BRIEFING

BUSINESSEUROPE

GREEN TAXATION

KEY MESSAGES

1 Installations covered by the ETS should be exempted, to avoid the risk of carbon leakage and to avoid economic inefficiencies.

2 Free allocations should be given to those sectors at risk of carbon leakage.

3 Installations covered by alternative schemes should not be taxed.

4 Use of offset mechanisms should be allowed.

5 Administrative and compliance costs should be kept to a minimum. Administrative and compliance costs should be kept to a minimum.

BACKGROUND

The Commission is currently reviewing the Energy Tax Directive (ETD). BUSINESSEUROPE recognises the need to reduce greenhouse gas emissions in the sectors not covered by the Emissions Trading Scheme (ETS). However, Member States have already implemented measures in this regard, and these should be evaluated as to their cost-efficiency in reaching the environmental objective.

The Commission should first address fundamental issues of the revision before tackling the details. Given that the Commission has not yet established what the criteria for equivalent measures should be, and Member States have not had much time to design and implement such measures since the ETS directive was finalised, it could be counter-productive to proceed with a minimum carbon tax at this stage.

If the Commission is to propose a European carbon tax framework, it should not cover installations within the scope of the ETS, and there should be no overlap with existing national measures outside the ETS. Besides, the proposed tax framework should work under the principle of revenue neutrality: overall tax and compliance burden should not increase, so that carbon taxes are matched by a reduction in other taxes.

WHAT DOES BUSINESSEUROPE AIM FOR?

- **No taxation of installations covered by the ETS, whether or not they receive free allowances.** Under the ETS, sectors at risk of carbon leakage, receive free allowances, which are allocated with reference to benchmarks that are based on the most efficient installation of the sector, and that decrease over time. Therefore, imposing a carbon tax on those installations that receive free allowances would create a negative effect on competitiveness that free allocation aims to avoid.

- **No taxation of installations covered by equivalent measures.** Under the current ETD and ETS, businesses can apply exemptions for agreements that that achieve equivalent reductions in CO_2 emissions. When alternative schemes are available (equivalent measures), countries should be allowed to opt out of the EU CO_2 tax framework, and existing CO_2 tax regimes should be recognised as equivalent measures.

- **Mirror free allocation in tax systems.** The Commission recognises the need to prevent carbon leakage. Therefore, to mirror the ETS free allowances, we propose:

  - exempt sectors on the ETS carbon leakage list from carbon taxation;
  - identify which other sectors not part of the ETS are also at risk of carbon leakage;
  - introduce a transition period for installations covered by the carbon tax and not exposed to carbon leakage, in line with ETS auctioning rules.

- **Use of offset mechanisms.** Currently, companies can convert international carbon credits (obtained by achieving an equivalent reduction in emissions outside the EU where it is cheaper to do so) into allowances that can be used for compliance under the EU ETS, thus achieving a cost-efficient reduction of emissions. Similar offset mechanisms should be envisaged for a carbon tax to ensure cost-efficiency and a level playing field.

- **Expected administrative costs.** The Commission should reduce the administrative and compliance burden of companies from the scheme. For instance, standard conversion factors for CO_2 reporting would decrease compliance costs for companies.