Global Alliance POWERFUELS

www.powerfuels.org

Powered by dena German Energy Agency

Position Paper on the European Commission's proposed Revision of the EU Energy Taxation Directive

The **Global Alliance Powerfuels** welcomes the much-needed **revision of the EU Energy Taxation Directive**[1] (ETD). The ETD lays down structural rules and minimum taxation rates for electricity as well as energy products used as motor and heating fuels. The current directive entered into force in 2003 and is no longer in line with more recently established climate and energy goals of the Union, in particular the goal to reduce emission by 55% until 2030 and to reach climate neutrality by 2050. Shortcomings of this outdated version are that minimum tax rates of fuels are not linked to the environmental impact and that neither energy efficiency nor sustainable alternative energy carriers or investments in clean technologies are promoted. The directive has also failed to keep pace with newly emerged alternative fuels such as powerfuels (also referred to as Renewable Fuels of Non-Biological Origin, RFNBOs). In addition, the current taxation structure and complex patchwork of exemptions and reductions across Member States provide no level playing field across the single market. The Global Alliance Powerfuels therefore endorses the European Commission's goal to support the EU's delivery of its climate targets by drafting an adequate taxation scheme that recognises the environmental performance and promotes the market integration of renewable energy carriers, including RFNBOs.

The **Global Alliance Powerfuels** was founded in 2018 and is backed by 16 member organisations and an international network of partner institutions. It is coordinated by the German Energy Agency (dena). The strategic objective of the Alliance is to foster the development of a global market for powerfuels.

The term **powerfuels** denotes not only renewable hydrogen but also all gaseous and liquid fuels from power-to-X processes that draw their energy content from renewable electricity. This includes, but is not limited to, synthetic gas (e.g. methane, hydrogen) and synthetic liquid fuels (e.g. methanol, ammonia, and Fischer-Tropsch products).

Powerfuels complement the direct use of renewable energy and are crucial where direct electrification is not technologically feasible or economical. By offering climate-neutral options to applications with no viable alternatives, powerfuels allow for more far-reaching de-fossilisation of all end-use appliances, across all sectors – thus enabling system-wide emissions reductions in a technology-neutral approach. Powerfuels can also accelerate the integration of the energy system by replacing fossil energy sources in existing end-use consumer equipment in the short term and offering flexibility as a long-term storage option.

[1] Official long title: Council Directive 2003/96/EC, restructuring the Community framework for the taxation of energy products and electricity

Position and recommendations of the Global Alliance Powerfuels

- The Alliance endorses the extension of the scope of the ETD in the Commission's proposal that now includes new renewable energy sources such as powerfuels. Currently, the directive does not provide clear legal provisions on the taxation of powerfuels or any other type of innovative alternative fuels introduced after 2003.
- The Alliance especially welcomes the proposed switch from volume-based to energy content-based taxation and the new ranking of rates according to the environmental performance of energy carriers, thus providing an important signal to fuel suppliers and consumers to supply/purchase climate-friendly energy. This constitutes a considerable improvement to the current directive, in which taxation is not linked to the carbon content of energy carriers.
- According to the proposal, electricity, advanced sustainable biofuels and RFNBOs would face the lowest minimum tax rate of €0.15 per gigajoule (GJ); for other sources like low-carbon hydrogen, this minimum tax rate would apply for 10 years until 2032. On the other hand, conventional fossil fuels, including "gas oil" and petrol, would face the "reference" rates of €10.75 per GJ of energy content for transport uses. This taxation structure would apply as a general rule in all Member States and consequently, RFNBOs would consistently be among the lowest taxed energy sources. On the supply side, this would immediately lead to additional incentives for investments in RFNBOs, as the resulting consumer prices become more competitive in comparison to conventional fuels. Furthermore, powerfuels production costs would also decrease as a result of the equally low taxation on electricity.
- However, the Alliance assesses the proposed minimum tax rates for low-carbon fuels of €0.15/GJ for a transitional period until 2032 and a slightly higher minimum tax rate of 0.45 € / GJ applicable only from 2033 onwards critically. The tax rate for low-carbon fuels should differ from that of renewable fuels even during the transition to reflect the differences in their respective potential positive climate impact and long-term role in the energy system.
- Quite notably, the Commission is also proposing to end the tax exemptions for passenger aviation and shipping fuel used for journeys within the EU - except for RFNBOs, (advanced) sustainable biofuels, low-carbon fuels, and electricity, which will have a minimum tax rate of zero over a ten-year transitional period until 2032. The Alliance strongly endorses this zero tax rate provision, as it will incentivise the uptake of liquid powerfuels (Power-to-Liquid fuels) in these hard-to-abate sectors.
- Last but not least, the Alliance would like to make the point that while we strongly support the proposed minimum tax rates for RFNBOs, this preferential tax treatment should not substitute or replace other support measures such as specific RFNBO sub-quotas found in other EU directives and regulations, like the proposals for the revision of the REDII and the ReFuelEU

Aviation regulation. Member states should therefore not use the introduction of a preferential tax rate for RFNBOs as an argument against additional support measures. In order to level the playing field and promote the market integration of powerfuels, various instruments will be required, including blending mandates, tax concessions, grant funding, carbon contracts for difference (CCfD), project support from climate and innovation funds, global tendering schemes, and concessionary loans.

Contact:

Deutsche Energie-Agentur GmbH (dena)
German Energy Agency
Johanna Friese
Friederike Altgelt
Chausseestrasse 128 a
10115 Berlin, Germany

Tel: +49 (0)30 66 777-160
Fax: +49 (0)30 66 777-699

powerfuels@dena.de | friese@dena.de | altgelt@dena.de
www.powerfuels.org. | www.dena.de

Date: 11/2021

Please cite this publication as follows: German Energy Agency (Publisher) (dena, 2021)
"Position paper of the Global Alliance Powerfuels on the European Commission's proposed Revision of the Energy Taxation Directive"