



Fiscal Aspects of the Energy Transition

Bruegel Lunchtime Event
October 17, 2017

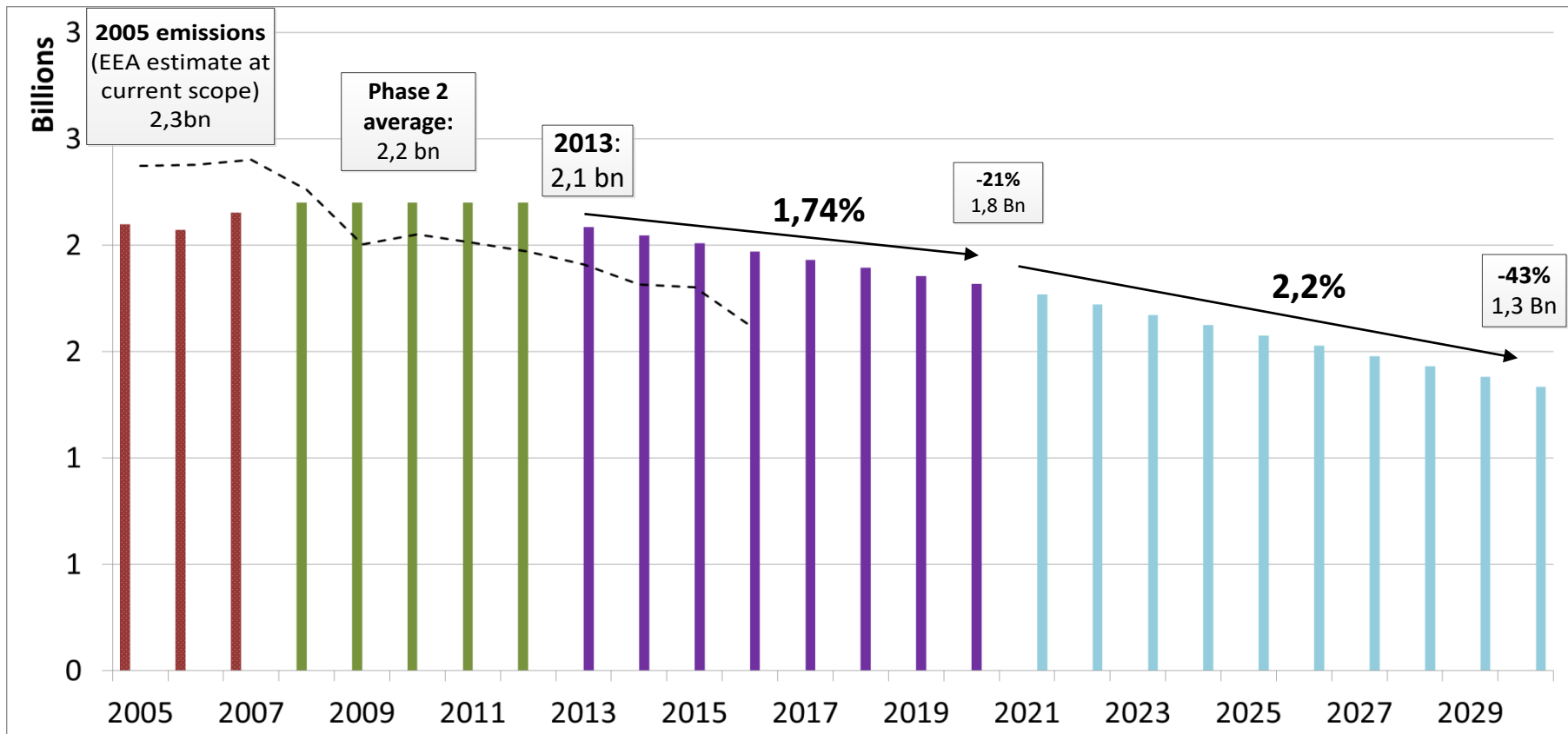
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*Climate
Action*

EU ETS

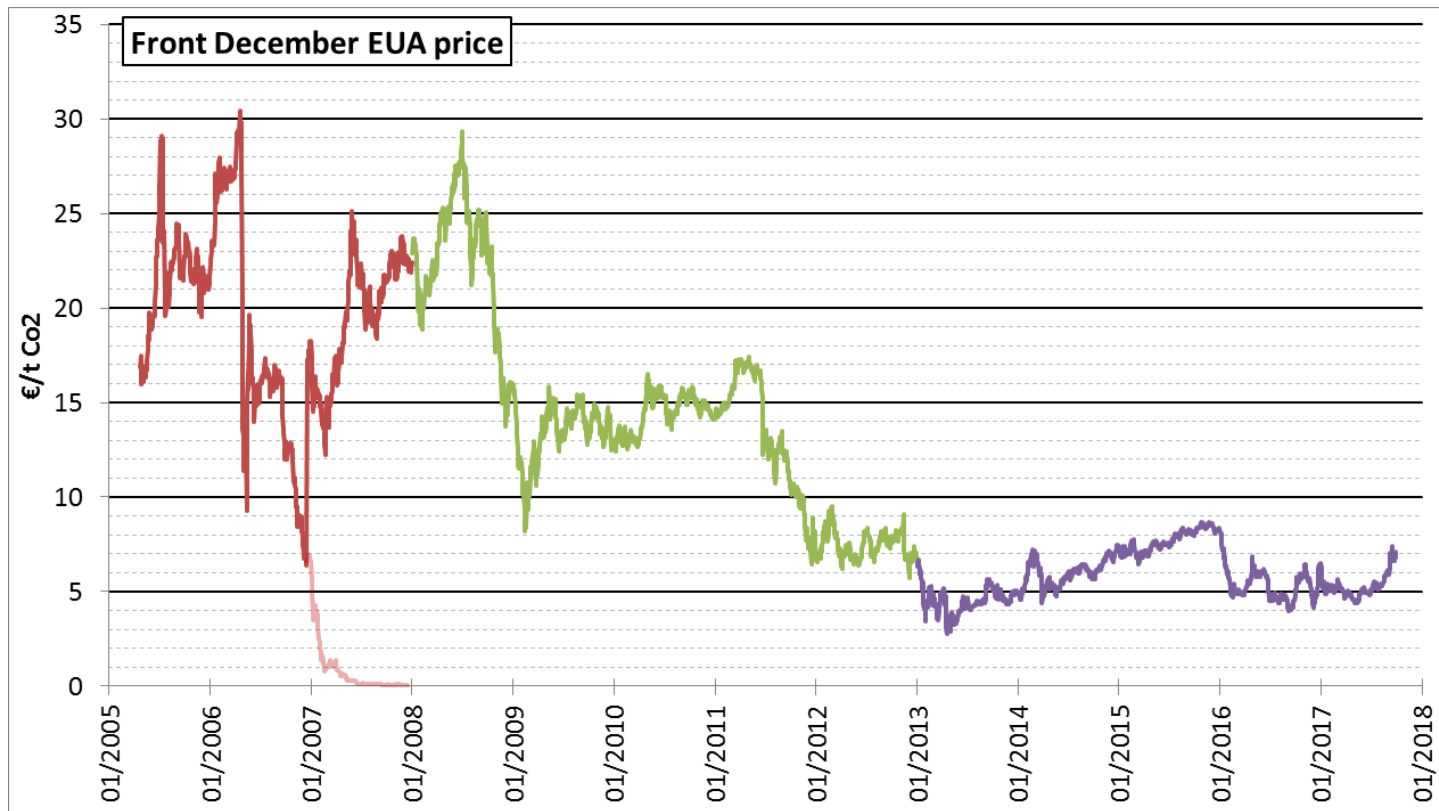
- Covering around 41% of EU GHG emissions; Cap on emissions of ~11,000 energy-intensive installations across EU and aircraft operators
- Largest cap-and-trade system of the world: 84% (value) and 76% (volume) of international carbon market; California, Canada, China, New Zealand & others coming
- Solidarity mechanisms for lower income Member States:
 - 10% redistribution of auctioning rights; option to give allowances for free to power sector under Article 10c; Modernisation Fund of 310 mn allowances (+Just Transition Fund?)

ETS cap is delivered



Note: The emissions for phases 1 and 2 are EEA estimates of historic emissions, using the current Phase 3 scope of the ETS.

ETS price development



Source: calculations based data from ICE exchange contract for delivery in December. For 2007, data for 2008 contract are used.

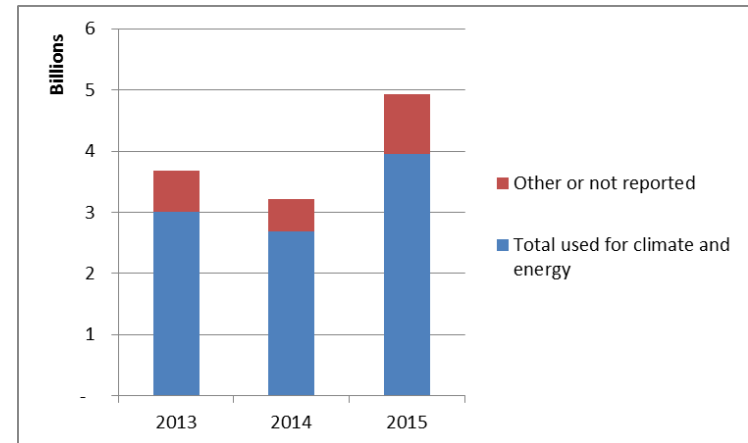
EU ETS – preparing for 2030

- **Market Stability Reserve (MSR) as from 2019**
- **ETS revision for post-2020 period**
 - *Increased reduction of cap by 2.2%/year*
 - *Fixed auction share of 57%*
 - *Better targeted free allocation for industry*

ETS revenues to finance the low carbon transition

- Member States to use **50% of ETS auction revenues** for climate-related purposes.
 - ✓ In practice MS spend more than 80% on climate action
- **Innovation Fund**
 - ✓ To support the commercial deployment of low carbon innovation – industry, CCS/U, renewable energy
 - ✓ +/- 450 million ETS allowances

Member State use of ETS revenues 2013-2015



Energy Taxation Directive

Energy Taxation Directive revision proposal from 2011

- Proposed a tax according to CO₂ emissions and energy content to reduce CO₂ emissions while providing incentive to save energy
- Framework for CO₂ taxation proposed as a complement to the EU ETS (e.g. tax is an alternative to ETS for small installations excluded from the ETS)
- Single minimum rate for CO₂ emissions of (20 € per tonne of CO₂) to all sectors not covered by the EU ETS
- Motor fuels – proposal to align the tax treatment of diesel and petrol (minima for petrol is higher than for diesel)

Unanimity required, No Agreement, the Commission withdrew proposal in 2015

Eurovignette: 2017 Commission proposal for revision

- **Charging based on distance (i.e. tolls) as opposed to time (i.e. vignettes) better reflects actual usage, emissions and pollution.**
 - Phase-out time-based systems after an appropriate transition phase (2023 for heavy-duty vehicles, 2027 for other categories).
- **Reward environmentally friendly vehicles**
 - HGVs and bus/coaches – New revenue neutral variation based on CO₂: as soon as CO₂ emission certification data become available (~ 2020).
 - LDVs – Variation based on CO₂ and real-driving pollutant emissions
 - Zero-emission vehicles: 75% lower than highest rate.
- **Possibility to charge based on external costs, such as noise, congestion and air pollution.**
- **Contribute to sustainable infrastructure funding**
 - Revenues can be important contribution to financing infrastructure and bridge the current maintenance gap in the EU

Fiscal aspects of the low carbon transition gaining traction

- **Monti report on the EU budget and own resources**
 - ✓ Several options for new own resources in the fields of energy and climate: ETS revenues, CO2 tax for the non-ETS sectors, motor fuel levy, electricity tax
- **Reflection paper on the future of EU finances**
 - ✓ Carbon pricing as revenue to support policy objectives
- **Macron speech on a sovereign, united and democratic Europe**
 - ✓ Fair and sufficiently high carbon price
- **Policy challenges:**
 - ✓ Trade policy questions
 - ✓ Unanimity on tax issues



Thank you!

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