

# Taxes and Subsidies in EU Energy Policy – Fit for 55?

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# INTRODUCTION

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The EU is in the process of an energy transition to effectively reduce its greenhouse gas (GHG) emissions and achieve climate neutrality.

→ the Fit for 55 package. (aim to use less energy, and use renewable energy instead.)



01

# Fit for 55

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# “Fit For 55” Policy

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A package of legislative proposals, as a part of the European Green Deal.

- Founded 14th of July 2021
- EU's 2030 Target for reducing emissions
- Legal obligation
- Reduce greenhouse gas emissions by 2030 by 55% in comparison to 1990
- Greenhouse gas neutrality by 2050



# What does this policy involve?

End Subsidising  
Fossil Fuels

Revision of the  
Energy  
Taxation  
Directive

Modernise  
existing  
legislation in  
line with EU's  
2030 climate  
target

Strengthen  
EU's position  
as global  
climate leader

Increase tax  
rates on fossil  
fuels



02

# Taxes

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# Taxes

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- Taxation plays a direct role in green transition
- Incentivise sustainable consumption and production
- Removal of incentives for consumption of fossil fuels and effective environmental taxation


Target of reducing  
emissions by 55% by  
2030 in comparison to  
1990





# Energy Taxation Directive (ETD)

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- The ETD ensures taxation of motor and heating fuels reflects their impact on the environment
  - Remove disadvantages for clean technologies
  - Introduce higher levels of taxation for inefficient and polluting fuels
- 

# Revision of Energy Taxation Directive (ETD)

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- EU is working on the revision of the ETD
- Switch from volume to energy content based taxation
- Eliminate fossil fuel use
- Ranking of rates according to environmental performance
- Group energy products into different tax brackets
- Aim to provide incentives for producers, users, and consumers to adopt sustainable practices
- The most polluting fuels are taxed the highest
- Minimum tax rates based on real energy content and environmental performance

# Ranking of Energy Products

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## Highest

- Conventional fossil fuels
- Gas
- Oils
- Petrols

## Next

- Fossil based fuels less harmful and have potential to contribute to decarbonisation
- E.g. natural gas, LPG, hydrogen of fossil origin

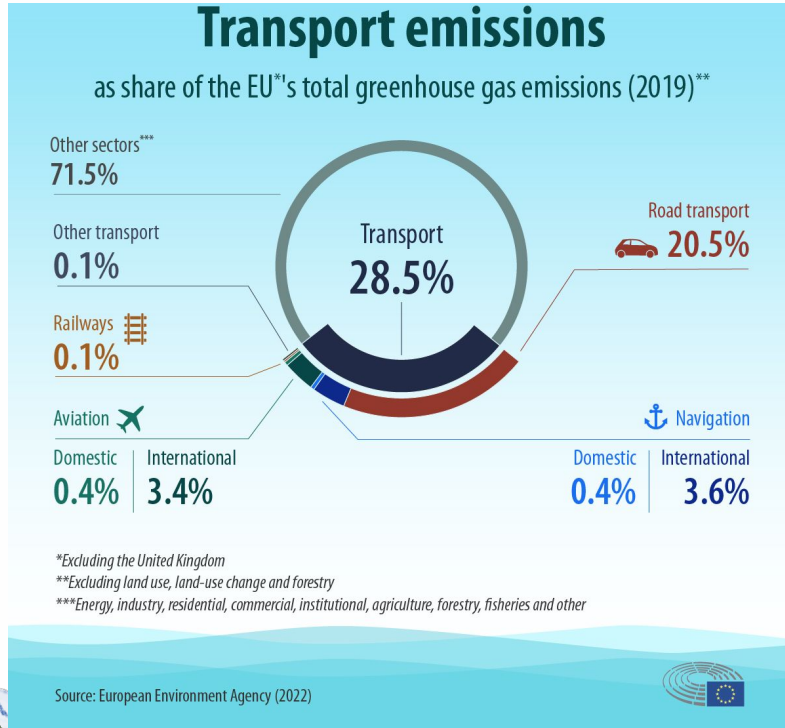
## Next

- Sustainable but not advanced biofuels

## Lowest

- Electricity
- Advanced biofuels
- Bioliquids
- Biogases
- Hydrogen of renewable origin

# Aviation and Maritime Industry





Aviation and Maritime transport account for 14.4% and 13.5% of EU transport emissions, respectively



# Aviation and Maritime Industry

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- These sectors rely mostly on fossil fuels
  - ReFuelEU aviation initiative and FuelEU maritime aim to increase the uptake of sustainable fuels by aircraft and ships to reduce their carbon footprint
  - Targets set to create infrastructure to effectively provide electricity to ships, inland waterway vessels and aircrafts while they are stationary
- 
- 



# Aviation and Maritime Industry Exemptions

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- Energy sources used to produce electricity in aviation were generally exempt from energy taxation.
- However, according to the commission's proposal energy tax exemptions for air transport in the European union are to be abolished and the tax rate on kerosene used in the aviation sector is to be raised to the level of other fossil fuels over a period of ten years.
- No taxation is planned for sustainable fuels used in aviation or navigation during this ten year period.

# Vulnerable Households



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- In October 2021, wholesale electricity prices in the EU were almost three times as high as the average price in 2019
- Low and lower middle income households are strongly affected by rising prices for electricity and fuel
- Over 34 million people in the EU are energy poor
- Compensation measures have been adopted by numerous member states
- Budget of up to 65 billion EUR of funding to member states for 2026-2032



# Compensation Measures

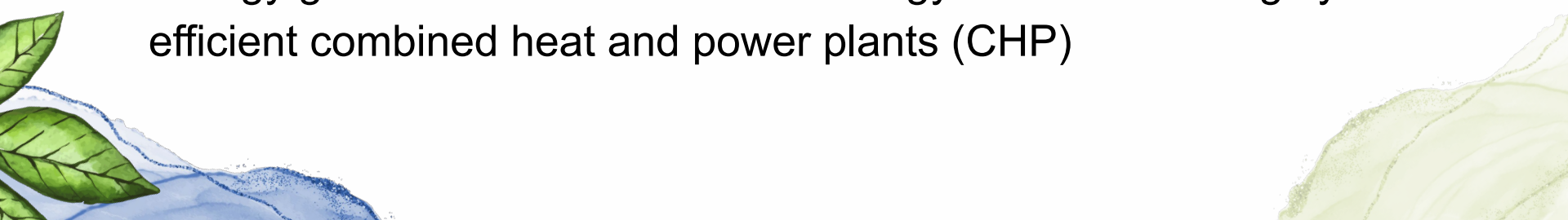
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- Increase in existing social transfers
  - Reductions in existing taxes
  - Introduce new subsidies
  - Direct price regulation
- 
- 





# Further Exemptions from Energy Taxation

ETD allows member states to apply various exemptions or reduced tax rates

- Households and/or charitable organisations
  - Energy-intensive business
  - Renewable energy or energy products used in combined heat and power plants, public transport or inland shipping
  - Energy generated from renewable energy sources or in highly efficient combined heat and power plants (CHP)
- 



# Further Exemptions from Energy Taxation

- Member states must define any reduced tax rate, which must not fall below the minimum tax rates specified
  - For sectors that currently benefit from total exemptions, transitional periods will apply to mitigate the economic and social costs of introducing taxation
  - Introduces possibility to exempt vulnerable households from taxation of heating fuels for a period of 10 years
  - Member states can also grant reductions now below the minima to heating fuels for all households
- 
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# Today

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- Today, the energy tax rates actually applied differ between member states and in many cases are above the minimum tax rates set out by the directive.
- According to the fit for 55 proposal for a revision of the energy tax directive, minimum excise duties should be based on the energy content of the energy sources.

# Today

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1. General Fuels - Minimum tax rates to be increased to 10.75 EUR/GJ
2. Fuels used in agriculture and forestry, in stationary engines, construction vehicles, and off-road vehicles - Tax rate is to be raised to 0.9 EUR/GJ
3. Heating Fuel - Tax rate is to be raised to 0.9 EUR/GJ

For advanced, climate- friendly energy sources, reduced rates should apply within each category, and for electricity, the lowest minimum tax rate of 0.15 EUR/GJ should be defined



03

# Subsidies

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# Subsidies for energy (in 2020) (compared to 2015)

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A significant (but slightly decreasing) number of subsidies was spent on fossil fuel energy.

- Overall energy subsidies in the EU reached EUR 173 billion (+7%)
- Subsidies for renewables reached EUR 81 billion (+15%)
- Energy efficiency subsidies, EUR 15 billion (+20%)



# Subsidies for energy (in 2021)

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Total subsidies for all types of energy (fossil fuels, nuclear and renewables) continued to rise.

- Due to increasing demand for energy in 2020 (COVID-19)
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- 



# Subsidies for public transport – Germany

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## **€9 train ticket** (summer of 2022) & **The Deutschland ticket** (May 2023)

- Cover all regional trains and regional transport in Germany
- Originally introduced to lift the burden off residents
- Encouraged people to use public transport → benefit the environment
- 52 million tickets were sold during the summer of 2022
- Saved approximately 1.8 million tonnes of CO<sub>2</sub>

# Subsidies for public transport - Luxembourg

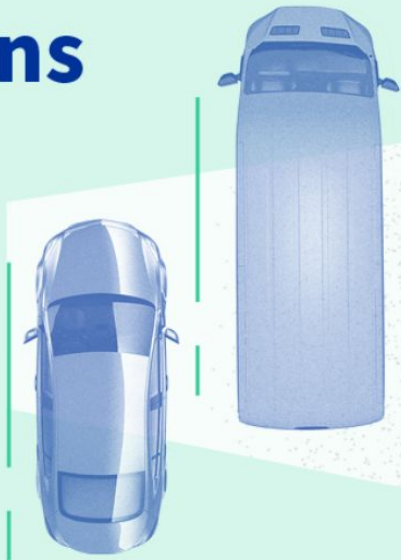
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## Free transportation in Luxembourg

- In 2020, Luxembourg had the highest car density in the EU (696 per 1,000 people versus the average 560)
- To reduce traffic congestion, promote the use of public transport, and address environmental concerns
- Since 29 February 2020, all forms of public transport have been free

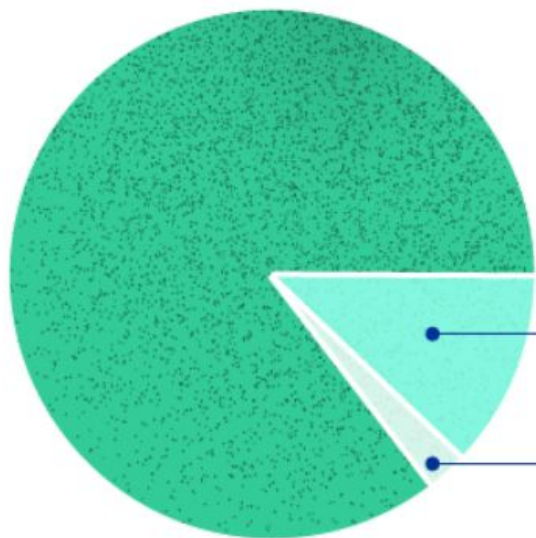
## Revised regulation on CO<sub>2</sub> emission limits for new cars and vans explained

The EU new CO<sub>2</sub> emission targets for passenger cars and light commercial vehicles aim to speed up the transition to zero- and low-emission mobility.



# Motor Industry

## Why it matters



Cars and vans are responsible for around **15%** of total EU emissions of CO<sub>2</sub>, the main greenhouse gas.



**12%** cars



**2.5%** vans

Source: <https://www.consilium.europa.eu/en/infographics/fit-for-55-emissions-cars-and-vans/>

# Motor Industry

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- A new target of 100% reduction for 2035  
→ all new cars or vans sold in the EU from 2035 will be zero emission vehicles.



# Motor Industry

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- The AFIR sets targets for the deployment of recharging and hydrogen refuelling infrastructure for cars, vans, trucks and buses.
- Global car sales in the first half of 2022 were lower than in those of 2021
- Sales of more efficient cars (in particular electric vehicles) were performing relatively strongly in comparison to less efficient petrol and diesel cars.



04

# RePowerEu

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# RePowerEU

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The RePowerEU plan of May 2022 from the European Commission

→ to reduce the dependency on Russian gas.

- Included a ramp up on investments in energy efficiency and renewable energy sources, and diversification of gas supplies.
- Did not include any short-term compensation measures but put emphasis on adopting the revised Energy Taxation Directive.
- Would contribute to increasing the resilience of the EU against supply disruptions.

# RePowerEU

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- The measures against the energy crisis should support the reduction in energy demand, foster the increase in energy and protect vulnerable groups from rising energy costs simultaneously. (E.g. A VAT reduction on high-efficiency heating systems)
- The EU emergency intervention emphasised the need to reduce electricity consumption. (e.g. Greece, Latvia, Finland, and The Netherlands)



05

# Conclusions

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# Conclusion

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- Increased taxation on fossil fuels and subsidies for renewable energies are essential in reaching the EU's target of reducing emissions by 55% by 2030 in comparison to 1990, and reaching net zero emissions by 2050
- Member state must enforce the policies set out by the EU to reach their goals and continue to be the global climate leader



# RESOURCES

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- <file:///C:/Users/user/Dropbox/PC/Desktop/EEC%20case.pdf>
- <https://www.consilium.europa.eu/en/infographics/fit-for-55-how-the-eu-will-become-more-energy-efficient/>
- <https://www.euki.de/wp-content/uploads/2021/07/E3G-Briefing-A-social-Fit-for-55-package.pdf>
- <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0642>
- <https://www.cleanenergywire.org/news/germanys-popular-9-euro-public-transport-ticket-boon-climate-action-market-analysis#:~:text=Clean%20Energy%20Wire,-The%20popularity%20of&text=Based%20on%20trips%20that%20shifted,VDV%20managing%20director%20Oliver%20Wolff.>
- <https://www.cleanenergywire.org/news/germanys-popular-9-euro-public-transport-ticket-boon-climate-action-market-analysis#:~:text=Based%20on%20trips%20that%20shifted,1.8%20million%20tonnes%20of%20CO2>
- <https://www.weforum.org/agenda/2022/08/germanys-9-euro-transport-ticket-cut-1-8-million-tons-of-co2/>
- <https://www.consilium.europa.eu/en/infographics/fit-for-55-emissions-cars-and-vans/>
- <https://iea.blob.core.windows.net/assets/7741739e-8e7f-4afa-a77f-49dadd51cb52/EnergyEfficiency2022.pdf>
- <https://www.euronews.com/green/2023/03/22/the-worlds-richest-country-made-public-transport-free-heres-what-happened-next>
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- <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0642>
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- <https://www.consilium.europa.eu/en/infographics/fit-for-55-energy-taxation/>
- <https://www.consilium.europa.eu/en/infographics/fit-for-55-social-climate-fund/>
- 
- <https://www.consilium.europa.eu/en/infographics/fit-for-55-refueu-and-fueu/>