POSITION
PAPER

Revision of Energy Taxation Directive

General remarks

As part of the European Green Deal (EGD), the Commission is reviewing the Community framework for the taxation of the energy products and electricity ("Energy Taxation Directive" or "ETD") with the aim of ensuring that the energy taxation is aligned with climate objectives.

SMEunited welcomes the commitment of the Commission to review the current ETD. Among the proposed measures, the switch from volume to energy content-based taxation is seen as a positive step towards the elimination of incentives for fossil fuel use. Moreover, the simplification of the current tax structure, obtained by grouping energy products into categories according to their environmental performance, is endorsed by SMEunited as it would allow a lower taxation for sustainable advanced biofuels in the future.

Specific comments on the proposal of the Revision of the Energy Taxation Directive

The ETD review aims to meet the objectives of climate policy. However, SMEs in Europe have concerns as regards some proposed measures:

1. The proposal aims at **harmonising the tax levels for petrol and diesel** used for transport purposes. Firstly, this could weaken the competitiveness of businesses in transport. In fact, the harmonisation would lead to the **impossibility of lowering tax rates for diesel in the future**, even if the lowered rates stands above the EU minimum rate. As a result, higher transport costs for national companies could distort competition between Member States. The report should thus better evaluate the impact of the proposed measures on international competitiveness for transport sectors.

   Secondly, in the **commercial vehicle sector, a prompt switch** to alternative fuels is not possible. So, the lower CO_2 emissions of diesel relative to petrol should continue to be reflected in an appropriate and practical transitional regulation.

2. The proposal requires that no **distinction is made between commercial and non-commercial diesel** tax rates. The Directive should encompass the option of **taxing freight transport at a lower rate**. *This would allow a targeted compensation for any increase in fuel prices for companies through commercial diesel.*

Moreover, according to the proposal, no distinction should be made between commercial and non-commercial use of heating fuels and electricity. This poses a concern for countries which apply tax reliefs to fuels used in manufacturing.

3. The **new criterion of trade intensity** used to define energy-intensive companies would exclude the manufacturing businesses in those SME sectors, which were previously classified as energy-intensive, but show lower trade intensity. As a result, such businesses would no longer be granted the peak compensation. This is a concern since the exclusion would bring about further competition distortions vis-à-vis industrial companies benefiting from these specific reliefs.

4. The revision of the ETD abolishes many exemptions. As a result, some products and sectors are newly or more heavily subject to the energy tax. SMEunited calls for a more **gradual phasing out of the exemptions**. For example, SMEunited proposes to exempt renewable energy sources for the first ten years. In this way, a transitional period should allow for the development of climate-friendly fuels. Afterwards, fossil fuels could be taxed increasingly every year.

   In addition, exemptions for hydrogen, synthetic fuels, and biofuels, which are now on a voluntary basis, should become mandatory exemptions, until 2033 or at least for the first ten years. This would stimulate the transition to sustainability and prevent differences across the EU.

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