EGEC welcomes the European Commission’s intention to revise the Energy Taxation Directive (ETD) to remove harmful fossil fuel subsidies and align energy taxation to the net-zero climate target by 2050.

To be effective, the revision will include:

1. **Removing direct and indirect fossil fuel subsidies for heat:** We endorse the emphasis placed on “effective carbon pricing and the removal of fossil fuel subsidies”. However, it is also important to remove taxation on renewable energy goods to aid the displacement of harmful fossil capacity. Currently, taxation on fuel and energy products is the main policy instrument to apply a carbon price on installations below 20 MW of thermal input. In several Members States, direct and indirect fossil fuels subsidies in heating sector persist in the form of tax rates reductions or full exemptions. Such a situation is detrimental to renewables-based solutions and ultimately undermines our efforts to achieve carbon neutrality by 2050.

2. **Internalise the cost of externalities in fossil heat:** Heat accounts for nearly half of the EU’s energy consumption. Unlike electricity generation, fossil heat does not have a uniform carbon price applied. The new ETD must correct this imbalance, especially on fossil heating appliances in households. Therefore, we encourage the Commission to analyse the two main heat and cooling sectors – buildings and industry – as accelerating their decarbonisation is central to the 2030 and 2050 targets. Furthermore, the lack of access to information about renewable heating, cooling and electricity solutions as well as the climate damages caused by fossil fuel consumption is also an indirect fossil fuel subsidy and should be rectified.

3. **Removing tax barriers for renewable energy solutions in heating and cooling:** The EU Strategy on Heating and Cooling highlighted that **heating and cooling will remain the largest EU energy use by 2050** and underlined the need for transition towards the use of renewables in order to meet zero-carbon emissions targets. It also recognises that a wide range of renewable heating and cooling solutions are already available and scaling-up the market would reduce their price.²

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1. *Belgium, Bulgaria, Croatia, Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Slovenia, Spain, United Kingdom (source Energy Efficiency Directive, Article 7: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012L0027&from=EN]*
However, under current ETD provisions renewable technologies are more expensive compared to fossil fuels, as the latter still benefit from low minimum rates and numerous exemptions. This fact clearly has a negative impact on the energy transition process itself. Modelling from the International Institute for Sustainable Development (IISD) concluded that 20% of global greenhouse gas emissions would be reduced if between 10–30% of fossil fuel subsidies were reinvested into renewable energy solutions.\(^3\)

4. **Shifting taxation from volume to harm:** The current ETD sets out minimum rates for energy products that are mainly based on volume. It disregards their carbon content and capacity to pollute. What is even more harmful under the current ETD framework is that renewable energy sources are taxed on the same volume basis as diesel and petrol. These provisions clearly contradict the European Green Deal’s energy objectives and it must be changed immediately.

5. **Measuring the social impact:** Whilst we welcome the intention to measure the social impact on households and industry it is important that this assessment is conducted in a holistic manner and clearly states underlying assumptions. For example, it takes two days, on average, to install a household geothermal heat pump so there is minimal time for buildings to switch to renewable energy solutions. Furthermore, the benefits of renewable energy should be measured against the reduction in energy imports, avoid of climate change damages and climate adaptation costs, employment benefits and avoided healthcare costs, for example.

6. **Including the latest technology:** Many new renewable energy technologies, such as Enhanced Geothermal Systems, emerged since the ETD was agreed in 2003. The impact assessment must include the entire range of renewable technologies, especially those which have already proved to be cost-effective and energy efficient. For example, the International Renewable Energy Association (IRENA) found a substantial decline in in the cost of developing new renewable energy power plants such as geothermal energy, solar photovoltaic, onshore wind and biomass, which cost of $0.10 per kWh on average.\(^4\)

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