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Energy and carbon tax

EP votes for perverse incentives for dirty fuels, as MEPs succumb to misleading lobby

The European Parliament today voted on proposed EU legislation on energy taxation, which sets out minimum European rates, notably with a view to introducing EU-level carbon taxation (1). The Greens criticised the outcome of the vote, which calls for the prolonging of some of the key loopholes in the current legislation, notably the favourable treatment of diesel under the current rules. After the vote Green economic affairs spokesperson **Philippe Lamberts** said:

"A majority of MEPs has today voted to include perverse incentives for dirty fuels under the EU's energy taxation system.

"Bowling to a misleading lobby from those who want to promote dirty fuels and petrol pump tourism, the EP voted to reject principle of neutral taxation of fuel types. Neutral taxation would help ensure energy taxation does not give perverse incentives to more-polluting fuels. By rejecting neutral taxation, MEPs have voted for preserving these perverse incentives.

"Neutral taxation would not lead to a spike in diesel prices as claimed by the dirty fuel lobby. For starters, the proposals will not be fully in place until 2023, giving ample time for adjustment. Furthermore, the proposals provide for neutral taxation - governments can achieve this by reducing the rates applicable to petrol, rather than by increasing the rates on diesel, if they so choose. EU governments must now stand firm and support neutral taxation of fuel types.

"The EP also voted to strengthen proposals on carbon taxation however, calling for the rates to be adapted every three years. The lesson from the EU emissions trading scheme (ETS), where the current low carbon permit price is completely undermining the effectiveness of the scheme, is that carbon pricing needs to be set at the right level to be effective in stimulating emissions reductions and investment in greener technologies. More regular updating of the rates would help ensure the carbon tax does not lag too far behind.

"However, the Greens regret that the proposals will exempt sectors covered by the ETS from any carbon tax. With the ETS currently failing to deliver a proper price signal, a carbon tax could be a complementary tool to stimulate green innovation in these sectors.

"It is also regrettable that a majority of MEPs did not want to highlight the wrongheaded exclusion of certain transport fuels, for example aviation fuel, which is at odds with the purpose of the legislation. It gives air

transport a distorted competitive advantage over sustainable transport modes like rail and costs up to €30 billion a year in terms of lost revenue.

"Exempting various sectors from the directive will undermine the purpose of promoting less environmentally-damaging energy consumption. There is clearly a need to ensure the most vulnerable sectors of society are not hit by higher prices but compensation schemes are both more appropriate and consistent with the goals of the legislation for tackling potential negative social impacts. Instead of exempting all households, tax revenues could be used to improve the energy efficiency of housing through renovation schemes and boosting social allowances.

"The Council and Commission need to speed up their efforts with a view to ensuring the legislative review can be concluded as quickly as possible. However, they must also ensure the final legislation is consistent with the EU's energy and environment priorities. This means endorsing tax neutrality."

(1) The European Parliament has a consultative role on EU legislation on taxation.

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Philippe Lamberts

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