



Recast to the Energy Taxation Directive

The [revision of the Energy Tax Directive](#) as being proposed by the European Commission (EC) seeks to align the taxation of energy products and electricity with European Union (EU) energy and climate policies, to contribute to the EU2030 energy targets and climate neutrality by 2050. It also aims to preserve the EU single market by updating the scope and the structure of tax rates while rationalising the use of optional tax exemptions and reductions.

The EC aims to achieve its objectives by switching from volume to energy content-based taxation, by grouping energy products (used as motor or heating fuels), by eliminating incentives for fossil fuel use and by introducing a ranking of rates according to their environmental performance. According to this ranking, conventional fossil fuels, such as gas oil and petrol will be taxed at the highest rate. The next category of rates applies to fuels that are fossil based but are less harmful and still have some potential to contribute to decarbonisation in the short and medium term.

Two thirds of the reference rate, applies for example, to natural gas, LPG and hydrogen of fossil origin for a transitional period of 10 years. Thereafter, this rate will increase to the full reference rate. The next category is that of sustainable, but not advanced, biofuels. To reflect their contribution to decarbonisation, half of the reference rate applies. The lowest rate applies to electricity, regardless of its use, advanced biofuels, bioliquids, biogases and hydrogen of renewable origin. The rate applicable to this group is set significantly below the reference rate as electricity and these fuels can drive the EU's clean energy transition towards achieving the objectives of the European Green Deal and ultimately climate neutrality by 2050.

In some sectors, mainly in those that may currently benefit from total exemptions such as aviation, or heating fuels for non-vulnerable households, transition periods will apply to mitigate the economic and social costs of introducing taxation, however a high rate is still being proposed for kerosene used for aviation.

The proposal also considers the social dimension by introducing the possibility to exempt vulnerable households from taxation of heating fuels for a period of ten years and by introducing a transitional period of ten years for attaining the minimum rate of taxation.

Possible Impacts

The proposed directive is expected to contribute positively to the environment, by providing the right incentives to further invest in new technology and alternative, more sustainable fuels.

From a national economic perspective, concerns are raised on the impact of competitiveness of a number of sectors as a result of the proposed Energy Taxation Directive recast, should these sectors not invest in greener sources of energy/fuel; mainly the maritime sector (including small scale fishermen and bunkering sector) and aviation sector due to removal of exemptions and reduced tax rates. With regards to mobility services which are currently not taxed under the ETD, such as certain activities falling under intra-EU waterborne navigation, the current exemptions will no longer be applicable.

The transport sector and the business sector could also be affected through the proposed increase on tax on gasoil (an indirect increase required for by the proposed fuel ranking). As a secondary effect, the increased rates of tax are expected to impact the tourism industry (hotels, restaurants, etc) with potential impact also on other sectors depending on the intensity of the use of energy.

Lastly, the increase in taxation for heating fuels (such as the proposed increase on LPG fuel used for cooking and heating) and motor fuel (such as the possible increase in the excise tax for diesel) are expected to have an impact also on households.

The extent degree of the economic impact, if the directive is approved, will depend on the degree of green transition carried out by the different sectors in our society.

The link to the Proposal for a recast of the Energy Tax Directive is found [here](#).