



Athens
October 31, 2002
02300 / 04

POSITION

HCPA Position on Taxes on Crop Protection Products

Hellenic CPA Position on Taxes on Crop Protection Products

Summary

Crop Protection Products (CPPs) are thoroughly tested and evaluated by Government Authorities for possible adverse effects, including those to the environment, before marketing is permitted. This authorization process ensures that the use of CPPs does not pose any undue risk, when they are used as recommended. There is little doubt that the imposition of a tax on CPPs would further reduce risk to the environment. Taxes are not an effective way of achieving this. However, the introduction of a tax would have serious consequences for agricultural production and farmers' income.

HCPA believes that the ultimate stage of risk reduction, i.e. use reduction, should not be considered a target of environmental policy per se, since CPPs have passed a rigorous registration process and their potential environmental impact has thus been assessed acceptable when used as recommended. Environmental objectives should be more specific and, in this respect, existing industry policies and voluntary measures are more effective than a general tax on CPPs. Not only do they address concerns over the risk of CPPs, but they can also achieve further improvements in the environment in a sustainable way.

Efficient risk reduction that effectively lower adverse environmental impact has come through product innovation, improved application technology, farmer-training, general improvement in user education and adoption of integrated crop management (ICM) systems. These methods examine and control adverse environmental impacts.

We as an industry recognize the great value of voluntary measures, which address the environmental concerns, associated with the use of CPPs in agriculture. The above-mentioned approaches and not taxation is the best way to reach an environmental objective.

HCPA Position on Taxes on Crop Protection Products

1. The concept of taxation of Crop Protection Products

The concept of green taxes on Crop Protection Products (CPPs) is being considered in many countries of the European Union. Although advocated for environmental reasons the use of taxation is usually politically driven. Environmental taxes and charges are seen as an appropriate way of implementing the “polluter pays” principle, by including the perceived environmental cost in the price of the goods. Some consider that the use of such instruments can induce consumers and producers into environmentally more sustainable behavior. This theory presumes that taxes have a direct effect on the market and that revenues from environmental taxes will be used to finance environmental protection activities. Whenever environmental taxes are introduced there should be a sound justification provided on the exact nature of the perceived environmental problem. The purpose of the tax must be clear and there must be certainty that the tax will deliver the benefits claimed.

The mandatory registration process for CPPs ensures that the use of CPPs does not lead to any undue risk, when they are used as recommended. Despite the theoretical arguments in favor of environmental taxes, experience in several European countries has shown that taxes are not an effective way to further reduce any remaining environmental impact (which has been assessed as not being ‘unacceptable’ during the regulatory process). Efficient risk reduction with real effects on lowering adverse environmental impacts from the use of CPPs have come through product innovation, improved application technology, farmer-training, general improvement in user education and adoption of integrated crop management (ICM) systems. These methods examine and control environmental effects. In contrast, taxes are relatively blunt in their effect and may not have the desired results at lowering the environmental impact of CPPs.

2. Effects of implementation of taxes

One of the purposes of environmental taxes is to successfully achieve a beneficial environmental objective. Hellenic CPA believes that such a tax would not deliver any gains in terms of changing user behavior and/or beneficial environmental effects. On the contrary, a tax would have serious consequences for agricultural production and farmers income.

2.1 Environmental benefits

- It is claimed that the ultimate measure of risk reduction, i.e. use reduction, would have direct benefit with respect to environmental impact and that taxes would aid this process. However, due to the high efficiency of CPPs, their use is unlikely to be significantly reduced by price increases, which would result from taxation. Their optimal use is not only determined by the price but is based on their impact upon yield and product quality. Therefore price increases would not necessarily cause a significant use reduction. Only a very high tax level would cause farmers to reduce their usage. The use is to a large extent determined by need and not cost.

Also, bearing in mind that CPPs have passed a rigorous registration process and their potential environmental impact has thus been assessed acceptable, ECPA believes that use reduction per se should not be considered a target of environmental policy. Instead, HCPA suggest focusing on more specific issues such as risks arising from misuse and incorrect application, the protection of environmentally sensitive areas, and the universal application of Good Agricultural Practice. All of these objectives cannot, of course, be achieved by a general tax on CPPs.

2.2 Farmers income losses

- A tax would have a significant impact on the competitiveness and profitability of the farming sector and therefore reduce sustainability. Farmers will suffer losses in terms of reduced production and income. The loss of production could amount to 20% to 50% depending on the level of the tax and the type of crop. Small farmers would be disproportionately harmed and might turn to older, cheaper and sometimes less environmentally friendly products or practices.
- The distributional impact of a tax is likely to be inequitable. The economic burden of the tax will fall on arable and horticultural farmers so that certain crops of regional importance and food processing sectors will be particularly affected.
- A tax would have a significant impact on the economy as a whole. For example, a Danish study (The Bichel Committee, 1999) showed that the consequences of a total or partial phase-out of CPP use would not only have drastic consequences for Danish agriculture but also for the Danish economy as a whole. Innovation and investment by farmers would be slowed. Agricultural processing industries would also suffer due to increased costs of raw materials. Food imports may increase, thus affecting the balance of payments. It is estimated that in Denmark the consequences of a total phase-out of CPP use would cause a decrease of the GDP by 0.8%. Employment throughout the food chain would drop by approximately 16,000 workers.

2.3 Effectiveness of Taxes on CPPs

- The design of a tax on CPPs, which takes into account the risk, the active ingredient used and environmental effects, is complex to implement and is likely to create many undesired negative side effects. A tax would not be an effective solution in terms of cost-effectiveness.
- If considered politically desirable it is not easy to determine the optimum rate of a tax. Ideally, the total tax revenue should be equivalent to the marginal external cost of the CPPs. If set at this rates the marginal social cost will match the marginal social benefits. Since the environmental effects of CPPs cannot always be calculated a tax would be subjective and politically biased.

- A tax based solely on the value of the individual CPP is unlikely to be effective. It would be counter-productive since it would counteract the efforts of the Crop Protection industry to innovate towards more environmentally friendly CPPs. In addition, it would increase the possibility that farmers turn to older, cheaper and less environmentally friendly CPPs thereby undermining the environmental benefits of the tax. The tax could only be effective if it aims to differentiate between the CPPs involved on the basis of their potential negative effects to the environment. However, such a complex classification would need a ranking on the environmental impact of CPPs. It also implies that suitable alternative products are available to which users can switch. In practice, such a banding system would inevitably result in perverse effects such as the increased use of products that are considered more environmentally unfriendly.
- A large part of the revenues of a tax could be absorbed by the cost of administration, implementation, compliance and enforcement. In some regimes the Government may increase the administrative burden on industry by using it to collect and pass on the revenues of the tax.
- Fraud practices and illegal importation of CPPs are likely to result. Setting a uniform tax across the European Union could possibly counteract this. However, this course of action would have enormous problems. Currently, even VAT is levied at different levels for the same products throughout the EU15.
- Revenues derived from the tax should be ring-fenced and remain in the agricultural sector to further stimulate farmers to follow good agricultural practice and adopt environmentally beneficial measures. However, experience in different member states shows that revenues of taxes often go directly to the Treasury.

3. Alternative instruments

The HCPA is of the opinion that environmental objectives can be reached in a more cost-effective way than via taxation or levies. Existing industry policies and voluntary measures undertaken by the industry are more effective and efficient than a tax to address environmental concerns. A continuing goal of the industry is to minimize the risks associated with the use of CPPs.

- In response to environmental concerns, the industry has developed new and better products with improved environmental profiles, which are used at much lower dose rates but higher levels of specific targeted effectiveness. In addition, the extremely thorough approval procedures by regulatory authorities in the EU include risk assessments and safeguard the environmentally sound use of CPPs. As a consequence, the number of active ingredients on the internal market has decreased drastically with many more hazardous products being removed from the market. Numerous epidemiological studies confirm that CPPs cause no significant harm to the general population when used correctly. A tax would be in contradiction to the existing approval system, which is effective and ensures no adverse effects on health and the environment.

- Initiatives from the Crop Protection industry include the use of integrated control methods or ‘Integrated Farm Management (IFM)’, which are broadly recognized as environmentally friendly practices, as well as stewardship activities. These, further demonstrate the commitment of the industry to a responsible approach. The industry has been a prime mover in the production of “Codes of Good Practice” for users, programmes of research and development after the launch of products onto the market, the promotion of Integrated Crop Management (ICM) and the provision of reliable local agronomic advice. The HCPA believes that ICM and IFM are the cornerstones for sustainable agriculture.
- Additional voluntary measures undertaken by the crop protection and farming industries, like mandatory training of sprayer operators, licenses for users, safe waste disposal of containers and an annual inspection of sprayers are used to further minimize the perceived environmental impact of CPPs. Although much has already been achieved on a voluntary basis, the industry remains committed to doing more.
- Improved application technologies allow for improving the effectiveness of treatment against weed, insects and diseases and allow substantial reductions of CPPs usage. It is widely recognized that further technological developments will have a significant influence on the long-term pattern of product usage. The use of information technology in decision support systems and precision agriculture helps end-users to apply the products in an optimal way and also supports the implementation of ICM practices.
- There are other efficient alternatives and additional policy measures, which could provide the required level of protection in environmentally sensitive areas. For example, site-specific measures for the preservation of habitats and high nature value landscapes instead of the broad approach of taxation would be more effective. Farmers could be compensated for specific and additional environmental initiatives, going beyond the basic level of good agricultural practices and adhering to environmental law through agri-environment programs.

4. Conclusion

There is little doubt that the imposition of a tax on CPPs would have very few beneficial environmental effects. If policy objectives focus on long-term environmental perspectives, the objective may not just be to reduce risk from CPP usage itself, but to encourage environmentally sound practices. The HCPA concludes that existing industry policy, in particular the adoption of ICM/IFM and other voluntary measures already undertaken by the industry, are the most effective means of achieving further sustainable improvements in the environment. The HCPA sees great benefits in the voluntary approach that addresses the environmental concerns of the public and politicians.