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# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(78) 774 final

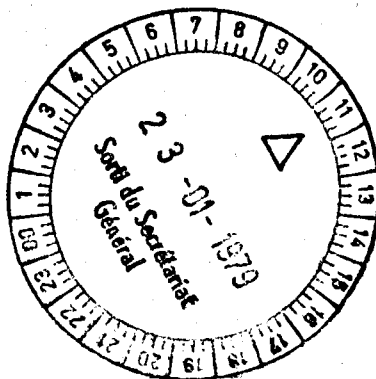
Brussels, 17 January 1979

## 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 Directive No  
72/230/EEC of 12 June 1972)

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COM(78) 774 final



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/CEE (1) of 23 May 1969 amended by Directive No. 72/230/CEE (2) of 12 June 1972)

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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 in Germany, on the evolution of fares for travellers in Denmark, and on the fiscal policy of the Danish Government.

The present report fulfils that undertaking for the first year of application of the derogation.

## 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 excises applicable in international passenger travel, the following goods:

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

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(1) OJ No. L 133 of 4.6.1969

(2) OJ No. L 139 of 17.6.1972

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<sup>(1)</sup>, first until 31 December 1976 and then until 31 December 1977.

3. The Danish Government subsequently requested a further period in order fully to apply 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<sup>(2)</sup>. 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

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

(1) Directive 76/131/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).

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

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

In order that the report by the Commission may be prepared in the course of each year, the price comparison will be made from end-September to end-September of the following year.

The evolution in Denmark and in Germany of the prices of alcoholic drinks and of tobacco products between end-September 1977 and end-September 1978 is summarised in the table on page 4. For this first report, information was not always available for a systematic comparison of specified products. However, overall the comparison is acceptable and permits a global assessment of the relative evolution of the prices of these products. (In future, the products shown in the table for 1978 will be used as the basis for comparison).

Finally, it is noted that the gap between Danish and German prices has widened in the case of cigarettes and beer, whilst having narrowed in the case of cognac and whisky. As regards cigarettes, two-thirds of the increase in the price gap is due to an increase in Danish prices and one-third to a reduction in German prices. The situation for beer is similar.

As regards cognac and whisky, the reduction in the gap is almost wholly due to an increase in German prices.

#### V. Evolution of transport costs in Denmark

Transport costs are of particular importance if one considers the practice of organised trips or "shopping" excursions by bus from Denmark into Germany.

The table on page 5 shows the price of this type of transport between several Danish towns at a maximum distance of about 270 km and a minimum distance of 35 km from a German frontier town. The level of these prices seems extremely low and it would be interesting to have information permitting a comparison with the prices charged for trips of this kind on other routes inside Denmark.

Evolution of the prices of typical tobacco products and alcoholic drinks in Denmark and in Germany<sup>(1)</sup>

Products	1977			Products	1978					
	Danish price	German price	Difference		Danish price	German price	Diff.	3 as % of 1	7 as % of 5	Diff. <sup>(2)</sup> %
	1	2	3		4	5	6	7	8	9
Cigarettes (300)	204	121,65	82,35	Cigarettes (300)	210,-	118,42	91,58	40,4	43,6	+11%
..... -				Smoking tobacco, 50 g	8,-	7,48	0,52		6,5	
Cognac, 70 cl, 40%	155,75	59,19	96,56	Cognac***, 70 cl	155,-	60,67	94,33	62	60,8	- 2%
Whisky, 75 cl (DK 40%) (Ger. 43%)	132,75	42,84	89,91	Whisky (5 years), 70 cl	132,-	47,06	84,94	67,7	64,3	- 6%
-				Gin, 70 cl	125,-	43,18	81,82		65,5	
				Aquavit, 70 cl (Danish)	78,-	49,83	28,17		36, 1	
Beer, Pilsen, 6 bottles (Danish)	17,46		(8,68)	Beer, Pilsen 6 bottles of 0,33 l (Danish)	18,60		(10,32)	49,7	55,5	+19%
Beer, Pilsen, 6 bottles (German)		8,78		Beer, Pilsen, 6 bottles of 0,33 l (German)		8,28				

(1) All prices are expressed in Danish crowns.

(2) These figures show the percentage changes between end-September 1977 and end-September 1978 in the price differences shown in columns 3 and 7.

Evolution of prices of journeys by bus between Denmark and Germany for the years 1976/77 and 1978

Departure point	Distance from the frontier in km	Return price in Dkr.		Difference in Dkr. 1978/77
		1976/77	1978	
Aalborg (1)	270	55,-	50,-	- 5
Viborg	192	25,-	25,-	-
Kolding (2)	35	5 to 15	2 to 10	- 3 to - 5
Odense	150	20,-	10,-	- 10

(1) Lunch, snack and boat trip included.

(2) According to the length of stay and day of the week.

VI. Tax legislation

1. In Denmark, since October 1977 the legislation relating to the taxes on the products covered by the derogation from the Community allowances has been changed as follows:-

- Since 1 April 1978 the tax levied on cigars, "cheroots" and on cigarillos amounts in Denmark to 19.8 per per piece plus 10% of the retail price (before 1 April, "cheroots" were taxed per piece whilst the excise on cigars and cigarillos was made up of a specific element and an ad valorem element). In addition, the tax is no longer calculated on the basis of the wholesale price; the retail price now serves as a tax base.

Contrary to the case of cigarettes, these changes do not result from Community provisions. They in no way change the tax burden borne by these products.

- On 1 July 1978, the application of the provisions of the Council Directive of 19 December 1977 (77/805/EEC) required amendment of the specific element in the excise on cigarettes.

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Since that date, this element has been changed from 36.7 øer to 32.7 øer per piece, the proportional element going from 18% to 23.84% of the retail price.

This change in the relationship between the specific excise and the proportional excise has not, however, required any change in the total tax burden on cigarettes.

- The levels of the rates of excises on tobaccos (for smoking etc.), on alcohol, beer and wine have not been changed since 1977.
- As regards the value added tax, the rate was increased from 18% to 20.25% on 1 October 1978.

This rate increase has not therefore influenced prices during the reference period. However, since 1 October of this year, the tax burden on these products has increased in consequence and will have repercussions on retail prices.

Moreover, as regards cigarettes, it should be noted that since that date, to take account of the change in the rate of the value added tax, the specific excise was changed from 32.7 øer to 33.5 øer per piece, whilst the proportional element was reduced from 23.84% to 22.41%. Thus the effect of the increase in VAT has been to increase the price of a packet of 20 ordinary cigarettes from 13.70 Dkr to 14 Dkr.

2. In Germany, with the exception of the value added tax, whose normal rate was increased from 11% to 12% on 1 January 1978, taxes relating to the products which are the subject of the present report have not been changed during the period under examination.

VII. Revaluation of the Deutsh Mark

The parity of the Danish crown was modified on 16 October 1978. This change, which has resulted in a revaluation of 4% of the DM in relation to the Danish crown, has not affected the data during the period under examination as the prices used were those applied at the end of September 1978. It should be noted that this parity change is due in part to the divergent evolution of the rates of inflation in these two countries. (on the basis of the index prepared by the Statistical Office of the European Communities, 9% in Denmark and 2.2% in Germany during the period concerned).

VIII. Conclusions

The information set out in this report, in particular in the table shown on page 4 and in point VI relating to Danish tax legislation for the products concerned, do not show any significant progress in reducing the gaps between the prices of these products in Denmark and in Germany.

In fact, it can be stated that the gaps for cigarettes and beer have increased considerably whilst those for cognac and whisky have narrowed slightly.

As regards the cost of trips or shopping excursions into Germany the comparison between the two years shows a tendency for the price of bus trips in the direction Denmark - German frontier and return to diminish. The Commission suggests that the Danish Government should examine the reasons underlying the very low level of prices for these trips.

It should be noted that non-organised trips or private trips cannot benefit from such advantageous terms.

As regards the coming year, it is already apparent that the increase in Denmark on 1 October 1978 in the rate of VAT from 18% to 20.25%, will

have an effect on prices which will be only partially redressed by the increase in the rate of VAT in Germany from 12% to 13% from 1 July 1979.

In conclusion, the Commission notes that no significant progress has been achieved in 1978 in bringing these prices together.