



EFIEES' position on the revision of the Energy Taxation Directive

EFIEES, the European Federation of Intelligent Energy Efficiency Services, is the voice of private energy service companies (ESCOs) and their national associations in 12 EU Member States. Our members represent over 130.000 professionals committed to the design and implementation of energy efficiency measures in public and private buildings, industrial facilities, as well as to the efficient operation of district heating & cooling networks.

Following the launch of the European Green Deal, EFIEES has been actively engaged in the process, which has led to the comprehensive and interconnected set of proposals in the Fit for 55 package to deliver on the Union's climate ambitions. To reach these ambitions, **the role of energy efficiency is crucial, in the heating sector in particular**, which stands for a large share of the Union's energy use. Therefore, we welcome the European Commission's proposal for a recast Energy Taxation Directive (ETD), which **sends a clear pricing signal to benefit both energy efficiency and the uptake of renewable energy.**

EFIEES' position

The proposal aims to effectively align the tax system for energy products with the Union's energy and climate policies, promote clean technologies, reduce the scope of applying outdated exemptions and reduced rates, and prevent the implementation of divergent national rates. In addition, the ETD will incentivise energy efficiency and decarbonisation efforts by complementing the revised EU ETS directive, which will establish an adequate and coherent price on GHG emissions (allowing for a level playing field across the heating sector).

We believe that this recast should be an occasion to foster and facilitate the decarbonisation of the heating sector through:

- Enabling the most favourable treatment of solutions such as biomass;
- Focusing on the potential of energy efficiency measures as a prerequisite to fuel switch and key to optimising any heating installation, whether using renewable energy sources or not.

Below are key points that we would like to see reflected in the final text of the recast directive.

Accelerating decarbonisation of the heating sector through the ETD

We agree with the European Commission that the current ETD is outdated regarding alignment with the Union's climate and energy efficiency objectives. **In its current form, it is hampering a fuel switch from high emitting fossil fuels to low-carbon and sustainable renewable energy sources.** The proposal aims to deal with these insufficiencies through a raised and differentiated minimum taxation rate for energy products based on their

energy content instead of their volume and overall climate and environmental performance. This results in the highest minimum tax rates for the most emitting fossil fuels while defining lower tax rates for low-carbon, sustainable and advanced products.

We welcome a higher price on the highest emitting heating fuels as an essential tool to enhance the attractiveness of energy efficiency and decarbonisation. However, we believe that **the levels proposed for biomass products do not reflect their main carbon neutrality advantages**. Furthermore, biomass products are the most price-efficient and accessible tools for fast transitioning to a renewable heating system while benefiting the local economy. Thus, the pricing signals provided by the ETD should be adapted accordingly.

The ETD should further increase the differential between fossil and renewable energy. This becomes especially true compared to the minimum tax rate set for electricity, which is far from being decarbonised. Therefore, **we propose that the minimum level of taxation applicable to heating fuels living up to the sustainability and greenhouse gas emission saving criteria for biomass in the Renewable Energy Directive (RED) is reduced to zero**. Doing so, the ETD would also be more consistent with the proposed revision of EU ETS, having an emission factor of these products set at a default value of zero¹.

Reduced and better conditioned exemptions

We welcome the proposal's intention to reduce the number of possible exemptions and reductions to ensure consistency and a level playing field. However, **while certain exemptions and reductions will remain necessary, we believe they must be duly justified and conditioned based on environmental performance and energy efficiency**, as is the case for high-efficiency cogeneration.

In the industry sector, in particular, taxation schemes should be designed to avoid creating any significant disadvantage against competitors outside the EU, and an adequate tax level should act as a price signal to support energy efficiency. Hence, **tax reductions should be linked to a stringent definition or verifiable efforts** (see Article 18). In addition, they should be attached to effective commitments to adopt solutions such as energy management systems, energy performance contracting, or similar arrangements based on a guaranteed energy performance criterion.

Likewise, we believe that too generous reductions for households might lead, in some cases, to skewed incentives. Fighting energy poverty should be prioritised in the Union's energy policy and supported with specific provisions across the entire "Fit for 55" package and the upcoming revision of the Energy Performance of Building Directive (EPBD). However, **pricing incentives to reduce consumption of fossil fuels should remain and be coupled with support to energy efficiency actions that reduce energy bills**.

For example, **targeted support should be possible for district heating consumers**. District heating ensures indeed better energy efficiency at a community level, including for vulnerable- and energy-poor households. **Adequate pricing levels coupled with energy efficiency actions would help to alleviate energy poverty in the long run**. If necessary, additional social instruments at the European, local or national level should be available, targeting the households needing it most.

¹ The emission factor referred to concerns the European Commission's proposal on July 14, 2021, for amending Directive 2003/87/EC (ETS Directive), Annex IV: "The emission factor for biomass that complies with the sustainability criteria and greenhouse gas emission saving criteria for the use of biomass established by Directive (EU) 2018/2001, with any necessary adjustments for application under this Directive, as set out in the implementing acts referred to in Article 14, shall be zero."