



European Commission Proposal for an EU-wide Carbon Tax

Background

On 4 November, a high-ranking European Commission official from DG Taxud, responsible for taxation and customs union, announced the Commission's plans to introduce an EU-wide carbon tax. The Commission intends to review the 2003 Energy Taxation Directive with the aim of introducing a carbon-related element to the existing taxation of energy products and electricity. The proposal is currently in its draft version, and is expected to be finalised early next year by the new Commission. The main aim of the proposal is to address those sectors not currently covered by the EU Emissions Trading Scheme, such as transport, agriculture and buildings.

The carbon tax is being proposed by EU Taxation Commissioner Laszlo Kovacs, and it is officially called a **Council Directive amending Directive 2003/96 restructuring the Community framework for the taxation of energy products and electricity.**

The Swedish Presidency first floated the idea of carbon taxation in May 2009 ([Euractiv](#)). On a member state level, it was discussed for the first time during the informal Ecofin council meeting in Gothenburg on 1-2 October 2009. Commissioner Kovacs claimed that there were only positive reactions, and that a number of ministers, notably from France, Belgium and the Nordic countries welcomed the proposal. However, it is also known that the United Kingdom and Eastern and Central European countries are against. Ireland is said to also be opposing the EU-wide carbon tax, pointing out that the country has been given guarantees on tax sovereignty under the Lisbon Treaty. Everyone seems to agree that the hardest test for the carbon tax proposal would be to pass the Council.

What is being proposed?

- The proposal covers carbon emissions from heating and motor fuels, as well as electricity use, thus covering commercial and non-commercial use
- The main areas to be covered is transport, agriculture, households and small installations currently not covered by the EU Emissions Trading Scheme
- The proposal makes necessary amendments to ensure that no overlaps between carbon tax and the Emissions Trading Scheme occur as a result
- The carbon tax will complement a general tax on energy consumption (which exists to raise revenue)
- The EU-wide carbon tax is expected to come into force on 1 January 2013, with the new members allowed the transition period until 1 January 2021
- Motor fuels will be taxed at the rate of 0,01-0,03 euro/kg depending on their use
- Heating fuels will be taxed at the rate of 0,01 euro/kg
- Tax rates on electricity remain to be established
- These are minimum tax rates, and Member States can set their national taxes higher, but not lower
- Biomass fuels will be exempted
- Businesses that make early investments in low-carbon technologies would get temporary exemptions
- The use of shore-side electricity by ships while at berth in a port will be exempted from carbon tax for eight years
- Member States will be able to provide various exemptions/incentives for households, charities, etc
- The EU reserves the right to propose higher rates in case it decides to increase its reduction target from 20 per cent to 30 per cent following the Copenhagen negotiations



Why is this being proposed?

- National carbon taxes would distort the competitiveness and the Internal Market
- More reductions are necessary to meet EU carbon reduction goal of 20 per cent
- The tax is necessary to change peoples behaviour and to make Europe more energy-efficient and eco-friendly
- The Commission has the mandate to introduce carbon taxation because it is indirect and because it is in the interests of the internal market harmonisation

Do any Member States presently have some kind of domestic carbon taxation?

European countries that have already introduced some form of eco-taxation: Finland (1990), the Netherlands (1991), Norway (1991), Sweden (1991), Denmark (1992), the UK (1993) and Germany (1999). Belgium, Austria and Slovenia have some form of eco elements in their tax systems. France is about to introduce its carbon tax under Sarkozy. Ireland and Spain are also studying plans to introduce carbon taxation.

Points of consideration for the FSB

- The inclusion of the transport and agricultural sectors within the scope of the Directive; furthermore, small plants, which are excluded from the Emissions Trading Scheme, can now be taxed on their carbon emissions
- There was no specifically designed public consultation for this proposal (the Commission used the data from an earlier consultation, that on the green paper on market-based instruments)
- The proposal may bring higher cost burden on small businesses, as it may raise costs of transport, heating, etc
- Small businesses due to their limited resources compared to large enterprises, will be disproportionately hit by this environmental levy
- Small agriculture farms and fishermen will be hit disproportionately
- A small business-test must be part of the impact assessment
- Often good intentions to improve energy efficiency or implement other environmentally friendly projects face local planning obstacles and building regulations: good macro initiatives are not reflected on a local level
- The issue of exemptions needs to be clarified to ensure a just and comprehensive system

FSB action

- 9 November Tina Sommer met with European Commission official Adela Tesarova (DG TAXUD) to gain a greater understanding of what is being proposed
- 14 December FSB will be meeting with UKRep to discuss this proposal

For further information please contact:

Richard Hyslop
richard.hyslop@fsb.org.uk