Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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# What lies behind soaring petrol and diesel prices in Europe?

When a consumer buys a litre of petrol or diesel, the purchase is not just fuel. It is, above all, a tax payment. And in reality, the tax burden is much higher than most people assume.

In Europe, the price of petrol and diesel can no longer be explained only by international crude prices or by the visible taxes charged at the pump.

In 2026, the available evidence shows that direct fuel taxes account, on average, for 52.1% of the final price of Euro-super 95 petrol in the European Union, with several countries above 55%. This means that consumers are paying more for taxation than for crude, refining, and logistics combined.

Even that figure understates the problem. The total public burden on petrol and diesel is not limited to excise duties and VAT. There is a full battery of taxes, levies, tolls, regulatory costs, and environmental charges throughout the value chain, from exploration and imports to storage, refining, distribution, and marketing.

Once these layers are incorporated, the fiscal and quasi-fiscal burden rises far above what consumers identify at the time of payment. The issue is therefore not only that fuels are heavily taxed, but that they are taxed cumulatively: tax on tax, cost on cost.

## Tolls, fees, and regulatory obligations

This helps explain a perception widely shared by households and businesses. Petrol could cost close to one euro per litre when oil was at nominal and real historic highs, whereas today it can be around 1.8 euros with a much lower barrel price. The economic intuition is correct.

When the tax and regulatory component becomes larger, declines in crude prices are transmitted less and less to the pump, while increases are passed through rapidly. The result is a pricing system in which the final price depends less on oil and more on an accumulated public burden that acts as a rigid floor under the cost paid by consumers.

> Royalties, profit taxes, environmental requirements, and compliance costs all raise the profitability threshold

Reducing this debate to visible taxation at the service station would be an analytical mistake. At the exploration and production stage, royalties, profit taxes, environmental requirements, and compliance costs all raise the profitability threshold for any hydrocarbon-related project.

Then intermediate transport, storage, and associated infrastructure face tolls, fees, taxed energy costs, and regulatory obligations that are embedded in the per-litre cost even before the product reaches the refinery.

## A structural component of the final price

Refining is particularly important. It is capital-, energy-, and regulatory compliance-intensive activity. At this stage of the chain, conventional corporate taxation, emissions costs, internal energy costs, mandatory environmental investment, and administrative expenses arising from increasingly complex regulation all converge.

All of this makes the transformation of crude into petrol, diesel, and other products more expensive.

Wholesale and retail distribution add another layer: terminals, logistics networks, facilities, operators, and marketers pay general taxes, local fees, labour charges, financing costs, and regulatory compliance expenses that are incorporated into the final price, even if they do not appear as a direct fuel tax.

> Capacity data by country show that Europe went from more than 18.3 million barrels per day of refining capacity to 15.1 million barrels per day

This is why taxation should no longer be seen as a secondary factor added to the energy price, but as a structural component of the final price itself. The consumer is not only paying for fuel, but for a chain of visible and invisible burdens running through the entire European regulatory architecture.

A second key factor must be added to this fiscal pressure: the loss of refining capacity in Europe. Over the last two decades, the continent has significantly reduced its refining system, both in the number of installations and in total capacity.

Capacity data by country show that Europe went from more than 18.3 million barrels per day of refining capacity to 15.1 million barrels per day, a decline of roughly 17.6% from the earlier peak.

Other industry sources indicate that, since 2009, the mainstream system of the EU-27, the United Kingdom, Norway, and Switzerland has lost 154.8 million tonnes of annual primary capacity and stood at 638 million tonnes in 2024.

## An erosion of system resilience

This reduction is not anecdotal. FuelsEurope records the closure or transformation of 28 major European refineries since the late 2000s, some of which have been converted into biorefineries, reducing the capacity available for conventional crude refining.

In addition, several analyses show that in the last decade alone the European Union has lost around 10% of its capacity, with countries such as Italy and Germany cutting roughly 20%.

The consequence is clear. Europe now operates with a refining system that is smaller, tighter, and less flexible. When a region reduces domestic capacity while simultaneously increasing fiscal, regulatory, and environmental burdens on internal production, it becomes more dependent on imports of refined products and more vulnerable to logistical or geopolitical disruptions.

Any supply tension, unplanned maintenance, or rebound in demand is therefore more easily translated into sharp increases in petrol and diesel prices.

> It is not enough for oil prices to fall for final prices to fall in the same proportion

This is where European energy policy comes in. Programmes such as REPowerEU aim to reduce dependence on fossil fuels, accelerate renewables, electrification, and efficiency, and progressively displace demand for oil products. From a climate perspective, the objective is clear.

However, from an industrial and security-of-supply perspective, the outcome has been a reduced willingness to invest in liquid-fuel assets, a hightened perception of regulatory risk and, therefore, an erosion of system resilience.

When the policy framework indicates that refining is a declining activity, incentives to maintain, expand, or modernise capacity weaken. If, in addition, this activity faces high energy costs, increasing environmental obligations, and a very demanding fiscal framework, the combined effect is a more fragile domestic supply base.

In that context, it is not enough for oil prices to fall for final prices to fall in the same proportion. Europe's fuel system has become structurally more expensive and less capable of absorbing shocks.

## The new climate architecture of the European Union

A third layer is added to traditional taxation and the weakening of refining: the new climate architecture of the European Union. The extension of emissions trading to final-use fuels and transport through ETS2 from 2027 onwards will add an extra carbon cost to the price of petrol and diesel.

Estimates discussed in 2025 and 2026 point to initial increases of around 25 euro cents per litre and possible sustained increases of 45 to 50 cents per litre by 2030.

This means that fossil fuel will no longer be burdened only by excise taxes and VAT. It will also bear an explicit and increasing carbon penalty. From an economic standpoint, that carbon price functions as an additional public charge on top of the taxes and regulatory costs that already exist.

> CBAM should be analysed as an indirect cost multiplier rather than as a visible pump tax

For any serious research paper, the relevant variable is therefore not just conventional fuel taxation, but the total public cost embedded in each liter sold to the consumer.

CBAM introduces another source of pressure. Although it does not directly tax petrol or diesel at the pump, it raises the cost of carbon-intensive inputs that are important for European industry, such as steel, cement, aluminium, fertilisers, hydrogen, and imported electricity.

This indirectly affects the energy chain by increasing the cost of materials, equipment, maintenance, and infrastructure related to storage, refining, transport, and fuel distribution.

Its impact on the price per litre will not necessarily be linear or immediate, but it clearly reinforces a broader trend: the structural rise in costs in a system already heavily burdened by taxation, regulation, and carbon pricing. CBAM should therefore be analysed as an indirect cost multiplier rather than as a visible pump tax.

## Public authorities are not external observers

The 2026 experience also confirms how decisive taxation is in determining final prices. Several European governments approved temporary VAT cuts, excise reductions, or partial reimbursement mechanisms in 2025 and 2026 to cushion the impact of higher fuel prices.

Once those measures began to expire, market analyses pointed to immediate increases of roughly 16 to 30 cents per litre, depending on the country and the specific tax-relief design.

*Public authorities are not external observers of the fuel market; they are one of its main drivers - Daniel Lacalle*

This behaviour shows that the state not only collects revenue from fuel, but also shapes the price volatility perceived by consumers.

It can cushion or amplify the final price through fiscal decisions. In other words, public authorities are not external observers of the fuel market; they are one of its main drivers.

Taken together, the available evidence supports a strong conclusion as a starting point for a research paper. The rise in petrol and diesel prices in Europe reflects a combination of explicit taxation, accumulated

regulatory costs, reduced refining capacity, and the expansion of carbon pricing.

An analysis limited to visible taxes at the pump understates the problem because it ignores the full range of burdens spread along the value chain.

The core issue is not only energy or environmental policy, but also economics and institutional design.

When a region taxes, regulates, and cumulatively discourages an energy source that remains essential for mobility, agriculture, logistics, and much industrial activity, the predictable result is more expensive energy, less flexible supply, and greater vulnerability to external shocks.

The 2026 data suggest that this process is already well advanced in the European Union.