REVENUE DUTIES AND INTERNAL FISCAL LEVIES

Comments by the French Delegation

Coffee

French internal taxes on unroasted coffee amount to Fr.frs.142.50 per kg. (standard tax plus consumption tax). The present level of consumption is 200,000 tons per year as against 196,500 tons in 1959.

The average c.i.f. price for imported coffee is Fr.frs.360 (all prices are expressed in 1959 francs). The average retail price is Fr.frs.1,000.

The incidence of the tax is 14.25 per cent of the retail price.

A French expert, M. Brousse, who prepared a study, in July 1959, on long-term trends in coffee consumption in France made it clear that there were two kinds of coffee from the consumption point of view:

1. "alimentary" coffee, which is consumed at breakfast, whether or not with milk or chicory;

2. "sipping" coffee, which is consumed after meals, mostly after the midday meal.

M. Brousse is of the opinion that current consumption figures for both categories are roughly equal and amount to 100,000 tons. As regards coffee used for food, this French expert holds the view that price elasticity of consumption is zero, as against 0.4 in the case of tasting coffee. In the present assumption we are only considering the increase in the consumption of tasting coffee, which is currently estimated at 100,000 tons.

Let us recall that price elasticity figures for consumption have been mentioned by various experts.

In the Haberler Report elasticity is estimated to be 0.5 in France and 0.9 in Germany and Italy. In a report on coffee production and trade prepared in 1958, the IBRD states that the elasticity coefficient in France is 0.26.

The FAO Report of October 1959 is rather cautious and does not mention any figure but merely quotes, by way of information, the coefficient mentioned in the Haberler Report.

Assumption: there will be an increase in the consumption of tasting coffee (which is at present 100,000 tons per year).

A. The possible increase in consumption

 1. if the tax is eliminated altogether:

(a) with an elasticity coefficient of 0.5 (Haberler)
   total increase: 7,000 tons

(b) with an elasticity coefficient of 0.26 (IBRD 1958 Report)
   total increase: 3,600 tons

(c) with an elasticity coefficient of 0.4 as calculated by Mr. Brousse
   total increase: 5,600 tons

 2. if the tax is reduced by 50 per cent:

(a) 3,500 tons

(b) 1,800 tons

(c) 2,800 tons

 3. if the tax is reduced by 25 per cent:

(a) 1,750 tons

(b)   900 tons

(c) 1,400 tons

B. Financial implications

Comment: 75 per cent of current French requirements are imported from African and Madagascan Republics within the Community and it is only normal therefore that any prospective increase in consumption should accrue, in the same proportions, to these Republics and to third countries:

 1. if the tax is eliminated altogether

- the ensuing loss to the Treasury would exceed Fr.frs.28 thousand million.

On the other hand, the only receipt as a result of the imposition of the 18 per cent customs duty on imports of foreign coffee would be Fr.frs.114 million in the most favourable eventuality, i.e. if an additional 1,750 tons of foreign coffee was imported.

- the resulting improvement in the position of foreign exporters

25 per cent of the prospective additional exports, i.e. on the basis of an average export price of Fr.frs.320

(a) 1,750 tons x Fr.frs.320 - Fr.frs.560 million

(b)   900   "   "   - Fr.frs.288   "

(c) 1,400   "   "   - Fr.frs.448   "

2. if the tax is reduced by 50 per cent:

- the ensuing loss to the Treasury would be Fr.frs.14 thousand million.

On the other hand, the only receipt as a result of the imposition of the customs duty would be of the order of Fr.frs.57 million in the most favourable eventuality, i.e. if an additional amount of 875 tons was imported.

- the resulting improvement in the position of foreign exporters on the basis of the same average export price:

(a) 875 tons – 280 million

(b) 450 tons – 144 million

(c) 700 tons – 224 million

3. if the tax is reduced by 25 per cent:

- the ensuing loss to the Treasury would be Fr.frs.7 thousand million

Probable receipt as a result of the imposition of the customs duty, in the most favourable eventuality: less than Fr.frs.3 million.

- the improvement in the position of foreign exporters:

(a) 440 tons (approx.) – 140 million

(b) 225 tons   – 72 million

(c) 350 tons   – 108.5 million

Cocoa

As far as cocoa is concerned we are not aware that any studies have been made in respect of the price elasticity of demand. It seems difficult therefore to make a computation of the same kind, the more so as in this case the computation might not be so easy to make considering that the taxation system affects cocoa and cocoa products differently.

It may be said, however, that 85 per cent of imports which amount roughly to 5,500 tons come from producer countries in the French franc area and are imported duty-free while 15 per cent come from other countries and are subject to a 3 per cent customs duty, internal fiscal charges being the same in respect of all imports.

There is another reason why it would be difficult to assess the incidence of the elimination of all duties on the expansion of consumption, and that is the fact that according to experts cocoa beans and cocoa butter do not represent more than 40 or 50 per cent of the retail price of the finished product, i.e. chocolate. Other cost factors such as sugar, energy, wages and wrapping, represent about 38 per cent of the retail price.

According to certain estimates, sugar would account for 6 per cent, energy 2 per cent, wages 14 per cent and wrapping 12 per cent.

On the basis of an average sales price of Fr.frs.600 per kg. for eating chocolate, the amount of taxation which is Fr.frs.53 per kg. does not represent more than 8.8 per cent of the price.

In examining consumption increases let us assume that the notional elasticity coefficient could be 0.5 or 0.25.

Possible consumption increases

Assumption A: elasticity coefficient: 0.5

expected result: additional imports: 2,750 tons

representing on the basis of the distribution of imports previously mentioned: 412 tons in favour of third countries (85 per cent from French franc area countries - 15 per cent from third countries).

Assumption B: elasticity coefficient: 0.25

expected result: additional imports: 1,375 tons

representing on the basis of the import distribution mentioned above (85 per cent from French franc area countries and 15 per cent from third countries),

206 tons in favour of third countries

Financial implications

If the tax on cocoa beans is eliminated altogether

- the loss to the French Treasury would be Fr.frs.385 million.

On the other hand, the only receipt as a result of the imposition of the 3 per cent customs duty on imports of foreign cocoa would be less than Fr.frs.4 million in the most favourable event (i.e. 412 tons of additional imports from third countries).

- the improvement in the position of foreign exporters:

15 per cent of prospective additional imports, i.e. on the basis of an average f.o.b. price of Fr.frs.260 per kg.

(a) 412 tons x 260 - about Fr.frs.107 million

(b) 206 tons x 260 - about Fr.frs.53.5 million

If the tax is reduced by 50 per cent:

- the loss to the Treasury would be Fr.frs.192 million.

On the other hand, the receipt as a result of the imposition of the customs duty would not exceed Fr.frs.1.8 million in the most favourable event, i.e. with additional imports of 206 tons from abroad.

- the improvement in the position of foreign exporters:

(a) 206 tons x 260 - about Fr.frs.63.5 million

(b) 103 tons x 260 - about Fr.frs.27 million.