

# European Communities

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EUROPEAN PARLIAMENT

## Working Documents

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5 November 1974

DOCUMENT 312/74

### Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 49/74) for a<sup>1</sup>second directive on taxes other than turnover taxes which affect the consumption of manufactured tobacco

Rapporteur: Mr Helmut ARTZINGER

PE 37.868/fin.



By letter of 9 April 1974 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a second directive on taxes, other than turnover taxes, which affect the consumption of manufactured tobacco.

In its sitting of 22 April 1974, the European Parliament referred this proposal to the Committee on Budgets as the committee responsible and the Committee on Economic and Monetary Affairs for its opinion.

On 29 April 1974 the Committee on Budgets appointed Mr Artzinger rapporteur.

The sub-committee on tax harmonization examined the proposal at its meetings of 10 July 1974 and 8 October 1974.

The Committee on Budgets considered this proposal at its meeting of 8 October 1974 and adopted the motion for a resolution and the explanatory statement by 8 votes to 2, with one abstention.

The following were present : Mr Spénale, chairman; Mr Durand, vice-chairman; Mr Artzinger, rapporteur; Mr Fabbrini, Mr Gerlach, Mr Hansen, Lord Lothian, Mr Pêtre, Mr Radoux, Mr Schmidt, Mr Vernaschi.

The opinion of the Committee on Economic and Monetary Affairs is attached.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a second directive on taxes other than turnover taxes which affect the consumption of manufactured tobacco

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council<sup>1</sup>,
  - having been consulted by the Council pursuant to Article 100 of the EEC Treaty (Doc. 49/74),
  - having regard to the report of the Committee on Budgets (and the opinion of the Committee on Economic and Monetary Affairs (Doc. 312/74),
1. Reiterates its belief that the harmonization of the main excises could constitute a significant contribution towards the achievement of economic and monetary union;
  2. Recalls that on many previous occasions it has urged progress in the sphere of fiscal harmonization;
  3. Is aware of the importance to the Exchequer of the yield of the existing duties, other than value-added tax, which are levied on tobacco;
  4. Considers that the harmonization of the excise on tobacco would be a significant step towards the removal of obstacles to free trade and in the development of greater interpenetration of markets;
  5. Realises, however, that the relative slowness of progress in this sphere reflects the widely differing systems at present in operation in the Member States.
  6. Believes that the interests of momentum in the further harmonization of the excise duty on tobacco would be better served by bringing forward to 1 January 1979 the 1 January 1980 deadline set in paragraph 3 of Article 2 of the present draft directive;

<sup>1</sup> OJ No. C 72, 27.6.1974, p.15

7. Appreciates the need for certain derogations from the effect of the directive but urges that these be of as short duration as is reasonably possible;
8. Requests the Commission of the European Communities to incorporate, pursuant to Article 149, second paragraph, of the Treaty, the following proposed amendments in its proposal;
9. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

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Proposal for a second directive on taxes other than turnover  
taxes which affect the consumption of manufactured tobacco

Preamble, recitals and Article 1 unchanged

Article 2

Paragraphs 1 and 2 unchanged

3. The Council, acting on a proposal from the Commission, shall not later than 1 January 1980 take the necessary measures for abolishing or changing, at Community level, the provisions of paragraphs 1 and 2 above.

Article 2

3. The Council, acting on a proposal from the Commission, shall not later than 1 January 1979 take the necessary measures for abolishing or changing, at Community level, the provisions of paragraphs 1 and 2 above.

Articles 3 to 10 unchanged

Article 11

Paragraphs 1 and 2 unchanged

3. The Member States specified in paragraphs 1 and 2 shall, not later than three years after the date of entry into operation of this Directive, revoke the derogating provisions provided for in the said paragraphs.

Article 11

3. The Member States specified in paragraphs 1 and 2 shall, not later than 1 January 1979, revoke the derogating provisions provided for in the said paragraphs.

Article 12

Paragraph 1 unchanged

2. The Council, acting on a proposal from the Commission, shall if necessary decide to revoke the provisions of paragraph 1 above.

Article 12

deleted

Articles 13 to 15 unchanged

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<sup>1</sup> For the complete text, see OJ No. C 72, 27.6.1974, p.15





EXPLANATORY STATEMENT

1. The Commission's proposal is a follow-up to the first directive on the harmonization of excise duties on manufactured tobacco adopted on 19 December 1972. That directive provides for a harmonized taxation structure for cigarettes consisting of specific and ad valorem elements. The ad valorem element relates to the retail selling price and - without prejudice to the ultimate range - the specific element must be not less than 5% and not more than 75% of the total charge. The position of manufactured tobacco other than cigarettes was not gone into in the first directive, however, and proposals for harmonization of these products were left over for treatment in the present draft directive.

2. The draft directive now under consideration reflects - by way of the wide range of categories listed and the special derogations (some of a temporary nature) - the considerable effort being made so as to minimize the risk of abrupt changes in market patterns that might ensue if the tax content of broadly competing tobacco products were to be seriously disturbed; the provisions also take account of the need to obviate the danger of fluctuations in tax receipts that could result from a sudden move from higher taxed to lower taxed products. The Exchequer interest in tobacco revenue is apparent from the fact that it provides shares of total tax receipts of Member States ranging from 2½% to 10½%. However, the significance of tobacco as a source of revenue is diminishing: in 1969, for example, the range set out in the preceding sentence extended from 4¾% to 16¼%.

3. The annexed table gives details of Member States' revenue from the most important excise duties for the latest year for which comprehensive figures are available. The table shows that excise duties on tobacco represent a major source of revenue in the Member States, but only in two (Denmark and Ireland) did they form the most important single item of excise duty revenue for 1972. In the other Member States the revenue from oil duties came top of the list. Nevertheless, although excise duties on tobacco did not constitute the most important single item of excise duty revenue, they are of considerable budgetary importance throughout the whole Community.

4. In view of the large amount of revenue which still arises from tobacco, it is understandable that the possibility of exercising wide flexibility in the charging of cigars and smoking tobacco should be facilitated by providing that both of these groups may be divided into two sub-groups, based on weight in the instance of cigars and on cut in the case of smoking tobacco. It would appear, however, that the 1 January 1980 deadline set in paragraph 3 of Article 2 may be rather too distant and may operate to delay action in the sphere of tobacco harmonization - as well as setting a possible precedent for other broadly similar transitional provisions. It should be feasible to gauge the effects of Article 1 within a reasonably short space of time and, therefore, to allow for the special derogation which will apply in the case of Ireland and the United Kingdom some time to work, the Committee suggests that the deadline at paragraph 3 of Article 2 be brought forward to 1 January 1979. Moreover, this amendment should help to ensure that early and continuing consideration would be given to the further evolution of the harmonized excise on tobacco. It must be remembered that, after all, this draft directive deals with products which represent only about 10% of the total quantity of tobacco consumed in the Community.

5. As well as providing for revenue security and market stability, the directive under consideration should also have the qualities of simplicity and clarity when dealing with products that enjoy a very limited market. There is clearly justification for classifying cigars, cigarettes and smoking tobacco in separate groups. As regards snuff and chewing tobacco, the small quantities of these commodities which are consumed would, at first sight, suggest that these be put in a single group. However, the committee appreciated that these products meet distinct - and widely differing - tastes and agreed with their being classified in separate groups.

6. As regards the termination of the derogating provisions in paragraphs 1 and 2 of Article 11, it is suggested that, in the interests of being more specific and of standardizing the references in the directive, a more definite date might be set. The date which appears to be most suitable is that now indicated for paragraph 3 of Article 2, i.e., 1 January 1979.

7. The products referred to at paragraph 1 of Article 12 - Rippentabak, Strangtabak and Kau-Feinschnitt which are special tobaccos manufactured in the Federal Republic of Germany and hardpressed tobacco which is manufactured in Ireland - account for a minute fraction of the output of the tobacco industries in both countries and are localized in consumption. In view of these considerations, it is suggested that paragraph 2 be omitted from Article 12.

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8. In the past, the Parliament has recorded its disappointment at the fact that decisions regarding tax harmonization were not being made and, as a result, the evolution of a pattern of freer trade was being delayed. Therefore, this draft directive is especially welcomed as an advance towards the fiscal harmonization which is essential if the Common Market is to develop and function effectively in all sectors.

9. Views of the minority (Rule 42.2 of the Rules of Procedure).

A minority of the Committee expressed a view in favour of :

- (a) a definition of cigars which would permit, on the fiscal plane, of not prejudicing certain categories of cigars at present produced in some Member States and consumed extensively;
- (b) the extension to other countries of the fiscal dispositions indicated at the second sentence of the first paragraph of Article 11 of the draft directive.

REVENUE FROM EXCISE DUTIES - 1972

Annex

Products	Belgium		Denmark <sup>1</sup>		Germany		France		Ireland		Italy <sup>2</sup>		Luxem- bourg		Netherlands		United Kingdom	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
Mineral oils and liquified petroleum gas	26,647	7.47	1,618	3.70	14,227	8.36	15,964	7.37	52.7	9.91	2,011,039	15.75	989	7.1	2,133	5.26	1,516	9.96
Tobacco	9,459	2.65	2,413	5.52	7,826	4.60	4,960	2.29	55.4	10.43	808,628	6.33	442	3.1	961	2.37	1,170	7.69
Spirits	3,002	0.84	769	1.76	2,873	1.69	3,117	1.44	30.4	5.74	128,176 <sup>3</sup>	1	133	0.9	531	1.02	506	3.33
Wines and fermented beverages	999	0.28	258	0.59	295	0.17	465	0.21	2.1	0.40	-	-	46	0.32	81	0.20	64	0.42
Beer	2,638	0.73	1,210	2.77	1,250	0.73	124	0.06	41.1	7.74	32,910	0.26	80	0.57	193	0.47	493	3.24
Other excise duties	3,181	0.41	782	1.93	1,487	0.88	172	0.08	11.7	2.28	237,983	1.85	9	0.06	87	0.21	237	1.51
<b>Total</b>	<b>45,926</b>	<b>12.38</b>	<b>7,050</b>	<b>16.27</b>	<b>27,958</b>	<b>16.43</b>	<b>24,802</b>	<b>11.45</b>	<b>193.4</b>	<b>36.50</b>	<b>3,218,736</b>	<b>24.24</b>	<b>1,699</b>	<b>12.05</b>	<b>3,986</b>	<b>9.53</b>	<b>3,986</b>	<b>26.15</b>

I. Revenue in millions of units of the national currency

II. Percentage of total tax revenue

<sup>1</sup> Budgetary year 1 April 1972-31 March 1973

<sup>2</sup> Duties abolished on 1.1.1973 have not been included

<sup>3</sup> Including state stamps

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr LEENHARDT

The Committee on Economic and Monetary Affairs appointed Mr LEENHARDT draftsman for an opinion on 28 May 1974

It considered the draft opinion at its meeting of 25 October 1974 and adopted it by 7 votes to 4 with 1 abstention.

The following were present: Mr Lange, chairman; Mr Notenboom, vice-chairman; Mr Leenhardt, draftsman of the opinion; Mr Artzinger, Mr Burgbacher, Mr Carpentier, Mr Cifarelli, Mr Flämig, Mr van der Hek, Mr Kater, Mr Brøndlund Nielsen and Mr Normanton.

1. The object of the proposal for a second directive is relatively limited since it concerns only the harmonization of the applicable rate of tax, i.e. the establishment and definition at Community level of the various groups of manufactured tobacco.
2. As regards determination of the groups of manufactured tobacco, the second directive divides the five groups previously established<sup>1</sup> into a number of sub-groups to be abolished or changed by 1 January 1980 at the latest.
3. So long as harmonized taxation structures have not been fixed, the committee considers that it would be premature to exclude the possibility of dividing cigars into two sub-groups according to their weight (cigars whose unit weight does or does not exceed 2.3g).
4. It also makes a distinction between fine-cut and coarse-cut smoking tobacco in view of the fact that rolling cigarettes by hand is still a popular practice in a number of Member States.
5. As regards the definition of the groups of manufactured tobacco, the Commission has made a special effort to draw as accurate a distinction as possible between cigars and cigarettes. Here too, fiscal considerations (far higher rate of excise duty on cigarettes) led the Commission to classify cigarettes in an open category comprising all rolled forms of tobacco suitable for smoking which do not correspond to the extremely detailed definition of cigars given in Article 4 of the second directive.
6. The Committee on Economic and Monetary Affairs, while regretting that it is not possible to make faster progress as regards simplification and harmonization of the applicable rate of tax, approves the proposal for a second directive.

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<sup>1</sup>Article 3 of the First Directive of 19 December 1972