

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 153 final

Brussels, 20th March 1980

FISCAL INSTRUMENTS FOR RAISING COMMUNITY REVENUES FROM ENERGY

(Communication from the Commission to the Council)

COM(80) 153 final

Fiscal instruments for raising Community revenues
from energy

The fiscal instrument at present available

1. Three types of tax at present apply to energy :
 - generalised taxes on consumption (VAT);
 - special excises on consumption;
 - Customs duty.

- 1.1. VAT

The coverage of VAT is largely harmonised, although the level and number of rates is not. Two other crucial factors relating to VAT need to be borne in mind. First, VAT would not, because of its credit mechanism, affect intermediate consumption and would therefore affect final consumption alone. Secondly, given that VAT is a general consumption tax, it is undesirable to add a special energy rate to those already in force. For these reasons, although VAT has certain attractions from the standpoint of relative ease of application, it is a relatively inflexible instrument for the purposes of specific energy objectives.

- 1.2. Excises

As regards the excises on mineral oils, neither the structures nor the rates are harmonised. The Commission has however a proposal before the Council for harmonising the structure of the excises on mineral oils. This proposal, as at present drafted, in effect confines excises on mineral oils to road fuels and domestic heating oils. Most other uses (and in particular industrial use of heavy fuel oils for heating, of oils used as raw materials and lubricants) are exempt.

- 1.3. Customs duties

Petroleum products are of course included in the Common Customs Tariff. Unrefined products are free of duty, whilst refined products are subject to rates of duty ranging up to 6 %. At present, a high proportion of dutiable products are imported free of duty for further refining or under preferential arrangements.

2. There are three essential elements in any tax. Considerable variation is possible within each of these elements and in the way they can be combined to create the complete tax. In deciding on the most appropriate fiscal instrument for the present purposes, choices will need to be made between the following possibilities :

- method of imposition : whether ad valorem, specific, or variable levy;
- coverage : the extremes of the variants possible go from a tax on crude oil alone to a tax at a uniform rate applied to all energy consumption;
- choice of the taxable event : whether at importation, production or consumption.

2.1. Method of imposition

2.1.1. A variable levy could in theory be applied as the difference between market price and a reference price. Such a scheme would be extremely complex to administer. A system for permanent and rapid monitoring of prices would be essential, as would provision for immediate changes in the levy rate in response to market price changes. In any case, (see also Annex on harmonisation of energy prices and taxation) the considerable variations in the coverage and rates of national taxes would defeat the objective of such a scheme.

2.1.2. An ad valorem would of course move automatically with price. Frequent changes in tax rate to keep pace with inflation would not therefore be necessary. On the other hand, in view of the massive oil price changes in recent months and to be expected in the future this automatic effect could also cause difficulty, since the effect of any exogenous price increases would be automatically multiplied by the tax rate. Finally, ad valorem taxes are particularly difficult to administer where the price of a product is volatile and varies rapidly with the market situation.

2.1.3. By contrast, a specific tax offers a variety of attractions :

- ease and relative certainty of administration;
- reduction in the fluctuations of consumer prices relative to ex-tax prices and in the price spread between different consumption areas;

- if necessary, the management of a specific tax offers possibilities of adjustment (by reference to ex-tax prices, by product, by reference to the evolution of the general price level) equal to other methods of imposition.

It should, however, be noted that a specific tax would have different effects, depending on the purchasing powers of the Member States.

2.2. Coverage

2.2.1. A general consumption tax on energy encourages economy in the use of all forms of energy without differentiation, and new and renewable energy sources would also be taxed. Moreover, the tax rate would need to be substantial to have a significant impact on demand. Any such tax would also raise controversial technical issues related to the equivalence of different fuels; it would in addition require the setting up of a cumbersome administrative machinery, the cost of which could well be out of proportion to the tax rate involved. Finally, such a tax would tend to place a relatively heavier burden on electricity, which would run counter to the aim of developing coal and nuclear energy.

In the absence of a general energy tax an alternative course would be to concentrate on the possibilities of a tax confined to oils. A further attraction lies in the fact that the machinery for controlling oil refining and for taxing oil products already exists in all the Member States.

2.3. Taxable event

2.3.1. Importation

A customs duty confined to crude oil could be avoided by importing, free of tax, refined petroleum products. In strictness, therefore, the duty should apply both to crude and refined petroleum products. The tariff arrangements for petroleum are particularly complicated, but if the present structure of the CCT is respected, the administration and collection of the tax should not present major problems.

The simplest approach would lie in a single rate of duty applying to all petroleum products. However, assuming a specific duty were applied at a single rate to unrefined products, its relative incidence on the unrefined products would be higher than on the refined. This could in theory produce an incentive to divert refining activities away from the Community. If the rates were differentiated according to the various types of petroleum products, the problem of calculating appropriate rates for each tariff line would arise. Alternatively, if the duty rate were to be low, and notwithstanding the possible (small) incentive to divert refining abroad, the application of the same rate to unrefined and refined products would enjoy the advantages both of simplicity and increased acceptability abroad.

The existing Community inward processing arrangements could be used to provide relief for exported goods. Member States already use the inward processing arrangements to relieve petroleum products from national fiscal duties. The addition of custom duties should not present major difficulties. The arrangements would not, however, enable duty relief to be allowed on petroleum products used as a source of energy.

2.3.2. Production

At the national level, excises are applied on domestic production of a wide range of goods, and are extended in like manner to imports, in conformity with GATT rules, but do not exist at the Community level. At the present time, there is no tax in existence for taxing the internal production of crude oil.

However, from the administration standpoint, it would in principle be feasible to levy a Community production tax equally on crude oil imports and on internal production of crude oil. Such a tax, in its simplest form, could be expressed as a fixed specific amount per ton of crude oil. As crude oil production is already subject to a considerable degree of control (e.g. for direct and royalty tax purposes) a production tax in that form could be administered without undue difficulty.

Whilst such a tax could operate in so simple a form with a relatively modest rate (with an incidence of - say - a few per cent) a significantly higher rate would give rise, either to serious distortions, or to complex administration, and possibly to both. For example, a sizeable rate would almost certainly require a matching system of compensatory charges at import and restitutions at export of refined products. For such a tax to be consistent with our international obligations, these charges and restitutions should in strictness precisely equate with the rate on crude oil. This could prove a very difficult undertaking, and relatively complex to administer.

2.3.3. Consumption

All the Member States currently tax the consumption of refined mineral oil products. There are wide variations in both the coverage of these taxes, and in their rates. However, whatever their detailed differences, they are in general levied overwhelmingly on the consumption of road fuels, heating fuels and lubricants. As stated earlier, a Commission proposal to harmonise their structures is already before the Council. If it were decided that a Community tax should cover all consumption of oils, this proposal could serve as a basis for a harmonised coverage, subject to any necessary amendment to take account of specific energy objectives, (in particular, to extend the tax coverage to heavy fuel oils, oils used as raw materials and lubricants, for all of which exemption is at present proposed).

2.3.4. A hybrid formula

A further possibility is to combine a Community Customs duty on imported crude oil with identical, but nationally imposed, levies on internal crude oil production. The chief advantage of such a scheme would lie in the relative ease with which such a scheme could be introduced institutionally and in its conformity with our international obligations.

From the standpoint of fiscal administration, and assuming identity of treatment of indigenous and imported crude oils, such a hybrid has the essential characteristics of an internal tax levied at the production stage. The technical implications would be broadly the same as those already indicated above for a production tax levied equally on EEC oil production and on imported oils.

3. Special selective fiscal measures

As an alternative to a more or less general increase in the taxation imposed on energy, selective fiscal instruments are of course an option. Such measures could in addition be directed towards specific energy objectives. Examples of such measures would be :

- 3.1. a special tax on heavy fuel oils in order to discourage its use in electricity generation, to encourage industry to economise in its use, and to make other fuels relatively more attractive.

Such a tax would of course have an impact on industrial competitiveness, but this would not be significant at a modest rate of tax.

- 3.2. a Community tax on road fuels

The possibility of a Community own resource from petrol (gasoline) was raised in the Green Paper on new own resources (COM(78) 531, p.22). If a new own resource were to be obtained via increased taxation on petrol it should also be considered whether the additional Community levy should be extended to other road fuels. The impact on industrial costs would be negligible. Imposition and collection of the tax would present no administrative problems. However, petrol is already the most heavily taxed oil product. Moreover, there are no ready substitutes for these fuels. Consequently, although such a tax might have some effects on consumption, these could only be marginal, given the low rate implied by the revenue objective.

A further consideration, particular to the transport sector, would also need to be borne in mind. In transport, taxes on fuels and taxes on vehicles must be considered together; changes in one may well lead to offsetting changes in the other. This would certainly be the result when the draft directive on commercial vehicle taxation, agreed in principle by the Council in 1978, comes into effect. To avoid this, it would be necessary for any special energy tax clearly to be distinguished from the existing system of taxes on transport.

Given the very low tax rates likely to obtain any advantage from the standpoint of energy objectives of combining a number of tax instruments, would almost certainly be outweighed by the increased administrative complications.