



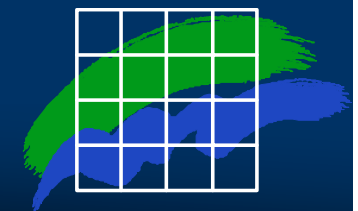
COMETR

Possible strategies for mitigation of competitiveness effects

Mikael Skou Andersen

NERI, University of Aarhus (DK)

COMETR is a Specific Targeted Research Project (STREP) of the 'Scientific Support to Policies' initiative under the EU's Sixth Framework Programme for Research (FP6)



Key problem

- **20% of companies consume 60% of energy**
- **Energy-intensive industries are usually not very labour-intensive**
- **At company-level revenue-recycling will not be neutral; ETR creates winners and losers**
- **Competitiveness effects are negative and positive**



Available approaches

Ex-ante mitigation

- tax base modifications
- tax rate exemptions
- thresholds for tax rates
- conditional on agreements

Ex-post compensation

- caps on tax payments
- revenue recycling
 - 1) employers
 - 2) employees
 - 3) energy efficiency measures
- subsidy programmes for energy efficiency, renewables



Overview of member state approaches

Nordic model (SE; FI)

- cap on tax liability (above 0,8 per cent of total)
- cap exchanged by threshold because of minimum rates required by Energy Taxation Directive

Fiscal conventionalists (UK; DK)

- agreements as condition for reduced tax rates in energy-intensive industries
- recycling of revenue for energy efficiency measures, e.g. Carbon Trust

Pragmatic model (DE; NL)

- DE: spitzensteuer-ausgleich (peak tax adjustment) conditional on self-commitment
- NL: Long-Term Agreements and adjustments in corporate taxation



Energy Taxation Directive

- only in principle that minimum tax rates apply to energy-intensive industries
- heat and dual use of fuels exempted
- several sectors exempted
- further exemption options for electricity, heat and motor fuels, if "on average" minimum rates are kept
 - 1) 50% reduction for non-energy-intensive industries
 - 2) 100% reduction for energy-intensive industries
- exemption clauses for individual member states (some ending 2007)



Guidelines for state aid

- **functional view on state aid**
 - exemptions can also be state aid
- **requirements for exemptions**
 - 1) degressive
 - 2) temporary, max. 10 years
- **requirements for lowering of existing taxes**
 - 1) not selective (ECJ Adria-Vienna ruling)
 - 2) not discrimination (ECJ Outompou Oy ruling)



Where does this leave us; some observations

- In this labyrinthine system there seems to be a great deal of work to be done by lawyers ...
- Incremental progress, but absolutely not a level playing field
- Old ETRs 'protected' by state-aid rules, but under pressure from ETS (double-regulation)



Electricity tax rate for industrial end users

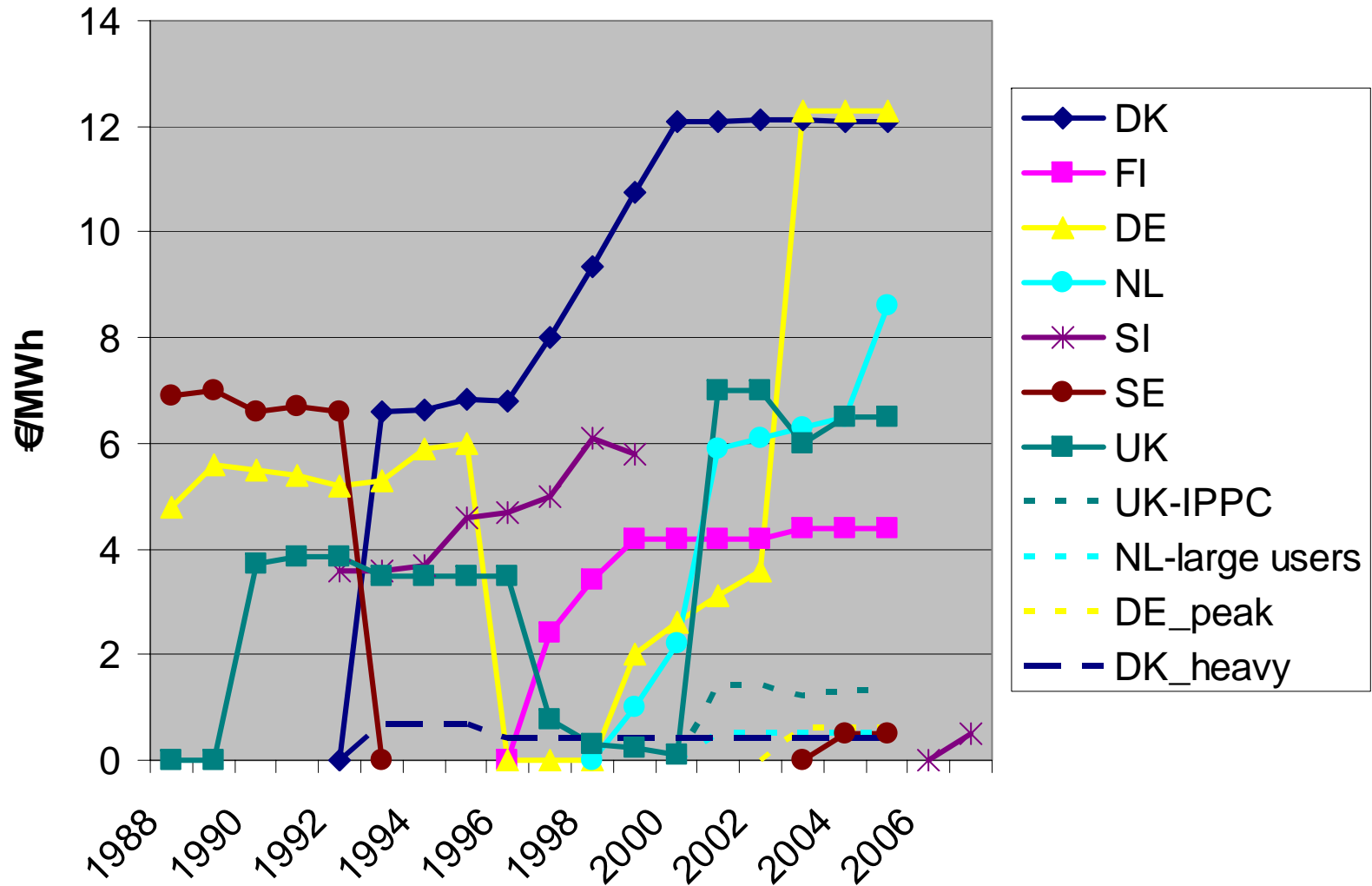
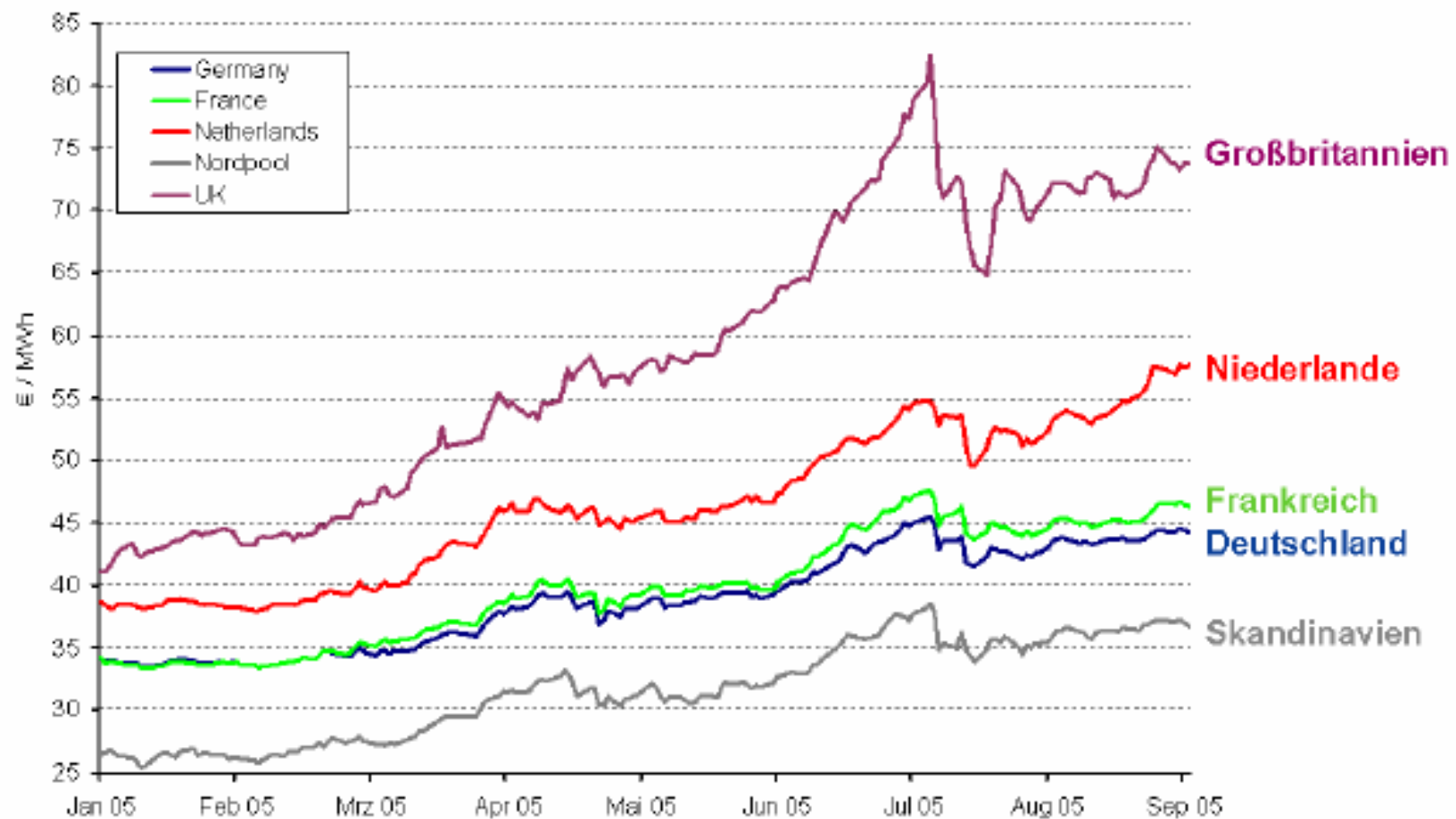


Chart 1: European Wholesale Prices for Electricity to be delivered in 2006



Source: RWE 2005



A new rationale for EU-exemptions

- Exemptions an exception rather than a rule
- Some criteria for vulnerability
 - unit energy costs exceed, say, 100€/1000€ output
 - sectors which have little price setting power and so are mainly price takers
 - sectors which have few options for fuel-shifts and technology-shifts
- Basic metals seems a clear candidate – or a case for border-tax adjustment
 - need to define sectors at NACE 3- or 4–digit level to avoid fragmentation and outsourcing of vulnerable subsectors



A new approach to mitigation in member states

- continue revenue recycling to lower employers' social security contributions or other distortionary taxes
- 10-20% of revenues **earmarked** for energy efficiency measures and R&D in energy-intensive industries
 - is the key to adaptation and innovation

