

The logo for europia, featuring the word "europia" in a bold, lowercase, yellow sans-serif font. The text is set against a dark blue rounded square background.

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What role for taxation for energy and climate policy ?

EUROPIA VIEWS

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June 2010

A decorative horizontal bar at the bottom of the slide, composed of several colored segments: blue, cyan, yellow, green, purple, and red.

PRESENTATION OUTLINE

- Which instruments for the transition to an energy efficient and low carbon economy ?
- Europia views on the potential revision of the energy taxation directive

- **Which instruments for the transition to an energy efficient and low carbon economy ?**
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Which instruments for the transition to an energy efficient and low carbon economy ?

Regulatory measures:

Relevant for specific sources , their systematic use would require a very large panel of instruments and inflate global costs.

Tradable permit schemes and Taxation

Both are classified as Market Based Instruments (MBI). MBI provide in general opportunities that can be more effective and less distorting than the traditional command and control approach of regulatory measures.

Differences between MBI lie in the following issues:

- » Price based or Result based, In other words price predictability versus environmental effectiveness
- » Revenue generation
- » Transaction and administration costs

■ Energy:

- » The first proposal for harmonisation of excise duties on mineral oils was published in 1973. The harmonisation became effective in 1993 with the “mineral oils directive “
- » The energy taxation covering all energy products , electricity included, was adopted in 2003.

■ CO2:

- » In 1992 the EC issued its first proposal of a CO2 tax on industrial emissions . EC kept on advocating a regulatory and taxation approach until 1998.
- » In the aftermaths of the Kyoto protocol, the proposal of creating an ETS applied to industrial emissions was brought forward as a mean to facilitate the EU MS’s burden sharing achievement. The perspective of potential links with other UNFCCC embryo schemes might have been an additional incentive.

CO2: ETS or taxation ?

- ETS genuinely provide opportunities for reducing emissions at lower cost but its use implies:
 - The availability of accurate and verifiable data of emissions.
 - A set of mechanisms to lower the emissions along a “make or buy “ model: The holder of the allowances should be both the emitter and the party that can initiate projects that create reductions.
- Trading schemes are in general less adapted to address the diffuse emissions, especially those of the transport and building sectors, where the number of source is high, and where it is practically infeasible to have a sound reporting system .
- Today the CO2 emissions of the sectors outside ETS represent roughly 50% of the EU global CO2 emissions.

- Which instruments for the transition to an energy efficient and low carbon economy ?
- **Europa views on the potential revision of the energy taxation directive**

Energy taxation is used to support certain policy objectives, and should consider the following elements

- Taxation can significantly influence consumer behaviour and drive industry investment
- The taxation system should aim to create a level playing field that enables energy sources or products to compete based on their respective merits:
 - Whilst initial support is often given to specific energy products that can contribute to the EU's energy policy goals, it should be a principle that in the long term all energy sources and products are judged (and supported if needed) on a consistent, scientifically founded, and technology neutral basis
- EUROPIA recognises the need to reduce greenhouse gas emissions across the economy in accordance with the 2020 commitment and beyond
 - New policy approaches must be complementary to existing schemes (ETS, FQD and RED) and avoid overlapping carbon regulation
 - If a cost of carbon is to be extended to new sectors or included within policy instruments it should be consistent with the cost in existing schemes to avoid distortions in the market
- Taxation is of course also a revenue raising tool for general government expenditure

EUROPIA supports revision of the Energy Taxation Directive, but believes some key principles should be included

Europia Principles

1. EU minimum energy taxation levels should apply **to all energy products** within a given use
2. The minimum energy taxation levels should be directly proportionate to the energy content of the different energy products
3. The relationship between the minimum levels of taxation fixed in the Directive for the various energy sources should be replicated at national level
4. If a CO₂ component is introduced, it should be based upon the CO₂ emitted when the product is consumed. The price of CO₂ used to calculate the CO₂ component should be consistent with the CO₂ price in the EU ETS market over a reasonable period.
5. Energy and CO₂ taxation should not create an overlap or double burden with other instruments such as the ETS

- **Principle 1**, on level playing field within a given use, would correct the fact that within the transport sector, **duties on road fuels are currently far in excess of taxation on electricity** – an effective tax subsidy of this technology.
- **Principle 2**, on energy content based taxation, will help placing EU energy taxation policy on a rational basis to provide clearer and more consistent messages to industry and end-users.

- **Principle 3:** By requiring that absolute levels of taxation applied by Member States should replicate the relationships between the fixed minima in the directive, based on energy content, **this would correct the imbalance between gasoline and diesel taxation .**
- **Principle 4:** If a CO2 component is added and consistent with the CO2 price in the EU ETS market over a reasonable period, it would ensure a level playing field in a specific industrial sector between those installations within and without ETS.

NB: Biofuels carbon to be considered as zero for the purpose of ETD, but only where the biofuels are shown to be in compliance with sustainability and GHG intensity requirements of the RED

CONCLUSIONS

- In the long term energy taxation needs to establish a level playing field between all energy products and sources.
- This will encourage rational and energy efficient behavior and avoid distorting competition.
- The EU minimum taxation on the basis of the energy content, and its replication in MS's absolute levels, should be implemented by gradual transition over several years so all sectors of economy can adapt in a timely manner.

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FOR YOUR ATTENTION**