24 March 1960

REVENUE DUTIES AND INTERNAL FISCAL CHARGES

Comments by the secretariat

1. Notes have been received by the secretariat from the German, French, and Italian Delegations to Committee III, all of which emphasize the large discrepancy between the loss to the Exchequer, on the one hand, and the gain in export earnings of the supplying countries, on the other, in the event of total or partial abolition of internal charges on such tropical products as coffee, tea, and cocoa.

2. Except in the paper prepared by the German Delegation, the reduction or abolition envisaged concerns only the internal charges, not the Customs duties - probably for the reason that, in the absence of duties, it would be impossible to implement (or maintain) the preferences provided for in the Treaty of Rome.

3. In estimating the relationship between the reduction in public revenue in the importing countries and the gain in export earnings of the supplying countries, the price elasticity of consumers' demand for the products considered plays a central rôle. In appraising the results of calculations based on elasticity coefficients, two factors must be kept in mind:

(i) The calculation of coefficients of price elasticity can only be undertaken on the basis of data reflecting consumer responses in the past. When applied to estimating possible future behaviour of consumers in response to prices which lie outside the range of historical experience, such predictions can necessarily only be tentative. In particular, when large price reductions are contemplated, a new pattern of consumption may emerge, with consequent unpredictable changes in the price elasticity itself.

(ii) Since internal charges, as well as duties, are levied either at import or at any rate at the wholesaler's level, the reduction of the retail price that corresponds to the total or partial abolition of such charges will depend on practices followed by retailers in calculating their margins. The calculations presented both in the Haberler Report, in the three Delegation papers and in the table below are based on the assumption that the absolute margin per kilogramme of coffee would remain the same, even though the price paid by the retailer would be lower. If retailers, on the other hand, calculate their margins as a given proportion of the price they themselves pay for coffee, then the reduction in the retail price would exceed the amount by which charges are reduced per kilogramme of coffee.

4. The German and Italian Delegations use the approximate elasticity coefficients given for coffee in Table 24 (paragraph 304) of the Haberler Report.[1] In respect of tea, also dealt with in the German paper, no specific elasticity coefficient is given, but the calculation is based on the assumption that the abolition of duties and internal charges would result in the same percentage increase in consumption as for coffee. In the French paper, three different price elasticities are applied, while in respect of cocoa purely hypothetical coefficients are used. However, the French paper applies the elasticities in fact only to half the total consumption - which is the same as halving the value of the coefficients quoted - and finally, after allowing for duty collected on coffee imported from non-preferential suppliers, calculates the gain in export earnings (or, more exactly, the increase in the corresponding French import outlays) on supplies from non-associated suppliers only.

5. In view of the diversity of sources used for the elasticity coefficients, and of the differences in the modalities of their application, the secretariat has thought it useful to proceed, if only for coffee, to new calculations of price elasticity which have been carried out by a comparable, though admittedly rough, method which is described in the Appendix.

6. The following table presents calculations, based on 1959 per caput consumption, quantity and value of imports, retail price, and internal taxes for the year 1959, and works out the effect of

(A) the complete abolition

and

(B) the reduction to one-half

of the internal taxes upon consumption, import outlay, and the corresponding loss in tax revenue, calculated on both the price elasticities obtained by the secretariat and those adopted in the three Delegation papers. The last column also shows the loss in public revenue in each case as a multiple of the increase in import outlay which can roughly be equated to the gain in export earnings of the supplying countries.

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[1] Since the communication of the comments by the German Delegation which have appeared as document COM.III/15, 14 October 1959, the FAO has published a study on The World Coffee Economy (document FAO/59/12/9699) which gives a price elasticity of demand for coffee in Germany of 0.5. This latter elasticity has been used in the second set of figures for Germany shown in the table below.

Possible effects of the total or partial abolition of internal charges on the import demand for coffee

Per caput consn. 1959 (roasted) Kg.	Quantity[1] imported 1959 000 tons (green)	Value[1] of imports 1959	Retail price p.kg.	Internal taxes p.kg.	Percent redn. in retail price	Elasticity	Incr. in consn. %	Incr. in imp. outlay	Loss in tax rev.	Ratio of last two columns
					Germany F.R.					
		DM mn.	DM	DM				DM mn.		
2.72	160	789.7	18.04	3.60	A 20.0)	- 0.82	(16.4	129.5	647.6	5.0
					B 10.0)		(8.2	64.8	297.1	4.6
					A 20.0)	- 0.50	(10.0	79.0	647.6	8.2
					B 10.0)		(5.0	39.5	307.4	7.8
					France					
		NF mn.	NF	NF				NF mn.		
3.50	196	703.3	10.16	1.42	A 14.0)	- 0.43	(6.0	42.2	278.7	6.6
					B 7.0)		(3.0	21.1	135.1	6.4
					A 14.0)	- 0.20[2]	(2.8	19.7	278.7	14.1
					B 7.0)		(1.4	9.9	137.4	13.9
					Italy					
		Lire bn.	Lire	Lire				Lire bn.		
1.34	82	47.3	2,122	500	A 23.6)	- 1.20	(28.3	13.4	41.0	3.1
					B 11.8)		(14.2	6.7	17.6	2.6
					A 23.6)	- 0.90	(21.2	10.0	41.0	4.1
					B 11.8)		(10.6	5.0	18.3	3.7

[1] Import quantity and value are for 11 months at annual rate.

[2] Half the value of the elasticity coefficient calculated by M. Brousse. Moreover, the French Delegation points out that only one-quarter of total imports and therefore of revenue from internal charges is levied on supplies from countries other than the coffee producing countries of the Community.

Note: Time has not permitted the preparation of a detailed Appendix setting out the method used by the secretariat in obtaining comparable price elasticity coefficients. It may, however, briefly be indicated that these coefficients have been derived from graphs plotting consumption per caput in each of the three countries over a period ranging from 1950 to 1958 against the corresponding ratio of the retail price and Gross National Product per caput. A fuller explanation will, if requested, become available later this week.