

EUROGAS COMMENTS ON THE COUNCILS COMMON POSITION ON THE TAXATION OF ENERGY PRODUCTS.

Eurogas supports in general harmonization of taxation on energy products in order to ensure the proper functioning of the internal market and to avoid distortion of competition at European and international level.

Eurogas also supports the Councils position which identifies the taxation of energy products as one of the instruments available to reach the Kyoto commitments.

Nevertheless, for Eurogas, the Council's common position is not necessarily leading either to a fair level playing field, which is so important for the Europeans industry, or to achieve the Kyoto commitments, or to remain competitive in the international context.

Reasons why the Directive could not ensure competitiveness of the European industry

The Council's Directive on the taxation of energy products reflects only the wide variation of existing energy taxation levels and systems applied in Europe. It is not sure that the objective of tax harmonisation will be achieved. Based on minimum taxation, Member States will be free to increase individually energy taxes above the prescribed minimum levels. This could lead to a general, unbalanced increase of energy taxes in the Member States in future. Minimum taxation levels results not only in a distortion of competition at the European level, it also harms the competitiveness of the European Industry in total: which is contrary to the main objective of harmonisation.

In areas where natural gas has to compete with products such as LPG (liquefied petrol gas) particularly in household use, similar tax exemptions should be applied to natural gas.

Most Eurogas members see the system of minimum taxation as an insufficient instrument for harmonisation of energy taxation, which will not ensure the competitiveness of the European natural gas industry. A more practicable way could be to introduce a maximum limitation, reflecting also environmental qualities, and possibly reduce the highest taxes applied in the European member countries.

However, this approach should not carry the risk that the tax rates set would be inconsistent and would jeopardize the natural gas competitiveness in the markets in which an energy taxation favorable to gas is in place.

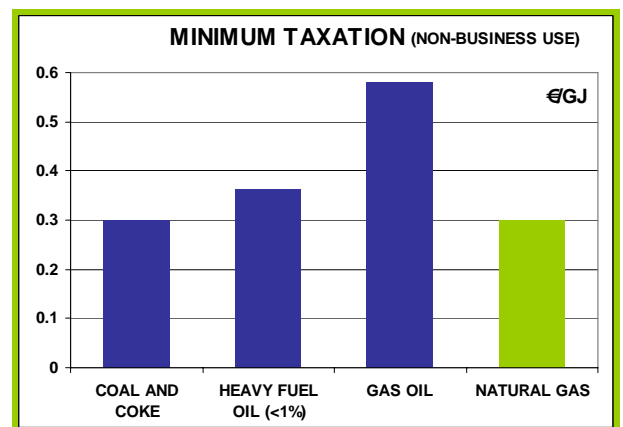
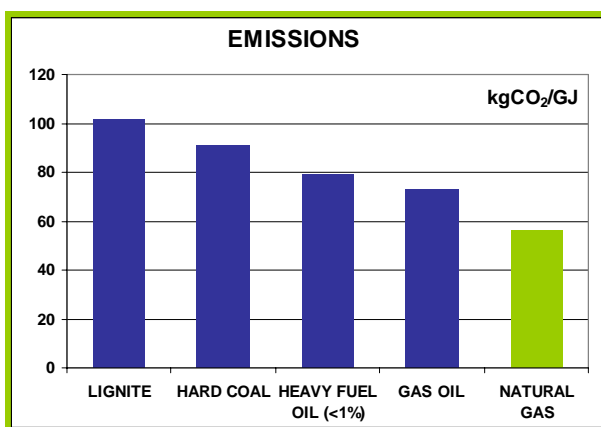
Reasons why the Directive could not meet the environmental targets

Natural gas especially if it replaces other fossil fuels will make a valuable efficient and effective contribution towards the Kyoto objectives. EU policy frameworks should be supportive of this potential.

Eurogas recalls that natural gas is the greenest fossil energy due to lower CO₂ emissions per unit of energy produced. It offers important advantages in terms of greenhouse benefits (also taking into account methane releases associated with the handling and use of natural gas).

Unlike with other fossil fuels, natural gas contains practically no pollutant-forming components. The exhaust of gas-fired combustion is therefore virtually free of sulfur dioxide (SO₂) and particulates. Emissions of nitrogen oxides (NO_x) are also low because natural gas contains hardly any organically bonded nitrogen and because combustion can occur at relatively low and constant temperatures.

A comparison between carbon dioxide emissions and proposed minimum taxation levels shows that the proposal does not reflect environmental aspects and does not show a trend of reflection of environmental measures. The proposed levels are favoring less environmental friendly energies and will be counter productive in reaching the EU's objectives on climate change and Kyoto targets.



With proposed minimum tax levels for natural gas equal to the level of coal and coke in the heating market there is strong discrimination against the cleanest available fossil fuel, and even stronger discrimination would occur with the proposed zero-level for LPG.

Whether input or output taxation is favored at national level, it should be ensured that the market can move to a more ecological friendly energy source especially with respect to gas fired power generation. However, when the different emission levels of the respective fuels are taken into consideration, the proposed tax rates therefore would not take into account the competitive advantages of natural gas with respect to its environmental impact.

Taxation policy should achieve the right balance between growing energy requirements and environmental objectives.