

# AEGPL contribution to Commission's consultation

# Market-based instruments for environment and related policy purposes

# The European LPG Association (AEGPL)

agrees with the objectives set by the Commission, and:

- Calls on the Commission to integrate market-based instruments (MBIs) in a consistent policy mix in order to increase positive environmental impacts and influence economic actors' behaviour:
- Stresses the importance of developing a long term energy fiscal framework differentiating energy and environmental / social aspects;
- Calls on the Commission to develop a non-discriminatory comparison of energies by application as a basis for any reform of environmentally-related subsidies;
- Calls on the Commission to assess environmental and health-related external costs by adopting a life-cycle approach;
- **Supports** the creation of an MBI Forum to exchange information on MBI best practices, which should be opened to industry stakeholders' participation.

#### 1. Introduction

Climate Change is an undisputable fact that we all have to fight against. The LPG sector is fully committed to delivering the greatest possible contribution to the new integrated energy and climate change agenda, through a constructive and realistic approach.

LPG's role in addressing these challenges has already been recognized at both EU and Member State level.

AEGPL agrees with the need to use more intensively market-based instruments, such as indirect taxation and targeted subsidies, to reach the following policy objectives:

- o addressing climate change internally and on an international scale;
- o promoting environmental sustainability;
- o diversifying the European energy mix;
- o reducing dependence on external resources;
- o ensuring the competitiveness of European economies.



Nevertheless, AEGPL believes that these instruments should reflect long-term policy objectives and give the appropriate signals to energy users accordingly.

In the transport sector, MBIs can play a more important role in promoting the EU's policy objectives, notably by encouraging the use of alternative fuels. AEGPL therefore calls on the European Commission to actively support the use of economic incentives at national level for cleaner vehicles, such as gaseous fuelled-vehicles.

AEGPL firmly believes in the role of MBIs and is convinced that, as a clean alternative energy, LPG can contribute to reaching the EU's energy and climate change objectives.

# Using market-based instruments for Community policy purposes

#### MBI in the EU context

Be consistent, integrated, and promote competitiveness

AEGPL supports the more intensive use of MBIs by the European Union, in order to reach Community policy objectives on protection of the environment.

Nevertheless, all energy-related MBIs should be integrated and coherent with other instruments<sup>1</sup> as part of a consistent policy mix in order to increase positive environmental impacts and influence economic actors' behaviour (complete set of incentives and disincentives).

AEGPL also believes that MBIs can and should be put into place without imposing undue administrative burdens on companies, particularly SMEs. Such an approach will contribute to ensuring the ongoing competitiveness of the European economy as a whole.

#### The case for environmental tax reforms

· Create an MBI Forum to exchange information on MBI best practices

AEGPL agrees with the need to enhance the exchange of information between Member States on their best practices in the area of MBIs, and more specifically, environmental tax reform. The establishment of an MBI Forum would be a useful tool for facilitating these information flows.

This MBI Forum should be opened to industry stakeholders' participation and give them the opportunity to share their practical experience with MBIs. AEGPL is willing to contribute to this debate and to present its experience of MBIs application to the LPG sector in the Member States.

# Reform of environmentally harmful subsidies

Develop a non-discriminatory comparison of energies / applications

Analyses of the use of different energy sources should take into account not only their impact on climate change, but also on the local environment, highlighting their effect on human health. They should also take into account the fact that while certain energy sources, notably renewables, exhibit highly promising prospects for the long-term, they face certain challenges in terms of development costs and immediate availability.

<sup>1</sup> Such measures should be applied to private and also public entities, for whom green procurement would be an effective option.



AEGPL considers that such analyses should integrate the different impacts on the environment and human health throughout the entire life-cycle of energy products.

In addition, such analyses should be undertaken for each specific application and not generally, by type of energy.

These comprehensive, detailed and multidisciplinary analyses would lead to the creation of indicators allowing a fair comparison between energies / applications. These elements should be used as a basis for any reform of environmentally-related subsidies.

# 2. Further application of MBIs in influencing energy use

### Streamlining and developing the Energy Taxation Directive

 Develop a long term energy fiscal framework differentiating energy and environmental / social aspects

Any revision of the Energy Taxation Directive should correspond to a long term fiscal framework to ensure visibility for the necessary public and private investments.

This integrated fiscal framework should remain simple and predictable in order to give clear and appropriate signals to both energy users and industry. The expected changes in actors' behaviours (resulting from the incentives and disincentives schemes) should be genuinely feasible.

The following methodology would be an effective approach to the development of a non-discriminatory energy taxation policy:

- o For the purposes of an initial reflection, all costs (fixed and variable, direct and indirect) external costs of energy use should be internalised, with uniform taxation conditions envisioned for all fuels.
- o From this equitable point of departure, a differentiated taxation system, reflecting not only the environmental costs of energies (including greenhouse gas and non-greenhouse gas emissions), but also their immediate social impact on human health, should be developed. Evaluation of these factors should be transparent and objective.

Energy taxation should also take into account strategic elements such as: energy availability, security of supply and the importance of maintaining a diverse European energy portfolio.

While respecting the objective of a diversified energy mix, the concept of 'best-suited energies by application' will probably emerge from this comparison. Nevertheless, this should be adapted to the specific conditions of each European region and Member State.

If the European Commission plans to encourage the development of "second generation biofuels" through energy taxation, AEGPL also supports the promotion of other alternative fuels, such as gaseous fuels, in the same manner. In addition, to benefit from these energy taxation incentives, new energies such as biofuels should comply with a sustainable certification process.

Finally, the European Commission should recommend earmarking part of energy taxation revenues to communication campaigns promoting the switch to clean energies by end-users.



# 3. Options for further use of MBI in environment policy

### Tackling the environmental impact of transport

Assess environmental and health-related external costs along a life-cycle approach

AEGPL supports the creation of a generally applicable, transparent and comprehensible model for the assessment of all external costs integrating not only environmental but also health-related impacts. Any direct and indirect external costs should be taken into account from the upstream energy supply chain to end use.

AEGPL is willing to contribute to the identification of the LPG industry's production and distribution costs.

As regards local charging systems, AEGPL favours the introduction of congestion charges taking into account PM,  $NO_X$  and  $CO_2$  emissions. AEGPL also believes in the need for EU support for such systems.

#### The use of MBI to address air pollution

 Take a broad view of emissions, including not only CO<sub>2</sub> but also other harmful pollutants

AEGPL stresses the need to avoid excessive focus on  $CO_2$  at the risk of ignoring the impact of other pollutants ( $NO_X$ ,  $SO_X$ , PM...) which generate air pollution, and, by extension, pose a threat to human health.

The use of MBIs to promote cleaner alternative energy sources is a simple and effective means by which the EU can pursue the dual objectives of energy diversification and reduction of air pollution.

#### Conclusion

Facing a set of urgent energy and environmental challenges, the European Union must mobilise all its resources, including the European citizens and the energy industry.

The LPG sector, with its readily available clean energy, can contribute to the reduction of the impact of energy use on the environment and human health.

A new approach to developing MBIs is one of the concrete tools that the European Union and the Member States could use to respond to the current challenges.

Key prerequisites should be developed for any tax reform:

- non-discrimination between energies (evaluations should be application-specific),
- long-term predictability of the fiscal framework,
- integration of all external costs based on a life-cycle approach.

The European LPG industry is ready to cooperate with all interested parties to achieve the goals set by the European Commission.



# **Brief presentation of AEGPL**

AEGPL (European Liquefied Petroleum Gas Association) represents **24 national LPG associations in Europe**.

The association is also composed of the major **LPG equipment manufacturers** and **distributors** in Europe contributing to the **improvement of human health and the environment** in Europe.

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