International Association of Oil & Gas Producers

CONSULTATION RESPONSE | OCTOBER 2021

IOGP response to the public consultation of the Energy Taxation Directive (ETD) proposal

The International Association of Oil & Gas Producers' (IOGP) supports the goals of the Paris Agreement and the EU's ambition to reach climate neutrality by 2050. We recognise that there are many challenges on the road to meet this objective as the energy transition will require significant investments, new technologies, effective policies and behavioural changes.

The ETD should be an instrument that incentivises the use of all lower-emission and low-carbon energy technologies and fuels based on full life-cycle GHG emission criteria. It is essential that the tax treatment of natural gas and low-carbon gases in power generation, heating and transport reflect, inter alia, their contributions to reducing CO_2 emissions. IOGP welcomes that the potential of these technologies has to an extent been taken into consideration in the Commission's revision of the ETD. However, in order to fully capture their important role, IOGP would make the following recommendations:

1) **Recognising the enabling role of natural gas throughout the energy transition**: IOGP welcomes that the ETD proposal recognises natural gas as the fossil fuel with the lowest carbon intensity, which can contribute to reaching the EU's energy and climate objectives. However, we regret that after a transition period (until 2033), the Directive will not distinguish between natural gas and other fossil fuels. In this context, we highlight that natural gas will still emit considerably less GHG than other fossil fuels also after 2033, and could continue playing a significant role. This should be reflected in the final revised ETD. The current ETD contains certain national exemptions for natural gas. We note that the Commission in its proposal seeks to remove these, and in this context we would highlight that restoring the possibility of applying total exemptions or reductions in the level of natural gas taxation could be important e.g. for the regions of Europe which will rely more strongly on natural gas in their energy transitions, as well as to ensure an energy transition which is affordable for consumers. In their National Energy and Climate Plans (NECPs), a number of Member States have announced the phase-out of coal from their energy mix, referring to a shift from coal to gas as part of the solution to help reach their 2030 GHG emissions reduction target[1], and coal-to-gas switching has already been effective at reducing GHG emissions in parts of Europe. The EU should be pragmatic in making use of the cost-efficient emission reductions provided by a fuel switch to natural gas in sectors such as power generation, co-generation, district heating and cooling, and the use of CNG and LNG in transport. In a 2050 perspective, investing in natural gas and low-carbon hydrogen-based technologies as well as in gradual technical adaptations of the EU gas infrastructure to carry hydrogen can contribute to climate neutrality while making use of existing infrastructure in a more cost-effective way.

[1] See IOGP's NECP assessment.

2) **Equal treatment of hydrogen and electricity as clean energy vectors**: IOGP welcomes that low-carbon fuels such as "blue" hydrogen are proposed to be eligible for a lower tax rate, equivalent to that of electricity. However, we regret that this lower rate would only be available to low-carbon fuels for a transition period until 2033, since the EU needs low-carbon fuels in its energy mix while it develops a market for hydrogen based on renewable power. Hence, we stress that in a cost-efficient pathway to climate neutrality, both electricity and low-carbon fuels will continue playing an important role in the energy system until 2050. The *Hydrogen for Europe* study estimates that the EU would save more than 2 trillion euros over the next thirty years in capital investments by allowing for a level playing-field between various technologies which can help deliver on the EU's objectives[2]. The study shows that – regardless of policy preference – large volumes of both blue and green hydrogen will be required to achieve net zero by 2050. In this context, IOGP would strongly advise that the final revised ETD treats hydrogen, as a clean energy vector, in the same way as electricity which is eligible for a lower tax rate regardless of its production method. As with electricity and in accordance with the EU Hydrogen Strategy, the emissions associated with hydrogen production may be expected to reduce over time.

[2] Deloitte, IFPEN & SINTEF (2021): Hydrogen for Europe – Charting pathways to enable net-zero.

Registered Office: City Tower, Level 14, 40 Basinghall Street, London EC2V 5DE, United Kingdom
T +44 (0)20 3763 9700 / reception@iogp.org

Brussels Office: Avenue de Tervuren 188A, B-1150 Brussels, Belgium
T +32 (0)2 790 7762 / reception-europe@iogp.org

Houston Office: 15377 Memorial Drive, Suite 250, Houston, TX 77079, USA
T +1 (713) 261 0411 / reception-americas@iogp.org