

This thesis investigates what drives the diesel fuel taxation policy of European countries and, in particular, assesses the importance of tax competition. Using panel data of diesel prices for both noncommercial and commercial use coming from 16 European countries between 2005 and 2010, we estimate the relation between countries' fuel price and a weighted average of the neighbors' prices and other control variables. Our results reveal that the tax competition among European countries plays a significant role in the setting of diesel excise taxes and that small countries tend to charge lower fuel taxes than large countries.