

Extracted with permission from the POPIHN Yearly Report - Oils and Lubricants:

Introducing a uniform 'ZERO' RATE of Excise Duty in Poland



The first half of 2016 has been marked by stabilisation on the lubricants market in Poland. The total sales of lubes reached the level of 116,000 tonnes which means a slight (-0,16%) decrease year-to-year. Around 67,000 tonnes of this are automotive oils while 47,000 tonnes are industrial oils. While industrial oils and HDEOs fell by -2,5% and -9% respectively, we have seen at the same time a particularly sharp increase in PCMOs demand (18,26%).

Since 2015 the PCMOs have been showing a faster yearly growth of over 4%, which can relate to an increase in production of vehicles in Poland. On the other hand, we have to be aware of the informal market and the fact that, gradually, more and more automobiles will require the use of synthetic oils. As for the industrial sector, following the forecast annual GDP growth of 3.0 to 3.6%, it should show a stable performance, possibly with a slight upward trend. Until present, the GDP growth rate of 3.0 to 3.5% was the point of balance, which separated rises from falls and where sales remained stable.

Based on current observations and the available forecasts of economic growth in Poland, POPIHN believe that the overall market of lubricant oils, will remain around the currently observed levels. Possible deviations from these should be minor and oscillate within statistical error bounds. Most forecasts about the economic developments in the coming years oscillate around a GDP growth level of 3.6% for 2017, yet past experience indicates that with time such forecasts are usually reviewed, which makes the prediction difficult. However, the forecast assumes that the economic situation in Poland will remain stable in the coming two years, which will be a consequence of the ongoing convergence between the Polish economy and the economy of the European Union. Thanks to this process, even though facing strong and potentially harmful stagnation in the Eurozone, Poland's economy should be able to develop at the rate of approximately 3.0 to 3.5% and this should translate into the situation on the lubricants market that some could call 'stable' (given the European stagnation and increased drain interval) while others 'flat' (given the large influx of cars from abroad resulting in 599 cars per 1000 inhabitants in 2016 and their average age of 10.5 years).

Looking further ahead, one should give particular attention to the condition of the Eurozone (and especially its biggest economy – Germany), with which Poland's economy is already strongly integrated. A significant proportion of the Polish exports make a part of the German exports, which in turn, to a large extent, is placed on the Chinese market. It is therefore the uncertain condition of China (along with the other so called BRICS countries) affecting the German exports which will be the main factor shaping the macroeconomic environment in the years to come as well as generating its key changes. The second factor worth special attention in the coming year is the condition of the Eurozone banking sector.

The crisis facilitated by the bankruptcy of one of the banks in the United States in 2008 led to a deterioration of the lubricant oils market in Poland by as much as 30%. The consequences of a similar event in Europe could be more serious and difficult to foresee. Even with major investments in infrastructure within the 2014 to 2020 EU perspective, exceeding a GDP growth rate of 4% in the coming years will be a considerable success for Poland. Only such level of growth could find reflection in a more visible improvement on the oil market.

Yet the impulse to improve the market for lubricant oils may also come from inside, in the form of large-scale social programmes, planned by the new government, which can have similar effect like the 'helicopter-money' and drive the consumption trends in Poland in the years to come. However, one should also bear in mind the long-term costs, including the delay of the imminent economic downturn in time. Furthermore, should such schemes be funded by raising taxes (e.g. VAT), without previously solving problems which generate the grey zone (a parallel market based on tax fraud) on the oil and fuel market, they will result in increasing incentives for the grey zone and its further development.

It is the inefficiencies in combating the grey zone that is the key factor shaping the domestic market. The main proposals presented by the sector include levelling out the tax burdens upon oils between Poland and the neighbouring countries by introducing a single 'zero rate' for all lubricants in Poland (and in the entire European Union, if the EMCS system would be introduced in the EU). The key advantage of such a solution is the elimination of factors encouraging tax evasion through private and parallel import from the neighbouring countries while keeping control over the product via the Excise Movement and Control System (or EMCS). The system works well within the borders of Poland while it proves completely useless for trans-border movements, both declared and effective.

For years, the oil industry has been pointing out that keeping excise duty (1180 PLN per tonne for mineral oils) on lubricating oils reduces the competitiveness of the sector, while prompting the development of the shadow economy in both retail and wholesale trade in lubricating oils.

Excise tax interferes with the level playing field for domestic companies which trade in lubricants, increasing operating costs for legally operating entrepreneurs and leading to their lower competitiveness and higher prices of products. Moreover, if excise tax and all related additional costs are not present in many other EU countries, then its application in Poland effectively gives rise to additional and unwarranted restrictions on businesses operating in the country, and on end-users of these products.

The introduction of the 'zero rate' of the excise tax on all types of lubricating and base oils in Poland would significantly facilitate trading in these products, reducing entry barriers for new entrants and lowering the financial burden on member companies. At the same time, current control of the product would be maintained, as with a 'zero' rate the EMCS system would still be applicable in case of lubricating oils.

In case of the introduction of the EMCS system by the Commission in the whole EU, the introduction of a 'zero' rate throughout the EU would not only prevent the national governments from imposing effective taxation on lubes but would also lead to a further significant reduction of the grey market in lubricating oils and fuels not only in Poland but also in neighbouring countries. Therefore, from the perspective of the Polish industry, it would be an optimal solution combining the fight against the shadow economy with a minimal interference and burden for the market.

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