Position of the Non-Energy Extractive Industries Panel (NEEIP) on Resource Taxation

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- **Setting the scene**

Shifting from labour taxation to environmental taxation has been suggested by the European Commission, in its Roadmap to a resource-efficient Europe and more recently in the Annual Growth 2013, as a one of the possible solutions to:

- Foster resource-efficiency by
  - ✓ decoupling growth from resource and energy use
  - ✓ correcting "market failures" by reflecting the cost of certain externalities on the environment
  - ✓ driving forward innovation
- Boost employment through less taxes on labour

While attractive at first glance, the Non-Energy Extractive Industries Panel (NEEIP) is concerned that this taxation shift, if exclusively imposed on mineral resources, will be detrimental to resource-efficiency itself (1) and to EU's industry competitiveness (2).

1. Taxing mineral resources: an inadequate fiscal tool to foster resource-efficiency

Mineral resources are the basis of our economy, representing the starting point of the value chain, and are hardly substitutable. They are crucial for the competitiveness of several industries such as construction, electronics, chemicals, cars, aerospace, machinery and equipment sectors. They are also key contributors to the development of green technologies.

The NEEIP fully supports the European Parliament's Resolution on an effective raw materials strategy for Europe in its belief

"***that a tax on mineral resources is not an adequate fiscal tool for increasing resource-efficiency***".

Resource-efficiency should encompass whole value chains and aim at **optimising the efficient production and use of resources** so as to foster sustainable growth, improve living conditions and reduce waste globally. **Taxing mineral resources would very likely lead to the opposite effects and negatively affect resource-efficiency and job creation in Europe, for two main reasons:**

- The first reason relates to the fact that a shift of taxation from labour to mineral resources would be based on the biased assumption that the cost of externalities, i.e. the negative effects on the environment, is not properly reflected on market prices. **This is not true for raw materials extracted and processed in Europe,** where stringent environmental and social rules combined with well-defined property rights and land use constraints prevent such market failures[1].

Thus, resource-efficiency is a key priority for the EU Non-Energy Extractive Industries (NEEI), which **do not have incentives to extract and process raw materials in an inefficient manner.** This finding is supported by the Report No 2/2008[2] of the European Environmental Agency, whose analysis of the impacts of taxation on aggregates in different EU countries, does not provide any clear evidence that the objective of reducing environmental externalities had been achieved.

- The second reason relates to the fact that taxing mineral resources does not provide any incentives to improve resource-efficiency:
  - ✓ The direct impact of taxing mineral resources would not be to produce and use raw materials more efficiently but to produce less in Europe, which in turn would increase the supply risks for mineral raw materials;
  - ✓ The increase of the overall tax burden would undermine companies' ability to invest in R&D in order to foster sustainable production and be more resource-efficient.

2. Tax neutrality: a "must" for EU industry's competitiveness difficult to achieve at EU level

Tax neutrality is a key pre-requisite to avoid further undermining the competitiveness of the EU industry that would be caused by an increase of the overall tax burden of companies.

Given the limited competences of the European Union in the field of direct taxation and social security financing as well as the current overall economic situation in Europe, its ability to achieve tax neutrality is questionable. It is more likely that, if implemented, resource taxation will not be followed by a corresponding decrease of taxation on labour, thereby resulting in an increase of the level of taxation borne by the Non-Energy Extractive Industries (NEEI). Taxing mineral resources would have multiple adverse effects at a time when the NEEI face a fierce and sometimes unfair competition from third countries, such as to:

- Represent an additional fiscal hurdle to investments in innovative mining projects that have the potential to reduce EU's import dependency on raw materials and to secure a domestic supply of raw materials that are essential to a number of downstream industries;
- Further weaken the competitiveness of the EU's mineral supply industry and consequently its ability to compete on a level playing field at international level;
- Contribute to the acceleration of the outsourcing of primary raw materials production to more competitive third countries, that often apply lower environmental standards, which, in turn, would result in fewer activities to tax and less employment in Europe;

All the above-mentioned negative impacts would be in **stark contradiction** with the widely stated EU objectives and policy-actions related to industry, in general, or the NEEI sector, in particular, such as:

- The recent Communication on Industrial Policy seeking "to reverse the declining role of industry in Europe from its current level of around 16% of GDP to as much as 20% by 2020";
- The Conclusions of the 3208th Competitiveness Council of 10 and 11 December 2012 which expressed "concern over existing hurdles to industrial competitiveness";
- The EU Raw Materials Strategy and the European Innovation Partnership on Raw Materials which both acknowledge the crucial role of raw materials for the sound functioning of the EU's economy and the importance of supporting a sustainable supply of mineral resources in the EU.

The NEEIP is looking forward to a constructive dialogue with the European policy-makers to address issues related to environmental fiscal measures in general and resource taxation in particular.

The NEEIP represents key actors in the Non-Energy Extractive sector, providing minerals that are vital to the EU economy and its sustainable growth as well as a substantial number of jobs across the EU.

[1] Söderholm, P. (2011) Taxing virgin natural resources: Lessons from aggregates taxation in Europe, p. 7.

[2] Effectiveness of environmental taxes and charges for managing sand, gravel and rock extraction in selected EU countries, EEA Report No 2/2008.