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SELECT COMMITTEE ON
THE EUROPEAN UNION

THE TAXATION OF FUEL IN THE EUROPEAN UNION

WITH EVIDENCE

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WRITTEN EVIDENCE

NOTE: Pages of the Report and Appendices are numbered in bold type; pages of evidence are numbered in ordinary type. References in the text of the Report are as follows:

(Q) refers to a question in oral evidence;

(p) refers to a page of evidence.

TWENTY-FOURTH REPORT

21 MAY 2003

By the Select Committee appointed to consider European Union documents and other matters relating to the European Union.

ORDERED TO REPORT

THE TAXATION OF FUEL IN THE EUROPEAN UNION

COM (2002) 410 Proposal for a Council Directive amending Directive 92/81/EEC and Directive 92/82/EEC to introduce special tax arrangements for diesel fuel used for commercial purposes and to align the excise duties on petrol and diesel fuel (HM Customs & Excise)

PART 1: EXECUTIVE SUMMARY

Taxes on fuel vary significantly across Europe, with the UK charging by far the highest rate of duty. These differences in fuel duty were at the root of the hauliers' protests in this country and elsewhere in 2000. Last year, the Commission proposed a Directive which would reduce or eliminate these tax differentials. The proposal would harmonise tax arrangements for diesel fuel used for commercial purposes and align the excise duties on petrol and non-commercial diesel fuel. The Commission claimed that its proposal would both eliminate distortions to competition and reduce environmental damages.

The proposal is controversial and received a negative reception from the large Member States, who would stand to suffer a large loss of government revenue—the UK Government have estimated that it would cost the Treasury £2 billion per year.

The Committee found that, at present, because of countervailing differences in other taxes and costs, the existing differences in rates of fuel taxation do not serve to distort competition in the haulage market.

The Committee accepts the need for minimum rates of fuel duty in the EU—especially in the context of EU enlargement—as, without a floor, some Member States might set off a 'race to the bottom', which would have a negative impact on government revenues and the environment. The Committee considers that the requirement for reasonable minimum rates has already been met by other legislation (namely, the agreed Energy Tax Directive).

The Committee concludes that the Commission's proposal to harmonise diesel fuel taxation does not contribute to making transport users to face up to the real costs of transport—for the EU as a whole, it would move taxation in the opposite direction because it would reduce the average level of fuel duty and have a negative overall impact on the environment.

The Committee therefore calls on the Commission to withdraw the present proposal.

PART 2: BACKGROUND

The Commission's proposal

1. In July 2002, the Commission proposed a Directive to harmonise tax arrangements for diesel fuel used for commercial purposes and to align the excise duties on petrol and non-commercial diesel fuel.[1] To become law, the proposal will have to be agreed by all of the Member States, as it requires unanimity in the Council. The proposal's aims are two fold:

i) to introduce by January 2010 a single excise duty rate of €350/1000 litres on commercial diesel fuel for all EU Member States—the actual rates applied by Member States must be within an allowable band that will narrow each year from March 2004 until full convergence is reached in 2010; and

ii) to introduce by January 2006 a common minimum rate of €360/1000 litres on petrol and non-commercial diesel fuel.

2. The Commission's proposal requires the decoupling of taxation of "commercial diesel fuel"—defined as fuel for trucks weighing 16 tonnes or above, and buses and coaches equipped to carry more than nine persons—from the taxation of "non-commercial diesel fuel"—defined as fuel for trucks weighing less than 16 tonnes, buses and coaches equipped to carry nine persons or less, and passenger cars.

3. The current EU-wide **minimum** rate of excise duty for diesel fuel is €245/1000 litres and no distinction is made between commercial or non-commercial use. The current **minimum** rates for leaded and unleaded petrol are €337/1000 litres and €287/1000 litres, respectively. These minimum rates were established in 1992[2] and have not been adjusted since.

4. As can be seen from the box below, the level of excise duty varies from one Member State to another. For diesel, the range is between a low of €245/1000 litres in Greece (and €253/1000 litres in Luxembourg) to a high of €742/1000 litres in the UK. For petrol, the range is from a low of €296/1000 litres in Greece (and €372/1000 litres in Luxembourg) to a high of €742/1000 litres in the UK.

Box 1

Rates of excise duties on petrol and diesel fuel across the EU

Excise duty varies greatly from one Member State to the next. The Table below illustrates the situation (in EUR/1000 litres, as at February 2002):

	B	DK	D	EL	E	F	IE	I	L	NL	A	P	SF	S	UK	Weighted average of the EU15
Diesel fuel	290	370	440	245	294	376	302	403	253	345	282	272	305	337	742	411
Eurosuper	507	548	624	296	396	574	401	542	372	627	414	479	560	510	742	581

Source: The Commission's Explanatory Memorandum to the proposal (COM (2002) 410 Final, pp 4–5).

5. The current weighted average rate of excise duty for the 15 Member States is €411/1000 litres for diesel fuel and €581/1000 litres for petrol (Eurosuper).[3]

[1] COM (2002) 410 Final (OJ C 291 E, 26.11.2002, p 221).

[2] The minimum rates were introduced as part of a system for taxing mineral oils. This system involved two Directives, one on the harmonisation of the structures of excise duties on mineral oils (92/81/EEC), and the other on the approximation of the rates of excise duties on mineral oils (92/82/EEC). The first Directive can be found in OJ L 316, 31.10.1992, p 12, as last amended by Directive 94/74/EC (OJ L 365, 31.12.1994, p 46); the second is in OJ L 316, 31.10.1992, p 19, as last amended by Directive 94/74/EC (OJ L 365, 31.12.1994, p 46).

[3] COM (2002) 410 Final, p 5. Taking account of discounts granted in 2002 by France, Italy and the Netherlands, the Commission estimates that the current weighted average rate paid by road hauliers in the 15 Member States is €397/1000 litres rather than €411/1000 litres. None of the assumptions or conclusions in this report is dependent on the choice of one figure rather than the other. The relevant point is that the current weighted average rate is *circa* €400/1000 litres as distinct from the proposed rate of €350/1000 litres.

6. Introducing a harmonised rate of €350/1000 litres on commercial diesel fuel would result in a **reduction** in the level of fuel duty relative to the current weighted average of €411/1000 litres, and an actual reduction in fuel duty in each of the four largest Member States.

7. The outcome of establishing a common minimum rate of €360/1000 litres for petrol and non-commercial diesel fuel cannot be quantified in the same way, since this part of the Commission's proposal does not call for a single harmonised rate. Current rates of duty on diesel (which includes diesel used for non-commercial purposes) are below the new proposed minimum in 10 of the 15 Member States, the weighted average rate being €411/1000 litres (see Box 1). But current rates of duty on petrol are above the proposed minimum in 14 of the 15 Member States, the weighted average rate being €581/1000 litres. The proposed measure would thus require an increase in the taxation of diesel-engined passenger vehicles—which currently account for 22% of the market—as well as other "non-commercial" vehicles. But the final outcome would depend on the actual levels of excise duty that Member States adopt.

The Commission's case

8. The Commission's proposal to establish a harmonised duty rate for commercial diesel fuel is based on three grounds. The Commission claims that the current discrepancy on fuel duty rates impacts negatively on (i) competition, (ii) government revenues, and (iii) the environment. Each of these three impacts is said to follow from the phenomenon of 'tank tourism', that is, international road hauliers filling up their tanks in the Member States with the lowest rates of fuel duty. The Commission asserts that tank tourism results in:

(i) a distortion to competition between different classes of road hauliers;

(ii) revenue losses for Member States with the highest rates; and

(iii) a higher level of traffic (measured in vehicle kilometres) than would the case in the absence of tank tourism (*op. cit.*, pp 6–7).

9. Commissioner Bolkestein provided a clear summary of these three grounds:

> "the aspect which concerns us most is the distortion of competition in the internal market. […] The trucks that go across borders are able to pick up diesel in Member States where the excise duty is lowest. There is a very clear distortion. […] The second point is this tax routing, this tax planning, if you like, by trucks leads to a significant loss in budgetary resources for some Member States. […] The third element for the Commission is the environment. If trucks and buses make a detour to make use of cheaper fuel then, of course, more mileage is performed […]. Obviously the shorter the trips the less the deterioration to the environment." (Q1)

10. The Commission's case for establishing a common minimum rate for both petrol and non-commercial diesel is based on environmental grounds. The Commission's Explanatory Memorandum notes that diesel engines emit "significantly higher" amounts of particulates than petrol engines, at the same as emitting "significantly less" CO_2 per kilometre. The Commission concludes that, "according to the criteria used to assess the impact on the environment […] there would be no reason for taxing differently diesel fuel and petrol consumed by passenger vehicles. A reasonable balance would mean both being taxed at broadly similar rates." (*op. cit.*, p 9)

Subsequent legislative developments

11. Independently of the Commission's proposal for a new Directive on fuel taxation, the Commission also developed a proposal for a Directive on Taxation of Energy Products.[4] This proposal aims:

(i) to establish minimum excise duty rates on a fuller range of energy products; and

(ii) to establish higher minimum rates of excise duty on diesel and leaded and unleaded petrol.

12. Agreement on this proposal was reached at an informal meeting of Finance ministers in the margins of the European Council on 20 March 2003. The Directive will be formally adopted by EcoFin once consultation with the European Parliament and the accession countries has been

[4] The proposal for a Council Directive Restructuring the Community Framework for the Taxation of Energy Products and Electricity was originally put forward by the Commission in 1997 (COM(1997) 30, Brussels 12.3.1997). The proposal would amend the two Directives mentioned above in footnote two. Initial negotiations on the proposals stalled completely, but the Spanish Presidency revived the document in the first half of 2002; the Danish and Greek Presidencies then continued negotiations on the proposal.

completed.[5] The Directive will mean that, beginning with a first adjustment in a majority of Member States in January 2004 and culminating in a final adjustment in all 15 Member States in January 2012, the new minimum rates of excise duty will be €330/1000 litres on diesel (as against a current minimum of €245/1000 litres), €421/1000 litres on leaded petrol (as against €337/1000 litres currently) and €359/1000 litres on unleaded petrol (as against €287/1000 litres).

13. It follows that, as a result of the Energy Tax Directive, the rates that would be subject to adjustment in the proposed Fuel Tax Directive are no longer those quoted in the Commission's proposal document. In particular, the proposed harmonised rate of €350/1000 litres on commercial diesel fuel would be only slightly above the minimum rate of €330/1000 litres set out in the Energy Tax Directive. Consequently, the proposed harmonised rate would be significantly below the weighted average rate, since, by 2010 as a result of the Energy Tax Directive, this latter will rise well above the current average weighted rate of €411/1000 litres.

14. Furthermore, the minimum rate of €360/1000 litres on petrol and non-commercial diesel proposed in the Fuel Tax Directive would be only slightly above the minimum rate of €330/1000 established in the Energy Tax Directive for diesel; it would be well below the minimum rate of €421/1000 litres for leaded petrol; and it would be virtually equal to €359/1000 for unleaded petrol.

15. Also independently of the proposed Fuel Tax Directive, the Commission intends to bring forward a proposal to the Transport Council for a Framework Directive on Infrastructure Charging. This proposal was foreshadowed in the Commission's White Paper of 2001[6] and follows from the extensive work programme initiated by the Commission's White Paper of 1998.[7] The Framework Directive is intended to promote the alignment of the overall structure of transport taxes and charges (including fixed charges, fuel duty, user charges, and so on) to the real costs of transport use.

Key issues considered by the Committee

16. We decided that any assessment of the Commission's proposal needed to weigh the available evidence in regard to the three grounds on which the Commission rests its case: competition, government revenues and the environment. In each case, we asked what was the nature of the problem being addressed, and how successfully the proposal would address it. In each case, too, subsequent legislative developments needed to be factored into that assessment.

17. Given the subsequent legislative developments, we considered another issue: does it make sense now to deliberate on this specific proposal prior to and independently of the Framework Directive on Infrastructure Charging, which is supposed to address the overall structure of transport taxes and charges? Or would the Framework Directive be the more appropriate starting point for progressing the proposals foreshadowed in the Commission's White Paper on Transport?

18. Finally, the Committee assessed the position adopted by the UK Government and their rationale for it.

[5] Council of the European Union, Presidency Note 7759/03, Brussels 25 March 2003. Letter from Mr. John Healey MP, Economic Secretary to the Treasury, p 16.

[6] European Commission, *European Transport Policy for 2010*, White Paper, September 2001.

[7] European Commission, *Fair Payment for Infrastructure Use*, White Paper, July 1998.

PART 3: KEY ISSUES

Competition

19. The Commission's observation that excise rates on fuel vary between Member States (see Box 1 above) and that such variations prompt tank tourism is uncontroversial. What is less clear is whether such variations lead to a "distortion of competition in the internal market", as the Commission claims. The Committee asked: in which specific market activity is competition distorted by these variations, to whose advantage does this distortion work, to whose disadvantage, and to what extent?

20. A substantial body of work has been established on these questions by a long-standing research programme conducted by the European Conference of Ministers of Transport (ECMT). This research has been endorsed by the Commission, as well as the Transport Ministers of the member-countries of the ECMT, including all 15 EU Member States. The work is set out in two reports by the ECMT;[8] it was summarised in evidence submitted to the Committee by Professor McKinnon[9] and by the ECMT Secretariat: "The work includes a detailed quantitative analysis of the impact on competition between the haulage industries of member countries and finds no evidence that the existing differences in rates of fuel taxation distort competition in the haulage market." (p 21)

21. There are two distinct sets of road haulage markets in relation to which tax differences and their potential to distort competition need to be considered. One is the international or cross-border road haulage market within the EU and the competition between flag-carriers from the various Member States in this market. The other is the domestic road haulage market of each of the Member States and the competition between local and foreign hauliers within each domestic market. These two sets of road haulage markets are considered in turn below.

INTERNATIONAL ROAD HAULAGE

22. In regard to international road haulage, the ECMT evidence suggests that, taking into account the full range of transport taxes and charges, the marginal effective tax rates (METRs) on flag-carriers from the various EU Member States were remarkably similar for the various typical cross-border haulage trips. The evidence on one such typical scenario—Manchester to Milan—is reproduced in Box 2; a fuller range of evidence is available in the ECMT Reports of 2000 and 2003.

23. Thus, whereas each flag-carrier may be disadvantaged by a higher-than-average rate on one or more particular tax (e.g. fuel duty, insurance tax, capital and labour taxes, *et cetera*), the net result is that "*in competing for international hauls* differences in taxation do not confer a significant competitive advantage to any of the countries examined."[10]

24. The Commission's Explanatory Memorandum does not refer to the ECMT research on this point; nor does it cite any contrary evidence. In contrast, the UK Government "strongly support" the ECMT findings. According to the Economic Secretary to the Treasury, the Commission "ought to be aware of that evidence […] it shoots a hole through one of the main justifications that the Commission had for proposing the Directive in the first place." (QQ 46–47)

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[8] ECMT, *Efficient Transport Taxes and Charges*, OECD Publications, Paris 2000 and *Efficient Transport Taxes and Charges 2003*, OECD Publications, Paris 2003 (forthcoming).

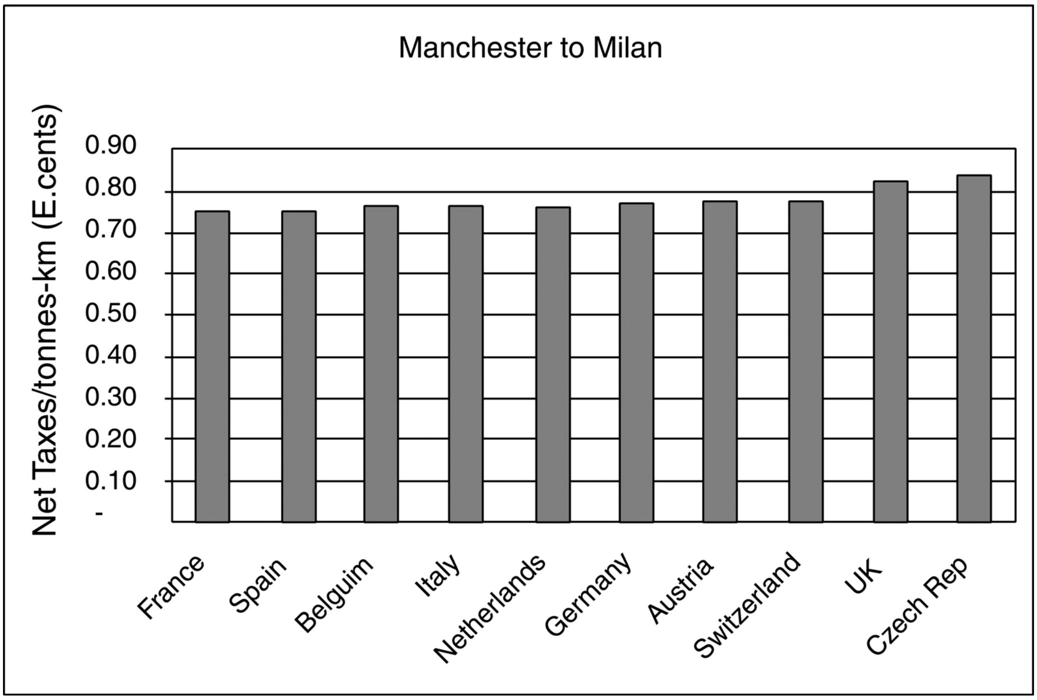
[9] Memorandum by Professor Alan McKinnon, Logistics Research Centre, Heriot-Watt University, Edinburgh (pp 29-31), and two supporting papers, "Haulier than Thou: An Assessment of the Road Haulage Industry's Grievances", *Public Service Review*, October, 2001, and *Factors Affecting Competitiveness in the European Road Haulage Market*, report prepared for the European Conference Ministers of Transport, January 2003 (and incorporated into *Efficient Transport Taxes and Charges 2003*, *op. cit.*).

[10] ECMT, *Efficient Transport Taxes and Charges*, *op. cit*., p 45, emphasis added.

Box 2

Variations in taxes by country of vehicle registration

(One-way journey by 40 tonne 5 axle articulated vehicle)



Source: ECMT report *Efficient Transport Taxes and Charges*, OECD Publications, Paris, 2000.

DOMESTIC ROAD HAULAGE

25. In regard to domestic road haulage, there is a more significant variation in the rates of taxation faced by local and foreign operators within a given Member State. For example, UK flag-carriers face a higher METR in the Netherlands than do local Dutch operators; French flag-carriers face a lower METR in the UK than do local UK operators.[11] The evidence from the major UK industry associations—the Freight Transport Association (FTA) and the Road Haulage Association (RHA)—on the relative disadvantage faced by UK operators was consistent with the ECMT findings on this point.[12]

26. It does not necessarily follow that this difference in tax rates had led to a distortion in competition. Witnesses noted two points in this regard. First, there is considerable, if not conclusive, evidence that variations in pre-tax costs (including the pre-tax cost of fuel but importantly capital and labour costs) tend to offset variations in taxes so that "total operating costs are fairly similar, particularly between the UK and its European neighbours" (p 29). For example, a study conducted for the Irish Government in 1999 showed little variation in total costs in the UK, Ireland, the Netherlands and Germany (see Box 3).

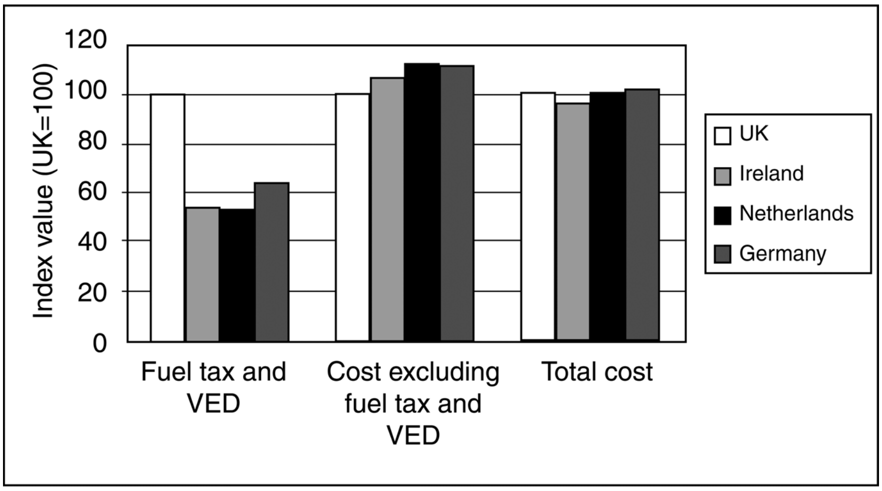
27. As mentioned, this evidence is not conclusive; and pre-tax costs do change from year to year. The most recent data from the FTA suggested that, as at October 2002, the total cost of French and Dutch domestic road transport remained 14% and 9% respectively below the level of the UK—though the FTA also recognised that these variations were far less than the variation in the post-tax cost of fuel which was, in the case of both France and the Netherlands, 33% below the level of the UK (pp 24-25).

[11] *ibid.,* pp 45–47.

[12] The Memorandum submitted by the Road Haulage Association seems to suggest (p 40) that this point is in dispute; the Committee does not consider that this is so.

Box 3

International comparison of road haulage taxes and total operating costs



Source: Indecon, Pricewaterhouse Coopers and NEA *A Strategy for the successful developments of the Irish Road Haulage Industry*, Department of Public Enterprises, Dublin, 1999.

28. The second and more conclusive point is that these variations have not conferred any significant competitive advantage or disadvantage to any EU country in the only relevant test: a significant increase in cabotage penetration into another's market, or a significant loss of the domestic market to foreign operators. According to the Commission, cabotage penetration rates were only 0.2% (measured in tonne kms) in EU Member States in 1998.[13]

29. The Government estimated that cabotage represented only 0.06% of the UK domestic road freight market in 2000 (p 7). Professor McKinnon noted that the Road Haulage Association disputed the accuracy of this figure. But he pointed out that even if the Government under-estimated the level of cabotage by a factor of ten, foreign operators would still account for less than 1% of the British road haulage market. "For the vast majority of British hauliers engaged solely in domestic haulage international variations in taxes had, therefore, little bearing on trading conditions."[14]

30. Citing the evidence both on the full range of costs and on the low level of cabotage, the Government emphatically rejected the Commission's "postulated" view that "differences in diesel tax rates lead to material distortions between hauliers based in different Member States" (p 7).

CROSS-CHANNEL TRADE

31. Both the FTA and the RHA drew attention to the loss of market share by UK operators in the cross-Channel road haulage trade: from a *circa* 50/50 split with foreign operators in 1996 to a *circa* 30/70 split in 2001 (pp 39-41). The industry pointed out that this fall followed the period of above-inflation annual increases in UK fuel duty. In response to this concern, the Committee asked: if current marginal effective tax rates (METRs) are more or less aligned (see paragraphs 22–23 above), what does this mean for the future prospects of UK operators?

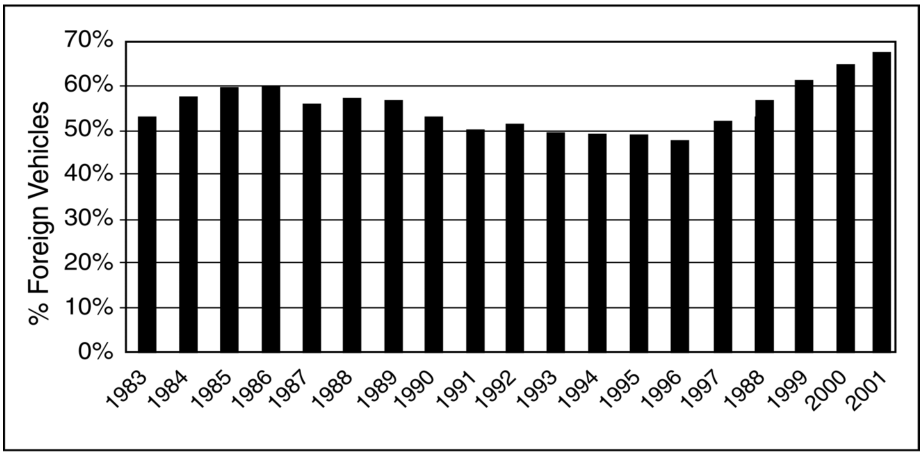
32. The loss in market share by UK operators has not been 'straight line', but a rise and fall from a *circa* 40/60 split in 1986 to a *circa* 50/50 split in 1996 to a *circa* 30/70 split in 2001 (see Box 4).

[13] Commission Explanatory Memorandum, p 6. See also Alan McKinnon, *Factors Affecting Competitiveness in the European Road Haulage Market*, *op. cit.,* p 18.

[14] Alan McKinnon, "Haulier than Thou", *Public Service Review*, *op. cit.*

Box 4

Foreign Share of international road haulage traffic between UK and EU mainland



Source: Department of the Environment, Transport and the Regions *Road Goods Vehicles Travelling to Mainland Europe* London (quarterly bulletin), 2001.

33. The FTA is at one with the ECMT in considering that the underlying explanation lay in the movement of the exchange rate between those within and those outside the eurozone. The extraordinary appreciation of sterling against the ecu/euro since 1996 (see Box 5) made imports to the UK relatively cheaper, as well as making it relatively cheaper for non-UK firms to transport these imports (p 27).[15] The correction in the exchange rate now underway should, therefore, help to restore the market share of UK operators to the *circa* 40/60 split of the mid-1980s—if not the *circa* 50/50 split of 1996 when sterling was at its trough.

Box 5

The exchange rate of sterling against the ecu/euro from 1996 to 2002

Source: Bank of England

Notes: This graph uses the quarterly average exchange rates.

The data prior to 1999 refers to ECUs per pound sterling.

[15] cf. ECMT, *Efficient Transport Taxes and Charges*, OECD Publications, Paris 2000, p 46.

34. In contrast, the RHA cited modelling work by the Centre for Economics and Business Research (CEBR) to argue that the increase in UK fuel duty was a much more significant factor in the loss of market share than the appreciation of sterling (p 40). If the CEBR were right—and considering the evidence cited above (paragraphs 20, 22–23) that the METRs on international trips are now more or less aligned—this would suggest that the "right" market share for UK operators was *less than* the *circa* 40/60 split suggested above.

THE NEED FOR MINIMUM RATES

35. The body of analysis and evidence established by the ECMT and cited above (paragraph 20) was based on the actual tax rates prevalent in the present Member States and thus presupposes the existence of *minimum* rates of excise duty on fuel. On this basis, the ECMT was able to conclude that "market forces"—in the form of the right to tank tourism—"tend to limit the divergence of tax structures and levels between neighbours in an open economy" and "imply no need for maximum rates of tax" (p 21).[16]

36. At the same time, by acting as a disincentive to governments to raise the level of fuel duty, the right to tank tourism reduces the need for operators to exercise this right. Hence, the problem of tank tourism is, at present, limited in scale, although the precise extent of the problem is not known. Commissioner Bolkestein pointed to the case of Luxembourg with its relatively low excise rate on fuel—€253/1000 litres—and remarkably high fuel consumption per head of resident population, which is 6 times higher than in Denmark and almost 9 times higher than in Germany (Q1). But the example serves, among other things, to imply the limited scale of the problem: Luxembourg represents 1% of the population of the EU.

37. **Nonetheless, the case of Luxembourg highlights the need for appropriate minimum rates of fuel duty—especially in the context of EU enlargement. Without a floor, some Member States might set off a 'race to the bottom', whereas others would seek to protect higher rates for environmental and other reasons. The pressures on the structures and levels of tax in such a scenario could generate significant distortions to competition. The requirement for reasonable minimum rates—represented by the increase in minimum rates *via* the Energy Tax Directive—should serve to avoid this possibility.**

OTHER POSSIBLE DISTORTIONS OF COMPETITION

38. The analysis above has focused on the complaint of distortions to competition in the international and domestic road haulage markets: quantitatively, these are the markets that matter most in the debate on fuel taxation. There is, however, a separate complaint of distortions to competition in the fuel retailing market caused by tank tourism and smuggling. For example, there is a well-documented problem of smuggling fuel across the border between Northern Ireland and the Irish Republic.[17] The Retail Motor Industry Federation said that the UK Government needed to revisit the issues raised in this complaint (p 35). But the Committee did not receive any suggestion that such issues need to be addressed by EU wide-harmonisation of excise duty rates. Hence, this aspect of competition has not been considered further in this report.

39. As stated in paragraph 10 above, the Commission's case for the second part of its proposal—establishing a common minimum rate for non-commercial diesel and petrol—is based on environmental grounds, and we discuss it below under that heading (see paragraphs 50–74). But we note here evidence from the FTA that suggests that the requisite de-coupling of "commercial" from "non-commercial" fuel could create a new distortion to competition in the domestic road haulage market: no less than 44% of the goods vehicles in the UK (190,000 out of 430,000) would fall into the "non-commercial" category and would consequently be burdened with a higher rate of duty.

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[16] The main exception to this rule is the geographical barrier of the Channel, which protects the relatively high rates of duty in the UK. But, as shown above (paragraph 26 and Box 3), this is largely offset by lower levels of pre-tax costs, including the pre-tax cost of fuel.

[17] cf. National Audit Office report *HM Customs and Excise: The Misuse and Smuggling of Hydrocarbon Oils* Report by the Comptroller and Auditor General (HC 614, Sessions 2001–02, 15 February 2002). See also two reports by the House of Commons Northern Ireland Affairs Committee: *The Impact in Northern Ireland of Cross-Border Road Fuel Price Differentials* (Third Report of Session 1998–99, HC 334); and *The Impact in Northern Ireland of Cross-Border Road Fuel Price Differentials: Three Years On* (First Report of Session 2002–03, 20 November 2002, HC 105–I).

KEY CONCLUSIONS ON COMPETITION

40. **The Committee accepts the implications of the findings established by the ECMT and endorsed by the Commission and the Transport Ministers that, at present, because of countervailing differences in other taxes and costs, the existing differences in rates of fuel taxation do not serve to distort competition in the haulage market.**

41. **The Committee accepts the need for minimum rates of fuel duty in the EU. We consider that the increase in minimum rates embodied in the Energy Tax Directive should serve to avoid the generation of distortions to competition**.

Government revenues

42. The second argument cited by the Commission in its case for a single rate of excise duty on fuel is that tank tourism prompted by differences in duty rates "leads to a significant loss in budgetary resources for some Member States"—that is, those Member States with relatively high rates of excise duty. Commissioner Bolkestein estimated that for the UK the revenue loss from tank tourism is "at least €800 million per year" (Q1). So, the issue here is relatively straightforward: is there at present a problem of revenue losses for Member States with relatively higher rates of fuel duty?

43. Intuitively, it is difficult to understand why Member States with relatively higher rates should suffer a *net* revenue loss from the current situation. Most trips, including all purely domestic trips, are unaffected by leakages from tank tourism: the higher tax rate is collected from a more or less given tax base. Where leakages do occur, such as in international trips, it is still the case that the narrower base is taxed at the higher rate. Hence, the result of applying a lower rate would be as follows:

- a loss in revenues from applying the lower tax rate to all current payers—although this loss would be expected to be partially offset by an enlargement of the tax base as a result of increased demand; and
- a gain in revenues from the enlargement of the tax base as a result of eliminating tank tourism—although this gain would be expected to be less than the current estimated loss, since the latter is estimated relative to the current higher rate.

The outstanding question is: could the gain in revenues arising from collecting taxes from *some* new payers (at the new lower rate) offset the loss from collecting a lower rate from *all* current payers?

44. The Government have done this calculation. They estimated that implementing the harmonised rate proposed by the Commission would lead to a net revenue loss to the UK of £2 billion *per annum*. They calculated this figure as follows (p 15):

- A reduction in revenues of £2.8 billion *per annum* from applying the lower tax rate to current payers—offset by a gain of £0.3 billion *per annum* as a result of increased demand.
- A gain in revenues of 0.5 billion *per annum* as a result of eliminating tank tourism as well as smuggling and other forms of fraud—but this gain is roughly half the current estimated loss of £1 billion *per annum*, since the latter is estimated relative to the current higher rate of duty, which is roughly twice the lower rate proposed by the Commission.

45. The Commission did not provide any argument or evidence to suggest that the UK or other Member States with relatively higher rates suffered *net* revenue losses as a result of tank tourism and would enjoy *net* revenue gains as a result of the introduction of the Commission's proposed harmonised rate.

46. It is nonetheless true that the absence of a minimum rate could lead to significant revenue losses—not because States with relatively higher rates would suffer net revenue losses from tank tourism but because a 'race to the bottom' would put pressure on tax rates and hence on revenues.

47. It follows that the increase in minimum rates *via* the Energy Tax Directive—if translated as it should be into an increase in average rates—should lead to an improvement in revenues for the sum of Member States, even if there is not a significant reduction in tank tourism.

KEY CONCLUSIONS ON GOVERNMENT REVENUES

48. **The Committee accepts the Government's findings that the Commission's proposal would lead to a significant net revenue loss to the UK and notes that the Commission has not presented any evidence to the contrary**.

49. **The Committee accepts the need for minimum rates of fuel duty to protect government revenues across the EU. Moreover, we consider that the increase in minimum rates embodied in the Energy Tax Directive should serve to enhance revenues for the sum of Member States**.

Environmental impact

50. In its Explanatory Memorandum, the Commission argues that the proposal "will provide better protection for the environment by applying the *polluter pays* principle."[18] Under the heading of "sustainable development", the Commission goes on to elaborate this argument for the proposal, by saying that it is a means of requiring transport users to face up to the real costs of transport—including the negative externalities of transport.[19] The Commission claims that this particular proposal contributes to the goal of internalising the external costs of transport, which has been a key plank of the common EU transport policy since 1995.[20] The Committee therefore asked: how does the proposal serve to internalise and thereby reduce the external costs of transport?

51. The Commission pointed out that the detours caused by the phenomenon of tank tourism have "negative effects on the environment because a longer distance is driven in comparison with what would be necessary if the different [fuel] duty rates would not exist."[21] As noted above (paragraphs 9 and 36), this is the point on which Commissioner Bolkestein laid stress: "Obviously the shorter the trips the less deterioration to the environment" (Q1).

52. Since "these detours" make up only a small fraction of the sum total of vehicle kilometres involved in road haulage (see paragraph 36), however, this observation does not provide information on the net impact of the proposal. That impact can only be ascertained in the light of its calculable impact on taxes and prices, and in the light of evidence on the tax and price changes required to internalise external costs.

IMPACT ON TAXES AND PRICES

53. In regard to the proposal for a harmonised rate of excise duty on commercial diesel fuel, the Commission's Explanatory Memorandum, by highlighting the fact that "most Member States" would need to raise their excise duty rates (*op. cit*., p 17), has led a number of commentators to assume that the overall impact would be an upward adjustment of fuel taxes and prices. For example, the European Economic and Social Committee welcomed "the proposed upward harmonisation of taxes and excise duties" and offered advice on how best to use the new revenues.[22]

54. It therefore needs to be emphasised that, for the EU15 considered as a whole, **the proposal for a harmonised rate of €350/1000 litres on commercial diesel fuel would result in a reduction in the level of fuel duty relative to the current weighted average of €411/1000 litres—a reduction of 17%. In particular, it would result in a reduction in fuel duty in each of the four largest Member States—from €376 in France, €403 in Italy, €440 in Germany and €742 in the UK.**

55. The Commission's Explanatory Memorandum refers in passing to the possibility of Member States introducing new user charges to compensate for any reduction in fuel duty (*op. cit*., p 9). But this is not relevant to the task of assessing the impact of the proposal. In the event of the proposal being adopted, Member States would be obliged to adjust their fuel duty rates; this obligation would not be dependent on any requirement to introduce compensating charges. The impact of the proposal on the level of taxes can be quantified only by assuming other things to be equal.[23]

56. The new development that must be taken into account is the agreement on the Energy Tax Directive. This Directive will increase the minimum rate of excise duty on all diesel fuel to €330/1000 litres. Consequently, 8 of the 15 Member States will have to increase their current rates of duty, which will result in an increase in the weighted average rate in the EU15. **As a consequence of the Energy**

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[18] COM (2002) 410 Final, p 2. Emphasis in original.

[19] *ibid*., p 8. Professor Goodwin explained that the environmental damage caused by transport "is substantial, and growing, with a wide range of impacts from the most local effects on air quality, noise, and the disruption of habitat and communities. In addition, when traffic increases faster than capacity, there is generally an increase in congestion, in duration, intensity or geographical spread, which itself has substantial economic costs, imposed not only on specific vehicles but ramifying throughout an economy. These wider costs—sometimes called 'social' or 'external' costs—are real, cause economic burdens and inefficiencies, and are generally only partly taken into account, or not at all, by the companies and individuals making transport decisions." (p 28)

[20] The Commission Green Paper *Towards Fair and Efficient Pricing in Transport: Policy Options for Internalising the External Costs of Transport in the EU* (COM(95)691).

[21] COM (2002) 410 Final, p 7.

[22] See EESC, "Opinion on the Proposal for a Council Directive amending Directive 92/81/EEC and Directive 92/82/EEC to introduce special tax arrangements for diesel fuel used for commercial purposes and to align the excise duties on petrol and diesel fuel", CESE 73/2003, Brussels, 22–23 January 2003, paragraph 2.8, p 4.

[23] Any anticipated future changes in the pre-tax price of fuel are irrelevant to assessing the impact of the proposal. For the purpose of this assessment, the impact of the proposal must be judged to be, on average, a reduction in taxes and prices for road freight transport.

Tax Directive, which will increase the weighted average rate of fuel duty in the EU, a harmonised rate of €350/1000 litres on commercial diesel fuel would result in a far greater reduction in the average level of taxation on fuel than was previously the case.

57. The agreement on the Energy Tax Directive is also relevant to the second part of the Commission's proposal—establishing a common minimum rate of €360/1000 litres for petrol and non-commercial diesel fuel from January 2006. The new minimum rates prescribed in the Energy Tax Directive are €421/1000 litres for leaded petrol and €359/1000 litres for unleaded petrol.[24] It follows that **the Commission's proposal for a minimum rate of €360/1000 litres for the excise duty on petrol has been made redundant by the agreement on the Energy Tax Directive.**

58. The impact of this second part of the Commission's proposal would now be limited to requiring 8 of the 15 Member States to increase their rate of excise duty on diesel fuel used for "non-commercial" purposes by 9 % (from €330 to €360).

TAX AND PRICE CHANGES REQUIRED TO INTERNALISE THE EXTERNAL COSTS OF TRANSPORT

59. The unanimous conclusion of the expert evidence received was that internalising the external costs of transport requires two steps:

(i) an increased differentiation in taxes and prices so as to reflect local circumstances; and

(ii) an overall increase in taxes and prices for road transport.

The ECMT Secretariat sums it up thus: "Charging for congestion, accidents and environmental impacts would result in higher taxes for trucks and cars in the major urban areas of Europe, and indeed higher charges overall though with much variation depending on location and reduction in charges in some instances" (p 21).

60. In regard to the first point—the need for differentiation—the Commission for Integrated Transport drew attention to a recent study for the Department for Transport conducted by the Institute for Transport Studies (ITS) at Leeds. This study found that "marginal cost per veh/km (low cost estimate) varies from just under 2p on minor rural roads to […] £1.90 on minor roads in Central London" (p 17). Data submitted by Professor Nash clearly shows that this variation in costs is not currently reflected in a variation in taxes and prices (pp 34-35).

61. In regard to the second point—the need for an overall increase in tax and prices—the most recent evidence is that available from the now-completed international research programme referred to in the ECMT Memorandum. For the three largest Member States—the UK, France and Germany—an optimal set of taxes, which charged for the marginal social cost of each trip, would deliver a weighted average increase of 66% in overall national revenues from transport—the result for the UK, at 65%, is almost identical to the weighted average.[25]

62. Notwithstanding differences in emphasis and interpretation, the Committee did not receive any evidence to contradict these conclusions. For example, the Commission for Integrated Transport (CfIT), in line with its long-held position, stated that it had "not formed a view on whether the overall tax and duty paid by motorists and hauliers is too high, too low or about right" (p 17). However, the same ITS study which the CfIT cited as evidence on the variation in marginal costs as between rural roads and roads in Central London showed that road transport revenues across Britain currently cover only 36–50% of marginal costs.[26]

63. The FTA cited research commissioned by the Department for Transport and published by National Economic Research Associated (NERA) to suggest that "the overall costs that lorries impose on the road network and the environment broadly reflect the tax take from lorries through Vehicle Excise Duty and fuel duty" (p 26). But the FTA's conclusion that "there is no justification on environmental grounds for any reform of lorry taxation that results in an increase in the overall cost burden on lorries" (*ibid.*) needs to be read in the light of the remit of the NERA study, which excluded

[24] These rates are to be implemented in most Member Sates as early as January 2004.

[25] See *Optimal Transport Pricing*, Final Report of the ECMT/EC DG-TREN research project comparing current transport taxes and charges with an optimal pricing benchmark, London, February 2003, prepared as Chapter 2 of the forthcoming ECMT Report, *Efficient Transport Taxes and Charges 2003*, OECD Publications, Paris, 2003, p 6.

[26] See Tom Sansom, Chris Nash, Peter Mackie, Jeremy Shires (Institute for Transport Studies) and Paul Watkiss (AEA Technology Environment), *Surface Transport Costs and Charges: Great Britain 1998*, Final Report for the Department of Environment, Transport and the Regions, Institute for Transport Studies, University of Leeds, Leeds, July 2001, Executive Summary, Table B.

congestion costs in that particular modelling exercise whilst acknowledging the need to include such costs in any optimal pricing system.[27]

64. In addition to the evidence on the need for an overall increase in tax and price in order to internalise the external costs of transport, the Committee also received evidence on the ways and means of internalisation and its detailed impact. Industry and independent experts agreed that differentiated distance-based charges were the best instrument by which to effect internalisation. Hence the wide support for the Government's proposal to replace the current tax regime for freight vehicles by one which varies according to the distance travelled. Professor Goodwin summarised this support by saying that it "is a partial step […] in the right direction" (p 28).

65. Professor Goodwin also noted that "the same logic […] would apply even more strongly to private cars than to freight, since these are a more rapidly growing cause of congestion and pollution" (*ibid.*). This inference corresponds with the evidence from the research programme cited above (see paragraph 61): the increase in taxes and prices required for internalisation is, everywhere, far greater in the case of cars than in the case of trucks.[28] On this point, the expert evidence supports the FTA's conclusion that "the Government's environmental, safety and congestion objectives can only be fully realised if the wider behavioural signals from road user charging are applied to other road user categories" (p 26).

66. Professor Nash made the point that, given the price elasticities in the road freight market, "the resulting impact on freight volumes and mode split is probably not large" (p 32). But, as is evident from his data (p 34), given the pre-existing mode split, the impact on road and rail is not the same. This point can be explained by a simple arithmetic example: if the road/rail split is 80/20, then a 5% reduction in road's share (from 80% to 76%) would translate into a 20% increase in rail's share (from 20% to 24%).

67. Finally, Professor Nash argued that, in the event of a more comprehensive reform of transport taxes including the comprehensive application of distance-based charges, it might be appropriate to "reduce tax on diesel […] to reflect solely the cost of global warming. Since this cost is essentially the same for a litre of diesel wherever in the European Union it is used, it might then be logical to harmonise the tax on diesel fuel. But this should be seen as a final step in the implementation of the Commission's pricing policy for road haulage; not […] the first" (p 33).

DOES THIS PROPOSAL CONTRIBUTE TO THE INTERNALISATION OF EXTERNAL COSTS?

68. As shown above (paragraph 54), the Commission's proposal to harmonise commercial diesel fuel at €350/1000 litres entails a *downward harmonisation* relative to the current weighted average in the EU. The unanimous conclusion of the expert evidence received by the Committee was that, other things being equal, this is the *opposite* of what is required. The conclusion of the ECMT Secretariat—"Reducing fuel tax in isolation would have a strong negative effect on congestion and the environment" (p 22)—was echoed by the CfIT and by Professors Goodwin, Nash and McKinnon.

69. Professor Goodwin pointed out that harmonisation per se, irrespective of whether it is upward or downward, represents "an almost complete abandonment" of the principle of differentiation:

> "Transport prices for freight, in the name of 'harmonisation' between states, would become *less* harmonised with the variation in costs in specific circumstances. A tool—admittedly rather blunt—now available to national or indeed sometimes local administrations to take external costs into account, would not be sharpened, but blunted even further" (p 28).

70. This corresponds to the findings of the recent research cited in paragraph 61 and paragraph 65, which show that, whilst optimal pricing would require an overall increase in taxation in the UK, France and Germany, it would deliver a reduction in the case of uncongested Finland.[29] In contrast, the Commission's proposal would impose reductions in fuel duty in the UK, France and Germany at the same time as imposing an increase in Finland.

71. In regard to the UK, the Government, English, Welsh and Scottish Railway (EWS) and expert witnesses all referred to the impact of so large a reduction in fuel duty on the modal balance between road and rail. The Government have modelled the impact of reducing duty on diesel to the harmonised level set out in the Commission's proposal. They conclude that "the lower cost of road freight

[27] See *Lorry Track & Environmental Costs*, A Report for DETR, prepared by NERA, AEA Technology & The Transport Research Laboratory, London, April 2000, Appendix B. It is true that the FTA's conclusion holds if the phrase "environmental grounds" is interpreted in a narrow sense; the point, however, is that the NERA study implies the need for an overall increase in taxes and charges to reflect all relevant external costs, including congestion.

[28] See *Optimal Transport Pricing*, *op. cit*.

[29] See *Optimal Transport Pricing*, *op. cit*.

transport would result in a 23% fall in freight carried by rail (in terms of tonne kms) and a 12% decrease in the share of freight carried by both road and rail. The Commission's proposal would therefore reverse modal shift".[30]

72. The Committee did not receive evidence on the quantitative impact of the Commission's proposal in regard to the taxation of petrol and "non-commercial" diesel. But—as was noted in paragraphs 57 and 58—the Commission's proposal for a minimum rate of €360/1000 litres for the excise duty on petrol has been made entirely redundant by the agreement on the Energy Tax Directive; and the effect of the proposal for an increase in the rate of excise duty on diesel fuel used for "non-commercial" purposes has been significantly reduced to requiring only a 9% increase in 8 of the 15 Member States and no increase at all in the four largest Member States.

KEY CONCLUSIONS ON THE ENVIRONMENTAL IMPACT OF THE PROPOSAL

73. **The Commission's proposal to harmonise diesel fuel taxation does not contribute to the required internalisation of the external costs of transport—for the EU as a whole, it moves taxation in the opposite direction. The proposal would therefore have a negative overall impact on the environment.**

74. **The Commission's proposal would lead to a significant reduction in the volume and share of freight carried by rail in the UK.**

[30] Memorandum by Mr. John Healey MP (p 8). Submissions from the road industry (see the Memorandum by the Road Haulage Association and the Supplementary Memorandum by the FTA) have argued that price is not the main factor in determining the performance of the rail freight sector. But no quantitative evidence was submitted to suggest that the Government's estimates are wrong.

The Commission's forward programme

75. A striking feature of the evidence we received was that, irrespective of their particular views on fuel duty, witnesses argued strongly that it was not appropriate to consider changes to this particular tax prior to and independently of the Commission's as-yet-unpublished proposals on the broader reform of transport taxation (centred on the forthcoming Framework Directive on Infrastructure Charging). To cite one of numerous examples: "CfIT's view is that it is not appropriate to consider different elements of the charging framework in isolation, since the different elements of the framework address different components of transport's wider costs in a complex and interdependent way" (p 18).

76. In its defence, the Commission argued that it was not "realistic" to propose "a very complex package of measures" at one and the same time. "We already have this particular proposal […] we are coming up very soon with ideas regarding infrastructure charging […] It is a gradual progress across a number of fronts" (Q3). Moreover, these two proposals come under the jurisdiction of two separate Councils: the EcoFin Council decides on any proposals to change fuel tax whereas the Transport Council would decide on the Framework Directive.

77. Granted that not all measures can be proposed in a single directive, the expert view was, as Professor Goodwin put it,

> "that the sequence of policy development should be exactly the opposite of what the Commission is proposing. The first priority is to develop ways of making transport prices more sensitive to variations in environmental impact and congestion caused" (p 28).

78. The ECMT and Professors McKinnon and Nash all argued that a reduction in UK fuel duty could become appropriate if and when a sufficiently comprehensive set of distance charges were put in place for all road users—whilst arguing strongly against the proposed reduction in fuel duty taken in isolation. Professor Nash concluded that this proposal was "premature" (p 33). In short, the view was that (a) the first priority should be the introduction of distance charges tailored to the variations in environmental impacts, and (b) it was not possible to establish the "right" level of duty on fuel without undertaking the broader reform of transport taxation, including the priority task of introducing distance charges.

79. In any event, the adoption of the Energy Tax Directive will reduce the scope of the Commission's proposal on fuel tax to only a modest increase in regard to excise duty rates on diesel in some countries—alongside a larger reduction in others—and no change at all in regard to excise duty rates on petrol. The only significant impact of the present proposal is thus the large reduction in diesel fuel duty rates in the UK and other large Member States.

KEY CONCLUSIONS ON THE COMMISSION'S FORWARD PROGRAMME

80. **In view of the agreement on the Energy Tax Directive, the Committee recommends that the Commission withdraw the present proposal. The Commission should bring forward its proposed Framework Directive on Infrastructure Charging before any further discussion of the reform of fuel taxation.**

81. **The Committee considers that the Commission should coordinate the development of its legislative proposals so as to ensure coherence between its taxation, transport and environmental policy objectives.**

The position of the UK Government

82. The Government have strongly opposed the Commission's proposal, which requires unanimity in the Council. Indeed they have said that they intend to vote against the proposal should it come to Council. As shown above, they have contested each of the specific grounds on which the Commission rests its case: competition, government revenues and the environment. In his oral evidence, the Minister laid particular stress on the negative impact of the proposal on the environment: "There would be a substantial shift from rail to road […] a 23 per cent shift of freight movements from rail […] an increase in the amount of CO_2 emissions from lorries (Q34)." As was also shown above, on each of these specific points, the Government's evidence is broadly in line with the evidence submitted by independent experts.

83. At the same time, alongside these specific objections, the Government have argued from the more general position of a "principled approach". The Government's principle here is that, when negotiating in the Council of Ministers, they will "only allow departures from the freedom of Member States to set tax rates and tax bases where there are strong and specific reasons to do so" (Q26). How then do the Government support the imposition of minimum rates of excise duty on fuel—and indeed an increase in minimum rates embodied in the Energy Tax Directive? Does this not also impinge on the freedom of Member States to set tax rates and tax bases?

84. The Government's answer is that "on the challenge of global warming," they accept that there are "strong and specific reasons for acting across the EU" (Q26). The problem with this answer is that every "departure from the freedom of Member States to set tax rates and tax bases" is justified by appeal to "strong and specific reasons" but what constitutes "strong and specific reasons" is always open to challenge. Presumably, the Commission believes that there are "strong and specific reasons" to harmonise fuel duty across the EU. In this particular case, the Government are at one with the expert witnesses in challenging the reasons given by the Commission. The strength of the Government's position lies in the content of this challenge—not in the appeal to a general principle.

85. In view of the developing EU-wide debate on the broader reform of transport taxation—and especially in view of the increasing EU-wide interest in the UK's own initiatives on such issues as user charges for lorries and congestion charging in London—it is unhelpful to approach this debate by proclaiming the principle of freedom of Member States to set tax rates. This freedom exists unless Member States agree to set it aside and the Government agree that there are sometimes "strong and specific reasons" to set it aside. Hence, the UK is not in disagreement with others on this point and nothing is gained by inventing a disagreement where none exists.

KEY CONCLUSION ON THE POSITION OF THE UK GOVERNMENT

86. **The Committee welcomes the Government's submission of specific arguments on the Commission's proposal on fuel duty and recommends that the Government frame its response to future proposals on transport tax reform on the basis of the specific merits and de-merits of each proposal.**

PART 4: SUMMARY OF KEY CONCLUSIONS

Competition

87. The Committee accepts the implications of the findings established by the ECMT and endorsed by the Commission and the Transport Ministers that, at present, because of countervailing differences in other taxes and costs, the existing differences in rates of fuel taxation do not serve to distort competition in the haulage market. *(paragraph 40)*

88. The Committee accepts the need for minimum rates of fuel duty in the EU. We consider that the increase in minimum rates embodied in the Energy Tax Directive should serve to avoid the generation of distortions to competition. *(paragraph 41)*

Government revenues

89. The Committee accepts the Government's findings that the Commission's proposal would lead to a significant net revenue loss to the UK and notes that the Commission has not presented any evidence to the contrary. *(paragraph 48)*

90. The Committee accepts the need for minimum rates of fuel duty to protect government revenues across the EU. Moreover, we consider that the increase in minimum rates embodied in the Energy Tax Directive should serve to enhance revenues for the sum of Member States. *(paragraph 49)*

The environmental impact of the proposal

91. The Commission's proposal to harmonise diesel fuel taxation does not contribute to the required internalisation of the external costs of transport—for the EU as a whole, it moves taxation in the opposite direction. The proposal would therefore have a negative overall impact on the environment. *(paragraph 73)*

92. The Commission's proposal would lead to a significant reduction in the volume and share of freight carried by rail in the UK. *(paragraph 74)*

The Commission's forward work programme

93. In view of the agreement on the Energy Tax Directive, the Committee recommends that the Commission withdraw the present proposal. The Commission should bring forward its proposed Framework Directive on Infrastructure Charging before any further discussion of the reform of fuel taxation. *(paragraph 80)*

94. The Committee considers that the Commission should coordinate the development of its legislative proposals so as to ensure coherence between its taxation, transport and environmental policy objectives. *(paragraph 81)*

The position of the UK Government

95. The Committee welcomes the Government's submission of specific arguments on the Commission's proposal on fuel duty and recommends that the Government frame its response to future proposals on transport tax reform on the basis of the specific merits and de-merits of each proposal. *(paragraph 86)*

RECOMMENDATION

96. The Committee considers that the taxation of fuel in the European Union raises important questions to which the attention of the House should be drawn and makes this Report to the House for information.

APPENDIX 1

Sub-Committee A (Economic and Financial Affairs, Trade and External Relations)

Members of the Sub-Committee

Lord Armstrong of Ilminster
Lord Geddes (Chairman)
Lord Hannay of Chiswick
The Rt Hon the Lord Jones
The Rt Hon the Lord Lamont of Lerwick
Lord Lea of Crondall
Lord Marlesford
The Rt Hon the Lord Radice
Lord Sharman
The Rt Hon the Lord Sheldon
Lord St John of Bletso
Lord Taverne

The Specialist Adviser was Dr Rana Roy

Members of the Sub-Committee declared the following interests:

Lord Geddes
Non-Executive Chairman:
Pacific Chartered Capital Management Limited
Pacific Chartered (Europe) Limited
Photo Corporation (UK) Limited
Trinity College London
Chrome Castle Limited

Non-Executive Director:
Portman Settled Estates Limited
Trinity College of Music

Lord Armstrong of Ilminster
Chairman, Forensic Investigative Associates plc
Chairman, Board of Governors, Royal Northern College of Music
Chancellor, University of Hull
Chairman, Leeds Castle Foundation
Chairman, Hestercombe Gardens Trust
Trustee, RVW Trust

Lord Hannay of Chiswick
British Government Special Representative for Cyprus
Tangguh Independent Advisory Panel (for BP)
Member, Council of Britain in Europe
Non-Executive Director, Aegis Group
Non-Executive Director, Chime Communications
Pro-Chancellor, University of Birmingham
Director Salzburg Seminar
Member, International Advisory Board of EDHEC (French Business and Management Schools)
Member, Advisory board, Centre for European Reform
Member, Advisory board, European Foreign Affairs Review
Member, Advisory board, Prospect Magazine

Lord Lamont of Lerwick:
Chairman, East European Food Fund
Director, Balli plc
Director, Banca Commerciala Robank SA
Director, Compagnie Internationale de Participations Bancaires et Financieres
Director, European Growth and Income Trust (managed by Aberdeen Asset Management)
Director, Jupiter Finance and Income Trust (Investment Trust)
Consultant, Fintrade

Consultant, Rotch Group
Vice-President, Bruges Group
Member, Business for Sterling

Chairman, Le Cercle
Director, British Iranian Chamber of Commerce
Director, British Romanian Chamber of Commerce
Vice Chairman, International Nuclear Safety Commission
Chairman of the Oil Club

Lord Lea of Crondall
Treasurer, Parliamentary Group on Macedonia
Treasurer, Parliamentary Group on the Federal Republic of Yugoslavia
Member, Central Arbitration Committee

Lord Marlesford
Adviser, Board of John Swire and Sons
Adviser, Mitsubishi Corporation (UK) plc
Adviser, Sit Investment Associates (Minneapolis)
Adviser, World View Incorporated (New York)
Non-Executive Director, Baring New Russia Fund Ltd
Independent National Director, Times Newspaper Holdings Ltd
Chairman Marlesford Parish Council
President, Suffolk ACRE (Action for Communities in Rural England)
President, Suffolk Preservation Society

Lord Radice
Board Member, Britain in Europe
Board Member, European Movement
Chairman, British Association for Central and Eastern Europe

Lord Sharman
Chairman and Shareholder, Aegis plc
Board Member, Britain in Europe
Director and Shareholder, B G International plc
Director, AEA Technology plc
Director, Reed Elsevier plc
Director, Youngs Brewery plc
Director and Shareholder, Phocis plc
Adviser (paid) KPMG

Lord Taverne
Director, Industrial Finance Group Ltd
Chairman, Monitoring Board, Axa Sun Life plc
Chairman, Advisory Board, Oxford Centre for Environment, Ethics and Society (OCEES)
Chairman of Trustees, Alcohol and Drug Addiction Prevention and Treatment (ADAPT) Ltd
Chairman of Trustees, Iran Aid Foundation
Trustee, The Health and Science Communication Trust

APPENDIX 2

List of Witnesses

The following witnesses gave evidence. Those marked ** gave both oral and written evidence; those marked * gave oral evidence only; those without an asterix gave written evidence only.

* Commissioner Bolkestein, Internal Market, Customs and Taxation
Commission for Integrated Transport (CfIT)
English, Welsh and Scottish Railway Ltd (EWS)
European Conference of Ministers of Transport (ECMT)
Freightliner
Freight Transport Association (FTA)
Professor Phil Goodwin, Economic and Social Research Council
** HM Treasury
Professor Alan McKinnon, Heriot-Watt University, Edinburgh
Professor Chris Nash, Institute for Transport Studies, University of Leeds
Petrol Retailers Association (PRA)
Road Haulage Association (RHA)

APPENDIX 3

Glossary

Note: Terms defined elsewhere in the Glossary are shown in italics.

Cabotage: The exclusive right of a country to operate the traffic within its territory.

CEBR: Centre for Economics and Business Research

CfIT: Commission for Integrated Transport

DETR: Department for Environment, Transport and the Regions

ECMT: European Conference of Ministers of Transport

Ecofin: The Council of Ministers of the European Union responsible for Economic and Financial Affairs; it is made up of the economics and finance ministers of the Member States.

ECU: European Currency Unit

EESC: European Economic and Social Committee

EMU: Economic and Monetary Union

EU: European Union

EU-15: term used to refer collectively to the 15 countries that are Member States of the *EU* prior to enlargement of the *EU* in 2004.

EUR: euro

European Council: the European Council consists of the heads of state or government of the European Union.

Eurozone: Term used to refer collectively to those Member States which are participating in Stage Three of *EMU*, that is, who have adopted the euro.

EWS: English, Welsh and Scottish Railway ltd.

FTA: Freight Transport Association

GDP: Gross Domestic Product

HMT: Her Majesty's Treasury

ITS: Institute for Transport Studies, Leeds University

METRs: Marginal effective tax rates

NERA: National Economic Research Association

OECD: Organisation for Economic Cooperation and Development

OJ: The Official Journal of the European Union

PRA: Petrol Retailers Association

RHA: Road Haulage Association.

The following are the abbreviations used in this report for the countries of the EU:

B: Belgium
DK: Denmark
D: Germany
EL: Greece
E: Spain
F: France
IE: Ireland
I: Italy
L: Luxembourg
NL: Netherlands
A: Austria
P: Portugal
SF: Finland
S: Sweden
UK: United Kingdom

In accordance with Community practice, the EU countries are listed using the alphabetical order of the country names in the national languages.