Industry position: Reforming energy taxation, charges and levies to support affordability

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Europe needs lower and more predictable energy bills for all energy carriers, faster electrification based on decarbonised energies where it is feasible and cost-efficient from an energy system perspective, and pragmatic decarbonisation options where electrification is not. Fiscal policy design choices must support affordability, fairness and competitiveness across households and industry or risk distorting markets and raising system costs for all.

1) Key messages

1. **Cut what does not belong in energy bills, for all energy carriers.** Non-energy items should be financed through general budgets.
2. **Rebalancing must not create new injustices or competitiveness risks.** Fiscal energy policy should not unduly increase costs for consumers and users with limited near-term alternatives.
3. **Price signals for individual energy carriers should reflect system costs (e.g. peak and seasonal demand) life-cycle CO_2 intensity, end-use realities.**
4. **Tax energy at final consumption only.** Energy flows within the energy system, including conversion between carriers and storage should not be taxed, in order to maximise system efficiency and avoid cumulative fiscal burdens.

2) Industry assessment of the Commission's draft approach

Industry supports efforts to reduce unnecessary cost components in energy bills of all energy carriers; improve transparency and predictability of taxes, levies and charges; and avoid double taxation, including for storage and energy conversion.

However, directly shifting policy-related costs from electricity bills onto other energy carriers, or indirectly offsetting reductions in system-related electricity charges by increasing fiscal contributions on other energy carriers, risks creating new economic, social and competitiveness distortions. This is particularly problematic for households and industrial users that cannot electrify quickly, and may ultimately reduce system efficiency and undermine public support for the energy transition. It also exaggerates the root issue that is correctly identified by this recommendation: the unfair shuffling and allocation of fiscal pressure to energy carriers.

For electricity generation, we consider that taxes, as well as charges levied - including when generated throughout other energy carriers - should be structured so as to minimise impacts on wholesale electricity formation and retail prices, while maximising system efficiency and minimising total costs for final consumers. This requires avoiding taxation at conversion stages and applying fiscal instruments only to end consumption.

3) Core principles for reform

a) Allocate costs where they belong

Economy-wide public policy costs should be funded through **general budgets**, with Member States retaining flexibility to reflect national energy mixes and regional circumstances.

Hidden/indirect cross-subsidisation between energy carriers or sectors risks distorting markets and investment decisions.

Energy-system costs, including incentives and support mechanisms, should therefore be allocated transparently to the respective energy carrier, based on the drivers of those costs, so that consumers receive clear and accurate price signals.

b) Technology openness

All commercially mature decarbonisation solutions, including renewable and low-carbon molecules, such as biomethane and hydrogen, or the ability to abate emissions through carbon management, storage and flexibility, must compete on equal terms, with price signals reflecting life-cycle CO_2 intensity and end-use realities, rather than simplified labels applied to different energy carriers.

c) Fairness, competitiveness and a just transition

Reforms to fiscal energy policy and bill structures must be assessed not only for efficiency, but also for **distributional impacts across households and industry**. Poorly designed reallocation of costs can undermine both **social fairness** and **European competitiveness**.

Shifting electrification-related costs and renewable electricity support costs from electricity bills onto other energy carriers, either directly or indirectly risks creating a **two-tier transition**:

Households

- **Those who can invest** (heat pumps, deep renovation, electrical upgrades) would benefit from lower electricity bills.
- **Those who cannot switch easily** (low-income households, tenants, hard-to-renovate buildings, some rural areas) would face higher costs, effectively helping fund the transition for others.

Industry and SMEs

- Many industrial users **cannot electrify quickly or fully** due to technical constraints (e.g. high-temperature heat, continuous processes, feedstock use), or because electrification requires major CAPEX and permitting lead times.
- If policy costs are shifted onto other carriers, these firms face higher energy input costs **without an immediate alternative**, worsening exposure to global competition and accelerating **carbon leakage** risks.
- This is particularly acute for energy-intensive sectors and their supply chains (including SMEs) that are already under severe competitiveness pressure in Europe.

Rebalancing should not penalise **consumers and users with limited near-term alternatives/non-switchers,** whether households or industrial users, who lack the financial, technical or practical ability to electrify in the near term, or those for whom electrification is not the most cost-efficient decarbonization option.

Reforms must be screened for **distributional and competitiveness impacts** (energy poverty, renters, rural households, SMEs, trade-exposed sectors, and security-of-supply implications).

Funding the transition via shrinking groups of bill payers or captive users risks undermining **social acceptance, investment confidence and industrial resilience**.

4) Policy recommendations

a) Taxation including VAT

- Finance general costs through **general budgets** (broad tax bases), not carrier-specific surcharges that concentrate costs, including on those least able to respond.
- Ensure operators can recover excise duties on unpaid customer bills, reducing debt exposure and impact on energy prices due to socialisation of irrecoverable tax cost.

b) Levies

- Remove **non-energy-related levies** from energy bills, not just electricity bills.
- For energy-related levies:
    - Allocate them to the final consumers of the respective energy carrier and avoid cross-subsidisation.
    - Do not apply levies to intermediate energy uses within the energy system.
    - Improve transparency and predictability.
    - Ensure cost-efficiency.

c) Charges

- Make electricity and other energy carrier charges more **cost-reflective**, including clearer signals linked to peak and seasonal demand.
- Improve transparency on expected future charge evolution.
- Allocate charges to the final consumers of the respective energy carrier, avoiding hidden cross-subsidisation.
- Charges should not create de facto taxation of conversion, storage or flexibility activities within the energy system.

d) Avoid double taxation and support system integration

- Apply taxation to final consumption only.
- Do not tax energy used for conversion, storage or flexibility services that reduce overall system costs.

e) Renewable and low-carbon molecules

- Provide **predictable and favourable fiscal treatment** for renewable and low-carbon molecules.