

To: Ministers of Finance of EU Member States

13 December 2012

## **On the revision of the Energy Tax Directive**

Dear Minister,

**We write you to highlight the importance of the on-going negotiations on the EU's Energy Tax Directive, and more specifically to urge you to support a significant increase in the minimum levels of taxation of diesel fuel for transport purposes.**

The Energy Tax Directive is of decisive importance in many respects. It puts an EU-wide floor in tax levels on energy products, enabling Member States to raise revenue in a way that is low cost and facilitates economic recovery, helps improve the trade balance and energy efficiency, reduces greenhouse gas emissions and promotes renewable energy in a cost effective way. The Europe 2020 strategy rightly emphasises the importance of smart taxation, and energy taxation is a vital element of it.

We are however deeply concerned that the proposal tabled by the Cypriot presidency in the Council Working Group on Indirect Taxes will do very little to achieve this.

The single most important revision in the Directive is to raise minimum tax rates on diesel. This is because diesel to a large extent is used by heavy goods vehicles in international circulation. To lower fuel costs, hauliers plan their routes so that they fill their tanks in countries with the lowest diesel tax rates – so-called “tank tourism”. This gives member states with favourable location and size a strong incentive to keep diesel tax rates low in order to boost their own tax revenues. This tax competition limits the freedom of surrounding countries to set their own tax rates. This is extremely worrying, as it also severely restricts the possibilities for member states and the entire union both to comply with EU and national climate targets and legislation (including the Effort-Sharing Decision) in a cost-effective way, and limits the use of transport taxation as a means of tackling public deficits. Growing share of diesel passenger cars means that this downward pressure on the diesel tax is increasingly affecting petrol taxes as well.

The Council Working Group on Indirect Taxes is currently discussing a proposal to revise the Energy Tax Directive, including the minimum diesel tax rate. In September, the Cyprus Presidency tabled the aforementioned proposal which, in two steps, would raise the minimum tax on diesel from the present €330/1000 litres to €390 €/1000 litres (€11/GJ) by 01/01/2018. This increase would unfortunately do no more than keep diesel tax rates in line with projected inflation. What is more, the minimum tax on petrol would only be marginally revised compared to the levels set as long ago as 2003.

If the Cypriot Presidency's tabled proposal is the final outcome of negotiations, then the Council would do almost nothing to facilitate either climate policy or the resolution of the budget crisis in the member states. This would, in our view, be detrimental and irresponsible.

Our organisations urge you therefore, when deciding on a revised Energy Tax Directive, to adopt considerably higher tax minima than the proposed levels, in particular for diesel. We suggest a diesel tax minimum from 01/01/2014 of €400 €/1000 l (€11,4/GJ) and from 01/01/2018 of €470/1000 l (€13,4/GJ), figures that should also guide the setting of other minima. Concerns expressed by member states about these rates should not be addressed by refraining from raising the minimum tax rate but through country-specific solutions based on strict criteria, such as delayed phase-in.

Yours faithfully,



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