COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Introduction of the principle of territoriality for the charging of transport infrastructure costs to heavy goods vehicles

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I. Introduction

1. In January the Commission submitted a proposal to end fiscal distortion of competition, following a two-stage procedure.(1)

The first, up to the end of 1992, will allow a few urgent corrections to the current situation, including restructuring of the bases of vehicle assessment by adopting the maximum permissible weight as the criterion in every Member State, a procedure to narrow the gaps between the current tax rates and a clause to prevent any worsening of the present distortion.

The second phase, after 1992, will be marked by the introduction of taxation based on the principle of territoriality. This principle means that the allocation of infrastructure costs is fixed for each category of vehicle, in accordance principally with the use made of road infrastructure in the Community.

2. The Commission based its proposals on reports which revealed big imbalances in the use made of road infrastructure by hauliers of different nationalities.(2)

What is more, completion of the internal market and the associated freedom to provide transport services will only accentuate this state of affairs. From 1 January 1993, qualified road hauliers will no longer be confined to their own country's market, with only limited openings to the intra-Community, as they are today. Instead, the whole intra-Community market will be opened up to all such carriers, who are certain to exploit it.

The gradual opening-up of cabotage (allowing non-residents access to the national market) will add fuel to this phenomenon. Soon, hauliers will be planning their commercial strategy on a Community scale alone.

Infrastructure usage will reflect this change in business strategy. Only a registration tax based on the principle of territoriality is compatible with this change of scale.

(1) OJ C 79 of 26 March 1988.

(2) OJ C 79 of 26 March 1988; COM(86) 750 final of 10 December 1986.

The latest report concluded that "the Commission will see to it that in preparing its forthcoming proposals these imbalances and their consequences will be duly taken into account and that the taxation principle to be adopted will guarantee, on the one hand, an approximation of competitive conditions whilst ensuring, on the other hand, that infrastructure costs would be effectively borne, over the whole of the Community's territory, by those who actually use it.(1)

3. After discussing the proposal and the two reports the Council concluded that the technical measures proposed by the Commission for the first phase were sufficiently detailed for the requisite decisions to be taken, though they are still awaited.

For the second phase - introduction of the principle of territoriality - the proposal submitted by the Commission in January simply set out a number of general principles, leaving a detailed proposal on the second phase until 1989.

Before committing themselves to the taxation principle for the second phase, a number of Ministers wished to consider the technical procedures for applying it. This communication has been drawn up in response to their request, pending submission of a detailed formal proposal by the Commission in July 1989. It will allow fuller preparation of the guidelines which the Ministers of Transport agreed, at the Council meeting in June, to send to the Council of Ministers of Financial Affairs in order to sound their opinion on the taxation side of the proposal.

4. The principle of territoriality can be examined from two angles:

From the point of view of the carrier, the amount paid in taxes and other charges for the use of road infrastructure must, altogether, cover the infrastructure costs generated by his vehicles.

From the budgetary point of view, the taxes and other charges levied on infrastructure users by the operators must, altogether, cover the costs of using the network.

(1) OJ C 79 of 26 March 1988

In the first case, it makes little difference who collects the taxes, since the important point is to create conditions of competition in which, as far as possible, taxation has the same impact on carriers everywhere in the Community, thereby eliminating fiscal distortions of competition. In the second case, some of the taxes or other charges for using infrastructure will have to be redistributed between the Member States.

This communication examines the two central components of any system of taxation based on territoriality - calculation and collection of the taxes on the one hand and their redistribution between the Member States on the other.

II. Territoriality and the elimination of fiscal distortion of competition.

5. Basically, the idea behind the principle of territoriality is a balance between the costs generated by a vehicle using infrastructure in the Community and the payments or taxes charged to cover the corresponding infrastructure costs.

Today, these payments or taxes include national vehicle tax ("road tax"), excise duty on fuel and tolls. (1)

Since, by definition, national vehicle tax is based solely on data on the use of national infrastructure and since tolls are charged on only a small part of the Community's road network, this balance between payments and costs is not maintained for frequently travelling outside their country of registration. To strike such a balance, a surcharge must be made to cover the proportion of the cost of using Europe's infrastructure not covered by the charges already made.

(1) It would be useful to consider whether sea fares in the Community could be regarded as equivalent to tolls.

This surcharge will be zero if the vehicle tax, excise duty on fuel and tolls cover the costs of using the infrastructure in the Community. Only vehicles leaving their country of registration will be liable to pay it.

The surcharge will ensure that each vehicle category covers all the infrastructure costs which it generates, so as to correct fiscal distortions of competition in the road transport sector.

Calculation of the components of the surcharge

6. The national vehicle tax paid by each vehicle category is already known. That leaves three items to be calculated :

(i) the infrastructure costs generated which could be calculated from the distance travelled in each Member State multiplied by the unit cost of using infrastructure in the Member States concerned;

(ii) the fuel excise duty paid during the relevant period ;

(iii) the tolls paid during the relevant period.

These can be calculated vehicle by vehicle or as a flat rate for each vehicle category.

(a) Vehicle-by-vehicle calculation

Several promising methods are under development. Detailed research is now being conducted on most of them as part of the DRIVE (Dedicated Road Infrastructure for Vehicle Safety in Europe) programme adopted by the Council on 29 June 1988.

(1) OJs C 173 and S 129 of 2 July 1988

In particular, this programme provides support for:

(i) vehicle journey data recorders, sophisticated tachographs;

(ii) an automatic vehicle identification (AVI) system and an automatic debit (AD) system for paying tolls;

(iii) an automatic vehicle location (AVL) system which will use the geostationary satellites of the future.

A study commissioned by the Directorate-General for Transport showed that some of these methods are capable of collecting the data needed to introduce taxation based on territoriality. However, there is no guarantee that the requisite equipment will be available in time or be readily accepted by carriers.

None of these technologies is in operation at the moment, and the prospects of commercial application are extremely uncertain. It would therefore be pure guesswork to suggest that a date by which these measures will be generally available for all the vehicles concerned.

(b) Flat rate-calculation

In this case the surcharge is calculated for a standard, average vehicle regarded as representative of an entire category, all registered in the same Member State and all in the same weight range (e.g. all vehicles in the 30-38 tonne range registered in Luxembourg). Three components can then be calculated for each category of vehicles registered in the same Member State and in the same weight range from regular surveys of a representative sample of carriers:

(i) the annual distance travelled in each region or Member State and, hence, the corresponding cost of using the infrastructure (infrastructure costs in each region or Member State being determined by a separate supply.);

(ii) the fuel excise duty paid during the relevant period;

(iii) the tolls paid during the relevant period.

The form which these surveys will take and the method of processing the data have yet to be decided.

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All that is needed for this flat-rate calculation of all the components of the surcharge is to set up the survey and data processing system. No further investment is entailed, either from the individual carrier or by the national or Community authorities. Against this, like the current national taxation systems, it is no more than a general system leaving no possibility of distinguishing between vehicles in the same category.

Non-Community carriers

7. Like Community hauliers, non-Community carriers too must be charged a surcharge for using the Community's infrastructure. The amount, payable when entering the Community, could either be calculated from special statistical surveys using a method comparable to the one for calculation the surcharge in the Member States or be based on the surcharges applied in the individual Member States.

Form of the surcharge

8. In return for payment of the surcharge, hauliers will receive a tax disc to stick on their vehicle. The authorities will then be able to see at a glance whether or not the vehicle is authorized to use the Community's infrastructure.

These stickers could apply for a week, month, year or possibly even one day. in principle it would be paid for at the same time as the national tax.

In this way, all in all, it will be possible to keep the price of the stickers proportional to the number of journeys made and/or the period covered.

III. Territoriality and compensation between Member States

9. While this communication concentrates mainly on the elimination of distortions of competition covered in part II, some thoughts are presented here on the same principle of the compensation of Member State.

For reasons of efficiency the Member State, which is responsible for the registration of vehicles, will issue the tax disk and collect the corresponding tax.

In principle, this revenue should then be redistributed between the Member States by means of a compensation system to take account of the road infrastructure costs which each of them actually bears.

In theory, such redistribution compensation is possible whether the surcharge is calculated on a flat-rate basis or vehicle-by-vehicle.

Even without such redistribution of revenue, the Community surcharge will improve the situation in the Member States transited at the centre of the Community. In practice, this surcharge will give a truer reflection of some carriers' costs which will have to be passed on in their rates, thus reducing or deflecting transit traffic on the central Member States' networks.

The surveys conducted to calculate the flat-rate surcharge or collect data for calculating the vehicle-by-vehicle surcharge will enable the Commission to keep close track of changes in the situation and make any general or specific proposals needed. One possible general proposal for the long term could be to turn the revenue into a resource for funding infrastructure of vital interest to the Community as a whole.

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IV. Conclusions

The Commission feels that the arguments set out in this communication demonstrate that the introduction of a taxation system based on territoriality in the Community is technically feasible, without awaiting uncertain technological developments.

General calculation of the components for calculation of the tax can be brought immediately into operation and will suffice to end fiscal distortions of competition between categories of similar vehicles, i.e. all vehicles in the same tonnage range registered in the same region or Member State. The Commission will also continue its research on the vehicle-by-vehicle calculation method, which could then be used at a later stage.

The form chosen - a tax sticker - will be easy to introduce, administer and monitor.

In accordance with the undertaking in its original proposal, the Commission will present appropriate proposals in due course on the basis of the Council's discussions.