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FICHE 11
MOTOR FUEL TAX-BASED OWN RESOURCE

1. CONTEXT[1]

Motor fuel taxation[2] is currently a significant source of national income in all EU Member States and it is the most relevant source of tax revenue in the transport sector. Taxation level is decided by national governments, within the limits (reduced rates of taxation and exemptions) established in the Energy Taxation Directive[3]. The accruing proceeds constitute national budget revenue or in some cases sub-national entities' revenue.

From the point of view of Own Resources, two scenarios could be envisaged:
- A full transfer of the revenue collected by from Member States from the motor fuel tax to the EU level;
- A partial share or percentage of the motor fuel tax collected by Member States.

The first scenario would represent a major systemic and very visible shift from the present system, both at national and EU levels. This shift would most probably encourage harmonisation and at least neutralise the tax competition effects at national level. 'Centralisation' of such tax at the European level could be justified legally within the current Treaty under Article 192 or Article 194 TFEU, which respectively provide for a legal base for fiscal measures in relation with environmental purposes and energy policy purposes. These provisions introduced with the Lisbon Treaty have not been used until now[4].
Such own resource could therefore not only finance a sizeable share of the EU budget, it would also provide for a European public good (environment protection). One of the action points of the European Energy Union initiative is to take measures towards the decarbonisation of the transport sector.[5]

Nevertheless, as existing national taxes constitute a significant share of national budgets and have different weights throughout Member States, it can be expected that finding the right and equitable balance will require some forms of compensations.

The second scenario implies that a partial share or percentage of the already existing taxes on motor fuel would be transformed in a new own resource for the EU budget. It would probably be more acceptable for Member States; however it won't serve the purposes of harmonisation, neutralisation of fiscal externalities or shifting to a common and stable EU environment-related fiscal policy.

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1 The present fiche notably relies on the paper by Michael Thöne 'Transferring taxes to the Union: the case of the European Road Transport Fuel Taxes', FiFo Institute for Public Economics at the University of Cologne, 2016.

2 This term covers fuel used in transport but also in stationary motors in manufacturing and other activities: agriculture e.g.

3 Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (OJ L 283, 31.10.2003, p.51).

4 Article 113 (harmonisation of indirect taxes for the single market) has been the traditional legal base used for taxation-related initiatives.

5 The present low oil prices on world markets is not conducive to efforts in the direction of fuel efficiency or the gradual introduction of renewable alternatives.

Nonetheless, in both cases described, this resource has strong potential for an own resource given the significant volume of taxation it represents in all Member States, and its relatively[6] harmonised base that would facilitate its implementation and the stability of its revenues.

2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

1. Equity/Fairness: A motor fuel tax would respect the principle of "user-payer" or "polluter pays", if applied as well to sectors/industries which currently benefit from significant exemptions. Regarding the hypothesis of a complete transfer of such tax to the EU, it could trigger fiscal harmonisation, address negative externalities and inequality of fiscal treatment between road transport users in Member States. It would also provide for a common fiscal position towards external competition. Depending on the variant chosen and the eventual design, Member States would lose their autonomy in modifying the tax and creating distortion within the internal market.

2. Efficiency: Economically, in as far as a certain 'market failure' would be addressed (distortions due to 'tank tourism'), a common taxation scheme would improve overall efficiency. In terms of collection, a motor fuel tax would be very efficient since it would rely on existing mechanisms. Such taxes are already collected by national authorities.

3. Sufficiency and Stability: a motor fuel tax has a very significant revenue potential and could cover all or a very large share of EU budget needs, depend on its design (full or partial transfer). In addition, the consumption levels of motor fuel seem to be rather stable. If the tax is strongly geared towards environment protection, there could be a long-term built-in decrease in revenue as consumers would change their behaviour.

4. Transparency and Simplicity: A motor fuel tax, in any of above mentioned forms, would be simple and transparent for the tax payer, in particular if the percentage/amount is shown on the receipt and if the base for this tax is fully harmonised and the collection centralised. However, this would only show the costs of the EU, while the benefits would remain hidden and more complex to apprehend.

5. Democratic accountability and budgetary discipline: In the case of a complete shift from the motor fuel tax at national level to the EU-level, the national parliaments would lose their scrutiny of a national tax and Member States in general would lose their margin of manoeuvre to adjust this tax according to the economic conditions. Democratic accountability and budgetary discipline would however be ensured at European level through an enhanced role and responsibility of the European Parliament (in particular on the taxation directives which would accompany the own resources decision).

6. Focus on European added value and constrain narrow self-interest: The EU strives to play a leading role in the international efforts to carry forward the fight against climate change. A common and harmonised motor fuel tax at EU level would have more impact than national approaches, in terms of environmental integrity, economic efficiency as well as political signal to the international community, depending on how the tax would be designed.

7. Subsidiarity principle and fiscal sovereignty of member states: As the collection of such tax already exists in Member States, this could continue to make part of the national collection similarly to the traditional own resources (custom duties and sugar levies) collection. [7]

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[6] Further harmonisation efforts would probably be necessary as only the minimum rate is harmonised at present, and there are significant differences of national tax rates among Member States. There are also numerous tax exemptions applied by the Member States where big polluters do not pay: marine transport, commercial aviation e.g. Taxing them might encounter considerable practical difficulties (international treaties or just practical problems).

[7] [if it was really an EU tax, it would no longer be a conventional 'own resource'. The relation between Art.311 and 192 as legal base would have to be examined…Maybe, conceptually, the 'full transfer of the entire tax' (under Art.192 and therefore environmental justification) would have to be distinguished from the own resources approach under Art.311 with a fiscal motivation. Under the latter, a percentage of

8. Limit political transactions costs: The introduction of an EU motor fuel tax could encounter significant opposition from Member States who use such tax as an important and flexible fiscal tool, or by regions or industries that benefit from reduced rates or even exemptions.

3. ADVANTAGES AND WEAKNESSES OF THE MOTOR FUEL TAX-BASED OWN RESOURCE

A motor fuel tax-based own resource would be transparent and simple to implement, given that it already is collected at national level. It would also be a stable and significant source of revenue for the EU budget (possibly covering all needs). A most interesting aspect of such tax would be its parallel contribution to environment protection and thus to a genuine European common good -the EU being better placed than each of the 28 Member States to address negative externalities and build a common climate policy. The link with environmental goals would be particularly strong if, similar to the earlier Commission proposal, the tax was differentiated on the basis of the CO2 content of fuels. Furthermore, such a tax would also contribute to the goal of internalising transport externalities which is inter alia set out as an EU policy objective in the White Paper on Transport of 2011 and is now also receiving increasing attention in the context of the work on the decarbonisation of the transport sector.

An even stronger argument for such tax would be the creation of a single market in motor fuels, upon further harmonisation in order to correct the existing deficiencies such as 'tank tourism' or the slow response to falling crude oil prices and the big differences in prices at the pump (without taxes).

Weaknesses are essentially identified in the difficulties to make such a proposal accepted. Opposition would probably be mutually reinforced from Member States' administrations which would be reluctant to use such a powerful fiscal tool, and from sectors of the industry, or regions, which have managed to secure a better fiscal position than competitors in this regard. The non-agreement on a new Energy Taxation Directive proposed in 2011 -finally dropped in 2015- is a reminder that these taxes are very sensitive politically.

From the point of view of own resources, the erosion of the tax base is to be expected in the long-term if consumers change their consumption significantly, and if the EU commitment to implement the decarbonisation of the transport sector is swiftly endorsed. The tax base would then shrink progressively due to the decarbonisation of transport. If desired, this type of digressive revenue evolution could be controlled for in the tax design (the tax could evolve or not only be levied on current motor fuels but also, progressively, on CNG, LNG, hydrogen and electricity).

4. OUTCOME OF THE NEGOTIATIONS/KNOWN POSITIONS OF STAKEHOLDERS (MS, INDUSTRY, OTHER)

So far, Member States have failed to agree on the deepening of the harmonisation of energy taxes. In 2011, the Commission presented a proposal to revise the Energy Tax Directive. The aim of the proposal was to modernise EU rules on energy taxation, to restructure the taxation of energy products, in order to remove current imbalances and distortions, and support the EU's wider environmental and energy goals. Following the unsuccessful negotiations between the EU Member States in the Council, the proposal was withdrawn by the Commission in 2015.

In January, German federal finance minister Schäuble publicly hinted at the possibility of introducing an EU wide surcharge on motor fuel in order to raise funding for the costs related to the management of the migration influx. While it was not explicitly intended to be an own resource for the EU budget and

fixed share or surcharge per litre could be defined as an own resource and then it would be 'revenue sharing arrangement' again. The role of received a sceptical domestic response, it serves as an example that European level needs would also justify a European approach to the financing.

5. ESTIMATE OF REVENUE FOR THE EU BUDGET

The estimated revenue would depend on the design of the own resource, but it could vary between 0,2% and 0,3% of GNI or roughly between EUR 30 to 40 billion per year.

national parliaments as 'sovereign' and 'ratifier' might be at stake.]