIRONMENTAL BUREAU

GreenBudgetEurope

PRESS RELEASE

Green NGOs welcome Commission's proposal for Energy Tax overhaul

[Brussels, 13 April] The European Environmental Bureau and Green Budget Europe warmly welcomed the European Commission's proposal for the revision of the Energy Tax Directive, presented today in Brussels. The two NGOs call on Member States for prompt and ambitious adoption of this proposal.

Under the new rules, a CO_2 element within European-wide energy taxation would be introduced representing a potentially significant step towards reducing CO_2 emissions in sectors that are currently not covered by the EU's emission trading scheme, such as domestic use, transport and waste. The proposed tax, together with emissions trading, will put a price on emitting carbon throughout the European economy and will thus create an EU-wide price incentive for reducing CO_2 emissions.

The Commission proposal also sets out to change the tax base of energy to the energy unit of gigajoules related to the energy content of the fuel. This will encourage more efficiency in the use of energy, and in fuels and renewables. In other words, heating and transport fuels will be taxed according to their energy content, resulting in increasing current low tax rates on some energy sources, most notably coal and diesel [1].

Catherine Pearce, EEB senior policy officer said: "As long as the minimum tax levels are high enough, the revised Energy Tax Directive can make a significant contribution to reducing CO_2 emissions, making a 30% target easily achievable, as well as helping to cut energy wastage.

"We will call on all Member States to support this proposed revision and call for the inclusion of a progressive increase of the tax base to ensure that reducing carbon emissions and saving energy is incentivized in the long-term. A critical message is laid out today - that prices must fully reflect all costs", she continued.

Evidence shows that higher prices result in reduced demand and thus reduced emissions. A study published by T&E (Transport and Environment) yesterday revealed that a fuel price increase of 10% reduced fuel consumption in cars by 6-8% and lorries by 2-6%. The study also revealed that if fuel tax rates had not fallen by 10 cents per litre in real terms since 1999 but had kept in line with inflation – as should be the case now under the proposed Energy Tax Directive – with revenues invested in reducing labour costs, a staggering 350,000 jobs could have been saved and oil imports would have been cut by €11 billion.

In addition, the Commission's own impact assessment reveals that the tax proposals are positive for environment, society, and economy. It predicts that up to one million additional jobs will be created by 2030 and that CO_2 emissions will be reduced by four percent as a direct result. It suggested that additional revenues of about 40 billion Euros should be used to reduce labour costs and/or to contribute to fiscal consolidation.

"Research has shown that higher carbon prices can stimulate the innovation and changes in behaviour necessary to facilitate the transition to a green and clean economy, while also boosting employment and having a positive impact on growth", said GBE Vice President Kai Schlegelmilch.

“Business has nothing to fear since this tax concentrates on increasing its energy efficiency, and everything to gain from this proposal [2]”, he continued. “This is another important step towards getting market prices to reflect the imperative of mitigating climate change.”

An innovative element of the proposed revision is the inflation-indexation of tax rates. Even in countries with low inflation, the value of environmental taxation can be significantly undermined over time. In Germany, for example, the ecotax rate would have to be increased by 7 cents today to have the same incentive impact on behaviour as it had in 2003. Indexation is then a proven good way of ensuring that a tax has an ongoing impact on behaviour.

EEB and GBE are however critical of the proposal that compliance with sustainability criteria for biofuels, which include a simple pass or fail criteria based on GHG emissions, can be a reason for a complete exemption from the CO_2 element. They point out that under the Renewable Energy Directive, CO_2 emissions from biofuels are not assumed to be zero but the result of a life cycle assessment depending on the type of biofuel. When all known emissions are taken into account, these emissions can be even higher than fossil fuels. This proposal would sadly make it more difficult to promote those biofuels that actually reduce emissions versus those that increase them.

Both organisations were also highly critical of the Commission’s failure to end the ban on taxation of aviation and shipping fuels and called for the inclusion of a clause which would permit individual Member States to introduce measures as they saw fit.

GBE and the EEB would also like to see the inclusion of step-wise and substantial real increases of minimum tax rates, to ensure a medium and long term incentive to reduce CO_2 emissions. Both NGOs call on Member States to adopt this proposal as soon as possible.

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Editors Notes:

1. Coal is one of the most CO_2 intensive sources of energy and is taxed at comparatively low rates in many EU countries. While CO_2 emissions and energy content per litre of diesel are higher than that of petrol, diesel is also taxed at a lower rate in the majority of EU Member States. Even if diesel tax rates increase, diesel car drivers will continue to benefit from lower energy consumption and lower fuel costs.
2. The petrE and COMETR research projects have shown that competitiveness concerns from taxes at these levels do not bear out in practice.

    PetrE: http://www.petre.org.uk/

    COMETR – http://www2.dmu.dk/cometr/