

**EUROPEAN TOURISM FORUM
ABANO TERME 28-29 NOVEMBER 2003**

Presentation by Steen Bundgaard
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Dear Members of the European Parliament, representatives of the governments of the Member States and candidate countries, representatives of the European Commission, ladies and gentlemen,

When people decide on a holiday destination, the choice of transport is highly influenced by the cost of travel and the time of the journey. They can choose from a wide range of modes: an individual mode such as the private car, or a common passenger transport mode such as the touring coach, train, or plane. Notwithstanding, the passenger surely never thinks longer than a few seconds about the tax tag attached to his ticket, nor about the impact of this tax on the amount he pays and thus on his choice of mode. He certainly does not realise the impact it has on the different transport providers and subsequently on business and employment.

Whereas there is a wide range of taxes influencing ticket prices, it is my intention to focus on VAT and in particular on the famous Sixth Directive, which is the key piece of legislation governing VAT on turnover.

Today, VAT on the turnover achieved by passenger transport operators is determined on the basis of the "territoriality principle". This means that an operator pays VAT in the country where he provides services according to the number of kilometres covered and passengers carried.

It is striking that despite the fact that rail, road and air undeniably compete with each other in the leisure travel market some modes benefit from substantial advantages. International bus, coach and some railway services face VAT rates between 0 and 25% on intra-Community services depending on the country where they operate. In addition, every Member State has its own procedure for declaring and reclaiming VAT. This involves significant, additional administrative and financial burdens for the operator. Air transport, however, enjoys a general zero-rating with all the benefits thereof.

The gradual deregulation of air transport and the emergence of "low-cost and low-fare companies" have greatly amplified the advantages enjoyed by air transport: Plummeting air tariffs on intra-Community journeys have brought ticket prices of the different modes closer together: To give just one example when I travel from my home town in Denmark to Brussels, the taxi fare to Copenhagen airport is more expensive than a single journey Copenhagen-Brussels by air.

Undeniably, the already existing competition between modes has increased and with it the distortion of competition due to the absence of a level playing field for VAT. Touring coach companies no longer have any means to compete.

A Belgian touring coach operator has recently brought this case to court in Belgium to try and force the creation of this level playing field by legal means. The case was referred to the European Court of Justice in Luxemburg. The Court confirmed that there exists distortion of competition between the different transport modes but ruled that this is perfectly legal. The fact that the Sixth Directive is not a final directive played a crucial role in the Court's decision. I have never seen such a long transition period for any Directive. It is almost 30 years now.

The IRU regrets that the European Commission has so far been unable to come forward with an appropriate definitive solution acceptable to all modes of transport. Although, we believe the Commission is not really to blame. It presented proposals in 1992, which were annulled some years later. It commissioned a study on passenger transport VAT – the famous KPMG Study – which showed some interesting ideas, but unfortunately, these ideas never resulted in a concrete proposal.

The responsibility for the lack of progress is clearly to be found in the Council where Ministers have to decide unanimously before any change to the Sixth Directive can see the light of day. It is apparently an enormous challenge for 15 Ministers to come forward with a definite VAT directive and the challenge will become even greater in May 2004. Many of the candidate states have just discovered VAT and will surely not wish to abandon the revenues it brings in the near future.

Fortunately, the Commission has not given up and recently tried to achieve progress. This was very much welcomed. When it recently presented a consultative paper on possible modifications to article 9 of the Sixth Directive relating to the place of taxation, it unfortunately, quickly proposed to exclude passenger transport and to refer a proposal for our sector to a later date.

The Commission has already managed to bring Member States closer together on the dossier of cooperation in matters of VAT. Hopefully in the near future it will become possible to account for VAT on all Community operations in the Member State of registration via a new computer programme. This will facilitate the administrative burden and will remove the language barrier.

The IRU would like to motivate the Commission to continue work on a proposal to change the place of taxation for passenger transport and a proposal to harmonise VAT rates. The danger is real that any change in place of taxation will exacerbate distortion even further without tackling rates. The ideal and most pragmatic solution would be to apply a zero-rating to intra-Community services for all modes of transport. This solution would put an end to the distortion of competition and would avoid the creation of a competitive disadvantage for European airlines vis-à-vis their counterparts.

Yet, this is not all. Little or no progress has been achieved in the field of VAT reclaims. Whereas cooperation between Member States on VAT declaration is improving, cooperation on reclaiming seems far away. For some unknown reason, some transport operators have been waiting for years to get input VAT reimbursed in several countries. Several interventions have failed to solve the deadlock. This is an unacceptable situation, which must be resolved.

The IRU is very willing to cooperate with the European Commission, the European Parliament, the Council of Ministers and our partners from the other modes of transport to find a definite solution for VAT in passenger transport which is acceptable to all. It is certainly to the advantage of the development of European Tourism to have a competitive transport industry. A competitive transport industry is the engine for a sound European Tourism industry. There is no tourism without transport. Ministers of Finance should realise that if they continue to tolerate the existing distortions of competition they may find themselves with a seriously handicapped transport sector and little or no tourism. Is that really their intention?

Thank you very much for your attention.