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Report

drawn up on behalf of the Committee for Finance and Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 4/72-III) for a/directive on a harmonized excise duty on wine

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PE 30.750/fin.

By letter of 29 March 1972, the President of the Council of the European Communities requested the European Parliament, in an instance in which consultation was not obligatory, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a directive on a harmonized excise duty on wine.

On 17 April 1972 the President of the Parliament referred this proposal to the Committee for Finance and Budgets as the committee responsible, and to the Economic Affairs Committee and the Committee on Agriculture for their opinions.

At its meeting of 16 May 1972, the Committee for Finance and Budgets appointed Mr Reischl rapporteur. The sub-committee on 'tax harmonization' examined this proposal at its meetings of 21 June and 18 September 1972. At its meeting of 3 October 1972, the Committee for Finance and Budgets examined this proposal and unanimously adopted the motion for a resolution and explanatory statement.

The following were present : Mr Spénale, Chairman; Mr Borocco, Vice-Chairman; Mr Reischl, Rapporteur; Mr Aigner, Mr Arndt, Mr Artzinger, Mr Boano, Mr Gerlach, Mr Jozeau-Marigné, Mr Koch, Mr Offroy, Mr Pêtre and Mr Vals (deputizing for Mr Wohlfart).

The opinions of the Economic Affairs Committee and the Committee on Agriculture will be distributed separately.

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The Committee for Finance and Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on a harmonized excise duty on wine

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council¹,
 - having been consulted by the Council in an instance in which consultation is not obligatory (Doc. 4/72),
 - having regard to the report by the Committee for Finance and Budgets (Doc. 157/72) and the opinions of the Economic Affairs Committee and Committee on Agriculture,
1. Considers that the amount of revenue from excise duty levied on wine in certain Member States may be regarded as negligible in comparison with the total tax revenue of these Member States;
 2. Considers that the introduction of an excise duty on wine in other Member States would not be justified, on the one hand because the tax revenue produced would be too small, and on the other because the exercise of the necessary fiscal controls would cost too much;
 3. Notes that one of the Member States abolished excise duty on wine only a few years ago;
 4. Considers that the reasons indicated in the proposal for a directive in favour of a harmonized excise duty on wine do not in themselves justify the introduction of such a duty in the other Member States;
 5. Shares the Commission's view that the existence of an excise duty on wine in certain Member States only may distort competition in intra-Community trade;

¹OJ No. C 43, 29.4.1972, page 23.

6. Invites the Commission to submit fresh proposals for the phasing out of excise duty on wine in the Member States where it exists;
7. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTPreliminary note

1. The proposal for a directive on a harmonized excise duty on wine is part of a set of directives dealing with excise duty and similar charges. It will therefore be necessary in the following explanatory statement to refer to proposals for directives on the harmonization of other excise duties with which the proposal under review is closely linked. Excise duty on wine is levied in four Member States of the Community, France, Belgium, the Netherlands and Luxembourg, while in Italy it is unknown and in Germany it is charged only on sparkling wine.

2. It is not the main aim of this report to analyse the criteria by which the Commission proposes, within the framework of its overall policy, to abolish or retain certain excise duties or even introduce new ones. However, it is appropriate in the matter of excise duty on wine to examine the strength of the arguments put forward in support of the introduction of this duty in the Member States of the Community where it does not at present exist.

A. Arguments put forward in the proposal for a directive in favour of a harmonized excise duty on wine

3. The Commission of the European Communities sets out from the principle that, if conditions of healthy competition are to be established, competing beverages must be covered by identical tax provisions. In proposing a harmonized excise duty on wine, the Commission was particularly influenced by the fact that wine is in competition with beer, which is subject, in all the Member States, to a comparatively high, special excise duty in addition to VAT.

4. Another important reason is that excise duty is charged on wine in certain Member States and not in others.

5. The Commission also points out that, for climatic reasons, wine is largely produced in the south while beer is essentially a product of Northern Europe. 'Now it would hardly be permissible, at Community level, to adopt tax measures likely to encourage the consumption in the Northern regions of a drink which cannot be produced there, to the detriment of the beer which they produce.'¹

¹Doc. 4/72, p.51.

6. For all these reasons, neutral conditions of competition cannot be achieved unless a harmonized excise duty is imposed on wine in the Member States where it does not already exist. Moreover, because of the diversity of excise duty arrangements for wine in Member States where the duty exists, the tax charges on consumption are not identical. This situation has repercussions, first, on the drinks which are in competition with wine, and, secondly, on the internal wine market of the Community which suffers from distortions of competition due to the varying tax charges.

7. The arguments put forward therefore chiefly concern the need to harmonize the excise duty on wine since 'for the common market to function as a single internal market and economic and monetary union to be achieved, conditions of competition must not be distorted and the free movement of goods must be guaranteed.'¹

8. Since an excise duty on wine does exist in certain Member States, the question of its harmonization is perfectly justified. However, in the long term it is much more important to decide whether excise duty should be charged at all on wine. It is appropriate first, to examine how far, irrespective of the existence of the Community, the imposition of excise duty on wine is advisable.

9. Let us first consider the arguments put forward here by the Commission:

- In the sphere of beverages, wine and beer are in competition with each other, as are wine and certain spirits. Given that beer and spirits are subject in all Member States to an excise duty, with a 'considerable effect on prices', these drinks would be at a disadvantage from the tax angle in relation to wine, the competing product, if this, too, were not subject to excise duty.
- The tax charge on different products must correspond to their 'ability to contribute'. In the Commission's opinion, this aim cannot be achieved easily with V.A.T. which, by its nature, 'cannot be varied according to the individual characteristics of each product'².
- Since wine is extensively consumed, the excise duty on this product is a source of considerable revenue to the Member States. This revenue could be of use when certain excise duties are abolished or adjusted in the general process of harmonization.

¹cf Doc. 4/72, p. 50.

²cf Doc. 4/72, p.52

- In the Commission's opinion, the levying of an excise duty on wine should not raise difficulties from the angle of supervision, since it would be possible to make use of the stringent controls already existing for the common wine market.

B. Details of the present excise duty on wine in the different Member States¹

10. Table 1 below shows that revenue from excise duties on wine accounted for between 0.17 and 0.4% of total tax revenue of the Member countries in 1969. For the Community this revenue amounted to about 180 million units of account.

This figure represents 5% of the Communities' annual budget and less than 0.3% of the national budgets.

It is significant that, generally speaking, the countries which are not wine producers also draw revenue from the excise duty on wine and that this applies also to the three new Member States. Clearly, this is an additional argument against the retention and harmonization of an excise duty on wine, which, in such conditions, is nothing other than an import tax disguised as a tax on consumption.

¹cf Doc. 4/72, annex 1, p. 16

Table 1

Revenue in 1969 from excise duty on wine
in the Member States of the Community

		I.		II.	III.
		Revenue from excise duties		(I) as % of revenue	(I) as % of total
		in millions of	in million	from indirect taxation	tax revenue
		national currency	u.a.		
Germany ¹	DM	214	54,5	0,32	0,17
France	FF	468	90,5	0,5	0,3
Italy	It.lir.	-	-	-	-
Netherlands	FL	48	12,6	0,49	0,19
Belgium	BF	795	16,-	0,56	0,31
Luxembourg	Lux.F	42	0,9	0,9	0,4
Community			174,5		
United Kingdom	£	81,3	-	-	0,6
Ireland	£	0,15	-	-	0,03
Denmark	D.Kr.	190	-	-	0,8

¹ only revenue from excise duty on sparkling wines
Source : Doc. 4/72, p. 16

C. Proposed procedure for harmonizing excise duty on wine

11. In its proposal the Commission provides first of all for creating the 'necessary conditions for subsequent harmonization of tax rates' by harmonizing tax structures.

The Commission's proposed directive comprises the following chapters :

- I. Scope of application and establishment of the excise duty (Articles 1 to 7)
- II. Control measures (Articles 8 to 18)
- III. Recovery of excise duty (Articles 19 to 23)
- IV. Excise Duty Committee (Article 24)
- V. Final provisions (Articles 25 to 28)

I. Scope of application and establishment of the excise duty on wine
(Articles 1 to 7)

12. Wine is defined in Article 2 as the product obtained exclusively by the alcoholic fermentation of fresh grapes or fresh grape must and having a total alcoholic strength generally not exceeding 15°GL.

According to Article 4 the fact which gives rise to the excise duty is the production or import of wine. Article 5 stipulates that Member States shall fix the rate of the excise duty per hectolitre of wine. The rate shall not be less than 1 u.a. per hectolitre, and higher rates may be fixed for quality wine or quality sparkling wine.

The following are exempt from excise duty :

- wine used in the manufacture of products subject to the excise duty on alcohol,
- wine used in the manufacture of sparkling wine,
- wine used in the manufacture of vinegar,
- wine exported from a fictitious production unit or warehouse.

The possibilities for exemption from excise duty are listed in Article 6(2).

II. Control measures (Articles 8 to 18)

13. Member States shall lay down control measures for 'grapes, and for liquids in the various states through which the product of the grapes may pass, up to but excluding the lees' by means of the accompanying documents provided for in the rules on agriculture (Article 8).

(a) Control of production and stocks

The stipulated declarations of productions and stocks¹ are of a fiscal nature. They are used to determine the quantities of wine which shall be subject to excise duty (Article 9).

Detailed special provisions are contained in Articles 10 (holding of stocks and transport), 11, 12 and 13 (fictitious warehouse), 14 (maximum figures for losses deducted from quantities of wine held under temporary suspension of excise duty).

(b) Control of movement

14. Articles 15 to 18 stipulate that a declaration of movement shall accompany the wines, and indicate all their movements - this provision should allow a check to be made at any time to decide whether excise duty is payable.

¹ Regulation 134/62 of 25.10.1962, OJ 111 of 6.11.62.
Regulation 1136/70 of 17.6.1970, OJ L 134 of 19.6.70.

III. Recovery of excise-duty

15. Articles 19 to 23 stipulate when and at what rate the excise duty is payable in keeping with the provisions on the declaration.

IV. Excise Duty Committee

16. Article 24 relates to an excise duty committee, which is the subject of a separate report; its task is to prescribe the measures required for implementing Articles 6 - 23.

V. Final Provisions

17. These provisions (Articles 25 - 28) specify the conditions, with particular reference to trade between Member States, for imposing indirect taxation other than Value Added Tax on wine.

D. Critical analysis of the explanatory memorandum on a harmonised excise duty on wine

18. Your committee has intentionally refrained from going into the Commission's views, indicated above, in detail, as regards the structure of the harmonised excise duty on wine, and from expressing its opinion thereon. Your Committee considers, in fact, that from the fiscal angle, a harmonised excise duty on wine is of no importance to the countries where such a duty does not yet exist. It is therefore necessary, before examining the methods of applying this duty, to begin by justifying your committee's negative attitude on the introduction of a harmonized excise duty on wine.

a) Inadequate tax revenue from excise duty on wine

19. It is an open secret that the experts have agreed for some time that a certain number of special excise duties have lost their raison d'être, if indeed they were ever justified. One of the reasons, well known to the financial experts, is the fact that most of the special excise duties are of little fiscal value since

- the revenue they produce is meagre, and
- the recovery costs for this small amount of revenue do not seem justified.

20. The Budget Committee of the Bundestag, therefore declared itself generally in favour of harmonising excise duties as proposed by the Commission, but opposed to an excise duty on wine, since it considered that the cost of controlling its collection would be out of proportion to the revenue produced.

21. In support of a harmonised excise duty on wine, the Commission stresses that such a duty would bring the Member States a 'not inconsiderable' amount of revenue. However, a glance at Table 1, drawn up from figures supplied by the Commission, shows that the money produced by this duty, which represents at most 0.4% (in Luxembourg) of total tax revenue, is negligible. It may, of course, be argued that the sum of revenue from several excise duties gives different percentages. But that is not the subject under discussion.

22. Therefore, in view of the meagre revenue produced by this excise duty and in view of the costs entailed, it does not seem justifiable to ask two countries of the Community to set up a burdensome tax system, and, above all, an equally burdensome control system.

23. The historical development of four Member States and the retention of this duty in these States may lead to distortions of competition; but it is possible, as a long term aim of a rational fiscal system, to abolish non-productive duties and to offset the resulting diminution in revenue by an increase in other taxes.

24. Be that as it may (despite resistance on the part of ministries of finance which may be reluctant to abandon long-standing taxes on the grounds that 'old taxes are good taxes'), it would be a mistake to miss the opportunity offered by the general harmonization of excise duties to abandon a duty which is only justifiable on historical grounds.

25. A close study of the control measures which would be required, according to Articles 8 - 18 of the proposal for a directive shows the amounts entailed. The argument that the checks provided for under general agricultural regulations could be used here does not seem convincing to your rapporteur, since fiscal questions tend to require individual arrangements in practice. Besides, the complicated system of accompanying documents entailed by the excise duty on wine would considerably restrict the free movement of wine which the organization of the wine market was supposed to facilitate.

b) Competition between wine and beer

26. If it is possible to describe wine and beer loosely as substitution products, it should still be remembered that, in general, the price of beer is very different from that of wine, and the degree to which prices account for switches in market demand is probably very slight; in other words, the price fluctuations of beer and wine or of both products, following, for example, a change in taxation or the introduction of a new tax, affect only very slightly consumer habits in favour of one or other product, and there-

fore have only a marginal influence on conditions of competition.

27. Your committee has been informed of the results of the enquiries instigated by the Commission into the import of prices and taxes on the consumption of beverages in individual Member States.

Quite apart from the often very questionable methods used in these surveys, the results show that it is not generally possible to speak of an interaction between the prices of beer or wine and their consumption. It should be added that consumer habits are very different in the different regions and strongly rooted in tradition.

28. For this reason, the question of a distortion of competition is rather a matter of fiscal justice than of practical importance. Again, the existence of different systems of excise duty for beer and wine in the Member States has only a slight effect on the relation between beer and wine consumption.

29. As for the Commission's argument that wine is largely produced in the south while beer is a product of Northern Europe and that 'it would be hardly permissible, at Community level, to adopt tax measures likely to encourage the consumption in the Northern regions of a drink which cannot be produced there, to the detriment of the beer which they produce', this may easily be wrongly interpreted and should not be put forward.

It would be preferable to consider abolishing the excise duty on beer which accounts for a maximum of 0.92% (in Germany) of total tax revenue.

c) Offsetting reductions in tax revenue resulting from the general harmonization of excise duties by an excise duty on wine

In view of the meagre revenue produced by an excise duty on wine and the considerable administrative costs entailed, it seems ill-advised to try to use this duty to offset the loss of tax revenue due to the abolition of certain excise duties.

In the framework of an overall policy it would be far better to make a bold step forward and offset the loss resulting from the abolition of excise duties by other more productive duties. It is not the purpose of this report to make specific suggestions for such a move.

d) Taxation as a function of the ability of products to contribute

31. The Commission stresses that the fiscal charge levied on different kinds of rival products should be proportional to the ability of each product to contribute. Since VAT does not serve this purpose, the aim can be achieved by means of excise duties - in this case, on wine, which is consumed extensively. Your rapporteur is strongly opposed to the idea of the ability of different products to contribute. The policy of the public authorities should not be to control the volume of consumption of wine or beer. If the Commission means by the term 'ability to contribute' that the fiscal levy can be increased by a special excise duty to the point where it affects the quantities consumed, this would by no means justify the introduction of a harmonised excise duty on wine, since according to the Commission itself the primary purpose of harmonization is not to secure tax revenue by means of this tax.

e) Achieving neutral conditions of competition in the Common Market

32. A more serious argument put forward by the Commission in support of a harmonized excise duty on wine is the existence in four Member States of a general excise duty on wine. There is, therefore, some inequality of competition in trade between Member States. It may be felt that this distortion of competition is slight, if only because of the respective rules of national and foreign products on the market of individual Member States; nevertheless, it is a barrier to the creation of a common market on which goods can really move freely.

33. However, if it is admitted that, in practice, competition is only slightly affected by the excise duty on wine in certain Member States, this slight impairment of competition cannot be accepted as a decisive argument for retaining an excise duty on wine which exists for historical reasons. It would be far preferable, as already stressed, to find a way of offsetting the small loss in revenue by other fiscal arrangements, and aim at phasing out this excise duty on wine.

f) Improving the organisation of the wine market

34. Your committee fails to appreciate the argument put forward by the Commission that the fiscal control entailed by the excise duty on wine would involve a strengthening of economic control and ensure better implementation of the provisions for organizing the wine market. This is not, by any means, a justification for establishing a harmonized excise duty on wine, since it would merely be a secondary consequence; to suggest the contrary would be to imply that it would be justifiable to introduce excise duty on all products covered by a market organisation, which is hardly admissible.

E. Conclusions

35. The committee welcomes the fact that the Commission has followed the Council's resolution of 22 March 1971 on the phased implementation of economic and monetary union in recognizing that the structure of excise duties also requires harmonization.

36. It nevertheless considers the Commission wrong to propose a harmonized excise duty on wine. This view is based on the following reasons, which it has already gone into:

1. The introduction of an excise duty on wine would force two Member States to set up excise arrangements for wine involving far more trouble than the low yield warrants and the necessary controls would require considerable staff. Besides, one of the Member States in question abolished this tax only a few years ago because of its meagre yield.
2. The Commission's arguments do not justify a harmonized excise duty on wine. This is true as regards both the extent of the distortions of competition in intra-Community trade and the possible effects of the absence of a harmonized excise duty on wine on the conditions of competition between wine and beer.

3. The potential contribution of different products should not be used as an argument for the introduction of a harmonized excise duty on wine. Indeed, the concept itself should be avoided.
4. Since the excise duty on wine is negligible, it cannot be justified by reference to a reduction in the loss of tax revenue resulting from the abolition of other excise duties.
5. The excise duty raised by Member States, including those newly acceded, would appear to be an unjustified tax on imports.
6. In these circumstances, and in view of the valid argument for ensuring neutral conditions of competition in intra-Community trade, the rapporteur considers that excise duty on wine should be phased out in Member States where it still exists.
7. The committee accordingly proposes that Parliament reject the Commission's proposal to the Council for a directive concerning a harmonized excise duty on wine.
8. It invites the Commission to submit a new proposal specifying the procedure for abolishing excise duty on wine.