



smartEn
Smart Energy Europe

Response to consultation on the EU framework for taxation of energy products and electricity

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About smartEn - Smart Energy Europe

smartEn is the association of market players driving digital and decentralised energy solutions.

A successful European energy transition requires the intelligent cooperation between consumption, distribution, transmission and generation, acting as equal partners in an integrated energy system.

Our vision:

The digitally enabled interaction of demand and supply is an integral part of an increasingly decentralised, decarbonised energy system.

Our mission:

- **Promote system efficiency** through the advanced management and integration of electricity demand and supply in homes and buildings, transportation, businesses and decentralised energy projects.
- **Empower energy users** by enabling them to participate in the energy market through flexible demand, storage, self-generation and the participation in community projects, and giving them control of their energy data.
- **Encourage innovation and diversity** by enabling new market players and service offers that provide attractive choices for consumers and allow for healthy competition.
- **Drive the decarbonisation of the energy sector** through the cost-effective integration of renewable sources and the electrification of heating, cooling and transport.

Industrial membership



Contribution towards evaluation of the EU framework for taxation of energy products and electricity

In order to reach European decarbonisation targets, it is imperative that all technologies, including renewable energy, demand response, and storage are able to participate in the energy transition on an equal footing. However, the way in which these different technologies are treated under tax law plays a significant role in their ability to compete in various markets. The current Energy Taxation Directive, adopted in 2003, sets minimum levels of taxation for products used as motor or heating fuel and for electricity. Above these minimum levels - barring various exceptions - Member States are free to set their own level of taxation. As stated in the consultation text, this is to ensure that the internal market operates smoothly and to avoid double taxation or major distortions of trade and competition between energy sources and energy consumers and suppliers which could result from considerable differences in national tax rates.

For the Energy Taxation Directive to **complement the goals of the internal market, as well as the social and environmental objectives of the European Union**, it should help define overarching principles for taxation which enable all possible technologies to participate in the energy transition on an equal footing. There are various ways in which an updated Energy Taxation Directive could contribute towards these goals.

- Avoid distortion caused by an imbalanced taxation of fuel sources
- Taxation of energy should support price signals instead of blunting them
- Innovative energy technologies (e.g. storage solutions) should be taxed in a fair and transparent way.

First of all, any **distortion caused by imbalanced taxation of fuel sources** should be avoided.

Electrification of transport and heating is an important climate policy objective, but is counteracted if taxes and charges on electricity outweigh the dues on e.g. fuel based heating.

Secondly, **taxation should support price signals instead of blunting them**. Effective price signals are an important component of a dynamic and flexible energy system. However, the high share of fixed taxes, charges and levies on end user electricity prices in European countries have a significant blunting effect on energy price signals. This creates a counter incentive to flexibility and instead only incentivises general reductions in consumption, regardless of timing.

Lastly, the Energy Taxation Directive should ensure that **new and innovative energy technologies are taxed in a fair and transparent manner**. The importance of such a principle becomes apparent in the case of storage solutions. Despite the considerable benefits storage can bring to a flexible and efficient energy system, there are still taxes and levies in place which doubly burden storage and thereby distort investment decisions. This is because storage operators are taxed when they charge their storage assets, and even if those kWhs are then used for system services as opposed to consumption, storage operators are still taxed when they recharge their storage assets.