



*European tax policies
on energy and climate change
on the way to Copenhagen 2009*

Kangaroo Group

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EU energy and climate change policies (1)

Ambitious Objectives:

- 20% reduction in emissions of greenhouse gases by 2020
 - EU ETS sectors
 - Non-ETS sectors: national targets
- 20% energy from renewable sources by 2020
 - National targets for the share of renewable energy



EU energy and climate change policies (2)

- **The ambitious 2020 energy and climate change targets:**
 - need cost-efficient instruments:
- **The main market based instrument of the EU: the EU emission trading system (“EU ETS”)**
 - Provides EU wide price signal for CO2 emission
 - Covers large emitters in the energy sector and industry
 - Covers some 50 % of all CO2 emissions
- **Need to complement ETS, to give a CO2 price signal also for emitters not included in the EU ETS (“non-ETS sectors)**
 - transport,
 - households,
 - services,
 - smaller industry,
 - agriculture



Energy and climate change policies and taxation (1)

- **Economic reasons favour CO2 taxation** to reduce emissions in the non-ETS sector:
 - Taxing CO2 in sectors not covered by the EU Emissions Trading System: a cost-effective way for Member States to reach their commitments under the 2020 Effort-Sharing decision.
 - CO2 tax = alternative market-based instrument for small installations excluded from the EU ETS.
 - Generalised CO2 price signal vital for the shift towards low carbon economy
 - „Double dividend“: Reducing emissions and generating revenue



Energy and climate change policies and taxation (2)

CO2 tax for the non-ETS sector:

- A matter of national tax policy
 - Rising interest in CO2 taxation in Member States
 - Discussion in the informal ECOFIN meeting on 2 October 2009
- National CO2 tax only effective in an EU framework



CO2 taxation and the EU (1)

The case for an EU framework

- CO2 tax increases input cost for business, impacts on competitiveness vis-à-vis companies in other countries
- CO2 tax on transport fuel: significant differences provide incentive for „tank tourism“
- Without EU-framework, sub-optimal national taxation („prisoners‘ dilemma“)
- Without EU-framework, risk of double taxation



CO2 taxation and the EU (2)

How could it work in practice:

- “CO2 tax” from theory to implementation:
 - direct emission tax – difficult to measure/control
 - tax on carbon “embedded” in final products – difficult to assess
 - tax on energy supply – vs. ETS approach
- Energy tax systems suitable basis for CO2 taxation in Europe:
 - Taxes on energy do exist everywhere in Europe; EU Energy Tax Directive covers fuels for transport, heating materials, as well as electricity
 - All necessary administration and chargeability procedures in place, common EU-wide rules
 - Directive 2003/96 (“the Energy Taxation Directive”)
 - Directive 92/12 on movement and control of excisable product

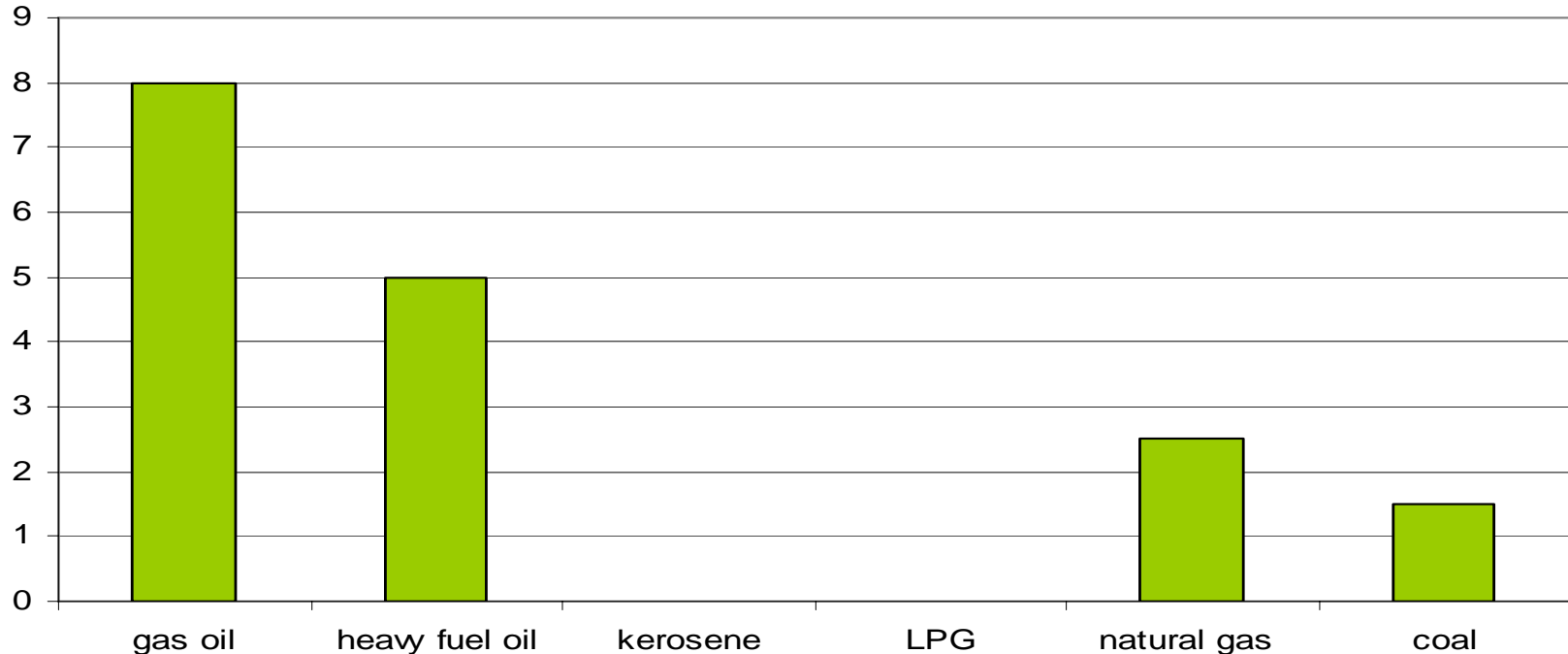


Revision of the Energy Taxation Directive (1)

Weaknesses of current Energy Tax Directive

- No specific CO₂ component
- De-facto CO₂ taxation varies with energy source

Minima expressed in €/t CO₂: heating materials

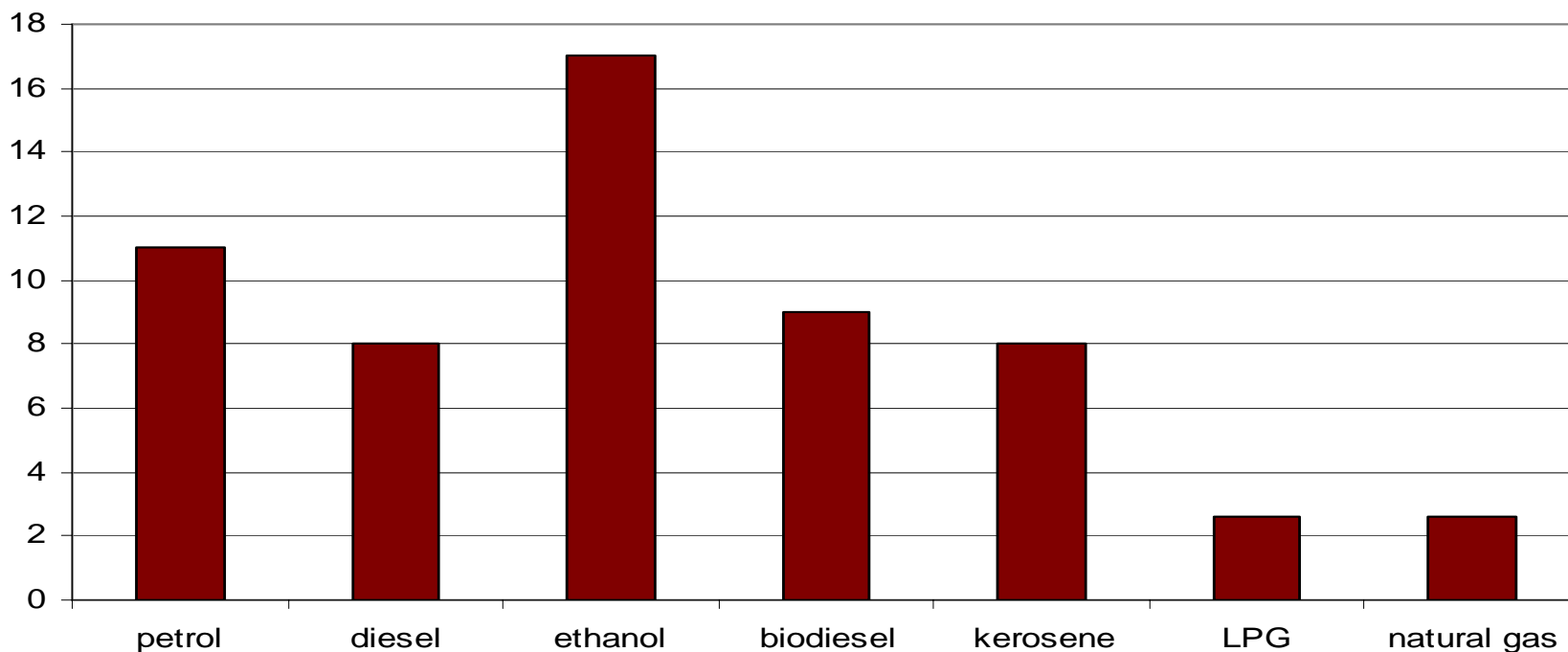




Revision of the Energy Taxation Directive (2)

- Minimum tax rates depend on energy source rather than on energy content
 - It is the energy content, not volume, that matters to the consumer
 - Neutrality, without unjustified distortions between products

Effective minimum rate per energy content (€/GJ): motor fuels





Revision of the Energy Taxation Directive (3)

Possible Framework for CO₂ taxation in Europe:

- Introduce a **new CO₂ component** into the Energy Taxation Directive – as a minimum tax rate for emitters **outside** the EU emission trading scheme
- Streamline the existing components of the Energy Tax Directives – **minimum tax rates on energy content** (not volumes by energy source)
- The „devil in the details“: Exemptions, differentiations, compensations



Conclusions

- **Energy and climate change policies**
 - need market-based instruments. ETS is key in providing a CO2 price signal; covers 50% of CO2 emissions
 - Therefore the need for CO2 taxation in the non-ETS sector
 - A coherent EU framework could provide
 - For taxing CO2 emission in the non-ETS sector
 - and
 - For taxing energy content

- **A major policy challenge for the near future**



Thank you for your attention!

Questions?

If you want to know even more:

- Conference 30 November 2009 in Brussels: *What taxation for a low carbon economy?*

http://ec.europa.eu/taxation_customs/taxation/gen_info/tax_conferences/low_carbon/index_en.htm