

Energy Trade and Tax Evasion in the Oil Sector in Greece

Assoc. Prof. A. Bitzenis, Dr. P. Kontakos,
University of Macedonia, Thessaloniki

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Foreword to our Project

- Our aim is to **research and measure the various aspects of shadow economy in Greece**, including corruption, tax avoidance, social contribution avoidance, undeclared or illegal work, shelf consumption, illegal acts (black or underground economy).
- It will cover **all economic agents in Greece**, such as citizens and corporations (e.g. public and private individuals, companies and all professional categories, etc.)
- The research is also performed at **sector levels**, e.g. to identify the extent of tax evasion and corruption in the trading of oil in Greece.

Foreword to our Project (*cont.*)

- Emphasis is given to the **qualitative analysis of questionnaire results** which it aspires to reveal the opinions of households, enterprises and institutional entities and public services.
- It does not aim to the precise percentage regarding the measurement of Greek shadow economy but aims to the **qualitative analysis and the comprehension of the problem** so that we can reach essential and thorough proposals to the government in order to minimize the problem.

Agenda

1. Motivation and Aim of the paper
2. Objectives of our research project
3. Fraud and tax evasion in the trading of fuels in Greece
4. The impact of tax evasion in Greece
5. Preliminary results from the questionnaire survey performed in oil trading companies
6. Conclusions

1. Motivation and *Aim* of the paper

- In Greece, many are those who assert that **tax revenues of hundreds millions of euro a year are lost** by the Greek government from **illegal activity** such as in **fuel trading**.
- Experts say that specifically **fraud, piracy, incomplete deliveries to consumers, lack of transparency, the limited fraud inspections, delays in sentencing, fictitious exports, the lack of controls for maintaining buffer stocks** substantially all arise from the lack of proper control mechanisms set by public authorities (Georgakopoulou, 2012).

1. Motivation and *Aim* of the paper (*cont.*)

- To discuss the **structure, size and impact of tax evasion and fraud**, and measure and analyze the **reasons** responsible for the high rate of shadow/black economy in the trading of fuels in Greece
- To present the **preliminary results** from our **questionnaire survey** research on a random sample / structured interviews of market participants.
- The **shortage of academic research** renders additional value to the topic, particularly in a period characterized by the **prospect of drilling substantial offshore oil and gas reserves** in the Eastern Mediterranean and Greece.

2. Objectives of our research project

- Introduce at a **theoretical level** the reasons of black / shadow economy in Greece, with emphasis on the wider energy sector.
- Investigate and **assess via special statistical research (qualitative), the black economy and the tax evasion in the Greek energy sector**. Also, an econometric analysis will take place.
- Locate the precise **reasons for the appearance of the phenomenon in Greece** through the analysis of particular **financial, social and institutional frames**.
- Assess the **impact of tax evasion as a barrier in attracting FDI** in the Greek energy sector.
- Propose **structural policies** for the effective confrontation of the phenomenon.

3. Fraud and tax evasion in the trading of fuels in Greece

- The adulteration of fuel can be divided into **two categories**: in the case of fraud for profit of the operator and in the case which it happens because of **inconsistent management and storage of fuel** (e.g. when water or garbage is mistakenly allowed to mix with the fuels).
- In the case of fraud we refer to the **addition of impurities of cheaper fuel to the more expensive fuel** by the operator with the purpose of gaining from the price difference (e.g. Unleaded in LRP gasoline (new super); b. Unleaded in Super unleaded; c. Heating oil in diesel; d. Shipping oil in diesel; e. Shipping oil in heating oil; f. Petroleum in Gasoline (ICAP, 2009).
- The fraud is usually performed **during the transportation of the fuel to the station**; also, at the fuels station on above ground or illegal underground tanks.

3. Fraud and tax evasion in the trading of fuels in Greece (*cont.*)

- The **alleged fuel exports** are also a major problem in addition to fraud. In such cases, the **fuels for export are not taxed or simply have low tariffs or transported by tanker ships abroad.**
- **Virtual uploads** are included in this case (Greek Petroleum, 2008). It is duty free fuel oil which is passed illegally in the internal market. **The ship, in this case, is not provided at all or sub-provided with a small amount of fuel.** The rest returns without tariffs to be used by fuel stations in the internal market.
- The phenomenon of **adulteration and smuggling** is maintained by the **large differences in the high taxation of various fuels** and **facilitated by insufficient controls of the state authorities.**
- The **main characteristics** of the Greek oil market consist of the **oligopolistic** conditions, **high levels of fraud** and the existence of a **large number of oil stations.**

3. Fraud and tax evasion in the trading of fuels in Greece (*cont.*)

- With a **total turnover which approached in 2012 the EUR 12.5 billion** the oil marketing sector (companies - members of SEEPE) estimated that generated directly a **EUR 486 million of added value** in the Greek economy and more than **23,000 jobs**.
- Moreover, the **social product** of the industry includes: a. taxes related to the sale of products, income taxes and social security contributions; b. staff; c. interest loans; and d. net gains of the business, which have exceeded EUR 4 billion.

4. The impact of tax evasion in Greece

- Tax fraud and tax evasion are limiting the capacity of the Greek government to raise revenues and to carry out its economic policy. Estimates show that **billions of Euros remain often unreported and untaxed**, reducing national tax revenues.
- Particularly, in a single market, like the Greek one, within a globalised economy, **national mismatches and loopholes are too easily exploited by those that seek to escape taxation.**
- Indicatively, we can refer to the recent case of the company ETEKA S.A., who was accused in February 2014 for illegal marketing during the last two years of ~4,500,000 liters of shipping oil, and evaded customs duties and taxes that exceeded EUR 3,500,000. Among **stakeholders** were also **owners of service stations, oil company executives** and **staff of the Ministry of Environment.**

4. The impact of tax evasion in Greece (*cont.*)

- The total oil consumption of **shipping oil** is about 713,000 cubic meters (this volume is sold by all companies in the sector) and according to sources **market smuggling in this form corresponds to approximately 20-30%**.
- **The total tax loss from illegal trafficking of fuels is estimated to approximately EUR 2.5 billion annually** (Mardas, 2014).
- On the other side, in an effort to reduce smuggling, the Ministry of Finance proceeded recently to the measure of **equalization of Special Consumption Tax (SCT) rates on heating oil and traffic oil**, which drastically reduced smuggling, but had significant negative side effects (IOVE, 2013).

4. The impact of tax evasion in Greece (*cont.*)

- The **dropping sales of heating oil** have resulted in a significant **loss of tax revenue and deviations from budget targets**.
- The unintended consequences of the measure are associated with **environmental pollution in urban areas**, due to the extensive use of firewood for heating homes, which is a **negative externality** that is highly likely to result in significant additional costs to the health system.
- Considering the aforementioned developments **the respective measure of tax equalization should be reviewed and improved**.

5. Preliminary results from our questionnaire survey in oil trading companies

- The preliminary results are based on a **questionnaire survey and structured interviews** of market participants performed in oil trading companies located in **Northern Greece** region in H1, 2014.
- The **main areas of questions addressed** to the participants involved the following aspects:
 - a. Level of compliance of oil companies with Greek tax laws;*
 - b. Level of competence of tax officials;*
 - c. Enforcement procedures and penalties;*
 - d. Corruption and tax administration;*
 - e. Tax evasion and black economy (informal sector).*

5. Preliminary results from our questionnaire survey in oil trading companies (*cont.*)

- According to market participants, in recent years has been achieved a restriction of fraud and fuel smuggling as a result of **tighter legislation and better system controls**.
- The measure of equalizing the **Special Consumption Tax (SCT) in heating and traffic oil** will lead many stations out of the market; at the same time, **many private consumers in Northern Greece are turning to cover their demand in neighboring countries** (e.g. Bulgaria) due to significantly lower taxes and the final price of fuels.
- The market will continue to have characteristics of **oligopolistic structure** with dominance of refining companies and their subsidiaries in the fuels' marketing industry. However, the **market rationalization** due to the reduction in the number of oil stations is also expected to **contribute to more effective auditing and controls** and further restriction of illegal activities.

5. Preliminary results from our questionnaire survey in oil trading companies (*cont.*)

- The measure of **increasing the Special Consumption Tax in heating oil (by 440%)** had a **drastic effect on sales of heating oil** and **significant environmental impacts (negative externalities)** and narrowed the final demand for heating oil (from 55-60% to almost 20% of total oil consumption) and tax revenues.
- Further, the **contracted profit margins at the levels of 2-7 euro cents per litter, does not facilitate the funding of new investments** in gas facilities and infrastructures.
- The recent **introduction of an input-output system** is a **positive development**, despite the problems and inefficiencies resulting from the lack of scaling (deduction) in real time at 15° C of the sold volume fuel by pumps, in combination with the use of **cash registers** are expected to contribute significantly to the reduction of smuggling and adulteration of fuel.

5. Preliminary results from our questionnaire survey in oil trading companies (*cont.*)

- **Smuggling in shipping oil sector remains important.** Tax-exempted allocation of shipping fuels is required by the provisions of Articles 15 and 23 of Law 2127/93 and Law 603/77. **The surveillance mechanism of this activity on the part of state authorities remains inadequate** and important measures remain to be undertaken in this direction.
- The markets participants referred finally to the **inefficiencies resulting from the fact that tax clearance for fuels take place only in three Customs offices**, and the **specifics of the Greek geography due to the large number of islands**, which further increases the final fuels cost due to the **high transportation costs**, which over exceed the benefits from the lower VAT regime which is applicable.

6. Conclusions

- In Greece, many are those who argue that tax revenues of **hundreds millions of euro a year are lost** by the Greek government from illegal activity in fuel trading.
- Experts say that **specifically** fraud, piracy, incomplete deliveries to consumers, lack of transparency, the limited fraud inspections, delays in sentencing, fictitious exports, the lack of controls for maintaining buffer stocks substantially all arise from the lack of proper control mechanisms set by public authorities.
- Further, it is noted that the existing **institutional framework** is inadequate to eliminate the barriers in competition and healthy functioning of the market and achieve consumer protection.
- According to first evidence from the interviews performed, significant **progress has been achieved** in recent years in the restriction of fraud and fuel smuggling, **except in the case of shipping oil.**