

EUROGAS POSITION ON THE COMMISSION'S DRAFT DIRECTIVE PROPOSAL ON THE TAXATION OF ENERGY PRODUCTS

Eurogas rejects the European Commission's proposal of a Council Directive on the increase and enlargement of minimum energy taxation levels.

Not only would it harm the competitiveness of European industry at large, but it would also threaten to erode the position of natural gas - the fossil fuel causing the lowest CO₂ emissions, hence with the lowest contribution factor to the anthropogenic greenhouse effect - in the energy market, to the detriment of the environment and the European Union's overall security of energy supply.

Furthermore, the objective of tax harmonisation will not be achieved if, as proposed, Member States will be free to increase individually energy taxes above the prescribed minimum levels. On the contrary, it would increase the likelihood of enhanced diversity in national taxation and distortion at European level.

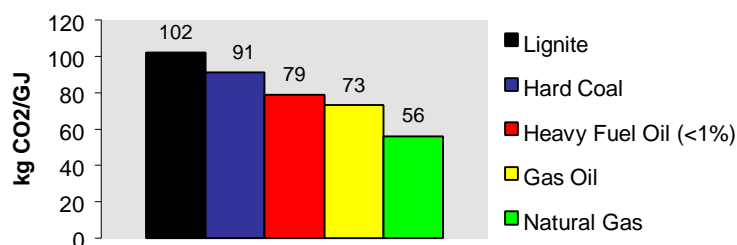
Instead of new taxation, Eurogas looks to the instrument of voluntary agreements as a much more efficient means to reach the Union's climate protection targets.

If, nevertheless, the option of a tax scheme will be kept, then it should at least maintain the tax differentials between gas and its competing fuels to reflect natural gas' environmental qualities and to preserve its competitiveness .

I. The Commission's proposal completely fails to take account of the environmental profiles of the energies to be taxed.

If the intention is to have an environmental fiscal instrument, there should be appropriate tax differentials reflecting the respective fuels' overall environmental impacts and qualities. The proposal, however, fails to do this. With proposed minimum tax levels higher for natural gas than for heavy fuel oil in the heating market ^{1}, there is even discrimination against the cleanest fossil fuel.

Eurogas recalls that natural gas is the greenest fossil energy. Thanks 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).



¹ HFO (<1% sulphur content)

Unlike with other fossil fuels, natural gas contains practically no pollutant-forming components. The exhaust of gas-fired combustion is therefore virtually free of sulphur 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.

- II. The lack of differentiation between the respective fuels would not only be counter-productive regarding the EU's objectives on climate change, environment, but also regarding the security of energy supply.

The proposed minimum levels in themselves, leaving aside the question of fiscal policies in the Member States following implementation of the scheme, would simply raise the overall tax load without account being taken of the ecological qualities of each fuel, and effectively increase the fiscal burden on natural gas in relation to its more polluting competitors in the energy market, in particular heavy fuel oil and gas oil (heavy fuel oil would even benefit from a preferential fiscal treatment).

Furthermore, equal fiscal treatment/exemption of all fuels at the input of power generation could impair the development of gas-fired power generation, at a cost to energy efficiency and the environment.

As a result, penetration of natural gas in the EU energy market could well slow down. Its potential benefits with regard to climate change and the environment could then not be fully exploited. Another consequence would be a lesser fuel diversification to the detriment of security of energy supply. Less gas would require more reliance on oil (of which already today 90% is imported).

The reason for this is that natural gas can be easily substituted in all its applications. Therefore, it has to be priced at a competitive level relative to alternative fuels in the respective market segment (so-called principle of market value). The market value of natural gas takes into account price limits dictated by the different outlet markets, by pressure on prices resulting from growing competition, as well as by costs of transportation between the production sources and the final markets, factors influencing distribution costs (e.g. population density, climate, the degree of development of the distribution network), environmental legislation, and last but not least by taxation levels on natural gas. A reduction in tax differentials between gas and its competing fuels would have adverse consequences for the supply of natural gas to the EU: as the value of gas is diminished, economic incentives for developing new supply projects to meet the growing demand could be reduced. As a consequence, new supply projects risk being deferred, and there is a risk that future gas supply projects from more distant supply regions could be jeopardised, due to their capital-intensity. Equally, down-stream market development (e.g. investment in transmission and distribution infrastructures) risks being reduced.

- III. The existing tax level differentials between natural gas and competing fuels should be preserved, alternatively be reconsidered on the basis of energy life cycle assessments (LCA).

The definition of appropriate differentials should be based either on current practice, in which competitive energy pricing takes account of prevailing tax differentials and any change should not disadvantage natural gas further, or it should be based on a fundamental re-appraisal of the objectives of energy taxation. In the latter case, the only rational basis for determining at the Community level tax differentials on a "level playing field" can be the incorporation of environmental profiles of the various energy carriers consisting each of the balance of direct and indirect environmental impact factors from

production to end-use known as "life cycle assessment" (LCA) and addressing aspects such as emission of pollutants and of climate gases and energy efficiency, in each stage of the energy carrier's handling and processing from its cradle to its grave. The energy tax in this case should play the role of integrating the so-called external costs of energy use. To be complete, the scheme should take account of any concession levies charged to gas companies, and include exemptions for users in return for voluntary agreements.

IV. The proposal risks to bar the entry of natural gas as the cleanest fuel in the transport market.

Within its general objections to the proposed fiscal treatment of natural gas, Eurogas points to the situation of compressed natural gas (CNG), the use of which is being developed in the transport sector. CNG is the transport sector's least polluting fuel, better still than LPG. It could give consumers a choice against competing fuels, and if managed and developed properly, could provide additional infrastructure and industrial activity benefiting the development of all EU economies. Yet the rates proposed would tax it at practically the same level as LPG, and thereby effectively kill all efforts to promote its use and the development of the emergent natural gas vehicle (NGV) industry. Presently, most Member States promote the use of natural gas in the transport sector by maintaining substantial tax differentials or tax exemptions in favour of natural gas in order to secure a minimum of competitiveness of the NGV sector and allow for its further development. However, the proposal's provisions for tax exemptions (articles 13 and 14) do not cover the NGV sector, and would be too short-lived. The development of this sector needs first and above all a favourable and stable fiscal treatment in order to compensate for the initial cost of investment in special vehicle equipment, CNG supply infrastructure, and dedicated R&D.