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PROPOSAL TO RESTRUCTURE THE FRAMEWORK FOR THE TAXATION OF ENERGY PRODUCTS (COM 97-30)

UNICE REITERATES:

- **THE REASONS FOR ITS PROFOUND OPPOSITION TO THE DRAFT**
- **ITS COUNTER-PROPOSALS FOR TAX HARMONISATION, EMPLOYMENT AND ENVIRONMENT**

A. INTRODUCTION

Discussions on the above-mentioned proposal for a directive have resumed in the ECOFIN Council and in the public debate from three angles:

a) from the angle of tax harmonisation, which has been the essential justification given by the Commission for its proposal;

b) to a lesser extent, from the angle of employment policy, since the theme of job creation via:

- an increase in energy taxation,
- a simultaneous reduction in indirect labour taxation

continues to be discussed despite many years of inconclusive debates on this subject;

c) lastly, from the angle of environment. Although the Commission proposal has not been fundamentally inspired by environmental considerations, this proposal is regarded in various quarters as a necessary instrument for meeting the EU’s Kyoto commitments.

Given that this proposal could have a major impact on industry, UNICE believes it its duty to reiterate its position on this dossier[1].

B. EVALUATION OF THE PROPOSAL FROM THE ECONOMIC ANGLE

a) Impact on the competitiveness of European companies

The proposal for a directive would lead to:

- in the short to medium term, additional taxes on several categories of energy product in several countries;

[1] UNICE published its preliminary comments on the proposal for a directive in an opinion dated 6 May 1997.

- in the longer term, a large and general increase in energy taxes in all Member States. This conclusion is inescapable given that the proposal has been clearly thought out around this objective[2].

Such an increase in taxation would result in:

i) an increase in the production costs of energy-intensive sectors (direct energy costs);
ii) an increase in the price of energy-intensive intermediary consumption (indirect energy costs). Industries making wide use of subcontracting or whose spatial organisation is already adapted to the single market would be particularly hard hit.

These price increases would clearly be in total contradiction to the policy to liberalise energy markets followed hitherto.

The seriousness of the negative impact on energy-intensive industries in a scenario of unilateral and significant increases in energy taxation has been commented on in sufficient detail in the European Commission's own publications, and there is no need to repeat the arguments here[3].

As protection against this negative impact, the proposal for a directive makes provision for a system of partial and temporary tax exemptions for a limited segment of industry. These measures would engender extremely complex problems of legal uncertainty and competition[4].

In short, the proposed mechanism is completely unsuited to correcting the problems of international competitiveness that can be foreseen in the short to medium term.

At its meeting on 1 December 1998, the ECOFIN Council decided to study "special provisions for energy-intensive industries and firms which meet the targets set for energy efficiency". UNICE welcomes this recognition of the problems that higher energy taxes would pose in the manufacturing sector, but considers that this very recognition emphasises the flaws inherent in the Commission proposal.

b) Tax harmonisation

The proposal for a directive makes no real contribution to tax harmonisation since it leaves Member States free to exceed the minima it sets.

UNICE believes that any progress in the area of tax harmonisation needs to be made by reducing energy taxes in those countries where they are highest. In any event, improving the business climate in Europe, and in particular competitiveness, is an infinitely more important objective than harmonisation of taxation on energy products.

c) Impact on employment

For reasons linked to national tax sovereignty, no guarantee can be given that Member States will in fact adopt the approach of neutrality advocated by the Commission, i.e.:

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2 This is witnessed, inter alia, by the plans to increase taxation over the period 1998-2002 included in the preliminary draft directive.

3 For instance, see chapter 2.1 "A European energy tax: economic and environmental consequences " of the article entitled "An economic evaluation of alternative approaches for limiting the costs of unilateral regional action to slow down global climate change – Simulations with WorldScan" (Economie européenne no. 1, 1998).

4 More detailed comments on these measures are given in the UNICE opinion dated 6 May 1997.

- higher energy taxation,
- parallel reduction in indirect taxation of labour.

Experience shows that, with the exception of a few particular cases, the introduction of new energy taxes has not been offset by equivalent tax cuts elsewhere in national taxation systems.

The current low level in the oil price has deprived states of a source of income which means that priority will be given to classical budget expenditures when revenues from new taxes are being allocated.

The many debates in recent years about the idea of a double dividend, in both the Commission and Member States, have shown that the net result, in terms of jobs, of an increase in environmental taxation offset by lower social charges concentrated on the lowest paid is uncertain and, in any event, modest when positive. The uncertainties which prevail in this area need to be set against the certain risk of a loss of competitiveness by European companies and of the attractiveness of the European Union which would result from the envisaged measures.

C. EVALUATION OF THE COMMISSION PROPOSAL FROM THE ANGLE OF ENVIRONMENTAL PROTECTION

1. UNICE's general views on development of economic and fiscal instruments for environmental protection

UNICE has on several occasions in the past said that it is willing to discuss well thought-out plans for economic instruments (tradable permits, fiscal incentives, differentiated taxation, charges, etc.) capable of offering companies greater flexibility and reducing the cost of environmental protection measures[5]. Among other things, such instruments must meet the following criteria:

a) Existence of transparent objectives: economic instruments should target clear environmental objectives and give clear market signals. Ecological taxes should not degenerate into simply a way of collecting additional budget resources without any marked benefit to the environment.
b) Environmental effectiveness: the possibility of moving closer to the environmental objective in view, using the chosen instrument, must be plausible.
c) Economic efficiency: an economic instrument should be chosen as the most cost-effective to achieve the specific objective compared with other options (regulatory instruments, non-fiscal economic instruments, long-term agreements, etc.).It is essential to preserve the competitiveness of European industry and not to reason in a closed framework which ignores the economic contexts of competitors.

2. Environmental ineffectiveness of the proposal

This proposal clearly fails the test of each of these criteria, which is hardly surprising given the stated objectives.

Two elements at least prevent the proposal from making an effective contribution to post-Kyoto EU strategy:

- first of all, the proposal contains no clear and coherent objectives for control of greenhouse gas emissions. Hence, it proposes to tax nuclear power, which generates no greenhouse gases;

[5] See UNICE discussion paper dated 12 December 1990 on the use of economic and fiscal instruments in EC environment policy.

- second, the loss of international competitiveness brought about by higher taxes will also have very serious consequences for the environment.

In the first place, this loss of competitiveness would reduce the financial resources available to manufacturing industry to intensify its contribution to combating the greenhouse effect.

In addition, it would have an indirect negative impact on the capacity of:

1. the transport sector
2. households
3. the electricity sector
4. public undertakings

to make the very large investments needed to modernise their equipment in such a way as to become more energy-efficient and reduce the carbon content of fuels.

The health and competitiveness of the manufacturing sector largely determine the abundance of resources:

- private:

  - ➢ wages in the private sector
  - ➢ wages in the public sector
  - ➢ capital budgets in non-industrial firms

- and public:

  - ➢ capital budgets of national/regional/local public authorities

which can finance investments in new energy technologies.

UNICE believes it essential for the public authorities to develop a context favourable to voluntary initiatives by companies and to the agreements between industry and the public authorities which have played a preponderant role in the good performance of industrial companies hitherto in the area of improved energy efficiency.

3. <u>UNICE is willing to discuss strategies which would reduce the greenhouse gas emissions of European society as a whole while preserving the competitiveness of companies</u>

UNICE is very willing to intensify its existing dialogue with the EU institutions and the other stakeholders with a view to reflecting on an EU strategy for climate change which is firmly harnessed to the concept of sustainable development. UNICE has already tabled proposals on this subject[6].

The need for the EU to develop innovative solutions (instead of merely imposing penalties on European industry) is evident when the context in which American companies operate is taken into account:

a) lower energy prices than in Europe;

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[6] See UNICE position “EU strategy responding to climate change – UNICE input to COP-4, Buenos Aires, November 1998” (October 1998).

b) establishment of a system with clear and attractive incentives for voluntary efforts by industry to improve control of greenhouse gas emissions (early credit system);

c) coupled with b), launch of pilot schemes for emission trading