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The E.C. tax threat

When the European Economic Community's Council of Ministers met, late in 1983, in Greece, one of the questions expected to be discussed was that of imposing a tax on fats and oils products. That question was part of a larger problem relating to E.C. finances, agricultural policy and admission of new members. No agreement was reached on finances and the fats and oils tax was not considered separately. The topic was expected to come up again at a ministers' meeting last month. This article was written before the March meeting. It was prepared by Drs. C.J.M. Meershoek, Secretary General for VERNOF, the Dutch oils and fats industry association. Drs. Meershoek is known to many AOCS members for his work on world conferences held in The Netherlands during 1976, 1978 and 1982.

More than ever the developments in the European Community (E.C.) are followed all over the world by those involved in agriculture and the related agro-industry.

Indeed, the impact of E.C. agricultural policy is tremendous. The Community is the largest importer of agricultural products and has grown over the years to become the second largest exporter of agricultural products. This means that any decision on agricultural policy in the E.C. can have far-reaching consequences.

FINANCIAL PROBLEMS

You may know that the E.C. was almost out of money at the end of 1983, and that it will be out of money this year by September or October if no action is taken.

As the E.C. is not allowed to use deficit financing or to borrow money, it is necessary to cut the expenditures and modify the Common Agricultural Policy (C.A.P.). Even if E.C. Council of Ministers would agree to increase the financial resources for the Community, it would take at least one year to have such a decision ratified by the ten members' national parliaments.

As about two-thirds of the E.C. budget is spent on the C.A.P., cutting expenditures will mean cutting guaranteed farm income. It is obvious that this would cause a lot of opposition from the "green lobby." To soften the pain, the proposals of the E.C. Commission to the E.C. Council of Ministers also included measures to limit imports of some competing products (citrus pulp and corn-gluten feed) and to tax oils and fats.

The U.S.A., being the largest supplier of these products to be limited or taxed, reacted vigorously. Once again unfriendly notes crossed the Atlantic Ocean.

Before focusing on the oils and fats tax, it might be good to spend some time on the tension that marks the U.S.A.–E.C. relationship.

QUARRELING FRIENDS

The bad economic situation in the U.S.A. and in Europe makes both more touchy than usual toward any measures that might influence free trade. The main subject for the U.S.A. to decry in the E.C. is C.A.P.

But the E.C. also has reasons to be unhappy about measures taken by the U.S.A., i.e.:

–limits on steel imports in the U.S.A.;

–technological embargo against European companies using American patents for work on the Euro-Siberian gas pipeline;

–export dumping of synthetic fibers, etc., by supplying hydrocarbons at low prices;

–the DISC-system (Domestic International Sales Corporation), which is a straightforward export-subsidy system;

–last, but not least, in the agricultural sector, the import limits in the U.S.A. for agricultural products, mainly based on a GATT waiver, some PL 480 chapters, intergovernmental agreements on dairy products, etc.

Altogether Europeans feel that the free-trade hymn sometimes sounds a bit out of tune in Washington.

An important point in the uneasy relationship between the U.S.A. and the Community on agricultural concerns is that both have the same problems: surpluses (mainly of dairy products) and lack of money.

Each spends a lot of money on agriculture; to quote some figures: the U.S.A. subsidizes 37.6% of the total value of its agricultural production, the Community spends 39.2%. Per head, however, the total subsidy means, in the U.S.A., $7,330 per farmer, in the Community, $4,780.

It is obvious that both are "bad guys," and it is useless to quarrel over the question of who is the worse. Blaming each other or taking countermeasures (flour and dairy fights on the Egyptian market) is not the way to solve problems between countries that are allies by nature and history.

TAX ON OIL AND FATS

If it is already so hard to solve existing problems, it is obvious that any measure should be avoided that can worsen the situation. Such a measure might be the proposed tax on oils and fats.

The oils and fat tax proposal in the Community has a long history. The first such proposal was in 1963. The purpose of the proposed tax was to finance the subsidized production of olive oil and rapeseed. The tax was rejected because there was not yet a democratic control by a European parliament. Since then, tax proposals have been advanced and rejected. Supporters and opponents were always the same: Mediterranean-latin countries were in favor, Germanic and Anglo-Saxon countries were against.

All the proposals had one thing in common: the proposed initial amount was relatively low. So one could

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expect that the influence on consumption would be little to none.

But apart from the trade-complicating effects of a levy, all opponents were unanimous about one thing: give a politician a small tax source, and he can make a gold mine out of it. In this respect, it might be instructive to give two examples:

—Germany introduced a tax in 1902 on 'sekt' (a sparkling wine) to finance a battleship. The ship was destroyed in 1914. The tax still exists—at a much higher level.

—Switzerland introduced a tax on oils and fats in 1953: 5 Swiss frances/100 kg; in 1960 it was 40 Sw.fr., and in 1982 175 Sw. fr/100 kg. (=approx. $800/ton).

The fierce resistance of the oils and fats industry and traders to the tax is based on the fear that a small tax might soon be a large tax that would influence total consumption. Also, a tax will undoubtedly hamper trade by administrative measures, as the tax would apply not only to oils and fats as such, but also to all products in which oils and fats are an ingredient: margarine, dressings, chocolate, bakery products, feed products, etc.

As mentioned before, tax proposals have been presented several times during the past 20 years. The arguments for the tax varied during the years. They included:

—a tax was needed to finance the rapeseed and olive-oil production;

—a tax was necessary to improve the price relationship between butter and margarine;

—a tax was necessary to improve the price relationship between seed oil and olive oil;

—a tax was needed to finance the costs of the olive-oil market regulations after the entry of Spain and Portugal to the Common Market.

In fact, the last argument might turn out to be the most valid one and, by that, also the most dangerous one. Spain and Portugal's membership in the Community will cost an enormous amount of money and will create a huge surplus of olive oil. The E.C. Commission not only worries about the cost of the operation, but also about the olive-oil surplus for which a market would be hard to find.

CRYSTAL-GAZING

What will happen in the near future? During the discussion about the C.A.P. in the past months, the tax proposal was on the the table several times. Denmark, Germany, Holland and United Kingdom strongly opposed the tax. France, Ireland, Belgium, Greece and Italy favored it. Belgium seems, at this moment, no longer a strong supporter, and Greece and Italy also have some doubts about their position. On the other hand, the German opposition seems to be weakening—the German minister of agriculture declared that he personally is prepared to accept a tax. Was this a personal remark or the introduction to a complete change in position of the government? Although the E.C. Commission has maintained its tax proposal up to now, the general opinion is that no decision in favor of a tax will be taken. The strong reaction from the U.S. government and the threat the countermeasures will be taken by the U.S.A. against sensitive exports from the E.C. will turn out to be effective, at least for the time being.

In relationship to the entry of Spain and Portugal to the E.C., the tax will undoubtedly play a role. When the two countries become members of the E.C., their tariff system will change: some tariffs vis á vis third-world countries will go up, but most tariffs will go down. The E.C. pretends that, according to the GATT-rules, it gets out of this a credit in exchange for which it is allowed to raise certain duties, or limit imports, of course after consultation with the countries that might be hurt. Will that be the moment that a tax on oils and fats will be imposed?

European history is full of wars and some were long lasting: from the 16th and 17th century we know the 80-year war between Holland and Spain, in the 17th century there was a 30-year war between France and Spain, in the 20th century the oils and fats industry and its allies are fighting a long lasting war against the tax on oils and fats. The difference is the ammunition in this war is arguments. The strongest argument against the tax still is the question of a high-ranking E.C. official, who said: "A tax will not solve the dairy problem and will not solve the olive-oil problem, a tax is just a way to get money from the consumer; why should one set up such a complicated and contested system as a tax on oils and fats when simpler and easier means to collect money are available in the fiscal legislation of each E.C. country?" If this is the voice of one crying in the wilderness the war will go on; if this is the summer-marking swallow, we can face the future with optimism.

C.J.M. Meershoek
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