The Economic Facts About Palm Oil Taxation in France

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March 2016

Executive summary

- Economic analysis shows clearly that the current situation in France, regarding the taxation of palm oil is as follows:
    - Palm oil is currently taxed at a higher rate in France than all domestic oils: rapeseed, sunflower and olive oil.
    - The current situation is clearly discriminatory against palm oil.

- The current tax levels for vegetable oils in France are:
    - Olive oil: 4.9% tax
    - Rapeseed oil: 11.69% tax
    - Sunflower oil: 15.79% tax
    - **Palm oil: 21.67% tax**
    - Soybean oil: 23.64% tax

- The proposal being considered by the French Parliament, to increase tax on palm oil even further, would worsen the discrimination against palm oil.

- This economic analysis shows that the proposed tax, as passed in the French Senate as part of the Biodiversity Bill, is based on a false premise and is economically unsound for the following reasons:
    - The claim by the Senate that palm oil is currently "under-taxed" in France is factually and materially wrong, as proven in this analysis.
    - The Senators' use of Excise duty tables to compare the taxes on different oils is misleading. The Excise Duty tables are not the correct measurement to use for understanding taxes on oils.
    - The correct economic measurement is the percentage of tax for each product, as outlined above.

- With correct measurements, the result is clear: palm oil is currently subject to discriminatory tax in France compared to olive, rapeseed, and sunflower oil.

- The proposal of a new palm oil tax would multiply the tax discrimination faced by palm oil in France. The Senators' proposal would lead to the following discriminatory situation:
    - Olive oil: 4.9% tax
    - Rapeseed oil: 11.69% tax
    - Sunflower oil: 15.79% tax
    - Soybean oil: 23.64% tax
    - **Palm oil: 209.7% tax**

- The level of discrimination proposed in the Amendment is absurd, and the economics of the Senators simply do not add up.

Introduction and Background

In January 2016 an amendment to Bill titled « Reconquering biodiversity, nature and landscape » was adopted by the French Senate. This amendment was proposed by Ms. ARCHIMBAUD, M. GATTOLIN, Ms. BLANDIN, MM. DANTEC and LABBÉ and the members of the *Groupe écologiste* (Greens).

The amendment creates an additional contribution - a special tax - on palm oil. This contribution is set at 300 Euros per ton in 2017, 500 Euros in 2018, 700 Euros in 2019 and 900 Euros in 2020. This rate would then be increased on January 1 of each year starting 1 January 2021, depending on the forecasted evolution for consumer prices. The tax would only apply to palm oil and not competing oils.

The amendment is presented as putting an end to an unfair taxation regime: the Senators argue that palm oil currently benefits from a much lower tax rate than its competitors.

The argument put forward by the Senators is in fact utterly wrong. It is flawed because it is based on an inaccurate understanding of economics.

The truthful current situation is that palm oil is currently over-taxed in France, and this situation would be made even worse with the proposed new tax.

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The Error of the Current Situation

Palm oil is currently already taxed more in France compared to all French competitor oils: this current tax level on its own is discriminatory. Palm oil would be unfairly penalized to an even greater extent by the additional tax proposed by the Senate.

In the presentation of the 2016 amendment to the law on biodiversity the assertion is made: "*Not only palm oil is cheap but in France, it is one of the least taxed oils.*"

As already stated here, to state that palm oil is taxed less than other vegetable oils, is economically wrong.

This misunderstanding is based on the fact that the legal text fixing the amount of excise tax for various kinds of vegetable oils shows indeed a higher absolute amount of tax paid on olive oil than on palm oil. Table 1 below reproduces the amount of tax due per 100kg as presented in the legal document.

Table 1. Excise taxes (in euros) on vegetable oils in France (February 2016)

Olive oil	18.896	17.013
Peanut oil and corn oil	17.013	15.490
Rapeseed and rapeseed oil	8.716	7.936
Palm oil	10.371	
Copra oil and palm kernel oil	11.324	
Other liquid vegetable oils and other oils from marine animals not targeted by specific domestic or international regulation related to endangered species	14.844	12.941
Oils from marine animals not targeted by specific domestic or international regulation related to endangered species	18.896	

Indeed, looking at that table, olive oil appears to be taxed twice more heavily than rapeseed and almost twice as much as palm oil. But do those comparisons have any economic meaning? The answer is a resounding "no".

The Excise table is not a correct way of understanding the relative taxes on different oils. The only correct way of understanding the relative taxes is by percentage of the price.

Consider this: If cars were taxed according to their respective weights (like indicated in that legal document) and if taxes per kilogram were "harmonized" (as requested by the Senators), then the owner of the most expensive Ferrari and the owner of a Peugeot 2008 Crossover would pay more or less the same tax since the two vehicles both weigh around 1,100kg. And the owner of a Peugeot Partner will pay more tax than the owner of a Ferrari.

Ferrari	Price 1,200,000€	Weight 1,255kg
Peugeot 2008 Crossover	Price 16,000€	Weight 1,055kg
Peugeot Partner	Price 19,420€	Weight 1,374kg

Would that make any economic sense? Would you say that a Peugeot Partner should be taxed the same way as the owner of the Ferrari?

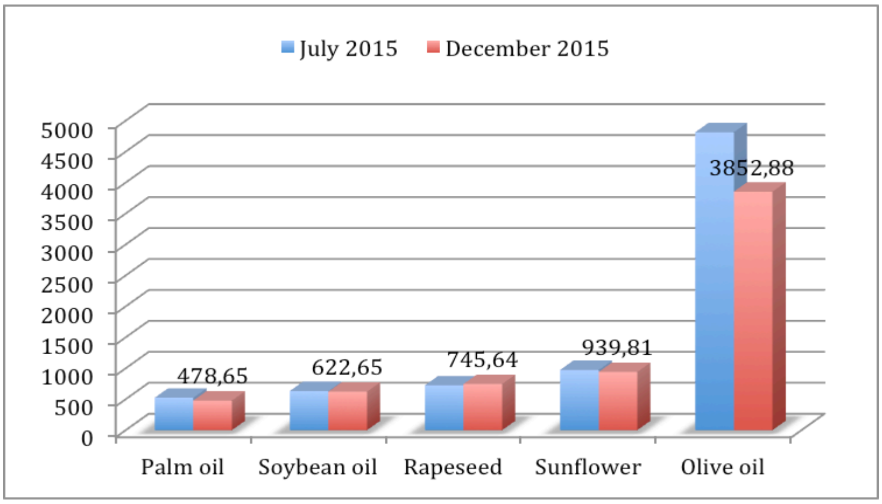
Of course this does not make any sense. What makes sense is the tax paid in relation to *the value* of the economic good (its price), not in relation to its weight.

The comparative tax rates put forward by the Senators – based on weight – have no meaning or value from an economic point of view. What is meaningful, from an economic point of view, is therefore to compare the amount of tax paid *in proportion of the price of the good*; what can be called "the ad-valorem equivalent" of the excise rates fixed by tax law.

How do we undertake the calculations, to determine the *ad* valorum equivalent? To compute the ad valorem equivalent to the taxes specified in Table 1 one first needs the price of those vegetable oils on the world market. Those prices are reported below in Table 2. Clearly, it turns out that olive oil is, so to speak, the Ferrari of vegetable oils. It is substantially more expensive than other vegetable oils, including palm oil.

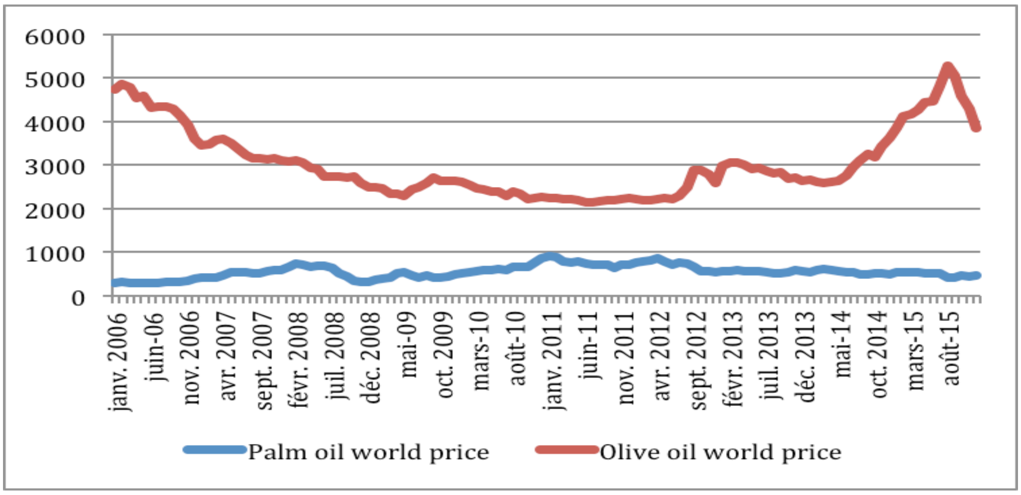
The large difference we observe between the prices of those various commodities is not an accident. The following graph clearly demonstrates that the price difference is a resilient feature of those commodity prices over a long period of time (surely due in large part to differences in cost of production).

Table 2. World market prices (in Euros) per metric ton



Source: World Bank (http://www.indexmundi.com/). The figures on the bars are for December 2015

Graph 1. Long term trend (in Euros) in vegetable oil and palm oil gross market prices



Source: World Bank (http://www.indexmundi.com/)

Based on the data provided in Table 1 and 2, a simple calculation gives the ad valorem-equivalent of the excise tax rates fixed by the law.

The table below shows the result of these calculations: the *ad valorem* equivalent. This is the actual percentage of taxes paid by different oils in France as a percentage of the price. This gives an economically accurate and meaningful picture of the actual taxation on different vegetable oils in France.

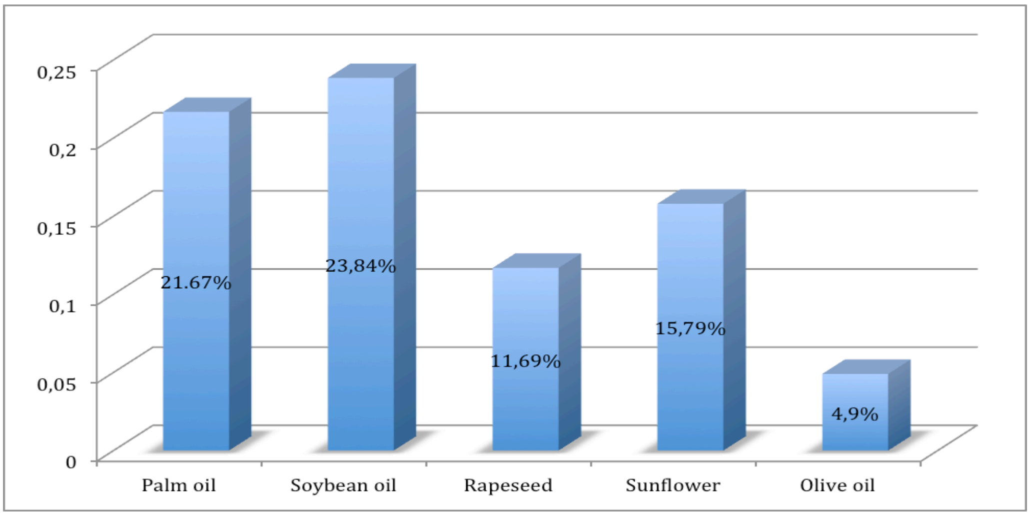
Taking the case of palm oil, calculating the ad-valorem-tax equivalent (the percentage tax) is obtained through the following calculation:

1. Take the actual excise due of **103.71 Euros** per 1000 kg (table 1)
2. Take the world price for 1000kg of palm oil in December 2015, namely **478.65 Euros**
3. Divide the first one by the second one (103.71/478.65=0.21667). The tax represents approximately 21.67% of the current world price.

As we can see, the “problem” that the Senators are trying to “remedy” – that palm oil is under-taxed compared to others – simply does not exist. The problem does not exist once proper economic understanding is applied.

The new tax on palm oil is clearly not needed. Just as clearly, it would be obviously unjustified and massively discriminatory based on the actual current tax situation as outlined below.

Table 3. Ad valorem-equivalent of current existing excise taxes on vegetable oils in France (percentage of world market price)



Source: own calculation based on December 2015 world prices and excise taxes

As Table 3 shows, palm oil is actually taxed substantially *more* than olive oil and rapeseed oil (though less than soybean oil, for example). The rhetoric of Senators and commentators who keep denouncing the alleged ‘tax advantage given to palm oil’ does not stand up even to basic economic scrutiny.

We have therefore established the real current situation: palm oil is over-taxed in France.

The Proposed New Tax: Multiplying Existing Discrimination

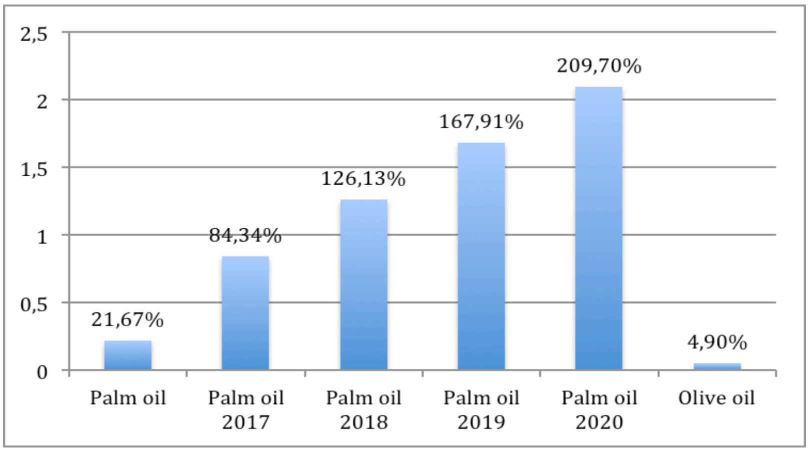
The current situation is not enough taxation of palm oil according to the promoters of the new amendment, in the Biodiversity Bill. They propose—and the Senate has agreed—to add a “contribution set at 300 euros per ton in 2017, 500 euros in 2018, 700 in 2019 and 900 in 2020. This rate would then be increased on January 1 of each year starting 1 January 2021, depending on the forecasted evolution for consumer prices.”

What would the new tax mean for the tax burden on palm oil compared to other oils? The following table 4 provides the answer.

Calculations to obtain Table 4 are undertaken in the following way:

1. Take the proposed excise level put forward by the Senate for each year - **300 Euros** per 1000 kg for 2017; 500EUR for 2018; 700EUR for 2019; and 900EUR for 2020.
2. Take the world price for 1000kg of palm oil in December 2015, namely **478.65 Euros**,
3. Divide the first one by the second one (proposed tax per year / 478.65 = the percentage tax for each year). The tax proposed for 2017 represents approximately 84% of the world price, rising to an incredible 209% in 2020.

Table 4. Ad valorem-equivalent of existing excise taxes + new contributions



Conclusion

In the section entitled “Object” of the amendment one can read that: “it is desirable to remove (palm oil’s) competitive advantage, which is based only on the fact that the cost of health and environmental damage it causes is outsourced and supported by the community.”

The justification for the proposed new tax relies on the idea of “palm oil’s competitive advantage”. We have seen, through basic economic analysis that this ‘competitive advantage’ is, at best, partial information and to a large extent a lie.

The economic analysis is clear: currently, palm oil is currently taxed higher than all domestic vegetable oils in France, and is taxed substantially more than olive oil. To raise palm oil taxes further, in a discriminatory manner would be grossly disproportionate. More to the point, the Senators are trying to solve a problem that the economics proves does not exist. The problem exists only in their imagination.

The proposed tax on palm oil is therefore an unnecessary and undesirable “solution” to an imaginary problem.

The truth is that the proposed tax would immensely penalize palm oil producers and palm oil users, bringing the ad valorem tax on palm oil in the region of 200% (to be compared with a rate of 4.9% for olive oil).

In conclusion, from the point of view of economic analysis, there is no reason at all to recommend or support this tax.

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