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EU to Propose Carbon Tax on Fuels

By ALESSANDRO TORELLO

BRUSSELS—The European Union next week will propose taxing transport and heating fuels according to their greenhouse-gas emissions as well as their energy content, introducing a climate-change component in EU tax rules for the first time, after years of negotiations.

The European Commission, which has executive powers in the European Union, will propose a minimum rate of €20 (\$29) a metric ton of CO₂ emitted by products like gasoline, diesel, natural gas and coal starting in 2013, a draft document obtained by Dow Jones Newswires shows.

According to the document—which is the draft revision of an existing law on taxation of energy products, and might still change before being made public Wednesday—the commission will also propose a gradual increase of a minimum levy on diesel to bring it to the same as that on gasoline by 2018.

"Taxation related to CO₂ emissions can be a cost-effective means for member states to achieve the reductions of greenhouse gases necessary" to reach the EU's 2020 climate change targets, the draft law said. EU member countries have set themselves a goal of cutting CO₂ emissions by 20% compared with 1990 levels by 2020.

The EU's carbon market, the Emissions Trading System, is the flagship program to reach that target, but it covers only part of the economic activities, and the levy on CO₂ is designed to complement it.

Some national governments, such as the U.K. and Ireland, are traditionally reluctant to cede control over tax policies. The EU has been able to introduce floor levels for taxation in some areas, including fuels, but any decision has to be taken by unanimity among the 27 countries, a rule that has slowed the process and has prevented the commission from proposing plans for a CO₂ tax for years.

However, the upcoming proposal might actually provoke government opposition because the levy on CO₂ is designed as a component of a revision to an existing tax on fuels, said Christian Egenhofer, the head of the climate and energy program at Brussels-based think-tank Center for European Policy Studies.

Once a minimum level is set, then governments that are more motivated could push the rules further, Mr. Egenhofer said. "You could gradually broaden the base of the tax, maybe using enhanced cooperation," he said, referring to an EU procedure that lets a number of countries cooperate on an issue, leaving some behind.

This will be more likely to happen now because the establishment of a minimum level of taxation will avoid sharp differences among neighboring countries.

"By setting a minimum, it means that front movers can set even higher CO₂ taxes, before you risk that people go abroad to fill up their gas tanks," explained Eivind Hoff, director of Bellona Europa, an environmental non-governmental organization based in Norway.