Geneva, 19 September 2006

IRU POSITION ON THE EFFECTIVENESS OF CO2 EMISSION TAXATION

Position

IRU Position on the effectiveness of emission taxation on fossil fuel, adopted by the IRU Commission on Economic Affairs.

I. ANALYSIS

By justly focussing on the reduction of toxic emissions, the road transport industry has dramatically improved its environmental performance through innovative technologies. A clean truck of today - EURO V norm - emits 97% less CO, 81% less HC, 86% less NO_x and 97% less particulates than a EURO 0 truck from 1990!

These massive investments in the latest technology by the road transport sector have also significantly increased fuel efficiency and as a result fuel consumption between 1970 and 2005 has dropped from 50 litres/100km to 32 litres/100km, leading to a direct drop in non-toxic CO_2 emissions.

However, the globalisation process, together with the enormous differences between all the liberalised economies, has lead to a dramatic increase in trade and transport and consequently to an increase in fuel use and therefore CO_2 emissions.

This increase in CO_2 emissions is exacerbated by traffic congestion due to inadequate infrastructure. According to EU figures, half of the fuel used today is wasted in traffic jams caused by inadequate infrastructure and bottlenecks. Figures for the United States show a similar picture. The congestion bill for the US in 2004 came to 27 billion gallons of wasted fuel.

In addition, technical measures such as not optimal injection and combustion timing to reach a lower combustion temperature, were implemented to reach lower NO_x emission levels which in conformity with EURO norms. However, this has led to an additional increase in fuel consumption which will again increase CO2 emissions.

Considering the direct link between fuel consumption and CO_2 emissions and the fact that road transport has no economically viable alternative to fossil fuel (see CAE/G6501), it becomes clear that non toxic CO_2 emissions are the last remaining emission challenge for the road transport industry.

On the international governmental level, from the United Nations to the G8 Summit and to the meetings of the European Commission, CO_2 has become a very popular agenda item as many governmental representatives believe that CO_2 emissions accelerate the process of global warming, despite the fact that the scientific jury is still out on this question.

International Road Transport Union • Secretariat General
3, rue de Varembé • B.P. 44 • CH-1211 Geneva 20 • Switzerland
Tel: +41-22-918 27 00 • Fax: +41-22-918 27 41 • E-mail: iru@iru.org • Web: www.iru.org

Some countries have gone even further and signed international conventions such as the Kyoto Protocol whose target is to reduce CO_2 emissions relative to 1990 levels, in the time frame of 2008 to 2012. Currently 55 countries have ratified the protocol. However, the biggest CO_2 emission producing country – the United States - has so far refused to do so.

Most of the international environmental conventions such as the Kyoto Protocol are environmental only by name. They have often been politically hijacked as the contents are anything but environmental but rather an excuse to introduce fiscal mechanisms to collect additional fuel taxes. The tax revenues are then misused for unacceptable cross subsidisation and by no means help to reduce CO_2 emissions.

Countries like Denmark, Norway and Switzerland have officially introduced a CO_2 tax for fossil fuel. The amount varies between 0.03 €/litre and 0.06 €/litre.

Other countries such as *Albania, Australia, Austria, France, Greece, Slovenia*, just to name a few, have not officially introduced a CO_2 emission tax on fossil fuel. However, after those countries joined various international conventions, the excise duties on fossil fuel increased considerably. In some cases the tax amount reached 70% of the fuel price. Proof that these taxes are linked with the various conventions is that their calculated CO_2 emissions reduction results are the same as the goals set by the international conventions like the Kyoto Protocol (e.g. Slovenia: The increase in fuel excise duty of 60% in 3 years is estimated to reduce CO_2 emissions by 0.15Mt per year which equals Slovenia's commitment for the transport sector in the Kyoto protocol).

Effectiveness of CO_2 emissions taxation on fossil fuel:

In the current globalisation of the economy, road transport is not only a transport mode, but above all a vital production tool to ensure competitiveness in a sustainable economic and trade development for each country enabling them to meet the objectives of the Agenda 21 and the UN Millennium goals.

Despite the fact that the continuous diesel supply for road transport, with a moderate fuel taxation, is the prerequisite to reach the above mentioned objectives, almost every country has put in place a penalising fiscal policy on transport fuel. This fiscal policy is only there to increase governmental revenues which are then used for general budgetary purposes and to cross subsidise inefficient transport modes.

If CO_2 taxes are really an effective tool to reduce CO_2 emissions – taking into account that the oil market is a global market and that CO_2 emissions are a global challenge – the CO_2 tax should not be collected by some countries but at the source of the global oil market, where each barrel of oil is produced, meaning in the oil producing countries. There it can be reinvested into the production of cleaner fuels.

In addition this collection at the source can also be considered non-discriminatory vis-à-vis governments, since signatory and non-signatory countries of international conventions would be charged the same way.

II. IRU POSITION

The road transport industry has taken up its responsibility and invested heavily in latest technology achieving a massive reduction of emissions. Despite this development, the road transport industry is still penalised by ineffective CO_2 emission taxation on fossil fuel. Any penalty on road transport is an even greater penalty on the economy as a whole.

To effectively reduce CO_2 emissions, and taking into account that the oil market is a global market, a CO_2 tax should not be collected locally by governments of the consuming countries, but at the source of the global oil market, meaning in the oil producing countries.

———