

## **Give Member States the necessary flexibility to tailor the energy taxation to the needs of rural and other hard to decarbonise areas**

### ***Position paper on the revision of the Energy Taxation Directive***

The European LPG industry is supportive of the European Union's ambitious goal to become climate neutral by 2050 and is fully committed to enable achieving it. LPG and renewable LPG, as clean-burning, versatile, and resource-efficient gaseous fuels, are perfectly placed to immediately help to reach this goal, especially in rural areas as well as in road transport.

LPG is one of the cleanest fuels available in comparison with conventional, high-carbon fuels such as coal, heating oil, diesel and petrol when it comes to CO<sub>2</sub> emissions. Switching from an oil or coal boiler to an LPG one can reduce emissions respectively by 25% and 50%. BioLPG further decreases the fuel's carbon footprint by up to 80% compared to conventional LPG. Furthermore, LPG and renewable LPG have significant potential to reduce air pollution compared to other energy sources.<sup>1</sup> Boilers using LPG emit 80-99% less PM and 50-75% less NO<sub>x</sub> than solid and liquid fuels boilers (such as coal, heating oil, peat, and biomass).<sup>2</sup> LPG Autogas also emits significantly less air pollutants than diesel and petrol cars.<sup>3</sup>

#### ***Liquid Gas Europe's recommendations for the ETD revision***

The current Energy Taxation Directive has incentivised the uptake of LPG and contributed to meeting the EU climate objectives. Liquid Gas Europe recognises however that the rules are outdated and therefore welcomes the European Commission proposal on the revision of the Directive. To enable LPG and renewable LPG to fulfil their potential to the European Green Deal, Liquid Gas Europe urges Members of the European Parliament and the Member States to consider the following recommendations:

1. Create appropriate price signals enabling LPG to play its role in the energy transition: distinguish between low-carbon and high-carbon fossil fuels
2. Clarify to what extent Member States need to replicate the ranking of minimum tax levels
3. Support alternative fuels with a track record of success
4. Give member states the necessary flexibility to tailor energy taxation to the needs of rural areas
5. Ensure consistency with the Renewable Energy Directive

### **1. Create appropriate price signals enabling LPG to play its role in the energy transition: distinguish between low-carbon and high-carbon fossil fuels**

Liquid Gas Europe welcomes the proposed new structure of the Directive, basing the minimum rates on the energy content of fuels and their environmental performance. In particular, we welcome the

<sup>1</sup> Johnson, E. (2012), Carbon footprints of heating oil and LPG heating systems, Environmental Impact Assessment Review 35., p. 11-22.

<sup>2</sup> European Environment Agency (2019), EMEP/EEA air pollutant emission inventory guidebook 2019. Technical guidance to prepare national emission inventories, <https://www.eea.europa.eu/publications/emep-eea-guidebook-2019>.

<sup>3</sup> Ryskamp, R. (2017), Emissions and Performance of Liquefied Petroleum Gas as a Transportation Fuel: A Review.

recognition of LPG in heating and LPG Autogas in transport as fuels with clear environmental benefits over conventional fossil fuels and an important contribution to make to the green transition.

We are however concerned about the proposed minimum levels of taxation for LPG used as a heating and a transport fuel. Under the current proposal, the minimum level of taxation on LPG Autogas would drastically increase – 161% by 2023 and 291% by 2033 compared to current levels. When used as a heating fuel, the minimum taxation level for LPG would increase from 0 to €0.6/GJ in 2023 and €0.9GJ in 2033. Raising tax levels for LPG would also affect the further development of renewable LPG. A drop-in fuel renewable LPG can be blended with LPG and used in existing appliances. Its further uptake is hence also tied to the competitive advantage of its fossil counter-part over conventional fuels.

We also regret that after the transition period (until 2033), the Directive will not distinguish between LPG and high-carbon fossil fuels. LPG will still emit considerably less greenhouse gas emissions as well as air pollutants compared to conventional fossil fuels.

## **2. Clarify to what extent Member States need to replicate the ranking of minimum levels of taxation**

The European Commission proposal is ambiguous about the extent to which Member States can adapt the structure of minimum tax levels. Article 5 of the proposal stipulates that “*Member States shall also replicate at any time the ranking of minimum levels of taxation as laid down in Annex I in relation to different products for each given use*”. The explanatory memorandum goes further and states that “*the relationship between the minimum levels of taxation*” should be replicated. Liquid Gas Europe calls on the European Commission to clarify this point.

Should Member States only respect the ranking structure (in this case all fuels within a rank should always be lower than the previous rank and higher than the following rank)? Or, should they also keep the relations between the different ranks (fuels of rank 2 should always be  $\frac{2}{3}$  of fuels of rank 1; fuels of rank 3 should always be  $\frac{1}{2}$  of fuels of rank 1)? Liquid Gas Europe is strongly against replicating the relations between the different ranks.

## **3. Support alternative fuels with a track record of success**

Autogas is the number one alternative fuel in the EU with over 8 million vehicles in circulation, representing 77% of the existing alternative fuel fleet, both through aftermarket conversions and a large offering of OEM vehicles. As such, LPG has arguably provided more environmental benefits to date than any other alternative fuel on the market. Autogas also has a strong historical presence in many markets and customers have developed confidence with its use as a cleaner fuel.

Under the current proposal, the minimum levels of taxation on LPG Autogas would drastically increase - 161% by 2023 and 291% by 2033 compared to current levels. Furthermore, if adopted, the extension of ETS to road transport would result in further significant price increases after 2026.

It is important that Member States retain the flexibility to tailor their sustainable transport strategies to their national context. For Member States with a strong track record of alternative fuels uptake and investments in infrastructure developments, that want to continue to incentivise the uptake of certain

fuels to meet their specific market needs, the revised ETD should allow flexibility to maintain this standard practice in the spirit of policy continuity and fuel price stability for consumers.

#### **4. Give member states the necessary flexibility to tailor energy taxation to needs of rural areas**

Due to their specific characteristics, rural areas are hard-to-decarbonise. They tend to have an older, less-energy efficient building stock and the absence of the gas grid leaves consumers and businesses with fewer options. Furthermore, energy poverty is more widespread, with around 22,5 percent of people in rural areas at risk of poverty or social exclusion.<sup>45</sup> In order to avoid exacerbating energy poverty, and secure the competitiveness of rural businesses, Member States should have the possibility to provide specific derogations to energy used for heating purposes in both residential and business applications.

LPG today covers the off-grid heating needs of more than 20 million EU citizens and 700,000 businesses, predominantly in areas where the natural gas network is not available. It can undoubtedly further contribute to achieving the climate neutrality objective as there are around 40 million homes and 100,000 businesses without access to the gas grid. To enable their transition towards climate-neutral solutions, consumers in these areas need to have access to cleaner-burning fuels at an affordable price. Simply switching from a conventional coal or oil boiler to a condensing LPG appliance can reduce CO<sub>2</sub> emissions by 50% or 25%, respectively.

Liquid Gas Europe welcomes the possibility for member states apply a reduction to heating fuel used by households in article see Article 17(c). We believe however that Member States should also have the possibility to apply a reduced rate for rural businesses.

#### **5. Ensure consistency with the Renewable Energy Directive**

The Commission's Energy System Integration Strategy sets out that renewable gases have an important role to fulfil in Europe's energy system, particularly in reducing emissions in so-called hard-to-decarbonise sectors, including certain transport segments but also rural heating. The revised Directive should therefore make it possible to promote renewable LPG and stimulate their uptake.

Today all renewable LPG on the European market is bioLPG that is a co-product of hydrotreated vegetable oils (HVO) diesel. Depending on the feedstocks used, this product would fall into tax category of 'sustainable food and feed crop biogas', 'sustainable biogas' or 'advanced sustainable biogas'. Other renewable LPG pathways are currently under development and close to commercialisation.

<sup>4</sup> In terms of share of population that is at risk of poverty or social exclusion, the figures are higher in rural areas (22.4%), compared to cities (21.3%) and towns and suburbs (19.2%), and in ten Member States the percentage of the population at risk of poverty in rural areas has risen since 2012. See: Eurostat (2019), Share of people at risk of poverty or social exclusion, analysed by degree of urbanisation, [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share of people at risk of poverty or social exclusion, analysed by degree of urbanisation, 2019 \(%25\) LCIE20.png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Share_of_people_at_risk_of_poverty_or_social_exclusion,_analysed_by_degree_of_urbanisation,_2019_(%25)_LCIE20.png)

<sup>5</sup> In 2015, The European Commission was provided advice that the scope of energy poverty is not confined to the electricity and gas markets but is prevalent in households that are not on the gas or electricity networks. Full report: Pye S., Dobbins A. et al., Energy poverty and vulnerable consumers in the energy sector across the EU: analysis of policies and measures (2015), [https://ec.europa.eu/energy/sites/ener/files/documents/INSIGHT\\_E\\_Energy%20Poverty%20-%20Main%20Report\\_FINAL.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/INSIGHT_E_Energy%20Poverty%20-%20Main%20Report_FINAL.pdf)

Welcoming the inclusion of renewable products in the scope of the directive, we believe it is key to ensure consistency with the Renewable Energy Directive, which is the main piece of renewables legislation including definitions and linked sustainability criteria. The current ETD proposal is not fully consistent with the Renewable Energy Directive and would lead to legal confusion. With regards to biogas definitions, the proposal is neither clear, nor consistent with REDII.

The distinction between “sustainable food and feed crop biogas” and “sustainable (but not advanced) biogas” proposed by the Commission is not grounded in the REDII. Food and feed crop based gases have to comply with stringent sustainability and greenhouse gas savings defined in REDII to be counted towards the renewable energy targets. Food and feed crop based biofuels and gases with a negative environmental impact – so-called high ILUC risk biofuels and biogases – will fall into the category of the non-sustainable biofuels after 2030. Therefore, the categories “sustainable food and feed crop biogas” and “sustainable biogas” should be merged into one.

The proposal of the Commission sets a minimum taxation level for “sustainable food and feed crop biogas” at the same level as fossil fuels in 2033. This is in contradiction with the sustainability requirements of the RED II. Recital (91) of the current RED II states that “Feedstock which has low indirect land-use change impacts when used for biofuels, should be promoted for its contribution to the decarbonisation of the economy”. That is why we strongly recommend that the re-defined “sustainable (not advanced) biogas”, as proposed above, keeps the second lowest rank of minimum taxation level.

### **About us:**

Liquid Gas Europe is the voice of the European Liquefied Petroleum Gas (LPG) industry, and is composed of national LPG associations, the main European LPG suppliers, distributors and equipment manufacturers. With the support of its Taskforces of industry experts, Liquid Gas Europe is actively involved in concrete initiatives and programmes to ensure the sustainable, safe and efficient development of LPG and renewable LPG in Europe.

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