

Position Paper on the provisions of Transport of the European Commission proposal to revise the Energy Tax Directive (ETD)

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1. Preamble

Given that EU islands are on the front line of climate change, affected by rising sea levels, coastal erosion, warming, loss of biodiversity, acidification of seas and oceans, the increased frequency and violence of natural disasters and the problems of desertification which can cause multiple forms of economic, social and environmental damage, it is to be noted that:

INSULEUR fully supports

the long-term objectives of the EU Green Deal and the major policy revamp enabling the achievement of the EU's climate targets, and recognizes that the "Fit for 55" package is a significant step towards the acceleration of the EU's decarbonization efforts. INSULEUR also acknowledges that the revision of certain aspects of the ETD are required to reflect technological developments that took place since its introduction in 2003, such as to account for new energy products that currently fall outside the scope of the Directive.

However, INSULEUR also reminds that

- Characterized in the main by a physical 'disconnection' from the mainland, the challenges faced by EU islands are the result of permanent conditions, such as, amongst others, an **almost exclusive dependence on maritime and air transport**, paired with higher transportation costs compared to the mainland.
- Because of their insularity, and other permanent structural handicaps, islands are also characterized by a lack of economic diversification, leaving **the tourism sector as the main contributor to the economic growth of EU islands** in terms of income and employment. Some islands are also solely reliant on this sector.

As indicated by the report approved by the European Parliament on "EU islands and cohesion policy: current situation and future challenges" (2022):

islands often suffer from a combination of multiple and permanent natural handicaps such as small size, for most part low population density, demographic challenges such as seasonal demographic pressure, small markets, double insularity (island and archipelago), difficult topography very similar to that of mountainous regions, dependence on maritime and air transport and dependence on a small number of products.¹

It is within this context that INSULEUR is formulating its position and putting forward its proposals on the revision of the Energy Tax Directive.

2. The Proposals of the European Commission

The European Commission is proposing that:

- Kerosene which is used as fuel in the aviation industry, and heavy fuel oil which is used in the maritime industry will no longer be fully exempt from energy taxation for intra-EU voyages in the EU; and that

¹ European Parliament (13 May 2022), *Report on EU islands and Cohesion Policy: Current Situation and Future Challenges*, p. 4.

- Over a period of ten years, the minimum tax rates for these fuels will gradually increase while sustainable fuels for these sectors will benefit from a minimum rate of zero to foster their uptake

3. INSULEUR's position

Articles 14 and 15 of the ETD Commission proposal revoking the tax exemption on aviation and marine fuels will increase the fuel costs of air and maritime carriers for EU travel. Consequently, this will contribute to the reduction of the demand for air travel among passengers to EU islands², and therefore have a significant negative impact on EU islands economies and competitiveness, given their dependency on tourism.

It will also limit the freedom of movement of people living on islands as they do not have access to alternative forms of transport such as road and rail. Since the maritime carriers having an equally strategic role for the EU islands' economic resilience, it is also crucial for marine transport operators to provide services at a price that is competitive and affordable. This means that overall, the proposed taxation regime will have a discriminatory effect for people living on islands and their respective economies, as people on islands have no choice with respect to alternative transport services.

As regards aviation INSULEUR acknowledges that “the aviation industry represents approximately 2.5% of global human induced CO₂ emissions”³. However, industry leaders are also indicating the difficulties the airline industry is currently facing in their transition towards net zero emissions, with the difficulties concerning principally “the pace of investment in facilities to produce “green hydrogen” and sustainable aviation fuel.”⁴

As regards the maritime sector INSULEUR also acknowledges as indicated in the report by IRENA (2021) that in 2018 (quoting the fourth GHG Study conducted by the International Maritime Organisation):

global shipping energy demand accounted for nearly 11 exajoules (EJ), resulting in around 1 billion tonnes of carbon dioxide (CO₂) (international shipping and domestic navigation) and 3% of annual global greenhouse gas (GHG) emissions on a CO₂-equivalent basis.⁵

² The OXERA report highlights that “Assessment of the Impact of the Fit for 55 Policies on Airports commissioned by ACI Europe also warns that “as demand for direct intra-EU flights will be predominantly impacted compared to direct extra-EU flights, the EU's regional and secondary airports are bound to be most affected – hurting in particular regions highly dependent upon the tourism industry”.

³ Airbus, *Decarbonisation. Towards more sustainable aerospace for future generations* (online) : <https://www.airbus.com/en/sustainability/respecting-the-planet/decarbonisation> [accessed 2 December 2022].

⁴ Jasper Jolly, *Airbus boss warns of delay in decarbonizing airline industry*, in *The Guardian* (online) : <https://www.theguardian.com/business/2022/nov/30/airbus-boss-warn-delay-decarbonising-airline-industry-hydrogen-sustainable-aviation-fuel> [accessed 2 December].

⁵ IRENA (2021), *A pathway to decarbonise the shipping sector by 2050*, International Renewable Energy Agency, Abu Dhabi, p. 10.

In the maritime sector certain biofuel replacements for heavy fuel oil, such as hydrotreated vegetable oil, are already being indicated. However, this “technology is still in development, so there are limited practical instances where this fuel has been used” (IRENA, 2021, p. 45). For short distances Battery-electric ships are being seen as an important alternative, with hydrogen fuel gauging “increased interest due to its implications for long-distance freight” (ibid., p. 106). However, it is important for these technologies to be incorporated into the respective port infrastructures.

It must therefore be ensured that the decarbonization of maritime and air industries happens at the same pace as the preservation of the unique economic and social benefits afforded by air and sea connectivity. In relation to islands, air and sea connectivity must be seen as the pillars which ensure the social and territorial cohesion with the rest of Europe. The proposals as set forth in articles 14 and 15 of the revised ETD do not ensure such compliance and undermine the social and territorial cohesion upon which the European Union is based. Insular territories are characterized by limited accessibility and isolation, and the revision of the ETD poses a serious concern for insular regions for whom territorial equality and parity (when compared to the mainland) is a central pillar for stability and growth.

It must be highlighted that while the COVID-19 has significantly impacted all territories, and the respective supply chains, islands have been affected significantly. Thus, for example airline connectivity in many islands has not been restored to pre-pandemic level. The supply chain through maritime links has also been affected badly.

With respect to aviation since the taxation will apply to intra EU flights, the proposed taxation on aviation fuels will also imply that European destinations will become less competitive when compared to other non-EU destinations. This will mean that the proposed taxation by the European Commission will have a discriminatory effect on European destinations, when compared to their counterparts outside of the European Union. This will be more so for islands which depend completely on aviation for their incoming tourists.

4. CONCLUSION

While remaining fully committed to the EU’s green deal objectives, INSULEUR considers that the increase in transport costs resulting from the ETD revision will have a higher and disproportionate impact on citizens and businesses located in EU islands, with an adverse impact on economic and social cohesion in the EU. INSULEUR therefore calls on the deletion of Articles 14 and 15 from the revision of the Energy Tax Directive and to retain the current exemption of taxation on the use of kerosene fuel for the aviation sector, and heavy fuel oil for the maritime sectors.

Moreover, INSULEUR calls for further incentives for air and maritime carriers to shift towards more sustainable technologies and fuels. Imposing a tax will imply a further increase in prices but will not necessarily assist in the shift towards the set decarbonization goals. Nonetheless having a set date by which this shift must take place, and the constant monitoring of the respective sectors to ensure that the shift can take place in line with the technological developments and the adequate supply of sustainable fuels, should be the indicated way forward. Given the importance of these sectors it must also be ensured that important EU funds related to research and innovation (such as in the case of Horizon 2020 funds) are dedicated to these sectors.

Continuing with the proposed reforms will continue to worsen the social and economic situation of islands, which were affected significantly with the COVID-19 pandemic. The same report on EU islands

and Cohesion Policy approved by the European Parliament highlighted that the COVID-19 crisis “has demonstrated that island economies are highly vulnerable to such events”, and that Europe’s recovery “must not create further regional disparities” (pp. 5-6). Pushing ahead with the reforms being proposed in the revision of the Energy Tax Directive as regards aviation and maritime fuel will fuel further regional disparities between islands and the mainland, without addressing the structural actions required in the airline and maritime industries.
