



Fishing industry response to the Inception Impact Assessment on the revision of the Energy Taxation Directive

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1. Background

Energy Taxation Directive (ETD) 2003/96/EC¹

The current legislative framework, applicable from 1 January 2004, lays down EU rules and minimum Community levels of taxation according to the use of the energy products and electricity. These are subject to the Community tax framework when used as motor fuel or for heating. The Directive, in light of existing international obligations and in order to maintain the competitive position of Community companies make it advisable to continue the exemptions of energy products supplied for air navigation and sea navigation (including fishing), while it should be possible for Member States to limit these exemptions. These exemptions are regulated in Art. 14 which sets out:

“Article 14; 1. ... Member States shall exempt the following from taxation...: ... (c) energy products supplied for use as fuel for the purposes of navigation within Community waters (including fishing), other than private pleasure craft, and electricity produced on board a craft.”

Revision of the Energy Taxation Directive

Before the launch of the Green Deal Initiative, the EC produced an evaluation report². This report, identified shortcomings such as the presence of sector- specific energy tax exemptions or reductions, including the fisheries sector, which *“in general substantially weakens the incentives for investing in more energy-efficient capital stock and production processes in this sector and constitute a burden for other sectors and may distort competition between sectors”*. It also pointed at potential contradictions of Article 14 of the ETD with EU decarbonisation and climate objectives.

The aim of the European Green Deal is to make the EU climate-neutral by 2050. Revising the Energy Taxation Directive forms part of a package of policy reforms to deliver on this ambition. In this context, the Inception Impact Assessment³ presents tax exemptions and reductions as one of the main problems that the initiative aims to tackle. Indeed, it states that these are *“de facto, forms of fossil fuel subsidies, which are not in line with the objectives of the EU Green Deal”* and *“increase the fragmentation of the internal market”* while distorting *“the level playing field across the involved sectors of the economy”*.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32003L0096>

² https://ec.europa.eu/taxation_customs/news/commission-report-evaluation-energy-taxation-directive%C2%A0_en

³ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12227-Revision-of-the-Energy-Tax-Directive>

The main objective outlined in the Inception Impact Assessment is to better align taxation of energy products with EU energy and climate policies with a view to contributing to the EU 2030 targets and climate neutrality by 2050. In order to achieve these goals, the European Commission (EC) will develop policy options including dedicated options for the aviation and maritime sectors, with a focus on tackling fossil fuel subsidies and avoiding inconsistencies between taxation.

The inception impact assessment finally stresses the possibility to replace those tax exemptions with other measures to limit the economic and social impacts such as reductions in labour costs, reduction of other taxes, direct compensation, or incentives for investment in new technologies (through Green Deal Investment Plan and Just Transition Mechanism for instance).

The Council of the EU adopted conclusions on the EU energy taxation framework⁴ back in December 2019. The Council aims for a revision that *“contributes to the policy objectives and measures to achieve the environmental, energy and climate targets for 2030, while preserving European competitiveness, ensuring just and socially balanced rules and respecting member states' right to decide on their own energy mix.”* Although there is no specific mention to fuel de-taxation schemes for maritime industries, the Council states that: *“(8)(...) for relevant sectors, such as aviation, the Commission should take into account their specificities and existing exemptions and international dimension”*. Furthermore, *“(12) UNDERLINES that the social dimension should be considered while implementing policies and initiatives which will support the clean-energy transition to reach climate neutrality”*.

For international maritime, global efforts to limit emissions are led by the International Maritime Organisation (IMO). IMO adopted in April 2018 an initial strategy to reduce greenhouse gas emissions from ships. The strategy defines an emission reduction objective of at least 50% reduction by 2050 compared to 2008 annual emissions coupled with a vision for the decarbonisation of the sector.

2. Europe/EAPO position

The EU fishing industry welcomes the possibility to provide some feedback on the inception impact assessment of the revision of the Energy Taxation Directive.

The fishing industry is against any aid for fuel purchase. Subsidies linked to fuel price levels or engine power of the vessel (e.g. China), certainly distort international fish markets, and create unfair competition between operators. Against this background, and from a conceptual point of view, the sector does not consider de-taxation schemes as subsidies. Tax breaks translate into: 1) less governmental revenue; 2) set different tax levels depending on the use or user (industrial, private, etc...); 3) reward the added value generated by the contributor; and 4) ensure that EU companies can compete on an international level playing field with third country fleets that are heavily subsidised or practically have non-existent levels of fuel taxation (in addition to low fuel prices). The latter point is particularly important for the EU fleet that has to compete in our own market with imports from other countries. While direct subsidies translate into: 1) money taken from Peter and given to Paul; 2) set direct payments to the beneficiary; and 3) grant unearned goods to beneficiaries favoured by the State.

Historically, the shipping and aviation industries have benefited from fuel tax exemptions to ensure international level playing field, and so has fisheries. There are, however two major differences between the fishing sector and the two others. Firstly, fisheries ensure healthy food supply to EU

⁴ <https://www.consilium.europa.eu/en/press/press-releases/2019/12/05/energy-taxation-council-calls-for-an-updated-framework-contributing-to-a-climate-neutral-eu/>

citizens and contribute to the livelihood of many coastal communities across the Union. Secondly, the aviation industry has been booming in the past years and so has its greenhouse gas emissions. For that reason, a carbon tax has been proposed as a mitigation tool to meet climate targets.

For the shipping sector, global efforts to limit emissions are led by the International Maritime Organisation (IMO). IMO adopted in April 2018 a strategy to reduce GHG emissions from ships. The strategy defines an emission reduction objective of at least 50% reduction by 2050 compared to 2008 annual emissions coupled with a vision for the decarbonisation of the sector. IMO roadmap on reduction of GHG from shipping does not explicitly cover fishing vessels, however the French industry (UAPF) started by the end of 2019 a new study on the evaluation of the trend of GHG emissions in the French fishing industry during the last 30 years (as a result of the implementation of the Kyoto agreement 1992 and the CFP 92). First results confirm that the EU fishing sector is already almost meeting the objectives set by the IMO, since the GHG emissions from the fishing sector have almost halved since 1990, which is the base line for the Climate change agreements.

While the GHG emissions of many industries such as aviation increased globally over the past decades, the emissions of the EU fishing fleet have decreased parallel to the downsizing of the fleet. In fact, despite the EU's enlargement, the number of EU vessels in 2018 was 81 644 compared to 103 834 in 1996, meaning 22 000 fishing vessels less in 20 years⁵. Only 65 400 vessels remain active and the majority are below 12-meters length.

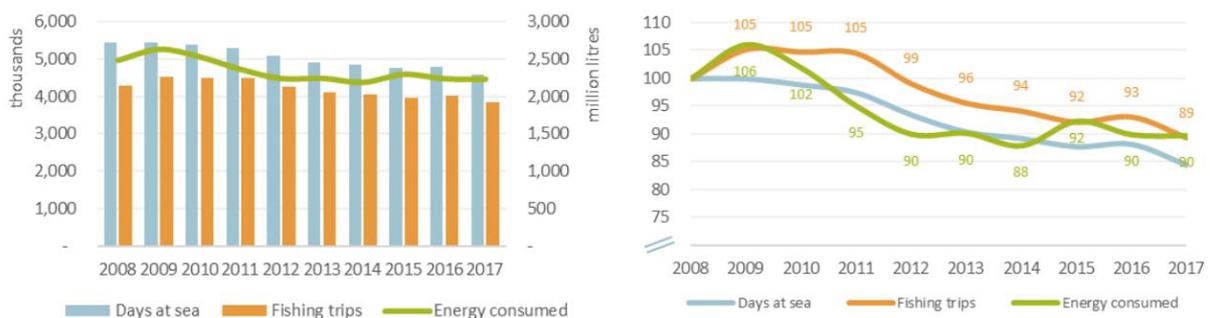


Figure 1: Trends and variations on fishing effort and fuel consumption (based on 2008 = 100). Data source: MS data submissions under the 2019 Fleet Economic data call (MARE/A3/ACS (2019)).

The EU fishing industry has been lowering the consumption of fuel over the years for many additional reasons, including strong fishing effort reduction, the improvement of fish stocks (increase of catches per unit of effort), the development and use of more fuel-efficient fishing gear and engines. In Spain alone, according to the National Tax Agency, in 2009, 432 million litres benefitted from de-taxation schemes, compared to only 276 million in 2015 (36% reduction in just six years). Therefore, it is clear that de-taxation fuel schemes in Europe have not led to overcapacity or higher rates of fuel consumption. On the contrary. Furthermore, the energetic efficiency (ton of fish / litter of fuel) has increased tremendously over the years thanks to the above-mentioned developments.

In the EU, the fishing sector is committed to continue decreasing its greenhouse gas emissions in the future years. However, the Commission cannot work under the premise that abolishing tax exemptions would automatically translate into greener operations. In this context, one of the biggest challenges facing many industries is the development and global availability of alternative and

⁵ https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/pcp_en.pdf (page 10)

innovative green technologies and carbon-neutral fuels and energy sources. The challenge is even bigger in the fishing industry, since the transition to new propulsion technologies clashes with current capacity limitations for fishing vessels set in the Common Fisheries Policy. It is therefore clear that there are no feasible energy alternatives for the fishing industry today, and we fear a scenario that requires a leap of faith on this point, as they have been heralded for years and none has been operationally viable as of yet.

The fishing industry recalls that wild-caught fish is, by far, the animal protein with the lowest carbon food print and therefore seafood already is the best option in terms of food security to fight climate change. Food consumption is a zero sum-game and the EU has set the highest environmental, social and health standards in the world to ensure sustainable global food security. In order for our fleet to remain competitive under this rigorous framework and reduce the EU dependence on seafood imports, fuel de-taxation for fisheries are fundamental to make healthy and low-impact EU seafood affordable and therefore available to the population.

Below is a graphic from the World Resources Institute comparing the amount of carbon-equivalent GHG emitted per gram of protein. Fish is the only animal protein that is considered to have a low carbon footprint. Thanks to our efficient fishing and production methods, the CO₂ footprint of wild-caught fish is considerably lower than that of any other animal protein, even lower than soy, which is becoming the alternative for fish feed in aquaculture. This is also explained by the fact that wild-caught fish does not require land, being artificially fed, use of water supply, antibiotics or pesticides, nor locking up in cages.



Figure 2: Protein scoreboard in terms of the quantity of land, water, and energy needed per unit of energy and protein ultimately consumed, and in terms of their greenhouse gas impacts. Sources: GlobAgri-WRR model developed by CIRAD, Princeton University, INRA, and WRI (GHG data); USDA and BLS (2016) (US retail Price data)⁶.

⁶ World Resources Institute (2016) via www.wri.org/proteinscorecard

These findings are consistent across scientific studies. For instance, Atlantic mackerel showed a carbon footprint 8 to 46 times lower than meat products (see table below)⁷. In this study, all fish products show lower carbon levels than meat products.

Table 1: Carbon footprint values for UK based meat systems expressed in tonnes of carbon dioxide equivalent per tonne of live weight. Source: Sandison, Frances, et al. (2014).

Meat type	Place of study	Authors	Year of publication	Carbon Footprint
Atlantic mackerel	Shetland	This study	2015	0.41
Beef	UK	EBLEX as per APPG on Beef and Lamb	2013	10.60-19.20
Sheep	UK	EBLEX as per APPG on Beef and Lamb	2013	11.00-13.60
Pork	England	Kool, et al	2009	3.50 – 4.40
Chicken	UK	Williams et al	2006	4.57 - 6.68

According to the Inception Impact Assessment: “The measures proposed should not create any considerable regulatory burden or cost for the Member States, nor for economic operators”. The sector could not agree more with this stance. As fuel costs may exceed 40% of the total operational costs for fishing companies⁸, the European Commission must realize that the end of de-taxation would put the EU industry at competitive disadvantage with other countries with lower fuel prices and taxes, particularly vessels operating within the EU waters. In addition, it could result in an unprecedented large-scale bankruptcy of many fishing firms, and consequently lead to a high number of job losses, with potential serious repercussions on local fishing communities. Ending the de-taxation of fuel would heavily increase European seafood prices, particularly for fresh products, creating market and trade disruptions to the point that fish could become a product prohibitive to EU consumers. It would also create huge trade disruptions since 1.8 million tonnes of EU produced fish (out of 5 million) is exported annually and almost 10% in value is exported to developing countries in Africa⁹. Hence, taxation of fuel would not only create a competitive disadvantage for our operators but would also deprive local markets in Africa from one of their basics needs, cheap and nutritious (sea)food.

In addition, it is essential to note in this context, that the EU is the largest global importer of seafood. To put an end to the de-taxation scheme would lead to unfair competition for the EU fishing industry on our home market for seafood products. About two third of EU seafood consumption has to be imported from outside the EU and already at this moment it is almost impossible in WTO context to control or enforce unfair subsidies given to non-EU fishing companies. Furthermore, in the context of WTO agreements, developing countries benefit of the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR–RC) that acknowledges the different capabilities and differing responsibilities of individual countries in addressing subsidies.

The EU has given incentives for European merchant ship owners to use the flags of EU Member States. For a number of years now, most EU Member States are implementing the tonnage tax scheme, which substantially reduces the tax burden of ship owners to strengthen their competitiveness in the world.

⁷ Sandison, Frances, et al. (2014). Estimation of the carbon footprint of the Shetland fishery for Atlantic mackerel (*Scomber scombrus*). Scalloway: NAFC Marine Centre. <https://pure.uhi.ac.uk/en/publications/estimation-of-the-carbon-footprint-of-the-shetland-fishery-for-at>

⁸ [https://www.europarl.europa.eu/RegData/etudes/note/join/2013/513963/IPOL-PECH_NT\(2013\)513963_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/note/join/2013/513963/IPOL-PECH_NT(2013)513963_EN.pdf) (page 29)

⁹ https://ec.europa.eu/fisheries/sites/fisheries/files/docs/body/pcp_en.pdf (pages 33 and 35)

According to the Community Guidelines on State Aid to maritime transport of 2004¹⁰, ship owners are entitled to benefit from that scheme if they have at least 60% of their tonnage under EU flags. These benefits include fiscal and labour measures to improve competitiveness, including reduced rates of contributions for the social protection of Community seafarers employed on board ships registered in a Member State. There are no such provisions for the EU fishing fleet, despite its large contribution to the sustainability of global fisheries. Therefore, it is fundamental that any future EC proposal on the ETD to be accompanied by a thorough impact assessment evidencing the social and environmental cost and benefits and (negative) effects on competitiveness, employment, market, trade and sustainable growth, for the fishing sector. And to do so with a strong focus on international competitiveness, where European fisheries is one of the most exposed sectors. In fact, according to FAO¹¹, fish and fish products are some of the most traded food items in the world today. In 2016, about 35 percent of global fish production entered international trade in various forms for human consumption or non-edible purposes.

As stated before, the end of de-taxation of fuel for fishing would also lead to unfair treatment within the Union as prices are not the same across the 27 members and the current international price applicable to all would be substituted by the national prices. Opposite to the goals of the Directive, this would only hamper the level playing field in the Union. As a way of example, a similar effect occurs when citizens fuel their cars across the border of the country they live in to purchase cheaper fuel.

Moreover, in order to create a level playing field and secure equal treatment with other maritime industries, accompanying measures through social policy and welfare systems, such as reduced rates of contributions for the social protection through the revision of Community Guidelines on State Aid to maritime transport should be contemplated.

As a conclusion:

1. The fishing industry agrees that the Energy Taxation Directive should contribute to achieve energy and climate goals. In fulfilling this ambition, the EU should align its tax policies to existing international obligations in order to maintain the competitive position of Community companies. Any measures on fuel de-taxation schemes should therefore be taken at the right level, i.e. by international bodies, not to jeopardise the EU fishing industry and ensure a global level playing field.
2. The European Commission needs to acknowledge the efforts of the European fishing industry in reducing its GHG emissions by half since 1990, which is the base line for the Climate change agreements. This stands in contrast with other EU industries where fuel de-taxation schemes are applied.
3. The primary role of fisheries must be valued as a supplier of low carbon, healthy proteins, essential to EU consumers in their daily diets, and that meet the climate policy targets. Accordingly, the fishing industry merits a differentiated tax treatment from other industries.

All in all, fisheries fuel taxation would have a very low impact in terms of ecological benefit and a large negative impact for the fishing companies, fish supply and employment. Many companies would be condemned to disappear for not being able to meet the expenses generated for the increase in the cost of fuel.

¹⁰ <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2004:013:0003:0012:EN:PDF>

¹¹ <http://www.fao.org/3/i9540en/i9540en.pdf>