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# COMMISSION OF THE EUROPEAN COMMUNITIES

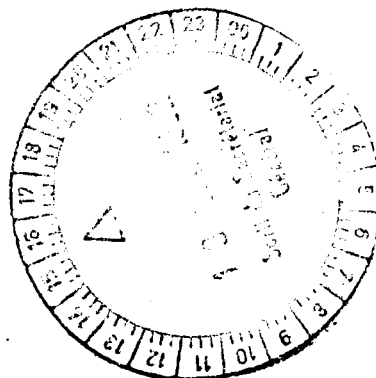
COM(81) 806 final

Brussels, 7 January 1982

## FOURTH 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 and 78/1033/EEC of 19 December 1978)

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COM(81) 806 final

Fourth report by the Commission  
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 (1) of 28 May 1969  
amended by Directives Nos. 72/230/EEC (2) of 12 June 1972,  
78/1032/EEC (3) and 78/1033/EEC (3) of 19 December 1978)

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I. Introduction

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. A first report (COM(78) 774) covering the period to end-September 1978 was submitted on 17 January 1979, a second report (COM(80) 33) covering the period from 1 October 1978 to end-September 1979 was submitted on 1 February 1980, and a third report (COM(80) 880) covering the period from 1 October 1979 to end-September 1980 was submitted on 22 December 1980.

This fourth report fulfils the undertaking for the 12 months, 1 October 1980-30 September 1981.

II. The derogating provisions

1. 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.

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.

2. 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.

3. The Danish Government subsequently requested a further period in order fully to adapt 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.

III. 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 or smoking tobacco (grams)	40 (4)	300	40	300
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 applies.

(3) From 1.1.1981 to 31.12.1982, the 72 hour condition has been reduced to 48 hours.

(4) From 1.1.1982 the 40 cigarette allowance will be increased from 40 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).

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From 1.1.1981 the special 72-hour condition for Danish residents staying in another Member State was reduced to 48 hours.. The Danish Government have reported that no statistical material exists as yet, from which conclusions can be drawn on the size of the effect of the easing of this condition.

#### IV. Tax legislation

##### 1. Denmark

No changes in the rates of taxes relating to the products which are the subject of the present report took place during the period under examination.

##### 2. Germany

On 1 April 1981 the excise duty rate on spirits was increased from 1950 DM to 2250 DM per hl pure alcohol. This increase of (say), 15 % means, for a bottle of spirits, (0,7 l with an alcoholic strength of 40 % by volume) an automatic price increase of 0,84 DM + 13% VAT or 0,95 DM in total.

Neither the excise duty rates on beer and tobacco products nor the VAT rate were changed in the period under report.

#### V. Danish crown/German mark

There have been no official changes in the exchange rates of the two currencies in the period under report. The average exchange rate in September 1980 was 309,59 DKr = 100 DM, but 313,85 DKr = 100 DM in September 1981. This means that the Danish crown vis-à-vis the German mark weakened by 1,4 %.

(On 4 October 1981 - after the period under report - a further realignment of parities within the EMS took place. The German mark (and the Dutch guilder) was revalued by 5,5 % against the Danish crown).

#### VI. Relative evolution of retail prices of the products in Denmark and in Germany

Following the pattern established in the first three reports, the price comparison has been made between end-September 1980 and end-September 1981.

The evolution in Denmark and in Germany of the prices of tobacco products and of alcoholic drinks between end-September 1979 and end-September 1980 is summarised in Table I. The products used as the basis for comparison are the same products as shown in the same table in the first three 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.

### 1. Tobacco products

The excise duties on tobacco products were unchanged from September 1980 to end-September 1981. In Denmark, a minor increase in retail prices of cigarettes of 1,1 % took place, whereas the German prices remained unchanged. This price increase was more or less offset by the weakening of the Danish crown, so that the situation for cigarettes may be said to be unchanged.

For pipe tobacco, a minor increase in retail prices took place in Denmark and a more substantial one in Germany. After this increase, Danish pipe tobacco is again cheaper than German.

### 2. Spirits

In the period under observation all the retail prices on the spirits produced mentioned in Table 1 changed on the German and the Danish markets, but all changes were less than 10 %. The price differences between whisky and aquavit decreased, but increased for gin. The retail prices of cognac increased more or less equally in Germany and Denmark, so that the considerable relative price advantage for Danes of buying in Germany remained unchanged, offering a saving of 67 %.

As mentioned in the third report, an important consequence of the new mixed taxation system for spirits in Denmark was that the gap between Danish and German spirits prices widened for expensive products but narrowed for other products. This tendency seems to have been maintained as far as the absolute price differences are concerned.

TABLE 1

Evolution of the retail prices of typical tobacco products and alcoholic drinks in Denmark and Germany

PRODUCTS	Date Sept.	1	2		3	4
		Danish price in Dkr	German price in Dkr* DM		Diff. in Dkr.	3 as % of 1
<u>Cigarettes (300) Danish brand</u>	1980	253,80	139,32	45,00	114,48	45,1 %
	1981	256,50	141,32	45,00	115,28	44,9 %
Change 1980-1981		1,1%	1,4%	0,0%	0,7%	-0,2%
<u>Smoking tobacco, 50 g</u>	1980	8,90	8,67	2,80	0,23	2,6 %
	1981	9,10	9,73	3,10	-0,63	-6,9 %
Change 1980-1981		2,3%	12,2%	10,7%	-	-9,5 %
<u>Cognac*** 70 cl</u>	1980	188,00	61,86	19,98	126,14	67,1 %
	1981	204,00	67,79	21,60	136,21	66,8 %
Change 1980-1981		8,5%	9,6%	8,1%	8,0%	-0,3%
<u>Whisky (5 years) 70 cl.</u>	1980	115,00	49,07	15,85	65,93	57,3 %
	1981	108,00	53,29	16,98	54,71	50,7 %
Change 1980-1981		-6,1 %	8,6%	7,1%	-17,0%	-6,6 %
<u>Gin, 70 cl</u>	1980	113,00	55,60	17,96	57,40	50,8%
	1981	123,00	51,63	16,45	71,37	58,0 %
Change 1980-1981		8,9 %	-7,1	-8,4	24,3%	7,2 %
<u>Aquavit, 70 cl (Danish)</u>	1980	85,00	55,66	17,98	29,34	34,5 %
	1981	87,00	60,26	19,20	26,74	30,7 %
Change 1980-1981		2,4 %	8,3%	6,8%	-8,9%	-3,8 %
<u>Beer Pilsen 6 bottles of 0.33 l (Danish beer)</u>	1980	20,40	14,09	4,55	6,31	30,9 %
	1981	21,60	13,97	4,45	7,63	35,3%
Change 1980-1981		5,9 %	-0,9 %	-2,2%	20,9%	4,4 %

\*Exchange rate used:

end-September 1980 : 100 DM = 309,59 Dkr

" " 1981 : 100 DM = 313,85 Dkr



3. Beer

The retail price of beer increased by 5,9 % on the Danish market, whereas prices in the German border shops dropped by 2,2 %. This means that the relative price difference widened, and the price in Germany is now 35,3% lower than that in Denmark.

VII. Relative evolution of taxes on the products in Denmark and Germany

Chapter VI dealt with the evolution of retail prices in the period under report. But as some of the retail prices are affected by temporary or atypical fluctuations, such as discount sales, special offers and the like, a comparison of "total tax" on each product category in the two countries is, in the Commission's view, a more reliable guide.

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 rates applying in the months referred to in Table 2. The total tax in Germany equals 100 in each case. The figures shown in Table 2 are the total tax in Denmark as a percentage of that in Germany.

Table 2

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>Sept. 1981</u>
Cigarettes	221	218	255	240	231	267
Cognac	} 511	} 502	} 486	{ 510	{ 448	} 517
Whisky						
Gin						
Aquavit	333	327	316	315	271	313
Beer	833	818	792	750	739	853
100 DM =	272 Kr	277 Kr	289 Kr	309.59 Kr	313,85 Kr	272 Kr

As stressed in the two previous reports, Table 2 offers a useful additional reference point in indicating what changes in the differences between Danish and German tax levels will be required in order that the present large differences in retail prices may be substantially reduced.

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The index shows that the relative tax differential for cigarettes in September 1981 had more or less returned to the starting level at 1 January 1978. For all the spirits products, the indices dropped in the period by 10 - 20 % mostly due to the increase in the German excise duty. The relative tax differential for beer remained more or less unchanged.

The last column in Table 2 shows how the situation would have been, if the exchange rate between DM and DKr had remained unchanged from January 1978 until September 1981. In this situation, cigarettes would have been about 20 % more heavily taxed in September 1981 than they were in January 1978. The situation for beer, aquavit and expensive spirits would have remained more or less unchanged, whereas the relative tax differential for other spirits would have been about 30 % less.

VIII. Transport costs in Denmark

Table 3 : 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. 1980	Sept. 1981
		Sept. 1980	Sept. 1981	Sept. 1980	Sept. 1981		
Aalborg	270	1	10	202	251	257	297
Aarhus	175	1	10	150	191	166	192
Odense	150	1	10	116	155	143	165
Fredericia	100	1	5	74	105	95	110
Vojens	50	7	10	34	59	48	55

\*Based on a car using 1 l petrol (4.75 Kr/1 in September 1980 and 5.50 Kr/1 in September 1981) per 10 km.

Table 3 shows that prices for organised day-trips or "shopping excursions" - even though they went up in the period under report - are still very low, compared with the costs of using alternative means of transport.

In the period under report, the petrol costs for a private car increased by 16 %, whereas the costs by train increased by 24 - 74%.

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## IX. Conclusions

During the period under examination, the difference between the prices of whisky and aquavit in Denmark and those in Germany decreased very slightly, whereas the difference between the prices of the other products under report remained unchanged or increased.

After four years of the five-year derogation period, only very minor reductions have been achieved in the price gaps which existed in January 1978. Only one year remains in which to bring the prices in Denmark and Germany closer together, thus making it less attractive for Danish travellers to go to Germany to buy spirits and cigarettes for importation into Denmark under the travellers' allowances. If no further steps are taken before 1 January 1983, (when the derogation expires) a person making a day-trip from Denmark to Germany and, for example, buying 300 cigarettes and  $1\frac{1}{2}$  l of spirits will be able to save something of the order of 2-300 DKr by comparison with the cost of making the same purchases in Denmark, leaving out of account any additional purchases of, for example, wine and beer.

Within the derogation period, Denmark has already made two small moves towards the Community rules for travellers. From 1 January 1980, the special 24-hour condition for Community residents staying in Denmark was abolished, and no negative effects resulting from this first step were reported. From 1 January 1981, the special 72-hour condition for Danish residents staying in another Member State was reduced to 48 hours. As stated on page 3, the Danish Government have reported that no statistical material exists as yet, from which conclusions can be drawn on the size of the effect of the easing of this condition. The Commission therefore concluded that it is unlikely that this step has had serious negative effects.

Throughout the period of the derogation to date, the retail prices in Germany and Denmark for smoking tobacco remained very similar. Quantitative restrictions on this product therefore seem unnecessary<sup>(1)</sup>.

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(1) The situation is probably the same for cigars and cigarillos.

As regards the coming year, the limitation of the allowance to 40 cigarettes will, from 1 January 1982, be increased to 60 cigarettes (see page 2).

The realignment of the German mark against the Danish crown by 5,5 % which took place on 4 October 1981, will reduce the gap between Danish and German retail prices.

The Commission understands that Germany intends to increase the excises on spirits and tobacco on 1 April 1982.

On 3 November 1981 the Danish Government proposed an immediate adjustment of a number of excise duties. As regards the excises on the products dealt with in this report the proposed increases were: 7,8 % on beer, 40 % on normal pipe tobacco and 60% on fine cut tobacco for rolling cigarettes. This adjustment was subsequently to be followed by a general indexation of excise rates. The proposals were not adopted by the Danish Folketing before its dissolution for a general election. However, if the above-mentioned proposals were to be adopted by the new Parliament their effect, viewed narrowly in this context, would almost certainly be to lead to relatively greater excise increases, and subsequently to a marked increase in the excise gap.

The Commission must express its growing concern that, in general, and as in the three previous years, no significant progress has been made during 1981 towards reducing the differences between the Danish and German prices of the products concerned. If present trends are continued the situation by the end of 1982, when the 5-year derogation expires, will be broadly the same as it was in 1977.