

WindEurope response to the European Consultation on the Revision of the Energy Taxation Directive

April 2020

The European Union (EU) has been at the forefront of international efforts to combat climate change. It was the first major economy to submit its intended contribution to the Paris Agreement and set ambitious targets to reduce greenhouse emissions, improve its energy efficiency, and increase the share of renewables in its final energy demand by 2030. The European Green Deal has now set the ambitious target of making Europe carbon neutrality by 2050.

To meet this ambition, the European Commission's decarbonisation strategy shows that the final energy demand should decrease drastically, while electricity use should increase significantly, from 24% share of the final energy demand in 2030 to 50% by 2050¹. The other half of final energy demand would be met by a combination of biomass, fossil gas, hydrogen, hydrogen derived gases and fuels.

WindEurope believes that a **62% rate of electrification is feasible and economically desirable by 2050, in which renewables would generate 78% of electricity, representing 66% of Europe's final energy demand**².

WindEurope welcomes the European Commission's consultation on the revision of the Energy Taxation Directive (ETD). Energy taxation can give **clearer price signals to support decarbonisation and the energy transition**. The revision of the Energy Taxation Directive is an opportunity for Member States to push for renewable based electrification and to ensure Europe reaches both, its 2030 renewable targets and carbon neutrality by 2050.

To this end, WindEurope calls for the revised Energy Taxation Directive to:

- 1. Be aligned with the European climate and energy goals,**
- 2. Provide a level-playing field for renewable electricity, and**
- 3. To factor-in new technologies such as storage and renewable hydrogen**

1- The Energy Taxation Directive needs to be aligned with the European climate and energy goals

We find that the current Directive is not fully aligned with the EU 2030 decarbonisation targets and its 2050 climate neutrality ambition. This is due to a mix of flawed implementations and a lack of consistency with other EU legislations.

¹ 1.5 TECH and 1.5 LIFE scenarios. European Commission, 2018. In depth analysis in support of the Commission Communication COM (2018)773. A Clean Planet for All. A European long-term strategic vision for a prosperous, modern, competitive and climate neutral economy.

² WindEurope 2018, Breaking new ground. <https://windeurope.org/about-wind/reports/breaking-new-ground>

First, today each Member State applies its own minimum tax rates on energy products and its own rules for tax exemptions. Therefore, there is a complex, not harmonised and not always efficient implementation across countries.

Sometimes, climate and energy policy objectives can nevertheless justify some deviations from a perfect and total harmonisation. In order to incentivise electrification, tax exemptions for the share of renewables electricity can be granted as per article 14 (1)(a) and article 15(1)(b) of the ETD. On-shore power supply (OPS) shall be able to compete on equal basis with on-board electricity generation.

Second, we support the views of the European Commission Staff Working Document from September 2019, that found inconsistencies between the Energy Taxation Directive and other texts of the EU legislation, preventing the achievement of the energy and climate policies. The document highlights that the current energy tax rates *“do not allow for tapping the greenhouse gas reduction potential of energy taxation in the power sector”*.

We therefore call for the alignment of the taxation of energy products with the European energy and climate objectives and for a coherence throughout the European legislation, for example between the Alternative Fuel Infrastructure Directive upcoming revision and the revision of the Energy Taxation Directive.

2- The Energy Taxation Directive needs to provide a level-playing field for renewable electricity

Our key concern is that **electricity from renewable energy sources is taxed as much as electricity stemming from fossil fuels.** The revision of the Directive should duly tackle this issue.

Another issue is the persistence of (de facto) “fossil fuel subsidies”. In the transport sector, for instance, the taxation of biofuels depends on volume (i.e. “the rate applicable to the volume is the rate applicable to the fossil fuel replaced by the renewable alternative”³). Therefore, due to this mechanism of “equivalent fuel” not considering the lower energy content of renewable fuels, the current text of the ETD can put a heavier tax burden on renewable fuels compared to the same volume of fossil fuels. It provides a de facto favourable tax treatment to fossil fuels at the expense of clean alternatives fuels (e.g. renewable hydrogen for heavy duty transport see below). This goes against the polluter-pay-principle and the climate objectives of the EU.

In its Staff Working Document, the EC highlights it would like to tackle the fact that the current ETD does not contain a specific minimum level of taxation for electricity used as propellant. Having different taxation on electricity would complicate the development of decentralised energy resources, apply an unfair treatment between those who can merge their energy flows behind the meter and those who cannot, and incentivise the exploitation of the loopholes thus created⁴. In order to avoid distinction in usage or asset class, **WindEurope would like to keep the same minimum level of taxation for electricity for all its purposes and usages** even for electricity consumes in EVs.

³ EC Staff Working Documents – Evaluation of the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity

⁴ https://www.platformelectromobility.eu/wp-content/uploads/2018/02/Platform-Paper-on-the-Energy-Taxation-Directive_vfinal_redesigned.pdf

Additionally, electricity is more taxed compared to gas. Taxes and levies make up 38 % of average EU electricity household prices in 2018⁵, compared to gas retail prices where the energy component⁶ accounted for up to 80 % of the price in 2017⁷. Moreover, taxes represent 31% of the electricity bills for non-households, while it only represents 11% for non-households' gas bills. This increases the costs of electrifying some energy uses, like heating or transport. We believe there is a need for a **level playing field between gas and electricity taxation**. WindEurope calls for the European Commission to consider **minimizing the level of taxes applied to electricity in order to foster renewable based electrification**.

3- The Energy Taxation Directive needs to be revised to factor in new technologies

We agree with the European Commission inception assessment that the current Directive does not adequately promote new technologies and **does not properly incentivise investments in new clean technologies**, for example on energy storage, which is a key flexibility enabler for the energy system, and on renewable hydrogen.

Regarding storage, in the current version of the Directive, *“electricity is taxed when released for consumption but (the text) does not define whether electricity is released for consumption when supplied to storage facilities. This opens the possibility of double taxation of electricity that is stored and re-sold.”*⁸

In order to avoid this double taxation, we **call for the revised ETD to clearly state that electricity supplied to storage facilities cannot be considered as end-consumption**.

Also, we support the European Commission's proposal to modifying, updating and revising definitions in the ETD. Notably, **renewable hydrogen should be added as a new product**. And electricity supplied to **electrolysers should also not be considered end-consumption** under the revised ETD.

WindEurope calls for a clear, simple and transparent classification for hydrogen and hydrogen-derivatives in which the electrolysed hydrogen powered by 100% zero-carbon renewable electricity is the reference baseline and is the only one called “renewable hydrogen”.

Finally, we welcome the initiative taken by the European Commission to compute and collect **national tax rates** via Member States and we would like these data to be available to stakeholders for transparency reasons.

⁵ Eurostat

⁶ Retail energy prices have three components: energy, network as well as taxes & levies.

⁷ https://ec.europa.eu/energy/sites/ener/files/epc_report_final_1.pdf

⁸ EC Staff Working Documents – Evaluation of the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity