

## **Report on the proposed new minimum fuel tax – 19/04/2011**

### **Introduction by Stuart Agnew**

For the last two years, I have heard the mantra "tackling climate change" repeatedly in the European Parliament's Agriculture & Rural Development Committee and from the NFU. Both institutions have assumed that if they repeat this enough the European Commission will apparently get the message that farmers are a "good thing" in this respect and will award them extra subsidies. I have been almost a lone voice in the Committee stating that the global warming science is hopelessly flawed and should form no part of agricultural policy. Unfortunately, this contrary and "unhelpful" view appears to have been vindicated as the Commission has listened all too clearly to the clarion call of "tackling climate change" by slapping a massive 26 pence per litre levy on farmers' red diesel.

### **Preamble – a précis of the new EU fuel duty proposal**

The European Commission has presented its proposal to overhaul the rules on the taxation of energy products in the European Union. The new rules aim to restructure the way energy products are taxed to remove current imbalances and take into account both their CO<sub>2</sub> emissions and energy content. Existing energy taxes would be split into two components that, taken together, would determine the overall rate at which a product is taxed.

The Energy Taxation Directive already sets forth **minimum rates** for the taxation of energy products used as motor fuels and heating fuels as well as electricity.

The Commission proposes splitting the minimum tax rate into two parts:

**One would be based on CO<sub>2</sub> emissions from the energy product and would be fixed at €20 per tonne of CO<sub>2</sub> produced.**

**The other one would be based on energy content, i.e. on the actual energy that a product generates measured in Gigajoules (GJ). The minimum tax rate would be fixed at €9.6/GJ for motor fuels, and €0.15/GJ for heating fuels. This will apply to all fuels used for transport and heating.**

Social aspects are taken into account with the option for Member States to completely exempt energy consumed by households for their heating, no matter what energy product is used.

**A transitional period will be allowed for the full alignment of taxation of the energy content, until 2023.**

The revised Directive aims to complement the existing EU Emission Trading Scheme (ETS) by applying a CO<sub>2</sub> tax to sectors that are out of its scope (transport, households, **agriculture** and small industries).

## Fuel cost impact

### Criteria:

- New energy tax - Euro 9.6/Giga Joule
  - New emission tax - Euro 20/tonne of CO<sub>2</sub>
  - Current EU minimum excise duty on Road diesel fuel – Euro 330/1000 litres
  - Current EU minimum excise duty on marked (Red) diesel fuel – Determined by UK
  - Current UK excise duty on marked diesel fuel – Euro\* 120.67/1000 litres
  - Current UK excise duty on unmarked diesel fuel – Euro 679.46/1000 litres
  - Energy of diesel fuel – 38.6 Mega Joule/litre
  - CO<sub>2</sub> produced by burning 1 litre of diesel fuel - 2.6391 Kgs
  - Exchange rate used 1 Euro = £0.8828
- \*Pre-converted to £109.9/1000 litres – see references

### Calculation 1 energy

- Convert MJ to GJ:  $38.6/1000 = 0.0386$  GJ
- Convert energy value to Euro  $9.6 \times 0.0386$  GJ = Euro 0.3706/litre
- Convert Euro to Pounds:  $0.3706 \times 0.8828 = £0.3272$ /litre

### Calculation 2 Emission

- Determine weight of CO<sub>2</sub> produced per litre:  $2.6391/1000=0.0026$ kgs
- Convert emission of CO<sub>2</sub> to Euro:  $0.0026 \times 20 =$  Euro 0.052
- Convert Euro to Pounds:  $0.052 \times 0.8828= £0.0459$ /litre

### **SO NEW MIN EU TAX = £0.0459 + £0.3272 = £0.3731 per litre**

- Determine excise duty change: Euro 330/1000 = Euro 0.330
- Convert Euro to Pounds:  $0.330 \times 0.8828 = £0.2913$ /litre
- Current minimum tax = £0.2913 per litre
- Subtract current from new excise duty:  $£0.3731 - £0.2913 = £0.0818$

**So the current minimum EU specified excise duty for “Propellant” or unmarked diesel fuel is being raised by £0.0818 per litre:** (which could be

absorbed by UK because the UK 'Gold Plates' the EU minimum by a factor of 679.46 to 330 or more than two times.)

#### **WHEREAS:**

The excise duty currently in place for agricultural diesel is £0.1099/litre and it has to rise to £0.3731/litre:

$$0.3731 - 0.1099 = 0.2632$$

**So the minimum 'tax' on Marked or red diesel fuel is being raised by £0.2632 per litre to £0.3731:** which cannot be absorbed and will incur increased VAT to the agricultural sector and ultimately higher 'down the line' costs to the consumer.

#### **References**

Excise duty tables from 1st July 2010

[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/excise\\_duties/energy\\_products/rates/excise\\_duties-part\\_ii\\_energy\\_products\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/energy_products/rates/excise_duties-part_ii_energy_products_en.pdf)

New fuel duty proposal

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/468&format=HTML&aged=0&language=EN&guiLanguage=fr>