Energy taxation: Commission promotes energy efficiency and more environmental friendly products

The European Commission has today presented its proposal to overhaul the outdated rules on the taxation of energy products in the European Union. The new rules aim to restructure the way energy products are taxed to remove current imbalances and take into account both their CO2 emissions and energy content. Existing energy taxes would be split into two components that, taken together, would determine the overall rate at which a product is taxed. The Commission wants to promote energy efficiency and consumption of more environmentally friendly products and to avoid distortions of competition in the Single Market. The proposal will help Member States to redesign their overall tax structures in a way that contributes to growth and employment by shifting taxation from labour to consumption. The revised Directive would enter into force as of 2013. Long transitional periods for the full alignment of taxation of the energy content, until 2023, will leave time for industry to adapt to the new taxation structure.

Algirdas Šemeta, EU Commissioner in charge of Taxation, Customs Union, Audit and Anti-Fraud said: "The modernised energy taxation system comes at the right moment. Member States are now defining their strategies to exit from the crisis and meet the Europe 2020 targets. They call for action to reduce our dependency on fossil fuels. A fair and transparent energy taxation is needed to reach our energy and climate targets. Our common goal is a more resource-efficient, greener and more competitive EU economy. This proposal sets a strong CO2-price signal for businesses and consumers, it is also an opportunity to shift the tax burden from labour to consumption, in order to favour growth enhancing taxation".

Taxation of energy products is to a certain extent harmonised at EU level. The Energy Taxation Directive already now sets forth minimum rates for the taxation of energy products used as motor fuels and heating fuels as well as electricity. However, the Directive has become outdated and inconsistent. Taxation based on volumes of energy products consumed cannot address EU's energy and climate change targets. It also fails to set economic incentives to foster growth and stimulate job creation. Taxation of energy products must better take account their energy content and their impact on the environment.

Key elements

The revised Energy Taxation Directive will allow Member States to make the best possible use of taxation and, ultimately, support "sustainable growth". To do so, it proposes splitting the minimum tax rate into two parts:

- One would be based on CO2 emissions of the energy product and would be fixed at €20 per tonne of CO2.
• The other one would be based on energy content, i.e. on the actual energy that a product generates measured in Gigajoules (GJ). The minimum tax rate would be fixed at €9.6/GJ for motor fuels, and €0.15/GJ for heating fuels. This will apply to all fuels used for transport and heating.

Social aspects are taken into account with the option for Member States to completely exempt energy consumed by households for their heating, no matter what energy product is used.

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The benefits of revising Energy Taxation

• This proposal will favour renewable energy sources and encourage the consumption of energy sources emitting less CO2. At the moment, the most polluting energy sources are, paradoxically, the least taxed. On the contrary, biofuels are amongst the most heavily tax ed energy sources in spite of EU’s commitment to increase the share of renewable energies in transport. The new proposal will remove these inconsistencies.

• The new text will also provide for a more coherent approach on energy taxation across the EU by preventing a patchwork of national policies and help to create a level playing field for industry across the EU. It is also an opportunity for Member States to redesign their tax policies in a way that promotes jobs and employment.

• As regards the reduction of greenhouse gas emissions, the revised Directive aims to complement the existing EU ETS by applying a CO2 tax to sectors that are out of its scope (transport, households, agriculture and small industries). These account for half of the EU’s CO2 emissions; it is therefore important that they should also be covered by a CO2 price signal.

• Finally, this initiative will help the EU meeting its targets on energy and climate change, as requested in the March 2008 European Council conclusions. It also echoes the results of the UN Climate Change Conference held in Cancun, Mexico, in December 2010.

Next steps

The proposal will now be discussed by the European Parliament and the Council and is expected to enter into force as of 2013. It foresees, where appropriate, a gradual introduction of the new taxation system.

For more information:
http://ec.europa.eu/taxation_customs/index_en.htm
See also Memo/11/238