Towards VAT on air, ferry and cruise tickets

T&E reply to the Consultation of the European Commission on the 'Green Paper on the future of VAT– Towards a simpler, more robust and efficient VAT system'

1 Summary

Along with there being no tax on aviation fuel, the EU's exemption of airline tickets from VAT while allowing airlines to deduct input VAT, remains amongst the most distorting features in the EU's tax and transport policy. The exemptions, which also include passenger travel by ship, date back prior to the EU's formation and then lived on as derogations to the EC's original Sixth (VAT) Directive. They were supposed to be transitional but new member states demanded equal treatment and, as the Commission acknowledges in its consultation document, they have now acquired a life of their own.

There are four major reasons why these exemptions should be ended sooner rather than later:

- Fairness: it does not make sense, certainly not in times of austerity, that the only consumer products sold in Europe not subject to VAT are air and ferry tickets and cruise holidays. There is no justifiable reason to keep this situation as it is, even more so because cruise and air tickets are bought by people on above-average incomes;
- Tax strategy and economic efficiency: The Commission's first 'annual growth survey' says *'Indirect taxes are more growth-friendly than direct taxes and broadening tax bases is preferable to increasing tax rates.'* Since introducing VAT on the items mentioned is an indirect tax and it would broaden the tax base, the Commission would ignore its own recipes for Member States if it were to keep their current zero-rating;
- Level playing field in international transport: coach and international passenger transport by rail in many cases is subject to VAT;
- Environment: aviation is by far the most climate-intensive mode of transport. In the context of reducing greenhouse gas emissions from transport by 70% in 2050 and 20% in 2030, compared with 2008 levels, ending this implicit subsidy that leads to artificial demand for air tickets in particular is of utmost importance.

In order to simplify the removal of the VAT exemption, the place of supply rules for calculating VAT on passenger transport need to be changed. If it proves overly difficult to introduce VAT for flights from the EU to third countries, introducing an EU-wide ticket tax mimicking VAT is a possible alternative approach.

2 VAT and transport: the current situation

Although passenger travel by air and sea is covered by VAT legislation[1], EU Member States use a succession of historical derogations stemming back in some cases to their accession to the EU to exempt (zero-rate with refund of tax paid at preceding stage) airline tickets and travel by sea from VAT for all international flights (including intra-EU flights) and sea journeys.

The derogations only apply to international passenger transport services so VAT for tickets on domestic flights and sea journeys is charged in all EU member states (at varying rates) with just a few exceptions. All EU countries zero-rate VAT for intra-EU and international flight tickets.

There is an important difference between zero-rating of VAT and exemption from VAT. Zero-rating means that since airlines and shipping companies levy VAT (albeit at a zero rate), they, like all other companies involved in the supply chain whose output is subject to VAT, can reclaim the input VAT paid on goods and services they purchase to carry out their business. This would not be the case if air and sea tickets were simply exempt from VAT.

The derogations in the original 1977 Sixth VAT Directive for air and sea international travel were meant to be temporary. Member States were to review reduced rates and exemptions every five years acting unanimously on a proposal from the Commission to abolish these provisions.

The revised 2006 directive accords new member states of the EU the right to exempt international passenger transport services so long as at least one other member state continued to do so, (Article 383). But as the Commission's Working Paper acknowledges, these exemptions have now acquired a life of their own. We believe there is no case for the Commission and Council delaying any longer a decision to abolish these exemptions.

The 1977 directive also exempted from VAT the supply, modification, repair, maintenance, chartering and hiring of aircraft operating for reward chiefly on international routes. Supplies of goods for the fuelling and provisioning of such aircraft were also VAT exempt. These exemptions continue and mean in practice that the purchase and lease of aircraft and spares including maintenance, supplies, in-flight meals etc. are all free from VAT.

> There is no VAT on any aspect of air travel, not on airline tickets, nor on purchase of aircraft, nor on their servicing, nor on their fuel, nor on air traffic control, nor on baggage handling, nor on aircraft meals. Everything to do with air travel after passport control is zero rated.
>
> Brendon Sewill, The Hidden Cost of Flying

These exemptions must represent a revenue shortfall of many hundreds of millions of Euros annually across the EU. It is hard to understand the basis of any justification for their continuation at least insofar as intra-EU travel is concerned particularly at a time of such budgetary concern.

[1] COUNCIL DIRECTIVE 2006/112/EC of 28 November 2006 on the common system of value added tax

3 The significance of VAT zero-rating of air and sea transport

Lack of VAT on airline, cruise and ferry tickets is of considerable benefit to consumers making the trip 15-20% cheaper than it otherwise would be. The benefit is directly proportional to the cost of the ticket so individuals who fly frequently or long distances can save hundreds of euros on each journey. In this sense the benefit is also proportional to capacity to pay; those who can afford to travel more frequently, or over long distances or in business class or first class, or take a cruise holiday, will benefit more. The current VAT arrangements are therefore clearly inequitable.

The exemption comes with the right to deduct input VAT which means that airlines and shipping companies can enjoy the advantages of a lowered cost base available to industries subject to VAT by being able to reclaim input VAT on their costs while the price of their final output (airline and cruise/ferry tickets) is not subject to VAT. This gives scope for higher margins than would otherwise be the case and provides cash flow and investment advantages as has been outlined in the Commission Staff Working Document.

We estimate that the VAT zero rating of airline tickets results in a revenue shortfall for member states of about €10bn (assuming an average VAT rate of 20%)[2]. These are topped up by the exemption from fuel tax – an even bigger indirect subsidy - and EU-sanctioned state aid to regional airlines and airports – a matter which the Commission has now decided should be reviewed[3].

4 VAT and tax principles

VAT along with excise duty and income tax are the main means for governments to raise revenue to cover public expenditure. VAT is an important source of revenue in most EU countries, representing in France, for instance, over 45% of government income.
So the maintenance of significant VAT exemptions such as those for air and sea travel should be considered particularly closely at a time when all EU budgets are under real stress. Many EU governments are now increasing VAT rates substantially to tackle budget deficits making the favourable treatment of aviation that much more remarkable. Revenue shortfalls due to non-existent aviation taxes need to be made up by higher taxes in other sectors of the economy. This can lead to higher-than-necessary taxes on such sectors as labour.

Ever since the economic crisis began in late 2008, the European Commission has made it clear that changes towards smarter forms of taxation have to be an integral part of economic recovery strategies. The commission has endorsed the view held by environmental economists that economically speaking it is better to tax 'bads' such as

[2] Europe's global market share is almost 30%, of a 2010 market of $565bn or €430bn http://www.iata.org/pressroom/pr/Pages/2010-12-14-01.aspx. Europe's aviation market is therefore worth about €120bn, of which approx. €100bn for passenger transport. Roughly half of the market for passenger transport, or about €50bn, is leisure and would hence normally be subject to VAT (after business deduction of input VAT). Assuming an average 20% VAT rate we arrive at an estimated €10bn subsidy as a result of the current zero rating

[3] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/445&format=HTML&aged=0&language=EN&guiLanguage=en

pollution than to tax 'goods' such as labour. In times of austerity such a shift has become even more necessary.

The European Commission's most recent annual growth survey says:

'Shifting taxes away from labour should be a priority for all Member States in order to stimulate demand for labour and create growth.'

and

'Indirect taxes are more growth-friendly than direct taxes and broadening tax bases is preferable to increasing tax rates.'

Similarly, the recently adopted flagship initiative for a resource efficient Europe, which sets the frame for Commission environmental policy says:

'taxes and subsidies on the use of energy or other resources can be used both to steer behaviour leading to reduced and more efficient consumption and to help restructure public finances away from labour taxation, which benefits job creation and economic growth;'

As the VAT Green Paper notes, a broader base for consumption taxes allows for lower rates, thereby reducing the distortive effects of taxation, with favourable effects on growth and unemployment.

In short, the European Commission has, at least in words, embraced the concept of the green tax shift.

Abolishing zero-rating for air, ferry and cruise tickets ticks all the boxes: it broadens the tax base, it moves taxation towards indirect taxation, and greens the tax system.

In the context of VAT and aviation it is not so much a question of introducing a green tax as eliminating an indirect subsidy. Subsidising the means of transport with the fastest growing carbon footprint in the EU while simultaneously trying to reduce its impact is simply wrongheaded. Correcting this situation will not be straightforward, but at least the Commission needs to be consistent and clear in its message. Aviation is not any more a fledgling sector in need of support. It is mature, requiring no direct or indirect subsidies.

A recent T&E study estimated that each €1bn of lowered labour taxes creates about 11,000 jobs[4]. Eliminating the €10bn shortfall resulting from zero-rating of air tickets and using the proceeds to lower labour taxes could create roughly 100,000 jobs.

Contrary to industry claims, taxes on aviation, especially international aviation, are very low compared to other transport modes.

> The case for a generalised increase in aviation taxes is strong. Air travel is in principle just as proper an object of indirect taxation as any other commodity.
>
> IMF WP/06/124S.

4

5 Levelling the playing field in transport

Implementation of VAT in international transport in the EU is very uneven. The last comprehensive study on this topic was carried out in 1997 (KPMG 1997), for the then 15 EU Member States. Assuming there have since been no changes to the VAT rules of individual countries, the following conclusions can be drawn from this report:

Table: do EU Member States charge VAT on international transport (EU15) ?

	Aviation, ferry, cruise	Coach and rail	Cars, petrol, diesel
Leisure travel	No	Yes: 10 MS No: 5 MS	Yes
Business travel	No	Yes: 2 MS No: 13 MS	Yes

No member states levies VAT on air, ferry or cruise tickets, all of them levy VAT on cars and their fuels, and some of them on international transport by coach and by rail. The only justification for unequal VAT rates could be that local and regional public transport could qualify for reduced VAT rates as essential basic services for which access by the poor is essential.

VAT on passenger transport is currently calculated according to the distance travelled in each member state (Article 48). In 2005 the Commission tried to rationalise these rules on the "place of supply" by amending the VAT Directive to levy VAT based on where the customer departs from.

Excerpt from European Commission consultation paper on VAT (CEC 2005b)

'The current rule governing passenger transport services, which is taxation according to the distance covered, has proven to be very impractical and difficult to apply in an internal market without fiscal borders. It implies that a coach company which transports tourists from Paris to Amsterdam needs to apply French, Belgian and Dutch VAT to each relevant part of the journey, and pay the corresponding amount of VAT to the tax authority of each of these respective Member States. (…)

"The Commission would propose to tax the supply of passenger transport services, irrespective of the means of transport used, at the place of departure (..). For purely internal transport in one Member State, this rule would not change the present situation, while for international transport, it would ensure that passenger transport services to a large extent continue to be taxed where they are actually consumed, without the complication of having to split up the price according to the distances covered in each Member State."

We strongly support any proposal to change the place of supply rules for passenger transport along the above lines and believe that responses to the Commission in 2005 were sufficiently positive as to enable the Commission to proceed now with a proposal.

6 VAT on air tickets and climate change

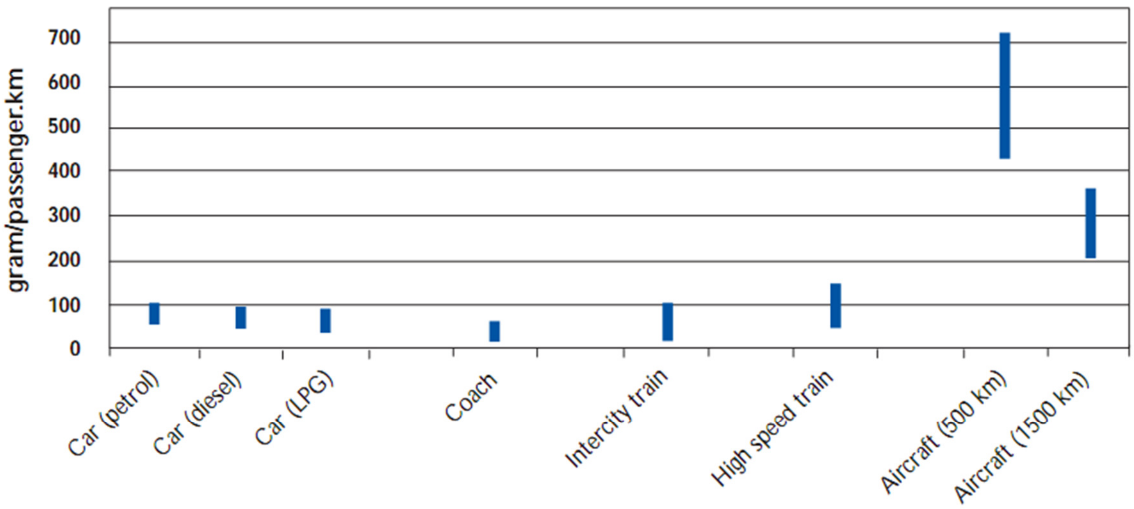
VAT is primarily a consumption tax, not an environmental tax. But this does not alter the fact that the VAT zero rating of aviation is an effective subsidy to passengers and to airlines which induces an artificial demand for air travel, which in turn aggravates the growing problem of aviation's impact on the climate.

Overall, the latest scientific estimates put the climate forcing impact of global aviation at 4.9% of total climate forcing[5] while its contribution to global GDP is 0.7%[6] . This makes aviation seven times more climate intensive than average economic activities.

The climate impact of aviation is not limited to CO_2. NOx emitted by aircraft at altitude induces ozone (warming effect) in the upper troposphere and lower stratosphere. In certain atmospheric conditions and flight levels, aircraft also form contrails and induce cirrus clouds which all have a warming effect. The impact of these non-CO_2 effects is still not fully understood but estimated to be two or more times the impact of CO_2 alone.

The climate impacts of flying are typically an order of magnitude greater than travelling by any other mode. See below.

Average CO2-equivalent emissions of different transport modes operating over long distances. In the case of aircraft a 2.7 multiplier on CO2 emissions has been applied, following the 1999 IPCC Special Report on Aviation and the Global Atmosphere[7].



Emissions can also be expressed in terms of units per euro spent. This is a good metric to gain insight into the climate intensity of different economic activities.

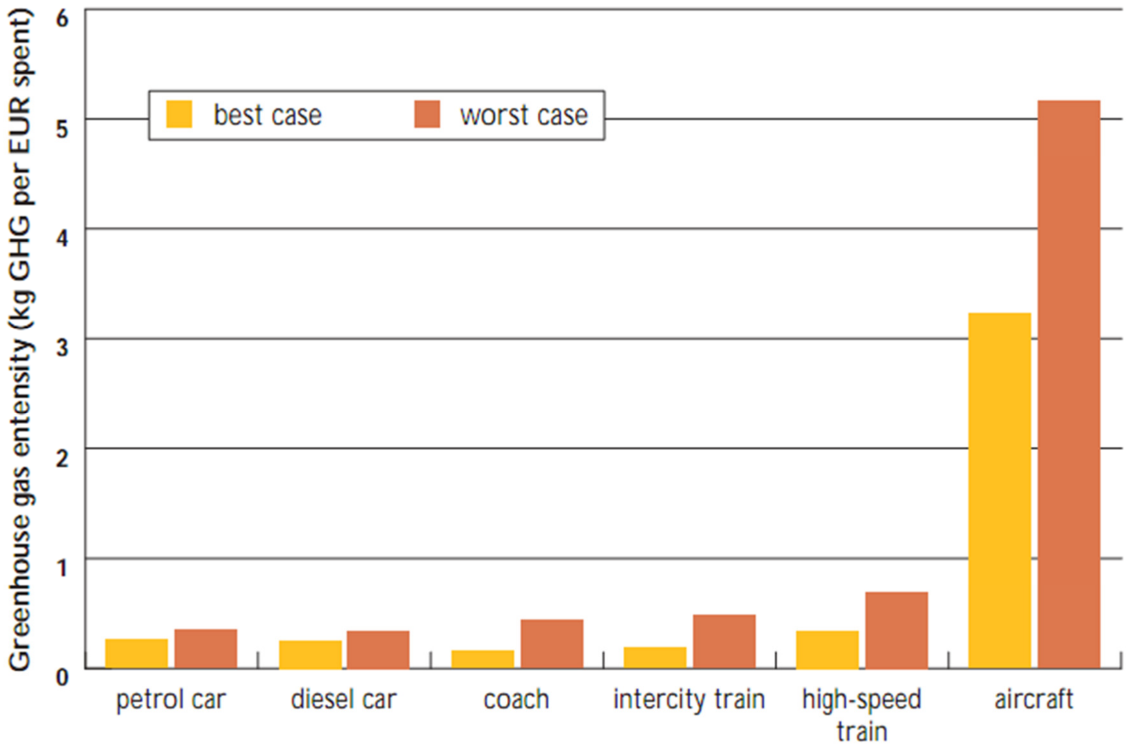
Greenhouse gas emissions per € spent on different transport modes for the journey Cologne-Milan (800 km). [8]

[5] Aviation and Global Climate Change in the 21st Century, Lee et al, 2009

[6] The importance of the aviation industry for the global economy, Stephen Perkins, International Transport Forum, September 2010

[7] CE Delft 2003, To shift or not to shift, that is the question - the environmental performance of the principal modes of freight and passenger transport in the policy-making context, CE Delft and RIVM, Delft / Bilthoven, March 2003

[8] Clearing the Air, The Myth and Reality of Aviation and Climate Change, T&E and Climate Action Network, Brussels, 2005



These considerations alone, not to mention the Commission's latest commitment to reduce greenhouse gas emissions from transport by 60% by 2050[9], are strong grounds for dismantling aviation and shipping's VAT exemption without delay.

While VAT is not directly linked to environmental impacts, lifting the exemption on VAT for airline tickets will help reduce artificial demand for aviation (there remain the demand impacts of other exemptions e.g. no fuel tax and state aid for regional airports and air services). The price elasticity of leisure aviation is typically -1, so introduction of VAT would make a significant difference.

7 Answers to Consultation Questions

Q1. Do you think that the current VAT arrangements for intra-EU trade are suitable enough for a single market or are they an obstacle to maximising its benefit?

A1. No. The place of supply rules for international (ie intra-EU) passenger transport (Article 48 of the Directive) need to be revised in order to simplify the application of any VAT rules. The Commission has not included a specific question on this in their stakeholder consultation so it is not clear as to their intentions. The place of supply rules should be changed as was recommended by the Commission in 2005 to tax the supply of passenger transport services, irrespective of the means of transport used, at the place of departure. This would greatly simplify arrangements for all cross-border transport modes and indeed facilitate the decision member states would need to take to end the derogations for air and sea travel. Taxing international travel at the point

[9] WHITE PAPER Roadmap to a Single European Transport Area – Towards a competitive and resource-efficient transport system, COM(2011)144, Brussels, 28 March 2011

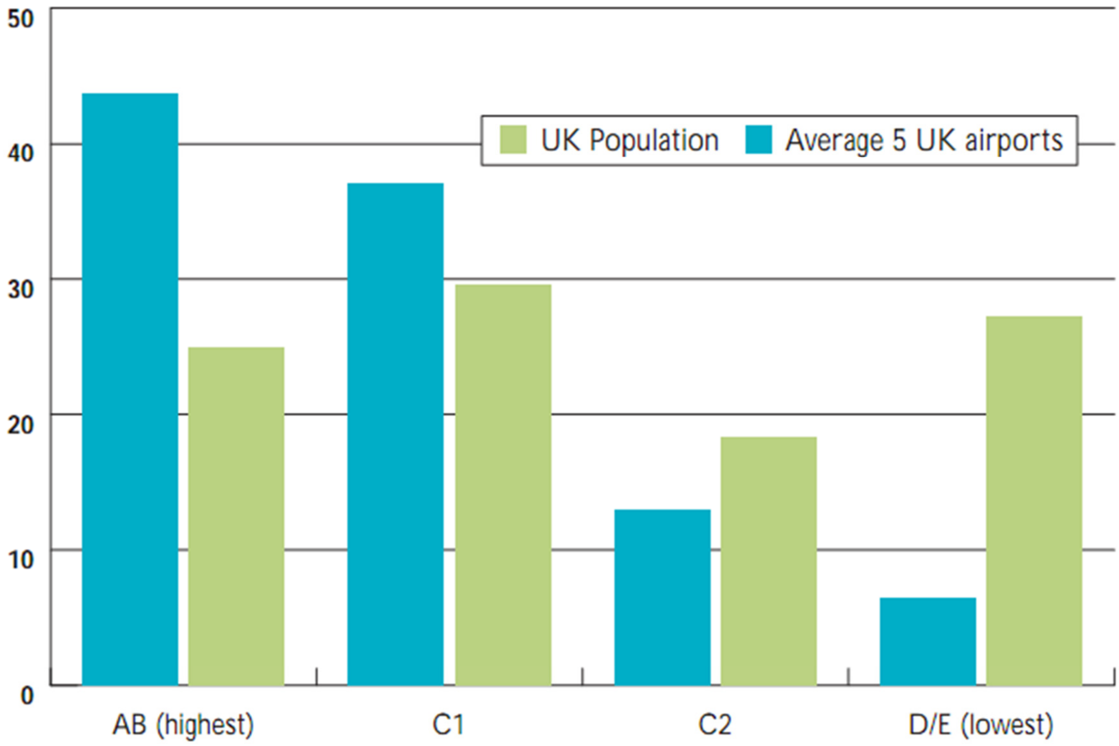
where it is first consumed without the complication of having to split up the price according to the distances covered in each Member State, is a necessary prerequisite to being able to put an effective VAT regime for international transport in place.

Q6. Which of the current VAT exemptions should no longer be kept? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?

A6. Derogations exempting international aviation and shipping passenger transport services for intra-EU travel should be discontinued forthwith. For this to happen, the Commission must make a proposal.

Absence of VAT on air travel and passenger travel by sea is unfair and regressive. Cruises by ship and about 80% of air travel is for leisure purposes and the great majority of flights, even those of low-cost flights, is undertaken by well-off people. See below.

Distribution of low-cost flights by social class in the UK in 2004. Source: UK CAA



Absence of VAT on these tickets means the tax shortfall has to be made up elsewhere and this will inevitably fall on poorer people.

In addition to introducing VAT on intra-EU air and sea passenger travel, the Commission should now undertake a study as to how VAT for international air and sea travel from the EU to third countries could be implemented. With the advantages of modern IT, it would be relatively straightforward to require the industry to modify pricing and ticketing systems such that VAT could be charged on that portion of the journey over EU territory – both for outbound and inbound flights. Certain taxes and charges are already included in international fares sold and ticketed outside the EU, so in principal there can be no obstacles to including a VAT component. Such a study should not however be limited to options which set the tax according to the distance travelled over EU territory. That is a conceptual constraint about consumption taxes that needs to be questioned. For example, we already pay the same VAT rate for international telephone calls whether the call is to Ireland or to Argentina. And while there are constraints on the way rates for airline ticket taxes are set (i.e. the rates cannot mimic VAT), EU states are quite free to apply airline ticket taxes to the entire journey whether it be within Europe or across the world.

The introduction of airline ticket taxes should remain a member state prerogative. Should, however, the Commission be unable to resolve the question of how VAT might be extended internationally, the Commission should act to harmonise ticket taxes across Europe. Airline ticket taxes already cover approximately 60% of the market for flights leaving EU countries as a quick scan by T&E below indicates.

Overview of air ticket taxes in the EU.

	Short haul (roughly < 3000km)		Medium haul (roughly 3000-6000km)		Long haul (roughly > 6000km)		Market share
	o	Business	eco	Business	Eco	Business	
Austria	8	8	20	20	35	35	**2%**
France	1	10	4	40	4	40	13%
Germany	8	8	25	25	45	45	19%
Ireland	10	10	10	10	10	10	2%
UK	14	28	70	141	88-100	176-200	25%
Total							59%

Ireland: levies €2 on flights shorter than 300 km.

Germany: short haul < 2500, medium haul 2500-6000, long haul >6000

Austria: as of April 2011. Based on a list of countries that roughly (but not exactly) boils down to short haul < 2500, medium 2500-6000, long >6000 km

UK: rates based on exchange rate mid November 2010. Four distance categories: short haul < 3200 km, Medium-short 3200 – 6400 km, Medium-long 6400 – 9600 km, Long haul > 9600 km

France: definition is EEA based (European Economic Areas, EU plus Norway, Switzerland and Liechtenstein). Short haul is intra-EEA flights, long haul is flights from and to EEA. Intra-EEA flights can go up to 3,000 km (e.g. Nicosia, Cyprus), flights from and to EEA can be as short as 1,000 km (e.g. Zagreb, Croatia).

A growing problem with the spread of ticket taxes is the distortive effects and competitive issues which arise as passengers shift their departure to neighbouring airports outside the taxed zone to avoid the tax. To an extent, ticket taxes can be designed to cope with this 'border effect' but leakage and competitive issues can hinder the wider use of ticket taxes. These problems would not occur with an EU-wide decision to end the VAT exemption. Either the Commission proposes reforms to apply VAT to airline tickets in a fair and non-distortive way across the EU, or it should step in at some stage to resolve the distortive effects of ticket taxes by proposing harmonisation measures.

Q7 Do you think that the current system of taxation of passenger transport creates problems either in terms of tax neutrality or for other reasons? Should VAT be applied to passenger transport irrespective of the means of transport used?

The exemptions for air and sea travel create economic distortions and are not justified. As the working paper highlights, the air and sea exemptions give these providers within the EU a competitive advantage over other transport providers. These exemptions have their origins in the early days of air transport when it was believed there were societal benefits in promoting the recovery and growth of international aviation after WWII. There was also a belief that the Chicago Convention provided international tax exemptions to aviation. Neither of these considerations is true or justified today, if indeed they were ever true or justified. So the exemptions should be removed. No doubt industry will cry foul and claim that aviation is overtaxed, is being double-taxed, is being asked to paying for its emissions twice, and any number of other excuses which IATA has shown great skill in inventing.

> "International air transport is a service provided to the end consumer outside any taxing jurisdiction. ICAO resolutions fully support that international air transport involves the use of aircraft and goods and services outside the boundaries of any tax authority".
>
> IATA website.

For example, prior to removal of duty free sales for intra-EU travel in 1999, the aviation industry warned that thousands of jobs would be lost and costs would go up. Jobs were not lost any more than they were in Germany in 2010 when its ticket tax was introduced; a few short months later, Lufthansa announced it was taking on an additional 4,000 staff….

ICAO resolutions do indeed support the tax free use of aircraft and goods and services when involved in international transportation and ICAO contracting states including all its 27 EU members subscribe to these resolutions. But ICAO does not attempt to exempt international travellers from national taxation laws as IATA would seem to argue should be the case. In fact ICAO's 1999 Resolution on the Taxation of International Transport merely recognises that VAT or other consumption taxes increase the cost of travel, are often widely cast by fiscal authorities with limited exemptions permitted, and notes that the 'normal practice' here is to zero rate international transport. So there are no international legal obligations preventing VAT being levied on all airline tickets or on a wide range of services to airlines.

The question as to whether VAT should be levied on public transport i.e. buses, trams, metro, some trains etc. is a separate question. In principle all modes should be treated equally; but that means first removing the air and sea exemptions. Having achieved that, there are good equity as well as environmental arguments for saying that the VAT on public transport modes should be lower or zero in recognition that poorer elements of society do not drive cars, that travel on these modes is environmentally more efficient, and has additional societal benefits e.g. reducing congestion and removing cars from cities etc. The current exemption for aviation creates clear distortions particularly as regards international high speed train services and frustrates attempts to secure modal shift from climate intensive aviation onto more environmentally friendly transport modes. As to rail services, there may be good arguments for lower rates to apply nationally with high speed and international train and bus services being subject to the same maximum rates as aviation.

Q8. What should be done to overcome these problems?

In its July 2000 VAT review, the rules on the place of supply of services were identified as one of the potential future priorities. In its 2005 Consultation paper on the Place of Supply, the Commission again suggested taxing the supply of passenger transport services taking place in the EU, irrespective of the means of transport used, at the place of departure.

In 2005 the Commission launched a public consultation arguing that the existing rules regarding passenger transport were impractical and difficult to apply in an internal market without fiscal borders both for B2B and B2C transport services. They implied that a bus company operating between Paris and Amsterdam needed to apply French, Belgian and Dutch VAT to each relevant part of the journey and pay the corresponding VAT due to each country. In practice much VAT was not being paid. To resolve this, the Commission proposed to tax the supply of passenger transport services, irrespective of the means of transport used, at the place of departure. This proposal would not effectively change existing arrangements for purely internal transport within a member state, while for international transport, it would ensure that passenger transport services would, to a large extent, be taxed where they were consumed, without the complication of having to split up the price according to distance covered. The Commission also noted that taxation at the place of departure would ensure equal treatment between EU and non-EU operators.

The Commission notes in the Green Paper it conclusions from the 2005 consultation that although "some businesses supported this idea, there was also serious opposition mainly from airline companies fearing that the new rules could encourage Member States to abolish the current exemption, and that most businesses found that "the real issue is that of the different rates and exemptions applied by Member States and the inequity in VAT treatment between air, sea and road/rail transport". Against this background it was decided not to propose to change the rules concerning the place of taxation of passenger transport.

We are most disappointed that the Commission in its latest Green Paper has not explicitly raised the question of again reviewing the rules concerning place of supply for international passenger transport. Their review would seem to be a prerequisite for removing the international transport exemptions.

We also strongly question the Commission's conclusion in 2005 that just because airlines opposed the revision of the rules governing place of supply because they feared their VAT exemptions were at stake, this was or remains a sufficient reason not to proceed. As the Commission noted, most businesses found the issue was the different rates and exemptions themselves not the question of reviewing the rules on place of supply.

In the intervening period it would have been helpful had the Commission undertaken a study as to the economic, political, social and tax arguments for changing the rules concerning place of supply for passenger transport and removing the air and sea travel exemptions. The Commission has a role to play in encouraging reform of some of the most obvious shortcomings in the VAT system. We therefore urge the Commission to include the planned revision to the rules on place of supply for passenger transport and removal of the exemptions for air and sea travel in its forthcoming proposal.

Q9. What do you consider to be the main problems with the right of deduction?

A9. It is distortive to exempt VAT on airline tickets while at the same time exempting airline input purchases from VAT. We agree with the right of companies to deduct input VAT when their output is subject to VAT. But the special circumstances exempting airlines from output while allowing them, exceptionally, to maintain the ability to deduct input VAT is inequitable and unjustified and should be removed so long as VAT is not charged on airline output.

In the first instance, VAT should be charged on all airline tickets for intra-EU travel including package tours. Businesses can reclaim input VAT on input costs such as travel by air on business in the normal way though we note that this right to deductibility varies between member states.

Q13, Which, if any, provisions of EU VAT law should be laid down in a Council regulation instead of a directive?

A.13 We agree with the idea of replacing Directives with Regulations where this serves to ensure quick and uniform implementation of VAT decisions.

Q19. Do you think that the current rates structure creates major obstacles for the smooth functioning of the single market (distortion of competition), unequal treatment of comparable products, notable online services by comparison with products or services providing similar content or leads to major compliance costs for businesses? If yes, in what situation?

We are not convinced of the justification for reduced rates of VAT to apply to domestic air travel. The arguments for abolishing the international and intra EU exemptions for air travel apply equally to domestic travel.

When the exemption for international air and sea travel is lifted, VAT should be levied at the normal rate not at a reduced rate.

Q20. Would you prefer to have no reduced rates (or a very short list), which might enable Member States to apply a lower standard VAT rate? Or would you support a compulsory and uniformly applied reduced VAT rates list in the EU notably in order to address specific policy objectives as laid out in particular in 'Europe 2020'?

Reduced rates for passenger transport should not apply to aviation for all the reasons set out in this document.

Domestic VAT rates for air, sea, rail, and coach vary between member states. In most member states, road vehicle fuel purchases are taxed at the standard high rate. A 1997 KPMG study of the issue concluded that variations in domestic VAT rates for passenger transport across EU member states were not economically significant as they did not distort passenger choice between modes, the variations were between modes that did not compete with each other, or the differences had some justifiable distributive objective.

We broadly agree with these conclusions except as regards aviation and believe that the Commission should limit its focus regarding rates to competitive issues involving international transport modes.

As noted in the Working Paper, the KPMG study identified the negative impacts of the distortion between international aviation and high speed rail services. We believe that both modes should be taxed at the standard rate across the EU. The customer profile and predominance of leisure travel is similar. There is no justification for exempting intra-EU or international rail travel as is currently the practice in many member states.

Q29. In which areas of VAT legislation do synergies with other tax or customs legislation need to be promoted?

A29. Airlines should not be exempt from paying VAT on fuel purchases for intra-EU flights any more than they should be exempt from paying fuel taxes per se on intra-EU flights. Contrary to popular belief and Commission statements, there are no international legal obligations preventing the taxation of aviation fuel in the EU nor levying VAT on fuel sales. The obstacles on taxing fuel used in international flights are purely those the Commission has created for itself by refusing to consider removing these exemptions in the Energy Tax Directive. There currently remain a limited and dwindling number of international obligations preventing the taxation of fuel sold to foreign carriers operating intra-EU flights but these restrictions do not extend to the levying of VAT on fuel sales so we do not understand the justification in Article 148 e of 2006/12/EC which exempts from VAT the supply of goods for the fuelling and provisioning of aircraft used by airlines operating for reward chiefly on international routes. If at all, this exemption should only apply to flights from the EU to third countries.

We note that Article 50 of the Directive *Article 150 provides that "* The Commission shall, where appropriate, as soon as possible, present to the Council proposals designed to delimit the scope of the exemptions provided for in Article 148 and to lay down the detailed rules for their implementation". We call on the Commission to proceed with these proposals as soon as possible.

Domestic transport:	BE	BG	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK
Air	6	20	10 20	[ex]	19	20	13	8	5,5	[ex]	10	15	21	3	25	0	19	10	8	6	24	8,5	20	9	6	0
Sea	6	20	N/A	[ex]	19 7 [-]	20	13	8	5,5	[ex]	10	8	21	N/A	N/A	0	6	N/A	8	6	24	8,5	N/A	9	6	0
Inland waterway	6	20	10 20	[ex]	19 7	20	13	8	5,5	[ex]	10	15	21	3	25	N/A	6	10	8	6	24	8,5	20	9	6	0
Rail	6	20	1020	[ex]	19 7	20	13	8	5,5	[ex]	10[ex]	N/A	21	3	25	N/A	6	10	8	6	24	8,5	20	9	6	0
Road	6	20	1020	[ex] 25	19 7	20	13	8	5,5	[ex]	10 [ex]	5 15	21	3	25	0 18	6	10	8	6	24	8,5	20	9	6	0

Intra-community and international transport	BE	BG	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK
Air	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	N/A	N/A	0	0	0	0	0	0	0	N/A	0	0	0
Inland waterway	6	0	0	0	70	0	0	8	5,5	0	0	N/A	0	0	0	0	N/A	6	0	0	0	0	N/A	0	0	0	0
Rail	6	0	0	0	0	0	0	0	0	0	0	N/A	0	0	0	0	N/A	6	100	0	0	0	0	0	0	0	0
Road	6	0	0	0	19 7	0	13	8	5,5 [ex]	0	0	0	0	0	0	0	0	6	10	8	0	0	8,5	0	0	0	0