



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

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Opinion

Title

DG TAXUD – Impact assessment on the Draft Proposal for amending Council Directive 2003/96 restructuring the Community framework for the taxation of energy products and electricity

(version of 21 October 2010)

(A) Context

The IA report analyses the issue of how best to harmonise the minimum excise duty levels for energy sources, required by the Energy Taxation Directive, while at the same time to ensure there are no overlaps with the CO2 Emission Trading Scheme. The initiative proposes to use energy content of the fuel and its carbon emission factors as two components on the basis of which the excise duty would be set. Other issues, such a number of exemptions in the current directive are also addressed.

The IAB issued an opinion on 16 September 2008 on an earlier version of the report. The IA report has since been updated and revised.

(B) Overall assessment

The report needs significant further improvement to facilitate its use in the decision-making process, and to present more clearly the significant amount of analytical work that has been done. The report needs to explain more clearly the content of the options, and in particular to present explicitly and assess the impacts of the combined option which might be part of the final proposal. It should present the most significant distributional impacts more clearly in the main text and explain how these can be addressed for instance by the application of exemptions and transitional periods. Finally, greater clarity is needed with regard to provisions for small emitters not covered by the emission trading scheme and to the potential impacts on car manufacturers.

Given the nature of these recommendations, the Board asks DG Taxation and Customs Union to resubmit a revised version of the report, on which it will issue a new opinion.

(C) Main recommendations for improvements

(1) The IA report needs to explain more clearly the content of the options. A number of important clarifications need to be made: (i) the executive summary indicates that the preferred outcome may include a combination of options 3a (medium ambition on climate policy) and 3b (low ambition). The report should explain explicitly what this combined option would entail in terms of the proposed level of the minima for energy content and CO₂, and in terms of transition periods and possible exemptions. It should provide a separate assessment of what the impact of this combined option would be. (ii) Options 3a and 3b represent medium and low levels of ambition. The report should explain why it was not considered appropriate to analyse a higher level of ambition. (iii) It should explain why option 1 is based on an alignment with the existing minima for heating gas oil while options 3a and 3b are based on an alignment with the existing minima for gas and coal. (iv) Finally, in order to facilitate comparison with the current levels of taxation, the report needs to present the new minimum rates for excise duty for each fuel (the combined energy and carbon components), in the same units that are used in the current ETD (see table 1 on p.16).

(2) The most significant distributional impacts need to be presented clearly in the main text. While the problems have been analysed thoroughly and the report and annexes contain a wealth of information on all important impacts across the 3 pillars, the presentation of the results should be clarified to enable the reader to understand how the evidence has been used to assess the impacts of the options (including the combined option referred to in recommendation (1)). The main text of the report should highlight the most significant results at Member State, sectoral and household level from the more disaggregated analysis in the annexes and explain the significance of these figures. If derogations or exemptions are planned to deal with these cases, they should be explained.

(3) The report should assess the extent to which different options lead to a fair and equal treatment of small and large emitters in industry sectors not prone to carbon leakage. The report assesses options to award special treatment to small installations in sectors which under the Emissions Trading System are considered at risk of carbon leakage and where as a result large installations will receive free allowances for the period 2013 to 2020. It should explain why it is not considered necessary to introduce similar measures for small installations in other sectors where there will be a gradual phasing in of full auctioning.

(4) The report should explain more fully why the proposed alignment of the petrol and diesel minimum excise duty levels is compatible with the existing strategy to reduce carbon emission from cars. For this purpose it should discuss to what extent diesel might be currently under-taxed. When explaining the potential effects of rebalancing the excise duty levels, it should take into account the demand (price) elasticity, and likely substitution and rebound effects.

(5) The presentation of the report needs to be significantly improved. In line with recommendation (2) above, the links between the main text of the report and the more detailed assessments and simulations in the annexes should be made much clearer. The main findings should be explicitly included in the text, especially in the presentation of impacts and the comparison of policy options. Clearer page references need to be made to the underlying analysis. The annexes themselves need to be restructured and reorganised to improve consistency and clarity of presentation (for example there should not be two sets of annexes with different numbering), and each annex should contain a brief

explanation of the information it contains.

Further efforts should be made to bring the report closer to the 30 page limit, for example by avoiding duplication: if a graph contains no new information that was not already presented in a table it should be omitted (cf. p. 16 and 17), or by rebalancing the text devoted to assessment of individual impacts according to their significance. Additionally, the report needs to be clearer about the scope of the analysis and explain why – due to the international agreements – maritime and aircraft fuels are not subject to this initiative.

The more technical comments which were transmitted directly to the author DG prior to the Board's first opinion are expected to be incorporated in the final version of the impact assessment reports

(D) Procedure

The procedural issues seem to have been complied with.

(E) IAB scrutiny process

Reference number	2008/TAXUD/003
External expertise used	No
Date of Board Meeting	10 November 2010 (an earlier draft of this report was discussed on 3 September 2008)