



To: Chairs of political groups in the European Parliament plus members of The Committee on Economic and Monetary Affairs and The Committee on Industry, Research and Energy

13 April 2012

## On The Revision of the Energy Tax Directive

During its next session the European Parliament will vote on an opinion on the Commission proposal for a revision of the Energy Tax Directive (ETD).

**Our organisations urge you and your fellow MEPs to fully support the report adopted by the Committee on Economic and Monetary Affairs (ECON) on February 29th.**

The annex to this letter contains some answers to frequently asked questions on the ETD, notably on taxation of diesel fuel and household heating.

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## Annex: Frequently asked questions on the Energy Tax Directive

### Is technical neutrality/proportionality a threat to diesel technology?

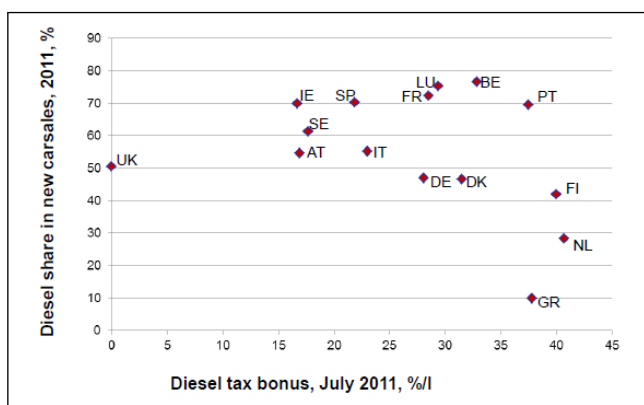
The Commission proposal requires Member States to tax energy carriers in relation to the CO<sub>2</sub> emissions and the energy content, and apply the same figure for these two factors for all fuels. For motor fuels, the Commission suggests this shall be mandatory from 2023. The opinion adopted by ECON delays the full introduction of "technical neutrality" until 2025.

Today diesel is taxed less per litre than petrol in all Member States, with the exception of the UK, which applies the same tax rate per litre for both fuels. A consequence of the technically neutral taxation suggested by the Commission is that Member States will have to tax diesel some 8-9 per cent more per litre than petrol. Critics have suggested this would be devastating for the diesel car market and indirectly threaten the efforts to promote higher fuel efficiency in the EU car fleet.

According to i.a. the German car manufacturers organisation VdA, it would cause a drastic reduction in the sales of diesel cars: *"Collapse in demand for diesel vehicles on the European market"* (VdA briefing on Energy Tax Directive, May 6<sup>th</sup>, 2011).

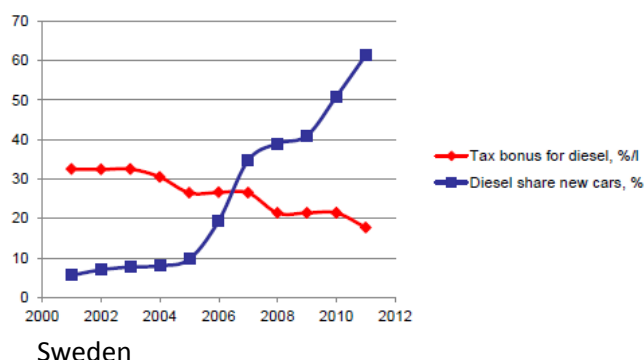
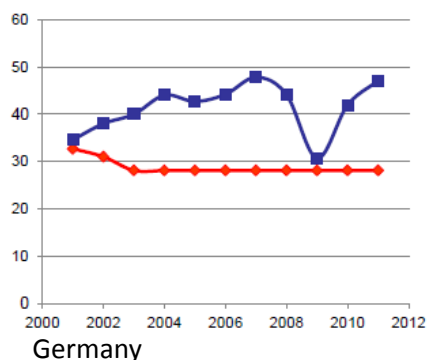
Real world figures do not support this conclusion. As the graph to the right paradoxically shows, there seems to be no link between the diesel tax bonus and the diesel share in the sales of new cars. Comparing UK with the Netherlands gives a good illustration.

- In UK the tax on diesel and petrol per litre is the same. Every second new car is a diesel car.
- In the Netherlands the tax per litre on petrol is 40 per cent higher than the diesel tax but only every fourth new car is a diesel.



Sources: ACEA, Oil Bulletin

The explanation is that the design of other taxes – sales taxes, annual vehicle taxation, company car taxation – is much more important for the petrol/diesel car split. This is further convincingly shown by the German and Swedish examples.



In Germany the diesel share of car sales in 2009 dropped from 50 to 30 per cent, in spite of no changes in the fuel taxation. Explanation: The design of the car scrappage scheme introduced by the government to keep up demand during the financial crisis.

In Sweden the design of the annual taxation was changed 2005 to promote fuel-efficiency. As a result the diesel car share has risen from 4-5 to above 60 per cent in parallel with a halving of the diesel tax bonus.

In summary: The fear that the technically neutral taxation suggested by the Commission and supported by ECON would hurt the sales of diesel cars is unjustified.

### **Is technical neutrality/proportionality limiting the fiscal sovereignty of the Member States?**

Transport fuels can be bought in one country and used in another. This permits some Member States to attract fuel tax revenues from other Member States by applying lower tax rates. The present system creates a "race to the bottom" which limits the possibilities for the majority of the Member States to utilise fuel taxes in order to reduce CO<sub>2</sub> emissions in a cost-efficient way.

The Commission proposal would only slightly increase the minimum diesel tax rate. More important for securing fiscal sovereignty, and not only for the "fuel tax havens", is the introduction of the general principle of "technically neutral energy taxation", which from 2023 would cover also transport fuels. Such restructuring and increased harmonisation increases the possibilities for most countries to raise their diesel taxes.

In its report ECON suggests a further delay of the introduction of the technical neutrality until 2025. While we would like to see the introduction of technical neutrality brought forward, to enhance the possibilities for Member States to use taxation to reduce greenhouse gas emissions as soon as possible, supporting the ECON report is still better than rejecting the idea entirely.

### **Why should household heating be covered by a CO<sub>2</sub> tax?**

The Commission suggested Member States should be permitted to exempt household heating from CO<sub>2</sub> taxation. ECON goes against that suggestion and suggests the CO<sub>2</sub> tax shall cover all use.

We support the ECON position. Exempting households from CO<sub>2</sub> tax would give incentives for heating production to avoid inclusion in the Emissions Trading Scheme, distorting it. As well, 24% of total GHG emissions in the EU are attributable to private households, and taxing household heating can help realise significant and cost-effective energy saving potentials in the sector. Exempting households from energy taxation misses an important opportunity to create incentives in favour of energy efficiency and goes against the principles of sound economics. The social impact can and should be dealt with explicitly through compensatory distributive measures such as lump sum payments, a green check, reductions in income tax, or a direct non ear-marked subsidy.

#### For further information:

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