



European Economic and Social Committee

ECO/097

**Tax arrangements for diesel
fuel**

Brussels, 23 January 2003

OPINION

of the European Economic and Social Committee

on the

**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 to align
the excise duties on petrol and diesel fuel**

COM(2002) 410 final - 2002/0191 (CNS)

On 4 September 2002 the Council, decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

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 to align the excise duties on petrol and diesel fuel
(COM(2002) 410 final - 2002/0191 (CNS)).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 November 2002. The rapporteur was **Mr Levaux**.

At its 396th plenary session, held on 22 and 23 January 2003, (meeting of 23 January), the European Economic and Social Committee adopted the following opinion by 67 votes to 29, with six abstentions.

1. Introduction

1.1 The aims of the proposal for a Directive are to "*uncouple the tax arrangements for fuel used for commercial purposes from those for fuels used for private purposes*" and "*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*".

1.2 With a view to achieving these aims, the Commission proposes to amend the two Directives on which the Community system for taxing mineral oils has been based since 1992, namely:

- Directive 92/81/EEC on the harmonisation of the structures of excise duties on mineral oils, and
- Directive 92/82/EEC on the approximation of the rates of excise duties on mineral oils.

These two directives, which have already been amended by Directive 94/74/EEC, lay down a minimum tax rate for each type of mineral oil, depending on whether it is used as a fuel for industrial or commercial purposes or for heating.

1.3 The Commission notes that the minimum rates of the excise duty have not been reassessed since 1992 and that the actual rates of excise duty applied differ very considerably from one Member State to another. In the case of diesel fuel, the rates of excise duty range from €245 to €750 per 1,000 litres.

1.4 The Commission therefore proposes:

1.4.1 On the one hand, a major, progressive increase in the rate of excise duty on commercial diesel fuel by establishing a central rate of duty set at €350 per 1,000 litres, compared with the current minimum rate of excise duty of €245 per 1,000 litres.

- A fluctuation band, set at plus or minus €100, around the central rate in order to take account of current disparities between the rates set by the Member States.
- Annual indexation of the central rate on the basis of the harmonised consumer price index (for EU-15) for the previous year. The maximum correction is to be 2.5%.
- An annual progressive reduction of the fluctuation band, culminating in the establishment of a harmonised Community rate by 2010¹.

1.4.2 On the other hand, an increase in the minimum rate of excise duty applied to non-commercial fuels, with a view to bringing the rate on diesel fuel into line with the rate on petrol.

1.5 In the Explanatory Memorandum and the recitals preceding the proposal for a Directive, the Commission highlights a number of points, including:

- the need to reduce distortions of competition in the fields of road haulage and road passenger transport;
- the need to protect the environment;
- the modest cost of the proposed measures, bearing in mind their economic, budgetary and environmental impact on industry, the general public, the candidate states and legal certainty.

2. General comments

2.1 The EESC has always encouraged policies aimed at promoting the opening-up of markets and balanced free competition. It therefore encourages all measures designed to reduce or remove distortions of competition which confer unjustified advantages on some operators. This is the aim of the proposal, and the EESC therefore supports the Commission's objectives, subject to the comments set out below.

2.2 The EESC notes that, although the proposal takes account of the situation in the candidate states, it makes no mention of the competition from non-EU states, such as Russia, Ukraine and Turkey.

¹

See the graph showing the proposed convergence of excise duties on commercial diesel fuel, which is appended to this document.

2.2.1 The EESC proposes that the Commission introduce arrangements similar to those adopted by Switzerland² by bringing in a levy, payable at the frontiers of the enlarged EU, on heavy goods vehicles (HGVs) from non-EU states wishing to use the road networks of the EU.

2.3 The EESC would however point out that disparities in rates of excise duty are not the only source of distortion of competition in the context of road transport. Differences between Member States continue to exist as regards wage levels and sometimes as regards effective working hours and driving hours, as the checks continue to be inadequate.

2.3.1 As the Commission points out, excise duties represent only part of the taxes levied on fuels. With a view to eradicating the effects of a multifarious taxation system, the Commission points out that *"the White Paper on European transport policy for 2010: proposes introducing a graduated tax on transport infrastructure use and making the tax system more consistent by bringing in a single tax on commercial road transport fuel by 2003"*.

2.3.2 In the EESC's view there is an urgent need to introduce a coherent taxation system covering all taxes and excise duties levied on commercial fuel. The present proposal for harmonising excise duties should form part of the above-mentioned plan for a single system of taxation.

2.4 As the income from these excise duties is allocated to both states and regions, harmonisation can only be in an upward direction. The EESC does, however, deplore the fact that the failure to increase the Community minimum rate since 1992 has exacerbated the divergencies between states, as is now evident. This has led the Commission to propose a central rate for diesel fuel of €350 (which represents a 42% increase over the current minimum Community rate of €245). The EESC understands the need for this increase. It will provide most states and regions with additional tax income which should be earmarked for funding work on transferring traffic from the roads to other greener modes, as pinpointed in the White Paper.

2.5 The Commission suggests that, by raising the cost of transport, the proposed increase in excise duties should help to reduce traffic. In this context, the EESC wishes to point out that goods and passenger transport responds to needs which are reflected in the growing demand for transport generated by trade (see the White Paper on European transport policy for 2010). This trade is, moreover, seen as a sign of a healthy economy, and it is bound to increase as EU enlargement grows nearer. Against this background, the increase in excise duties is not likely to reduce the demand for transport but rather to generate additional resources which will enable transport's negative impact on the environment to be reduced, provided that the funding is earmarked for this purpose.

2.6 As it has long made clear on many occasions in its opinions, the EESC is in favour of transferring long-distance road freight to other modes of transport which are more economical in their

² See the White Paper on European transport policy for 2010: time to decide (COM(2001) 370 final, Chapter II on the headache of funding (section C)).

consumption of polluting fuels, such as rail transport, inland waterway transport and the "motorways of the sea".

2.6.1 The EESC wishes to take advantage of this opportunity to point out that implementation of the White Paper on European transport policy for 2010 should be speeded up.

2.7 The EESC, drawing on the Commission's desire to apply the "polluter pays" principle, proposes that, if this principle is to be effective, the additional funding generated by the charges levied on "polluters" be used to "pay" for new infrastructure which would make it possible, in the medium term, to eliminate the bottlenecks that generate pollution.

2.8 The EESC therefore asks the Commission to take advantage of the proposed upward harmonisation of taxes and excise duties to adopt an innovatory approach to solving the infrastructure funding headache (see the White Paper on European transport policy for 2010 - Part Two, chapter II) by setting up a "**European infrastructure fund**" into which income would be paid continually (e.g. one cent per litre of fuel or €10 per tonne of fuel). Irrespective of the income from the per-kilometre charges for using transport infrastructure, to be provided under a forthcoming framework directive, the above-mentioned income would be used to provide the proposed **European infrastructure fund** with an annual allocation. The income would be collected by the Member States and paid annually into the EU budget. The fund would provide aid in the form of either grants or interest-rate subsidies, to the priority projects identified by the White Paper on transport, due to be updated in 2004.

2.9 All the income from charges on commercial diesel, including the income earmarked for the proposed fund, would come from the Member States which would transfer surplus revenue accruing in the future from taxes and excise duties. The surplus would comprise the annual difference between the rates of taxes and excise duties actually charged in the various Member States and the rates set out in the table in point 3.2 of the proposal's explanatory memorandum.

(in €/1,000 litres, as at February 2002):

	B	DK	D	EL	E	F	IE	I	L	NL	A	P	SF	S	UK
Eurosuper	507	548	624	296	396	574	401	542	372	627	414	479	560	510	742
Diesel fuel	290	370	440	245	294	376	302	403	253	345	282	272	305	337	742
	*	*	*				*		*	*			*	*	*

* diesel fuel with a sulphur content of less than 50 ppm

2.9.1 By way of an example, using as a basis of assessment an overall consumption figure of approximately 300 million tonnes of diesel fuel and petrol per year for passenger and goods transport (Source: Eurostat), a levy of €10 per tonne for the proposed European infrastructure fund would generate an annual income of €3 billion or €90 billion over a period of 30 years.

2.10 The management of the European infrastructure fund could be entrusted to the European Investment Bank, which would subsidise with the aid of this fund the priority projects

designated by the Commission and approved by the European Parliament and the Council; the aid would take the form of either interest rate subsidies in respect of loans or financial guarantees to project developers.

3. Specific comments

3.1 The EESC endorses all of the proposal's recitals, which make out a detailed case in favour of the proposed measure; it does, however, suggest that the proposed transitional period, due to expire in 2010, in respect of the central rate of excise duty be reduced by one or two years.

3.2 In the light of its proposal to follow the example of Switzerland by adopting a new approach to solving the intractable problem of funding transport infrastructure, the EESC suggests that a further paragraph be added to the recitals, worded as follows:

"If the priority projects provided for in the White Paper on European transport policy for 2010 are to be implemented, major sources of funding must be available to draw upon. With this aim in view and taking advantage of the increase in the rates of taxes and excise duties up to 2010, each Member State shall set aside €10 per tonne of fuel from these charges, i.e. one cent per litre on all fuel consumed by goods and passenger transport.

This permanent income shall be paid into a special infrastructure fund created within the budget of the European Union.

The sums collected each year shall be used solely to fund the priority projects proposed by the European Commission in its revision of the White Paper, scheduled for 2004. Depending on the nature of the project and subject to certain criteria (relating to sustainable development, economic viability, the provision of funding by the Member States concerned, etc.), the fund shall provide an additional subsidy and, if necessary, an interest rebate in respect of loans, which should then be taken out with the European Investment Bank, responsible for the fund management."

3.3 Article 1 of the proposed Directive: the EESC approves this article.

3.4 Article 2 of the proposed Directive: the EESC approves this article, subject to the introduction of a proposed new Article 5, as requested below.

3.5 The EESC asks the Commission to introduce a new Article 3 defining the "European infrastructure fund" and how it is to operate and be implemented, in line with the remarks made above.

3.6 The present Article 3, which would then become Article 4, is also approved.

3.7 The EESC calls for the introduction of the new Article 5, setting out measures for monitoring implementation of the proposal for a Directive, covering, *inter alia*:

- implementation of the arrangements for harmonising rates of excise duty over a ten-year period, with a mid-term review after five years, which would include a special examination of the situation in the new Member States, following enlargement of the EU on 1 January 2004, and the application of the principle of indexing the central Community rate, as provided for in Article 2 of the proposal for a Directive;
- monitoring of the establishment of the European infrastructure fund and the use of receipts from taxes and excise duties for implementing the priority projects.

The EESC asks to be involved in these two monitoring provisions.

3.8 The present Article 4, which would then become Article 6, is approved.

3.9 The present Article 5 which would then become Article 7, is also approved.

4. **Conclusions**

4.1 The EESC approves all the provisions of the proposal for a Directive but calls for the addition of its own proposals, as detailed above; these take the form of four measures:

- a reduction of one or two years in the transitional period, with the aim of achieving a central Community rate of excise duty by 2008 or 2009;
- the introduction, for the benefit of the EU budget, of a system of charges - similar to the system applied in Switzerland - which would be levied on non-EU HGVs entering the EU;
- the establishment of the European infrastructure fund financed by (a) a European tax of one cent per litre on fuel (generating approximately €10 per tonne of fuel or €3 billion per year) and (b) the charges levied on non-EU HGVs entering the EU;

- entrusting the management of the €3 billion per year and the income from charges levied on non-EU HGVs to the European Investment Bank in order to enable it to subsidise and grant interest rebates on loans for the priority transport infrastructure projects agreed on by the European Parliament and the Council in 2004.

Brussels, 23 January 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

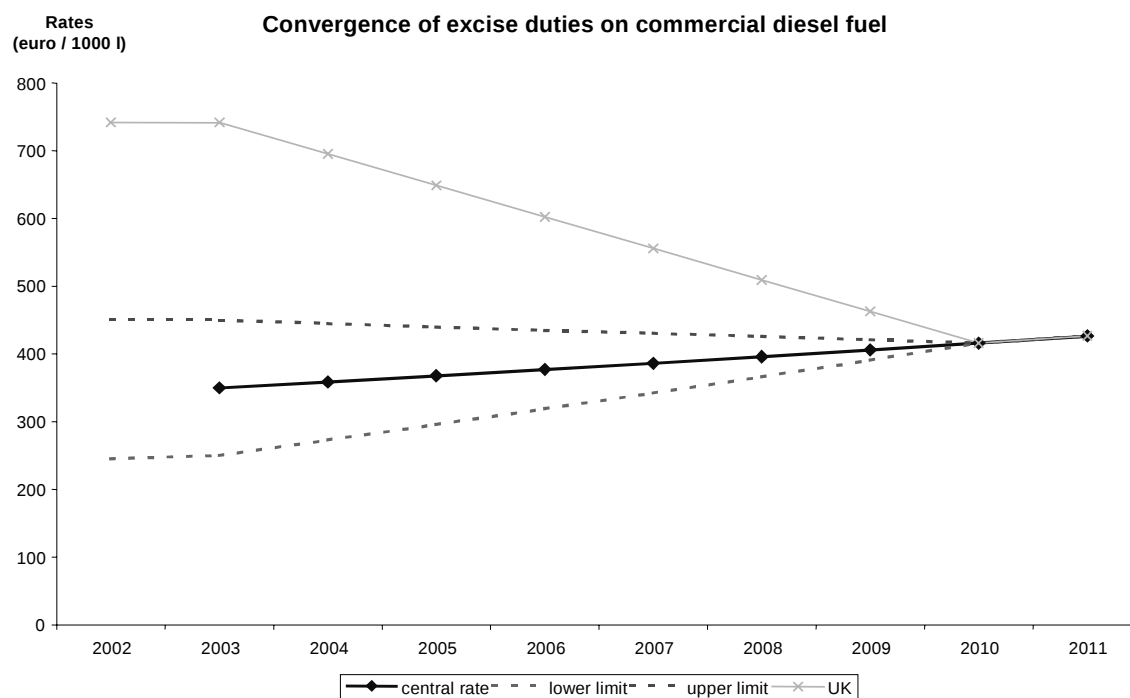
Patrick Venturini

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N.B.: Appendices overleaf.

APPENDIX I



(Source: COM(2002) 410 final, p. 15)

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APPENDIX II

The following amendments were put jointly to the vote and rejected in the course of the discussions (Rule 54(3) of the Rules of Procedure):

Point 2.1

Replace last phrase of last sentence (from "objectives" onwards) as follows:

"... but does not consider that the time has yet come to take a stand on the Commission's concrete proposals for harmonisation of taxes on diesel fuel. There are also several major practical matters and issues of principle which are not dealt with in sufficient detail in the Commission's proposal."

Reason

To be given orally.

Point 2.1.1

Add the following new paragraph:

"The Committee considers that it is not possible at this juncture to take a stand on the Commission's proposals, for the following reasons:

- a decision on the proposal for a directive on tax arrangements for diesel fuel cannot be taken until the Commission's forthcoming framework directive on infrastructure charging is known and has been analysed;*
- the Commission has not shown how the proposed system of uncoupling the taxes for diesel fuel used for commercial purposes from those on non-commercial purposes could work in practice;*
- the Commission has underestimated the important matters of principle which are raised in the proposal to change from a minimum rate to a central/harmonised rate."*

Reason

To be given orally.

Voting

For:	40
Against:	58
Abstentions:	5
