



European Commission Energy Taxation Proposal

Introduction

The European Commission has presented its proposal to overhaul the 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 now be discussed by the European Parliament and the Council. The Commission expect that this proposal to come into force in 2013.

Key elements of the Commission proposal

- The Commission proposes splitting the minimum tax rate into two parts, one based on the CO₂ emissions of the energy product which would be fixed at €20 per tonne of CO₂. The second would be based on the energy content, i.e. on the actual energy that the 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.
- Member States will have the option to completely exempt energy consumed by households for their heating, no matter what energy product is used.
- The full alignment of the taxation of energy content will not take place until 2023.
- The proposal will favour renewable energy sources and encourage the consumption of energy sources emitting less CO₂.
- The new proposals state that they will 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. The Commission claims that this will be an opportunity for Member States to redesign their tax policies in a way that promotes jobs and employment.
- With regard to the reduction of CO₂, this revised Directive aims to complement the existing EU Emissions Trading Scheme by applying a CO₂ tax to sectors that are currently out of its scope: transport, households, agriculture and small industries.

Federation of Small Businesses (FSB) Position

Representing over 2,000 smaller farmers, the FSB is worried about the specific impact these proposals will have on the farming sector and rural businesses.

When the Commission published these proposals they stressed their desire to bring farming into line with other industries and to encourage farmers to go green. Presently, farmers in the UK pay up to £0.70 per litre for the diesel they use in their farm machinery, almost half the price that ordinary road users are paying when they fill up their vehicles. The FSB is concerned that this reduction will come to an end as a direct result of this proposal.

Red diesel is used to distinguish it from fuel used in non-farming vehicles on the road. The price of red diesel does not include the tax other motorists pay and is for use in agricultural vehicles only. As these vehicles spend the vast majority of the time off road this is only fair.



Federation of Small Businesses

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Working intensively on a field a tractor could use up to 20 litres of fuel an hour¹, so any increase in the cost of red diesel would have a significant impact on the United Kingdom's farmers.

The Commission believes that these proposals, if implemented, will encourage farmers to become more environmentally friendly. Research produced by the National Farmers Union shows that farmers in the United Kingdom are *already* at the forefront of protecting our environment. The research showed that since 1973 farmers on average have seen a 60 per cent reduction in the amount of fuel used in their farm vehicles, there has also been a 20 per cent reduction in CO2 emissions in the period 1990 – 2007.

These Commission proposals will also impact significantly on small businesses, based in rural areas, who are dependent on the use of heating oil. These businesses are already dealing with rapidly escalating costs due to the high price of oil and if these proposals were to be implemented, they would see huge cost increases at a time when they can ill afford it.

The FSB is seriously concerned that the Commission seem to have unfairly singled out rural communities for harsh treatment. The FSB is worried that these proposals will hit hardest some of the most vulnerable sections of our economy, namely farmers and rural businesses. We therefore urge MEPs and the Council to reject these proposals.

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¹ National Farmers Union