CLEPA
European Association of Automotive Suppliers

POSITION PAPER

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EC proposal for a Council Directive amending Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity

(COM/2011/0169 final – CNS 2011/0092)

Background

The automotive suppliers are running significant investment programs to provide car manufacturers with the cutting edge technologies to cut emissions of vehicles running on conventional fuels while developing innovations in the area of electrification. These programmes have recently been geared to meet the CO_2 reduction targets for passenger cars set by EU legislation for 2015 and 2020.

On 13 April 2011, the European Commission presented a proposal to overhaul the current rules on the taxation of energy products in the European Union. The new rules aim to restructure the way energy products are taxed and take into account both their CO_2 emissions and energy content. The planned revision would lead to a significant increase in the taxation of diesel fuel, making it more expensive than gasoline fuel and thus reversing the current situation. Importantly, Member States would have to replicate the ratio of minimum tax rates in the applied tax rates. This would oblige all Member States without exception to increase taxation of diesel fuel. We estimate that the diesel share in the medium car segment would drop significantly, by half, with even larger impacts in the small car segment.

CLEPA position

Without disputing the conceptual merits of introducing CO_2 criteria in energy taxes, CLEPA's view on the current EC proposal is that it will result in unintended negative consequences regarding the EU's CO_2 emissions targets, competitiveness agenda and employment objectives:

1) CO_2 emissions

CO_2 emissions of diesel are about 20% below those of gasoline cars from the same segment. Every customer shifting from a diesel to a gasoline car as a result of a higher tax burden on diesel fuel is therefore increasing CO_2 emissions. While diesel is clearly not the only CO_2-saving technology, the attractiveness of the diesel car is without doubt one prerequisite for meeting the ambitious 2020 target of 95g/km. This is particularly true in the light of continuing challenges with regard to the widespread introduction of electric mobility, e.g.

battery costs and range. In fact, the importance of the highly-efficient combustion engine becomes even more obvious when comparing their well-to-wheel emissions with those of electric vehicles based on today's energy mix. Furthermore, a negative knock-on effect on the heavy-duty sector seems likely in the medium-term, as diesel development costs would have to be spread over fewer units.
If the intention of the revision is to give incentive to the market penetration of sustainable bio-fuels, this can and should be achieved without disadvantaging diesel technology.

2) Legislative consistency
European air quality and CO_2 legislation have required and continue to require massive investments. With Euro 6, the diesel car is becoming clean in terms of air quality emissions; its CO_2 emissions continue to decrease as a consequence of innovation efforts. A revision of the energy tax Directive, as contemplated, and the resulting loss of diesel market share would undermine the rationale for some of these investments and certainly undermine compliance strategies for the recently agreed CO_2 targets.

3) Employment
The modern and clean diesel engine with high injection pressures and complex after-treatment systems requires advanced engineering and precision mass-production that offers high-quality employment to many Europeans. It is clear that the market disruption that would result from the planned revision and the corresponding loss in employment could not nearly be compensated by parallel employment growth in other areas. We fear that hundreds of thousands of jobs linked to the production of diesel cars and engines could be at risk. The higher technology content of diesel cars means that an increase in petrol cars would not generate the same employment in Europe. This is also underlined by the fact that European companies have higher market shares linked to diesel compared to petrol cars, making a loss of European jobs and their added value seem a certain consequence. As regards alternative powertrains, we strongly believe that Europe will only become a world-leader in their production if we are able to fully exploit our current strengths in financing the necessary transition.

4) Competitiveness
European manufacturers and suppliers are world-leaders in diesel technology. Massive investments and continuous innovation have resulted in an efficient, silent, high-torque, low-pollutant, low-consumption and low- CO_2 technology that is attractive to customers in Europe and, increasingly, beyond – as the EU's positive trade balance in diesel cars underlines. Worldwide production of diesel cars and diesel engines is heavily concentrated in Europe. In 2010, 76% of the world's diesel car production took place in Europe. In the US, the diesel take rate of passenger cars offered as diesel and gasoline versions has increased from 12% at the beginning of 2009 to 30% at the end of 2010. In India, the diesel passenger car market share reached 28% in 2010. Other important markets equally offer significant potential following fuel quality improvements.
European technology leadership has resulted in European companies reaching high global market shares for both diesel cars and diesel engines. Close to 100% of diesel cars sold in the EU, the world's largest market, are equipped with a diesel engine produced in Europe. Loss of market share of diesel cars, as a result of the proposed revision, would therefore disproportionately hurt European companies – in terms of domestic market shares, turnover, innovative strength, exports and the capacity to meet European CO_2 targets.

5) Consumers
Many European consumers are choosing diesel technology, notably due to the driving characteristics of diesel cars and their lower fuel consumption. If, as we expect in case of full implementation of current plans, diesel cars would practically disappear from the small car segment, the proposed revision would deprive consumers of an increasingly popular,

economical and ecological choice. Given the long lifetime of cars, the planned revision would also punish those drivers who had opted for efficient diesel cars prior to the entry into force of the new rules. In general terms, the revision of the energy tax Directive would further increase the cost of motoring even though European motorists are already paying over €400 billion a year in taxes.

6) Sustainable industrial policy

The European Commission should not establish a framework for one specific technology – be it diesel or any other. However, given that other world regions are aggressively promoting technologies in which they consider themselves to have (or be able to obtain) a competitive edge, we urge Parliament and Council to check the proposed revision against the EU's own sustainable industrial policy agenda.

Conclusions

CLEPA has come to the conclusion that the current EC proposal would endanger European CO_2 targets, weaken European competitiveness, risk European jobs and penalize European consumers. For these reasons, CLEPA estimates that the minimum rate on diesel fuel should not exceed the minimum rate of petrol.

CLEPA is the European Association of Automotive Suppliers. 84 of the world's most prominent suppliers for car parts, systems and modules and 26 National trade associations and European sector associations are members of CLEPA, representing more than 3,000 companies, employing more than three million people and covering all products and services within the automotive supply chain. Based in Brussels, Belgium, CLEPA is recognized as the natural discussion partner by the European Institutions, United Nations and fellow associations (ACEA, JAMA, MEMA, etc). www.clepa.eu

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