

IMPORTANCE OF MINERAL OILS EXCISE DUTIES FOR CLIMATE POLICY: A COMPARATIVE APPROACH OF THE MACEDONIAN AND EU REGULATION FOR EXCISE DUTIES ON MINERAL OILS

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ABSTRACT

This paper focuses on mineral oils excise duties as an important tool of influencing climate policy, and in this context analyze of the Macedonian and EU regulation on mineral oils excise duties. Fossil fuels, which are the base for extraction of mineral oils, comprise over 90% of global energy sources in usage. However, due to their impact on the environment, and with more and more recent studies, on climate change, the regulation of their use, cost and pricing are a significant part of climate policy. The creation of higher excise tax rates on mineral oils implicates a reduced usage of the same in the long run.

In Macedonia, as well as in the other countries the most important function of the mineral oils excise duties is regulating the extent of usage of motor oils, in the context of climate policy. However, despite the imposing of excise duties on mineral oils, this tax is still one of the lowest in the region, and far lower than prescribed by EU climate policy.

The European Union regulates the usage of all energy sources via the Directive 2003/96, by which the lowest excise duty rates are prescribed for EU member states. The prescribed minimal rates are far above the current excise tax rate on various mineral oils in Macedonia, leading to the conclusion that in the case of EU accession the regulation of excise tax on mineral oils in Macedonia will significantly change.

Keywords: mineral oils, climate policy, excise duty



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1. INTRODUCTION

Excise duties are a specific, special and selective group of consumer taxes, with which specific sets of products or groups of products are targeted. Excise duties target selective groups of products for which elasticity demand is low. There are various reasons for employing excise duties on specific products, from creating a stable income for a country's budget, through taxation of luxury goods, to decreasing demand of specific goods and products with the sole purpose of achieving a specific target in health, environmental, ecological and other socially justifiable causes. In global context tobacco, alcohol and fuel are seen as most common excise duty products.

Fossil fuels, which are the base for extraction of mineral oils, comprise over 90% of global energy sources in usage. In this group oil derivatives such as gasoline, diesel oil, liquid gas, kerosene, are included. These are mineral oils products which are massively used worldwide for various uses, but first and foremost for fueling transportation vehicles. However, due to their impact on the environment, and with more and more recent studies, on climate change, the regulation of their use, cost and pricing are a significant part of climate policy. The creation of higher excise duties on mineral oils implicates a reduced usage of the same in the long run.

Excise duties as a category are an added fiscal expense. As such, excise duties on mineral oils are created mostly to drive the cost of using said oils up, and in this sense encourage the use of renewable energy sources instead. The price of mineral oils on one market is increased by imposing excise duties, which reassigns the production process, export, growth and completion of different industries in the market and globally. However, governments trying to avoid such added fiscal expense in order to make their companies more competitive on the global market, are faced with the proposition of negative environmental effects and an impediment on actual sustainable growth, as opposed to economic growth.

In the following sections, this paper will analyze the significance of excise duties on mineral oils in climate policy. The paper will separately analyze the regulation of the excise duties on mineral oils in Republic of Macedonia, comparing with the regulation in European Union.

Meaning and purpose of excise duties

Excise duties are a selective and specific form of indirect taxes, charged onto actions related to production, consumption or trade of accurately and specifically determined goods or services. In economic literature, authors regularly term excise duties goods “specific goods”, because of their specific characteristics, limited number and high tax rates, whereas excise duties are termed “specific consumer taxes” (Atanasovski, 2004).

Excisable products typically cause some negative impacts, for example, on health or the environment. The excise duty imposed on the product can be compared to a sort of “repair cost” for the incidental damages it causes to health, the environment or other social value. Anyway, despite any logical reason for imposing an excise duty, should be find a reasonable balance between the additional cost that the duty represents, and its impact on that industry as a whole. Often the only measurable effective result, especially in a short term may be an increase public revenue.

Apart from the obvious primary purpose of excise duties, securing financial means to meet a country’s fiscal demand, they have an additional purpose of realizing a number of non-fiscal goals of economic, social and political character. Namely, the percentage of excise duties in budgetary income in EU member states is between 7% and 20%, and the average percentage in OECD members is 12.5% of total budgetary income. Moreover, in some countries, such as Ireland or Portugal for example, excise duty income is almost leveled with income form value added tax (Pendovska et al., 2010).

On the other hand, modern countries use the income collected from excise duties on some goods to cover expenses from potential damages and adverse effects from consumption of said goods. Therefore, the imposing

of excise duties should have influence on consumer behavior in terms of reducing the use of excise goods or their substitution with less harmful similar goods.

The significance of fiscal tax goals at expense of their non-fiscal goals is lower in countries where societal development is on a higher level.

Importance of excise duties on mineral oils in climate policy

The introduction of excise duties on mineral oils, worldwide, has been connected to the shift in consumer rates in specific mineral oils, which are a deplorable source of energy. In order to rationalize the consumption of all types of fossil fuels, given their reduction in supply in recent years, and the effect their mining as well as consumption have on climate change, governments try to reduce their use in different market-based and government-based solutions and mechanisms. The most prominent modern form of reduction of mineral oils use is the employment of excise duties on mineral oils, which shift the price of their use higher, and thus, theoretically, would lead to their lower consumption. One of the most prominent causes for such governmental policies is the adverse effect the use of mineral oils has on the environment, and subsequently on climate change in the past decades. By trying to reduce mineral oils consumption/use, governments try to reduce the emission of adverse substances into the environment.

One of the most important significance of excise duties is to create market incentive for a certain action of society. As such, excise duties on mineral oils play a vital role in the creation and putting into motion of climate policy in a country. In the past, “environmental” instead of “climate” policies have been dominated by so-called “command and control” regulations, which have been more specifically targeted and more prescriptive, rather than imposing regulations. Such regulations have included measures of limitation of the use of particular harmful substances, limitation and

imposing of certain environmentally friendly technologies to industries where harmful impact is possible and similar. However, in practice this approach has not been over-successful in implementing and promoting climate policy in the past. Therefore, in recent decades, governments have turned to market-based instruments for enforcing climate policy, including excise duties, tradable emission permits and similar incentives (OECD, 2011). Without government intervention, households and citizens are easily exempt from obeying climate policies. This is why excise duties on mineral oils have become a valuable tool in accounting for environmental damage and regulating it. All other mechanisms, without excise duties as a mechanism for enforcing climate policy, have been proven to have a vast impact over households, firms and general public, with a small direct cost to the polluter. Because of this, ever since 2011 the OECD promotes excise duties as a mechanism for general collective government-led action that helps protect the environment and enforce environmental and climate policy in a country. Several sub-mechanisms exist within the enforcement of excise duties on mineral oils, which help promote their cause, such as: pricing in environmental costs to the broad public and optioning in the least costly way for firms and households to reduce environmental damage. According to Williams (2016) mineral oils excise duties are accounting for over 90% of environmental tax revenue in the United States, and are similarly as important in other developed countries as well. Mineral oils excise duty is the most blunt and easiest to use mechanism in regulating environmental externalities, while it is ready-to-implement in any given situation. For comparison, tools regulating motor vehicle use and its impact on climate policy are more difficult to implement if they are cause-specific, such as toll charges varying depending on traffic during the day, for example. Additionally, the increase in excise duties on mineral oils in the US has led to the decrease of use of said oils, especially in the case of gasoline, which is in favor of the current climate policy.

Regulation of the use and taxation of mineral oils in the Republic of Macedonia comparing with the European Union

The European Union regulates the usage of all energy sources via the Directive 2003/96/EC, Energy taxation directive 2003 by which the lowest excise duty rates are prescribed for EU member states.

Although taxation is member states' issue and EU doesn't have a direct role in raising taxes and setting tax rates, for some taxes including VAT and excise duties member states have agreed to align their rules and minimum rates, with the main purpose to ensure the Single Market and the fair competition in businesses. Also, the Energy Directive is in compliance with EU commitments to integrated environmental politics into the energy taxation area.

It should be underlined that for example in 2015 environmental taxes, represented 6.3% of the tax revenue of the EU, and that percentage is rising. The impact of excise duty including their impact on producing, distributing and selling all the underlying goods that are subject to tax – is as significant as the challenges that these products present.

In Macedonia, excise duty goods are numbered in the Law for excise duties (Official Gazette of the Republic of Macedonia, 32/2001): mineral oils, alcohol and alcoholic beverages, tobacco goods and motorized vehicles. The spectrum of excise duty goods encompasses products which in global context undergo excise duty taxation.

In Macedonia, as well as in the other countries the most important function of the mineral oils excise duties is regulating the extent of usage of motor oils, in the context of climate policy. However, despite the imposing of excise duties on mineral oils, this tax is still one of the lowest in the region, and far lower than prescribed by EU climate policy.

Macedonia's EU accession will open up new additional questions, including the question for harmonization, or increase of excise duty rates, and their impact on economic development of the country's fiscal policy, on the one

hand, and citizens' standard on the other hand. In this context, the price of diesel fuels has been previously increased in Macedonia, and the current government announces new reforms including future excise duties levied on electric energy and natural gas.

Conclusion

The significance of excise duties on mineral oils is multiple in today's society and environmental changes. The possibility of creating an additional budgetary income, coupled with relatively low administrative and enforcement costs are an important reason for the employment of excise duty on mineral oils. However the non-fiscal significance of excise duty on mineral oils is even more important in the face of today's impact of climate change on everyday aspects of life. Excise duty on mineral oils is a major asset in the fight for reducing over-use of mineral oils which are justifiably one of the major pollutants of the environment and a major cause of climate change. By employing a higher excise duty on mineral oils, governments indirectly protect people's environment and health and contribute towards the diminishment of climate change. Moreover, mineral oils' excise duty leads to rational and effective use of said goods, or at least some specific forms of said goods.

The policy for taxation of mineral oils via excise duty or tax should be focused on promotion and application of alternative and renewable energy sources. By creating such policies, the focus will shift from using fossil fuels, which are known pollutants, to new and alternative, ecological fuels. However, a government's strive must be to accomplish balance between the level of excise duty imposed on mineral oils and the level of their implications within the economy, since mineral oils still have a massive impact on individuals and entire economies. The reduction or increase of mineral oils excise duties is directly impacting standard of living, consumption and economic growth. Additionally, end users – consumers feel the end-line of the impact in increase of excise duty, since they are the main financiers of this tax.

However, the fact that the impact of mineral oils on climate change and environmental pollution is so high, it can be expected that worldwide excise duties on mineral oils will be on the rise. The prescribed minimal rates in the EU Energy Directive are far above the current excise tax rate on various mineral oils in Macedonia, leading to the conclusion that in the case of EU accession the regulation of excise tax on mineral oils in Macedonia will significantly change. The system for taxation of mineral oils via excise duty will be subjected to the biggest changes, because it will need to enlarge as to include other taxable sources of energy which are subjected to excise duty in the EU, such as excise duty on natural gas, coal, coke and electric energy, in order to harmonize criteria for taxation of specific products. On the other hand, because the excise goods in question have other taxable aspects, such as environmental and health aspects, it can be expected that minimal excise duty rates will increase in the future, since it is an issue of important income sources in the future with a simple mechanism for payment.

Regardless of the first-hand effects on consumers, Macedonian excise duties will be increasing as well, especially as a part of harmonizing Macedonian with EU legislation during the accession process. However, the issues at hand include the improvement of people's health and environment, and for the improvement of the real long-term standard of living and quality of life, it is imminent that excise duty on mineral oils must increase.

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