A Balanced Energy Taxation Directive: Ensuring Flexibility, Fairness, and Coherence

Liquid Gas Europe's Position Paper

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Introduction

Revising the Energy Taxation Directive (ETD) is a crucial opportunity for Member States to align taxation with the Union's climate goals while safeguarding affordability, competitiveness, and fiscal flexibility. To be successful, the ETD must combine environmental ambition with economic realism and political feasibility at the national level.

Given the diversity of energy systems and transition pathways across Europe, taxation must remain flexible enough to reflect national, sectoral, and regional realities while supporting shared climate objectives.

The liquid gas sector is a clear case in point. LPG and its renewable forms — bioLPG and rDME — supply energy to over 40 million Europeans and thousands of SMEs, especially in rural and off-grid areas where electrification is not feasible. These fuels deliver immediate emission cuts, use existing infrastructure, and are scalable through renewable production pathways.

How the ETD treats such fuels will shape the sector's future and Member States' ability to manage affordable, secure, and inclusive energy transitions. A balanced approach is essential — one that supports climate ambition while keeping taxation flexible, coherent, and socially fair.

The Danish Presidency compromise text marks progress, but several provisions risk creating unnecessary complexity, administrative burdens, and social impacts. The following adjustments would improve the Directive's coherence and feasibility from a Member State perspective, ensuring it remains a credible and socially balanced instrument.

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1. *Ensuring National Flexibility and Fair Treatment for Gaseous Fuels*

Article 5 introduces a ranking obligation to apply higher tax rates to Category 1 fuels than to Category 2, and so forth. The obligation will apply from 2030, and electricity shall be taxed independently, without any reference to other fuels. While the objective of rewarding cleaner fuels is understood, the mechanism restricts national discretion. It could compel governments to increase taxes on alternative fuels such as LPG or natural gas, even where no affordable alternative exists.

This could create significant political and social challenges for Member States, particularly in rural areas and among low-income households. If tax increases precede the availability of renewable substitutes, they may also undermine the credibility of national energy transitions.

Flexibility to design socially balanced fiscal pathways is essential to maintaining public acceptance.

Ask: Advance a climate-smart taxation approach that reflects fuels' environmental impact – for example, assigning preferential tax treatment to renewable LPG and other low-carbon gases – but, as well as provided for electricity (article 5 point 4), refrains from subjecting gaseous fuels to a rigid ranking order of fuels across all Member States. The focus is on incentivizing cleaner fuels – as gaseous ones are – through tax advantages, paired with flexibility for national governments to fine-tune rates in line with domestic realities.

LPG remains an essential energy source for off-grid households and small businesses across many Member States. It offers lower emissions and air pollutants compared with coal or heating oil. Phasing out its reduced rates prematurely could push consumers towards higher-emission fuels, undermine progress towards 2030 climate targets, and increase energy poverty.

Maintaining transitional reduced rates provides governments with the flexibility to accompany price adjustments with the gradual deployment of renewable alternatives such as bioLPG and rDME.

It should be then clarified that what defined in article 6 point 1 regarding the implementation of transitional reduced rates for gaseous fuels at local level, that mandates Member States to define minimum rates no lower than the one applied to category 2 products, subordinates LPG and natural gas only to their renewable streams falling into category 2.

Ask: Member States should be granted the flexibility to derogate from the minimum excise duty levels in Tables E1, E2, and E3 for LPG and natural gas, recognising their designation as alternative fuels under the AFIR Regulation and their essential role in ensuring affordable energy for households and SMEs, particularly in rural and off-grid areas. The October compromise confirms that Tables E and F remain applicable during the transition and are excluded from automatic indexation, ensuring rate stability for LPG and natural gas.

Ask: The Directive should treat the reduced rates for fossil LPG in heating and transport (Tables E1, E2, and E3) as structural, with the 2030 minimum levels (E1: 5.38 EUR/GJ; E2: 0.45 EUR/GJ; E3: 0.45 EUR/GJ) as valid until 31 December 2042, without mandatory increases after 31 December 2042. Any future adjustments should be gradual and at Member States' discretion to ensure affordability and a smooth transition.

Article 6 must then be clarified so that LPG and natural gas are subordinated only to their renewable streams falling into category 2, avoiding unintended obligations and preserving affordability.

The revised Energy Taxation Directive should fully align with future State Aid rules (GBER and CEEAG). This would preserve the flexibility currently available under Article 15 of the ETD while ensuring compatibility with EU competition law.

2. Differentiation Between Business and Non-Business Use

Article 18 allows Member States to apply different tax rates for business and non-business use of heating fuels and electricity. This differentiation is essential to protect the competitiveness of energy-intensive industries that currently rely on gaseous fuels for core processes. Without it, these sectors could face disproportionate cost increases, risking job losses and investment leakage outside the Union.

Ask: Member States should actively use Article 18 to differentiate between business and non-business consumption, safeguarding industrial competitiveness while supporting the transition to cleaner energy.

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3. Automatic Indexation of Minimum Rates

The compromise text introduces automatic indexation of minimum tax levels from 2038, linked to the Harmonised Consumer Prices Index. While intended to maintain absolute tax values, automatic adjustments would remove fiscal discretion from national authorities. They could lead to steady cost increases for households and small enterprises, irrespective of economic conditions.

If energy prices rise automatically without consideration of national circumstances, such a mechanism may complicate budgetary planning and provoke social resistance. Decisions on tax adjustments should remain the responsibility of Member States, allowing them to weigh social and economic impacts.

Any indexation mechanism should remain voluntary and be preceded by a mandatory social impact assessment.

Ask: While the October compromise introduces later and more precise indexation rules, the mechanism should remain optional. If retained, any future adjustment must be preceded by a mandatory social impact assessment and safeguards for vulnerable consumers and small businesses.

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4. Coherence Between ETD and ETS II

The European Union Emissions Trading System for buildings and road transport (ETS II) exempts all renewable fuels that meet RED III sustainability criteria from carbon costs. The ETD, however, may still impose higher minimum rates on some of these same fuels. Divergent fiscal and carbon pricing signals would undermine policy coherence and increase the administrative burden for

Member States, which would have to apply two separate compliance regimes to the same product.

Aligning the ETD with ETS II would simplify administration, avoid double regulation, and provide investors with a consistent and credible framework. It would also reinforce public confidence by demonstrating that the Union's fiscal and carbon instruments are mutually supportive.

5. *Alignment of Definitions with RED III*

The Danish Presidency compromise of the Energy Taxation Directive introduces definitions for renewable and low-carbon fuels that are only partially aligned with those set out in the Renewable Energy Directive (RED III). While the ETD refers to RED III sustainability and greenhouse gas (GHG) saving criteria, it groups various renewable fuel types—such as renewable fuels of non-biological origin (RFNBOs), advanced biofuels, and other biofuels—under a single umbrella term.

For low-carbon fuels, the ETD relies on the definition introduced in Directive (EU) 2024/1788 ("Gas Markets Directive") and its associated Delegated Act, which sets a 70% GHG reduction threshold. Although RED III does not define low-carbon fuels, these are recognised in other EU instruments, including the ETS Monitoring & Reporting Regulation (2018/2066).

This patchwork of definitions across EU legislation risks inconsistent interpretation, duplicated verification, and unequal treatment across Member States. A single, harmonised set of definitions—drawing on RED III for renewable fuels and the Gas Markets Directive for low-carbon fuels—would enhance legal clarity, reduce administrative burden, and ensure coherent implementation across EU climate and energy legislation.

Aspect	Danish ETD Compromise	RED III	Implication
Renewable fuels	Includes renewable fuels defined in RED III, plus lists specific subtypes	Defines categories separately (RFNBOs, biofuels)	ETD bundles categories under one term; this may cause interpretation differences
Low-carbon fuels	Defined as ≥70% GHG reduction vs fossil comparator (Article 25(2) RED)	Not defined	Definition aligns with the Gas Markets Directive (2024/1788), but absence from RED III may still lead to cross-legislative inconsistencies.

Ask: The October compromise takes a welcome step toward alignment of definitions. The ETD should now align its definitions of renewable and low-carbon fuels with those in RED III and the Gas Markets Directive, ensuring legal coherence, administrative simplicity, and clarity for investors and authorities.

6. *Exemption for Mineralogical Processes*

Article 1(2)(c) exempts energy products used in mineralogical processes such as cement, lime, and glass production. The current wording is clear, broad, and technology neutral. It provides Member States and industry with legal certainty and avoids the need to specify individual fuels, which could unintentionally narrow the scope of the exemption or complicate implementation.

Ask: The existing wording of Article 1(2)(b) should be maintained without amendment, ensuring a neutral and comprehensive exemption that includes all relevant energy products.

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9. Conclusion

The proposed adjustments aim to make the ETD more workable and politically feasible for Member States. They preserve fiscal sovereignty, simplify implementation, and ensure coherence with existing EU legislation. By adopting these changes, governments can maintain affordability for citizens and small businesses, protect industrial competitiveness, and accelerate investment in renewable fuels.

The October 2025 compromise improves legal clarity through updated definitions, transitional flexibility until 2042, and corrected technical references, though further simplification and social safeguards remain essential.

A balanced ETD will enable Member States to deliver on climate objectives through a socially fair and economically sound transition.

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Who We Are: About Liquid Gas Europe

Liquid Gas Europe is the European association representing the entire liquid gas supply chain, from producers and distributors to equipment manufacturers and national associations. With a strong presence in urban and rural communities, the sector delivers secure, flexible, and clean energy to millions of households and businesses across Europe. Today, the industry is driving the transition towards renewable liquid gases (such as bioLPG and renewable DME), which offer immediate and scalable decarbonisation potential in heating, cooking, transport, and industry—particularly where electrification is not feasible or affordable.

2050 Renewable Liquid Gas Outlook: Read the full report.