

Environmental taxation in Spain: Running out of excuses and time to act

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Once again, the increase in the taxation of motor fuels has been blocked in the Spanish Parliament. The political context is changing and the protagonists of the lack of initiative in this area or, when it occurs, of the veto are changing. Even the reasons why it is never the right time to increase diesel and gasoline taxes change: competitiveness of the economy, protection of industry, distributional concerns, etc. But, in essence, everything has remained the same for more than three decades and so environmental taxation maintains its marginal role in the Spanish tax system because fuel taxes are among the lowest in the European Union.

The problem is that many other things have changed in recent years that make it unjustifiable to maintain this status quo. Firstly, it is now clear that Spain is particularly vulnerable to climate change, the impacts of which are being felt with great intensity and earlier than expected. Recall that while droughts and heat waves have always existed, climate change is increasing their prevalence and intensity, as demonstrated by basic climate science and specific attribution studies of increasingly common and damaging extreme events. It is astonishing that, after a catastrophe such as the one experienced a few days ago in Spain, a measure so necessary to achieve the reduction and elimination of the use of fossil fuels, the main cause of climate change, should be allowed to lapse. A measure, by the way, that can also contribute to raising resources to mitigate the effects of these disasters, promote future adaptation to climate change or, for example, contribute to the funds to be provided to comply with the recent climate meeting in Baku.

This is also inconsistent with the EU's increasingly ambitious climate commitments to comply with the Paris Agreement. These commitments require, of course, action by member states through sectoral targets and public policies. The disparity between the targets set by the Spanish government and the policies that support them is well known, but in the case of transport the situation is dramatic. This is a sector that is having serious difficulties in making progress in decarbonisation, something that is certainly related to the low (or non-existent in the case of aviation) existing taxation.

That is why the White Book for the reform of the Spanish tax system in 2022, whose scant application and large size make it a candidate for coasters in certain government departments, as we could read in this newspaper a few days ago, devotes almost half of the also voluminous chapter on environmental taxation to formulating and evaluating various taxes on transport. It is not a question of filling pages or, contrary to the claims of various lobbies in the sector, of considering the vehicle as a negative element and limiting the right of citizens to move freely. A set of fiscal measures is proposed which, in a coordinated and gradual manner, will act as a lever for the necessary change needed in such an important sector in environmental and economic terms. A sector, by the way, whose current serious difficulties in Europe probably have to do with its reactive

action in this area and which should be the first interested party in adequately resolving its transition to a more sustainable model.

One of the advantages of the environmental chapter of the White Book is that, in addition to formulating proposals, it presents rigorous and detailed simulations of the potential environmental, revenue and distributional impacts. Thus, it provides valuable information on the effects of tax equalisation of diesel and petrol for motor vehicles: an increase in revenue of around 2 billion euros per year (without incorporating professional diesel), a significant reduction in CO₂ emissions and slightly regressive impacts. The latter explains the opposition of some political forces, but it is important to point out two issues: other policy instruments can be as or more regressive (e.g. low emission zones that prevent access for users with older vehicles) and more difficult to mitigate, and inaction will lead to certainly greater climate impacts for the less well-off because of their lower adaptive capacity. In addition, it is possible to compensate lower income households through a combination of cash transfers and subsidies for equipment replacement. In this respect, the White Book indicates that the purchasing power of half of the households (the poorest) could be maintained by using only 10% of the revenue raised.

It is still possible to recover the diesel tax equalisation proposal and to start on the path, partly outlined in the White Book, to reduce Spain's significant disparity between climate targets and policies. Both policy makers and lobbyists must know that our time to implement gradual and cost-effective solutions is running out. They should also anticipate the severe scrutiny that the Spanish society of the future will reserve for them in the face of accumulating evidence.