



National Oilseed Processors Association (NOPA)

Elimination of Differential Export Taxes

What is an export tax?

- Export taxes are used by some countries (both WTO Members and non-WTO members) as a significant source of Government Revenue. Export taxes are levied on the market value of exported commodities. Imposition of an export tax reduces the domestic market value (cost) of the exported product by the amount of the tax.

What is a Differential Export Tax (DET) and how is that different than an Export Tax?

- DETs subsidize exports of processed products by taxing exports of a raw material at a higher rate than exports of the processed products derived from that raw material.
- For example, Argentina applies an export tax of 23.5% on soybeans, 20% on soybean oil and soybean meal, and 5% on soy bio-diesel. This DET structure reduces Argentine processors' raw material costs by 23.5%, while it reduces the revenue from exporting soybean oil and soybean meal by only 20% and soy bio-diesel by only 5%. This differential among the export tax rates establishes an effective export subsidy for the processed products.
- NOPA takes no position on the legitimacy of uniform Export Taxes, but believes there is a major difference between the use of Export Taxes as a means to raise Government Revenue and the use of Differential Export Taxes to provide an export subsidy for processed products.

Are DETs included in the Doha Development Agenda Agriculture Negotiations?

- To date, the Doha Development Agenda lists DETs as a 'Paragraph 49 issue,' which refers to paragraph 49 of the July 2004 Framework Agreement on Agriculture, entitled "Issues of interest but not yet agreed."

What does NOPA believe should happen in the Doha Development Agenda?

- NOPA believes that the DETs should be eliminated together with all forms of export subsidies, including: direct export subsidies; non-conforming export credit guarantees (tenor greater than 180 days); the subsidy component of Export State Trading Enterprises; and Food Aid that displaces commercial sales.

Which Countries are active users of DETs and for what products?

- Argentina uses DETs for the oilseed complex, specifically soybean oil, soybean meal and now soy bio-diesel. But DETs also benefit the poultry sector because the DET also lowers the cost of soybean meal, providing the livestock and poultry sector access to cheaper feed.

- Malaysia and Indonesia also uses a DET scheme to subsidize the export of refined palm oil instead of crude palm oil. This adversely affects the European Union more so than the United States.
- In addition, Russia and Ukraine, which are not yet WTO Members, utilize DETs for sunflower seed and its processed products.

Can you quantify the subsidy component of DETs?

- Yes, with respect to Argentina's exports of soybean oil and meal, and based upon an analysis of soybean crushing margins from 2000 – 2005, the value of the subsidy was just over \$1 billion, averaging \$202 million/year and increasing by 395% over the same period.¹

How have DETs benefited the Argentine Oilseed Crushing Industry?

- Argentina has very little domestic demand for oilseed meal and oil, in fact on average 73% of the soybean production goes on to be crushed and on average 98% of both oil and meal is exported. Argentina is the world's leading exporter of soybean oil and meal.

How do users of DETs justify this action?

- Users often claim that DETs are used only to counteract tariff escalation in markets that charge higher tariffs for processed products. However, tariff escalation is being addressed in the Market Access Negotiation – as high tariffs will be reduced greater than lower tariffs.

What will happen if DETs are not eliminated?

- It can be expected that the use of this policy will continue and spread to other countries and other products. This will have a very negative impact on the U.S. oilseed crushing industry as it will encourage investment in countries that use DETs and reduce investment and processing in the United States.
- In addition, DETs will become the only export subsidy that is not disciplined under WTO rules, thereby creating a loophole that will encourage Members to adopt this policy to gain a competitive advantage.
- If DETs are not eliminated, the objective of paragraph six of the December 2005 Hong Kong Ministerial Declaration will not be met:
 - *"We agree to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013."*

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¹ USDA and Oil World Data price, production and export data; comparing the difference in soybean crushing margins before and after the application of the DET, multiplied by the volume of exports.