European Communities

EUROPEAN PARLIAMENT

Working Documents

1984-1985

9 April 1984 DOCUMENT 1-92/84

Report

drawn up on behalf of the Committee on Energy, Research and Technology

on a Community energy tax on the consumption of hydrocarbons and its effects on energy policy

Rapporteur: Mr M. PROTOPAPADAKIS

PE 88.187/fin.
Or. Da.

English Edition

Further to Parliament's resolution of 11 March 1983 on the prerequisites for an effective energy policy in the Community, the acting President of the European Parliament announced to the House on 20 May 1983[1] that the Committee on Energy, Research and Technology had decided to draw up a report on the consequences of a Community energy tax on hydrocarbons for the Community's energy policy.

On 21 April 1983, the Committee on Energy, Research and Technology appointed Mr PROTOPAPADAKIS rapporteur.

The committee considered the draft report at its meetings of 2 December 1983, 24 January 1984, 23 February 1984 and 21 March 1984. At the last meeting it adopted the report as a whole by 14 votes to 1.

The following took part in the vote: Mrs WALZ, chairman; Mr SELIGMAN, vice-chairman; Mr PROTOPAPADAKIS, rapporteur; Mr ADAM, Mr BERNARD, Mr FLANAGAN, Mr K. FUCHS, Mr HERMAN (deputizing for Mr DEL DUCA), Mr LINKOHR, Mr MARKOPOULOS, Mr MORELAND, Mr NORMANTON, Mr PURVIS, Mr SALZER and Mr VERONESI.

The opinions of the Committee on Economic and Monetary Affairs and the Committee on Budgets are attached.

The report was tabled on 26 March 1984.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

[1] OJ No. C 161, 20.6.1983, p. 154

A

The Committee on Energy, Research and Technology hereby submits to the European Parliament the following motion for a resolution together with explanatory statement

MOTION FOR A RESOLUTION

on a Community energy tax on the consumption of hydrocarbons and its effects on energy policy

The European Parliament,

- having regard to its resolution of 11 April 1983[1],
- having regard to the European Parliament's opinion on the communication from the Commission on a five-year programme of action[2],
- having regard to the report of the Committee on Energy, Research and Technology and the opinions of the Committee on Economic and Monetary Affairs and the Committee on Budgets (Doc. 1 - 92/84),

1. Invites the Commission to submit a study giving further details of its proposal for an energy tax as set out in 'a five-year programme of action and its financing', in particular paragraph 38-44 thereof, in respect of its effects on (a) energy policy parameters and (b) economic activity if the tax is levied on:

   - all or selected energy sources
   - all or selected consumption sectors
   - consumption or imports;

---

[1] Resolution of Parliament instructing the committee to draw up a report on the subject, OJ No. C 96, 11.4.1983, p.99

[2] SELIGMAN report on behalf of the Committee on Energy, Research and Technology (Doc. 1-1172/83) on the Communication from the Commission of the European Communities to the Council on energy and energy research in the Community: a five-year programme of action and its financing and its resolution of 19 January 1984

2. Requests the Commission to state in its study whether the objectives of price stability and the provision of finance for energy investments can be met by a tax on consumption[1];

3. Asks the Commission to state which legal provisions in the EEC Treaty and which administrative implementing procedures it envisages as the basis for introducing an energy tax (on consumption or imports);

4. Requests the Commission to investigate the feasibility of fixing an import levy on some or all energy carriers within the next negotiations on the General Agreement on Tariffs and Trade, in the interest of preserving the international competitive position of firms which are in any way dependent on these energy carriers, and, if this is found to be feasible, to submit proposals in this regard;

5. Requests the Commission to inform Parliament of the results of the studies referred to in paragraphs 1 to 4;

6. Requests the Commission in its analysis to describe the effects of an energy import and/or an energy consumption tax on:

- energy consumption,
- the competitiveness of the various industrial sectors nationally, within the Community and towards non-Community countries,
- inflationary trends in each Member State.

7. Instructs its President to forward this resolution to the Council and Commission.

---

[1]This is the aim of this present report, in accordance with Parliament's opinion (see footnote 1, p.41) as embodied in the motion for a resolution (paragraph 13) contained in the PERCHERON report.

I. BACKGROUND

1. In accordance with paragraph 13 of the motion for a resolution contained in Mr PERCHERON's report on the preconditions for an effective energy policy in the Community[1], the European Parliament instructed the Committee on Energy, Research and Technology to draw up a report on: 'a Community energy tax on the consumption of hydrocarbons with a view to stabilizing energy prices and providing fresh funds for energy investments and ... the effects of such a tax in terms of energy policy.'

II. IDEAS FOR A COMMUNITY ENERGY TAX

2. The Commission has discussed various tax ideas:

A. Energy tax

This idea was put forward four years ago. The aim was to reduce the consumption of energy, especially oil.

B. Tax on imported oil

3. In autumn 1982, when the Commission was considering the possibility of increasing the Community's income and also, in part, of reducing the UK's budget payments, a proposal was put forward for a tax on imported oil. For various reasons, however, the idea was given little prominence in the Commission's 'green paper' (February 1983). One of the main arguments against it was that it would give oil producers a false impression and encourage them to increase prices further. On the other hand, it seemed obvious that, since the margin of tax had to be limited, it would be impossible to solve either the Community's impending financing problems or the problem of the British contribution.

---

[1] OJ No. C 96, 11.4.1983, pp. 97-101

C. Consumer tax

4. The Commission's latest move has been to propose, quite simply, a tax on energy consumption (COM(83) 315 final). This proposal is also prompted in part by budget considerations, though in this case the revenue from the tax will be used to finance an energy strategy in which emphasis is placed on promoting the rational use of energy and research into new sources of energy, with special encouragement of energy investments. It should be noted that, for reasons of competition, manufacturing industries should be exempted from this tax.

III. THE EUROPEAN PARLIAMENT'S REACTION TO AN ENERGY TAX

5. The Committee on Energy and the European Parliament in its resolution[1] have come out in favour of this energy strategy because of the Community's energy policy objectives and because it sees the energy strategy as one means of preventing a third oil crisis. As for the tax problem and the financial implications, the resolution (paras 15 and 16) states explicitly:

a. 'Considers that a five-year action programme should preferably be financed out of the own resources of the Community.
Should these resources prove to be inadequate, however, alternative methods of financing the programme need to be examined, provided they do not impose unacceptable burdens on industry making it uncompetitive;'

b. 'Considers, however, that deeper consideration should be given by the Council than has been given in the past, to the merits of a variable energy import levy (either on crude oil and oil products, coal or all imported energy), which would achieve various desirable objectives, i.e.:

- provide additional revenue for the community budget;
- ... stabilise energy prices ...;
- act as a disincentive to waste of energy;
- give a breathing space to indigenous energy sources to become more competitive against imported energy;

[1] SELIGMAN report (Doc. 1-1172/83)

- eliminate the anomaly where oil, coal, gas and uranium are among the few imports into the Community which are free of duty or levy;
- channel into the Community some of the savings arising from reduced oil prices, ... for energy investment ...;
- the Commission should .... ensure that the oil and energy producers, and not the consumers, bear the cost of the levy, ...;'

6. Parliament thus clearly stated that the Council should consider the advantages of a variable energy import tax.

7. When discussing 'Towards European economic recovery in the 1980's', the report by Mr Albert and Professor Ball, Parliament will also have to discuss the proposal it contains for an oil tax. The revenue therefrom would be used to finance energy investments and new R & D programmes.

   Albert and Ball chose an oil tax because the price of oil has fallen by $4 since 1982. The money saved should be put to work instead of being used up in consumption. The tax could be fixed at between 1 and 2 ECU a barrel, so as to yield between 1,500 and 2,000 million ECU a year, the amount needed to finance the proposed energy strategy. Moreover, according to the Albert-Ball report, a decision could be taken quickly on an import levy since it would not require ratification by national parliaments.

8. Dr Ulf Lantzke, administrative director at the IEA, in discussing the oil import tax proposed by Albert and Ball, told the special committee on economic recovery that:

   - the objectives of a tax would have to be clearly set out,
   - there would have to be clear and exact rules for the use of the yield,
   - Europe had not really benefited from the fall in the price of oil as the dollar had been up-valued in real terms,

   and he asked whether an oil import tax would not

- if introduced in the Community alone, penalise industry in the Community by comparison with other countries,
- within the Community, benefit the United Kingdom,
- create distortions unless internally produced energy sources had to bear a similar tax,
- create distortions unless natural gas was also taxed, as the two energy sources are substitutable one for another (if natural gas is not taxed, gas imports would be encouraged; the basis for Russian and Algerian imports would be changed),
- have a negative psychological and economic effect on consumption.

Dr Lantzke said that one argument in favour of an oil consumption tax was that it might improve the situation for energy sources competing with oil, e.g. coal.

IV. THE COUNCIL'S REACTION TO AN ENERGY TAX

9. The Commission's latest proposal for an energy consumption tax has been rejected outright by the Council, which feels that the benefits to the economy produced by the drop in oil prices should not be eliminated by a new tax. It has also been said that, since energy consumption has definitely been reduced, one of the arguments in favour of a consumption tax is no longer valid.

V. THE TAX PROBLEM

10. Various extremely complicated points must and can be discussed in connection with taxation policy in the field of energy. The following is a brief list of points on which there could be a profitable discussion.

A.

11. Which types of energy should be taxed?

Primary energy:
- oil and oil products, gas
- coal
- all energy products

Secondary energy:
- electricity, possibly depending on the basic energy (nuclear power etc.)

B.

12. On what should the levy be imposed?

- On imports alone

Problem: - the position of nationally produced energy products
- competition problems

- On imports plus all domestic products
(the alternative is to group them together with the alternatives under A)

- On consumption
  - of all types of energy
  - in specific sectors

C.

13. Problems connected with the type of levy chosen

- Differences between the Member States with regard to:
  - energy patterns (e.g. oil is the main source of energy)
  - dependence on imports
  - energy intensity (industrial structure)
  - transit imports (e.g. Rotterdam)

- Who will collect the revenue from the levy?
  - the Member States?
  - the Community itself (administrative and institutional or legal problems)?

- The Community's role (e.g. vis-à-vis IEA (OECD) and internationally)

- Reactions of energy exporters
  - false signals

- Reactions in the Community's, Member States' and international economies.

D.

14. Objective of an energy tax

- Should the revenue go into the Community budget as unconditional income?

- Should the revenue be earmarked for energy purposes at Community and/or national level

  - to encourage savings?
  - as a corrective against a fall in prices?
    (Problem: objective of correct/real price fixing that reflects production costs)

- How should distortions of competition be remedied?

- Measures to promote investment:

  - Should the revenue be placed in a fund for investment purposes or specific investments?

VI. PROPOSED CONTENT OF THE FORTHCOMING REPORT

15. It might be worthwhile discussing whether the objectives set out in the PERCHERON report should be retained, i.e.,

- a stable price policy
- promotion of investments.

Two questions arise:

- whether other, more important, objectives should or can also be fixed. (A tax policy must be devised in the light of the priorities established.)

- whether the objective can be attained by means of the proposed tax on hydrocarbons consumption or a tax on imports.

Despite the Council's earlier rejection of an energy tax, it would seem important to ascertain the implications of such a tax.

16. As regards the effects on energy policy (when the objective has been fixed, which the rapporteur considers to be essential), reference can be made to the considerations mentioned above. The consequences must be examined and thoroughly analysed. The rapporteur would like to refer to two very important problems:

1. An energy tax from a legal point of view

(3 alternatives)

- A levy can be imposed on imported energy by increasing the common customs tariff. The procedure would then be unanimous adoption by the Council following consultation of the European Parliament;

- The creation of new own resources by applying Article 201 of the EEC Treaty. Procedure: unanimous adoption by the Council, consultation of the European Parliament and ratification by the national parliaments;

- On the basis of Article 235 of the EEC Treaty within the framework of a common energy policy, provided the levy is not used mainly to finance the EEC budget but only to implement the policy.
  Procedure: unanimous adoption by the Council after consultation of the European Parliament.

17. There are therefore a number of political, economic, technical, legal and administrative problems to be considered, whether we are dealing with a tax on imports or a tax on consumption. (They have been discussed tentatively and sporadically in the Commission's energy strategy.)

18. 2. The effects of an energy tax

The effects on a number of energy parameters of energy price increases on the one hand and an 'oil-price shock' on the other have been the subject of various analyses. Price elasticity is obviously a question that should be discussed and that can be viewed from various angles, e.g.

- price elasticity in respect of different energy sources
- short-term and long-term price elasticity
- price elasticity within different social sectors and/or consumer groups.

19. Elasticity is in part dependant on the possibility of substituting for the taxed energy source, but other factors, economic and political for example, must also be taken into account. Various national experiences cannot be directly compared with the reactions to a Community tax. The differences due to the nature of the ten economies within the Community complicate the picture further, with particular reference to the implications for the various economic sectors or activities, and whether small and open economies or large and open or more closed economies are involved. The effects would also depend on existing national energy taxes, some of which are of long standing, others more recent.

20. The Percheron report specifically mentioned an energy consumption tax. Any request to the Commission to analyse an energy tax and its implications would be incomplete without also asking for an analysis of an energy import tax.

O P I N I O N

(Rule 101 of the Rules of Procedure)
of the Committee on Economic and Monetary Affairs
Draftsman: Mr Müller-Hermann

At its meeting of 20/21 June 1983, the Committee on Economic and Monetary Affairs appointed Mr Müller-Hermann draftsman of an opinion.

The committee considered the draft opinion at its meeting of 21-24 February 1984. On 21 February 1984, it unanimously adopted the conclusions contained therein, with 3 abstentions.

The following took part in the vote: Mr J. Moreau, chairman; Mr Hopper, vice-chairman; Mr Muller-Hermann, draftsman; Mr Albers (deputizing for Mr Muhr), Mr Beazley, Mr von Bismarck, Mr Bonaccini, Mr Carossino (deputizing for Mr Fernandez), Mr Delorozoy, Mr Giarazzi, Mr Heinemann, Mr Hermann, Mr Leonardi, Mr Nordmann, Mrs Théobald-Paoli, Mr Wagner and Mr Welsh.

1. The Commission has considered introducing energy taxes on various occasions without this so far having led to any concrete action. It is not clear whether the energy tax is to be levied on all energy consumption or only on specific types, whether it is a question of a tax on oil imports or whether the main aim is to cut back oil consumption.

The proposals from Commissioner TUGENDHAT were made in the context of proposals to improve Community revenue or measures to reduce the United Kingdom's budget payments.

Earlier Commissioner BRUNNER wanted to reduce energy consumption, in particular oil consumption, and finance an energy research programme by means of an energy tax.

In the report by Mr ALBERT and Mr BALL, 'Towards European Economic Recovery in the 1980s', an oil tax of 1 to 2 ECU per barrel of oil which would yield an annual revenue of some 1,500 m ECU is proposed to finance energy investments.

In the SELIGMAN report, the European Parliament supported the long-term energy policy objectives of the Community to avoid a new oil crisis, and in this context an energy or oil import tax was considered but not regarded as the optimum method.

So far the Council of Energy Ministers has rejected all such proposals.

2. Over the last few years energy consumption in the Community has fallen considerably. At the same time there has been a shift in the pattern of consumption. The attempts to become as independent of oil imports as possible and cut oil consumption succeeded not least because of the pressure from high oil prices. Consumption of natural gas has increased. Alternative forms of energy are making progress, albeit slowly. The considerable savings of energy were chiefly the result of the shift in market conditions. Given the increase in competition within the Community and worldwide, it is still important to keep energy costs to a minimum. Private consumers have also largely followed the appeal to make economical use of energy.

3. Worldwide energy savings, in particular with oil, have weakened the powerful position of the OPEC countries which a few years ago still appeared threatening. Since 1982, the price of oil has fallen by US $ 4 per barrel.

Any further taxation on energy would be seen by consumers, irrespective of how it took place, as ingratitude and punishment for showing goodwill and successfully implementing the politicians' recommendations.

Business is profiting from the fall from peak oil prices because this helps reduce costs. It scarcely seems appropriate now to neutralize with a new tax this reduction in costs which was largely made possible by large investments. Ultimately this would artificially raise prices in the Community and this would again lead to a fall in competitiveness vis-à-vis third countries.

4. The high taxes and duty levied on oil in other industrial states have been under strong criticism in the oil producing countries for some time. The accusation that the industrialized states were financing their economic prosperity at the expense of the oil-producing countries by means of cheap raw materials and the taxes levied upon them was a major reason for the exorbitant OPEC price increases. A further consequence of this policy was the desire on the part of the producing countries to process their raw materials on their own behalf and thus derive the benefit from these which had previously been enjoyed by the industrialized nations. Any further taxation would accelerate this process in the oil producing countries and would certainly engender considerable political ill-will.

5. The Community's financial problems should not be solved by introducing new taxes and levies. These normally lead to new distortions of competition and discrimination. It is therefore important to reaffirm the decision that specific proportions of value-added tax should serve as the most important source of revenue for the Community, not least because this is the relatively most neutral way of harmonizing competitive conditions. It is also the most appropriate approach for any future financing of special energy aid programmes.

6. Conclusions

The Committee on Economic and Monetary Affairs

(a) points out that the increase in oil prices has radically altered the pattern of energy consumption and led to considerable energy savings;

(b) believes that this positive effect of an increase in oil prices is sufficient and does not need to be further strengthened by an additional energy tax which would have adverse consequences; different rates of energy tax would lead to changes in production conditions in the Community; a general energy tax would impair the competitiveness of Community industry;

(c) warns that an additional energy tax would involve the risk that the energy-producing countries would in turn increase their prices again;

(d) believes furthermore that the introduction of a common energy tax does not offer a good solution to the financial problems of the Community; it has been established that the Community's existing budgetary resources do not have a distorting effect on competititon and that, accordingly, an increase in the proportion of value-added tax in the Community budget would be the most appropriate arrangement.