

The Energy Taxation Directive Revision: Towards an EU Climate-Aligned Tax Instrument

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The ongoing revision of the [Energy Taxation Directive](#) (ETD) aims to align energy taxation with climate goals by shifting from volume-based to carbon intensity-based taxation. The revision proposal introduces a tiered tax system, expands the Directive's scope to new sources of energy, phases out certain exemptions and seeks to harmonize energy taxes across the EU Member States. It complements broader EU climate instruments and is expected to be implemented by 2028.

1. Background and Context

In line with the [European Green Deal](#) and the European Union's [Fit for 55](#) package, published on 14 July 2021, the European Commission (EC) has placed the ETD under comprehensive revision. Initially, the ETD was adopted in 2003 and aimed to harmonize the taxation of energy products and electricity within the internal market. However, as emphasized in the [EC 2021 Impact Assessment](#) and subsequent Council reports, the ETD's design, which is based on energy volume rather than energy content or carbon intensity, no longer aligns with needs of current energy and climate policies.

In 2003, the scope of ETD set minimum tax rates for motor and heating fossil fuels and electricity, while allowing Member States significant discretion to set higher national rates or allow for certain exemptions. As a result, the ETD established a fragmented energy tax framework that eventually slowed the development of low-carbon energy sources and EU environmental goals.

Given the time of its adoption, the rationale behind the ETD was economic rather than environmental. When adopted, its purpose was to promote the proper functioning of the internal market and avoid distortions in competition. The [EU Emissions Trading System](#) (ETS), which was established in 2005, was just beginning to take shape, and the renewable energy initiatives were marginal in the EU energy framework.

Following the introduction of the EU Green Deal in 2019, the EC published the [Energy Taxation Evaluation Report](#), with the conclusion that the existing ETD "fails to promote energy efficiency, renewable energy, or fair carbon pricing". This was the starting point for the ETD's revision process.

2. The ETD Revision Proposal and Its Objectives

On 14 July 2021, the EC published its formal proposal to revise the ETD as part of the [Fit for 55](#) package. The proposal pursues three principal objectives:

- (1) to align energy taxation with the European Union's energy and climate objectives, contributing to the 2030 climate and renewable energy targets and ensuring consistency with the [EU Green Deal](#);

- (2) to preserve the integrity of the internal market by modernizing the scope and structure of tax rates, limiting national exemptions and ensuring fair competition between energy sources and sectors; and
- (3) to ensure fiscal sustainability by maintaining Member State revenue-raising capacity.

As outlined in the (proposed) [revised version of the ETD](#), the new system introduces a graduated rate structure based on energy content and carbon intensity. This is a significant shift from the purely volume-based system established with the adoption of the ETD in 2003.

3. Key Points of the ETD Revision Proposal

Under the proposed revision, all energy products will be categorized into the following four tax brackets and tax rates, depending on their carbon content and environmental performance:

- (1) sustainable fuels and renewable electricity (zero or minimal rate);
- (2) low-carbon fuels such as advanced biofuels and biogas (medium rate);
- (3) transitional fuels, including natural gas (medium rate); and
- (4) fossil fuels such as coal, diesel and kerosene (highest rate).

Further, the proposal broadens the scope of the ETD and now includes emerging energy sources such as hydrogen, synthetic fuels and biofuels. These inclusions respond to technological innovations reflected in the European Union's policy on renewable hydrogen and e-fuels under the [REPowerEU plan](#), which aims to phase out EU dependence on gas imports.

The ETD revision proposal also complements parallel instruments such as the [Carbon Border Adjustment Mechanism \(Regulation \(EU\) 2023/956\)](#) and the ETS2 scheme extending carbon trading to buildings and road transport as of 2027. Together, these instruments form a unified EU carbon pricing framework.

Further, the ETD revision proposes a gradual phase out of certain industries' exemptions. Consequently, commercial aviation and maritime fuels that are exempt under article 14 of the ETD will face gradual taxation of intra-EU operations. The [Council compromise text of 10 November 2025](#) keeps reduced rates for small aircraft (fewer than 19 seats) and private vessels but includes a review clause which requires EC reassessment in 2035.

Further, to prevent the erosion of the ETD through inflation, it has been proposed that an automatic indexation apply. The Danish Presidency's November 2025 compromise text capped adjustments at 8% (rather than the previously proposed 10%).

The ETD revision proposal also provides for transitional rates for natural gas and LPG, which are extended until end 2042.

4. Legal and Tax Policy Considerations

The ETD's revision proposal is a balance between fiscal harmonization and EU environmental policy. The challenge lies in the legislative process. Because energy taxation falls under article 113 of the Treaty on the Functioning of the European Union ([TFEU](#)), unanimous approval of the ETD revision by the Council remains necessary. This entails a significant delay in the adoption of the ETD revision proposal.

The biggest step forward was made by the Danish Presidency of the Council of the European Union (from 1 July to 31 December 2025). The Presidency's initial plan was to build a consensus around [a compromise text](#), retaining flexibility for energy-intensive industries while introducing automatic indexation of minimum tax levels. Although the Council had projected a timeline with a final vote before the end of 2025 and with transposition into national law by

2028, with the Council's meeting on 10 November 2025, this timeline has been again postponed, as only the compromise text of the ETD revision proposal was adopted and no voting took place.

The revision of the ETD is important for the alignment of EU fiscal and environmental policy. It shows that taxation is no longer a revenue tool that is neutral in respect to the environment but a strategic lever for de-carbonization goals even broader than those of the European Union. The proposed energy-based model is consistent with the “energy efficiency first” principle under article 3 of the [Energy Efficiency Directive \(EU\) 2023/1791](#) and reinforces the link between tax policy and climate objectives.

However, the EC acknowledges that the new tax structure may have a short-term competitiveness effect, particularly in trade industries. In order to mitigate these, the ETD revision proposal includes transitional relief and coordination with another environmental instrument, the Carbon Border Adjustment Mechanism (CBAM), to ensure that imported products have a comparable carbon expense.

For businesses, the reform of energy taxation introduces both challenges and opportunities. Sectors which are heavily reliant on fossil fuels (e.g. aviation, shipping and steel) will be confronted with increasing compliance costs, while those investing in clean technologies will benefit from preferential tax treatment.

Multinational enterprises operating within the European Union can possibly expect a greater convergence of energy tax rates, a limit on or abolishment of certain industries' exemptions and potential scrutiny of State aid under articles 107-109 of the TFEU. Similarly, businesses receiving national energy tax deductions (e.g. for combined heat and power or biofuel blending) will need to reassess whether such schemes remain compatible with the ETD revision proposal.

Finally, the ETD revision proposal's phased approach aims to maintain EU industrial competitiveness while aligning taxation with the “polluter pays” principle.

5. Conclusion (What to Expect)

The ETD, once a technical tool for internal market harmonization, is evolving into a core pillar of EU climate governance. The ETD revision proposal emphasizes carbon intensity, technological neutrality and fiscal consistency and represents a modernization of the EU energy fiscal framework.

By replacing a volume-based system with one tied to energy content and emissions, the European Union will align fiscal policy more closely with its environmental goals while maintaining internal market cohesion. The transitional period that is foreseen in the ETD revision proposal will test the European Union's ability to balance competitiveness and climate ambition.

Once adopted, the revised ETD will not merely adjust tax rates, it will redefine the fiscal foundations of Europe's energy transition.

The Danish Presidency stated on 25 September 2025 that it will commit to “advice and if possible, to conclude the negotiations on the ETD revising” before the end of its mandate (i.e. 31 December 2025). However, on 13 November 2025, during the Council meeting, the ETD compromise text was not adopted.

On the same date, the Danish Presidency, in its note to ECOFIN (14451/25), concluded that the text “aims at striking a balance between diverging concerns” and provides “a good basis to finalize these negotiations”. In other words, the European Union has once again postponed turning its fiscal instrument to support climate policy by taxing not how much energy is consumed, but how carbon intensive that energy is.

Ultimately, the ETD revision reflects the principle stated in the 2024 Budapest Declaration on EU competitiveness: “Business as usual is no longer an option.” The same is true for the ETD itself, which can no longer remain unchanged in a Europe determined to achieve climate neutrality.

IBFD references:

- > EU tax law developments are reported on the daily IBFD [Tax News Service](#).
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- > K. Broström & F.M. van der Zeijden, [Tax and Corporate Social Responsibility: Theoretical Perspectives and Evidence from Sweden's Largest Companies](#), 65 Eur. Taxn. 12 (2025), Journal Articles & Opinion Pieces IBFD.
- > F. De Lillo, [Corporate Sustainability Reporting Directive: What's in it for Tax?](#), EU Tax Focus (20 Dec. 2024), IBFD.
- > K. Csikós, [Energy Taxation – An Analysis of the EU Energy Taxation Directive with Special Reference to Hungary and the Benelux Member States](#), 46 Eur. Taxn. 5 (2006), Journal Articles & Opinion Pieces IBFD.
- > For an overview of the developments around plastic, carbon and energy tax developments globally, see the [Environmental and Green Taxes Dossier](#).