

# ACEA Position Paper

## Energy Taxation Directive



# EUROPEAN COMMISSION PROPOSAL TO REVISE THE ENERGY TAXATION DIRECTIVE

## BACKGROUND

The European Automobile Manufacturers' Association (ACEA) has taken note of the proposal by the European Commission to restructure the Union framework for the taxation of energy products and electricity.

## GENERAL REMARKS

- The transition towards climate-neutral road transport will require many consistent EU-wide policy measures to encourage drivers and operators to preferentially choose low- and zero-emission vehicles.
- As the transition to climate-neutral road transport takes place, the current road transport fleet across the EU and new low-emission vehicles (that will be part of manufacturers' portfolios to help meet future CO2 fleet targets) will be based on internal combustion engines (ICE) for many years – but that big fleet can also contribute to road transport CO2 reductions by having access to low-carbon sustainable fuels instead of fossil fuels.
- In that respect, ACEA supports the intention of the Commission to amend the Energy Taxation Directive (ETD) to establish preferential minimum tax rates for low-carbon sustainable fuels (and electricity) compared to higher minimum tax rates for fully-fossil or high-fossil content fuels.
- It is noted that nearly all member states in the European Union already apply tax rates to petrol and diesel that are higher than the current minimum tax rates (other fuels such as natural gas have more preferential treatment in certain member states). So, it is questionable if future fuel tax rates will congregate to the proposed (higher) minimum levels (or whatever levels are eventually agreed) or member states will choose higher tax rates for all road transport fuel / energy options, or some of them (within the constraints of the proposed Article 5).
- While customers and operators may accept the principle of paying more for fossil fuels, they will not accept it if low-carbon sustainable fuel alternatives (as drop-in fuels for the new and the current fleet) are not widely and easily available and attractively priced.

- This is why it is also critical to ensure that other parts of the 'Fit for 55' climate package help to quickly deliver low-carbon sustainable fuel alternatives into the EU market. As it stands, higher tax rates would apply from 2023 and ramp-up over the next 10 years, but the wide availability of low-carbon sustainable fuels will not match that timeframe according to what has been proposed.
- The proposals for the Renewable Energy Use Directive (RED), extending the EU Emissions Trading System to road transport (ETS2) and the ETD are all directed at fuel suppliers. They may or may not see a long-term investment future in low-carbon sustainable liquid and gas fuels. Apart from the investments made by a few fuel producers, the majority have so far showed little activity. It remains to be seen if the Fit for 55 package will encourage investment certainty and competition among fuel suppliers to deliver the needed low-carbon sustainable liquid and gas fuels.
- Despite all the details of the impact assessment, it will not work if RED targets are not ambitious enough and if policy direction and incentives towards low and zero-carbon fuel / energy options do not deliver quickly enough. It will not be acceptable if customers and operators only see rising costs for transport and mobility without having access to appropriately priced low-carbon alternatives.
- While a framework for such measures may be set at EU level, it is essential that member states take a consistent approach to the application of transport fuel / energy taxation measures at national level. Only then can the other elements of the Fit for 55 package work together in harmony.

## SPECIFIC ELEMENTS OF THE ETD PROPOSAL

### Minimum tax rates

- The minimum tax rates for petrol and diesel today are respectively €359/1,000 litres (equivalent to €10.65/GJ) and €300/1,000 litres (equivalent to €8.91/GJ).
- The proposed minimum tax rates from 2023 are €10.75/GJ (based on assessment of energy content and environmental performance) and the Annex on page 7 shows where the member states are today.
- Bulgaria and Poland would have to increase their current tax rates on petrol.

- Austria, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Luxembourg, Poland, Romania, Slovakia and Spain would all have to increase their current tax rates on diesel.

## Increase in minimum tax rates from 2023 to 2033 based on the harmonised index of consumer prices (HICP) plus annual indexation

- Article 5(2) refers to HICP as the basis for an annual adaptation of the minimum tax rates for all transport fuel / energy from 2024 to 2033. With the European Central Bank aiming to maintain price stability based on containing year-on-year inflation below 2%, indexation at 2% per year leads to minimum tax rates in 2033 rising to over €13/GJ for fossil fuels. On top of that, Article 7 indicates an additional indexation rate of 1/10<sup>th</sup> per year for all fuels / energy that are on a transitional pathway from 2024 to 2033.
- The indexation of the minimum tax rate for electricity would imply an increase from 2024 to 2033 of only a few eurocents, but how long will member states retain such low relative tax levels for electricity as a transport energy source?
- The administrative burden on businesses and national authorities to deal with annual automatic indexation and its impact on the management of inflation appears excessive, so we would recommend a more flexible approach, perhaps via a five-year review of need by the European Commission, as suggested in Article 31.
- For low-carbon fuels, we support the stabilisation of the minimum tax rate from 2023 to 2033 as stated in Article 7. But Annex I Table A suggests that low carbon fuels start at a minimum tax rate of €0.15/GJ in 2023 and then increases to €5.38/GJ by 2033.

## Big immediate tax jump for natural gas

- Apart from Denmark, all other EU members states have much lower (even zero) tax rates applied to natural gas as a transport fuel.
- Taking Italy as an example, where natural gas is widely used in transport, today natural gas is taxed at a rate of €0.09/GJ and in 2023 the tax rate would jump to €7.17/GJ, nearly an 8,000% increase. The impact on the yearly fuel costs for a typical heavy-duty natural gas vehicle driving around

130,000 km/year (city / regional use case) would be an increase in fuel costs of at least €11,300/year<sup>1</sup> plus other additional taxes such as VAT.

- For many operators, such an increase in total cost of ownership may be critical. If acceptable to the member states, at the least it would be proportional to have a phase-in period where the minimum tax rate for natural gas would increase to the agreed 2023 level over, say five years. This would at least allow for the gas supply for road transport to switch to bio-methane, ie sustainable biogas that should, in any case, have a lower minimum tax rate (see point 4).

### Minimum tax rates applied to sustainable biofuels / biogas

- The tax rates of biofuels should reflect their environmental performance. It is therefore unreasonable that sustainable biofuels produced from food / feed in 2033 will have the same minimum tax rate as fossil fuels.
- According to RED, no biofuel may be called sustainable if it has less than 50% greenhouse gas (GHG) reduction compared to fossil fuel. In that respect, no sustainable biofuel should ever be taxed at a rate higher than 50% of the tax applied to fossil fuels.
- Likewise, sustainable fuels not produced from food / feed feedstock have even higher GHG reduction values, usually above 75% compared to fossil fuels. Therefore, such sustainable fuels should not be taxed at a rate that is any more than 25% of the tax applied to fossil fuels.
- In this respect, it is at least welcome that advanced biofuels belong to a special category with a minimum tax rate of €0.15/GJ.

### Member state flexibility to exempt or reduce tax rates

- Article 16 gives the possibility for member states to exempt or reduce the level of taxation to certain fuels. For example, Article 16(d) includes, “renewable fuels of non-biological origin, advanced sustainable biofuels, bioliquids, biogas and advanced sustainable products falling within CN codes 4401 and 4402”.

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<sup>1</sup> Assuming that a typical natural gas (NG) truck needs 25kg of gas per 100km, with a calorific value of 49MJ/kg, that gives 1,599 GJ/year for an NG truck annual mileage of 130,000 km. Today's tax rate in Italy means tax on NG consumed would be €0,09 x 1,599 = **€144/year**. The 2023 tax would mean 7.17 x 1,599 = €11,465/year. The impact on the yearly fuel costs for this typical heavy-duty gas vehicle would mean an **increase in fuel costs due to tax of around €11,300/year**.

- ACEA requests the possibility for member states to exempt or reduce the level of taxation on biofuels that achieve the minimum GHG reduction targets laid out in the RED, not just the advanced biofuels mentioned in Article 16(d) of this proposal.

## ‘Equal treatment of use’

- In the ETD today, the minimum tax rate for diesel is less than the rate for petrol and that approach is carried through by practically all EU member states who choose to apply a lower tax rate for diesel.
- Despite Table A of Annex I in the ETD proposal indicating the same level of minimum tax rates for petrol and diesel, Article 5(1) of the proposal will also prevent member states from choosing to tax diesel less than petrol because Article 5(1) requires member states to set equal levels of tax for a given use (ie as a motor fuel).
- The consequence will be that in practically all EU member states, diesel taxes can no longer be lower than petrol taxes. Along with the impact of ETS2, the impact on the total cost of ownership for diesel commercial fleet operators will be significant (the ETD proposal does not distinguish between commercial and personal use of energy products anymore) and diesel car drivers may switch to petrol cars (not necessarily to electric) which can have a negative impact on fleet CO2 emissions.
- We would suggest, at the least, that member states be allowed to phase-in such a change during the transitional period.

## Treatment of electricity

- To enhance the transition to low- and zero-emission vehicles, the proposal appears to set the taxation of electricity at a general value for various uses, including transport (Article 10 and Table D of Annex I). Since many owners of electrically-chargeable vehicles will charge at home, it is certainly preferential that electricity taxes and prices used for transport recharging be the same as for household electricity.
- However, Article 5 sets some contrasting conditions. For example, Article 5 requires member states to set their tax rates for various fuels used for the same purpose according to the ranking of the tables in Annex I. In the case of motor fuels, a member state shall set tax rates that respect the ranking in Table A of Annex I (eg actual fuel taxes applied to ‘sustainable biofuels’)

shall not be higher than those applied to 'sustainable food and feed crop biofuels' or any fuel higher up in Table A.

- If a member state decides to set a specific tax rate for the charging of electric vehicles, the minimum tax rate for electricity set in Table D of Annex I must then be seen in relation to the ranking of motor fuels outlined in Table A of Annex I.
- How a member state sets its tax levels for all motor fuels (assumed to all be above the proposed minimum levels) will then determine how that member state treats electricity because the ranking of electricity as a motor fuel has to remain comparable to the ranking and tax rates set for other motor fuels such as 'low carbon fuels', 'RFNBO' and 'advanced sustainable biofuels and biogas'. Electricity as a motor fuel is tied to the ranking of the other motor fuels.
- This appears critical considering that low taxation levels will be one of the necessary policy measures across the EU to support the de-fossilisation of the transport sector through increased fleet penetration of electrically-chargeable vehicles.

## Tax refund for electricity fed back into the grid

- Article 20a of the RED proposal addresses the subject of system integration and Article 2(14n) of the RED proposal defines 'bi-directional charging' but the ETD proposal does not consider tax refunds for electricity bought and stored in vehicle batteries that may be fed back into the grid. We request to at least add a provision to enable claims for tax refund in cases where bought and taxed electricity stored in electric vehicle batteries is fed back into the grid.

## ANNEX: TAX RATES PER EU MEMBER STATE

	Petrol		Diesel		Natural gas	
	€/litre	€/GJ	€/litre	€/GJ	€/kg	€/GJ
Austria	0.482	14.2	0.397	10.5	0.076	1.66
Belgium	0.6	17.6	0.6	15.9	0	0
Bulgaria	0.363	10.7	0.33	8.7	0.20	0.43
Croatia	0.51	15.0	0.405	10.7		
Cyprus	0.429	12.6	0.4	10.6	0.118	2.6
Czech Republic	0.477	14.0	0.37	9.8	0.13	2.86
Denmark	0.638	18.7	0.435	11.5	0.535	11.76
Estonia	0.563	16.5	0.372	9.9	0.049	1.07
Finland	0.724	21.3	0.513	13.6	0.261	5.74
France	0.672	19.7	0.609	16.1	0.073	1.61
Germany	0.655	19.2	0.47	12.4	0.176	3.86
Greece	0.7	20.6	0.41	10.9	0	0
Hungary	0.345	10.1	0.317	8.4	0.123	2.70
Ireland	0.619	18.2	0.515	13.6	0.118	2.60
Italy	0.728	21.4	0.617	16.3	0.004	0.09
Latvia	0.509	15.0	0.414	11.0	0.122	2.68
Lithuania	0.466	13.7	0.372	9.9	0.298	6.56
Luxembourg	0.516	15.2	0.404	10.7	0	0
Malta	0.549	16.1	0.413	10.9		
Netherlands	0.813	23.9	0.522	13.8	0.216	4.75
Poland	0.374	11.0	0.33	8.7	0.113	0
Portugal	0.668	19.6	0.513	13.6	0.126	2.48
Romania	0.375	11.0	0.368	9.1	0.118	2.78
Slovakia	0.514	15.1	0.368	9.7	0.170	2.60
Slovenia	0.445	13.1	0.464	12.3	0.052	3.74
Spain	0.504	14.8	0.379	10.0	0.270	1.15
Sweden	0.643	18.9	0.452	12.0		5.92
<b>Current EU minimum rate</b>	<b>0.359</b>		<b>0.33</b>			
<b>Proposed EU min rate 2023</b>		<b>10.75</b>		<b>10.75</b>		<b>7.17</b>

## ASSUMPTIONS

	Petrol	Diesel	Natural gas
Fuel density (kg/m <sup>3</sup> )	743	830	
Calorific value (MJ/kg)	45.8	45.5	
Energy density (kJ/kg)			45,500
Specific weight (kg/nm <sup>3</sup> )			0.78



## ABOUT THE EU AUTOMOBILE INDUSTRY

- 12.6 million Europeans work in the auto industry (directly and indirectly), accounting for 6.6% of all EU jobs
- 11.6% of EU manufacturing jobs – some 3.5 million – are in the automotive sector
- Motor vehicles are responsible for €398.4 billion of tax revenue for governments across key European markets
- The automobile industry generates a trade surplus of €76.3 billion for the European Union
- The turnover generated by the auto industry represents more than 8% of the EU's GDP
- Investing €62 billion in R&D per year, automotive is Europe's largest private contributor to innovation, accounting for 33% of the EU total

## REPRESENTING EUROPE'S 16 MAJOR CAR, VAN, TRUCK AND BUS MANUFACTURERS

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