

State of Tax, Legal & People

EU Green Deal and Energy taxes

Thursday 16 February 2023



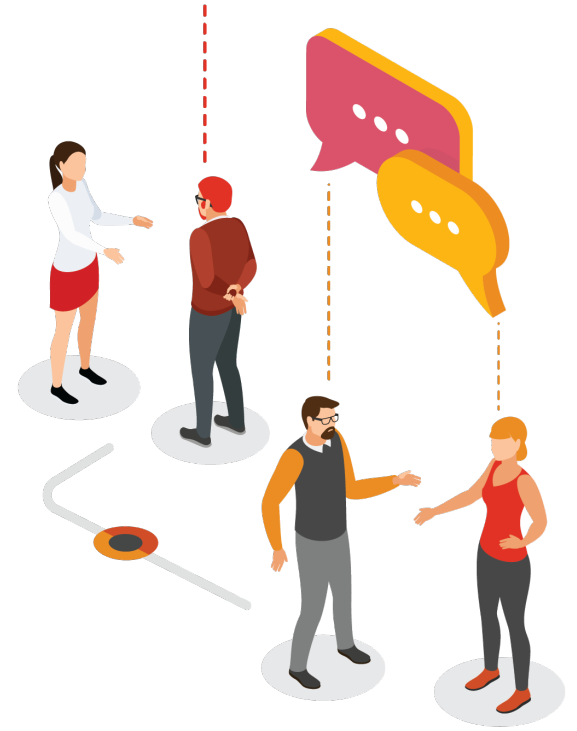


Welcome

- If this webinar is watched live, you will be eligible for 1 PE point
- With the button '[Ask a question]' you can ask your questions directly
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- Webcast and presentation will be made available afterwards
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Agenda

1. Introduction
2. EU ETS
3. CBAM
4. Energy Tax Directive
5. Plastic taxes
6. Subsidies / public funding
7. Wrap-up



01

Introduction



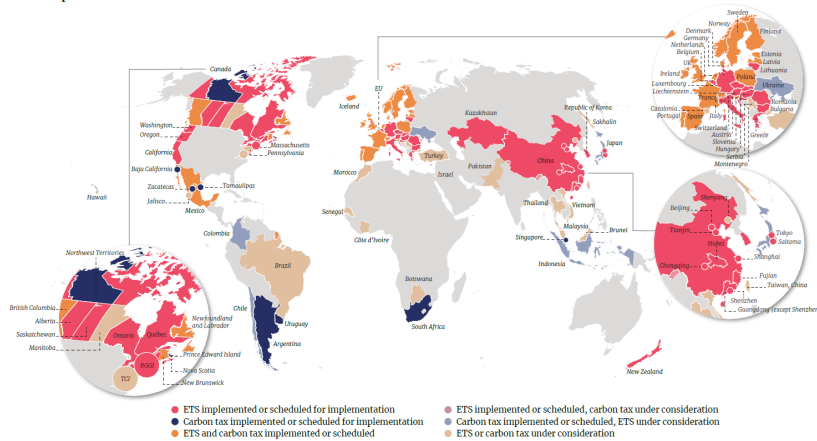
Poll

Will your company be affected by the EU Green Deal in the coming 12 months?

1. Yes, significantly
2. Maybe, I cannot oversee the impact
3. No, not at all



Green taxes and incentives on top of the global agenda



Green taxes and regulations

- Companies are facing higher costs for their carbon emissions from raw materials
- Most companies are not sufficiently prepared to understand the potential impact of the Fit for 55 package on the entire value chain

Green incentives and subsidies

- Incentives related to technical solutions and other funding opportunities are already available to support EU based companies on energy and business transformation projects

EU plans world's first carbon border tax despite trade dispute fears

Move to raise global environmental standards and protect domestic industry could breach WTO rules, warn analysts



Green Deal / Fit for 55 - overview

Review Initiatives



Carbon pricing and impose taxes on imported products will increase CO² costs and hence promote **clean energy**



Increased ambitions for renewable energy and environmental friendly solutions will positively contribute towards **net zero**



Sector specific regulations and H² infrastructure are becoming key elements

Emissions Trading System (ETS)

Energy Tax Directive (ETD)

Carbon Border Adjustment Mechanism (CBAM)

Renewable Energy Directive (RED)

Energy Efficiency Directive (EED)

Energy Performance of Buildings Directive (EPBD)

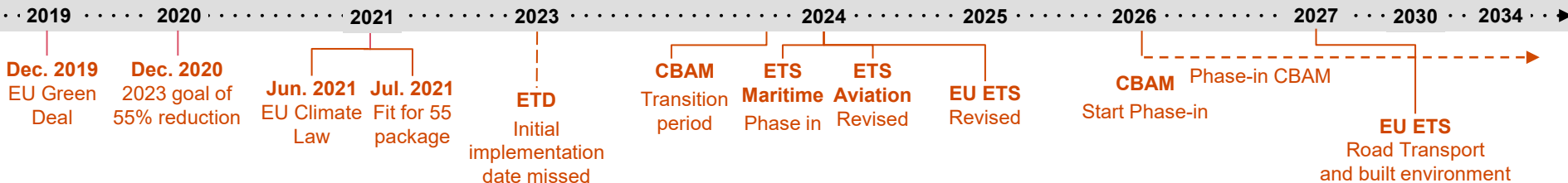
Effort Sharing Regulation (ESR)

CO² emission performance standards for cars and vans

Alternative Fuels Infrastructure

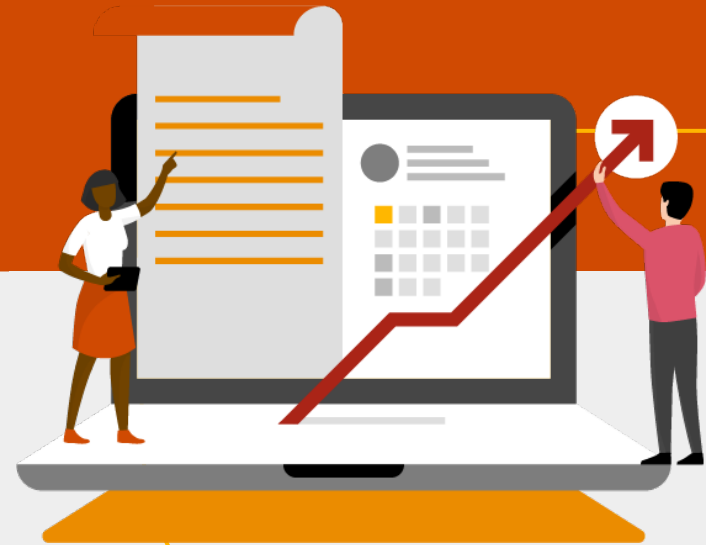
ReFuelEU - Aviation - Maritime

European Green Deal



02

EU ETS



EU ETS

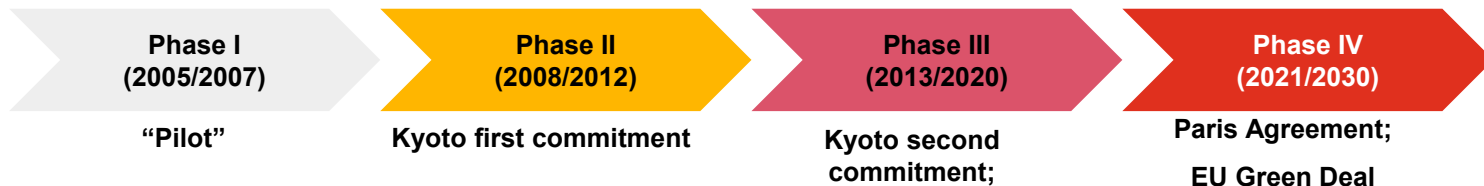
Cap and trade - a time tested method

- The EU ETS sets a maximum allowable amount of emissions over a certain period of time in the EU.
- The EU ETS operates on top of this fixed limit, and uses a price mechanism to incentivise a reduction in carbon emissions.
- **Insight:** by limiting the amount of total emissions (the cap), the market decides the most cost-effective manner of achieving the reductions (the trade).
- 4 phases: increasing sectoral scope and rate of cap reduction

EU Carbon Permits



source: tradingeconomics.com



EU ETS - Main proposed changes

Emission cap reduction

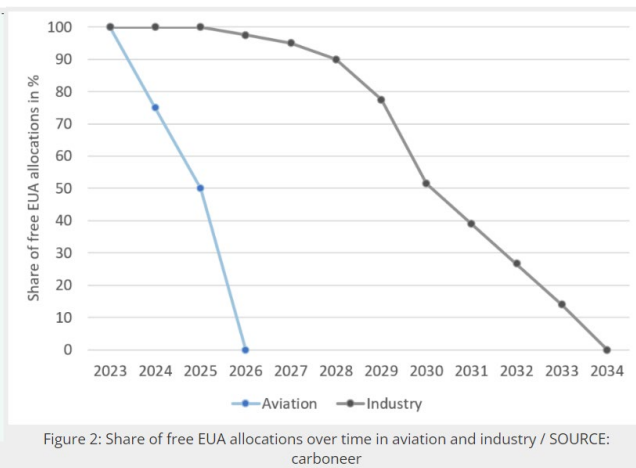
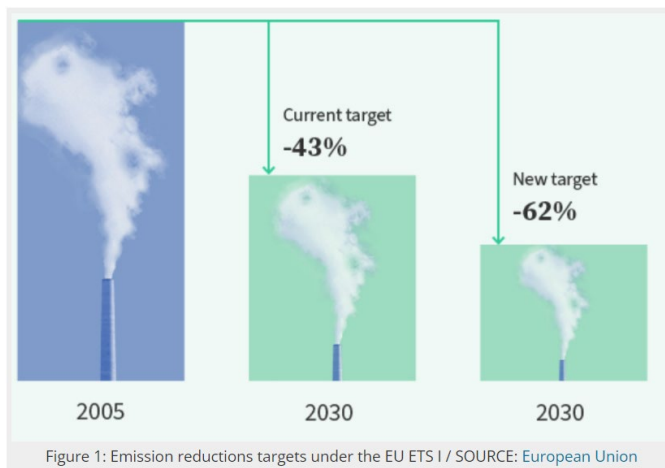
Mechanism to increase the rate of emissions' reduction over time

Previous rules

- Phase III: 1.74%/year
- Phase IV: 2.2%/year

Preliminary deal's impact

- Proposal: increase the annual reduction rate of the cap by 4.3 % per year from 2024 to 2027 and 4.4% from 2028 to 2030 ('linear reduction factor').



Adding the Maritime sector to EU ETS

Applies to...

- Vessels of **5,000 gross tonnage (gt)** and above to monitor, report and verify (**MRV**) their CO₂ emissions (already in place since 1 January 2018), and will be part of the EU ETS from 2024.
- General cargo vessels and offshore vessels between **400-5,000 gt will be included in the MRV from 2025** and their inclusion in the EU ETS will be reviewed in 2026.

Implementation...

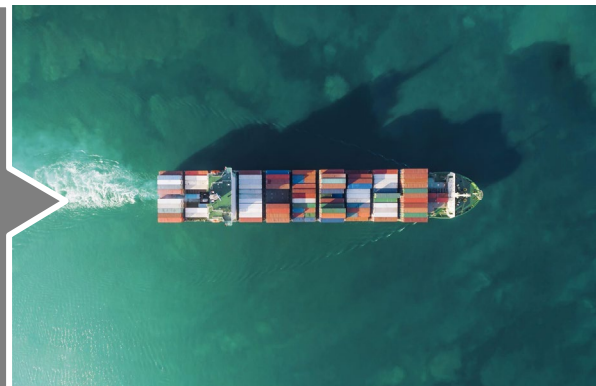
- Gradual introduction of obligations for shipping companies to surrender allowances: Phasing in: **40% for verified emissions from 2024, 70% for 2025 and 100% for 2026.**
- Agreed to include non-CO₂ emissions (i.e. methane and N₂O) in the MRV from 2024 and in the EU ETS from 2026.

Further proposals...

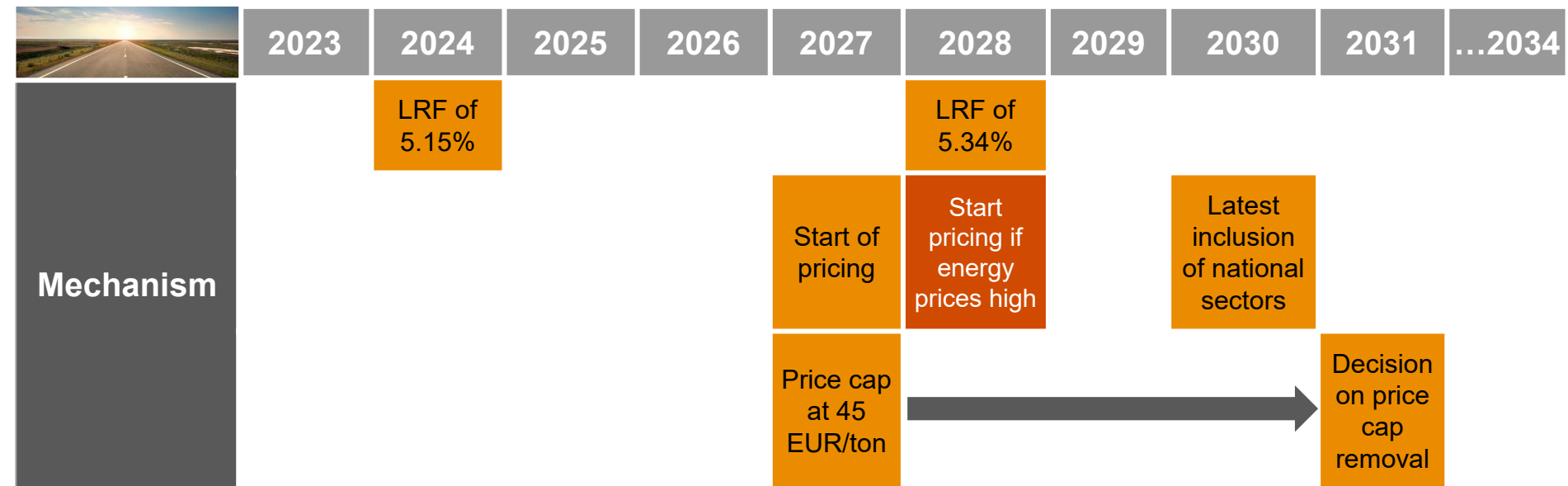
- The agreement covers 100 percent of the emissions of intra-European routes and 50 percent of the emissions on routes between EU ports and the RoW.
- The agreement takes into account geographical specificities and proposes transitional measures for small islands, ice class ships and journeys relating to outermost regions and public service obligations.

Exemptions...

- Certain member states with a relatively high number of shipping companies will in addition receive 3.5% of the ceiling of the auctioned allowances to be distributed.
- Little is currently known about industry exemptions (if any), which were previously proposed.



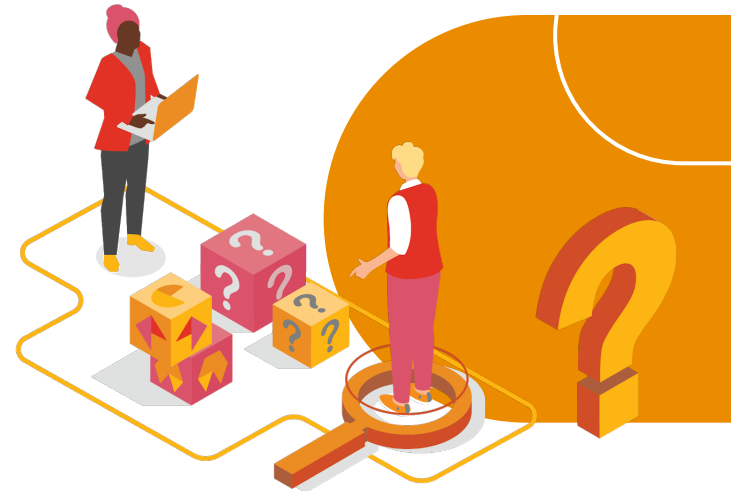
EU ETS II - Road transport and built environment



Poll

Increase of carbon costs will only impact energy intensive industries.

1. That is correct
2. Incorrect
3. I don't know



03

CBAM



CBAM in a nutshell

CBAM is a new topic that will have a significant impact on businesses

What is the purpose of this regulation?

Level the playing field to protect domestic production



Preventing **carbon leakage** by creating an equal playing field between EU producers and non-EU producers.

What is the mechanism?

Ensure everyone pays the same price for carbon



Imposing a carbon border tax on the import of certain products to the EU based on their **embedded carbon content**.

Who is affected by CBAM?

Business partners of these 'other producers'



Importers / suppliers will be faced with **higher costs and additional administrative burdens**. Depending on the possibility to pass through the costs will be 'paid' by the consumers or the importers.

Timeline

December 2019

- CBAM announced as part of EU Green Deal

July 2021

- CBAM proposal by EU Commission

March 2022

- CBAM proposal by EU Council

Until end of 2022

- Triologue meetings between European Commission, Parliament and Council - Finalization of CBAM design by the EU

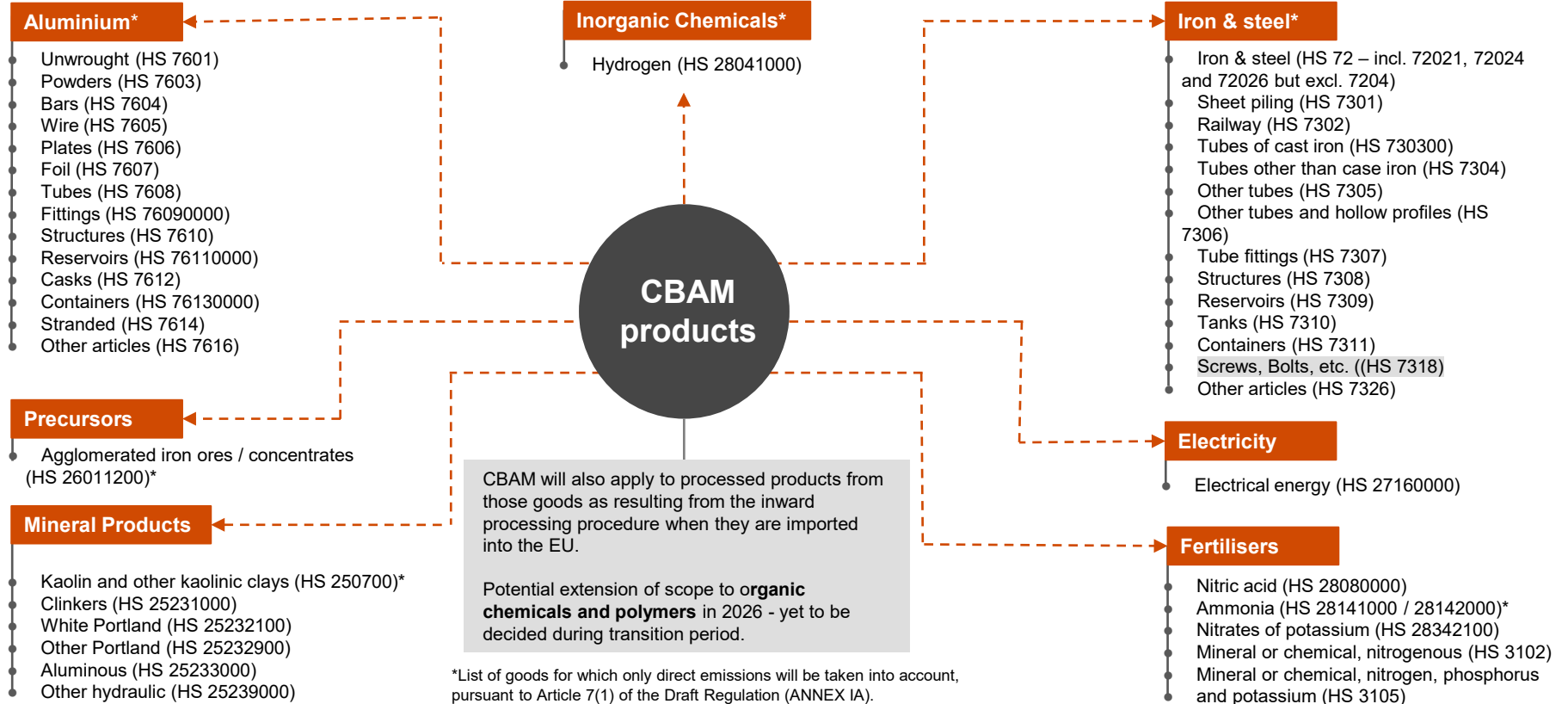
October 2023

- Start of transitionally operational CBAM and obligatory emission reporting

January 2026

- Start phase-in CBAM resulting in actual cash impact

A lot of goods will be covered by CBAM



Customs classification of screws

General rules for the interpretation of the Combined Nomenclature

Classification of goods in the Combined Nomenclature shall be governed by the following principles:

1. The titles of sections, chapters and sub-chapters are provided for ease of reference only; for legal purposes, classification shall be determined according to the **terms of the headings** and any relative section or chapter notes and, provided such headings or notes do not otherwise require, according to the following provisions.
2. (a) Any reference in a heading to an article shall be taken to include a reference to that article incomplete or unfinished, provided that, as presented, the incomplete or unfinished article has the **essential character of the complete or finished article**. It shall also be taken to include a reference to that article complete or finished (or falling to be classified as complete or finished by virtue of this rule), presented unassembled or disassembled.
(b) Any reference in a heading to a material or substance shall be taken to include a reference to mixtures or combinations of that material or substance with other materials or substances. Any reference to goods of a given material or substance shall be taken to include a reference to goods consisting wholly or partly of such material or substance. The classification of goods consisting of more than one material or substance shall be according to the principles of rule 3.
1. When, by application of rule 2(b) or for any other reason, goods are **prima facie classifiable under two or more headings**, classification shall be effected as follows:
 - (a) the heading which provides the most specific description shall be preferred to headings providing a more general description. However, when two or more headings each refer to part only of the materials or substances contained in mixed or composite goods or to part only of the items in a set put up for retail sale, those headings are to be regarded as equally specific in relation to those goods, even if one of them gives a more complete or precise description of the goods;
 - (b) mixtures, composite goods consisting of different materials or made up of different components, and goods put up in sets for retail sale, which cannot be classified by reference to 3(a), shall be classified as if they consisted of the material or component which gives them their essential character, in so far as this criterion is applicable;
 - (c) when goods cannot be classified by reference to 3(a) or (b), they shall be classified under the heading which occurs last in numerical order among those which equally merit consideration.
1. Goods which cannot be classified in accordance with the above rules shall be classified under the heading appropriate to the goods to which they are most akin.

In scope

7318	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter pins, washers (including spring washers) and similar articles, of iron or steel:		
	- Threaded articles:		
7318 11 00	-- Coach screws	3,7	—
7318 12	-- Other wood screws:		
7318 12 10	--- Of stainless steel	3,7	—
7318 12 90	--- Other	3,7	—
7318 13 00	-- Screw hooks and screw rings	3,7	—

In scope

7616	Other articles of aluminium:		
7616 10 00	- Nails, tacks, staples (other than those of heading 8305), screws, bolts, nuts, screw hooks, rivets, cotters, cotter pins, washers and similar articles	6	—
	- Other:		

Not in scope

9021	Orthopaedic appliances, including crutches, surgical belts and trusses; splints and other fracture appliances; artificial parts of the body; hearing aids and other appliances which are worn or carried, or implanted in the body, to compensate for a defect or disability:		
------	---	--	--

[NUMMERA] , [APRODUKT] ' is ingedeeld onder **GN-code 9021 90 90**. De indeling is vastgesteld op basis van de algemene regels 1 en 6 voor de interpretatie van de GN, aantekening 3 op afdeling XV, aantekeningen 2 en 6 op hoofdstuk 90 en de tekst van de GN-codes 9021, 9021 90 en 9021 90 90. Het product is in de bit als volgt omschreven:

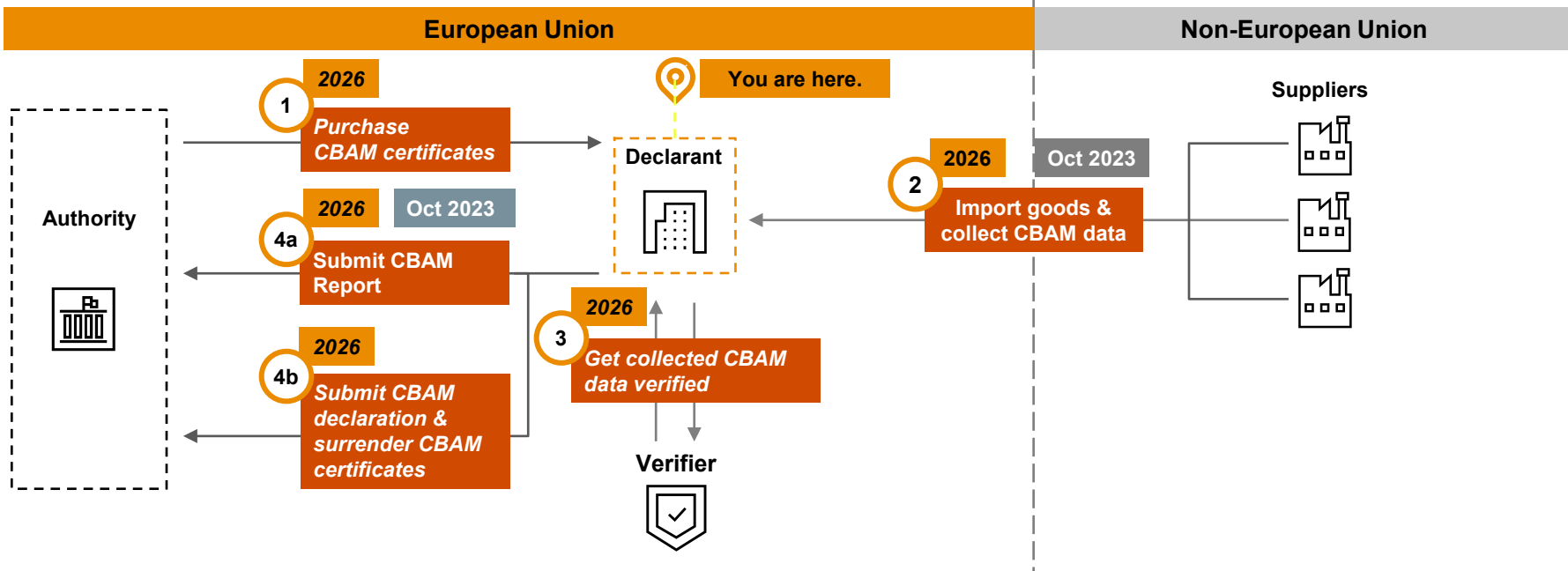
"Een **medische implantaatschroef van een titaniumlegering** gebruikt voor het fixeren van een kunstgewricht, met onder meer de volgende kenmerken:

- een doorsnede van 6,5 mm;
- een lengte van 25 mm;
- een speciaal ontwikkeld schroefdraad;
- een schroefkop die is voorzien van een inbus.

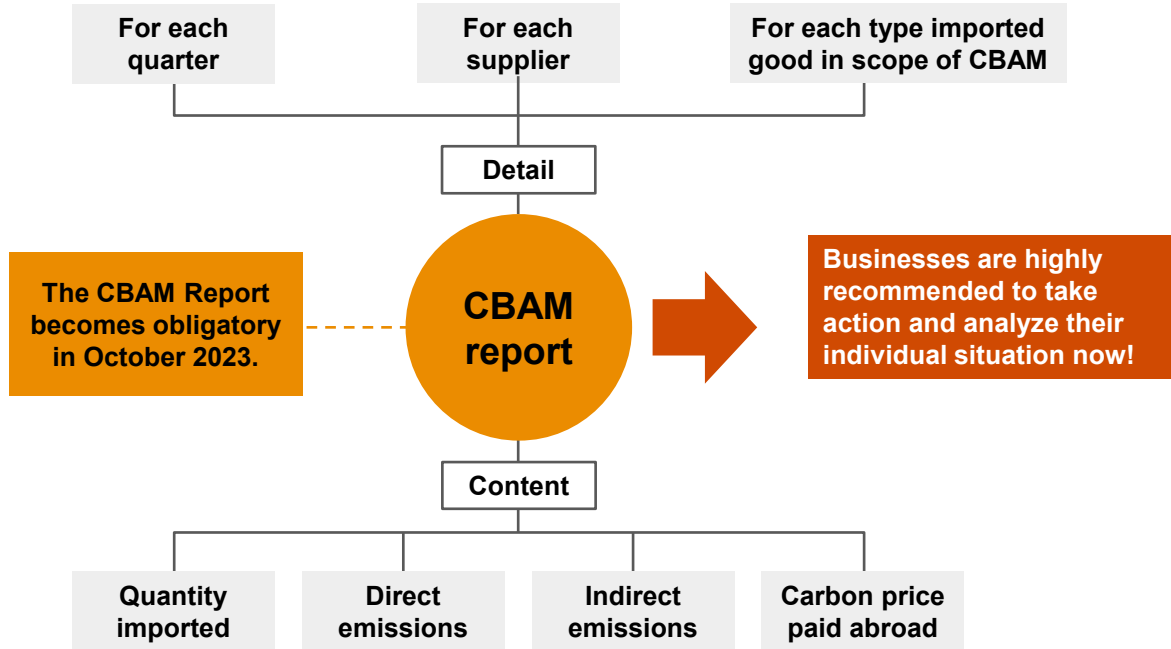
De schroef is individueel verpakt in een doosje tezamen met een niet karakterbepalende gebruiksaanwijzing. De schroeven worden al dan niet steriel aangeboden. De schroeven zijn bestemd om door chirurgen langs operatieve weg in het menselijk lichaam te worden ingebracht met speciaal medisch gereedschap."

CBAM process overview

CBAM – A system for EU-based declarants to report and offset emissions embedded in goods imported from non-EU countries.*



What do you need to report



What about costs?

The price of the CBAM certificates will be equal to the carbon price set by the EU Emissions Trading System (ETS).



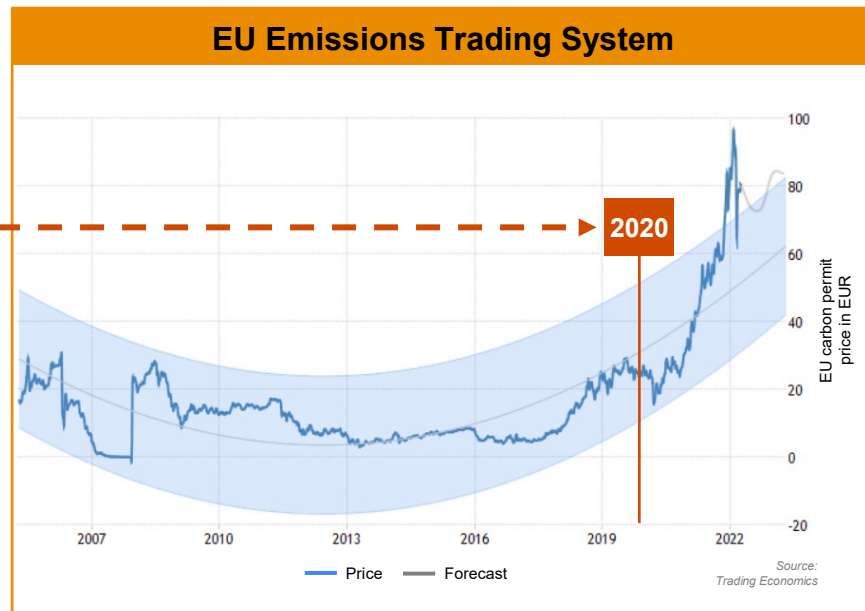
The percentage by which the carbon price in the EU ETS has increased since 2020.

300%

The price of CBAM certificates will fluctuate and be published by the EU Commission on a weekly basis.



The carbon price is only one factor that will drive your CBAM -related costs. Collecting and reporting CBAM data is the other.



Transactions that could fall under CBAM's scope

Sample transactions

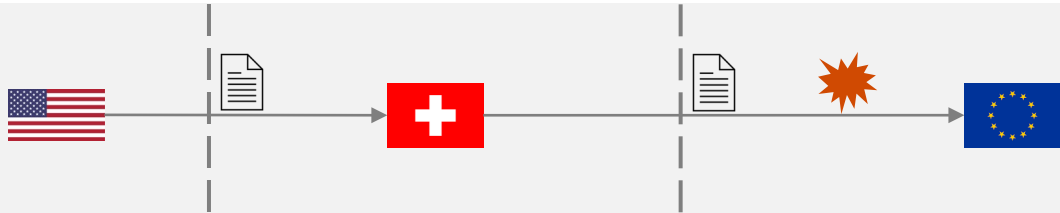
Situation 1

- Direct import of Chinese originating goods into the EU
- Goods cleared at the border



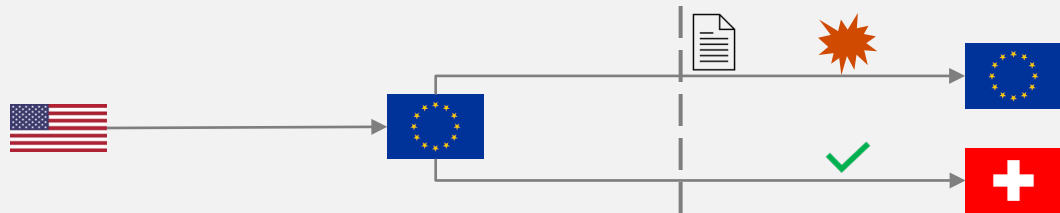
Situation 2

- Import of US originating goods into CH and goods cleared in CH
- Import of unaltered (traded) goods into the EU and goods cleared in the EU
 - Goods keep their initial US origin

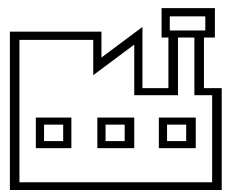


Situation 3

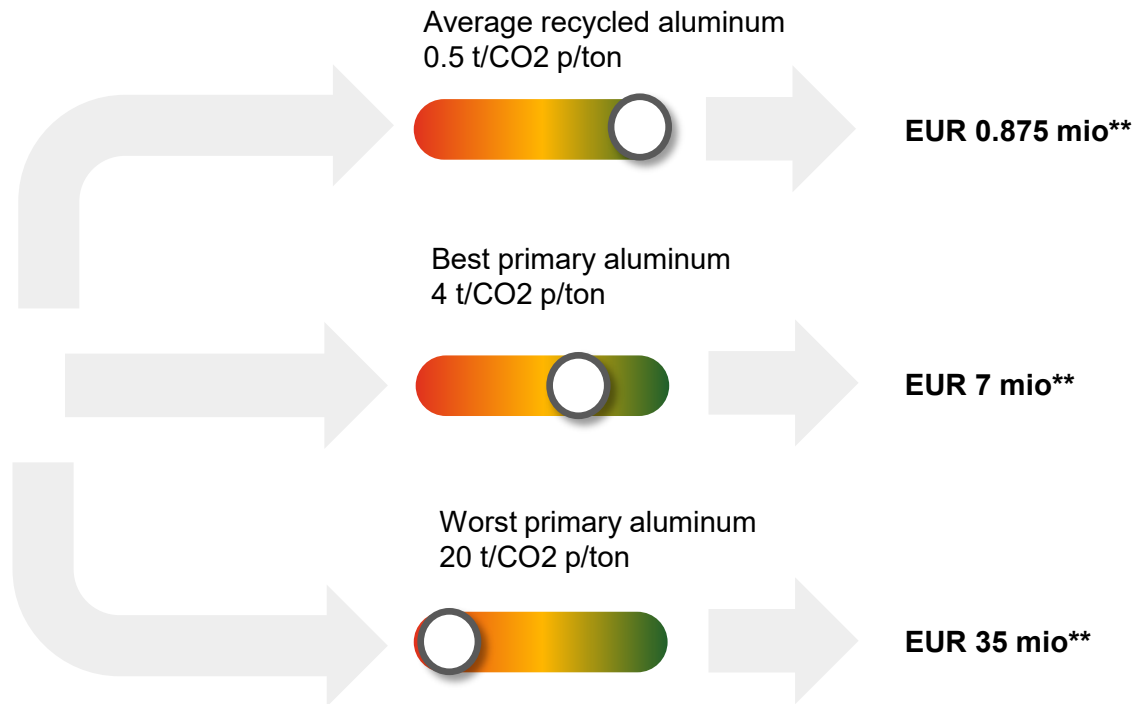
- US goods are moved into a bonded warehouse in the EU; they are temporarily stored and removed for:
 1. Import into the EU and goods are cleared
 2. Shipment to Switzerland



Impact of CBAM and / or ETS



10,000 ton
aluminum



* The carbon footprint of primary aluminum varies between less than 4 tons CO2-equivalents per ton aluminum in hydropower-based regions to more than 20 tons CO2-equivalents per ton aluminum in coal power-based regions. The recycling process of aluminum, however, requires a lot less energy than primary aluminum production, and thus emits less CO2 - approximately 0.5 tons CO2-equivalents per ton aluminum. <https://www.climateaction.org/news/carbon-footprint-of-recycled-aluminum>

** this high level calculation is based on a 100% phased in CBAM and no free allowance under EU ETS. Not taking into account increased taxes under the ETD.

04

Energy Tax Directive



What is the aim?

Current Energy Tax Directive

- Implemented in 2003
- Main flaws identified by EC (as published in 2019)
 - Ongoing use of fossil fuel subsidies / exemptions in EU Member States
 - Lack of alignment with other EU policies (e.g. EU ETS Scheme)
 - Irrelevant minimum tax rates



Revised Energy Tax Directive

- First expected to be implemented 1 January 2023 - deadline missed
- Aims to tackle the main flaws
- Proposed to evaluate every five years and - if necessary – modify



How does it work?

- Energy content and environmental impact instead of volume, leading to sustainable biofuels being taxed at lower rates than fossil fuels
- A list of energy products is included to realise a unified approach
- Minimum levels of taxation are indexed (differentiation for motor fuels, heating fuels and electricity)



**Taxation
based on content**



**List of energy
products**

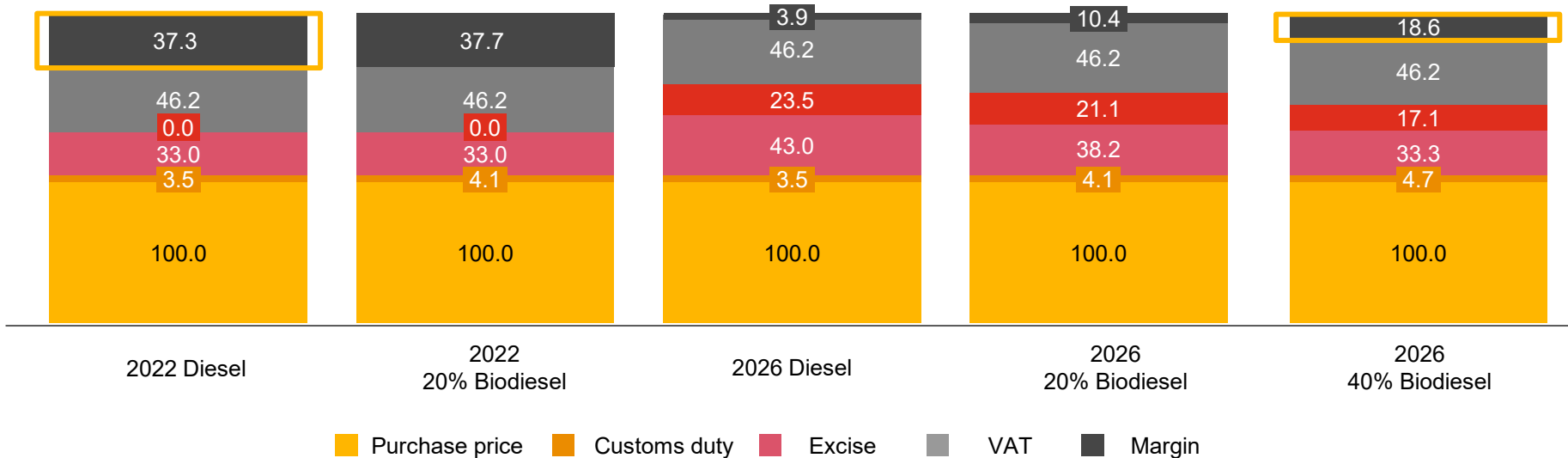


Minimum rates

How does it work?

Comparison of 100 L diesel sale: under current and new Energy Taxation Directive

Alle figures in €/100 L



How does it work?

Hydrogen



Battery storage



How does it work?

Aircrafts and vessels

- Withdrawal of general exemptions
- Taxing intra-EU air navigation, intra-EU maritime and inland waterways navigation
- Member States may tax extra-EU activities in line with intra-EU activities



How does it work?

Other exemptions and reductions

- Electricity produced from specific sustainable sources or a number of specific sustainable products
- Electricity used for combined heat and power generation, or certain sectors (e.g. agri-, horti- and aquacultural and forestry).
- Reductions to tackle the risk of a loss of international competitiveness, to incentivize environmental objectives and improvements in energy efficiency.



How to prepare?

Legal framework

- Some steps to take before being adopted
- Upon adoption, the revised ETD will have to be transposed into domestic legislation by the Member States.
- Currently unclear when the revised ETD is expected to enter into force.



05

Plastic (packaging) taxes





Plastic (packaging) taxes in Europe | Background

There are several developments on both an EU and national level that impact plastic (packaging) taxes in Europe, including:

EU Plastic Levy

- Own Resource Decision, introducing a Plastic Levy as a new revenue source for the EU budget.
- Member States are required to contribute 800 euro per tonne of generated non-recycled plastic packaging waste.

SUPD

- The SUPD aims to prevent and reduce the impact of certain plastic products on the environment.
- The Directive incorporates a 'polluter pays' principle. Member States must introduce EPR on certain single-use plastic products.

EPR

- Several Member States already introduced EPR schemes for packaging waste, prior to the EU initiatives.
- EPR is not a tax per se, however, businesses pay a fee when an EPR scheme applies.
- The fee generally aims to ensure collection, sorting, treatment, management and recycling.

Plastic (packaging) taxes in Europe | Current status

There is no coordinated approach from the EU in relation to plastic (packaging) taxes, resulting in different approaches for the various Member States (i.e. tax, EPR, national excise duty, etc.)

The following elements are important to consider, because they may differ for the various plastic (packaging) taxes and EPR schemes of EU Member States:



Taxable event and the liable Party



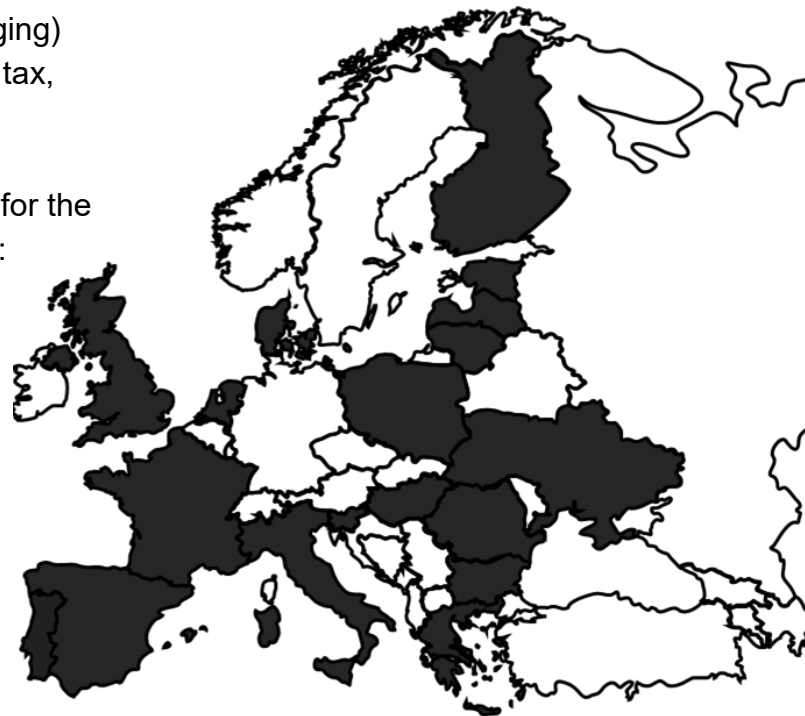
Scope



Exemptions and refund possibilities



Reporting obligations and registrations



This map provides a high-level overview of countries (in black) that either have an EPR or tax in place for plastic packaging or that are considering to implement this

Plastic (packaging) taxes in Europe | Challenges

The differences within Europe and the various elements to consider present multiple challenges for businesses. Especially, when operating in multiple countries:



Staying up to date

Plastic (packaging) taxes and EPR schemes in Europe are a fast-changing and complex legislative landscape.



Identifying data requirements

To comply with reporting obligations it is important to understand the data requirements and assess whether this data is readily available.



ERP implementation and procedures

Procedures and implementation into the ERP system can help ensure that a business is in control of plastic (packaging) taxes.



Interdependencies with the supply chain

Plastic (packaging) taxes are strongly connected to the broader supply chain and other taxes, such as VAT and Customs.

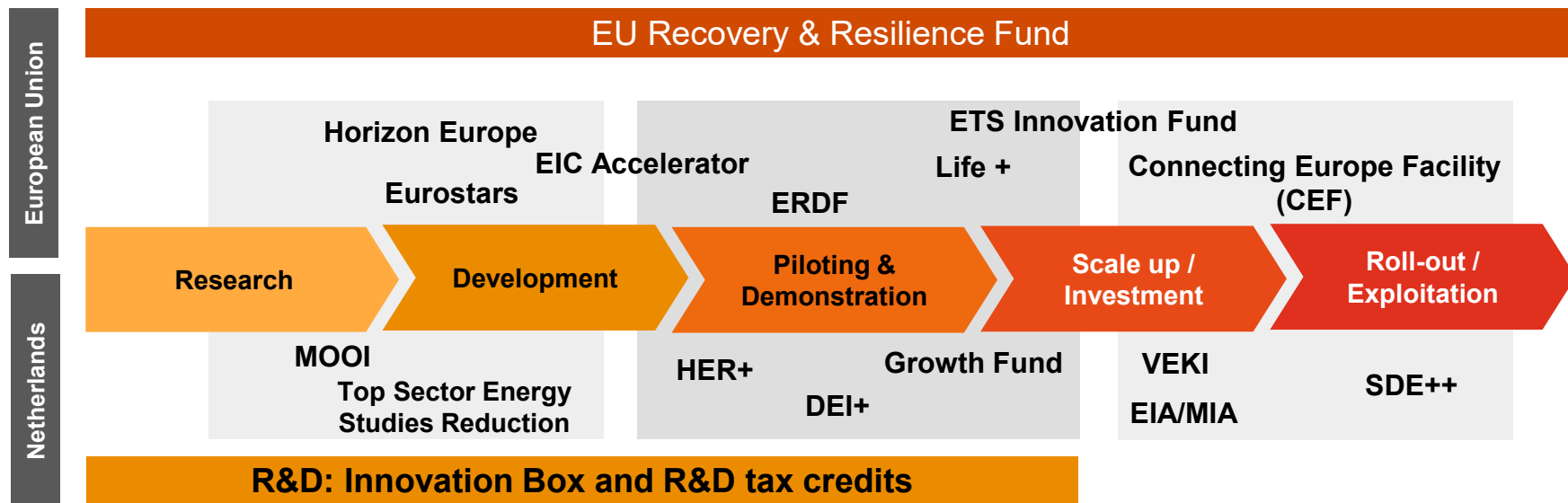
06

Subsidies / public funding



EU and NL incentive schemes along the capital project life cycle

Multiple EU and NL tax & cash incentives for ESG driven capital investments



Green Deal Industrial Plan

Relaxation of state aid frameworks for renewable energy production and supporting supply chain

What

The Green Deal Industrial Plan shapes the framework for the EU's net-zero industrial transformation by further **supporting the roll-out of renewables, including the supporting supply chain and energy infrastructures.**

Context

The Plan is a direct **response to similar policies abroad**, specifically in the US (USD 360bn), China (USD 280bn) and Japan (USD 145bn). In light of these foreign schemes, the limitations to industrial support in the EU internal market are seen as too limiting for renewable energy investments to compete effectively.

Impact

The Plan will allow for increased subsidy and incentive support on Member State and EU levels, in combination with permitting support. Although the details are under development, the entire EU net-zero industry, from the supply chain to electricity market, will benefit from this plan.



Overview Green Deal Industrial Plan

Green deal industrial plan

Overview four pillars

1st Pillar - A predictable and simplified Regulatory Framework

1. **A Net-Zero Industry Act** - simplify regulatory environment for production of green technologies such as batteries, windmills, heat pumps, solar, electrolysers, carbon capture and storage technologies.
2. **A Critical Raw Materials Act** - secure the supply of raw materials critical to the manufacturing of green technologies.
3. **A reform of the electricity market design** - guarantee predictable and reasonably low energy costs

2nd Pillar - Faster access to sufficient funding

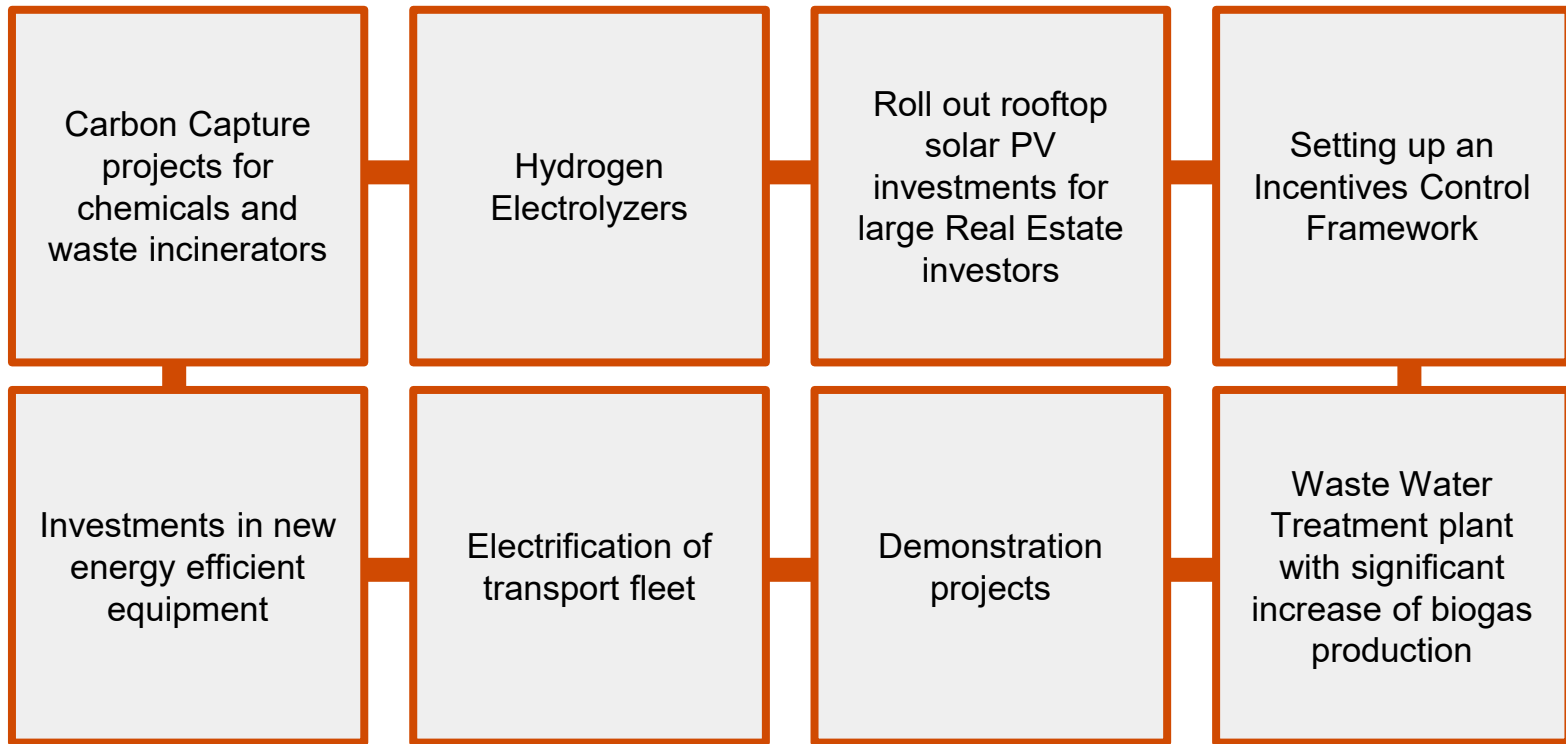
1. Simplification of aid for renewable energy deployments
 2. Simplification of aid for decarbonising industrial processes
 3. Enhanced investment support schemes for the production of strategic green technologies
 4. Targeted aid for new production projects in strategic green value chains
- Through relaxing of state aid rules for selected sectors, mainly through revision of the GBER and IPCEI regulations.

3rd Pillar (enhance skills of workforce) and **4th Pillar** (improve trade & resilient supply chains)

Regulatory updates allowing MS to support funding net zero projects and the manufacturing supply chain

National subsidy programs to be developed

Subsidy projects



07

Wrap-up



Three key actions to take away



Understanding the impact of the Fit for 55 package (and reporting obligations) key for many companies

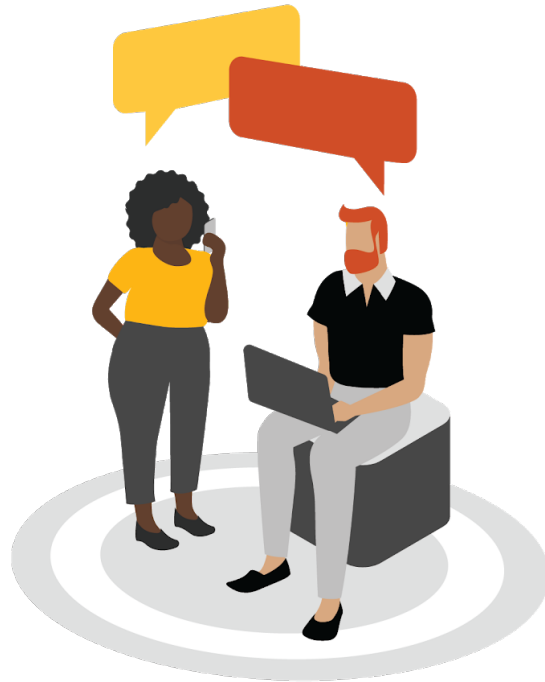


Determining scope 1, 2 and 3 footprint increasingly important



Decarbonisation business case should include all relevant taxes and incentives

Questions?





Closing

- **Questions?** Please contact your PwC advisor or let us know in the evaluation of this webcast.
- View this webcast or presentation at a [later stage](#)
- Stay up to date: register for our PwC Tax Newsletter on [pwc.nl](https://www.pwc.nl)
- ‘State of Tax’ webcast series continues on [pwc.nl/evenementen](https://www.pwc.nl/evenementen)
- Please fill in the evaluation form

Evaluation

- How would you rate this webinar on a scale from 1 to 10?
- The content was relevant. (Totally agree/Agree/Neutral/Disagree/Totally agree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?

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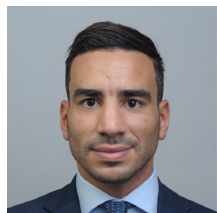


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