

COMMISSION OF THE EUROPEAN COMMUNITIES

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FIFTH REPORT BY THE COMMISSION TO THE COUNCIL

on the derogation accorded to the Kingdom of Denmark relating to the rules governing turnover tax and excise duty applicable in international travel (Council Directive No 69/169/EEC of 28 May 1969 amended by Directives Nos 72/230/EEC of 12 June 1972, 78/1032/EEC, 78/1033/EEC of 19 December 1978, 81/933/EEC of 17 November 1981 and 82/443/EEC of 29 June 1982)

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Fifth report by the Commission
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excise duty applicable in international travel
(Council Directive No. 69/169/EEC(1) of 28 May 1969
amended by Directives Nos. 72/230/EEC (2) of 12 June 1972,
78/1032/EEC (3), 78/1033/EEC (3) of 19 December 1978,
81/933/EEC (4) of 17 November 1981 and 82/443/EEC (5) of 29 June 1982)

INTRODUCTION

1. On 19 December 1977, the Council adopted a directive according to Denmark a new derogation from the Community system of allowances. On this occasion, the Commission undertook to draw up each year, starting in 1978, a report on the evolution of the prices of alcoholic drinks and tobacco products in Denmark and Germany, on the evolution of fares for travellers in Denmark, and on the fiscal policy of the Danish Government. The first four reports (COM(78) 774, COM(80) 33, COM(80) 880, and COM(81) 806) each covered a one-year period (1 October - end September). In view of the fact that the derogation expires at the end of this year, part I of this fifth report is confined to the 9-month period, 1 October 1981 - 30 June 1982, whilst part II provides a general review of the overall changes during the first four and a half years of the five-year derogation period.

The derogating provisions

2. Annex VII, Part V (Taxation) of the Act of Accession to the European Communities of the Kingdom of Denmark, Ireland and the United Kingdom of Great Britain and Northern Ireland authorised Denmark, until 31 December 1975, to exclude from the tax allowances relating to turnover taxes and

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- (1) OJ No. L 133 of 4.6.1969
 - (2) OJ No. L 139 of 17.6.1972
 - (3) OJ No. L 366 of 28.12.1978
 - (4) OJ No. L 338 of 25.11.1981
 - (5) OJ No. L 206 of 14.7.1982.

excises applicable in international passenger travel, the following goods:

- tobacco products;
- distilled beverages and spirits, of an alcoholic strength exceeding 22 % vol;
- beer, only for quantities exceeding 2 litres.

3. On the expiration of this period, in accordance with paragraph 1(c) of part V of the Annex concerned, the Council prolonged the authorisation on two occasions (1), first until 31 December 1976 and then until 31 December 1977.

4. The Danish Government subsequently requested a further period in order fully to adopt the Community system of allowances. In contrast to the two previous derogations, which were limited to one year, the Council adopted on 19 December 1977, a Directive granting a derogation to Denmark from the regime in question until 31 December 1982 (2). This derogation provides for a progressive alignment of the Danish system with the Community rules.

5. Quantities of the tax allowances since 1 January 1978

	Danish residents having stayed in another Member State		Community residents staying in Denmark	
	less than 72 h (3)	more than 72 h (1)(3)	less than 24 h (2)	more than 24 h (1)
cigarettes or cigarillos or cigars	40 (4)	300	40	300
or smoking tobacco (grams)	100	400	100	400
distilled beverages (litres)	—	1.5	—	1.5
beer (litres)	2	no quantity limit	2	no quantity limit

(1) These quantities are those applicable under the Community system.

(2) From 1.1.1980 the 24 hour condition no longer applied.

(3) From 1.1.1981 the 72 hour condition was reduced to 48 hours.

(4) From 1.1.1982 the 40 cigarette allowance was increased to 60.

(1) Directive 76/134/EEC of 20.1.1976 (OJ No. L 21 of 29.1.1976);
Directive 77/72/EEC of 18.1.1977 (OJ No. L 23 of 27.1.1977).

(2) Directive 77/800/EEC of 19.12.1977 (OJ No. L 336 of 27.12.1977).

6. The Danish authorities have reported that, following the increase from 40 to 60 cigarettes from 1.1.1982, in the allowance of cigarettes for Danish residents staying in another Member State less than 48 hours, the increased allowance appears to be utilised. However, no statistics are available to measure the effects on the fiscal budget.

PART I - EVOLUTION IN THE 9-MONTH PERIOD 1 OCTOBER 1981 - 30 JUNE 1982

Tax legislation

Denmark

7. On 9 June 1982, the Danish Folketing adopted increases in all excise duties on products dealt with in this report. From 15 June 1982, the specific element in the excise on spirits was increased from 9.500 Dkr per hl of pure alcohol to 10.800 Dkr per hl pure alcohol. The excise duties on tobacco products and beer will be increased from 15 December 1982. For cigarettes, the specific element in the excise will be increased from 0.41 Dkr to 0.4686 Dkr per piece and the ad valorem rate will be changed from 21,68 % to 21,31 % of the retail price. In total, the retail price of a packet of 20 cigarettes will go up by 2 Dkr to 19,30 Dkr. On pipe tobacco and fine-cut tobacco, the rate will be increased respectively from 73 Dkr to 102 Dkr per kg and from 250 Dkr to 420 Dkr per kg. From 15 December 1982 the excise rates on beer will also be increased by around 17 % which, for the most consumed type of beer, means an increase from 309,55 Dkr to 361,15 Dkr per hl.

In addition, the Danish Folketing agreed that the excise duty rates on spirits, tobacco and beer (and others) shall subsequently be followed by an indexation of the rates until 1 October 1983. The VAT-rate was not changed.

Germany

8. On 1 April 1982, the excise rate on spirits was increased from 2.250 DM to 2.550 DM per hl pure alcohol. On cigarettes, the specific element in the excise was increased from 0,041 DM to 0,0565 DM per piece and the ad valorem rate changed from 30,1 % to 31,5 % of the retail price. Neither the beer duty nor the VAT-rates were changed.

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Danish crown / German mark

9. In the nine-month period, no less than three realignments of parities within the EMS took place. On 4 October 1981 and on 11 June 1982 the German mark was revalued by 5,5 % and 4,25 % respectively against the Danish crown and on February 1982 the Danish crown was devalued by 3 % against the German mark. This realignment of the parities meant that whilst the average exchange rate in September 1981 was 313,85 Dkr = 100 DM, the rate at the end of June 1982 was 346 Dkr = 100 DM - that is, a weakening of the Danish crown vis-à-vis the German mark by 10 %.

Relative evolution of retail prices of the products in Denmark and in Germany

10. The evolution in Denmark and in Germany of the prices of tobacco products and of alcoholic drinks between end-September 1981 and end-June 1982 is summarised in Table 1. The products used as the basis for comparison are the same products as shown in the same table in the first four reports. The prices shown have been furnished by the Danish Government. They are based on average prices in Denmark of the products concerned and on typical prices for the same products on sale in Germany in the region close to the Danish border.

Tobacco products

11. The substantial increase in the German excise on cigarettes and the realignment of the currencies more than halved the price gap between Danish and German cigarettes, reducing the price advantage to a Dane of buying cigarettes in Germany from 40 % to 20 %. For pipe tobacco, as a result of price increases in Germany, the Danish price is now considerably below the German (and will remain below after the end-1982 Danish tax increase - see paragraph 7).

12. Retail prices of cigars and cigarillos are not shown in Table 1 because comparable figures do not exist, but information from the Danish Government indicates that for the same brand of cigars the retail price in Denmark was 3,00 Dkr and 0,76 DM (2,63 Dkr) in Germany. For cigarillos, the retail prices were 1,70 Dkr in Denmark and 0,40 DM (1,38 Dkr) in Germany. In both cases the price gap does not seem to be greater than for many other, non-excise products, due to the considerable difference in the VAT rates (22 % in Denmark, 13 % in Germany).

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TABLE 1

Evolution of the retail prices of typical tobacco products and alcoholic drinks in Denmark and Germany, 1 September 1981 - end June 1982

PRODUCTS	Date	Danish price	German price		Diff. in Dkr. (1)-(2)	(4) as % of (1)
		in Dkr	in Dkr*	DM		
		(1)	(2)	(3)	(4)	(5)
<u>Cigarettes (300) Danish brand</u>	Sept.1981	256,50	141,32	45,00	115,28	44,9 %
	June 1982	259,50	207,60	60,00	51,90	20,0 %
Change 1981-82		1,2 %	46,9 %	33,3 %	-55,0 %	-24,9%
<u>Smoking tobacco, 50 g</u>	Sept.1981	9,10	9,73	3,10	-0,63	-6,9 %
	June 1982	9,25	24,22	7,00	-14,97	162 %
Change 1981-82		1,6%	149 %	126 %	-	-
<u>Cognac*** 70 cl</u>	Sept.1981	204,00	67,79	21,60	136,21	66,8%
	June 1982	211,00	89,61	25,90	121,39	57,5%
Change 1981-82		3,4 %	32,3 %	19,9%	-10,9 %	-9,3%
<u>Whisky (5 years) 70 cl</u>	Sept.1981	108,00	53,29	16,98	54,71	50,7%
	June 1982	126,50	69,20	20,00	57,30	45,3 %
Change 1981-82		17,1%	29,9%	17,8 %	4,7 %	-5,4%
<u>Gin, 70 cl</u>	Sept.1981	123,00	51,63	16,45	71,37	58,0%
	June 1982	129,95	65,39	18,90	64,56	49,7%
Change 1981-82		5,7 %	26,7%	14,9%	-9,5%	-8,3%
<u>Aquavit, 70 cl(Danish)</u>	Sept.1981	87,00	60,26	19,20	26,74	30,7%
	June 1982	98,35	82,69	23,90	15,66	15,9%
Change 1981-82		13,0%	37,2 %	24,4%	-41,4%	-14,8%
<u>Beer Pilsen 6 bottles of 0,33 l (Danish beer)</u>	Sept.1981	21,60	13,97	4,45	7,63	35,3
	June 1982	22,80	20,59	5,95	2,21	9,7 %
Change 1981-82		5,6%	47,4 %	33,7%	-71,0 %	-25,6 %

*Exchange rate used:

end-September 1981 : 100 DM = 313.85 Dkr

end-June 1982 : 100 DM = 346.00 Dkr

Spirits

13. For all four spirits products mentioned in Table 1, the price gap has been reduced. On whisky the reduction was not more than about 5 % but on aquavit the price gap was nearly halved and is now as low as 16 %. For Cognac the German price is still less than half the Danish price.

Beer

14. In the German border shops the price of Danish beer has gone up by a third during the nine-month period. This large price increase is said to be due to the fact that the border shops have now ceased to offer special reductions and the like on Danish beer. As a comparison, the retail price of German beer in these shops rose only slightly, from 3,25 to 3,45 DM (6 % price increase). On comparable beer, the price gap in June 1982 has now been reduced to as little as 10 %, whereas in September 1981 it was 35 %.

Transport costs in Denmark

15. Table 2 below shows that prices for organised day-tips or "shopping excursions" - even though few of them went up in the period under report - are still very low compared with the costs of using alternative means of transport. In the same period, the costs of petrol went up by 15 %, whereas the costs by train remained more or less unchanged, except from Aalborg, where the price increased by 12 %.

TABLE 2 : Transport costs

Departure point	Distance from the frontier in km.	Return prices in Dkr.				Typical petrol costs by car*	
		by organised bus		by train		Sept. 1981	June 1982
		Sept. 1981	June 1982	Sept. 1981	June 1982		
Aalborg	270	10	20	251	282	297	340
Aarhus	175	10	15	191	192	192	220
Odense	150	10	10	155	160	165	189
Fredericia	100	5	5	105	104	110	126
Vojens	50	10	10	59	56	55	63

*Based on a car using 1 litre of petrol (5,50 Dkr/ l in September 1981 and 6.30 Dkr/l in June 1982) per 10 km.

16. All the above mentioned transport prices are the costs of crossing the German/Danish frontier in Jutland without taking a boat or ferry. However, even if a ferry is involved, the organised day-trips are still very cheap. As an example, a shopping excursion from Copenhagen to Germany - bus and ferry included - at the end of June 1982 cost 19 Dkr compared with 280 Dkr by train.

PART II - EVOLUTION IN THE PERIOD : 1 JANUARY 1978 - 30 JUNE 1982

17. Two factors dominate the evolution in the price gap between Danish and German retail prices since the beginning of the derogation period in January 1978 until June 1982. First, the changes in exchange rates and secondly, the changes in retail prices in national currency.

Evolution in exchange rates

18. On 1 January 1978, the exchange rate for DM vis-à-vis Dkr was :
100 DM = 272 Dkr. Since then a number of realignments have taken place.

Realignments of DM and Dkr :

	<u>DM</u>	<u>Dkr</u>
16.10.1978	-	- 4 %
24.9.1979	+ 2 %	- 3 %
30.11.1979	-	- 5 %
4.10.1981	+ 5,5 %	-
22.2.1982	-	- 3 %
11.6.1982	+ 4,25 %	

On 1 July 1982, the exchange rate DM/Dkr was 100 DM = 346 Dkr. During the 4½ years, therefore, the Danish Crown has weakened by more than 21 % vis-à-vis the German mark. With unchanged retail prices during the period, these realignments of the two currencies would have reduced the price gaps substantially.

Evolution of retail prices in Denmark and Germany

19. Turning now to the evolution of retail prices of the products under report, these have of course changed considerably during the 4½-year period, partly in response to general increases in consumer prices (the consumer price index in Denmark during this period rose by 55 %, in

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Germany by 25 %) and partly in response to changes in excise rates in the two countries.

20. In Table 3, the retail prices in June 1982 of the products dealt with in this report are compared with the earliest known prices taken from earlier reports. For two products - cigars and cigarillos - no prices comparable to the June prices are available. A commentary on the evolution of relative prices of the products shown in the table appears below.

Tobacco products

21. When the derogation period started, the price differences in Denmark and Germany for tobacco products other than cigarettes, were in general small and have remained so since. But the price difference between Danish and German cigarettes was substantial - about 40 %. Table 3 shows that this difference had been cut in half by June 1982, to about 20 % (However, if account is taken of the tax increase due on 15 December 1982 - see paragraph 7 - the price advantage to a Dane of buying cigarettes in Germany will rise to about 28 %. In absolute terms, the saving on 300 cigarettes - about 82 Dkr - will be almost exactly what it was when the derogation began. Moreover, the proposed indexation of spirits, beer and tobacco excises in 1983 is likely to re-commence a divergent trend in the relative prices of all these products.

TABLE 3

Evolution of the retail prices of typical tobacco products and alcoholic drinks in Denmark and Germany, 1 January 1978 - end-June 1982

PRODUCTS	Date	Danish price in Dkr	German price in		Diff. in Dkr. (1)-(2)	(4) as % of (1)
			Dkr*	DM		
		(1)	(2)	(3)	(4)	
<u>Cigarettes (300) Danish brand</u>	Sept. 1977	204,00	121,50	45,00	82,50	40,4 %
	June 1982	259,50	207,60	60,00	51,90	20,0 %
Change 1977-1982		27,2%	70,9%	33,3%	-37,1%	-20,4 %
Estimate 15.12.1982 1)		289,50	207,60	60,00	81,90	28,3 %
<u>Smoking tobacco, 50 g</u>	Sept. 1978	8,00	7,48	2,70	0,52	6,5%
	June 1982	9,25	24,22	7,00	-14,97	162 %
Change 1978-1982		15,6%	224%	159%	-	-
<u>Cigars</u>	June 1982	3,00	2,63	0,76	0,37	12,3%
<u>Cigarillos</u>	June 1982	1,70	1,38	0,40	0,32	18,8 %
<u>Cognac***, 70 cl</u>	Sept. 1977	155,75	59,19	21,92	96,56	62,0 %
	June 1982	211,00	89,61	25,90	121,39	57,5 %
Change 1977-1982		35,5%	51,4%	18,2%	25,7%	- 4,5 %
<u>Whisky (5 years) 70 cl</u>	Sept. 1978	132,00	47,06	16,99	84,94	64,3 %
	June 1982	126,50	69,20	20,00	57,30	45,3 %
Change 1978-1982		- 4,2%	47,0%	17,7%	-32,5%	-19,0 %
<u>Gin, 70 cl</u>	Sept. 1978	125,00	43,18	15,59	81,82	65,5
	June 1982	129,95	65,39	18,90	64,56	49,7 %
Change 1978-1982		4,0%	51,4%	21,2%	-21,1%	-15,8 %
<u>Aquavit, 70 cl (Danish)</u>	Sept. 1978	78,00	49,83	17,99	28,17	36,1 %
	June 1982	98,35	82,69	23,90	15,66	15,9 %
Change 1978-1982		26,1%	65,9%	32,9%	-44,4%	-20,2%
<u>Beer Pilsen 6 bottles of 0,33 l (Danish beer)</u>	Sept. 1979	19,30	11,50	3,98	7,80	40,4 %
	June 1982	22,80	20,59	5,95	2,21	9,7 %
Change 1979-1982		18,1%	79,0%	49,5%	-71,7%	-30,7 %
Estimate 15.12.1982 1)		25,20	20,59	5,95	4,61	18,3 %

*Exchange rate used:

end-September 1977	:	100 DM	=	270 Dkr
" " 1978	:	100 DM	=	277 Dkr
" " 1979	:	100 DM	=	289 Dkr
" June 1982	:	100 DM	=	346 Dkr

1) Taking account of the increases in rates due 15 December 1982 - see paragraph 7.

22. It is also of interest to compare the evolution of the relative price differences between Danish and German cigarettes with those obtaining between cigarettes sold in other Member States.

23. Table 4 below gives in ECU the retail prices of the most popular price categories of cigarettes sold in the Member States at 1.1.1978 and 1.7.1982.

TABLE 4

Retail price in ECU of most popular price category in Member States

	Retail price per 20 cigarettes in		Amount saved by a German traveller (D price - price in neighbouring State)	
	ECU ¹⁾ at	ECU ²⁾ at	1.1.1978	30.6.1982
	<u>1.1.1978</u>	<u>30.7.1982</u>	<u>1.1.1978</u>	<u>30.6.1982</u>
B	0,794	0,815	0,231	0,794
DK	1,916	2,116	- 0,870	- 0,507
DK ³⁾	-	2,361	-	- 0,752
D	1,046	1,609	0	0
F	0,347	0,580	0,699	1,029
GR	N.A.	0,481	-	-
IRL	0,671	1,502	-	-
IT	0,467	0,678	-	-
L	0,556	0,635	0,490	0,974
NL	0,647	0,996	0,399	0,613
UK	0,859	1,866	-	-

1) Exchange rate 2.1.1978

2) Exchange rate 30.6.1982

3) Estimated DK price at 15.12.1982 - see paragraph 7.

24. It has of course to be stressed that the type and quality of the most popular cigarette price category in one Member State can be very different from those in another Member State. Normal travellers, therefore, are unlikely to buy the most popular foreign price category. But for many travellers with regular and relatively easy access to both markets, the choice may well be determined by price.

25. These comments apart, Table 4 shows that in 1978 the absolute price difference between the most popular Danish and German cigarettes was the biggest between two neighbouring States within the Community, notwithstanding the fact that the types of cigarette sold in the two countries are similar. The second highest differences was then between Germany and France. Following the latest German excise increase (see paragraph 8) the price difference between German and Danish cigarettes is now less than the price difference between German cigarettes and cigarettes from any one of Germany's four other neighbouring Member States. A German traveller buying cigarettes in any of Germany's neighbours within the Community, other than Denmark, will therefore make a greater saving than a Danish traveller buying cigarettes in Germany.

Spirits

26. At the beginning of the derogation period, Denmark had one excise rate for aquavit and a higher one for other spirits products. At that time, the price of aquavit was about 50 % more in Denmark than in Germany, whereas the price for other spirits was about 3 times higher in Denmark than in Germany (see Table 3). The European Court of Justice condemned ¹⁾ this two-tier system and the Danish Government then introduced a mixed excise, containing both a specific and an ad valorem element. For aquavit, this meant a small price increase and for the majority of spirits other than aquavit, varying reductions in price. But for cognac and other expensive spirits, the price went up.

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1) Decision 171/78, 27 February 1980

27. In June 1982, the retail price of products like aquavit and cognac were about 30 % higher than at the beginning of the derogation period, whereas the prices of other normal quality spirits were more or less the same. This is mostly due to the mixed excise system. The price gap for aquavit is now as low as 16 %; for gin and whisky of the order of 45-50 % and for cognac, about 57 %.

28. It should be mentioned here that the retail price of cognac in Denmark, exclusive of all taxes, is about 60% higher than the corresponding price in Germany. An explanation of this might be that the total sale of cognac in Denmark is so modest that the distribution margin has to be much higher in Denmark than in Germany. The introduction of a single specific excise rate, levied per hectolitre of pure alcohol (as long proposed by the Commission)¹⁾ instead of the existing mixed excise, with the specific rate equal to the average duty under the mixed system, would substantially reduce the price gap for the most expensive spirits.

Beer

29. In the 4½ years, neither the Danish nor the German excise duty on beer has been changed. As can be seen in Table 3, the earliest comparable retail prices for beer date from September 1979. At that time the price gap was 40 %. In June 1982, the price gap had fallen sharply, to about 10 %.

30. From September 1979 to June 1982, the consumer price index rose in Germany by 17 % and by 33 % in Denmark, whereas the retail price of Danish beer in the same period rose by 50 % in Germany (see paragraph 14) and by 18 % in Denmark (by December 1982, when the Danish excise has been increased, the price rise will be about 25 % since September 1979).

1) O.J. No. C 43, 29 April 1972.

Relative evolution of taxes

31. The evolution of retail prices can be affected by temporary or atypical fluctuations such as discount sales, special offers and the like. In order to eliminate such disturbances, earlier reports have included a comparison of "total tax" on each product category in the two countries.

32. The basic data are the excise duty plus the VAT levied on that rate. The "total tax" thus determined in Germany for each product category has been converted from DM to Dkr on the basis of the average exchange rate applying in the months referred to in Table 5 below. The total tax in Germany equals 100 in each case. The figures shown in Table 5 are the total tax in Denmark as a percentage of that in Germany.

Table 5

Index for the "total tax" in Denmark compared with Germany (Germany = 100)

	<u>Jan.</u> <u>1978</u>	<u>Sept.</u> <u>1978</u>	<u>Sept.</u> <u>1979</u>	<u>Sept.</u> <u>1980</u>	<u>Sept.</u> <u>1981</u>	<u>June</u> <u>1982</u>	<u>June 1982</u>
Cigarettes	221	218	255	240	231	153	194
Cognac)				510	448	364	463
Whisky (511	502	486	373	305	267	339
Gin (371	327	285	362
Aquavit	333	327	316	315	271	234	298
Beer	833	818	792	750	739	670	853
100 DM =	272 Dkr	277 Dkr	289 Dkr	309,59 Dkr	314 Dkr	346 Dkr	272 Dkr

33. Table 5 shows that all the "tax indices" have gone down, both in relation to January 1978 and in relation to September 1981. For all products, the "tax gaps" have been reduced, and for most products, considerably, especially in the last 9 months.

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34. The last column in Table 5 shows how the situation would have been, if the exchange rate between DM and Dkr had remained unchanged from January 1978 until June 1982. A comparison between this column and the January 1978 figures show that all "tax indices", other than that for beer, have been reduced during the period under observation. This means that gaps between relative tax levels in Denmark and Germany during the derogation period have narrowed somewhat.

Transport costs in Denmark

35. In Table 6 below the transport costs in September 1979 are compared with the costs in June 1982. During this period, the price of petrol went up by about two-thirds and the train costs by 28 - 65 %, whereas the costs of excursion bus trips have fallen.

Table 6 : Transport costs

Departure point	Distance from the frontier in km	Return prices in Dkr				Typical petrol costs by car *	
		by organised bus		by train		Sept. 1979	June 1982
		Sept. 1979	June 1982	Sept. 1979	June 1982		
Aalborg	270	25	20	202	282	205	340
Aarhus	175	20	15	150	192	133	220
Odense	150	15	10	116	160	114	189
Fredericia	100	10	5	74	104	76	126
Vojens	50	10	10	34	56	38	63

* Based on a car using 1 litre of petrol (3,8 Dkr/l in September 1979 and 6,30 Dkr/l in June 1982) per 10 km.

36. The Commission has drawn attention in earlier reports to the problem of the unrealistically low costs for bus passengers. In 1978, the Danish/German land-border was crossed by about 34.000 Danish and 9.000 foreign buses, but in 1981 this figure rose to 51.000 and 22.000 buses respectively. In total, this means an increase in bus-crossings of about 70 %.

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37. This rising trend may be slowed by a recent amendment to the Danish VAT legislation, which from 1 October 1982, will make transport of passengers in buses - except buses in regular service - subject to VAT. The Commission has no information about the expected impact of this change on the price of bus excursions across the border.

The size of the border traffic and trade

38. In the first four years of the derogation period, the number of travellers coming from Germany to Denmark was :

Way of crossing	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
			mio	
By ferry	8,0	7,5	7,9	7,8
Land-border	<u>23,0</u>	<u>22,7</u>	<u>22,2</u>	<u>20,9</u>
Total	31,0	30,2	30,1	28,7

Source : Danish Government

This slowly falling trend is consistent with the increased costs of transport (in particular, the petrol price).

39. The Danish "Institute for Frontier Region Research" has studied the motor vehicle (cars and buses) traffic over the Danish/German land border. The result of this study - based on interviews with more than 3000 Danish and German cross-border travellers - was published in the Spring of 1982¹⁾. The number of travellers covered by the report is about half of the above-mentioned total figures (no ferry travellers are included).

The report reaches the following conclusions :

- more than half of the persons crossing the border are Danish;
- about one-fifth of the Danish travellers travel by bus;
- the number of Danish bus-travellers is going up, whereas the number of car-travellers is falling (probably as a result of rising petrol prices);
- about 92 - 96 % of the Danish travellers buy in Germany, whereas only about 55 - 85 % of the German travellers buy in Denmark;

(1) "Border trade - a way of shopping and its consequences" : Susanne Bygvraa. ./.

- the travellers normally buy goods which are highly taxed in their home country. As an example, it can be mentioned that 75 % of the Danish travellers bought cigarettes, 55 % beer, 42 % table wine and 45 % petrol whereas Germans most often bought diesel oil and dairy products. From this, it is clear that by no means all travellers make full use of their allowances;
- 25 - 35 % of the Danish travellers go to Germany at least once a week, whereas 40 - 55 % of the German travellers do so;
- a large number of Danes living close to the German border buy their total consumption of cigarettes and other taxed goods in Germany;
- abolition of the Danish 48-hour rule (see paragraph 5) would mean a substantial increase in the Danish cross-border buying in the short run whereas the long-run effects are dependent on a number of factors (e.g. future exchange rate changes, Danish and German tax policies) and are more difficult to predict.

The report makes no estimate of the effects of the border trade on Danish tax revenue. It does, however, provide a rough estimate of the size of the trade on both sides of the Danish/German border, which suggests a trade deficit in 1961 for Denmark, of the order of 700 million Dkr.

CONCLUSIONS

40. In the nine-month period from September 1981 to June 1982, substantial reductions in the price gaps between retail prices in Germany and Denmark have taken place for more or less all products dealt with in this report. In particular, the Danish/German price gap for cigarettes is now comparable to, or less than that found between other neighbouring Member States. A further positive element is the recent imposition of VAT on bus excursions, which will tend to make such trips less attractive. For more expensive spirits products, the continuing large price gap is attributable to the Danish mixed specific/ad valorem excise system, in compounding the effects of the relatively higher Danish tax level for spirits.

41. As regards the 4½-year period from end-1977 to end-June 1982, it is clear that the tax levels in Denmark and Germany have moved somewhat closer together. The continued weakening of the Danish crown relative to the DM has also been a factor tending to reduce the price advantages for Danish travellers making purchases in Germany. As a consequence, the price gaps for most products covered by this report have been substantially reduced, by comparison with the end-1977 situation. On the other hand, as mentioned above, due largely to the mixed excise on spirits, the price gap for many spirits - particularly expensive spirits - remains substantial. In addition, it is regrettable that the further increases in the Danish excises on cigarettes and beer, due in December, will offset to some degree the progress made in reducing the price gap for these products in recent months and that these effects will be compounded by the indexation of the excises on tobacco, beer and spirits in 1983.

42. Finally, it has to be recognised that, notwithstanding the relaxations introduced during the derogation period, the allowances granted to short-term Danish travellers are still much more restricted (see paragraph 5) than those normally given under the Community provisions. Despite these restricted allowances, Danish cross-border traffic in the form of bus excursions, is considerable and continually increasing (see paragraph 36). It is difficult, therefore, to avoid the conclusion that a large proportion of the cross-border trips originating in Denmark continues to be made largely in order to avoid Danish taxes.