

What's wrong with diesel in Spain?

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The proposal to raise the tax on automotive diesel is being questioned in the budget discussion. It is difficult not to feel a sense of stupor when observing the political management of such a relevant issue, for our present and for the ecological transition. Environmental taxation is an alternative endorsed for decades by the academic world which, despite the insistence of the European Commission and various international institutions in recent years, shows serious deficiencies in our country. This week, the government took the first step in decades -certainly incomplete- towards the normalization of these taxes, which, however, may be shipwrecked in the face of frontal opposition from several political parties.

How did we get here? Ignorance of political decision-makers, false debate between economic development and environmental protection, and intense action by business lobbies have put us at the bottom of Europe in the use of these instruments. The diesel excise tax is actually 25 points below the EU-28 weighted average and even further away from the taxes in France, Italy or the UK. This is particularly worrying, since transport has become the main GHG emitting sector and the source of major local pollution problems in Spain. It is surprising that the reactive position of some parties coincides precisely with the release of a study showing the serious health damage caused by pollution in the main Spanish cities, largely caused by an obsolete diesel fleet, with figures of around 1000 euros per inhabitant per year in, for example, Madrid or Bilbao.

It is also worrying to note how, with a public sector subject to large budgetary imbalances due to significant public spending needs and a tax burden below the European average, a major source of revenue has been neglected for too long. In fact, such a minor and partial increase (only for non-commercial automotive diesel) as announced by the government would provide almost a third of the revenue obtained from the myriad of fiscal proposals agreed upon by the coalition. Moreover, it would be easy to reach a horizon of an additional 3 billion per year with modest action in this area (60% more than what was obtained with the new tax revenues in the budget bill).

It is now time to refute each one of the reasons that have been pointed out these days by the politicians who are against the increase of diesel taxes: inadequate timing in the face of the deep economic crisis, negative effects on business competitiveness and impacts on equity.

With respect to the former, any economic crisis must prioritize the obtaining of public resources through the taxation of evils (pollution) rather than on good things (income, consumption, etc.), especially in a situation in which the price of oil has collapsed and it is thus possible to limit the rise in fuel while protecting the incentives for low-carbon transition. That is, if we need more public resources in times of crisis, energy-environmental taxation should be a priority.

It is also time to think about our industry of the future and not of the past. Trying to protect, through favorable tax treatment, sectors that have to be radically transformed in the coming years is useless and counterproductive because it will harm companies and workers in the medium term. We are already too late in adapting our economy to a reality that revolves around decarbonization and digitalization, but this requires many resources (not only European monies) and appropriate support regulations such as the pricing of pollution. Moreover, let us make no mistake: environmental taxation is a market-friendly instrument for the business world by minimizing the high costs of transition to decarbonized economies thanks to its flexibility and incentives to technological change.

Nor does it seem justifiable to take refuge in the supposed problems of equity of these taxes in order to delay their application. In the first place, because their regressive nature is limited, since fuel consumption is linked to economic capacity: in fact, our preliminary evaluation, assuming taxation of all automotive diesel, points to the insignificant distributive impact of the proposed increase. Secondly, because it is possible to devote part of tax revenues to offsetting the impacts on the most disadvantaged: in a recent [study](#) we observed how this can be achieved at low collection costs and that it would even be possible to address a significant reduction in the high Spanish poverty rate by using part of the resources obtained from these taxes. In this sense, it is also essential to concentrate subsidies to promote the substitution of vehicles on those social groups with less economic capacity and more vulnerable to tax increases, thus breaking with the generalized aid policy currently prevailing in Spain, which is undesirable from both distributional and environmental perspectives.

I sincerely hope that we are still in time to save this necessary fiscal proposal and that Spain abandons the abnormality in which it has been immersed in this area for too many years now.

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