

Taxation of energy products and electricity

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The Committee gave its support to a Commission proposal to introduce an EU-wide framework for energy taxation. The proceeds from this tax are planned to be used to lower taxes on labour, thus ensuring tax neutrality. However, following the advice of its rapporteur, Patrick COX (ELDR, IRL), the Committee called for substantial modifications aimed at simplifying the original proposal. Describing the proposed tax as over complicated, difficult to collect and riddled with exemptions effectively excluding those sectors that should be taxed, Mr Cox argued for a more comprehensive tax base, fully embodying the polluter pays principle. He had therefore introduced a number of amendments, which were supported by the Committee, proposing the deletion of most of the numerous exemptions, and in particular those automatically exempting energy-intensive industries from the tax. Instead of granting immunity to whole sectors of the economy, the Committee adopted amendments allowing Member States to refund part or all of the tax to assist those firms who can prove that they suffer a genuine competitive handicap as a result of the tax. Such exemptions may be granted for a limited time only, and must be approved by the Commission to ensure that they are compatible with the single market and do not violate State Aid rules. Exemptions retained by the Committee are mostly concerned with "green" forms of energy, such as solar, wind and hydroelectric power. Initially introduced in 1997, the proposal envisaged the introduction of minimum tax rates for energy in two steps; the first as of 1998, and the second, with higher tax rates, as of 2000. However, as the first deadline has already passed the Committee supported Mr Cox's argument that the first step should be dropped altogether making the tougher rules mandatory as of 1 January 2000 as originally foreseen. Finally, the Committee also rejected the idea that the tax rates should be revised by amending the Directive every two or three years, ie. through political negotiations. Instead, the Committee introduced a system where the tax is automatically indexed each year at a rate of the annual inflation plus two percentage points thus accelerating the tax rate. This system will apply for at least five years, thereby ensuring greater clarity and certainty for those affected by the tax. After the five year period a new system may be envisaged.