

# NEW PERSPECTIVES REGARDING THE FUTURE OF EUROPEAN ENVIRONMENTAL POLICY WITH PARTICULAR REGARD OF THE TAXATION ASPECTS

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## **Summary**

*Actuality: The European Union's response to cushion the economic shock is divided into two parts, given the separation of competences at EU and nation state level. The global economy is increasingly recovering from the Corona crisis, but its effects continue to shape economic development. At the same time, the profound transformation towards a climate-neutral and digital economy must be shaped. National measures and strategies must be developed in the European and global context to effectively meet the challenges. Education over the entire life cycle should be strengthened. Accelerated digitalisation offers great potentials that need to be leveraged. Sustainability must be ensured in various dimensions. International cooperation is crucial for successful climate protection. Higher private and public investments must be mobilised for transformation and increased productivity. In all of this, fiscal sustainability must be ensured.*

*Purpose: Climate protection is a global challenge. The risks of climate change and the economic opportunities of the necessary transformation are heterogeneously distributed worldwide.*

*Progress in global cooperation should be promoted through burden sharing and technology cooperation. This should significantly strengthen private investments worldwide.*

*The establishment of a climate club and investment protection agreements are important elements of international climate policy. Trade agreements should consider the close links between trade and climate. However, costs and benefits must be weighed up.*

*Research: The publication in concern is based on the foremost recent expert evaluations of the European Commission, EU Parliament, EU Central Bank, the recent evaluations and publications of the Ministry of Finance, Ministry for Economic Affairs and Climate Protection of Germany,*

*Methods: Application of the scenario number 4 of the Whitebook of the European Union.*

*Results: A global solution is needed to effectively curb climate change. Progress in multilateral negotiations has been very slow in the past. Building on the Paris Climate Agreement, trust between the Parties should be strengthened in order to make mechanisms capable of gaining majority support in the medium term, which strengthen climate protection efforts and the willingness to cooperate in an international context. The international climate financing and technology transfer*

*provided for in the Paris Agreement play a central role in strengthening this trust. By making it easier for developing and emerging countries to implement their climate policies and improving the framework conditions, they can mobilise private investment and thus facilitate transformation. Innovations are central to driving forward the diverse transformation processes. In order to achieve the goals of the Paris Climate Agreement, it will be important to bring new technologies to market maturity and make them quickly available worldwide. The production of renewable energies and their transport in the form of hydrogen or synthetic energy carriers can pave the way to climate neutrality and at the same time open up new business opportunities for European and German companies. The foundations for this can already be laid today, for example through bilateral partnerships. Climate-damaging subsidies, on the other hand, distort trade and prevent innovation in technologies that are relevant to solving the climate problem. Europe should step up their efforts to ensure that these subsidies are dismantled everywhere.*

**Keywords:** *Circular economy, climate protection, fiscal sustainability, Climate-damaging subsidies-environmental taxation- Eu fiscal union.*

**JEL:** *Q53, Q56, Q57, Q58.*

**UDC:** *502.131(4)UE*

**Introduction.** The global financial crisis of 2008 originated in the US real estate market when the subprime bubble burst. This led to heavy losses for banks, which spilled over to the EU in 2008 mainly due to securitised loans. The crisis was not only exacerbated by existing deficiencies in the EU financial system, but also highlighted shortcomings in the supervisory systems, policy instruments and regulatory environment of the EU and its member states (European Court of Auditors, 2020). Because of the financial crisis of 2007/08 the Member States established a White Book comprising 5 scenarios, which entailed the possible policy to pursue with regard of the future. According to the White book the Member states decided to pursue the fourth scenario, which covers the possibility of deepening the economic, capital, monetary, banking Union of the EU.(COM (2017) 358, 11). The completion of a true financial union is fundamental. An integrated and well-functioning financial system is crucial for an effective and stable Economic and Monetary Union. Building on the progress already made in recent years, agreement is now needed on the way forward. Such agreement should cover elements already proposed as well as additional steps to be taken by 2025. Climate change and environmental degradation define the global challenges of our time. Countries around the world recognise the urgent need to address these challenges, as evidenced by their support for the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development, and are setting ambitious targets. Based on the European Green Deal, the EU has made a number of ambitious commitments, notably to become the first climate-neutral continent by 2050 and to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. The EU also aims to strengthen its resilience to climate change, reverse biodiversity loss and overall

environmental degradation, without leaving anyone behind in the process. To achieve these goals, all sources of funding - public and private, national and multilateral - must be aligned accordingly. The EU must cooperate globally and work with low- and middle-income countries in their transition (Deutscher Sachverständigenrat, 2022).

Energy taxation is a tool that governments can use not only to raise revenue but also to support climate goals. It can ensure that price signals for different energy products reflect their impact on the environment and encourage companies to make greener choices. (European Court of Auditors, 2022). In its evaluation of the Energy Taxation Directive, the Commission reports shortcomings in the minimum taxation rules. Among the objectives of the Commission's "Fit for 55" legislative proposals are to bring energy taxes in line with energy content and to cover more sectors within the EU Emissions Trading Scheme. In July 2021, the Commission proposed a revision of the Energy Taxation Directive and new legislation to support the more ambitious EU's more ambitious 2030 climate target and to put the EU on the path to climate neutrality by 2050. One of the objectives of the proposal is to bring the legislation in line with the climate targets. Energy subsidies can be used to move towards a less CO<sub>2</sub> intensive economy. On the other hand, the subsidisation of fossil fuels is an obstacle to an efficient energy transition, and these subsidies have remained relatively constant over the last decade, even though the Commission and some Member States have committed to phasing them out. The European Court of Auditors in their analysis of 2022 highlight the challenges which the European Union faces in revising the legislation: 1. ensuring consistent treatment of sectors and energy sources that were previously subject to more benevolent rules, 2. reduce subsidies for fossil fuels, 3. reconciling climate targets with social needs. Fossil fuel subsidies are an obstacle on the way to climate targets because they hinder the green energy transition. In total, Member States subsidise fossil fuels to the tune of more than 55 billion euros per year. These subsidies have remained relatively stable over the last decade, despite calls to phase them out. Some Member States spend more on fossil fuel subsidies than on green subsidies.

**Literature review.** The bibliographic sources are numerous, but they refer to institutional sources. The literature is based on the European policy, which represents the policy of the 27 Member States. The Whitepaper regarding the reflection on the deepening of the economic and monetary of the EU is of crucial importance. (EU Kommission, (COM2017) 291 vom 31. Mai 2017.) The global crisis that began in 2007/08 exposed the vulnerabilities of the fledgling currency and hit the euro area particularly hard. The first European countries to be hit by the global crisis were not part of the euro area and the euro seemed to act as a shield. However, as the assessment of the vulnerability of some euro countries changed, significant dislocations occurred. Several member states took the bold decision to financially support banks with taxpayers' money to avert the risk of collapse. The banks had got into trouble after financial bubbles had emerged and grown in previous years. Combined with the revenue shortfalls and additional spending caused by the

"Great Recession", public debt levels, which had been below 70% of GDP before the crisis, widened significantly to an average of 92% of GDP by 2014. According to the Annual Report of the German Council of Economic Experts (2017/2018), The European Court of Auditors in their analysis of 2020, EU Commission (2021) (Antonio Felice Uricchio, 2016). The policy pursued by the Member States strives at the completion of a true financial union and represents an important milestone. An integrated and well-functioning financial system is crucial for an effective and stable Economic and Monetary Union. Building on the progress already made in recent years, agreement is now needed on the way forward. A more integrated Economic and Fiscal Union is required.

The Five Presidents' Report already recognises that convergence towards more resilient economic and social structures in the Member States is an essential element for the long-term success of the Economic and Monetary Union. Anchoring democratic accountability and strengthening euro area institutions is entailed in the abovementioned literature. A stronger Economic and Monetary Union can only be achieved if member states are willing to share more responsibility and take more decisions together on euro area matters within a common legal framework. According to Europäische Union (2020), European Union text proposal for the modernisation of the Energy Charter Treaty. Additional submission to text proposal for the modernisation of the Energy Charter Treaty (ECT), sent to the ECT Secretariat on 19 May 2020, 26. October; UNITED NATIONS Framework Convention on Climate Change (2021a), Paris agreement – Status of ratification, Climate Change and environmental degradation define the global challenges of our time, Countries around the world recognise the urgent need to address these challenges, as evidenced by their support for the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development, and are setting ambitious targets. Based on the European Green Deal, the EU has made a number of ambitious commitments, notably to become the first climate-neutral continent by 2050 and to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels.

The EU also aims to strengthen its resilience to climate change, reverse biodiversity loss and overall environmental degradation, without leaving anyone behind in the process. To achieve these goals, all sources of funding - public and private, national and multilateral - must be aligned accordingly. The EU must cooperate globally and work with low- and middle-income countries in their transition. According to the OECD, Environmentally Harmful Subsidies: Challenges for Reform, 2005; Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing and amending the framework for achieving climate neutrality. Energy subsidies can take the following forms: direct: changes in effective tax rates (e.g. tax reductions and tax credits); grants and guarantees providing incentives to favour the use of one energy source over another; indirect: market interventions (e.g. quantitative export or import restrictions, setting administered prices), underpricing of permits and licences, preferential interest rates on loans, risk shifting, failure to take into account or underpricing of externalities

(greenhouse gas emissions, pollution, waste, natural resource extraction). The EU's efforts could increasingly be strategically directed towards establishing a CO<sub>2</sub> price in developing and emerging countries or at least reducing subsidies for fossil energy sources.

**Research methodology.** The main institutional literature will be analysed. The most relevant European legislation will be highlighted and the problems are highlighted which the Member States are facing concerning energy taxation and fuel subsidies. This analysis examines how energy taxes, the pricing of CO<sub>2</sub> emissions and energy subsidies contribute to achieving the EU's climate goals. The relevant EU legislation has been reviewed, in particular the existing Energy Taxation Directive and the Commission's proposal to update it. The analysis covers the period from 2008 to July 2021.

It is well known that energy consumption is closely linked to income and is an essential condition for development. As the population grows and GDP increases, energy needs increase and are bound to increase also due to their necessary pervasiveness in the vast majority of productive activities and everyday life. Not all energy products have the same impact on the environment, producing some of them (fossil fuels) harmful emissions capable of altering the planet's temperature and climate. The distribution of energy sources in the territories is also affected by numerous factors (geomorphologic, historical, economic and for some of them, such as solar and wind, even meteorological) and above all, places of production and consumption do not always coincide, since energy must not only be produced but also transported, stored and supplied in places of consumption. It is evident how the adoption of public policies on energy, both in the identification of sources and in the construction of infrastructures suitable for energy storage and distribution, and in the support of research and technological innovation, appears essential to ensure that needs are met at adequate and competitive tariff conditions. In this context, the tax lever has played and continues to play a particularly significant role, being able to guide energy supply and demand, and at the same time promote environmentally friendly production and behaviour. (B. Gates, Clima 2021).

As past experience shows, the energy conversion to fossil fuels was strongly politically driven during the industrial revolution (both the first in the late 18th century and the second during the 19th and 20th centuries) and incentivised through facilitative measures related to extraction and in some cases consumption.

This resulted in a strong containment of costs and a gradual improvement of techniques to facilitate access and transformation into electricity. On the one hand, excise tax policies and, on the other, the granting of financial incentives of various kinds have led to the gradual replacement of energy sources of the past (wind and water mills, burning of agricultural stubble and timber) with coal, gas and oil. There are also many countries that have introduced and continue to apply subsidies of various kinds for the production and consumption of fossil fuels and that still keep the prices of these energy sources low, producing quite a few distortions in the energy market (according to the International Agency of the Agency, subsidies for fossil

fuel consumption amount to four hundred billion dollars, while according to Legambiente, more than 34 billion euros have been allocated to environmentally harmful subsidies).

It is precisely the ease of finding these sources and the still low prices that have guided the energy policies of many countries, even at the cost of acquiring the energy they need from other supplier countries. It is no coincidence that, to date, fossil fuels are the most widely used, providing two-thirds of the world's electricity (with devastating effects on the environment and climate), while that generated by renewable sources, such as wind and solar power, is less than 10 per cent. As we have often observed, the goal of a profound energy and ecological transition (and thus of reducing or eliminating harmful emissions) can be pursued by reversing the trends of the past, directing significant investments in research and production of clean energy (including new energies that have not yet been used, such as star power or fusion energy), dosing taxation instruments, albeit gradually, to create a sustainable and modern national energy plan that can allow our country to free itself from foreign energy dependence.

**General overview and problem statement.** With the Paris Climate Agreement, the community of states has committed itself to limiting global warming to well below 2°C and if possible 1.5°C above pre-industrial levels.

So far, however, global measures have not been sufficient to achieve this goal. The task of intensifying global climate cooperation is becoming increasingly urgent. The heterogeneity of the parties to the Paris Climate Agreement is a major challenge. The long-term direct climate risks primarily affect developing and newly industrialised countries, while the advanced economies in particular are confronted with transitory risks. are confronted.

For countries with fossil fuel reserves, decarbonisation means the loss of important sources of income. means the loss of important sources of income. At the same time, climate policy opens up a wide range of opportunities. For many companies, new markets and profit opportunities are emerging.

The switch to renewable energies offers some states the opportunity to diversify their own energy dependency, others the opportunity to export energy. Climate policy negotiations are thus influenced not least by diverse industrial policy and geopolitical interests. In order to achieve progress in global cooperation, burden-sharing, for instance through transfers from advanced economies to developing countries and emerging economies, technology cooperation and the joint development of climate- friendly (global) value chains are the focus. (Europäische Kommission (2020). A hydrogen strategy for a climate-neutral Europe, COM (2020). If financial transfers and technological cooperation succeed in and emerging countries through financial transfers and technological cooperation, global and emerging economies through financial transfers and technological cooperation, climate protection could be accelerated and the costs of for the avoidance of emissions could be reduced. Bilateral technology partnerships can be mutually beneficial in that they offer domestic and foreign companies the opportunity to

companies to test and scale climate-friendly technologies at an early stage. This will require the mobilisation of both public and private funds, especially from advanced economies. advanced economies.

Public funds should be targeted to strengthen the framework conditions to reduce political uncertainty for private investment. Private investment will be needed globally and on a large scale. Investment protection agreements play an important role in mobilising this investment. A further development of the Paris Climate Agreement could strengthen the confidence of states in global climate cooperation. (Europäische Kommission (2018b), Aktionsplan: Finanzierung nachhaltigen Wachstums, COM/2018/97 final, Brüssel, 8. März.) In the future, this could make mechanisms capable of gaining majority mechanisms that can more effectively limit free-riding. In addition to the global approach more attention should be paid to cooperation in smaller groups of states. A climate club could be an option to realise progress in climate protection and to institutionally improve the international coordination of climate policy. coordination of climate policy more firmly anchored institutionally. The risks of carbon leakage and distortion of competition could thus be reduced. (Deutscher Sachverständigenrat, 2022)

Trade agreements should take into account the close interconnection between trade and climate. The EU's competences in the field of indirect taxation comprise the coordination, harmonisation and approximation of turnover taxes and excise duties as they affect the internal market. Tax policy is one of the EU policy areas where decision-making is based on unanimity. The EU Energy Taxation Directive (ETD) sets minimum tax levels for some energy products and sectors. Its primary objective is to harmonisation of national legislation in order to avoid distortions in the internal market. The Emissions Trading Directive is also important in this context. In the Directive, a CO<sub>2</sub> price is applied mainly to emissions from installations in the electricity generation sector and energy-intensive and energy-intensive industries, in order to provide an incentive for companies in these sectors to reduce emissions. The carbon price is thus determined by the market.

Some energy subsidies may take the form of state aid, which is in principle incompatible with EU internal market rules. The Commission has the power to decide whether such subsidies constitute state aid and whether they are compatible with EU internal market rules. For guidance in this assessment, the Commission has used the Guidelines on Environmental and Energy State Aid Guidelines 2014-2020. In June 2021, the Commission issued new draft Guidelines on State aid for climate, environment and energy 2022. The proposal for the "Fit for 55" package aims, among other things, to, provide a more comprehensive basis for energy taxation and increase the minimum levels of energy taxation through amendments to the Energy Taxation Directive, to expand the emissions trading scheme to include other sectors such as road transport and buildings, to establish a carbon cap and trade system that reflects greenhouse gas emissions from imports and provides an alternative to free emission allowances in the EU.

**Main results.** Climate protection is a global challenge. The risks of climate change and the economic opportunities of the necessary transformation are heterogeneously distributed worldwide.

Progress in global cooperation should be promoted through burden sharing and technology cooperation. This should significantly strengthen private investments worldwide. The establishment of a climate club and investment protection agreements are important elements of international climate policy. Trade agreements should consider the close interconnection between trade and climate. However, costs and benefits must be weighed up. A global solution is needed to effectively curb climate change. In the past, progress in multilateral negotiations in particular has been very slow. Building on the Paris Climate Agreement, trust between the Parties should be strengthened in order to make mechanisms capable of gaining majority support in the medium term, which will strengthen climate protection efforts and willingness to cooperate in the international context. A central role in strengthening this trust is played by the international climate financing and technology transfer provided for in the Paris Climate Agreement.

By making it easier for developing and emerging countries to and emerging economies to implement their climate policies and improve the framework conditions, they can mobilise private investment and thus facilitate the transformation. Energy taxes and carbon pricing may take different forms such as specific taxes on fuel use (primarily excise taxes) typically set a tax rate per physical unit or unit of energy; explicit carbon taxes typically set a tax rate for energy use based on carbon content; emission allowances traded in emission trading systems. Energy taxes and carbon allowances are based on: energy products for transport purposes (such as petrol, gasoil, natural gas, kerosene or fuel oil); energy products for stationary purposes (e.g. fuel oil, natural gas, coal, coke, biofuels and electricity); greenhouse gases: carbon content of fuels. Eurostat data on such taxes includes proceeds from EU Emission Trading System (ETS) permits recorded as taxes in national accounts. Energy taxation policy is one of several tools that can be used to achieve climate goals. Others include legislation setting targets (e.g. the Effort Sharing legislation on binding annual greenhouse gas emission (GHG) , regulatory standards (e.g. on vehicle emissions) and funding schemes (such as for energy efficiency investments). (COM(2019) 8 final).

The Commission has identified energy taxation as a key driver of energy savings. In their National Energy and Climate Plans, Member States note that taxation will contribute significantly to future energy savings. Tax levels vary widely between sectors and between energy carriers. Under the current Energy Taxation Directive, more polluting sources of energy may have a tax advantage compared to carbon-efficient sources of energy.

In July 2021, as part of the “Fit for 55” legislative package, the Commission published a proposal for a revision of the Energy Taxation Directive. This aims to address weaknesses in the current energy tax legislation and, in particular, to align



taxation level more closely with energy content and the environmental performance of energy carriers. (Communication from the Commission, Guidelines on State aid for environmental protection and energy 2014-2020). It still allows Member States to reduce energy tax rates for some sectors, for environmental, energy efficiency and energy poverty reasons. Energy taxation can be an important driver for reaching climate objectives. However, certain sectors receive significant reductions and exemptions. Our review identified that the level of taxation of energy sources does not reflect their greenhouse gas emissions. Energy subsidies can be used to move towards a less carbon-intensive economy. Fossil fuel subsidies on the other hand hinder an efficient energy transition, and have remained relatively constant over the last decade despite commitments from the Commission and some Member States to phase them out.

**Discussion and conclusion.** The financial, economic and sovereign debt crisis of 2008-2012 had long-term consequences for growth and fiscal stability in the EU. With the founding of the European Monetary Union (EMU), responsibility for monetary policy passed to the European level. The competence for fiscal and economic policy remained with the governments of the member states.

Flexible exchange rates make it possible to adjust quickly to asymmetric shocks and allow a stabilising national monetary policy. This possibility does not exist in a monetary union.

The common monetary policy can only compensate heterogeneous cyclical developments in the member states to a limited extent. An extensive economic literature on optimal currency areas deals with the question of which other mechanisms and instruments can compensate for this loss of flexibility. For example, improved international mobility of labour and capital (Mundell, 1961), greater openness and trade (McKinnon, 1963), greater international risk sharing through financial markets (Mundell, 1973) or greater flexibility of nominal prices and wages can compensate for the disadvantages of the fixed exchange rate. Furthermore, the state can achieve compensation by means of government spending, taxes or international transfers (Kenen, 1969; Galí and Monacelli, 2008; Adao et al., 2009; Farhi and Werning, 2017). The sovereign debt crisis in the euro area has made it clear that a crisis mechanism is necessary when member states are in danger of losing market access. The ESM was created for this purpose. It allows a member state to with credit - guaranteed by the other member states. In the case of over-indebtedness, the ESM should be supplemented with an orderly restructuring procedure, so that the creditors can also be called in. There are now calls from various quarters to create additional fiscal policy instruments at the European level. With a fiscal capacity the European level is to be put in a position to help member states in the event of asymmetric shocks and recessions with additional transfers. The fiscal policy ownership provided for in the European Treaties asymmetric shocks, a reaction at the member state level would be expected. In particular, unemployment insurance and the progressive tax system have an automatic stabilising effect. However, high debt levels limit the fiscal leeway of several member states. It would therefore be all

the more important to use the current recovery phase to make up for the insufficient fiscal consolidation so far. If a loss of market access is imminent, the ESM is in any case the ESM is available. The introduction of a fiscal capacity into this regulatory framework would be a paradigm shift and a shift of fiscal policy competences to the European level (Feld, 2018). Therefore, a fundamental review is necessary. The French President Emmanuel Macron's call for an additional budget at the level of the budget at the level of the monetary union has placed the role of intergovernmental transfers for stabilisation purposes onto the political agenda. political agenda.

A member state's fiscal policy leeway is limited by the limited by the condition of public debt sustainability. The room for manoeuvre could be widened by intergovernmental transfers to the national budget if these are not repayable and are not offset elsewhere compensated for. Such transfers would result in a permanent redistribution between between states and are therefore rightly not envisaged within the monetary union.(Draghi, M. (2016), The international dimension of monetary policy, Rede, ECB Forum on Central Banking, Sintra, 28. Juni.)

A transfer union would require a comprehensive renunciation of sovereignty by the member states with regard to their budgetary policy. States such as the United States show higher intergovernmental, fiscal transfers, but the debt possibilities at the member state level are narrowly limited. A number of concrete proposals for a fiscal capacity, for example in the form of a "bad weather fund", have been put forward moreover a rainy day fund or a European unemployment insurance fund, are therefore aimed at an insurance function with purely temporary transfers. Among them are proposals of the International Monetary Fund (IMF) and the European Commission. In most cases, the proposals do not require an explicit repayment of the transfers. explicit repayment of the transfers, which would ensure that there is neither a permanent permanent net transfer, nor an interest rate. Instead, they rely on a compensatory random principle. One exception is the proposal of the European Commission's proposal, which provides for the granting of a loan, but the the decision on the loan conditions is reserved for the European Commission. is reserved for the European Commission. (Draghi, M. (2018c), Introductory statement to the press conference (with Q & A), Rede, Pressekonferenz der Europäischen Zentralbank, Frankfurt am Main, 13. September.) The Commission sees energy taxation as a major driver for energy savings. In their national energy and climate change plans, the Member States state that taxation will contribute significantly to future energy savings. Tax rates vary considerably depending on the sector and energy source. Under the current Energy Taxation Directive, energy sources that are more polluting may receive more favourable tax treatment than energy sources that are CO2 efficient. While a majority of Member States levy taxes on fuels that are significantly above the minimum levels set in the Energy Taxation Directive, several Member States keep taxes close to the minimum. This situation can lead to distortions of the internal market. The framework for EU energy taxation is provided by the EU Emissions Trading Scheme and national CO2 taxes. Due to free

allowances under the ETS, however, some operators do not have to market participants do not have to pay anything for their CO<sub>2</sub> emissions. Subsidies for fossil fuels are an obstacle on the path towards the climate targets because they hinder the green energy transition. Overall Member States subsidise fossil fuels with an amount of more than 55 billion euros per year. These subsidies have remained relatively stable over the last decade, despite calls for them to be phased out. Some Member States spend more on fossil fuel subsidies than on green subsidies. European Court of Auditors, 2022).

Among the possible interventions to make the prospect of energy transition more concrete is the modification of excise duties on energy, already contemplated in Directive 2018/2002, on "a common framework of measures to promote energy efficiency within the Union in order to ensure the achievement of the Union's headline target for energy efficiency of 20% by 2020 and the achievement of the Union's headline target for energy efficiency of at least 32.5% by 2030" (Article 1(1)). The EU's climate change commitments could push for a broader harmonisation of green excise duties and environmental taxation instruments, perhaps extending virtuous experiences such as those of the Scandinavian countries (Sweden and Finland) or France and Ireland. In this sense, see the European Commission's document of 11 December 2019 No. 640 (European Green Deal), in which the crucial role of excise duties in the transition towards greener and more sustainable European growth and compliance with the climate targets to be taken up to 2050 is reaffirmed (F. GALLO, in *Il mondo che verrà*, CNEL

2020). The term 'excise duty' responds, moreover, to the need that emerged in the Community context for a uniform definition, necessary in anticipation of the realisation of the 'single internal market', and therefore with the consequent realisation, as of 1 January 1993, of the free movement of all goods between Member States. The realisation of the 'internal market', however, required that the general regime and the 'chargeability' of excise duty be identical in all Member States, necessitating a process of convergence and coordination in tax matters, aimed at achieving complete harmonisation of taxation in the various Member States on goods and services of very wide consumption and strong inducements such as electricity, gas or transport. In the process of European harmonisation, excise duties suffer from a contradiction related to their very nature, being at the same time the object of harmonisation at the Union level but also a fundamental instrument of internal taxation of each Member State and of entry into each country's budget. For Italy, they represent the third largest tax sector in terms of revenue after Direct Taxes and VAT. To understand the order of magnitude think that the annual revenues from excise duties and managed by the Customs and Monopolies Agency (Blue Book 2020) amount for 2019 to more than 34 billion Euro for energy products, alcohols and alcoholic beverages and more than 10 billion for the tobacco sector. (Antonio F. URICCHIO, *Delega al governo per la riforma del sistema tributario: la riforma delle accise*, in *Profili internazionali e comunitari della nuova imposta sui redditi delle società* a cura di G. Marino, Milano, 2004, 149). At the same time, the directive also

harmonises at European level the taxation of electricity, and thus also that of coal and petroleum coke; this means that these products, already provided for in Italy as products subject to non-harmonised excise duty, become subject to harmonised excise duty; Furthermore, the same directive provides for the replacement of the previous name of "Methane Gas" with "Natural Gas"; in addition, the exclusion of certain uses (electrolytic, metallurgical, mineralogical processes) of energy products from the scope of the tax is expressly indicated (so-called "out-of-field", see below). 'out-of-field', see below), although intended for carburation or combustion, without prejudice, however, to the application of the provisions on the circulation of such products. In July 2021, as part of the "Fit for 55" legislative package, the Commission published a proposal to revise the Energy Taxation Directive. The proposal aims to address the weaknesses of the current legislation, and, in particular, to align the level of taxation with the energy content and the environmental performance of the energy source.

In this context, of particular importance, especially from the perspective of the ecological transition, is the proposal for a directive no. 563 final of 14 July 2021, which redefines the Union's regulatory framework on the taxation of energy products. 563 final of 14 July 2021 that redefines the Union's regulatory framework on the taxation of energy products, which, while linking and developing some principles contained in Directive 2001/77/EC, later repealed by Directive 2009/28/EC (which is part of the 20-20-20 Climate-Energy Package), marks a change of perspective and step in greater adherence with the climate-energy framework and, above all, with the European Green Deal and the FIT 55 programme, eliminating incentives in favour of fossil fuels and adopting a scale of rates based on the environmental performance of the various energy products. The reform stems from an awareness of the profound evolution of technologies in energy production, storage and supply and the consequent profound transformation of energy markets. The recent events of the war have made energy self-sufficiency even more necessary, and this must be pursued, taking into account the impact on the environment and climate, by taxing more those energy products from which more Co<sub>2</sub> is emitted into the atmosphere. The proposal for a directive therefore abandons the apparent neutrality of taxation mechanisms (in fact incentivising the consumption of fossil fuels), replacing the volume-based levy model with that of energy content. It is precisely the modulation of rates, to be arranged gradually so as to avoid devastating effects on the economy, that represents the best way to pursue the goal of zero emissions, appreciating the close interpenetration between energy transition and environmental policies. This will result in a profound simplification of the tax structure by grouping energy products, whether used as motor fuels or heating fuels, and classifying them according to their environmental performance, which is also defined in relation to the European Green Deal document and the FIT 55 proposals. According to this modulation, the highest rates may apply to conventional fossil-based fuels (transport) and household fuels, while lower rates (2/3 of the maximum rates) may apply to less harmful fuels (LPG and hydrogen of fossil origin) and again

to conventional biofuels. Lower rates may apply for advanced biofuels, bioliquids, biogas and hydrogen from renewable sources . Fundamental to this change of perspective is the concept of 'environmental performance', defined with regard to the specific characteristics of the different products also in the light of technological developments and consistent with the other proposals of the 'Fit for 55' package (revision of the EU ETS and new Renewable Energy Directive II).

Member States are left the Member States the possibility to adjust energy tax rates for some sectors for environmental reasons, energy efficiency or energy poverty, The legislative package also includes the proposal to extend the emissions trading scheme to maritime transport and to maritime transport and to introduce a separate emissions trading scheme for road transport and buildings. transport and buildings. The gradual phasing out of free allowances linked to the risk of carbon leakage goes hand in hand with the emissions risk goes hand in hand with the proposed gradual introduction of the CO2 border adjustment system. One of the challenges for EU policymakers is to find ways to align the EU energy taxation to climate policy objectives. With low CO2 prices and low energy taxes on fossil fuels, the relative costs of low-CO costs of low-carbon technologies rise, and the green energy transition is delayed. Targeted subsidies and well-defined regulatory standards can be used to increase fiscal and strengthen fiscal support for cleaner energy and energy savings. Conversely, subsidies for fossil fuels will hamper the energy transition are hindering the energy transition or increasing its costs. Phasing out these subsidies by 2025, which the EU and its member states have committed to, means challenging social and economic change. The social impacts of the various initiatives can be significant, and they can negatively affect the transition to a greener economy if they are not addressed. If some groups or sectors feel that they are being treated unfairly, this could lead to resistance to progress in this area. These challenges will need to be addressed in the institutional context of unanimity on tax issues (European Court of Auditors, 2022).

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