Council of the European Union

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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	Draft Council Directive restructuring the Union framework for the taxation of energy products and electricity (recast) - Policy debate

I. INTRODUCTION

1. On 14 July 2021, the Commission submitted a proposal for a Council Directive restructuring the Union framework for the taxation of energy products and electricity (recast) [1] ('the ETD proposal'). The ETD proposal is a part of the Fit for 55 package[2].

2. The ETD proposal aims at: a) providing an adapted framework that contributes to the EU 2030 targets and climate neutrality by 2050 in the context of the European Green Deal. This would involve aligning the taxation of energy products and electricity with EU energy, environment and climate policies, thus contributing to the EU efforts to reduce emissions; b) providing a framework that preserves and improves the EU internal market by updating the scope of energy products and the structure of rates, and by rationalising the use of tax exemptions and reductions by Member States; and c) preserving the capacity to generate revenues for the budgets of the Member States.

[1] 10872/21.
[2] 10849/21.

3. According to the ETD proposal, these objectives could be achieved by switching from volume-based to energy content-based taxation, by establishing a ranking of rates based on environmental performance, and by limiting incentives for fossil fuel use.

4. The European Economic and Social Committee adopted its opinion on 20 January 2022[3] and the Committee of the Regions adopted its opinion on 27 April 2022[4]. The opinion of the European Parliament is pending.

II. STATE OF PLAY

5. The analysis of the ETD proposal was launched within the Working Party on Tax Questions (Indirect Taxation - Excise Duties/Energy Taxation) (WPTQ) in September 2021 and the negotiations have been ongoing for more than four years. The Working Party on Tax Questions (High Level) (HLWP) discussed the file on several occasions.

6. On 7 December 2021 and 17 June 2022, the Council (Ecofin) took note of the Presidency progress reports on the ETD proposal[5]. On 6 December 2022, the Council (Ecofin) held a policy debate on the ETD proposal[6] and gave political guidance on the way forward. In general, the Ministers supported the Presidency's approach and asked for solutions to be found to outstanding issues. On 10 December 2024, the Council (Ecofin) held a policy debate on the ETD proposal[7] and provided political guidance. On 20 June 2025, the Council (Ecofin) took note of the Presidency progress report on the ETD proposal[8].

[3] 5615/22.
[4] 7822/25.
[5] 14574/21 and 9874/22.
[6] 14736/22.
[7] 16174/24 REV 1.
[8] 7819/25.

III. WORK UNDER THE CURRENT PRESIDENCY

7. During its exchange of views on 9 July 2025, Coreper tasked the technical level to finalise the compromise text in light of the guidance received and to report back to Coreper, if needed, with a view to reaching an agreement in the Council (Ecofin) in November 2025.

8. On that basis and building on the progress made under the previous Presidencies, the file was analysed at the meetings of the WPTQ on 5 September, 26 September and 14 October, as well as at the HLWP on 3 November 2025. Based on discussions at the Working Party meetings, the Presidency prepared four sets of compromise text, which facilitated discussions and helped achieving agreements on some outstanding technical issues.

9. In general, delegations are of the view that the currently applicable ETD is outdated (it has not been revised since its adoption in 2003), its revision is needed and the compromise text constitutes an improvement compared to the currently applicable ETD.

10. On 5 November 2025, Coreper exchanged views to prepare the Council. While many delegations could support the compromise text, several delegations still expressed concerns and reservations. In order to alleviate these concerns, the Presidency has made further modifications in the compromise text, wherever possible, including in order to address some of the main political issues outlined below.

11. <u>Indexation</u>. On the one hand, a few delegations were not willing to accept the indexation as a concept or considered the cap (maximum percentage of adaptation) to be problematic. On the other hand, many other delegations found that indexation is a key to ensure that the Directive does not become irrelevant as inflation raises the energy prices over time. In the revised compromise text, the Presidency has reduced the cap from 10% to 8%. The Presidency believes that the current text presents a balanced compromise with the inclusion of indexation but proposing lower rates, later starting dates, and a cap to limit indexation in case of high inflation. This would enable to take into account the socioeconomic differences between Member States.

12. Natural gas and LPG. Although the application of the new rates on natural gas and LPG will be considerably delayed (transitional periods last until the end of 2042), some delegations were still concerned that the proposed rates on natural gas and LPG will affect households and industries negatively. To accommodate this, the Presidency has adjusted the scheme for taxation of natural gas and LPG, while at the same time keeping in mind that the support of some other delegations should not be lost.

13. Aviation and maritime sectors. Although an overwhelming majority of delegations supported the compromise text on aviation and maritime, there were a few delegations who found it important to uphold the current exemption for aviation and maritime sectors. In addition, these delegations prefer not to include a review clause according to which in 2035 the Commission shall assess the possibilities of taxation of energy products used in these sectors. However, no changes have been made on this issue in the compromise text.

14. The Presidency is of the view that the latest compromise text addresses the concerns raised by the delegations. This text aims at striking a balance between a number of diverging concerns, and in the Presidency's view, provides a good basis to finalise these negotiations. In the spirit of compromise, the Presidency asks the delegations to consider the compromise text as a package in order to be in a position to agree also on the political issues set out above. Therefore, the Presidency expects that all delegations should be in a position to accept the latest compromise text and lift any remaining reservations.

IV. CONCLUSION

15. Against this background, the Council is invited to hold a policy debate on the basis of the compromise text contained in document 14451/25.