OXFORD INTERNATIONAL MODEL UNITED NATIONS

17TH ANNUAL CONFERENCE

25TH -27TH OCTOBER 2019

European Union Economic and Financial Council

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MESSAGE FROM THE DIRECTORS

Dear Delegates,

Welcome to the European Union's Economic and Financial Council at OxIMUN 2019, we are both very excited to meet you all!

For the duration of the conference, we, as chairs, shall be there to guide you, help you with any queries and ensure that you can engage to the fullest and enjoy committee debates. This study guide will serve as a basic introduction to the issues that will be debated over the course of the weekend. However, delegates are expected to do their own independent research into the issues.

The topics we will be introducing you to in this guide are "Regulating Europe's Banking industry to ensure financial stability" and "Re-evaluating EU Climate Policy: The Energy Taxation Directive", both of which link excellently with this year's intermediate theme: ”Challenging Global Financial Interests”. When it comes to both banking and EU taxation, the EU is now more connected than ever, and as a unit, the EU has never been come connected to the rest of the globe. Because of this, these topics also allow for you to get the optimal out of OxIMUN´s new feature, interconnectivity, which we hope you are all exited to explore.

If you have any questions prior to the conference do not hesitate to contact us.

We are looking forward to hearing all your insightful thoughts on the topics.

Sincerely,

Sarina Bastrup

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Michael Webb

michael@munkent.co

BRIEF GUIDE TO INTERCONNECTVITY AT OXIMUN 2019

Dear Delegates,

Before jumping into the in depth research contained in this guide this introductory section is designed to help you understand the added dynamics that will be at play at OxIMUN 2019 this year. Oxford Model United Nations will be bringing *Interconnectivity* to the United Kingdom for the first time. First developed at WebMUN 2014 and then replicated by other conferences such as MUNAPEST, and most recently PiMUN; interconnectivity aims to provide a more realistic experience for delegates who wish to substantively simulate the world of international diplomacy. Just as delegates from the same country operate under a shared foreign policy in real life, delegates in the Intermediate and Advanced committees will be responsible not only for passing resolutions within committees, but for proposing policies, treaties and projects *across* them. Delegates will be working with the delegates representing the same country in other committees in order to advance their national, and global ambitions. Events, resolutions and decisions undertaken in one committee will impact others in real-time. However, **the structures of interconnectivity in the Intermediate and Advanced committees ARE SEPARATE** meaning that delegates in Intermediate committees will not be negotiating or working with delegates in Intermediate committees under any circumstance or scope, but will only be concerned with the problematics present at their level. Below you will find a table of all committees in your interconnectivity system which you are expected to liaise with.

All actions pursued by all delegates regardless of committee must be related to the themes at hand. For Intermediate Committees the general theme is *"Challenging Global Financial Interests."* Delegation Meetings and Multilateral Talks are not an opportunity to discuss country dynamics which are wholly unrelated to the themes being actively debated.

Intermediate Committees: INTERCON 1.0
Challenging Global Financial Interests
AU
ASEAN
G20
ILO
ICC
ECOFIN
World Bank
UNCTAD
Press Corps 1.0

Below is a brief guide to how interconnectivity works and what it will mean for you. However, we highly advise delegates to read the full in depth description of what interconnectivity is and how it works please visit the OxIMUN 2019 Rules of Procedure.

Link: Rules of Procedure

You as a delegate:

While providing an effective and realistic context of political interdependence between parties, states, and committees delegates will be engaging not solely with the topics of their committee but are also expected to consider and contribute to other decisions its country makes. (*It must be stressed that delegates are still expected to debate within committee about the topics outlined in this guide as this is your foci of research).* Yet, delegates will no longer be rogue representatives but rather part of a working country delegation and as such will have to be aware of other dynamics occurring outside their committee and communicate effectively with the rest of their delegation.

Conference Wide Communication and Press: In order to operate within the dynamics of interconnectivity a Directorial Board composed of the OxIMUN 2019 Academics Team will be monitoring Conference Communication and dynamics to update all delegates on what is occurring. Press Committee 1.0 will also be able to report on new updates, resolutions and outside deals that are passed but look out for Official Directorial Board Statements to receive official, unbiased updates on what has occurred.

Additionally, all delegates will be provided a Slack Account prior to the Conference where they will be connected with all Intermediate Committees and Delegates. Each Delegate will have access to a Channel connecting them with their committee, their Country Delegation, their Committee Directors, the Directorial Board, and your Financial Body (the World Bank) as well as a General Conference Channel.

Delegate within Interconnectivity are expected to:

Take part in Delegation Meetings: At designated times during the conference, delegation Meetings will provide the opportunity for all Delegates representing the Same Country *(not the same University!)* to come together and discuss recent developments and advancements within their committees. This is the time in which delegates must strategise with their Delegation in order to best advance their shared aims and their country objectives. Prior to arriving at OxIMUN delegates should have already begun preliminary virtual discussions settling their shared strategy (via their provided Slack accounts).

At the end of each meeting each delegation will informally write down its new policy decisions and strategies in a Policy Paper it will send to the Directorial Board via Slack.

Engage in Multilateral Talks and Private Meetings: Multilateral Talks and Private meetings are the way delegates can talk to other countries or specific delegates they wish to organize a deal or plan with. Multilateral Talks allow delegates to negotiate issues that only concern limited number of states, are outside the scope of committee debate, or require immediate action. A delegate may send a Slack Message to the Committee Director requesting to meet with one or more Representatives of any Committee in a location of privacy.

Manage their Budget: Each Delegation, prior to the conference will be given a budget. This should include the delegation's total budget, their credit outlook, their Standard and Poor Rating, Interest Rate and Down Payment. This budget will then be used and shared by each Country Delegation (keeping in mind these always remain separate between Advanced and Intermediate committees). Delegations may use this budget to pursue committee goals, multilateral agendas or unilateral actions pertaining to their country specifically. Delegations must also keep in mind that their actions and decisions throughout the conference may impact their Credit Rating and thus negatively or positively impact their budget's size.

Delegates will turn to the World Bank, which will be the financial system for Intermediate committees in order to get advice and receive approval on projects. Please see details in the Rules of Procedure.

INTRODUCTION TO THE EUROPEAN UNION

ECONOMIC AND FINANCIAL COMMITTEE

HISTORY OF THE COMMITTEE

EU ECOFIN is a body of the Council of the European Union, which is one of the major institutions of the EU, acting both as an executive and legislative authority. In order to understand what the EU ECOFIN is it is imperative we look at the historical nature of its overarching body the Council of the European Union.

The Council historically finds its origins in the 'Special Council of Ministers of the European Coal and Steel Community" that was established by the Paris Treaty in 1951. Together with a High Authority (the executive that would later become the European Commission), Assembly and the Court.

The Merger Treaty of 1967 created a single European Community, with a single Council and a single Commission, to replace the three Communities: ESCS, Euratom and EEC.5 In 1993, the Maastricht Treaty created the European Union and the system of the three pillars: the European Community (first pillar), the Common Foreign and Security Policy (CFSP, second pillar) and the Police and Judicial Cooperation in Criminal Matters (PJCCM, third pillar). Simultaneously, the Council was given the name it holds today: The Council of the European Union (EU Council). The European Community pillar introduced the co-decision procedure of the European Parliament and the EU Council, that reduced their ability of acting independently in order to balance power between European institutions.

Once the Lisbon Treaty entered into force, in 2009, the European Council was declared a separate institution from the EU Council, stating a clear difference between the two for the first time. The Economic and Financial Affairs Council (ECOFIN) is a configuration of the EU Council, composed of the economy and finance ministers from all the member states, as well as Budget Ministers when budgetary issues are on the agenda.

The Council meetings usually take place once a month in Brussels or Luxembourg. The ECOFIN is responsible for different EU policy areas, such as economic policy, taxation issues and the regulation of financial services. More specifically, it covers: the coordination of economic policies, monitoring of EU States' budgetary policy and public finances, as well as legal and practical aspects of the euro. It also adopts, together with the European Parliament, the yearly budget of the European Union. It works closely with the European Commissioner for Economic and Financial Affairs and the President of the European Central Bank. It is an incredible powerful organisation regulating the internal economic policy of the second largest collective economy in the world after the United States.

Structure and Functions of the Committee:

Article 13 of the Treaty on European Union establishes the institutional framework of the EU. These institutions are: the European Parliament, the European Council, **the Council of the European Union**, the European Commission, the Court of Justice of the European Union, the European Central Bank, and the Court of Auditors. From all these bodies, only three are the main law-making institutions; the European Parliament and the Council of the European Union are the legislature branch, and the European Commission is the executive branch.

This Committee will be meeting under EU ECOFIN which is a branch of the Council of the European Union. It is comprised of the 28 finance ministers of the respective EU member states.

For the first topic, ‘Regulating Europe’s Banking industry to ensure financial stability’ we will follow the standard OxIMUN ROP for procedural matters, this includes the vote on the setting of the agenda. However, substantive votes (i.e. resolutions) will be decided upon according to Article 16(4) of the Treaty on the European Union (TEU) and its Qualified Majority system.

Qualified Majority operates as follows: At least 55 % of the members of the Council must vote in favour. This 55% must be comprised of at least fifteen Member States whose total population equates to 65% of the Union’s. Under this system, a blocking minority must include at least four Council members, representing at least 35% of the EU population. At OxIMUN 2019 QM voting procedures will be monitored at the Directors’ discretion.

For the second topic, Re-evaluating EU Climate Policy: The Energy Taxation Directive, however, we will deviate slightly. While QMV is the norm in the EU Council, for certain areas, including “harmonization on indirect taxation” unanimity is required. Therefore, all changes to the Energy Taxation Directive, and other tax schemes, need to be unanimously voted through. We, too, will follow this rule, and thus our taxation resolution will have to be voted through unanimously. This allows for delegates to truly explore their diplomatic talents in order to create a final product to be voted through.

Further explanation for voting procedures on both topics will be found in the OxIMUN Rules of Procedure under ECOFIN’s derogation.

Additionally, delegates in EU ECOFIN will be part of the Interconnectivity system for Intermediate committees. At OXIMUN 2019 delegates in separate committees will not be acting in isolation from each other. Countries at OXIMUN will operate as one bloc with goals to achieve across all the committees in order to increase the immersive nature of this conference. More about interconncevtity can be found in the OXIMUN ROP, here we will outline how this will work for EU ECOFIN. We plan to take 'interconnectivity breaks' during regular committee time, this will be a break from formal debate so that countries can report back to their counterparts. The Chairs will explain this in more detail during the first day of the conference.

TOPIC A: REGULATING EUROPE'S BANKING INDUSTRY TO ENSURE FINANCIAL STABILITY

INTRODUCTION

Historical Background:

2008 saw the worst global financial crisis since the Great Depression of the 1930s. Economies came to a standstill as interest rates collapsed, savings became worthless overnight and trillions of dollars were lost from the global economy. It has taken the better part of a decade for the global economy to recover and we have finally seen some improvements over the past few years, with falling levels of unemployment and faster growth across Europe and the World. The policies that were put in place by global powers to ensure that the economy did not fall into depression consisted of controversial funding mechanisms which nonetheless ultimately succeeded in stabilizing the global economy.

The United States as well as EU member states and the EU Central Bank were forced into action to divert further damage to the living standards of their citizens. It is unquestionable that in todays interconnected global economy one major country or bloc's banking system collapsing leads to huge spillover effects for states that had no part in creating the crisis. As such any decisions the delegates make related to Europe's Banking System will have a global impact upon the stability of the economy. Member states should come into the debate remembering that the EU is one of the pillars of the international community and it must live up to its responsibility of ensuring a stable global economy. (Rainer 2015)

Current Situation

Despite countless tribulations since the global crash in 2008 The EU has not fundamentally altered the nature of its banking system. The European Central Bank engaged in policies similar to quantitative easing in order to stabilize the Eurozone but post-crisis did not look to change the fundamental nature of the system, instead preferring a 'soft' approach to mitigating further crises, instructing banks to roll back on 'risky' investments in hopes to ensure that a European subprime mortgage crisis, like that in the United States, would not occur . The major problem with this approach is that it does not

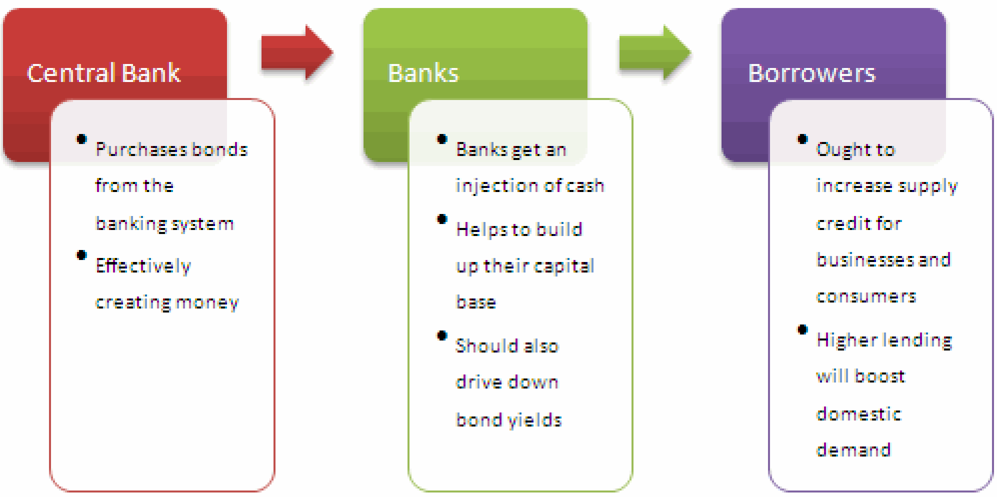


Figure 1.1

alter the core of what causes banking crashes. What puts consumer capital at risk is the conjoined nature of commercial banking and investment banking. A commercial bank that you deposit money into via personal bank accounts, and investment banks which use their capital to invest in the stock market or businesses are one in the same. Investment banks use their consumers' money in such investments that generate profit for the bank. One bad investment is all it takes to cripple the holdings of a bank and thus force banks to stop lending and issuing cash to its customers. It is argued that when investment banks are too big to fail and are using their own customers' capital, they will be less likely to make safer investments irrespective of what the European Central Bank (ECB) says. In the context of the Eurozone the ECB could have incredible leverage over banks in states that use the Euro. Given that it is the central authority on a currency it has a monopoly over the production of capital which all the major banks in the Eurozone need to function. However, questions of sovereignty have dominated the EU since its inception and as such EU member states are less willing to easily accept the policy of the ECB. The scale of the issue, means that if structural change were to occur it must take place with a consensus in EU ECOFIN and then among the Council of the EU.

There have been attempts to fix monopoly banking problematics. For example, the United States' Glass-Stegall Act of 1932 split the two types of banking. Making it law that commercial and investment banks should be separated. On average the US banking system pre-Glass Stegall collapsed about once every 8 years, under Glass Stegall there were 50 years of stability in the banking sector with zero major collapses. However, this Act was repealed under President Clinton in 1992 largely because this process hamstringed economic growth as banks had less capital to invest. Yet, the Clinton Admistration soon saw the negative consequence of this repeal since when Lehman Brothers, collapsed in 2008 in not only impacted Wall Street but average citizens who's mortgages and loans originated from a bank that no longer existed as a consequence of its risky investments.

The case study of Glass Stegall serves as an important lesson for Europe. It is evident that economic growth increases when you merge commercial and investment banking, which is a vital consideration as Europe attempts to keep pace with the other economic giants to ensure its continued leverage as a global trading giant. Regardless, the risks of allowing these mergers remain. The EU has recently passed legislation that aims at reducing the risk of financial collapse called Risk Reductions Measures (RRM), 2019 that has attempted broad solutions to the problem. The details of this legislation will be examined in more detail in the discussion section. (Council of the EU 2019)

It is also important for Europe to understand that a banking crisis that occurs in any region of the world that holds a large amount of assets will trigger a global crisis (Rainer 2015) due to the world's interconnected economy, it is all too easy to forget that the 2008 financial crash which originated in Wall Street caused the British Economy to shrink by 6% between the first quarter of 2008 and the second quarter of 2009. However, is it right for Europe to hamstring its banks and growth when the US and the rest of the world continue to shamelessly seek economic development?

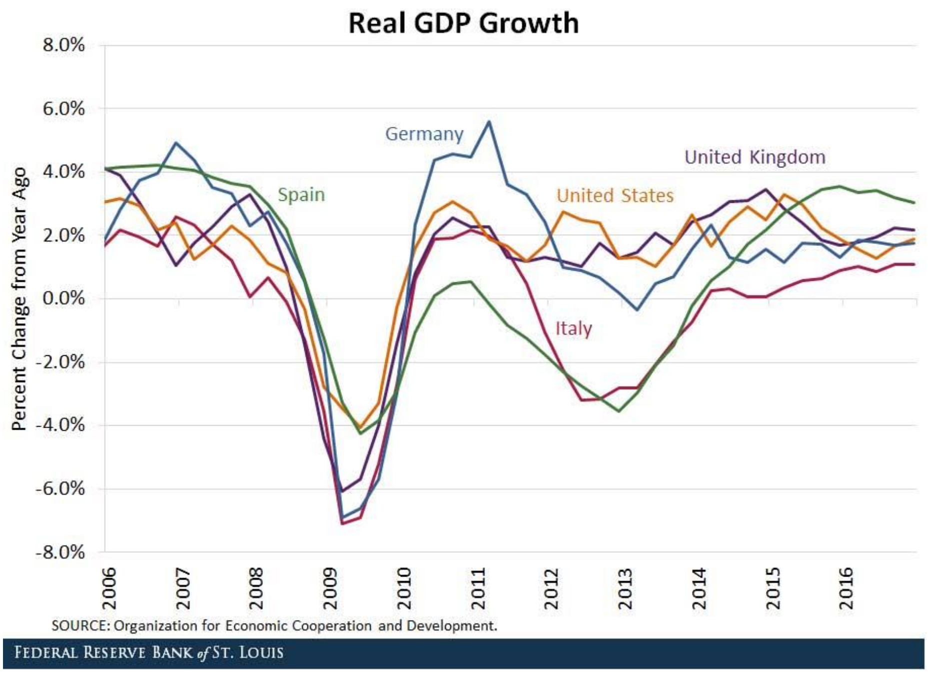


FIGURE 1.2

DISCUSSION OF THE PROBLEM:

Causes:

There is a vast difference of opinion along the political spectrum that informs upon how and to what extent banking should be regulated. It is at the centre of the political debate on which way is best to run a macroeconomy. However, before we enter the political debate and where countries in the EU stand on the issue it is imperative that we understand the key concepts at the heart of the debate: Banking and currency.

Banking and currency:

Modern banking originated in medieval Italy, due to a newfound trade problematics: the issue of Multiple currencies. Merchants had to be well informed of the value of a currency that they were trading due to the chance of them being underpaid for their goods. Pre-banking there was no universal exchange rate to ensure that traders understood the value of all the different currencies traded on the international market. To solve this problem modern banks were invented that were not solely administered by the state and as such provided lines of credit to anyone, even other states.

This system morphed into what we know banking as today: people depositing money into a bank and being given a certain interest rate in order to accrue more capital over time. Banks then proceed to loan out the money individuals have deposited at a much higher interest rate in order to generate profit for the bank which they then store in cash reserves or invest in real assets. Ultimately banks are involved in risk management schemes. Some individuals or corporations will default on the loans or mortgages and this will cause the banks to suffer a loss. The basic concept of good banking is that you balance risky investments and safe investments (Bank of England 2019). Mortgages to families with a good credit score and stable income is an example as well as investment in Government Bonds.

Banks all come under the regulation of their national central bank or in the case of the EU the European Central Bank (ECB). The central bank is involved in spending the income the EU receives via tax from member states and governing the banks in the EU (McBride 2019). Obviously, it has greater leverage over banks that use or partly use the Euro.

A central bank is crucial to commercial banks because it has the power to print more currency which is required for general economic growth and stability as well as fractional reserve banking. The process by which banks only have to reserve a fraction of what their customers deposit into their bank accounts. This means that a bank can invest more capital in the form of loans for businesses and keep the economy turning and growing. However, despite the bank being able to do this the money that clients have deposited into their bank account is

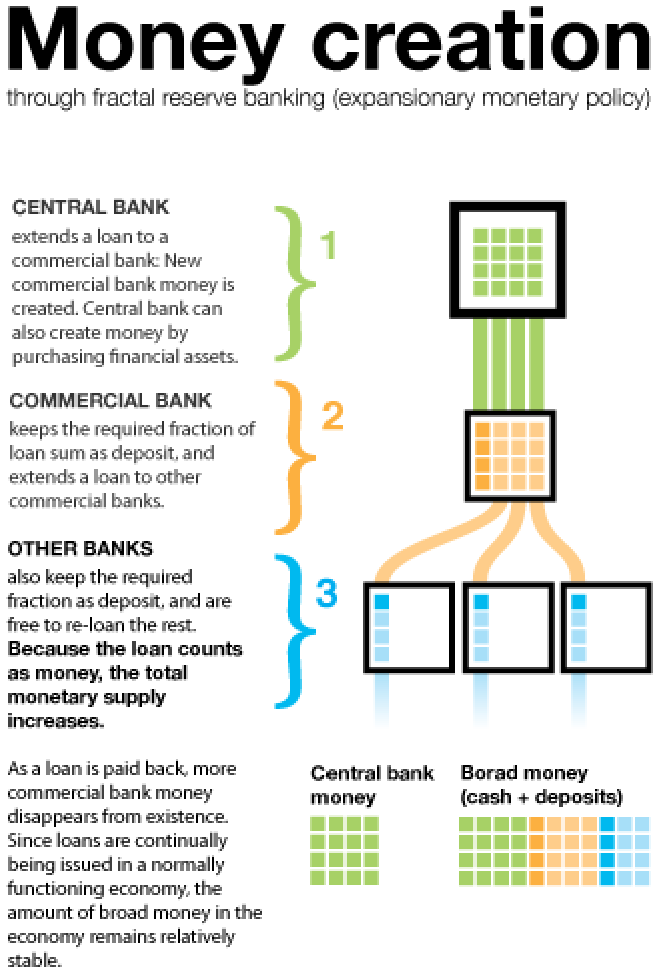


Figure 1.3

Still available 24/7 to the clients, via this method the central bank is essentially creating new money. So, in the modern system banks have always access to large amounts of funds, a large portion of which are not financed by their money but by the money of their customers. They then proceed to not just loan this money and make money via interest rates but also utilize it to make investments. Whether it be a loan or an investment some of them will fail and cause a loss for the bank (Elmerraji 2007).

This economic system has certain advantages and disadvantages. The advantages include the fact that capital is easily available for citizens and businesses to loan and in the long term they will generate more money due to the investment of the loan increasing the overall value of the economy and the amount a state receives in taxes. This is the bedrock of growth in modern economics. Many economists argue that this system is the main reason that the lower and middle classes have seen an increase in their wealth and as such have the ability to own their own property. The great disadvantage of this system is the fact that commercial banks and investment banks are one in the same thus if they collapse customers at the bank will discover overnight, that they have lost all their money. It is argued by some economists that when a bank is investing with its client's money it will favour riskier investments as its shareholders aren't threatened if the investment goes wrong. This is aided by the fact that when banks go bust the Government and the Central Bank step in with trillions of Dollars of interest free loans known as quantitative easing (Deleidi 2018) as the collapse of a mega bank could lead to a domino effect on other banks launching the country into a recession. Governments will want to avoid this at all costs. For example, during the 2008 financial crisis the Bank of England (The UK's central bank) between 2009-2012 created £375 billion of new money.

Fiat Money and its importance in banking:

Fiat money which the vast majority of the world currently uses as a means of payment has no intrinsic value at all. It is not representative of a stable precious metal like gold. Instead money is literally a piece of paper that only has value because we *believe* that is holds value. People are thus reliant upon Governments to maintain trust in its currency, this explains why stable economies like the Euro, Dollar and Pound Sterling are regarded as global reserve currencies and when governments collapse so too does the value of the currency. For example, Zimbabwe spent decades without an official currency after a period of hyperinflation and used foreign currencies like the US Dollar, Euro and Pound Sterling. By contrast, in a strong financial system a central bank's capacity to hold available currency which it can inject into the economy is more to national debt and the rate of inflation as opposed to how much money it collects in revenue. That is to say that the amount of money a state collects in tax is not the limit on what a government can spend. This relates to banking in a crucial way, Bankers understand that there will always be a bailout because running out of money is not possible for large financial groupings like the European Union.

POINTS A RESOLUTION SHOULD ADDRESS:

The political spectrum is intensely divided on this issue. There are many in Europe that want structural reform such as a 21st century Glass Steagall for the entirety of Europe (Fabien 2013) and there are many that agree with the more consensus proposals put in place in the Risk Reductions Measures (RRM) act that is under debate in the Parliament of the EU highlights policies that deal with concerns from all ends of the political spectrum. There are also those who believe that the banking system needs further deregulation to foster more economic growth. It is the job of the delegates to decided where their nation state stands in the context of this framework and then go about deciding which solutions, they believe are best for EU ECOFIN to propose.

Other types of Reform:

Beyond the major reform that is detailed in the discussion section delegates can also look to research further types of reform that can be adopted to the work of this Committee most of these policies are actively being considered by the EU EOCFIN in the RRM legislation. The major pillars of the RRM legislation are as follows:

- Establish a legally binding minimum leverage ratio for banks inside the European Union. This is intended to prevent banks from excessively increasing their debt levels. It is calculated but dividing the banks core capital by its debt exposures and could be set at a percentage from 2 to 5%. A policy like this would arguably shield a bank from bankruptcy in the event of an economic downturn.

- Establish a net stable funding ratio. This could be set as a standard across the EU which would establish how many safe long-term sources of funding would be required in order to deal with periods of financial distress. Institutions would have to comply to an ECB standard of what percentage of their investments are safe investments.
- Set an EU wide threshold at which banks must engage in restrictions set out on the amount of excessive risk taking by EU banks. If banks investments are too dangerous according to the ECB they would be forced to invest in what the ECB defines as safer investments.

Another more radical argument not being considered by RRM but by some economists could also include:

- Set an EU standard for a tax rate on investment banking speculation. When a bank invests using its client's money as opposed to its own it must pay a small tax on every Euro in the investment. This is known as a 'speculation tax' (warning this could only be 'advisory' in the EU EOCFIN setting as an attempt to change this completely would require a unanimous majority in EU ECOFIN.)

FURTHER READING:

To Better Understand Banking and its history of regulation in the European Union you could read the following academic articles:

http://eurodad.org/uploadedfiles/whats_new/reports/eumapping_financial_regulation_final.pdf

https://www.academia.edu/22040163/The_History_of_Banking_Regulatory_Framework_and_Banking_Institutions_at_a_glance

To understand the polices further in the 'Other Types of Reform' section you could read:

Polices laid out in RRM legislation:

https://www.consilium.europa.eu/en/press/press-releases/2019/02/15/banking-union-eu-ambassadors-endorse-full-package-of-risk-reduction-measures/

Analysis of the RRM from a state's perspective:

https://publications.parliament.uk/pa/cm201719/cmselect/cmeuleg/301-xlix/30105.htm#footnote-122

2.0 TOPIC B: RE-EVALUATING EU CLIMATE POLICY: THE ENERGY TAXATION DIRECTIVE

2.1 INTRODUCTION

In June 2019, Finland took over the presidency of the Council of the EU with the slogan "Sustainable Europe, Sustainable Future". One of the main focusses of this presidency is to "strengthen the EU´s position as a global leader in climate action" (Web 1). While the EU is making its share of efforts to reduce greenhouse gas emissions and has put in place ambitious climate policies, some areas of EU policy are still being criticised for not being ambitious enough. One such example is in the Energy Taxation Directive, which dates back to 2003 (Web 2). This directive is one of the most significant areas for where large impact on the shift to green energy and thereby a more sustainable and climate friendly energy policy could be introduced across the EU, in order to put the European economies on a solid track towards prosperous, low-carbon development.

Energy is used in virtually every sector of the economy as well as by private households. The rules on energy taxation are complex in the sense that there are a variety of tax rates, depending on the use of the energy, coupled with a broad set of optional tax reduction and exemption schemes that make a big difference between the taxation of energy use in different economic sectors. Therefore, a large number of interested parties are concerned. These include producers and traders of energy products and electricity, consumers of electricity, manufacturers of means of transport, transport service suppliers, public authorities, citizens and academia – in essence the entirety of the EU's population will feel the repercussions of EU tax policy.

2.2 Background

2.2.1 What is the Energy Taxation Directive?

The Energy Taxation Directive or Council Directive 2003/96/EC establishes EU rules on taxation for energy products and electricity. It covers products used as motor fuel or heating fuel (i.e. to operate engines or to produce heat) and electricity. Other uses of energy products, such as their use as raw material, and some uses of electricity fall outside the scope of the Directive (Web 2). For a legal definition of the Energy Tax Directive see the link used in Web 2 in the bibliography.

The Energy Taxation Directive sets minimum excise duty rates for products used as motor or heating fuel and for electricity. Above the minima, Member States are free to set their national rates as they see fit. The directive also defines what exemptions and reductions are allowed and under what conditions these are deemed permissible. Some exemptions are mandatory, such as those applying to energy products and electricity. Optional exemptions and reductions apply, for instance those which favour energy-intensive businesses. Most Member States have also applied their own national rates of taxation, thereby integrating different policy objectives in their energy policy (Web 11). For details about the specific rates of taxation for each fuel, see the link under Web 11 in the bibliography.

The objective of the Energy Taxation Directive is to ensure that the internal market operates smoothly and avoid double taxation or major distortions of trade and competition between energy sources and energy consumers and suppliers which could result from considerable differences in national tax rates. The excise framework has led to the convergence of the EU Member States' national legislations but still faces a number of structural challenges. These challenges relate in particular to the creation of a level playing field in the single market and to the movement of energy products within the Union.

2.3 Historical Background

On November 18th, 2018 the commission presented its strategic long-term vision for a climate-neutral economy by 2050 (Web 3). A strategy which aims to make the European economy prosperous, modern and competitive all while being CO2 neutral. This is to be achieved via investment in technological solutions, the empowerement citizens and alignment of key areas such as industrial policy, finance and research.

To achieve this goal the EU has created the 2020 and 2030 Climate and Energy Packages, which are sets of binding legislation to ensure the EU meets its climate and energy targets for the year 2020 and 2030 respectively.

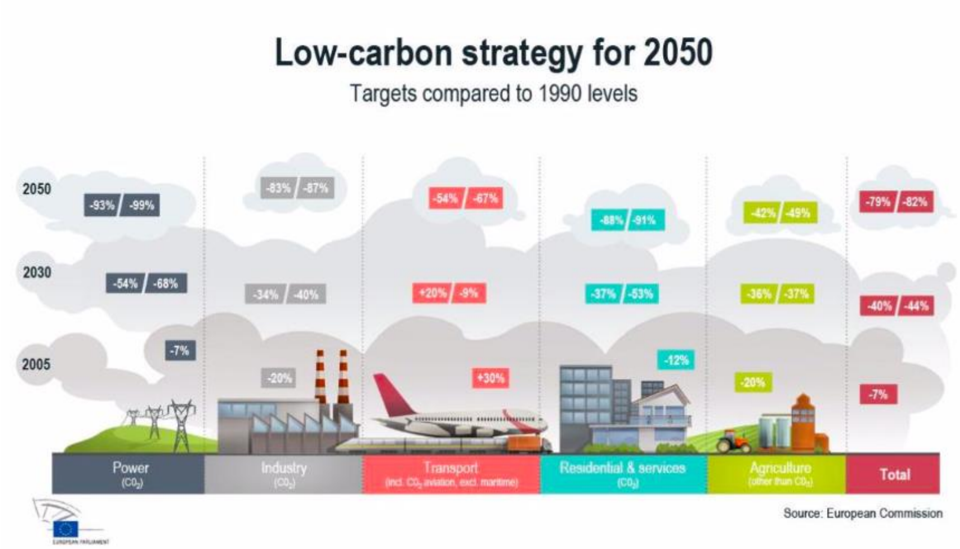
The 2020 Climate and Energy Package	The 2030 Climate and Energy Package
20% cut in greenhouse gas emissions compared with 1990	At least 40% cut in greenhouse gas emissions compared with 1990
20% of total energy consumption from renewable energy	At least 32% of total energy consumption from renewable energy
20% increase in energy efficiency	At least 32.5% increase in energy efficiency

The long-term goal is to cut EU emissions by 80-95% compared to 1990 levels, thus creating an (almost) carbon neutral economy by 2050. (Web 4)

Figure 2.1: Low Carbon Strategy for 2050 (Targets compared to 1990 Levels)

Source: http://www.europarl.europa.eu/news/en/headlines/society/20120126STO36324/environment-committee-backs-roadmap-to-low-carbon-economy

Methods for achieving the aims of the Climate and Energy packages are many and varied. One of the largest commitments involves setting aside 20% of the EU´s budget from 2014 to 2020 (as much as €180 billion) to be spent on protecting the climate (Web 5). EU countries are also required via their legislation to support renewable energy sources such as wind, solar and biomass. Furthermore, the energy use of buildings and industries has to be reduced with improved energy efficiency in a wide array of equipment and household appliances, car manufacturers also have to reduce CO2 emissions from new cars and vans. (Ibid)

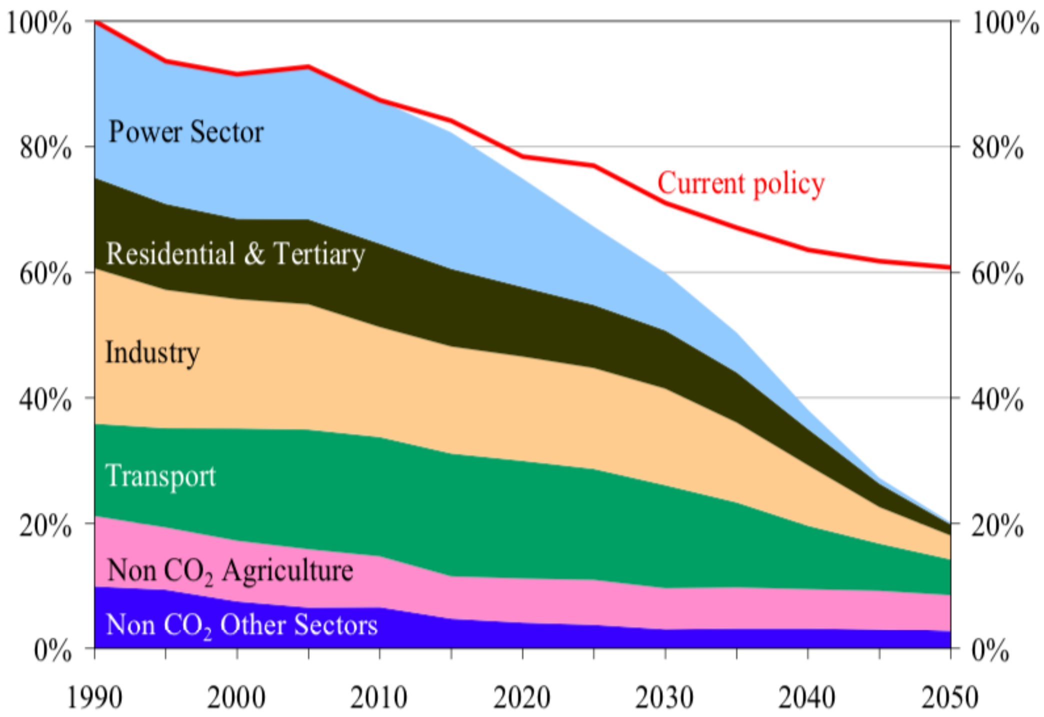


However, the primary tool to limiting CO2 emissions is the Emission Trade System (ETS) which covers around 45% of the EU´s greenhouse gas emissions (Web 6) via the sale of emission certificates. In short it is an EU wide Carbon market. The EU ETS works on the 'cap and trade' principle. A cap is set on the total amount of greenhouse gases that can be emitted by installations covered by the system. The cap is reduced over time so that total emissions fall. Within the cap, companies receive or buy emission allowances which they can trade with one another as needed. They can also buy limited amounts of international credits from emission-saving projects around the world. The limit on the total number of allowances available ensures that they have a value. After each year a company must surrender enough allowances to cover all its emissions, otherwise heavy fines are imposed. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances. (Web 7) While the ETS has been heavily criticised for being unambitious, the capitalistic method of dealing with carbon emissions, not only allows for a familiar way of handling caps but the trading also brings added flexibility that ensures emissions are cut where it costs least to do so.

On the international level the EU is a part of the Paris Agreement established in 2016. It has also committed to the second phase of the Kyoto Protocol and it is the world's leading donor of development aid in aspects of sustainable funding to tackle climate change. (Web 8).

2.4 CURRENT SITUATION

Compared to many other international actors the EU has been able to make large improvements in energy policy. However, as illustrated by the below graph, there is still a long way to go.



The transition to a low-carbon EU economy in 2050 (greenhouse gas emissions by sector over time as % of 1990 levels). Source: https://www.researchgate.net/figure/European-roadmap-for-moving-to-a-low-carbon-economy-Source-EU_fig2_321527129

One critique the EU especially receives when it comes to the time frame established for going carbon neutral. The 2020/30 timeline seems arbitrary when taking into account that EU´s overall GDP has increased 45% since 1990 (till 2013), while emissions have only decreased 19% (Delebek & Vis, 2016). However, while the EU's Kyoto Protocol were to reduce emissions by 8%, an 18% reduction was delivered. Likewise, an over-achievement for the 2020 plan is likely. (Ibid) The main question however remains: is it enough? And, can more be done?

The Energy Taxation Directive may thus serve as a possible avenue for sustainable development.

2.5 DISCUSSION OF THE PROBLEM

The current tax framework has not changed since 2003, and so there are still a range of incentives for fossil fuels despite the EU's energy and climate objectives and international commitments. In fact, it hardly delivers on key objectives such as the diversification of energy sources and energy carriers or improvement of energy efficiency of production and consumption, as taxes are not based on the energy content but on the volume/weight of the energy products consumed. (Communication 1) Taxation policy is an important instrument to ensure complete achievement of the energy union objectives, and in particular to facilitate the clean energy transition, while respecting the principle of subsidiarity and proportionality.

Progress towards the completion of the single energy market is on-going and energy taxation has an important role to play. The single energy market is the concept of free-flowing energy across the EU, without any technical or regulatory barriers, so that energy providers can compete freely and provide the best energy prices, in order for Europe to achieve its renewable energy potential. (Web 10) To achieve this, there is great power in changing the taxation directive to be increasingly climate conscience. Taxes account for a significant share of the final prices consumers pay for energy around the EU and can have a significant impact on consumption and investment patterns, the type of energy consumed and their use.

This is due to consumers' predisposition to the cheapest alternative, thus by making green energy the cheapest possibility, it would automatically become the most popular option.

Furthermore, the presence of sector-specific energy tax exemptions or reductions, notably in the aviation, maritime and road haulage and agricultural/fisheries sectors in energy-intensive industries, substantially weakens incentives for investing in more energy efficient capital stock and production processes. These tax exemptions or reductions constitute a burden for other sectors and/or private households that have to make up the revenue shortfalls triggered by them. Furthermore, they may distort competition between industrial sectors and may promote inefficient and polluting modes of transport.

The taxation of fuels according to volume and not according to energy content discriminates against renewable fuels in favor of conventional fuels, in particular diesel. This reality, bolsters demand for diesel in the EU fuel market and contradicts an energy policy that aims at fuel switching and the promotion of renewable and other clean energy sources.

Together with other market-based policy instruments (such as charges, levies or emission quotas), taxation can be used to address specific environmental challenges, while at the same time promoting investment, jobs and growth. Economic studies show that certain types of taxes – such as those on labor and income – are more distortive, while others such as consumption and environmental taxes are growth-friendlier (Ibid). For example by reducing personal and corporate income tax rates, can help to offset some of the unintended effects of environmental taxes while creating a tax system that is less damaging to economic growth (Web 12).

However, energy taxation policy could negatively affect the purchasing power of economically vulnerable consumers if the social impact of the tax system is not taken into consideration. While tax increases for fossil fuels in the transport and heating sector are powerful incentives towards behavioral change, in the short term, consumers may not be easily able to change their consumption patterns when an important share of their income is involved. Therefore, carefully designed accompanying measures are necessary to ensure that tax shifts in line with the energy and climate policy objectives are also socially acceptable for all citizens. These social issues will need to be addressed through social policy and welfare systems, the financing of which needs to effectively benefit from tax shifts and revenue recycling. This can be done not only by supporting vulnerable consumers through social policies, but also by using energy and environmental taxation revenues to favor the transition of economic sectors and/or regions towards environmental performance and by allowing a reduction of labor taxation as a result of increased environmental taxes revenues.

In 2011, a Commission proposal to amend Directive 2003/96/EC and restructure the Community framework for the taxation of energy and proposed the introduction of a CO2 component in the EU energy tax framework. CO2-based taxation was to be applied to the sectors not covered by the EU Emission Trading System, thereby applying a coherent economy-wide carbon price signal in the EU. (Article 1) It was proposed in order to base taxation of energy products on their energy content, and to simplify the system of tax reductions and exemptions. However, it proved impossible to achieve the required unanimity among Member States on the main elements of the proposal, most notably on the introduction of a CO2-based tax component. Therefore, in 2015, the Commission decided to withdraw its proposal. By consequence, the outdated 2003 framework has remained in place until today. (Ibid)

2.6 Points A Resolution should address:

The ECOFIN Council, is responsible for economic policy, taxation matters, financial markets and capital movements, and economic relations with countries outside the EU. This debate will focus on the “taxation matters” aspect of the debate. As the debate will be focused on an already existing directive, your resolution should amend this. You do not necessarily need to come up with some large, wild new ideas, but make sure to look at what the Energy Taxation Directive says and how

> Voting in the EU on Taxation:
>
> Within the EU Qualified Majority Vote (QMV) is the most common. However, for certain areas, including “harmonization on indirect taxation” unanimity is required. Therefore, all changes to the Energy Taxation Directive, and other tax schemes, need to be unanimously voted through.

your country would like to change it. Add, subtract, amend. Those should be your key moves for the debate.

2.6.1 Case: Should we tax aviation fuel?

Disclaimer: You are not expected to solely focus your debate and resolution on aviation tax. The case is simply a means of demonstrating one way of approaching one of the many aspects of this debate and how nuanced the arguments both for and against changing the current taxation structure is.

Aircraft fuel, other than that used in private pleasure-flying, is, per the Energy Taxation Directive, exempt from excise duty. However, Member States can tax aviation fuel for domestic flights and, by means of bilateral agreements, also fuel used in intra-EU flights. In such cases, Member States may apply a level of taxation below the minimum level set out in the Energy Tax Directive.

Because of the impact flying has on the environment, and the fact that flying constitutes 2% of overall global carbon dioxide emissions, many suggest that taxing aviation would contribute to a rise in prices and thus a fall in demand of commercial air travel. (Article 3) According to a leaked report from the EU Commission applying a tax of €330 per 1,000 liters of kerosene — the EU´s minimum excise duty rate for fuel — would result in a ticket price increase of 10% and in turn an 11% decrease in passenger numbers. This would lead to an 11% fall in carbon emissions. However, this would also have a negative impact on aviation sector jobs — with a projected 11% reduction. Yet, it is noted that its impact on employment and GDP as a whole would be "negligible" due in part to the higher fiscal revenues the tax would generate. (Article 4) But what about the effect a tax on aviation fuel would have on European Airlines competitiveness internationally? Some arguments run on the concept that a tax resulting in higher prices would mean that European airlines would be unable to compete with international airlines not subjected to the same tax. This raises a new question: Should the tax be for all aviation in EU airspaces or simply EU rooted airlines?

These are the kinds of issues we expect you to look into and debate. The pros and cons of the shift to green energy through taxation.

2.7 Further Reading

- The Energy Taxation Directive: Council Directive 2003/96/EC: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32003L0096

- The EU´s Climate policy explained: https://ec.europa.eu/clima/sites/clima/files/eu_climate_policy_explained_en.pdf
- EU Climate strategy and policies: https://ec.europa.eu/clima/policies/strategies_en
- A clear description of environmental taxation by the OECD https://www.oecd.org/env/tools-evaluation/48164926.pdf
- The Climate and Energy packages:

  This consists of 6 pieces of legislation adopted in April 2009.

  1. Directive 2009/29/EC of the European Parliament for improving and extending the greenhouse gas emission allowance trading scheme of the Community
  2. Decision No 406/2009/EC of the European Parliament on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020
  3. Directive 2009/28/EC of the European Parliament on the promotion of the use of energy from renewable sources
  4. Directive 2009/30/EC of the European Parliament as regards the specification of petrol, diesel and gas-oil and introducing a mechanism to monitor and reduce greenhouse gas emissions
  5. Regulation (EC) No 443/2009 of the European Parliament setting emission performance standards for new passenger cars as part of the Community's integrated approach to reduce CO_2 emissions from light-duty vehicles
  6. Directive 2009/31/EC of the European Parliament on the geological storage of carbon dioxide
- On the topic of unanimous voting and its effect on the shift to green energy taxation:

Note that we are unable to change this for this debate, as it is outside the realm of the ECOFIN, but knowing the grounds for the debate may be helpful.

https://www.euractiv.com/section/climate-environment/opinion/time-to-get-rid-of-eus-unanimity-rule-on-green-fiscal-matters/

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<u>3.2 TOPIC B:</u> RE-EVALUATING EU CLIMATE POLICY: THE ENERGY TAXATION DIRECTIVE

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Web 2: The Energy Taxation Directive: https://ec.europa.eu/energy/en/topics/markets-and-consumers/energy-taxation

Web 3: EU Climate strategy for a 2050 CO2 neutral economy: https://ec.europa.eu/clima/policies/strategies/2050_en

Web 4: EU Climate Strategies: https://ec.europa.eu/clima/policies/strategies_en

Web 5: One fifth of EU budget to be spend on Climate action: https://ec.europa.eu/clima/news/articles/news_2013111901_en

Web 6: EU Emission Trade System: https://ec.europa.eu/clima/policies/ets_en

Web 7: New EU Presidents eyes on the EU ETS: https://safety4sea.com/cm-new-eu-commission-president-eyes-shipping-inclusion-in-eu-ets/

Web 8: EU Climate Action: https://ec.europa.eu/clima/citizens/eu_en

Web 9: Eu Voting procedures: https://www.consilium.europa.eu/en/council-eu/voting-system/unanimity/

Web 10: The Single market strategy: https://ec.europa.eu/commission/priorities/energy-union-and-climate/fully-integrated-internal-energy-market_en

Web 11:

Web 12: The OECD: Environmental Taxation A Guide for Policy Makers; https://www.oecd.org/env/tools-evaluation/48164926.pdf

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Article 3: Andrew Glover, The Environmental impact of air travel, 2019

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