

## Measure 62: Taxation of energy products

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<p><i>Policy package:</i> <b>1C:</b> Road Pricing, taxation and financing</p>
<p><i>Measure 62:</i> Restructuring the Community framework for the taxation of energy products and electricity</p>
<p><i>What is the problem being addressed ?</i></p> <p>Energy products are basically taxed in three ways: excise duties, dedicated taxes and duties, and VAT. Until 2003, there was no Community framework for energy products other than mineral oil nor for taxes other than excise duty and VAT. However, with the Council Directive 2003/96/EC a wider Community framework has been established which applies to all energy products, including electricity, used as motor fuels or as heating fuels.</p> <p>The taxation of energy products and, where appropriate, electricity is one of the instruments available for achieving the Kyoto Protocol objectives. This orientation is particularly justified in a field where on the one hand, indirect taxes may hinder the functioning of the Internal Market and where on the other hand, taxation constitutes an efficient economic tool to solve environmental problems.</p> <p>According to the new Community framework, the provision that Member States shall exempt from taxation fuels used for the purpose of commercial air and sea navigation is maintained. The exemption for fuel used for commercial international aviation arises from international policy agreement in ICAO. The Council reached a political agreement which is now reflected the new Energy products Directive that, from 1 January 2004, allow Member States to introduce taxation of commercial aviation fuel used on domestic services and, for those member states that did so, bilateral taxation of fuel used for services between those countries. The same provision holds for sea transport. However, Member States may apply levels of taxation below the minimum level set out in the Directive. The possibility of exemptions or reductions in the level of taxation is introduced also for fuels used in commercial inland waterway transport.</p> <p>With regard to the road sector, the measure implements in particular the provisions concerning the taxation of diesel motor fuel used by hauliers as well as minimum levels of taxation for non-commercial use of diesel fuel (see Measure 58). It implements also the provision on possible tax differentiation of biofuels (see Measure 63), allowing Member States to exempt or reduce excise duties so as to promote biofuels (Member States are generally allowed to reduce excise duties for biofuels by up to 50 % in order to stimulate their use).</p> <p>The measure is related to the Community Strategy on sustainable development (encouraging the use of biofuels), to the Green Paper on the European Union's energy supply (to replace 20% of conventional fuels with substitute fuels by 2020), to the 6<sup>th</sup> Community Environment Programme (promoting the development and use of alternative fuels and of low-fuel-consuming vehicles with the aim of substantially and continually increasing their share) and to the COM (2004) 60 "Towards the thematic Strategy on urban environment" (the Commission is preparing a Directive focussing on the procurement of low energy and low emission road vehicles by public authorities).</p>
<p><i>Measure's costs and/or benefits:</i></p> <p>The Directive provides minimum levels of taxation applicable to motor fuels:</p> <ul style="list-style-type: none"><li>• for unleaded petrol, they increase from 287€ per 1000 litres to 359€ per 1000 litres by 2004 (the same by 2010);</li><li>• for gas oil (including diesel fuel), they increase from 245€ per 1000 litres to 302€ per 1000 litres by 2004 (and 330 € by 2010);</li><li>• for kerosene they are fixed to 302€ per 1000 litres by 2004 (and 330€ by 2010);</li><li>• for LPG they are fixed to 125€ per 1000 litres by 2004 (the same by 2010);</li><li>• for Natural gas they are fixed to 2,6€ per 1000 litres by 2004 (the same by 2010).</li></ul>
<p><i>Legislative implementation at EU level:</i></p> <p>Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity. Member States had to comply with this Directive by 31<sup>st</sup></p>

December 2003. They will report on 1st January each year on compliance with it.

*What are the objectives ?*

Fuel taxation can promote a shift towards cleaner fuels such as unleaded petrol and low-sulphur diesel, LPG, methane and non-fossil energy sources. In some countries there is already a strong increase in the biofuel production (see second page).

*Interactions with other WP measures:*

While restructuring the overall Community framework for taxation of energy products, Measure 62 has implemented some provisions of Measure 58 (Fuel taxation: make the tax system more consistent by proposing uniform taxation for commercial road transport fuel by 2003 to round off the internal market) and Measure 63 (Promotion of biofuels in road transport).

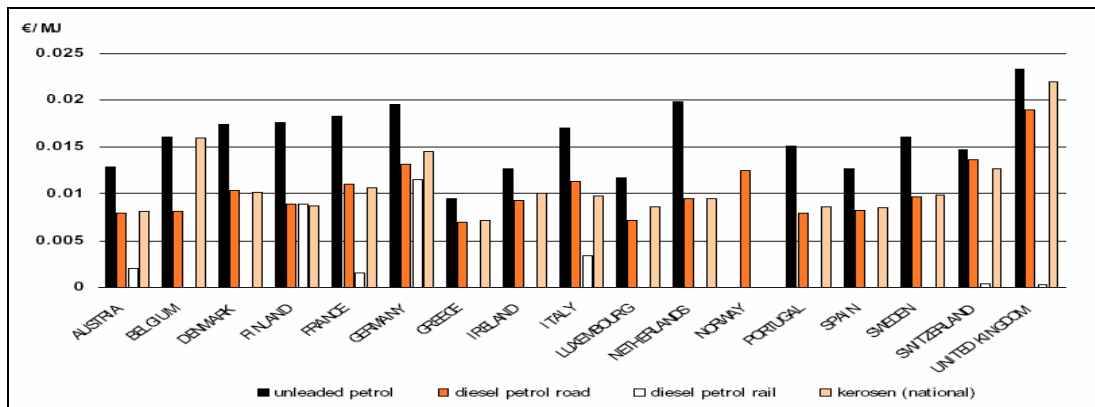
**Second page:**

*Output indicators:*

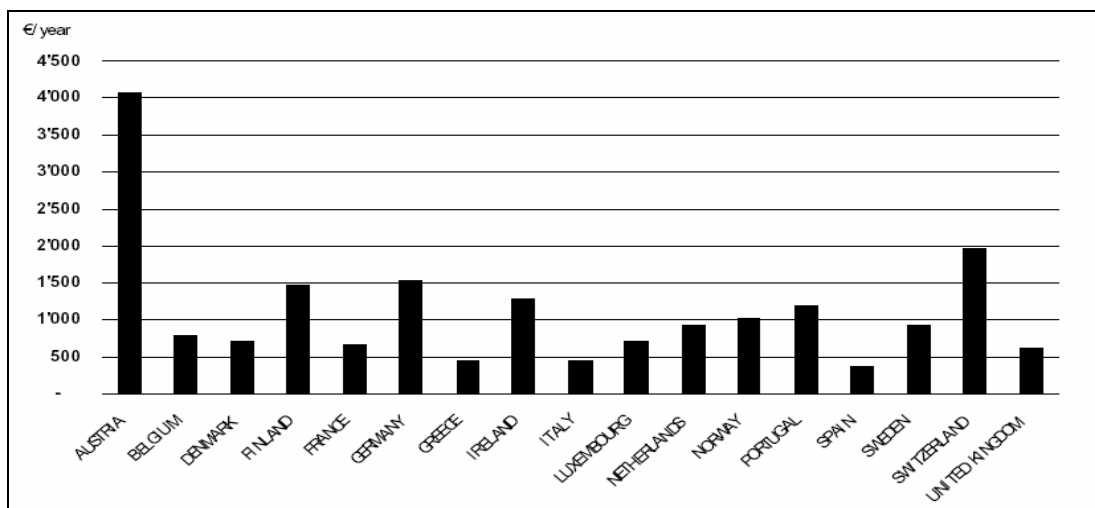
Energy and fuel taxes show differences for different transport modes. Air transport is generally not taxed at all for international relations and direct inland connection flight to/from international relations. Since fuel expenses are a major cost unit in air transport (ca. 25-35 of total production costs), air transport has considerable advantages against other modes who pay at least reduced fuel tax prices.

With regard to the road sector, the following figures illustrate the actual situation of fuel taxes and vehicle taxes for the EU-15+2. The vehicle tax is strongly related with the fuel tax. Some countries with low fuel taxes have got high vehicle tax.

Fuel taxes:



Vehicle taxes:



*Outcome indicators: intermediate impacts on transport markets*

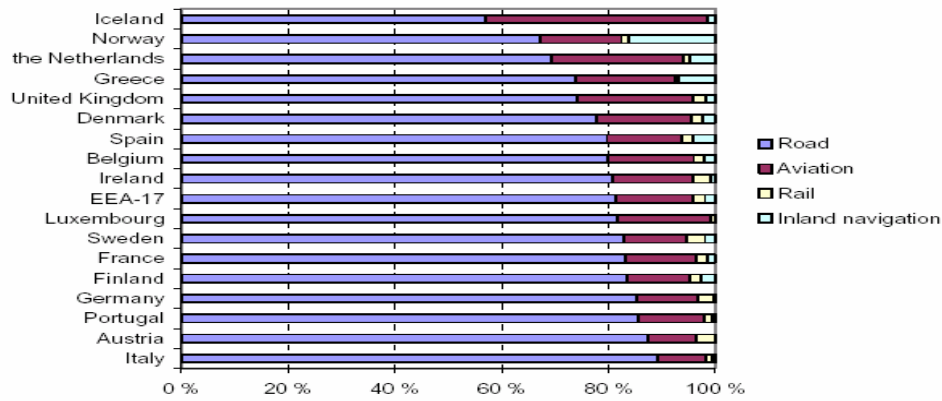
Key market impacts include:

- Prices and price structure: the new Directive will lead to an increase in minimum tax rates on mineral products and a widening of the scope of the EU system of excise taxation beyond mineral oils to include competing sources of energy. This will clearly influence the relative prices of the different categories of energy products.
- Structure of the market and competition: appropriate differentiation of excise rates for environmental friendly energy products, such as biofuels, low sulphur fuels etc., will allow the market share of these new products to develop more rapidly;
- Changes in size and composition of vehicle fleet: abatement of taxes on new fuels will create an incentive to renovate the vehicles fleet with cleaner vehicles.

*Outcome indicators: final impacts on transport users and non users*

The measure will contribute to raise taxes applicable to fossils fuels and reduce those on alternative fuels. In so doing, it should counteract the current trend of growing transport energy consumption. Transport energy consumption in the EEA-17 area grown by about 2,0% per year during the period 1990-2000. As a consequence of the growth in energy consumption, CO<sub>2</sub> emissions from transport also continued to increase. The increased transport demand and the continuing shift of transport demand towards road and air, combined with the increasing use of heavier, more powerful cars and trucks, have offset the improvements in fuel economy of improved engine technology. Road dominates final energy consumption in transport, with a share of 72% (including marine bunkers) of all final energy consumed in transport. The following figures show the distribution of final energy consumption over transport modes in 2000 and the growth in road and air energy consumption between 1990 and 2000 (source TERM 2003 – Transport final energy consumption fact sheet).

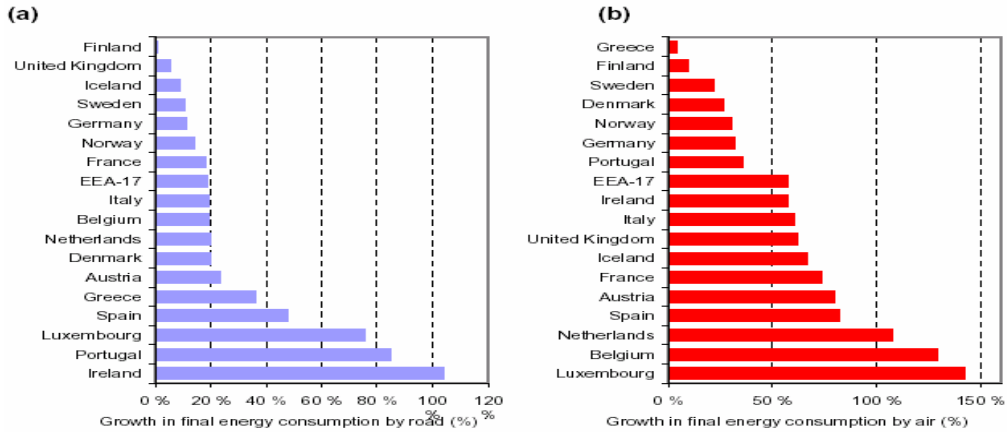
**Figure 2: Distribution of final energy consumption over transport modes in 2000**



NB: Marine bunkering is not included, since the energy consumption from marine bunkers cannot be attributed restrictedly to the country in which the energy is consumed. Energy consumption by oil pipelines is not included, since its contribution is far below 1 % and is incomplete.

Source: IEA, 2003.

**Figure 3: (a) Growth in energy consumption by road and (b) by air between 1990 and 2000**



Source: IEA, 2003.