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Report

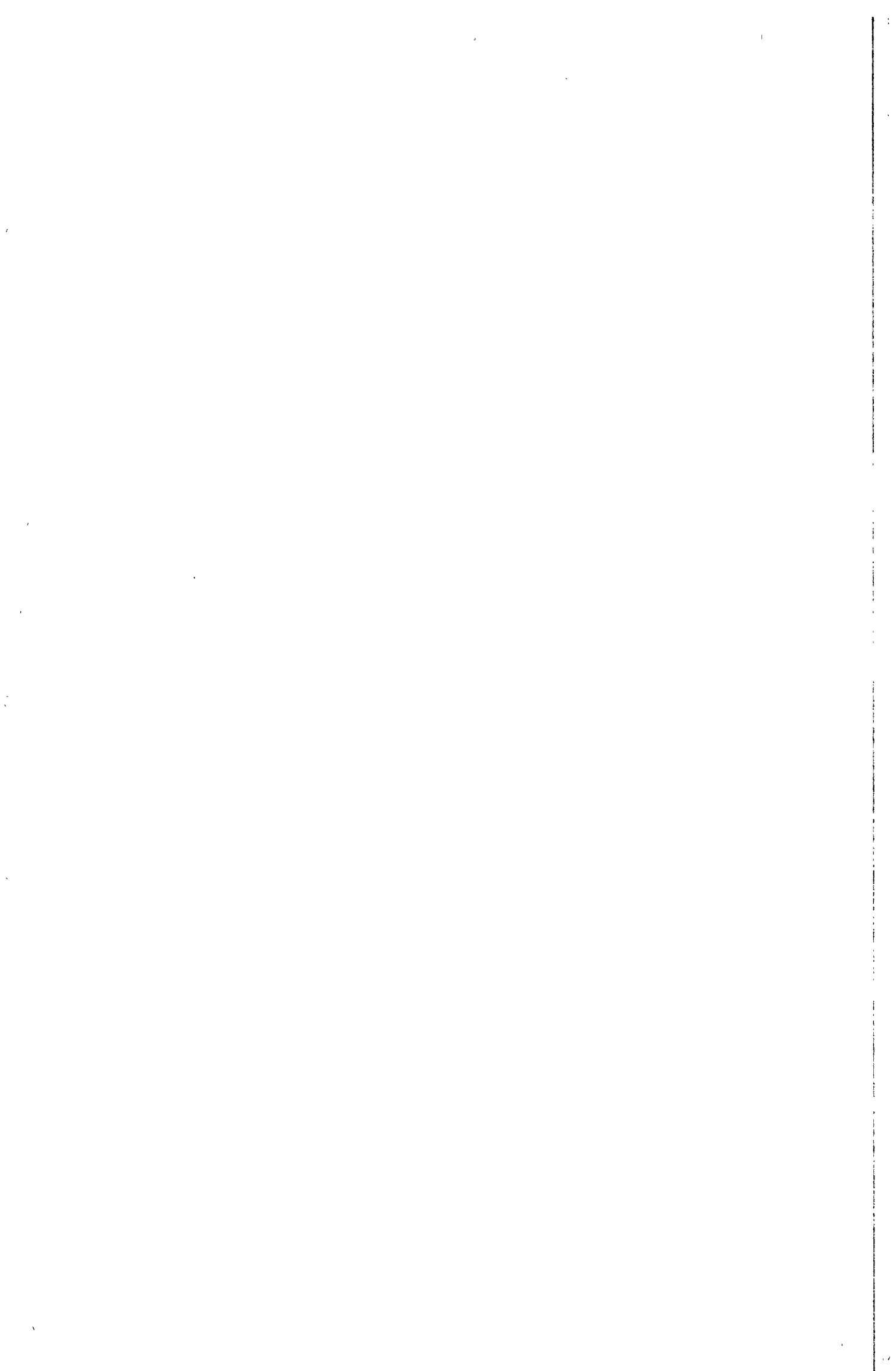
drawn up on behalf of the Committee on Economic and Monetary Affairs

on the proposal from the Commission of the European Communities to the Council (Doc. 1-607/79) for a Fifth Directive on the harmonization of provisions laid down by law, regulation or administrative action relating to the rules governing turnover tax and excise duty applicable in international travel

Rapporteur: Mr K. von WOGAU

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By letter of 13 December 1979 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 99 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a Fifth Directive on the harmonization of provisions laid down by law, regulation or administrative action relating to the rules governing turnover tax and excise duty applicable in international travel.

The President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs.

On 24 January 1980 the Committee on Economic and Monetary Affairs appointed Mr K. von Wogau rapporteur.

It considered this proposal at its meetings of 27 February and 20 March 1980 and unanimously adopted the motion for a resolution at the latter.

Present : Mr Delors, chairman; Mr de Ferranti, vice-chairman; Mr von Wogau, rapporteur, Mr Balfour, Mr Bersani (deputizing for Mr Tindemans), Mr Beumer, Mr Bonaccini, Mr Caborn, Miss Forster, Mr Giavazzi, Mr Leonardi, Mr Mihr, Sir David Nicolson, Mr Petronio, Sir Brandon Rhys Williams, Mr Schinzel and Mr Walter.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Fifth Directive on the harmonization of provisions laid down by law, regulation or administrative action relating to the rules governing turnover tax and excise duty applicable in international travel

The European Parliament,

- having regard to the proposal from the Commission (COM(79) 694 final),
 - having been consulted by the Council (Doc. 1-607/79),
 - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 1-43/80),
1. Notes once again that the present varying rates of turnover tax and excise duties in the Member States constitute a serious barrier to the achievement of the common internal market;
 2. Regrets that it has still not been possible to increase tax-free allowances in real terms above the levels set in 1972;
 3. Therefore regards the increases proposed by the Commission as inadequate but approves their introduction in time for the summer travel season while hoping that further increases to take effect on 1 January 1981 and 1 January 1982 will also be decided;
 4. Draws attention to the urgent need to abolish the special derogations for Denmark and Ireland, as failure to do so might mean that uniform rules in all the Member States of the Community would never be achieved;
 5. Considers the quantitative limits on coffee and tea to be unnecessary; proposes therefore the phasing out of these limits for travellers between the Member States, and eventually also for travellers arriving from third countries;
 6. Calls on the Commission to take every opportunity of easing and in time abolishing the quantitative restrictions on tobacco, wine and spirits for private travellers between Member States;

7. Calls on the Commission to open negotiations with countries bordering on the Community, especially Austria and Switzerland, with a view to achieving corresponding concessions on a reciprocal basis in travel between the Community and these countries.
8. Requests the Commission to report to the European Parliament on the problems connected with tax-free shops and on possible ways of abolishing them in respect of travel between Member States;
9. Calls on the Commission to incorporate the following amendments in its proposal, pursuant to Article 149, second paragraph, of the EEC Treaty;
10. Calls on the authorities and legislative assemblies of the Member States to help in this way to make the public more aware of their membership of a Community;
11. Instructs its President to forward this resolution and the explanatory statement to the Governments and Parliaments of the Member States.

Proposal for a Fifth Directive on the harmonization of provisions laid down by law, regulation or administrative action relating to the rules governing turnover tax and excise duty applicable in international travel

Preamble and recitals unchanged

Articles 1-3 unchanged

Article 4 (new)

1. Article 4 of directive 69/169/EEC is amended as follows:

-The quantitative limit fixed in Paragraph 1(b) for still wine in travel between Member States shall be amended as follows:

'a total of 4 litres' shall read
'a total of 5 litres'

-The quantitative limits fixed in point 1(d) and (e) for coffee and tea carried by persons travelling between the Member States shall be amended as follows:

'750 grammes' to read '1000 grammes'
'300 grammes' to read '400 grammes'
'150 grammes' to read '200 grammes'
'60 grammes' to read '80 grammes'

2. Article 5 of the Third Council Directive No. 78/1032/EEC of 19 December 1978 to be amended as follows:

'The quantitative limit fixed in Article 5, paragraph 3, for the Kingdom of Denmark shall be increased from three litres to four litres'.

Article 5 (previously Article 4)

1. Member States shall bring into force the measures necessary to comply with this directive with effect from 1 January 1980.
2. Member States shall inform the Commission of the provisions which they adopt to implement this directive.

1. Member States shall bring into force the measures necessary to comply with this directive with effect from 1 July 1980.

2. Unchanged.

Article 6 (new)

1. The amounts laid down in Article 1 to apply from 1 July 1980 shall be increased by 20% with effect from 1 January 1981 and by a further 20% with effect from 1 January 1982.
2. The amounts laid down in Article 2 to apply from 1 July 1980 shall be increased by 25% with effect from 1 January 1981 and, in the case of Ireland, by a further 25% on 1 January 1982.

Article 7 (new)

The quantitative provisions concerning coffee and tea laid down in (new) Article 4 shall be completely abolished with effect from 1 January 1982.

Article 8 (previously Article 5) unchanged

EXPLANATORY STATEMENT

1. In May 1977 the European Parliament endorsed the Commission's proposal to increase the tax-free allowance from 125 u.a. (fixed in 1972) to 200 EUA. The Council did not take a decision until December 1978, and the allowance was raised to 180 EUA.

The other major change made in 1978 was the adoption of a provision making it optional or compulsory for the Member States to revise the allowances in the national currencies to take account of exchange rate fluctuations. Between October 1978 and October 1979 none of the Member States' currencies had gained or lost value sufficiently to enforce a revision (more than 5%).

2. Price rises since December 1978 have reduced the real value of tax-free allowances expressed in EUA in the Community as a whole by more than 10%, although there are wide variations within this average figure.

3. The Commission's proposal to increase the tax-free allowance from 180 to 210 EUA (=ECU) is based in part on the need to compensate for price rises since December 1978 and in part on a desire for a small increase in tax-free allowances in real terms.

4. The Committee on Economic and Monetary Affairs is of course aware that the increases in the Commission's proposal will be especially heavy in those Member States whose currencies have fallen in value during the past year. However, prices in those Member States have risen relatively faster, so that the duty-free allowances in their currencies also need to be raised relatively more.

Comments on the individual paragraphs of the motion for a resolution
Paragraph 1

5. The Committee on Economic and Monetary Affairs is of course aware that much of the difficulty of increasing tax-free allowances and the limits on amounts of tobacco, wine and spirits, etc., stems from the wide variations in tax rates in the Member States. Until there is more uniformity here, the Member States with the highest tax rates will be especially reluctant to act.

6. The problem is not so much the normal tourist traffic but the more or less organized border trade, e.g., between Denmark and the Federal Republic of Germany. Here there are problems not only because of the extremely high Danish tax rate but also because of the fact that on boats crossing the Baltic it is possible to buy for instance butter for which the Community has granted export refunds.

Paragraph 2

7. There has been no real increase in tax free allowances in the Community as a whole since 1972; relaxation of the rules on articles that can be taken freely across internal frontiers would give the public a greater awareness of belonging to a community and reduce the need for customs officials to search travellers' luggage.

The change in value of the tax free allowances expressed in national currencies is shown in the annex table. In one country the allowance did not in fact rise between 1972 and 1979. In others there were nominal increases which fell far short of price rises. Only in a few cases did tax-free allowances increase by more than the national price index.

8. The Committee on Economic and Monetary Affairs considers this trend to be quite inadequate.

9. It has discussed how the European Parliament can best change the situation. The Commission departments maintain that Member States will scarcely agree to a larger increase in the tax free allowances at the same time and that any proposals from the European Parliament to this effect would only delay a Council decision.

Paragraph 3

10. The Committee on Economic and Monetary Affairs considers it very important that the increase proposed by the Commission be effected early enough for travellers to benefit from it this summer and points out that in its proposal the Commission mentions 1 January 1980 as the implementing date. The Commission however submitted its proposal too late (December 1979).

11. The Committee on Economic and Monetary Affairs proposes that the European Parliament endorse the Commission's proposal to increase tax free allowances this summer but calls on the Council to decide how these amounts should be increased in the next two years (on 1 January 1981 and 1 January 1982 respectively). The committee proposes an increase of 2 x 20%, which will bring the normal tax free allowance up to about 300 EUA. An increase of this order would considerably enhance travel in the eyes of the citizens of the Community.

See the committee's proposed amendment for a new Article 6(1).

Paragraph 4

12. Not only do the derogations applicable in Denmark and Ireland give people resident in those countries a wrong impression of the Community, they also make other Member States less willing to vote for a further increase in tax free allowances. The Committee on Economic and Monetary Affairs therefore stresses the importance of doing away with these derogations as quickly as possible and proposes a relatively large increase (25%) in the allowance (see the committee's proposed amendment for a new Article 6(2)) with a view to progressively reducing the difference. The 1 January 1982 increase referred to in Article 6(2) applies to Ireland only because officially the derogations for Ireland apply only until the end of December 1981.

13. Attention is also drawn to the fact that Commission studies¹ show that in 1979 the price of essential, highly taxed articles increased more sharply in Denmark than in the Federal Republic of Germany, which obviously does not make it any easier to get Denmark to waive its derogations.

Paragraphs 5 and 6

14. The Committee on Economic and Monetary Affairs fails to see the reason for the limits on the quantities of coffee and tea travellers are allowed to import; there are admittedly differences in the tax on these products in the different Member States, but the general rule that imports of coffee and tea should not be of a commercial nature should be sufficient.

Consideration should be given to whether the phasing out of these quantitative limits should apply to travel between the Member States as well as to travel between the Community and third countries; officially, the Committee on Economic and Monetary Affairs has proposed an amendment on the quantitative limits for coffee and tea in the case of intra-Community travel only (see the proposed new Articles 4(1) and (7)), but it would also like to these quantitative limits to be abolished for travellers from third countries.

15. The Committee on Economic and Monetary Affairs has also considered the possibility of proposing increases in the quantitative limits on wine, spirits and tobacco but, although it is in favour of increasing these limits, it considers the above changes to be more important.

The Committee on Economic and Monetary Affairs feels that it is now time to further increase the quantity of wine travellers within the Community can import without paying duty; it therefore proposes that the quantity be increased from 4 to 5 litres. This increase should also be partially

¹ COM(80) 33 final

reflected in the special derogation that allows Denmark to maintain the 3-litre limit until 31 December 1983.

The Committee on Economic and Monetary Affairs attaches greater importance to increasing the limit on wine as the duty on wine varies much less from one country to another than it does for spirits and tobacco.

Paragraph 7

16. The Committee on Economic and Monetary Affairs is aware of the unfortunate consequences of regarding Austria and Switzerland in particular as third countries in this respect. It would make things much easier for transit passengers if the same rules applied to imports into the Community from Austria and Switzerland as from Community countries. The committee therefore proposes that the Commission open negotiations with Austria and Switzerland; the concessions should naturally be mutual.

Paragraph 8

17. The European Parliament has frequently taken up the question of tax-free shops and has come out against the possibility of buying duty and tax-free goods. The Commission did at one time put forward a proposal prohibiting tax-free shops but subsequently withdrew its proposal.

18. There is justification for claiming that the existence of tax-free shops in connection with travel within the Community is in conflict with the principles of a customs union; on the other hand, for reasons of competition, it is necessary to leave open the possibility of buying tax and duty-free goods in connection with travel to and from third countries.

The possibility of buying tax and duty-free goods is obviously one of the reasons why the customs authorities continue to attach so much importance to checking the quantities of highly taxed goods in the possession of travellers.

19. The Committee on Economic and Monetary Affairs does not wish on this occasion to adopt a final position on whether there should be a ban on the purchase of tax and duty-free goods in respect of travel within the Community. However, it calls on the Commission to draw up a report so that it can adopt a position on the various aspects of this problem, and it would be grateful if the Commission's report could also indicate the extent to which the existence of tax-free shops distorts competition.

Table 1

Member State (currency)	Level of allowance ^(*)			% Change in level of allowance		% Change in consumer price index	
	1972	1979	1980 ^(***)	1979/1972	1980/1979	1978/1972	1979/1978 ^(***)
Belgium (Bfr)	6,250	7,200	8,446	15	17	65	5
Denmark (DKr)	938	1,275	1,527	36	20	85	12
Germany (DM)	458	460	522	0	14	35	5
France (Ffr)	694	1,030	1,227	48	19	80	12
Ireland (IR£)	52	120	141	131	18	125	16
Italy (Lit)	78,125	195,000	240,750	149	24	139	17
Luxembourg (Lfr)	6,250	7,200	8,446	15	17	55	6
Netherlands (Hfl)	453	500	580	10	16	57	5
Great Britain (£stg)	52	120	137	131	14	128	17

*) without taking account of rounding facilities granted to Member States

***) change in 12 months to November 1979

****) proposal of the Commission

Table 2 : Tax free allowances

Member States (currency)	1 July 1980 ¹ 210 EUA	1 January 1981 ² 250 EUA	1 January 1982 ² 300 EUA
Belgium (Bfr)	8,446	10,089	12,107
Denmark (Dkr)	1,527	1,930	2,316
Germany (DM)	522	622	746
France (FF)	1,227	1,451	1,741
Ireland (IR£)	141	168	202
Italy (Lit)	240,750	290,015	348,018
Luxembourg (Lfr)	8,446	10,089	12,107
Netherlands (Hfl)	580	684	821
United Kingdom (£stg)	137	162	194

¹ Proposed by the Commission and supported by the Committee on Economic and Monetary Affairs

² Proposed by the Committee on Economic and Monetary Affairs, exchange rate as on 28 December 1979

