

22 March 1960

REVENUE DUTIES AND INTERNAL FISCAL CHARGESComments by the Italian DelegationGeneral

In the opinion of the Italian delegation the question raised by several members of Committee III cannot be examined separately and account has to be taken of the fiscal policies followed by the various countries which vary depending upon the economic and social structures of these countries, their historical traditions and their varying requirements.

As far as Italy is concerned current fiscal receipts come for the most part (78.6 per cent) from indirect charges which are determined by purely fiscal requirements, without any element of protection.

It should therefore be pointed out that a high level of taxation on production or consumption affects not only sources of energy (electric power, petroleum products) but also consumer goods (sugar and tobacco), domestic production of which meets normally all of the internal demand.

2. The effects of Italian charges on coffee

The authors of the Haberler Report assume (see table 24, page 121) that the elimination of revenue duties on the import of green coffee would bring about an 18.9 per cent increase in the demand for imports. This result is arrived at on the assumption that retail prices would decline by 2 per cent if the import duty proper was eliminated and by 19 per cent if consumer taxes were abolished. It should be noted that the price elasticity of demand in Italy has not been estimated and that the authors of the Report have merely applied to Italy the elasticity co-efficient which they had computed in respect of Germany (0.9 per cent).

It should be noted in the first instance that increases in internal taxation after the second world war are attributable only to the depreciation of the national currency.

Furthermore, in the opinion of the Italian delegation, coffee consumption is obviously affected by fiscal charges which have an influence on domestic price formation but also depends in a more determining manner on the general economic situation, as is evident when one compares the statistics relating to the gross national product and consumption data (average per capita availabilities) for the products concerned.

This fact is brought out as far as Italy is concerned in the tables annexed hereto.

The tables show that increases in internal taxation when kept within technically reasonable limits, do not have significant effects on increases in consumption. The fact that increases in taxation since 1947 have never brought about any decline in consumption even during the period immediately following their introduction demonstrates that increases in internal taxation have always been kept within such limits.

It can therefore be stated that up until now the Italian domestic market has borne the fiscal burden which has had no significant repercussions on the trend of consumption in the sense that any subsequent decline has been offset by the steadily increasing trend in the gross national product, coupled with the favourable evolution of consumer taste.

As regards the eventuality of an autonomous reduction of internal taxes as advocated and requested by some of the countries concerned, the following considerations which are related to the general financial and economic needs of Italy should be taken into account.

(a) Fiscal charges on consumption are a source of important revenue and this is a structural feature of the Italian fiscal system.

(b) As previously mentioned, existing charges have been so computed as to secure maximum revenue, in other words, in such a way as not to bring about a decline in consumption, so that one should not expect a reduction in the rates of taxes to bring about an expansion in the domestic demand to such an extent that the incidence of the reduction could be offset in terms of fiscal levies.

In these circumstances, if the rate of a consumer charge was reduced, alternative sources of revenue would have to be found in the field of consumption taxes and other goods would have to be imposed.

In this respect, it may be of interest to compute the incidence of a possible elimination of internal taxes on coffee, taking as a basis the evaluations mentioned in the Haberler Report which the Italian delegation cannot, for the reasons mentioned above, fully accept.

Imports of coffee in 1959	84,000 tons
20 per cent of 84,000 tons	16,800 tons
Total value on the basis of a price of Lit. 573,000 per ton	Lit. 9,626 million

It is therefore clear that increases in coffee imports from all sources would be less than 10,000 million lire, while the loss to the Italian Treasury would range between 44-45,000 million lire.

Lastly, the Italian delegation wishes to point out that in most producing countries, coffee exports are subjected to certain forms of taxation or the price for coffee is influenced by exchange manipulations which are in the interests of exporting countries.

TABLE 1

Schedule of provisions enacted in the field of consumption taxes in respect of coffee, as from 26 April 1945.

<u>No.</u>	<u>Provisions</u>	<u>Rate of Tax</u> (per net quintal)
1	D.L.L. 26.4.1945, No. 223	5,053
2	D.L.L. 1.4.1946, No. 135	10,000
3	D.L.C.P.S. 14.10.1945, No. 205	25,000
4	D.L. 11.3.1950, No. 50*	30,000
5	D.L. 6.10.1955, No. 875**	50,000

*Converted into Law No. 202 as of 9 May 1950

**Converted into Law No. 1112 as of 3 December 1955

TABLE 2

Average per caput availabilities of coffee beans in relation to the rate of the tax on coffee consumption.

1946-1949

<u>Year</u>	<u>Average availability</u>	<u>Tax on coffee consumption</u>	
		<u>Rate (lire) per net quintal</u>	<u>date of enactment of the provisions</u>
1946	0.3		
1947	0.7	10,000	1946
1948	1.0	25,000	1956
1949	1.2		
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1950	1.0		
1951	1.0*		
1952	1.3	30,000	1950
1953	1.4		
1954	1.5		
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1955	1.5		
1956	1.6	50,000	1955
1957	1.6		
1958	1.7		
1959	1.8		

*

The fact that no increase took place could be attributed to commercial difficulties and to the rise in the cost of living (from 48.49 to 53.20) as a result of the Korean war.

Source: Italian Statistical Yearbook, published by the ICS.

TABLE 3

Average per caput availabilities of coffee beans in relation to the gross national product index (on the basis of 1938 prices) - for 1938 and 1951-1957.

<u>Year</u>	<u>Gross national product index</u> (1938 = 100)	<u>Average per caput</u> <u>availability</u>
1938	100	0.8
1951	120.8	1.0
1952	122.9	1.3
1953	130.4	1.4
1954	136.6	1.5
1955	146.1	1.5
1956	152.2	1.6
1957	160.5	1.6

Source: Italian Statistical Yearbook, published by the ICS.

TABLE 4

Coffee beans - computation of notional average per caput availabilities for the period 1951-1957 in relation to the gross national product index (on the basis of 1938 prices) and in relation to average per caput consumption in 1938 (0.8 kg.)

<u>Year</u>	<u>Gross national product index</u> (1938 = 100)	<u>Notional</u> <u>availabilities</u>	<u>Actual</u> <u>availabilities</u>
1951	120.8	0.9664	1.0
1952	122.9	0.9832	1.3
1953	130.4	1.0432	1.4
1954	136.6	1.0928	1.5
1955	146.1	1.1688	1.5
1956	152.2	1.2176	1.6
1957	160.5	1.2840	1.6

Source: Italian Statistical Yearbook, published by the ICS.