

IOGP written input to the public consultation on the revision of the Energy Taxation Directive (ETD)

Introduction

The International Association of Oil & Gas Producers' (IOGP) member companies account for approximately 90% of the oil and gas produced in Europe. IOGP shares the world's ambition to reach the Paris Agreement's goals and supports the EU's objective of climate neutrality by 2050, and will work with the Commission to help create the essential measures to enable this energy transition. In particular, we believe the EU should ensure that future policies allow all technology solutions and energy carriers to contribute to the 2030 GHG emission reduction targets. One of the regulatory measures needed to help the development and deployment of sustainable and low-carbon fuels relates to taxation.

IOGP believes that taxation of energy products should provide a clear price signal to consumers according to the polluter-pays principle included in article 191.2 of the Lisbon Treaty. At the same time, we recognise each Member State's flexibility to adopt a suitable energy taxation policy. Such national differentiation should promote a fair, cost-efficient and socially acceptable energy transition.

We welcome this early opportunity to share our input. In responding to the Commission's consultation on the revision of the Energy Taxation Directive (ETD), because of the limitations of the questionnaire format, we would like to share some of our observations in this written submission.

While reviewing the Energy Taxation Directive, the following aspects should be considered:


1. Incentivise the use of all low-carbon energy technologies and fuels

The ETD should be an instrument that incentivises the use of all low-carbon/low-emission energy technologies and fuels. IOGP encourage the Commission to acknowledge the role of natural, low-carbon and renewable gases (including e-fuels, green and low-carbon hydrogen) in the revision of the ETD. Natural gas has been instrumental in reducing EU emissions across the EU by switching from fossil fuels with a higher carbon footprint such as coal in power generation and heating. Coal-to-renewables and coal-to-gas switching each contributed from about half to 24% reduction of coal in power generation in 2019 versus 2018 and were the main drivers behind the 120 MT CO₂ savings in the EU power sector¹. In Germany, fossil fuel power plants emitted 33% less CO₂ in June 2019 compared to the same month in 2018 due to a market-driven fuel switch from coal to gas.^{2,3} Furthermore, because natural gas is a flexible fuel, it can enable the energy transition by enhancing energy security, making a low-carbon but intermittent electricity generation system resilient and facilitate the use of low-carbon gases, including hydrogen. Natural gas combined heat and power (CHP) can lower the carbon footprint of electricity and heat in a very cost-efficient manner and improve air quality as well as to contribute to the decarbonisation of the energy intensive industries.

¹ 2020 Agora/Sandbag report: https://www.agora-energiewende.de/fileadmin2/Projekte/2019/Jahresauswertung_EU_2019/172_A-EW_EU-Annual-Report-2019_Web.pdf

² See Fraunhofer ISE – Energy Charts (2019): <https://www.ise.fraunhofer.de/de/presse-und-medien/news/2019/33-prozent-weniger-co2-emissionen-durch-brennstoffwechsel-von-kohle-auf-gas.html>

³ In the United States, power sector emissions have fallen 25% since 2008, in large part due to coal-to-gas fuel switching: <https://poweringpastcoal.org/insights/energy-security/coal-to-gas-switch-slashes-us-power-sector-co2/>



Moreover, natural gas can contribute to the EU's efforts in reducing emissions from the transport sector. In the shipping industry, LNG meets already the IMO criteria, offers an available solution for short and long-distance large vessels in the short- and medium-term, as does renewable and low-carbon hydrogen (including ammonia, methanol) in the longer term. This makes the use of LNG advantageous compared to other technologies, such as batteries, which currently constitute a supplement to traditional ship engines rather than an alternative. Also in other transport sectors, in particular heavy road transport and public transport, natural gas (LNG and CNG) provide a readily available option for emission reduction, whereas electric possibilities are still under development.

Last but not least, the oil and gas industry is working to decarbonise natural gas. In fact, the primary source of hydrogen production in the world today is natural gas reforming, a process which produces hydrogen and CO₂. In contrast, hydrogen from renewable electricity is produced in smaller volumes (ca. 1%). Gas reformers can be fitted with Carbon Capture and Storage (CCS) technology to capture and store CO₂ emissions from this process. Meeting the EU carbon neutrality objective by 2050 will require large volumes of hydrogen with a low CO₂ footprint and, for this reason, low-carbon hydrogen from natural gas with CCS will play an important role, alongside other renewable and low-carbon gases (e.g. synthetic fuels, biomethane).

Given the above, IOGP considers it is essential that tax treatment of natural gas and low-carbon gases in heating, power generation and transport reflect, inter alia, their contributions to reducing CO₂ emissions. Furthermore, any tax incentive for hydrogen used as an energy carrier should cover both renewable and low-carbon hydrogen to ensure creating a true hydrogen ecosystem in Europe.

2. Avoid overlapping legislation or double taxation

The ETD should be aligned and avoid overlap with directives, legislation that are considered instrumental to effectively reduce CO₂ in the EU, such as the EU ETS, the Renewable Energy Directive, the Energy Efficiency Directive or the vehicle emissions performance standards.

To be in line with the principles of cost-effectiveness and better/smart regulation, we propose not to include other air pollutants into the scope of the ETD review. There are a number of other policy measures like the Medium Combustion Plants Directive, the National Emissions Ceiling Directive, the IED and BREFs that aim at reducing air pollution across Europe. Some of these instruments are being currently evaluated and planned for review. To avoid overlapping legislation and ensure coherence, and also to remain **in line with the “One-In, One-Out” (OIOO) principle, we discourage the Commission from incorporating provisions aimed at tackling air pollution into the ETD.**

Given that the European Commission is also working on the development of CBAM and the ETS extension, the changes to ETD should ensure coherence with these policy tools and to avoid double taxation of the same emissions. IOGP is of the opinion that **sectors within the scope of ETS should not be targeted by any additional taxation for environmental or climate reasons.** It is important that businesses operating in highly competitive international markets remain out-of-scope, as stated in Article 2.4 of the ETD to ensure a global level playing field. Likewise, the exemptions in Articles 17 and 21.3 concerning energy intensive industries should become mandatory to safeguard a level playing field at the internal market. To reduce administrative burden the ETD exemptions shouldn't be linked to the State aid guidelines.

3. Impact assessment: include the cost-benefit analysis for households and the industry

IOGP believes that the success of this initiative will depend on the Commission's application of other Better Regulation tools such as a detailed and data-driven impact assessment. As pointed out in the recent Court of Auditors' publication “Law-making in the European Union after almost 20 years of Better Regulation”⁴, there is a need to improve the evidence base for decision-making and application of EU law. **While we support effective carbon pricing with price signals triggering demand-side reactions, we suggest that a thorough and science-based impact assessment includes addressing the risks of carbon leakage and increased energy poverty.** Concerns about the impact on the competitiveness of companies and low-income households become even more crucial at this time due to the adverse economic consequences of the COVID-19 pandemic. The results of this Impact Assessment should be done transparently and should be clearly communicated to the public, including the benefits and tradeoffs of recommended and alternative approaches.

⁴ <https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=14115>

Final remarks

IOGP would like to stress that the ETD review alone is not the silver bullet to achieve the ambitious EU energy and climate goals. Other policy tools are needed to incentivise low-carbon investments to deliver a sustainable future, and facilitate the inclusion of transitional activities like gas-based technologies. As vast investments will be required by the industry to decarbonise, the EU must also develop measures to:

- a) support commercial-scale sites using decarbonisation technologies
- b) create an enabling state aid framework
- c) facilitate investment in key decarbonisation infrastructure and feedstocks (including hydrogen and CCS technologies)
- d) allow for the contribution of transition activities like the use of natural gas to emission reductions.