

EUROGAS COMMENTS ON PROPOSED REVISION OF ENERGY TAX DIRECTIVE

1) General views on proposed revision of energy tax Directive

Eurogas supports the general principles of the revision of the Energy Tax Directive with the aim of combining the EU's energy and environmental objectives.

Natural gas, especially if it replaces other more polluting fossil fuels, will make a valuable efficient and effective contribution towards CO₂ reduction objectives and towards sustainability generally. EU policy frameworks should be supportive of this potential and the future Energy Tax Directive should therefore take care not to result in deteriorating the relative competitiveness of gas versus other less efficient or more polluting fuels.

Eurogas recalls that amongst all the hydrocarbon fuels, natural gas produces the lowest CO₂ emissions per unit of energy. It offers important advantages in terms of greenhouse gas emission (GHG) reductions. Furthermore biogas as a renewable energy source can easily be fed in the existing gas grid infrastructure. New technologies, such as hydrogen, synthetic gas and "power to gas" among others, will assist in assuring that gas is an essential component in the future low - carbon economy framework, by using existing and new gas infrastructure and the available technology developments. In the interest of EU environmental objectives and GHG reductions, these new technologies should be promoted in energy taxation - at least they should not be discriminated against, in comparison with energy from renewable sources.

For this reason, we welcome the initiative of taking into account both the energy content and the CO₂ impact of the various fuels in a weighted manner.

2) Warning against excessively high tax rates

Eurogas would like to warn against initiatives which increase current tax levels too much, since this could cause concern for the competitiveness of European industry.

Eurogas is mainly concerned about the levels of future minimum tax rates for natural gas that is used for heating purposes, where the proposed levels of €1,27 per GJ, will be eight and half-fold higher than the current levels of €0,15 per GJ. This significant increase will also apply for natural gas and biogas used as motor fuel (see point 5 below).

Instead of the rigidity of an automatic indexation to energy content, Eurogas suggests that the appropriate principle is that of adaptation of the tax rate to the relevant market conditions.

When comparing the proposed minimum tax rates with the existing rates, the fiscal gap between natural gas and more polluting fossil fuels will close, even if not entirely. As a result, natural gas, which is the cleanest fossil fuel, will lose competitiveness.

3) Member States flexibility should be maintained

Considering the different contexts of each Member State, Eurogas supports that flexibility in the area of taxation should be left to Member States, especially for the household sector.

Eurogas supports the principle that each Member State, within a given framework of objectives, should be left with flexibility to adopt an appropriate energy policy, taking into account its own present and potential mix.

In this respect Article 4.3¹ limits the Member States' flexibility to apply different levels of taxation for the energy component for a given use. As long as minimum levels are respected and CO₂ emission factors are applied, Member States should be allowed to fix differentiated tax rates in order to pursue national energy policy goals in line with the European 20-20-20 objectives.

4) Role of Natural gas for power sector

It is important that among power generation technologies based on conventional energies, those based on natural gas, such as Combined Heat and Power (CHP) and Combined Cycle Gas Turbines (CCGTs) that have low impact on the environment receive a treatment that acknowledges their environmental advantages.

Eurogas expects that CCGT plants will continue to play an important part in a balanced generation mix, as older plants are phased out. They will continue to provide significant emissions reductions over the plants displaced.

Greater use of gas in CCGTs is certainly an environmentally attractive option while renewables are being developed to widespread commercial scale.

There should therefore be thorough evaluation of the environmental impact of each and every energy source considering its primary energy content and based on harmonized principles at European level.

Moreover to avoid double taxation and distortion of competition, we welcome the fact that the Directive explicitly states that Member States should exempt natural gas (and fuels in general) used for the production of electricity.

5) Natural gas vehicles: exemption possibilities for CNG taxation to be maintained²

Energy use in the transport sector continues to grow strongly. Since road transport in industrialised countries accounts for about 18% of CO₂ emissions and it is the second largest source of hydrocarbons consumption and NO_x emissions, there is renewed focus on the alternatives to the traditional transport fuels. Among the leading options is natural gas both in its conventional form and in conjunction with biogas and other technological evolutions - indeed one of the most efficient ways of introducing biofuels in the transport sector is through Natural Gas Vehicles (NGVs).

Currently the market share of NGVs in the EU is only 0,4% of the transport sector. Natural gas can however be used in trucks, busses and ships. Natural gas is already used in fleet operations in a number of Member States and it is already used in individual private vehicles.

Key issues affecting the use of NGVs are:

- the availability of the necessary infrastructure,
- the prevailing tax regime, which determines the relative commercial attractiveness of NGVs compared with diesel or petrol vehicles, and
- the preparedness of vehicle manufacturers to provide NGV options.

Subject to resolution of these issues, NGVs currently have the potential to provide substantial reductions in greenhouse gas emissions, producing fewer emissions compared with petrol, depending on vehicle efficiency.

¹ Article 4.3 stating that "Without prejudice to the exemptions, differentiations and reductions provided for in this Directive, Member States shall ensure that where equal minimum levels of taxation are laid down in Annex I in relation to a given use, equal levels of taxation are fixed for products put to that use. Without prejudice to Article 15(1)(i), for motor fuels referred to in Annex I Table A, this shall apply as from 1 January 2023"

² Eurogas and NGVA Europe joint position

Looking much further ahead, there is the possibility that hydrogen fuel cells could be developed for use in electrically-powered vehicles. Methane can be reformed into hydrogen, either within the vehicle or in local fuelling stations. This opens the prospect for using the current extensive gas network infrastructure to enable either route and so to facilitate this application³.

The potential of CO₂ reduction by increasing the use of natural gas, biogas and other technological evolutions in the transport sector and mainly in Heavy Duty Vehicles (HDV) and maritime transport is significant. It can be used as compressed natural gas (CNG), liquefied natural gas (LNG) and together with biogas. Therefore Recitals 15 and 18⁴ calling for a removal of the possibility to reduce and exempt natural gas are contradictory since instead of promoting further penetration of biogas and other technological evolutions, they would block it. Indeed, the future development of natural gas, biogas, hydrogen and synthetic gas as motor fuel is inseparably linked with maintaining the exemption possibilities for CNG taxation. We therefore support the position of NGVA Europe arguing for a link between the market share of NGVs and the level of taxation. Exemptions for NGVs should therefore be allowed until natural gas/biogas penetrates a share of at least 10% of the European vehicle market.

6) Natural gas: a springboard for biogas development

Biogas (i.e. gas from biomass), which is CO₂ neutral, provides a number of environmental advantages. Often the biomass material is digested and used locally within an existing plant or in transport fleets. It may also be introduced into the natural gas distribution system, subject to there being strict gas quality monitoring.

Recent technological advances and reduced production costs have given new impetus to this environmentally friendly approach, with 'second generation' biogas produced from sources such as forestry residues promising improved performance.

So far only relatively small volumes of biogas have been fed into low pressure networks. Eurogas therefore looks forward to further planned work on technical and practical considerations associated with this, since wider access of biogas to the natural gas grid would further facilitate development of the biogas sector and enable consumers to exercise the choice to use an even more environmentally friendly renewable fuel.

Eurogas therefore calls for a better tax treatment, supporting the promotion and future development of biogas and other technologies such as hydrogen and synthetic gas, which are linked to natural gas. An exemption should be envisaged as it is the case in article 15-1-b for renewable electricity.

7) Operational feasibility regarding tax collection

The revision of the Directive should provide for a transparent and clear tax collection mechanism, which is easily transposable at national level. The tax should be borne by the end consumer with the energy bill. The national competent authorities should be in charge of applying the exemptions. In case of consumers' unpaid bills, energy operators must not have to pay the corresponding taxation.

³ Extract from Eurogas Position on "The Role of gas in a sustainable energy market" of March 2008

⁴ Recital 18 - stating that "advantages in the form of lower minimum levels of general energy consumption taxation or the possibility to exempt those energy products from taxation are no longer justified, in particular in the light of the need to increase the market share of renewable energy sources and should therefore be removed in the medium term."