

Commission on Taxation
Le Pole House,
Ship Street Great,
Dublin 8.

info@taxcommission.ie .



**Submission by the Irish Petroleum Industry Association
to
The Commission on Taxation**

May 2008

Members: Campus, Chevron, ConocoPhillips, Emo, Esso, Maxol, TOP, Topaz

This submission to the Commission on Taxation by the Irish Petroleum Industry Association is confined to the two issues of

- the equitable incidence of taxation in the matter of excise collection
- measures to protect and enhance the environment.

There is some crossover between these two matters.

1	Anomaly in excise collection	
	1.1.1 Summary of excise collection anomaly	page 3
	1.1.2 The inequity within Ireland	page 3
	1.1.3 Comparison with other EU states	page 4
	1.1.4 Effect on competition	page 4
	1.1.5 Inefficiencies in Irish economy	page 5
	1.1.6 Environmental impact	page 6
	1.1.7 Security of supply	page 6
	1.1.8 A possible model for Ireland	page 7
	1.1.9 Removal of anomaly	page 8
2.	The environment	
	2.1 Vehicle registration tax	page 9
	2.2 Excise and VAT	page 9
	2.3 Space Heating	page 10
	2.4 Measures to reduce emissions from road transport	page 10
Appendix	Excise receipts	page 12

1 Anomaly in excise collection reduces security of supply

1.1 Summary of excise collection anomaly

Excise duty contributed € 6,003 million to the Irish Exchequer in 2007 of which 36.7% was excise on mineral oil products.¹ The excise on oil products in Ireland is collected in a way which is fundamentally unlike

- the collection of excise on other products in Ireland;
- the collection of excise on oil products in other EU states.

The Irish Petroleum Industry Association notes the negative social and economic consequences of this anomaly in tax law and proposes that excise on oil products be brought into line with excise on other products and into line with excise arrangements in other EU states. In future, all taxes on fuels should be collected in arrears (like VAT) not in the inequitable manner though which excise is imposed on the oil industry.

As oil prices rise, the effect of this anomaly becomes more acute for the oil industry. Unless the inequity is removed, there is a risk that individual suppliers may choose to reduce their credit terms to industrial and commercial consumers, thus eroding their competitiveness.

1.2 The inequity within Ireland

While the tobacco, alcohol and motor vehicle industries also collect excise for the state, only the oil industry must fund that process by paying excise *before* it is collected. Payment is made as the oil leaves the bonded warehouse at the terminal before it is delivered to the customers and days/weeks/months (depending on the product and customer) before the oil company gets paid for it.

- **Alcohol** Payment is made at the end of the following month except 15th December.
- **Motor** Payment is made by the 15th day of the following month (although some dealers do pay immediately and some cars are pre-registered).
- **Tobacco** This operates through a stamp regime and payment must be made within ninety days of the purchase of stamps.

The tobacco and alcohol industries enjoy substantial cash flow benefits as a direct result of deferred payments and tight trade credit terms. By contrast, the oil industry in Ireland is required to finance the upfront payment of excise and await payment from its customers for periods of up to sixty days.

It is difficult to understand why Irish taxation law should impose a cash flow burden on the oil distribution business that it does not impose on the alcohol and tobacco industries. While there may have been some historical basis for collecting excise from mineral oil in this way, there appears to be no rationale for this inequity today.

¹ Source: Revenue Commissioners provisional figures, 9 May 2008

1.3 Comparison with other EU states

The oil industries in other EU states do not suffer the unfair burden on cash flow experienced by the industry in Ireland. The Irish excise arrangements are out of line with those of other EU states. Along with Irish industry in general, the oil industry is not arguing for tax harmonisation across the European Union: it is not the *level* of the excise that is at issue, it is the inequitable means of collection.

For example:

- **UK** Payment from the 15th day of month one to the 14th day of month two is paid at the end of month two. The net effect is an average of thirty days.
- **Germany** For the months January to October, payment is made on the 10th day of the second month after delivery. Payment for November and 1st to 18th December is made on 27th December. Payment for 19th to 31st December is made on 10th February. The effect of this model for Ireland is set out on pages 7 and 8.
- **Spain** Payment is on the 20th of the month following the withdrawal from a bonded warehouse.
- **Italy** Payment must be made by the 16th of the month following delivery.
- **France** Deliveries are rated over ten days, three times a month. Quantities are declared and taxes are collected one month later.

1.4 Effect on competition

A healthy, profitable and stable oil industry is an essential prerequisite for a healthy economy. Its strategic importance for Ireland is immense given the reliance of industry and individual consumers on imported oil. The White Paper on Energy *Delivering a sustainable energy future for Ireland* published in March 2007 notes Ireland's reliance on oil imports.

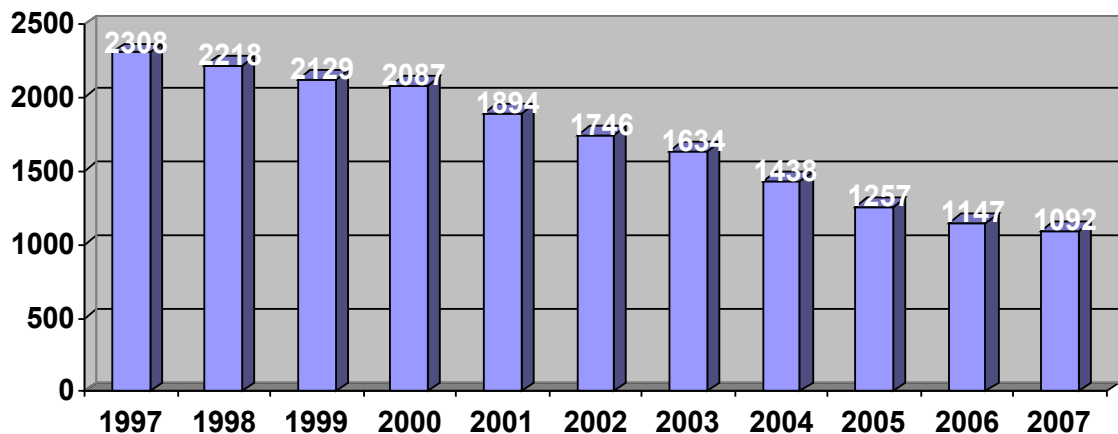
Ireland less attractive to major players

Ireland is no longer a strategic base for multinationals in the oil business. In recent years, the following have left the Irish market: Burmah, BP, Jet, Shell, Ola and Estuary and Statoil. With the larger players withdrawing, the market in Ireland is now largely comprised of Irish companies. The margins are very tight and it is a difficult place in which to produce an acceptable return on investment. The working capital requirements – which are significantly increased by the need to finance excise payments – are a severe burden. The unusual way in which the oil industry must collect excise duty is an additional barrier to entry. With the larger players leaving and with the difficulties facing new entrants, Irish excise law is contributing to a reduction in the number of players and to the level of competition.

Filling stations closing

Evidence of the increasingly tight margins in the oil business is shown by the steady reduction in the number of filling stations. The number at the end of 2007 is less than half that of a decade earlier. A small proportion has been sold because of underlying property values but the overwhelming majority of sites have closed simply because they are no longer economic.

Retail outlets 1997-2007



The above table reflects the number of sites of IPIA members. While there are other retail sites in Ireland, the pattern over the past decade is clear.

1.5 Inefficiencies in Irish economy

Transport

The need to finance excise payments promotes inefficiency in oil distribution logistics. The effect of this distortion in the logistical flow is that businesses, including petrol stations, order partial fills of their tanks and that the oil distribution sector is less efficient than it otherwise would be. One company operating in Ireland has stated to the IPIA that its truck delivery efficiency is averaging 94% in the year to October 2006 with a reduction to 89% in one location. Another company has reported to the IPIA that in the year to October 2006, retail loads were running at 92% of target and at 87% of maximum payload.

The bulk of this originates in Dublin Port and must pass through an already congested road network

The cost of product to business in general is increased, which is unhelpful to national competitiveness. In the intensely competitive oil fuels market in Ireland, any reduction in costs will make its way through to commercial and domestic customers.

Administration

The oil industry pays excise by daily deposits to Customs and Excise. There is then a weekly reconciliation for every terminal in the country. This should be replaced by one monthly payment from each company on an automated deferred basis. This would also save administrative costs in both industry and in the excise authorities

1.6 Environmental impact

There are clearly more truck deliveries than would be necessary if there were not this distortion in the market. Besides the direct economic consequences, there are the undesirable consequences of increased traffic congestion, more emissions and other negative environmental effects.

1.7 Security of supply

This anomaly in Irish excise law undermines security of supply by encouraging the industry to have as little product as possible at the end of the distribution line at any time.

The White Paper on Energy *Delivering a sustainable energy future for Ireland* published in March 2007 states “Security of energy supply is crucial for the economy and society. We need reliable access to oil and gas supplies and the infrastructure in place to import, distribute and store gas and oil..... The Government’s overriding policy objective is to ensure that energy is consistently available at competitive prices with minimal risk of supply disruption”.

The oil excise collection system encourages both bulk storers and retailers to minimise stock levels outside bond at all times. Between them, the non-bonded bulk storage capability of the oil distribution network is estimated to be 260 million litres. The average daily consumption of category one and two oil products (petrol and middle distillates) excluding bunkers and aviation fuel is 20 million litres per day. So, there is a post-bonded capacity for thirteen days supply of oil products in the national oil distribution system. The pressure on cash flow caused by the anomaly in oil excise collection encourages minimum stock levels in the system. A reasonable estimate would be a 50% under-utilisation of this capacity, or six days supply. The security of supply issue is particularly serious for parts of the country distant from an import terminal.

Figures supplied by the National Oil Reserve Agency in January 2007 indicate the NORA obligation for the previous six months. The industry cover (figures supplied to NORA by the Department of the Communications, Energy and Natural Resources) is 12 days of category two products, leaving 78 days for NORA to cover the national 90 day obligation. With a daily consumption of 14,427 tonnes of category two products, this six days amount to 86,562 tonnes. At current storage costs (€19.85 per tonne per annum) the annual cost of storing this quantity of product is €1.7 million. The state has the choice of either saving this annual expenditure or of enhancing the oil storage position above the 90 day minimum. A stated objective of the March 2007 White Paper on Energy is to “ensure security of energy supply at the most competitive cost”.

We fully understand that the Department of Communications, Energy and Natural Resources is responsible for *security* of supply: it cannot include amounts that are not clearly visible and quantifiable when fulfilling its obligation. Also, neither the State nor the oil industry can give an absolute assurance as to the precise quantities of extra fuel there would be outside of bond if the excise arrangements were adjusted. *Nevertheless, it is in the national interest that – at any particular time - there is more oil on the island and that more of it is distributed close to the point of sale.* We can say that this distortion in the market encourages oil companies to minimise what they have taken out of bond and distributed.

In other European states, where the oil distribution industry does not carry this anomalous burden on cash flow, there is not this incentive for the stock to be so much less than the capacity. Again, it is difficult to understand why Irish taxation law should favour the efficient distribution and stock build-up of tobacco and alcohol and penalise a vitally important fuel distribution sector. Consumption of the former could hardly benefit national competitiveness.

In noting responses to the earlier Green Paper, the White Paper on Energy (section 2.3.3) states “Ireland’s reliance on oil imports was a major concern in responses, with emphasis being placed on the importance of nationally owned strategic stocks and the need for reliable contingency arrangements and emergency planning in the event of interruption of supply.”

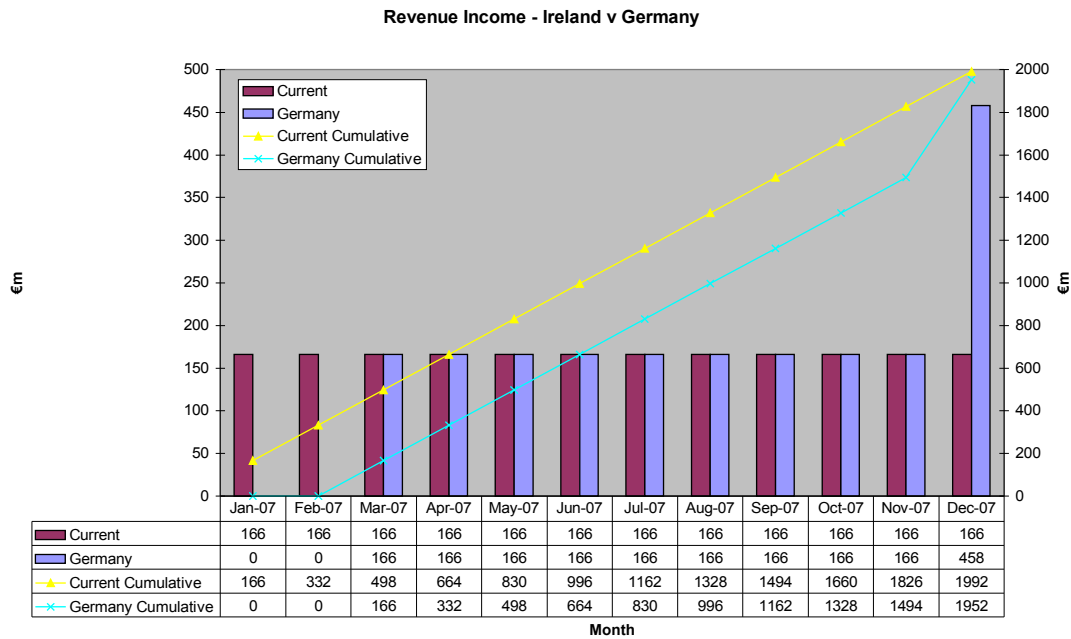
A modest once off cost to the Exchequer has the potential to deliver over six days stock cover to the nation or a saving in the state’s oil storage charges.

1.8 A possible model for Ireland

Exchequer accounting requirements.

For month	payment is made on
January	10 th day of March
February	10 th day of April
March	10 th day of May
April	10 th day of June
May	10 th day of July
June	10 th day of August
July	10 th day of September
August	10 th day of October
September	10 th day of November
October	10 th day of December
November	27 th day of December
December 1 st -18 th	27 th day of December
December 19 th -31 st	10 th day of February

The table below indicates that there would be a first year cash flow effect to the Exchequer of about € 40 million. That is the duty arising from the second half of December, which given the particular characteristic of that month amounts to 25% of the December total.



1.9 Removal of anomaly

Resolution of this issue (based on the German model and adjusting if necessary for Irish Exchequer accounting requirements) would result in a cash flow impact on the Exchequer of about €40 million in the year of introduction with a potential saving of €1.7 million. The €40 million is just once off but the saving increases each year delivering a potential first year return of 4.25 %. The alternative to such a potential saving in storage costs would be a greater level of security in the event of a disruption of supply (although the industry notes that this is not currently *measurable* by the National Oil Reserve Agency).

The €40 million is

- 0.70% of the annual excise receipts from all products for just one year
- 1.87% the of annual excise receipts from oil products for just one year

Balanced against this is the removal of an inequity. The distortions caused by this inequity have negative consequences for the remainder of industry, for consumers, for the environment, for competition within the oil business and for security of supply.

2. The environment – fiscal measures

2.1 Vehicle Registration Tax

The oil industry has consistently, over many years, worked on improving the environmental qualities of its products and has played a leading role in the reduction of benzene and sulphur in petroleum products. The IPIA favours reductions in emissions and supports government measures to rebalance annual motor tax charges to take greater account of CO₂ emissions. Such welcome incentives to promote the purchase of environmentally superior vehicles stand on their own feet.

The tax system in Ireland encourages the importation of used cars but does not facilitate their export. This distortion in the market encourages the use of older cars in Ireland and hence an increase in emission levels per car. This counteracts any public policy directed at encouraging lower CO₂ new cars.

The most effective approach to the encouragement of cleaner vehicles is at the vehicle purchase stage. IPIA notes the recognition by the government that “tax incentives to encourage the purchase of cleaner and more energy efficient vehicles have the potential to increase the fuel efficiency of the vehicle fleet”. We also note that in July 2005, the European Commission published a proposal for a Directive [COM/2005/261](#) that requires member states to abolish car registration taxes, establish a registration tax refund system; and restructure the tax base of registration and circulation taxes so that they be totally or partially CO₂ based.

2.2 Excise and VAT

Reductions in VRT do not need ‘justification’ by increasing the tax on fuels. With the existing excise and VAT rates, Ireland already has fuel pump prices which put it in the middle amongst eurozone countries². Price comparisons should not be made with the UK alone. Any increase would undermine the competitiveness of this small, peripheral trading nation..

The road transport sector currently pays substantial taxes, unlike the other emission-producing activities. Road transport fuels are subject to excise duty and VAT while aviation fuel, for example, pays neither tax.

The urban/rural dimension in Ireland is particularly important. Across the board fuel tax increases will penalise rural road users, who may already be paying the full external costs, including emissions costs, of their road use.

If there are to be any new proposals for rebalancing Excise Duty or the like, we believe that they should be subjected to rigorous cost and environmental benefit analysis to ensure we do not erode the competitiveness of the Irish economy. While much of our inflation is due to factors outside our control it would be most unwise of the state to add to inflation by increasing taxation on fuels.

² See the regularly updated Automobile Association comparison of pump prices at www.aaireland.ie/petrolprices

Note also that any increase in oil prices brings increased revenues to the Exchequer through VAT receipts. These could be used by the government, at its discretion, to promote measures positive to the environment.

2.3 Space heating

Any policy to raise taxes on energy products used for space-heating must take account of the characteristics of each fuel type and the current incidence of taxation on each fuel. At the moment oil products suffer significantly higher tax rate than, for example, natural gas.

IPIA accepts that natural gas can have some environmental attractions as a space-heating fuel in the industrial, commercial and residential markets which it serves. However, it is clear that large areas of the country cannot economically be reached by the pipeline network. Oil provides a flexible option in these areas and kerosene oil, in particular, has advantages over traditional methods of space heating in terms of efficiency.

The use of oil for space heating purposes outside the natural gas network helps to maintain a diversity of fuel supply which is critical from a national energy policy perspective.

There is considerable scope for technical improvements to conversion efficiency in space heating. IPIA support the various measures proposed to improve fuel efficiency in residential and other space-heating markets. There is a clear role for the industry in promoting the good management of heating systems and improved efficiencies.

2.4 Effective measures to reduce emissions from road transport

Congestion is the worst opponent of transport and of CO₂ reduction in the transport sector. In many places, the increased needs for freight and passenger transportation have not been matched by either improvements to or increased capacity within infrastructure. The results are delayed goods, low mobility of workforce, increased pollution as traffic is held up and waste of time and money for all parties in the society.

Information supplied by the Volvo Group indicates how the number of stops by a heavy goods vehicle sharply increases fuel consumption. On a ten kilometre route

- one stop increases fuel consumption by 36%;
- three stops increases fuel consumption by 63%;
- five stops increases fuel consumption by 110%;
- ten stops increases fuel consumption by 140%.

IPIA welcomes the government commitment to the National Development Plan and in particular the rollout of the improved road network. There is more to be done and the figures above clearly demonstrate the benefits that can be derived from the elimination of congestion. A reduction in deliveries through the use of larger trucks should also be considered.

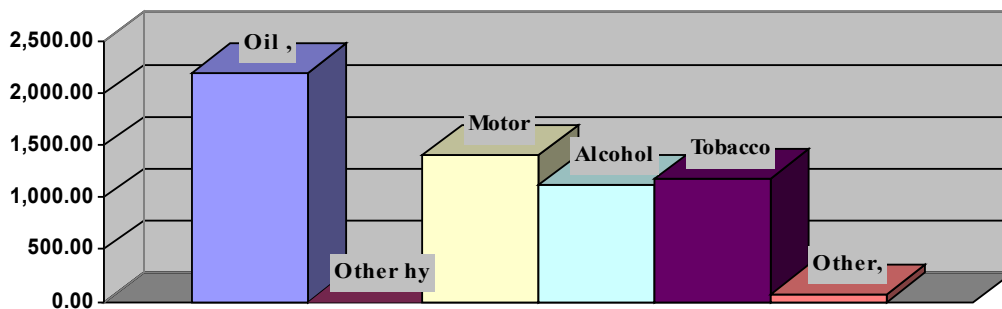
Measures which deal more directly with the emissions created by road users in congested cities, and which discourage urban car travel, are clearly to be preferred. These could include public transport improvements, including the long-overdue integrated ticketing system for Dublin.

Appendix A – Excise receipts

Excise duty contributed € 6,003 million to the Irish Exchequer in 2007.

Million euro

Mineral oil products		2,204	36.7%
Unleaded petrol	1,050.67		
Aviation gasoline	0.58		
Auto diesel	1075.90		
Fuel oil	8.41		
Other oil (MGO)	68.44		
Kerosene	0.00		
Other hydrocarbons		0.07	0.00%
Auto LPG	0.07		
Other LPG	0/00		
Motor vehicles		1,406	23.4 %
Alcoholic drinks		1,131	18.8%
Tobacco		1,192	19.9%
Other		70	1.2%
Total		6,003	



Source: Revenue Commissioners, provisional figures as of 9 May 2008

To this is added the VAT contribution from the oil industry of € 669 million in 2007.

When petrol is 120 cents per litre, 66.1 cents of this is taxation. A diesel pump price of 128 cents per litre includes 60 cents of taxation.