



Position Paper: **Restructuring European energy taxation**

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Road-rail Combined Transport¹ is the system of transport which brings the European concept of *co-modality* to success by effectively combining the flexibility of road transport in urban environments with the environmental sustainability, safety and reliability offered by railway technology over longer distances. Members of UIRR (the International Union of Road-Rail Combined Transport Companies) focus their efforts **on inserting electric rail freight into European transport-chains**. UIRR follows with keen interest every measure which aims to **correct the imbalances of the prevailing regulatory framework of transport**. Internalisation of external costs is an important part of this correction process at the end of which is a transport system, where the **competition of various modes of transport is based purely on technical merits**, and subsequent economic and ecological performance levels.

Overview

The European Commission's proposal to restructure the regime of European energy taxation (by amending Directive 2003/96/EC) is **an important step in the direction of internalising the externalities of transport**. UIRR was pleased to find its views on how to internalise the external costs related to CO₂ emissions generated by burning fossil fuels, as expressed in a position paper issued in December 2010², reflected in this proposal.

The European Commission's aim to **increase transparency of excise taxation** by replacing the present arbitrary method of setting the minimum levels of excise taxes in Europe with an easy to understand formula consisting of two components should be enthusiastically greeted:

- Energy content: based on gigajoules (GJ) contained in the given fuel, which should discourage wasteful use of energy, and
- Greenhouse gas component: amount of CO₂ emitted when the energy contained in the fuel is released (through burning), to compensate for the adverse effects caused by this particular climate-change gas.

The proposed **abolition of special excise-tax discounts**, presently enjoyed by HGV operators and railways in some Member States, should also be endorsed as it fairly and equally affects both rail and road users of fossil fuels. Moreover, this measure will most likely result in **additional motivation to increase the electrification of railways**.

Details to change

While UIRR generally welcomes the proposal, it wishes to draw the attention of the European Legislator to a number of considerations that should be taken into account when finalising the text of the EU's new Energy Taxation Directive:

- Basing the GHG portion of the new taxation scheme solely on CO₂ **excludes other harmful greenhouse gases**, such as nitrous oxides³, from consideration. This may cause unwanted consequences over the longer run if for instance hydrogen becomes a widely used transport propellant, as N₂O is created in substantial quantities when burning this particular fuel.

¹ Two types of road-rail combined transport are differentiated: (i) unaccompanied, when goods packed into containers, swap-bodies or semitrailers are transferred from road vehicles to trains, and (ii) accompanied, or rolling-motorway, services, when complete tractor-trailer combinations or articulated vehicles are transported using specialised rail wagons.

² Infrastructure charging, internalisation of externalities and affair competition in transport: <http://uirr.com/en/media-centre/press-releases-and-position-papers/2010/mediacentre/403-pos-pap-infra-externalities-fair-competition.html>

³ Nitrous oxide (N₂O) is a product of the reaction that occurs between nitrogen and oxygen during fossil fuel combustion



- Methods to calculate the **Social Cost of Carbon (SCC)** vary greatly, producing a per ton value of CO₂ of €30-90, which is higher than the €20/t price proposed by the Commission.
- **Substantial fossil fuel users are exempted** from under the force of this legislation (households, agriculture and navigation) and therefore these players are not encouraged by the efficient means of excise taxation to further save energy and reduce their CO₂ emissions. The inclusion of households and agriculture in the European Emission Trading Scheme together with the island-supply segment of short-sea-shipping (SSS) may provide a solution to encourage them for a more responsible use of energy resources and to compensate for the climate change effects they cause, in a controlled fashion which is in-line with their politically sensitive status. Coastal and inland navigation, on the other hand, have inland transport alternatives, hence – to create fair competitive conditions – they should gradually be placed under the force of the Directive. Finally, UIRR recognises that regarding deep sea shipping and intercontinental aviation the European Legislator can only adopt a negotiating position for the Commission to represent when discussing the amendment of global agreements governing these sectors of transportation.
- The external costs related to the **increased dependency of our societies on fossil fuels** increasingly attributable to excessive transport-related use of mineral oil should also be considered for inclusion into the legislation.

Conclusion

The draft of the European Commission on restructuring Europe's energy taxation regime should generally be endorsed. In UIRR's conviction the European economy will not be rocked by the diesel price increase resulting from the adoption of the proposal⁴ as feared by some road sector representatives. The Directive, when adopted, will result in an **energy taxation system that will treat competing energy sources equally**, and thereby create an **efficient price signal for economic decision-makers**.

Actions to take:

- **Include nitrous oxide emissions** into the calculation of a comprehensive GHG component of the new energy tax scheme. The pricing of CO₂ should also be revised based on a more thorough consideration of prevailing methodologies to calculate SCC. These two measures should jointly result in a revised GHG component in the new energy tax regime.
- The blanket **exemption of coastal and inland navigation should be reconsidered**: a gradual inclusion should rather be devised as these segments of navigation presently have inland transport alternatives. A solution should be found to encourage the responsible use of energy, while discouraging the unlimited release of harmful emissions in island-supply-type SSS, as well as for households and the agricultural sector.
- The increased **dependency of our societies on mineral oil (fossil fuels) should also be internalised** through adding a third, oil-dependency component to the excise tax.

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Who is UIRR: Founded 40 years ago, in 1970, the International Union of Combined Road-Rail Transport Companies (UIRR) represents the interests of a unique system of transport which, through utilising Intermodal Loading Units (ILUs)⁵, or special wagons capable of carrying unmodified ordinary trucks⁶, effectively inserts (electric) rail technology into the long(er) distance sections of continental freight transport-chains.

⁴ The diesel price increase estimated by UIRR will not exceed €0,22/l (may be more in case of the abolition of special excise tax discounts)

⁵ Containers, swap-bodies or semitrailers in what is called "Unaccompanied Combined Transport"

⁶ Rolling Motorway, or "Accompanied Combined Transport"