

EUROGAS POSITION PAPER ON CARBON PRICING

Eurogas position

Eurogas is committed to achieving the objectives of the Paris Agreement and supports the Commission's long-term vision of a carbon neutral economy by 2050. To foster decarbonisation, specific enabling conditions are required. A strengthened carbon pricing will be primary to advancing zero and low carbon technologies across all sectors.

Eurogas supports the extension of carbon pricing through a well-designed market-based system to current non-ETS sectors of buildings and transportation. The long-term goal should be their inclusion into the EU ETS. As an example, Germany has implemented carbon pricing for these sectors, with the future goal of integrating it into the EU ETS. Nevertheless, Eurogas recognises that different sectors have different avoidance costs and their immediate inclusion into the existing ETS without intermediary steps could initially risk increasing pressure on current ETS sectors.

In the short/medium-term, in order not to delay action in current non-ETS sectors, transitory measures should be put in place to provide appropriate carbon pricing signals. They should take into account existing measures for non-ETS sectors, ensure harmonization between MS, not undermine the existing ETS and be conducive to their future integration in the EU ETS.

The Energy Taxation Directive should introduce transitional measures that give MS flexibility to rapidly give targeted price signals to end-users, while at the same time ensuring a harmonized approach that will facilitate the transition to the EU ETS.

By implementing CO₂-pricing through energy taxation mechanisms, policymakers ensure less administrative barriers and an easy to implement procedures. This system would encompass a well-structured CO₂-pricing that would swiftly provide the basis for the transition to a market-based instrument to drive decarbonisation. In this system, there should be an adequate treatment of the taxation of natural gas, fully recognising its role in the energy transition to avoid undermining the coal/oil to gas switching.

Eurogas recommendations

1. For the buildings and transport sectors energy taxation should be the basis for CO₂-pricing in the short/medium-term as it has clear advantages in terms of implementation. In addition, it should be complemented by a set of regulatory measures and support schemes for optimum effectiveness.
2. In order to ensure maximum effectiveness all over Europe and a necessary level of predictability of tax rate developments, efforts should be undertaken to achieve EU harmonisation e.g. by defining tax corridors, with a possible review mechanism for adjustment, reflecting major actual CO₂ market price developments. It would allow to introduce a market-linkage using an EU-wide reference into the energy taxation which may lead to a convergence of price signals between energy taxation and the ETS over time.
3. Energy use in the current ETS sectors should not be affected by a CO₂-pricing mechanism part of the energy taxation system to avoid double charges.

4. Energy taxation should only cover end consumption leaving energy use and all forms of conversion¹ and storage untaxed within the energy value chain.
5. Not all fossil fuels are created equal: natural gas having the lowest CO₂ emissions among fossil fuels, is necessary to the energy transition and this should be recognised in its taxation. In particular, taxation should not undermine, but rather incentivise coal/oil to gas switching.
6. Renewable, low carbon and decarbonised gases should be tax exempt or benefit from preferential taxation in line with EU Climate Policy and acknowledged by EU State Aid Regulations.
7. Revenues from CO₂-pricing mechanisms should be earmarked for research programs and investments in clean energy technologies and infrastructure. Within the EU policy framework, revenues from national fiscal budgets should be used for alleviating negative distributional impacts associated with carbon pricing through energy taxation.
8. A Carbon Border Adjustment Mechanism (CBAM) could be an important element to avoid carbon leakage if it can be implemented in such a way as to comply with WTO rules and avoid complex administrative burden. This mechanism should only apply to sectors at risk of carbon leakage.
9. As a long-term goal, the CO₂-pricing of the non ETS-sectors of building and transport should move from the initial energy taxation to a further developed and generally applicable EU ETS. In order to be successful, the launch of such transition should be based on the achievement of several benchmark criteria ensuring the 'ETS-readiness' of these sectors.

¹ *Conversion* meaning the process of transforming one form of energy to another, such as using natural gas to produce electricity or producing hydrogen from electricity or natural gas

WHY THESE RECOMMENDATIONS

#	Recommendation	Why
1	<i>For the buildings and transport sectors energy taxation should be the basis for CO₂-pricing in the short/medium-term as it has clear advantages in terms of implementation. In addition, it should be complemented by a set of regulatory measures and support schemes for optimum effectiveness.</i>	<p>The long-term goal for non-ETS sectors is their inclusion into the EU ETS. Nevertheless, different sectors have different avoidance costs and their immediate inclusion without intermediary steps could initially risk increasing pressure on current ETS sectors.</p> <p>In the short/medium-term, to not to delay action in difficult to decarbonise sectors, transitory measures should be put in place to provide appropriate carbon pricing signals to current non-ETS sectors. By implementing CO₂-pricing through energy taxation mechanisms, policymakers ensure less administrative barriers and an easy to implement mechanism. Furthermore, it leaves enough time to achieve more harmonized market structures as a precondition for a generally applicable EU ETS which needs to be redesigned and well prepared before it can fulfil the function of an effective single CO₂-pricing instrument.</p>
2	<i>In order to ensure maximum effectiveness all over Europe and a necessary level of predictability of tax rate developments, efforts should be undertaken to achieve EU harmonisation e.g. by defining tax corridors, with a possible review mechanism for adjustment, reflecting major actual CO₂ market price developments. It would allow to introduce a market-linkage using an EU-wide reference into the energy taxation which may lead to a convergence of price signals between energy taxation and the ETS over time.</i>	<p>The current legal framework of the Energy Taxation Directive only foresees minimum tax rates. This entails two major consequences: energy taxes are not generally serving a price signalling function and their levels vary vastly across the EU. While a certain level of flexibility for Member States is required, it is necessary to address concerns about the risk of national fragmentation. Tax corridors, defining minimum and maximum rates in which Member States could operate would help to increase the harmonisation across the EU.</p> <p>In order to improve the predictability of tax rate developments and to better connect with market reality, a review mechanism for adjustment of such corridors should be put in place, reflecting major actual CO₂ market price developments; thus, a market-linkage will be introduced into energy taxation using an EU-wide reference which may lead to a convergence of price signals given by energy taxation and ETS systems over time.</p>
3	<i>Energy use in the current ETS sectors should not be affected by a CO₂-pricing mechanism part of the energy taxation system to avoid double charges.</i>	<p>The current ETS sectors are already subject to a comprehensive CO₂-pricing system. Furthermore, these sectors are strongly exposed to international competition. In this context it is important that no double charges occur, and additional administrative burden is avoided.</p>
4	<i>Energy taxation should only cover end consumption leaving energy use and all forms of conversion and storage untaxed within the energy value chain.</i>	<p>Energy taxation is a consumption tax to be levied on end-customers level. In order to avoid any kind of double taxation, as long as the energy is not used for end consumption, there should be no taxation. Consequently, storing energy or converting it – the process of transforming one energy to another, such as using natural gas to produce electricity or producing hydrogen from electricity or natural gas – should not be taxed, as there is no energy end consumption taking place.</p>

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5	<i>Not all fossil fuels are created equal: natural gas having the lowest CO₂ emissions among fossil fuels, is necessary to the energy transition and this should be recognised in its taxation. In particular, taxation should not undermine, but rather incentivise coal/oil to gas switching.</i>	<p>Any possible change to the tax treatment of natural gas should take full account of the role of coal and oil to gas switching in meeting EU 2030/2050 climate ambitions.</p> <p>Natural gas has a key transitional role to play in lowering GHG emissions and improving air quality by significantly reducing sulphur/nitrogen oxides and particulates emissions. These reductions can be observed when using LNG/CNG for maritime, light and heavy-duty applications^{2,3}.</p> <p>Natural gas also supports the integration of increasing shares of variable renewable power generation and renewable, low carbon and decarbonised gases. Blending with these gases will be required to deliver significant decarbonisation results, especially in the short/medium term.</p> <p>These aspects must be reflected in the taxation rate for natural gas and differentiated from other fossil energy carriers, such as coal and oil.</p>
6	<i>Renewable, low carbon and decarbonised gases should be tax exempt or benefit from preferential taxation in line with EU Climate Policy and acknowledged by EU State Aid Regulations.</i>	<p>Renewable, low carbon and decarbonised gases will have a crucial role to play to achieve the EU decarbonisation objectives. Their lower GHG content and if applicable, their renewable character should be fully recognised in the upcoming energy taxation.</p> <p>A special tax treatment, or a tax exemption should be envisioned for those gases, both in heating and as propellants in transport applications, notwithstanding if used in gaseous or liquid state.</p>
7	<i>Revenues from CO₂-pricing mechanisms should be earmarked for research programs and investments in clean energy technologies and infrastructure. Within the EU policy framework, revenues from national fiscal budgets should be used for alleviating negative distributional impacts associated with carbon pricing through energy taxation.</i>	<p>Revenues generated from energy taxation as an enhanced CO₂-pricing system should not be absorbed by the general state budgets but earmarked according to long term climate neutrality objectives and therefore used to finance support programs for research and development as well as investments in low and zero carbon technologies and infrastructure.</p> <p>This would boost the competitiveness of EU's economy. In addition, revenues from national fiscal budgets should be used within the EU policy framework for alleviating distributional impacts associated with carbon pricing e.g. introducing measures for addressing energy poverty. At EU level, specific considerations should be given to avoid imbalances and disproportional impacts between Member States.</p>

² Sphera - [2nd Life Cycle GHG Emission Study on the Use of LNG as Marine Fuel](#)

³ Frontier economics - [Carbon abatement cost of alternative road transport options](#)

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8	<i>A Carbon Border Adjustment Mechanism (CBAM) could be an important element to avoid carbon leakage if it can be implemented in such a way as to comply with WTO rules and avoid complex administrative burden. This mechanism should only apply to sectors at risk of carbon leakage.</i>	A Carbon Border Adjustment Mechanism (CBAM) could help to safeguard the competitiveness of the European energy-intensive and heavy industry vis a vis their international competitors. This is particularly important for certain raw materials or product groups. Any CBAM must be in line with WTO rules and designed in a manner that would not yield administrative burden. This mechanism should only apply to sectors at risk of carbon leakage.
9	<i>As a long-term goal, the CO₂-pricing of the non ETS-sectors of building and transport should move from the initial energy taxation to a further developed and generally applicable EU ETS. In order to be successful, the launch of such transition should be based on the achievement of several benchmark criteria ensuring the 'ETS-readiness' of these sectors.</i>	<p>To be effective and successful such transition needs to be well prepared in advance and triggered only once the 'ETS-readiness' of non-ETS sectors is ensured. Indicatively, a revision of this tool should not be carried before 2030. The following criteria could be used as indicators of the readiness of non-ETS sectors to transition towards a CO₂-pricing under the EU ETS:</p> <ul style="list-style-type: none"> • Differences in abatement costs – sector-specific or between MS – eliminated or, to a large extent, equalised; • Convergence of the energy taxation and ETS price signals provided that carbon pricing through energy taxation is reflective of carbon abatement cost; • Minimum degree of achievement of the national decarbonisation targets achieved in the respective sectors; • Sufficient harmonisation of sector-specific market structures of MS in terms of deployment of e.g. infrastructure, alternative technologies, alternative fuels; • Social measures in place in MS to compensate consumers for the negative regressive effects resulting from a low-price elasticity (i.e. distributional effect), thus making an ETS CO₂-pricing manageable for private households;