



European Federation for Transport & Environment (T&E)
Bd. De Waterloo 34
1000 Brussels

European Environmental Bureau (EEB)
Bd. De Waterloo 34
1000 Brussels

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Response from Non Governmental Organisations on the

Commission proposal for a Council Directive amending Directive 92/81/EEC and Directive 92/82/EEC to introduce special tax arrangements for diesel fuel used for commercial purposes and align the excise duties on petrol and diesel fuel

T&E and EEB generally welcome this initiative, because there is no economical, fiscal, social or environmental justification, for the huge tax breaks diesel fuel currently enjoys. The fact that diesel vehicles are more fuel efficient than petrol ones implies that it will be cheaper to run diesel vehicles. Furthermore, diesel produces at least three times more harmful particulates and NO_x than petrol engines. Additionally, there is increasing scientific evidence that particulates from diesel actually contribute more to global warming than greenhouse gases from petrol-fuelled vehicles¹. Moreover, a recent study by Apehis² shows that even a marginal decrease in harmful particulates emitted from diesel vehicles could save thousands of lives from premature death throughout Europe.

For these reasons, petrol and diesel vehicles do not have significantly different external costs. It is therefore environmentally unsound, socially unjust and economically inefficient that the drivers of petrol vehicles, which constitute one segment of road users, should pay significantly more than the other segment, namely drivers of diesel vehicles.

Therefore, we believe that harmonisation is very much needed and should be upwards, as seems to be the case with the current proposal, particularly in the case of price indexation. A harmonised rate would make the introduction of EU energy/CO₂ taxes easier. Furthermore, a harmonised rate on professional diesel would help in avoiding environmentally harmful traffic detours, fuel tourism and market distortions. The present proposal is therefore to be welcomed.

¹ See study "Control of fossil fuel particulate black carbon and organic matter", Mark Jacobson, Stanford University (2000)

² Study co-funded by the EC, Apehis, December 2002

However, T&E and EEB also have serious reservations on some points and make the following policy recommendations:

- **The proposal should contain a link with road pricing instead of merely making recommendations to governments to have recourse to road charges in order to compensate for loss of revenue. Therefore we call on the Commission to accelerate the publication of its expected transport infrastructure charging proposal.** This is particularly needed in the case of some member states, like the UK, that have higher fuel tax rates than the new proposal and would therefore need to reduce them. If infrastructure pricing were introduced according to the user pays principle, heavy vehicles would contribute more towards road maintenance and external costs. Such a user pays system, which included environmental costs, could also help in compensating those populations of rural or peripheral areas that are more dependant on road transport than others. **For policy coherence, this diesel tax proposal may be reviewed in light of the transport infrastructure charging directive.**
- **The objective should be to have higher rates for diesel and petrol vehicles in order to better internalise environmental costs and limit the growth of road transport.** Higher rates are also essential to push for more innovation into cleaner engines and vehicles. According to the original 1997 energy taxation directive the proposal should have a rate of at least 450 euros as a target for 2010.³ Thus the central rate for professional diesel should be set at a minimum of EUR 390 per 1000 litres in 2003. The minimum rate for non-professional diesel and petrol should be set at EUR 450 per 1000 litres in 2010, and price-indexed from that year on.
- **In the short to medium term it should become mandatory for member states to align their diesel and petrol rates on the national level.** With regard to non-commercial diesel fuel, the alignment of the diesel rate to that of petrol is to be welcomed. However, the proposal would concern only the EU minimum rates, coupled with recommendations to governments to align the rates at national level too. Although aligning EU minimum rates would be a good signal, we know that most Member States in practice apply higher rates than the minimum, and differentiate between diesel and petrol.
- Diesel tax differentiation between commercial and non-commercial vehicles may be necessary in the short term in order to align tax rates of non-commercial diesel to those of petrol. **But it should be phased out in the medium term,** in line with the Commission's own stated objective⁴. According to the proposal the price of non-commercial and commercial diesel will differ, which can lead to "cheating" at the

³ The 1997 proposal proposed a rate of 393 Euros for 2002. If that rate had been adopted and price indexed, we would have a rate of about €460 in 2010 (calculations based on the objective of the European Central Bank of a maximum inflation rate of 2 %).

⁴ As is stated by the Commission's White Paper *European Transport Policy for 2010: time to decide* : "In the medium term, it would be desirable for petrol and diesel to be taxed similarly for all consumers of fuel."

pump with the result that some motorists are not paying the full excise duties. Reinstating a refund mechanisms to transport companies, as proposed, can help to avoid some of these problems. But there are serious concerns that the proposed refunding mechanisms will not be able to avoid this behaviour on a mass scale, especially in some of the new Member States after enlargement takes place.

- **If diesel tax differentiation is necessary in the short term, the harmonised rate on commercial diesel should apply to *all* commercial vehicles, not just those over 16 tonnes.** The choice of the 16 tonnes threshold seems arbitrary and may result in fleet changes (i.e. transport companies buying lorries according to the rates applicable under or above 16 tonnes).
- **The proposal should contain recommendations for the introduction of an EU-wide CO₂ tax.** Although petrol is better than diesel in terms of harmful particulates emissions, it produces more CO₂ per kilometre driven.
- **The proposal should include a recommendation for governments to implement tax increases in a revenue-neutral way,** e.g.. shifting from labour taxes to taxing the use of resources. This will have the advantage of generating greater public acceptance.

For further information, please contact

Markus Liechti, T&E, markus.liechti@t-e.nu , phone +32 2 502 99 09
Sylvain Chevassus, EEB, sylvain.chevassus@eeb.org phone +32 2 289 13 02