POSITION

IRU

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The European Commission proposal for restructuring of the EU framework for the taxation of energy products and electricity

IRU Position on the European Commission proposal for restructuring of the EU framework for the taxation of energy products and electricity

I. IRU POSITION

IRU supports the green transition. Commercial road goods and passenger transport will require a wide range of alternative fuels and sufficiently available vehicles for different types of operations. An adequate transition and flexibility in the choice of fuels are essential for the sector, given the very wide operational scope in which these two industries are active. Hence, IRU calls for:

- A transparent EU legal framework that encourages the switch to alternative fuel technologies in commercial road transport
- The joint consideration of the Fit for 55 taxation and charging proposals as inextricably linked and combined with an absolute prioritisation of the alternative fuel infrastructure regulation and with aligned and synchronised implementation across the EU
- Guarantees for the availability and accessibility of alternative fuel vehicles and infrastructure as pre-conditions for revised taxation and new charges and as an incentivising framework to enable the transition

The Energy Tax Directive (ETD) should be based on the following pillars in order to ensure that its declared objectives are met:

- Encourage and do not penalise without a solution:
  - Gradually introduce the new taxation structure to be applied to a wider range of fuels over the transition period, and
  - The principle of equivalence should only apply to the EU minimum taxation rates for fuels of the same category, such as diesel and petrol; it should not apply to any national mark-ups
- Avoid multiple and overlapping taxes, charges and duties for the environmental performance of vehicles and fuels and set a ceiling for the national taxation of renewable and sustainable energy, as well as electricity
- Lower taxation rates for all categories of motor fuels for “commercial use” in road transport should be set at EU level
- Incentivise blended fuels through:
  - Biofuels and renewable fuels from non-biological origins should have the same minimum tax level when used as drop-in fuels (i.e. blended with fossil fuels) and when used non-blended
  - Consistency across EU legislation by including the use of blended fuels in the emission targets for vehicle manufacturers under the new CO_2 standards
- Grant tax incentives to all forms of collective passenger transport
- Provide incentive measures accompanying the Fit for 55 package to encourage investments in alternative fuel technologies across the EU

II. ANALYSIS

1. Encourage and do not penalise without solution

Commercial road passenger and goods transport provide enormous added value to the prosperity of the EU citizens. The European Commission estimates that commercial road transport accounts for about 6% of total CO_2 emissions, which is half of the carbon footprint of private road transport users.[1]

The ETD proposal lacks an in-depth scientific impact assessment of the effects of the proposed measures on commercial road transport operators compared with private users, in particular the increased cost burden that will be placed on small and medium-sized enterprises (SMEs) and the inflationary effect of the increased costs passed onto EU citizens and society.

Zero-emission technology is developing at a much slower pace for heavy-duty vehicles (HDVs) compared with other vehicle categories. There are several million HDVs on EU roads today. Even based on the most optimistic forecasts of HDV manufacturers, the production of zero-emission HDVs will not grow fast enough to justify the massive charges affecting an EU fleet of millions of vehicles on the roads. Given current progress, it is also doubtful whether light commercial alternative fuel vehicles will be readily available in sufficient numbers to enable the rapid replacement of tens of millions of commercial vehicles on the road.

The new proposal will substantially increase the minimum taxation rates for energy in the EU, in particular targeting traditional fossil fuels. The minimum rate for diesel will increase by around 18%, and by 50% for natural gas and non-sustainable biofuels. Not to be forgotten, under the Emission Trading System (ETS) for road proposal, a CO_2 charge will come on top of the increased energy taxation, targeting in particular fuels with a low environmental performance (see Figure 1). In addition, Member States will be able to add a national component to the EU minimum energy taxation rates, which could be dramatically higher for diesel if national legislation has to implement the new EU principle of taxing diesel at the same level as petrol.

Figure 1: European Commission proposal for increased EU minimum taxation rates for energy and cumulative effect with ETS (in €/GJ)[2]

<table>
<tr><th></th><th>2021</th><th>2023</th><th>2033</th><th>ETS</th><th>Total 2033</th><th>%change</th></tr>
<tr><td>Diesel</td><td>9.08</td><td>10.75</td><td>10.75</td><td>3.36</td><td>14.11</td><td>36%</td></tr>
<tr><td>Petrol</td><td>11.14</td><td>10.75</td><td>10.75</td><td>3.36</td><td>14.11</td><td>21%</td></tr>
<tr><td>Natural gas (CNG & LNG)</td><td>2.60</td><td>7.17</td><td>10.75</td><td>2.88</td><td>13.63</td><td>81%</td></tr>
<tr><td>Non-sustainable bio-fuels</td><td rowspan="3">equal to fossil equivalent*</td><td>7.17</td><td>10.75</td><td>3.36</td><td>14.11</td><td></td></tr>
<tr><td>Sustainable fuels</td><td>5.38</td><td>5.38</td><td>-</td><td></td><td></td></tr>
<tr><td>Advanced renewable & sustainable biofuels</td><td>0.15</td><td>0.15</td><td>-</td><td></td><td></td></tr>
<tr><td>Renewable hydrogen</td><td>-</td><td>0.15</td><td>0.15</td><td>-</td><td></td><td></td></tr>
<tr><td>Electricity</td><td>0.14</td><td>0.15</td><td>0.15</td><td>-</td><td></td><td>7%</td></tr>
</table>

*The excise duty is equivalent to its respective pure fossil fuel, e.g. bio-diesel = fossil diesel

Such an increase will hit commercial road transport operators who are largely trapped with traditional fleets, with no alternative to change in the short term. This would be tantamount to a penalty without a solution. Explained simply, putting pressure on diesel equates to putting pressure on the commercial road transport sector. The sector will not be able to absorb such massive cost increases. Unfortunately, the impact assessments for ETD and ETS lack an adequate analysis of the social costs for EU

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[1] European Commission, DG Climate Action website

[2] *Sources:* *https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12227-EU-Green-Deal-Revision-of-the-Energy-Taxation-Directive_en*

citizens and society, and it is foreseeable that a massive increase in costs for the sector will be passed on to them.

IRU Call: The ETD should serve as an incentive base for commercial road passenger and goods transport operators to switch to low- and zero-carbon fuels. Given the slow progress of zero-emission technologies, in particular in the HDV sector, a realistic phase-in and phase-out period should be considered for certain fuels. At least for a transitional period, the switch to lower carbon fuels should be encouraged in parallel with zero-emission technologies. This could be based on a gradual introduction of the new energy taxation structure to be applied to a wider range of fuels. An adequate transition period should be provided between the adoption of the new rules and their application in order to allow industry to prepare for the new legal framework. More specifically:

- *For all fuels in categories 1, 2 and 3[3], the EU minimum taxation rate should be increased gradually over the ten-year transition period, with an evaluation every two to three years* (see Figure 2). Increases in the EU minimum taxation rate should happen progressively and in synchronisation with the availability of a sufficient number of alternative fuel vehicles on the market and the establishment of an adequate network of alternative fuel infrastructure.
- *The ETD should clearly state that the principle of equivalence only applies to the EU minimum taxation rates for fuels in the same category, such as diesel and petrol, but does not apply to any national mark-ups.* The principle of equivalence would oblige Member States to tax (or price) diesel as high as petrol, in addition to applying the new EU minimum taxation rates, which could lead to very large price increases for diesel. This is likely to happen in Member States with a high petrol tax, and could trigger an uncontrollable snowball effect on transport prices and thus on the cost of many goods and mobility services. Explicitly excluding the principle of equivalence for national mark-ups from the ETD will prevent this.

Figure 2: Simulation of the IRU proposal for a gradual increase in the EU minimum taxation rates (in €/GJ)[4]

<table>
<tr><th></th><th>2021</th><th>2026</th><th>2028</th><th>2030</th><th>2032</th><th>2034</th><th>2036</th></tr>
<tr><td>Diesel</td><td>9.08</td><td>9.08</td><td>9.41</td><td>9.75</td><td>10.1</td><td>10.42</td><td>10.75</td></tr>
<tr><td>Petrol</td><td>11.14</td><td>11.14</td><td></td><td></td><td></td><td></td><td>10.75</td></tr>
<tr><td>Natural gas (CNG & LNG)</td><td>2.60</td><td>2.60</td><td>4.23</td><td>5.86</td><td>7.49</td><td>9.12</td><td>10.75</td></tr>
<tr><td>Non-sustainable bio-fuels</td><td rowspan="3">equal to fossil equivalent*</td><td>7.17</td><td>7.89</td><td>8.6</td><td>9.32</td><td>10.03</td><td>10.75</td></tr>
<tr><td>Sustainable fuels</td><td>5.38</td><td>5.38</td><td>5.38</td><td>5.38</td><td>5.38</td><td>5.38</td></tr>
<tr><td>Advanced renewable & sustainable biofuels</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td></tr>
<tr><td>Renewable hydrogen</td><td>-</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td></tr>
<tr><td>Electricity</td><td>0.14</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td><td>0.15</td></tr>
</table>

*The excise duty is equivalent to its respective pure fossil fuel, e.g. bio-diesel = fossil diesel

[3] **Category 1**: Includes traditional fossil fuels, non-sustainable biofuels, bio liquids, certain types of solid biomass and kerosene used in aviation.
Category 2: Includes LPG, natural gas, non-sustainable biogas and non-renewable hydrogen.
Category 3: Includes sustainable but not advanced biofuels and low carbon fuels (including low carbon hydrogen).
Category 4: Includes electricity, advanced biofuels and renewable fuels of non-biological origin.

[4] *Sources:* *https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12227-EU-Green-Deal-Revision-of-the-Energy-Taxation-Directive_en*

2. Avoid multiple and overlapping taxes, charges and duties for the environmental performance of vehicles and fuels, and set a ceiling for the national taxation of renewable and sustainable energy as well as electricity

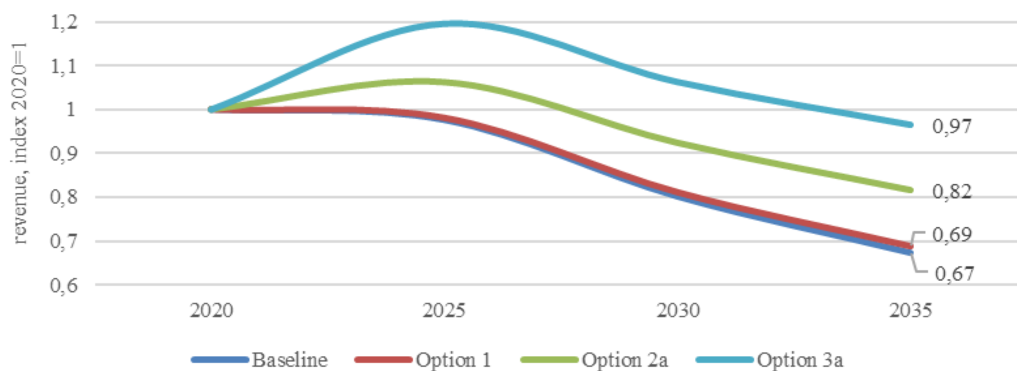
For the first time, the EU would be introducing a system of taxation based on environmental performance and energy content, which is materially different from the current system simply based on energy volume and content. While it is clear that the levels set by the EU are minimum levels that can be increased by Member States, it remains unclear as to what extent other national taxes, charges and duties already set for environmental performance, or which may be further contemplated by Member States, could coexist with the EU-imposed system. IRU believes that the current version of the ETD leaves the door open for other parallel environmental performance-related taxes, charges and duties to be added at the national level. For example, the EU road user charging legislation also allows Member States to introduce environmentally-related charges for external costs, including for air pollution.

The lack of clarity about an EU tax set for the environmental performance of fuels, and the absence of a transparent ban on parallel taxes or duties for the same purpose, create a high risk of multiple and overlapping taxation on environmental performance. This would be an additional burden and would drastically increase costs for an industry that is already struggling to switch to cleaner technologies.

There are over one million commercial road transport companies operating in the EU; 80% of which are SMEs. The fleets commonly have up to five HDVs. Zero-emission vehicles are expected to remain much more expensive than traditional ones in the foreseeable future; the initial investment efforts for commercial road transport companies will be higher. In addition, in its present state of development, the battery-electric technology has two crucial shortcomings for HDVs: the battery weight and vehicle autonomy. Once these vehicles become available, the industry will have to find business cases to make the switchover economically viable.

In addition, there is a major risk of a massive increase in national taxation, including for renewable and sustainable energy as well as for electricity, given the overall decrease in Member States' tax revenues projected over a 15-year period. Over the 2020-2035 period, even if revenue is expected to increase initially, Member States' revenues from energy taxation are expected to decrease by around 32% if the transport industry, including commercial road transport, succeeds in switching to energy taxed at lower rates (see Figure 3). Member States will compensate for these revenue losses by either taxing the commercial road transport industry elsewhere or by gradually raising taxes for renewable and sustainable energy as well as for electricity.

Figure 3: Change in tax revenue for the EU27, 2020-2035



Source: SWD (2021) 641 final

IRU Call: The ETD should act as a deterrent for multiple and overlapping taxation and uneven national taxation of environmental performance, which can increase competitive distortion in the road transport market, by:

- Expressly excluding any other taxes, charges and duties for environmental performance at the national level in addition to the potential national mark-ups allowed under the ETD
- Introducing a maximum ceiling for the national taxation of renewable and sustainable energy, as well as for electricity

3. Lower taxation rates for all categories of motor fuels for “commercial use” in road transport

It should be noted that under the current energy taxation rules, “fuel for commercial use rates” are often used by Member States to correct discrepancies in energy taxation rates for commercial users. With the prohibition of “fuel for commercial use” in commercial road goods and passenger transport, the proposal no longer differentiates between commercial road transport and private transport users. However, Member States will still be allowed to add a national tax mark-up to the EU minimum rate, which could perpetuate such discrepancies.

In contrast to the elimination of advantages for fuel for commercial use in road transport, the proposal still foresees preferential energy taxation treatment for commercial operators involved in other modes of transport. This could have an adverse impact on the costs and competitive position of commercial road goods and passenger transport. Treating different modes of transport differently could jeopardise the modal level playing field.

IRU Call: The ETD should aim to level and improve the intra- and intermodal competitive level playing field. The ETD should set special taxation rates for all categories of motor fuels used for commercial use at the EU level, which should be lower than the taxation rates for fuels used for other purposes. Should this not be achievable, Member States should retain the possibility to grant tax rebates for fuels for commercial use. This should be done in as harmonised a way as possible.

4. Recognise the role of blended fuels with good carbon performance

The contribution of blended fuels to decarbonisation is higher than that of pure fossil fuels. To make rapid progress in decarbonisation, commercial transport operators need to be able to use a wide range of alternative fuels, in particular during a transitional period when the availability of alternative technologies and fuels is limited.

The new energy taxation framework is based on the environmental performance of the fuels. However, what is meant by “environmental performance” is not clearly defined. This could lead to arbitrary decisions regarding the performance of fuels. In particular, the ETD is unclear when it comes to taxing blended fuels that combine traditional fossil fuels and biofuels with various environmental performances. While it is clear that the environmental and carbon performance of such fuels is better than that of pure fossil fuels, it needs to be clarified how this can be reflected in the level of taxation.

Closely linked to taxation and charges, there is also a risk that the role of blended fuels will not be addressed consistently across the Fit for 55 package, including in the CO_2 standards for cars and vans and in the planned revision of the CO_2 standards for heavy-duty vehicles. Although blended fuels can play a key role in decarbonisation, the EU proposal for CO_2 standards only considers zero-emission technologies for the purposes of vehicle manufacturers’ emission targets. This in itself is inconsistent with the promotion and push for biofuels under the Renewable Energy Directive (RED).

IRU Call: Biofuels and renewable fuels of non-biological origins should therefore be eligible for the same minimum tax level when used as drop-in fuel for a blend and when used as a pure renewable fuel. This should be supported by a clear and transparent definition of what is meant by the environmental performance of fuels based on the RED. Moreover, the important role of blended fuels should be

consistently recognised across EU legislation and reflected by the inclusion of such technologies in vehicle manufacturers' emission targets under the new CO_2 standards.

5. Grant tax incentives to all forms of collective road passenger transport

Collective passenger transport by road, irrespective of the type of contracting (public or private collective transport), is in itself an effective tool for decarbonisation.

The ETD proposal only provides for reduced energy taxation rates for local public passenger transport, which implicitly excludes other types of collective road transport (e.g. coach tourism, regular coach services, private subcontractors for public transport and taxi services) from such benefits.

IRU Call: All companies providing collective road passenger transport services, be it regular services by bus and coach (publicly contracted or part of the private market), coach tourism and taxi services, should be able to benefit from reduced energy taxation rates.

6. Provide additional incentives to encourage investments in alternative fuel technologies across the EU

As mentioned above, the more than one million transport companies will not be able to switch to much more expensive technologies and bear all other related costs without support. The average age of large commercial vehicles in the EU is seven years, but ACEA figures indicate that this is considerably higher in several countries. This demonstrates that the industry is already struggling to invest in newer and cleaner technologies.

IRU Call: A package of incentives is needed to encourage the switch to alternative fuel technologies; these incentives should be created within the Fit for 55 package and in the relevant legislation. Incentives could include:

- Parallel incentive measures to encourage investments in alternative fuel vehicles across the EU in an aligned and synchronised manner, including with easy access to green loans and incentives under the block exemption. Restrictions imposed by the current de minimis rules should be lifted for investments in alternative fuel technologies. The sustainable finance framework and taxonomy rules should also be aligned in order to ensure that private investments complement public money and to ensure that all technologies that can contribute to decarbonisation are recognised accordingly within the sustainable finance framework
- Other parallel measures should be deployed to incentivise the use of alternative fuel vehicles, including vehicle taxation and road user charging. The weights and dimensions rules should provide commercial road transport operators with more flexibility in terms of carrying capacity in order to compensate for the additional weight of alternative fuel technology and to enable more goods and passengers to be transported with fewer vehicles.

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