Attn Mr Vicente Hurtado Roa
DG TAXUD
European Commission
1049 Bruxelles
Belgium

Dear Mr Hurtado Roa

PricewaterhouseCoopers International Limited, on behalf of the Network Member Firms of PwC (PwC), welcomes the opportunity to respond to the consultation on the revision of the Energy Taxation Directive (ETD).

We welcome the review of tax policy as a tool to achieve the objectives of the European Green Deal. PwC has recently committed to reaching net zero emissions by 2030, to integrating “net zero” in our work with clients, and to helping shape and accelerate the climate and policy agenda.

Harmonise and simplify energy taxation in the Single Market
Harmonisation and simplification of energy taxation would be welcomed by business. We commend the Commission for initiating a revision of the ETD to streamline the highly complex patchwork of national rules and making it simpler to comply with tax obligations. Preventing and removing existing instances of double taxation, e.g. for storing and then using energy, is an important principle of simplification. Further, the revision of the ETD will allow rethinking and harmonising tax exemptions and making them easy to understand. The tax policy framework can help reflect the real climate impact of energy carriers based on scientific evidence: reducing the possibility to give national exemptions for carbon-intensive energy sources would be a strong signal for the transition to carbon neutrality. Common principles for taxing energy consumption and “one carbon price” are necessary for further integration in the Single Market, while taking into account the different starting points in the energy transition.

Ensure consistency with the EU Emission Trading System
The EU ETS remains the key policy tool to price carbon emissions from energy production. The EU ETS and the ETD will have to form part of a coherent framework, ensuring “one carbon price” in Europe. In our view, the EU ETS would preferably be used to set the carbon price based on CO_2 emissions levied from producers and end user energy taxes could then be used to address other policy objectives (e.g., energy efficiency, air pollution, road congestion, etc.). This would incentivise energy efficiency by users and the shift towards clean production from

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producers. In addition, consideration could be given to expanding the EU ETS to cover emissions from non-industrial uses of fossil fuels to achieve a single price for CO_2 emissions, as stated by President von der Leyen in her recent State of the European Union speech. The carbon price established by the ETS will inevitably trickle down to the consumer, therefore ensuring that the externality is accounted for in the energy market price. The ETD could instead be designed as a consumption tax, complementing the framework from the user side with the key objective to incentivise energy efficiency, as well as addressing other environmental considerations following the 'polluter pays' principle.

The carbon border mechanism can also be built into the EU ETS by extending it to imports. This would ensure a link to domestic carbon price and therefore will be less likely to be viewed as a protectionist measure by third countries.

Make sure taxation supports a socially just transition
The most crucial success factor to put in place a framework that supports climate targets without hindering economic growth, is the way in which the revenues are spent. The Commission might consider a revenue distribution policy, so that "greener" energy taxation does not come at the expense of employment and economic development. Additional revenue from the energy tax could be used for helping businesses during their transition, funding climate adaptation infrastructure, and funding R&D for climate change mitigation technologies. In this regard, specific tax relief could be considered for innovative lower carbon initiatives in order to support the business case during a well defined transition period (e.g. biofuels, hydrogen).

Revenue raised could also be used to lower taxation on labour. Labour taxes constitute a barrier to inclusive growth. The Commission has recognised this numerous times within the European Semester process. The Commission might explore possible ways to implement well-targeted labour tax cuts funded by energy taxation to support those who are disproportionately affected by an increased carbon price i.e. low-income earners.

Protect European competitiveness
By way of conclusion, in reforming energy taxation the Commission should take a holistic view of markets for energy and resources, giving due consideration to the international and geopolitical context and to protecting the competitiveness of EU industry. A sustainable energy taxation framework should avoid reducing the attractiveness of investments in the EU, especially in the context of the post-covid recovery. For example, in order to stimulate additional investments, fiscal incentives for energy efficiency could be linked to private sustainable finance instruments, e.g. green mortgages and bonds. Furthermore, energy security and diversified supply remain fundamental objectives of the Energy Union, in line with the EU "open strategic autonomy". Finally, the reform of energy taxation will need to take into account all elements of the "Clean energy for all Europeans" package, currently being implemented. In particular energy efficiency targets, user-centric market design, integrated governance, and streamlined and

transparent monitoring and reporting systems are all key pillars to build on for a coherent taxation framework.

Next steps

For any clarification on this response, please contact me or any of the contacts below. We look forward to discussing any questions you have on the points we raise above. We would welcome the opportunity to contribute to the discussion.

Yours faithfully,

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