

# €27bn indirect subsidy to diesel cars in fuel taxation in 2014

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## Summary

Diesel is taxed less than petrol in the European Union. From an energy content perspective, the taxation level is even lower. This short paper quantifies the amount by which diesel cars were indirectly subsidised through lower taxation levels in all EU member states. The result of this analysis is that cars were indirectly subsidised in the EU by almost €27 billion in 2014 alone. T&E recommends that in the short term Europe revisits the 2007 Energy Tax Directive proposal, raises the general minimum level for diesel significantly, and correct it for future inflation. In the long term a system similar to the International Fuel Tax Agreement (IFTA) between Canada and the US, which enables states and provinces to tax truck diesel on the basis of where the trucks drive not where they fill up, should be implemented.

## What would have happened if diesel had been taxed at the same level as petrol?

In October 2015 T&E published a new report<sup>i</sup> looking at fuel tax differences across the European Union. This short paper provides some additional information on indirect subsidies to diesel cars through lower diesel fuel taxes. This short paper tries to answer a simple question:

*What would have been the additional revenues for member states if diesel consumed by cars had been taxed at the same level as petrol?*

The numbers presented below do not take into account second-order effects. For instance, if diesel had been taxed at the same level as petrol, less diesel would have been consumed as a consequence. This analysis just looks at first-order effects.

The original paper differentiated between the diesel consumed by trucks and other vehicle types. For this report, we look at diesel consumed by cars. All tax-related info has been extracted from the same sources cited in the recently published report. For methodological details, please check the full report<sup>ii</sup>.

One litre of diesel and one litre of petrol do not have the same amount of energy. Therefore, when comparing the two it needs to be considered. For this analysis the amount of diesel used has been converted to energy units<sup>iii</sup>. The potential revenues were calculated by multiplying the total amount of energy in diesel consumed by cars in each member state by the taxation per energy unit, both for petrol and diesel. (In this analysis, Value Added Tax, VAT, has been included in the calculation, because almost all cars pay VAT.) The difference between the two is the indirect subsidy that diesel cars receive from having a different level of taxation than petrol. Even countries like the UK, which has the same taxation level per litre for both petrol and diesel, indirectly subsidises diesel cars because one litre of diesel has more energy than one litre of petrol.

The results of this analysis can be found on the next page.

<b>Member State</b>	<b>Total indirect subsidy in 2014 to diesel cars due to lower taxation (million €)</b>
Austria	484
Belgium	1,452
Bulgaria	44
Croatia	148
Cyprus	13
Czech Republic	157
Denmark	419
Estonia	21
Finland	398
France	7,974
Germany	6,293
Greece	414
Hungary	73
Ireland	221
Italy	2,778
Latvia	38
Lithuania	72
Luxembourg	110
Malta	7
Netherlands	786
Poland	189
Portugal	681
Romania	110
Slovakia	105
Slovenia	114
Spain	1,751
Sweden	369
United Kingdom	1,451
<b>Total EU-28</b>	<b>26,674</b>

## Further information

Carlos Calvo Ambel  
Policy Analyst  
Transport & Environment  
Carlos.calvoambel@transportenvironment.org  
Tel: +32(0)2 851 0213

## Endnotes

<sup>i</sup> <http://www.transportenvironment.org/publications/europes-tax-deals-diesel>

<sup>ii</sup> Transport & Environment, 2015. Europe's tax deals for diesel.

<sup>iii</sup> The values presented in Annex III of Directive 2009/28 has been used.