

Energy Taxation Directive

2021/0213(CNS) - 14/07/2021 - Legislative proposal

PURPOSE: to restructure the EU framework for the taxation of energy products and electricity (recast).

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the taxation of energy products and electricity plays an important role in the area of climate and energy policy. The harmonised rules set under the Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity (Energy Taxation Directive or ETD) aim to ensure the proper functioning of the internal market. However, since the adoption of the ETD, the underlying climate and energy policy framework has changed radically and the Directive is no longer aligned with current EU policies.

The European Green Deal launched a new growth strategy for the EU that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. The '[European Climate Law](#)' has made the EU's climate neutrality target by 2050 legally binding.

The Commission has presented a complementary and interconnected set of proposals as part of the 2030 Climate and Energy 'Fit for 55' package to achieve the greenhouse gas emission reduction target of at least 55% compared to 1990. This 'Fit for 55' legislative package is the most comprehensive building block in the efforts to implement the ambitious new 2030 climate target, and all economic sectors and policies will need to make their contribution.

The proposal for recasting is part of this package as it focuses on environmental and climate issues to support the Commission's commitment to tackling environmental-related challenges and achieve the EU's domestic greenhouse gas emissions reductions objectives and air pollution reduction.

CONTENT: this proposal for a Council Directive aims to **align the taxation of energy products with EU energy and climate policies**, promote clean technologies and remove outdated exemptions and reduced rates that currently encourage the use of fossil fuels. The new rules aim at reducing the harmful effects of energy tax competition, helping secure revenues for Member States from green taxes, which are less detrimental to growth than taxes on labour.

It proposes with effect from first of January 2023:

- the **introduction of a new structure of tax rates** based on the energy content and environmental performance of the fuels and electricity: taxation based on energy content provides a better benchmark for comparing different energy products and electricity and removes the current disadvantageous tax treatment of certain products, such as biofuels. Minimum rates would be set on the basis of the energy content (calculated in EUR/gigajoule) of each product;
- the **grouping of energy products and electricity into general categories by type**, according to a classification that takes into account energy content and environmental performance so that the most polluting fuels are the most taxed. Member States should replicate this ranking at national level. Electricity should always be included among the least taxed energy sources in order to encourage its use, particularly in the transport sector;

- **broadening the taxable base** defined in the Directive by including more products in the scope and removing some of the existing exemptions and reductions. It would still be possible to apply certain reduced rates, such as those applicable to electricity or advanced energy products produced from renewable energy sources and to primary sector industries such as farming;
- **different minimum levels of taxation** for motor fuels, heating fuels and electricity. Over a ten-year period, the minimum rates for these fuels would gradually increase, while low-carbon fuels for these sectors would have a zero minimum rate to encourage their use;
- taxation of energy products and electricity used by aircraft and ships. Energy products and electricity supplied for intra-EU air navigation (with the exception of those supplied for cargo-only flights) and for intra-EU inland waterway navigation, including fishing, should be taxed;
- **the possibility of tax exemptions** for certain products or for electricity from certain sources such as renewable electricity, non-biological renewable fuels, etc.