

Measure 58: Uniform commercial road transport fuel taxation

First page:

Policy package:

1C: Road Pricing, taxation and financing

Measure 58:

Make the tax system more consistent by proposing uniform taxation for commercial road transport fuel by 2003 to round off the internal market

What is the problem being addressed ?

As it concerns fuel taxation, only the structure of excise duties is harmonised across the Community. The rates themselves still differ a great deal. For instance, those for gas oil used as a propellant (diesel fuel) range from Euro 245 to Euro 750 per 1000 litres. The fact that excise duty rates are not harmonised distorts competition in the recently liberalised road haulage sector. On average the fuel item (including taxes) represents between 15 and 20% of the running costs of a road haulage business. As excise duty represents just under 60% of the pump price for diesel fuel (excluding VAT), this duty accounts for between 10% and 12% of the running costs of a road haulage business. It is clear that in a liberalised market, where competition is stiffer, the differences in operating costs resulting from national taxes and levies have a greater impact. Big trucks have tanks of huge capacity, which allow them to cover between 1500 and 3000 Km on a single tank. That means in reality that hauliers involved in international activities take advantage of the very significant differences in national excise duties on diesel fuel by filling up in Member States with the lowest taxes. These detours have also negative effects on the environment because a longer distance is driven in comparison with what would be necessary if the different duty rates would not exist. Detours motivated by tax reasons lead also to loss in budgetary resources for some Member States. This problem is more acute nowadays, because international road haulage accounts for about one fifth of all road haulage (in tkm) and this proportion is growing. Member States account for very different shares of this international traffic, e.g. less than 10% in the case of Finland, Greece and Sweden, but over 50% in that of Belgium, Denmark, Luxembourg and the Netherlands.

Indeed, the minimum rates of excise duty had not been reviewed for a long time since the entry into force of Directive 92/82/EEC, fixing a minimum duty of Euro 245 per 1000 litres (compared to 337 Euro per 1000 litres of leaded petrol and 287 Euro per 1000 litres of unleaded petrol). Since then, all Member States except UK tax petrol more heavily than diesel fuel.

The main reason for this favourable treatment of diesel fuel was that, at the end of the '80s, commercial road haulage accounted for most of the diesel consumed, and there was a need not to jeopardise the economic and financial balance of the road haulage sector or the industries and services making intensive use of road haulage on own account. At that time a very small proportion of private cars (15%) used diesel fuel, and the amount they consumed was therefore marginal (about 10% of total sales of diesel fuels). But the proportion of passenger vehicles in the EU using diesel fuels has been growing substantially since the early '90s. Diesel-engined passenger vehicles accounted for 16,3% of the existing fleet in 1995 and 22% in 2001. Although lower taxes on diesel fuel were the main factor in the spread of diesel-engined vehicles, these are now a relatively less important factor; others, particularly driving comfort and lower consumption, are taking over.

In this situation, there is today an increasing quest for treating diesel and petrol on the same foots, based on the principles of sustainable development which require that from now on transport users must learn to face up to real costs, i.e. costs which include the negative externalities of transport. External costs generated by 1 litre of diesel fuel are on average higher than those from 1 litre of petrol, especially because of significantly higher emissions of particulates from diesel engines which are only partially compensated by their lower fuel consumption and CO₂ emissions per kilometre. On the other hand, diesel particulate emissions are likely to decrease rapidly due to Euro III and Euro IV emission standards for road vehicles and the fuel sulphur standards. Therefore, according to criteria used to assess the impact on the environment, there would be no reason for taxing differently diesel fuel and petrol consumed by passenger vehicles. In addition, if road haulage costs were more thoroughly internalised, this might encourage a shift towards the inter-modal carriage of freight and the link between expansion in transport and growth in GDP might actually be weakened.

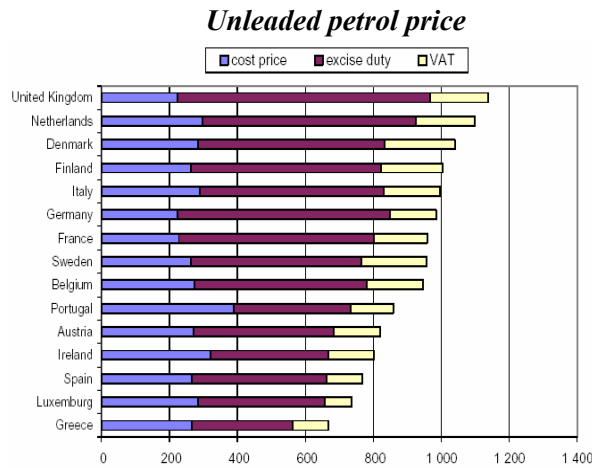
<p><i>Measure's costs and/or benefits:</i> None direct costs, but there are indirect costs on the side of the haulers for the new vehicle fleet.</p>
<p><i>Legislative implementation at the EU level:</i> COM (2002) 410 of 24.7.2002. Proposal on special tax arrangements for diesel fuel used for commercial purposes and on the alignment of excise duties on petrol and diesel fuel. The provisions of this proposal have been implemented in the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity.</p>
<p><i>What are the objectives ?</i> Measure 58 aims to:</p> <ul style="list-style-type: none"> • uncouple the tax arrangements for fuel used for commercial purposes from those for fuels used for private purposes, which would make it easier for Member States wishing to do so to increase the excise duty on diesel fuel used for private purposes to bring it into line with the excise duty levied on petrol; • in the long term, arrive at a point where taxes on commercial diesel fuel are harmonised upwards, which would reduce distortion of competition between operators. In particular, the measure would, by 2010, raise the minimum rate of excise duty on diesel from current € 245 per 1000 litres to a harmonized common “central” rate, which has been set at € 350 in 2003 and would be adjusted for inflation on the basis of the consumer price index from 2003. Between 2003 and 2010 the rates applied by Member States would have to be within a fluctuation band of € 100 either side of central rate. This band would be narrowed every year by € 28 through the raising and the reduction of the upper limit by € 14 each. In 2009 and 2010 the fluctuation band would be narrowed by € 30 by raising the lower limit and lowering the upper limit by € 15 each. This would create a harmonised rate with no fluctuation band by 2010. By that stage the central rate, adjusted for inflation, should have reached – or even exceeded - € 410. <p>Commercial diesel fuel shall mean gas oil used as propellant for the following purposes: i) the carriage of goods for hire or reward, or on own account, by goods vehicles with a maximum permissible gross laden weight of not less than 7,5 tonnes; ii) the carriage of passengers by a vehicle of category M2 or M3 (i.e. vehicles with no less than 9 seats). Harmonising taxation of commercial diesel fuel aims to achieve the better internalization of external costs (as from the internalization point of view there is no reason to tax diesel at lower rate than petrol), to improve the functioning of the internal market, and to establish more stable prices in road transport. Concerning the stability of prices in road transport across European countries, it must be seen if the measure, while making more uniform the tax rates, will also have the effect of raising the average tax rate in the EU for both fuels. The measure should not have an inflationary impact in the medium term except in Member States whose rate of excise duty for diesel fuel is lower than the new Community minimum rate. Where inflation occurs, the Commission considers that it will be marginal and that it will be compensated at Community level by the downward convergence of the rates, which are above the new Community rate. Furthermore, the inflationary impact could in most cases be compensated at Member State level by a reduction in other transport taxes.</p> <p>With respect to non-commercial diesel fuel used in private road transport, the measure aims to encourage the convergence between the rates of duty for non-commercial diesel fuel and for unleaded petrol (the latter has almost completely substituted leaded petrol). The new minimum rates of excise duty for non-commercial diesel fuel and unleaded petrol have been set in the Council Directive 2003/96/EC, respectively at € 330 and € 359 by 1 January 2010.</p>
<p><i>Interactions with other WP measures:</i> The provisions on the taxation of commercial diesel fuel proposed by this measure have been realized in the context of the whole new Community framework for taxation of energy products (Measure 62). There is also an important link with the measure on infrastructure charging.</p>

Second page:

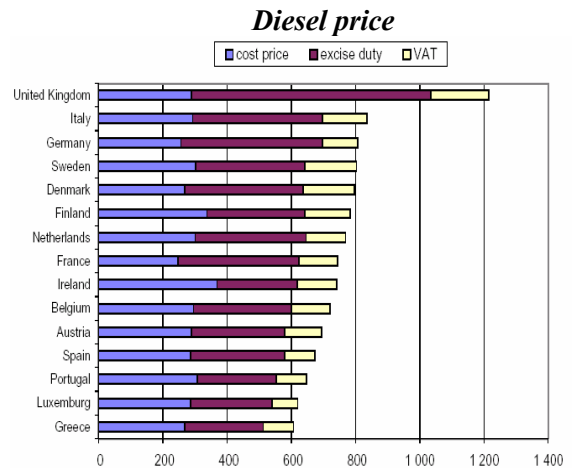
Output indicators:

The output of this measure can be documented through the analysis of the fuel prices in all Member States, and the breakdown of sales prices into pre-tax price and excise duty. Differences in diesel and petrol prices and taxes are substantial, as the graphs below show:

Prices per EU Member State, January 2002 (EUR per 1000 litres)



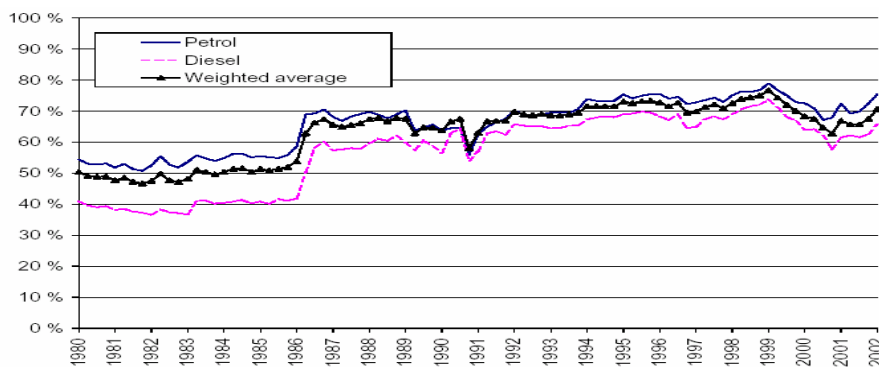
Source: Eurostat, different volumes.



Source: Eurostat, different volumes.

The share of taxes in the price of fuels has risen in the last two decades. The share of taxes in diesel has risen more rapidly than the share of taxes in petrol, but the absolute level of taxes is still lower for diesel than petrol (source EEA-TERM 2002 21 EU – Fuel prices and taxes facts sheet):

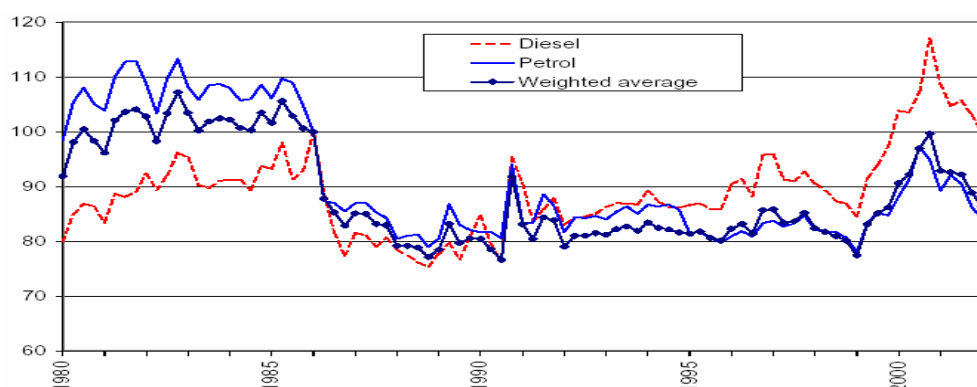
Average EU15 share of VAT and excise duty, 1980-2002



Source: Eurostat, different volumes.

Despite the fact that nominal fuel prices, and certainly nominal fuel taxes, have risen in the past two decades, and despite a rise in the price of diesel fuel over this period, the inflation-corrected EU average price of road fuel in January 2002 was lower than in the first half of the 1980s:

Index of real average EU15 prices including excise taxes and VAT of (a) diesel (b) petrol and (c) weighted average of petrol and diesel, over the period 1980-2002 (January 1986 = 100)



NE: Prices are those applicable in the middle of January, April, July and October each year.

Source: Eurostat, different volumes.

The above trend is due to the fact that pre-tax fuel prices, in real terms, are substantially lower than 20 years ago (although higher than 15 years ago), and that there has been a shift to cheaper fuels: unleaded petrol and diesel fuel. In 1980, leaded fuel accounted for about 70% and diesel for 30% of fuel sales. In 2000, the share of the cheapest fuel, diesel, was 58%, unleaded petrol about 37% and leaded petrol about 5%.

Outcome indicators: intermediate impacts on transport markets

The key impacts on transport market variables include:

- Reduction of average driving distance per heavy good vehicle (especially over 16 tonnes): the measure will eliminate the incentive to take advantage of significant differences in national excise duties on diesel fuel driving longer distances in comparison with what would be necessary if the different duty rates would not exist.
- Operating costs of road hauliers: during the convergence period, the mechanism for the reduction in the fluctuation band will allow for a progressive increase, if any, in fuel cost in the profit and loss account of haulage companies. The maximum value of the possible increase is around EUR 20 per 1000 litres of motor fuel. In comparison with the average consumption of a 40 t lorry, this represents a running cost of about EUR 1000 or 1% of the cost for operating a truck. For small lorries, fuel represent a much smaller share of the running costs, in particular because the average driving distance and the fuel consumption are significantly lower than for a heavier truck. It must be added that the progression of the increases will favour the adaptation of the operators, by easing the transfer of the burden to the clients of the haulage firms. Moreover, any increase in excise duties on commercial diesel fuel could be counterbalanced by a reduction in other fixed costs such as annual road or insurance tax. As a consequence, profit and loss accounts of haulage companies, particularly the small ones, should not be affected to an extent that they would not be able to bear.
- Impact of fuel prices on fuel consumption and travel demand: the indexation of duty rates according to inflation will maintain the value of excise duty on diesel fuel and petrol in real terms. However, the measure will increase the nominal prices of fuels. For Member States that have to raise their duty raise to comply with minimum Community rates, it has been estimated an increase in the annual motor fuel budget of a maximum of 60 to 70 Euros per non-commercial car with an average of 15000 km driven/year and fuel consumption of 7 litres/100 km. Although slight, this increase can have some impact on total fuel consumption and road travel demand. In order to ascertain the impact on the market of an increase of fuel prices, it is important to note that a 10% increase in fuel prices leads, in the long run, to a fall in fuel demand of 4%-10%, according to the international literature. This reduction is due mainly to the increased attractiveness of fuel-efficient vehicles. However, the effect of a 10% increase in fuel price on transport demand is lower than the effect on fuel demand. This is because fuel costs are only one amongst many transport cost factors. Moreover, the attractiveness of fuel-efficient vehicles increases, which reduces fuel demand, but not transport demand. An internal study from Economic and Financial Affairs DG (Delsalle, 2001) has suggested, on the base of simulations with the Tremove model, that an increase of 10% in the price at the pump would induce a

drop of road transport demand of only 0,6%. The possible shift of demand from road to rail will be therefore limited. (EEA TERM).

Outcome indicators: final impacts on transport users and non users

The implementation of the measure will lead to a general reduction in emissions of pollutants such as NO_x, volatile organic compounds, sulphur dioxide and particulates. Indeed, transport emissions of particulates, acidifying substances and ozone precursors decreased by 24%, 25% and 33%, respectively, between 1990 and 2000 in the EU (TERM 2002 – Transport emission of air pollutants by mode). This was mostly a result of NO_x emission reductions realised in road transport, which in turn was due to the increased use of catalytic converters, reduced sulphur concentrations in fuels and fleet renewal. However, further reductions for all substances will be required from all sectors in order to achieve the various targets set for 2010.

The graph and tables shown on the following page show, respectively, the overall trend of transport emissions of air pollutants, EU road transport emissions in the year 1990, 1998 and projected to 2010, with the breakdown by passenger cars, buses, trucks, and finally the variation of transport emissions expected from the implementation of measure 58 (TREMOVE simulation):

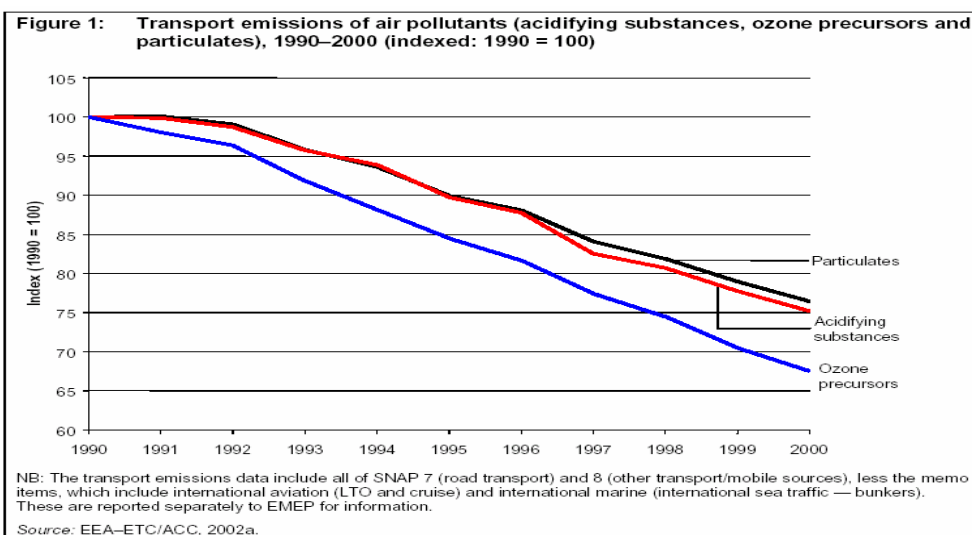


Table 5: EU road transport emissions of NO_x, NMVOC, CO and PM, 1990, 1998 and 2010

Unit: ktonnes

Pollutant	Mode	1990	1998	2010
NO_x	Passenger cars	3 222 620	1 997 144	679 084
	Buses	326 049	309 874	156 373
	Trucks	1 902 389	2 056 190	996 191
	Total	5 451 058	4 363 208	1 831 648
NMVOC	Passenger cars	2 795 116	1 603 761	432 262
	Buses	35 164	34 786	22 509
	Trucks	610 048	659 212	348 596
	Total	3 440 328	2 297 758	803 367
PM	Passenger cars	49 982	41 362	23 332
	Buses	15 097	13 836	5 390
	Trucks	190 745	205 129	73 870
	Total	255 824	260 327	102 592
CO	Passenger cars	25 524 705	16 188 061	7 182 599
	Buses	105 134	92 166	43 437
	Trucks	3 168 304	3 116 540	1 208 873
	Total	28 798 142	19 396 767	8 434 909

Source: LAT/TÜV/KTI, 1999.

The measure will cause also a general reduction in CO₂ emissions, mainly as a repercussion of the

reduction of road transport and fuel consumption. The impacts of the measure both on air pollutants and CO₂ emissions have been estimated with help of the TREMOVE model, and they are shown in the table below:

Variation in pollutant emissions (% trend, 2010)

	EL	UK	E	I	NL	IRL	F	SF	D	EU-9
NOx	-1.27%	0.44%	-0.86%	-0.15%	-0.39%	-0.92%	-0.27%	-0.34%	-0.03%	-0.22%
PM	-1.34%	0.70%	-0.92%	-0.24%	-0.54%	-1.34%	-0.28%	-0.32%	0.00%	-0.17%
VOC	-0.99%	0.25%	-0.54%	-0.02%	-0.17%	-0.85%	-0.07%	-0.24%	-0.01%	-0.13%
SO ₂	-2.02%	0.21%	-0.62%	-0.10%	-0.22%	-1.28%	-0.16%	-0.24%	-0.02%	-0.17%
CO ₂	-1.76%	0.19%	-0.47%	-0.08%	-0.16%	-1.14%	-0.15%	-0.22%	-0.02%	-0.14%

Source: TREMOVE simulation