To:
Ms Ursula von der Leyen, President of the European Commission
Mr Frans Timmermans, Executive Vice-President for the European Green Deal
Ms Mairead McGuinness, Commissioner for Financial Stability, Financial Services and the Capital Markets Union
Mr. Paolo Gentiloni, Commissioner for Economy
Ms. Kadri Simson, Commissioner for Energy
Mr Virginijus Sinkevičius, Commissioner for Environment, Oceans and Fisheries
Brussels

31 March 2022

Dear President von der Leyen,
Dear Executive Vice-President Timmermans,
Dear Commissioners McGuinness, Gentiloni, Simson and Sinkevičius,

As the world looks on in horror at Putin's invasion of Ukraine, humanity faces its biggest crisis in decades. The outburst of solidarity and sympathy with Ukraine across the world, including our country, is heartening. The EU has already taken action to respond to this terrible aggression, but more is needed, and in no case should Member States introduce measures that further worsen the situation.

The rockets destroying Ukrainian cities were mostly bought with money Russia earned selling oil to the European Union.[1] European oil money – oil historically accounted for 4 out of 5 dollars made on Russian oil and gas exports – has underpinned Putin's military spending for over two decades. Every day the EU sends $285 million to Russia to buy oil.[2] The transport sector accounts for more than two-thirds of the EU's final demand for oil and petroleum products.

However, the majority of EU Member States have just recently introduced measures that incentivise oil consumption. According to Transport&Environment's fuel duty tracker, 14 of the 27 Member States have introduced cuts to fuel excise duties and/or other fuel subsidies.[3] Ireland has reduced the excise duty by 20 eurocents per litre on petrol, and 15 cents per litre on diesel.[4] The prime minister of France announced that they will introduce a rebate of 15 cents per litre for four months, which would cost the government more than €2 billion.[5] Sweden is planning to reduce tax on petrol and diesel and give each car owner SEK 1,000 in a one-off support payment.[6] Even one of the most vocal opponents of Russia's aggression, Poland has reduced the VAT on transport fuels from 23% to 8%.[7] The Hungarian government has put a price cap of €1.26 on petrol and diesel, reduced the excise duty by about 7 cents, and provided a subsidy of about 5 cents per litre to smaller filling stations.[8]

While these subsidies are politically understandable as an emergency measure to cope with higher prices, they clearly have strong downsides – as price reductions will actually encourage greater fossil fuel use and undermine the purpose of the instrument, tie us in to further fossil-lock-ins and seriously undermine climate action, increase social disparities and lead to undesirable market distortions. Furthermore, there are real solutions that have an immediate positive effect in all these areas.

If the recently introduced fossil fuel subsidies were withdrawn and no new fossil fuel subsidies introduced, and at the same time appropriate compensation for vulnerable households implemented, then politicians should not be worried about the spectre of a new *gilets jaunes* movement. On the contrary, a much fairer social system could be created. In fact, similar subsidy reforms have been proven to be very effective in environmental, social and economic terms in several countries (for example, Ghana[9], Indonesia,[10] Iran[11], and Canada[12]). Austria has just decided to start such a reform. [13] In 2019, more than 3500 economists, including 28 Nobel Laureates called for the implementation of a carbon fee and dividend system[14], and it has been promoted by many organisations (among others, by Citizens Climate Europe[15]). Proposals with a similar aim have been elaborated by various organisations in several EU countries.[16] The Sixth Assessment Report[17] of the Intergovernmental Panel on Climate Change (IPPC) states the following: "Pricing of greenhouse gases, including carbon, is a crucial tool in any cost-effective climate change mitigation strategy, as it provides a mechanism for linking climate action to economic development. … using tax revenues to issue payments back to taxpayers that are disproportionately impacted or to redistribute capital among regions may be one of the most important features of carbon tax policies."

Fuel price reduction results in increased fuel consumption.[18] The recently introduced fuel price subsidies (including tax subsidies) are over-exploited as a short-term measure and run against many of the basic principles of the European Union as enshrined in the Treaties:

1. *"The Union's aim is to promote peace, its values and the well-being of its peoples."*[19] – Increasing the financing of a terrible and totally unjust war is in manifest contradiction with this aim.
2. *"The Union … shall work for the sustainable development of Europe based on … a high level of protection and improvement of the quality of the environment."*[20] *"Union policy on the environment shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay."*[21] – Increasing fossil fuel subsidies contradicts these basic principles, it fosters environmental pollution and enhances greenhouse gas emissions. Moreover, it manifestly contradicts the polluter-pays-principle as it further augments the already colossal amount of fossil fuel subsidies.[22] Furthermore, it also violates the non-regression principle to which the Commission committed itself to.[23] It might also reduce the funding available for investments in energy efficiency and renewables.
3. *"The Union … shall promote economic, social and territorial cohesion…"*[24] – Subsidising fossil fuels weakens social cohesion. Namely, these subsidies benefit mainly rich people: the richest 10 percent of the population use eight times more transport fuel than the poorest 10 percent.[25] This aggravates social disparities and injustice and finances those persons who contribute by far the most to climate change. (The richest 1% of the world's population emit twice as much carbon dioxide than the poorest 50%.[26]) Moreover, often it is not households that pay for the fuel but companies, and the millions of company cars currently on Europe's roads are overwhelmingly driven by better-off segments of society. Thus, again, fuel tax subsidies provide the largest tax break to the very richest, in many of the cases (e.g. around 10% of households in Belgium), it is providing a tax break straight to companies with the most generous salary perks.[27]
4. *"The Union shall establish an internal market. It shall work for … a highly competitive social market economy."*[28] – Fossil fuel subsidies enormously distort the market,

providing undue advantage to certain actors of the economy while flagrantly disadvantaging other actors. (Among others, as history has proven, reducing fuel excise duty will be compensated for by oil companies raising their prices.[29]) Besides, fuel tourism (drivers in one Member State purchase their fuel in another country) will flourish and thus distort tax flows towards the country with the lowest taxation. (For example, recently introduced fuel subsidies in Hungary[30] and Slovenia[31] resulted in huge fuel tourism and even fuel smuggling[32].) Moreover, providing fuel tax subsidies might prolong the agony of enterprises that would not be competitive even today if they would have to pay the full price of their activities. All this reduces the competitiveness of the EU's economy.

5. *"The Union ... shall work for the sustainable development of Europe based on balanced economic growth and price stability…"*[33] – As described above, increasing fossil fuel subsidies contributes to financing Russia's aggression and worsen the state of the environment. However, it is war and environmental pollution that causes the highest inflation. There is hardly anything else that would increase costs more than the sickness and death of masses of people as well as the destruction of economic assets. (For example, if agricultural production in Ukraine will be disrupted due to the war, food prices will skyrocket all over the world[34] – as we are already starting to experience it in our everyday life.) Moreover, the fossil fuel subsidies will have to be financed by the taxpayers through price increases in other products and services, reduced public expenditures and/or increased public debt.
6. *"Appropriations [of EU funds] shall be used in accordance with the principle of sound financial management*."[35] It cannot be considered sound financial management of EU money if Member States are using an enormous amount of national public money for aims that contradict the aims for which public funding is provided. (Already the measures announced by 14 Member States total nearly €9 billion.[36])
7. *"In order to contribute to the protection of the right of every person of present and future generations to live in an environment adequate to his or her health and well-being, each Party shall guarantee the rights of access to information…[37]"* – While the consumers are informed about reduced petrol and diesel prices at the petrol stations, they are not informed or grossly under-informed about the terrible consequences of the subsidies which make these reduced prices possible.

We urge you to promote immediately alternative solutions to tax cuts and price caps that avoid supporting further fossil-fuel use and engage with Member States that have recently increased fossil fuel subsidies (introduced price caps, reduced excise duty on fuel, etc.) urging them to set a clear short-term deadline for ending these measures, and specifying that these are emergency, temporary measures. The avoided tax cuts will also ensure more public money is available that can be useful to compensate vulnerable households.

We also ask you to initiate the introduction of a tariff on Russian oil imports. EU countries could raise €27 billion this year from an import tariff of $25 a barrel on Russian oil. Russia's oil industry would have to absorb the cost as they have no alternatives to selling on the European market in the short term.[38]

Please also ask Member States to start a wide-scale awareness-raising campaign without delay on energy savings and energy sufficiency, informing people about the enormous drawbacks of fossil fuel subsidies and asking drivers and companies to use their motor vehicles only if it is absolutely necessary until Putin ends its aggression against Ukraine. They should provide information also about easy wins that contribute to reducing energy demand (and hence price volatility), such as using public transport, cycling and walking, applying eco-driving, using carpooling, working from home whenever possible, making weekend excursions to nearby places without a car, refraining from flying).[39]

We are looking forward to your reply and actions as soon as possible.

Sincerely yours,

András Lukács, President, Clean Air Action Group, Hungary

Jeremy Wates, Secretary General, European Environmental Bureau

Wojciech Szymalski, President, Fundacja Instytut na rzecz Ekorozwoju, Poland

Csaba Mezei, General Secretary, CEEweb for Biodiversity

James Collis, Chairperson, Citizens' Climate Europe

Aida Szilagyi, Chairlady, National Centre for Sustainable Production and Consumption, Romania

Zoltan Hajdu, Executive President, Focus Eco Center

Jeremie Fosse, President, eco-union

Gaja Brecelj, Director, Umanotera, Slovenia

Andrea Lichtenecker, Executive Director, Naturefriends International

Mauro Albrizio, European Affairs Director, Legambiente

Dana Marekova, Climate Coalition, Slovakia

Janis Brizga, Chairman of the Board, Green Liberty, Latvia

Franz Maier, President Umweltdachverband

Tetiana Stadnyk, Secretary General, Youth and Environment Europe

Yasen Georgiev, Executive Director
Economic Policy Institute

Aedín McLoughlin, CEO, Good Energies Alliance Ireland

Kai Schlegelmilch, President, Green Budget Germany (GBG/FÖS), Germany

Camilla Sederholm, Executive Manager, Natur och Miljö rf (Finnish Society for Nature and Environment), Finland

Barbora Urbanová, Director, Centre for Transport and Energy

Anja Bakken Riise, President,
Future in Our Hands, Norway

Florian Schöne, Director, Deutscher Naturschutzring (DNR)

Margarita Karavasili – Chondrou, ECOCITY Board Member, Greece

Bob Wilson, Coordinator, Centre for Environmental Living & Training, Ireland

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