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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 33 final

Brussels, 1st February 1980

SECOND 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)

COM(80) 33 final

Second 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).

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.

This second report fulfils the undertaking for the 12 months, 1 October 1978 - 30 September 1979.

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 alcoholic 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.
(3) OJ No. L 366 of 28.12.1978.

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 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 (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

Products	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	40 (4)	300	40	300
or cigarillos	20	150	20	150
or cigars	20	75	20	75
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 will no longer apply
- (3) From 1.1.1981 to 31.12.1982, the 72 hour condition will be reduced to 48 hours.
- (4) From 1.1.1982 to 31.12.1982, 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).

IV. Tax legislation

1. Denmark

As mentioned in the first report, the value added tax rate was increased from 18% to 20.25% on 1 October 1978, where it remained during the period under examination. This increase in the VAT-rate meant that the average retail price level was raised by 1.9%.

The excise duties on spirits and beer have not been changed during the period under report. By contrast the excise duty on cigarettes was sharply increased on 12 July 1979. The specific excise on cigarettes went from 33.5 øre to 40.11 øre per piece and the proportional element was increased from 22.4% to 23.04% of the retail price. The total tax burden, inclusive of VAT, on a packet of 20 cigarettes rose from 12.33 kr. to 14.60 kr. The excise rates on other tobacco products remained unchanged.

2. Germany

With the exception of a change in the rates of value added tax, the standard rate of which was increased from 12% to 13% on 1 July 1979, no changes in the rates of taxes relating to the products which are the subject to the present report took place during the period under examination. The VAT increase meant that the general retail price level was raised by 0.9%.

V. Danish crown/German mark

In September 1978, the average exchange rate for the Danish crown against the German mark was 275.96 Dkr. = 100 DM. On 16 October 1978, the parity of the Danish crown was devalued by 4% against the German mark. On 13 March 1979, the European Monetary System was introduced. On 24 September 1979, in the first realignment of parities within the EMS since its inception, the German Mark was revalued by 2% and the Danish crown was devalued by 3% against the six other EMS-currencies.

The average exchange rate in September 1979 (when the period under report came to an end) was 289.43 Dkr. = 100 DM. Accordingly, in the price comparison on page 7, an exchange rate of 289 Dkr = 100 DM has been used for end-September 1979. However, this rate does not reflect the whole effect of the devaluation of 24 September 1979. By 1 November 1979, the exchange rate for Dkr. to DM was 295.47 Dkr. = 100 DM; that is, 2.2% weaker than the rate used in the price comparison.

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

Following the pattern established in the first report, the price comparison has been made between end-September 1978 and end-September 1979.

The evolution in Denmark and in Germany of the prices of tobacco products and of alcoholic drinks between end-September 1978 and end-September 1979 is summarised in table I. The products used as the basis for comparison are the same products as shown for 1978 in the same table in the first report.

As in the first report, the prices shown have been furnished by the Danish Government. They represent average prices in Denmark of the products concerned and typical prices for the same products on sale in Germany in the region close to the Danish border. The German prices have been confirmed as being broadly correct by the German authorities.

1. Tobacco products

In the first report, the only data available to the Commission related to cigarettes which fell into different price categories in the Danish and German markets. It has now been possible to compare the price in Denmark of cigarettes in the most popular price category with the price in Germany of cigarettes in the price category to which the Danish cigarettes belong. In order that the evolution of prices may be seen during both years, the comparison for cigarettes in Table 1 have been made, not only for the period end-September 1978 to end-September 1979, but also for end-September 1977 to end-September 1978.

As these figures show, the evolution of the prices of cigarettes from September 1977 to September 1978 was very limited, with no price change in Germany and only a 0.5 % increase in Denmark. This, in connection with a small devaluation of the Danish crown in relation to the German mark, resulted in a minor reduction of the gap between Danish and German cigarettes, both in the absolute amount saved by buying in Germany and in the relative price difference.

During the present period - from September 1978 to September 1979 - the gap has widened. The retail prices of cigarettes in Denmark have increased by 20.4 %. In Germany the price increase has been 11.3% expressed in Dkr. and 6.7% expressed in DM. This means that the amount saved on one packet of cigarettes bought in Germany has increased by more than a third. In relative terms, a packet of cigarettes was 39.3% cheaper in Germany than in Denmark in September 1978, but 44% cheaper a year later.

As far as smoking tobacco is concerned, prices in Denmark and Germany were close to each other at end-September 1979, the Danish products being the cheaper.

2. Spirits

The retail price of cognac has increased in Denmark as well as in Germany; overall, there has been only a minor increase in the relative price difference. For whisky, the prices have changed only slightly; the gap between the Danish and German prices has narrowed marginally. For gin and aquavit there has been an increase in retail prices in Denmark but a decrease in Germany so that the gap has widened considerably.

3. Beer

As in the first report, the price comparison is made between the price of Danish beer in Denmark and the price of German beer in Germany. The comparison shows that the relatively small increase in retail price in Denmark has been compensated by the devaluation of the Danish crown, so that the overall situation was more or less the same at end-September 1979 as at end-September 1978.

Rather than compare the prices of Danish and German beers, it would be preferable to compare the evolution of prices for the same product in the two countries. The necessary information to make such a comparison for past years is not available. However, the Commission has now obtained information on the prices of Danish beers in Germany at end-September 1979, and expect to be able to make a same-product comparison in the next report.

TABLE 1

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

PRODUCTS	Time Sept.	1 Danish price in Dkr	2 German price in Dkr (DM)*	3 Diff. in Dkr.	4 3 as % of 1
<u>Cigarettes (300) Danish brand</u>	1977	204	121.50 (45.00)	82.50	40.4%
	1978	205.5	124.65 (45.00)	80.85	39.3%
Change 1977-1978		0.5%	2.5 % (0)	-1.8%	-1.1%
<u>Cigarettes (300) Danish brand</u>	1978	205.5	124.65 (45.00)	80.85	39.3%
	1979	247.5	138.72 (48.00)	108.78	44.0%
Change 1978-1979		20.4%	11.3 % (6.7 %)	34.5%	4.7%
<u>Smoking tobacco, 50 g.</u>	1978	8.-	7.48 (2.70)	0.52	6.5%
" "	1979	8.50	8.67 (3.00)	-0.17	- 2%
Changes 1978-1979		6.3%	15.9% (11.1%)	-	-8.5%
<u>Cognac*** 70 cl.</u>	1978	155.-	60.67 (21.90)	94.33	60.9%
" "	1979	175.-	67.92 (23.50)	107.08	61.2%
Changes 1978-1979		12.9%	11.9% (7.3)	13.5%	0.3 %
<u>Whisky (5 years) 70 cl</u>	1978	132.-	47.06 (16.99)	84.94	64.3%
" "	1979	135.-	49.10 (16.99)	85.90	63.6%
Changes 1978-1979		2.3%	4.3% (0)	1.1%	- 0.7%
<u>Gin, 70 cl</u>	1978	125.-	43.18 (15.59)	81.82	65.5%
" "	1979	134.-	40.40 (13.98)	93.60	69.9%
Changes 1978-1979		7.2%	6.4% (-10.3)	14.4%	4.4%
<u>Aquavit, 70 cl (Danish)</u>	1978	78.-	49.83 (17.99)	28.17	36.1 %
" "	1979	80.-	45.60 (15.78)	34.40	43.0%
Changes 1978-1979		2.6%	-8.5% (-12.3)	22.1%	6.9%
<u>Beer, Pilsen, 6 bottles of 0.33</u>	1978	18.60	8.28 (2.99)	10.32	55.5 %
<u>(Danish, German, respectively)</u>	1979	19.30	8.64 (2.99)	10.66	55.2%
Changes 1978-1979		3.8%	4.3% (0)	3.3%	-0.3%
Danish beer	1979	19.30	11.50 (3.98)	7.8	40.4%

*Exchange rate used:

at end-September 1977 : 100 DM = 270 Dkr

" " " 1978 : 100 DM = 277 Dkr

" " " 1979 : 100 DM = 289 Dkr

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

Indirect taxes (i.e. excise plus VAT) levied in Denmark and Germany on the great majority of the examined products account for at least half - and often a much higher proportion - of their retail price. Manufacturing and distribution costs of each of the examined products are unlikely to differ by any substantial margin between Germany and Denmark. And even if such cost differences do exist, their contribution to the differences between the retail prices of each of the products in Denmark and Germany must be relatively small, by comparison to that of differences in the relative tax burdens. Consequently, it may be assumed that a comparison between the taxes imposed on each category of product in the two countries will offer a reliable guide to changes in the differences between the retail prices of these products. A tax-only comparison also enjoys the advantage over a comparison between retail prices of being unaffected by temporary or atypical fluctuations in retail prices, such as discount sales, special offers, and the like.

For these reasons, a comparison between the excise plus the VAT levied on the excise in each of the two countries on each product category has now been prepared for the period covered by this report and the previous report. This is set out in Table 2 below.

The basic data is the excise rate 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 the table. The total tax in Germany equals 100 in each case. The figures shown in the table 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>January 1978</u>	<u>September 1978</u>	<u>September 1979</u>
Cigarettes	221	218	247
Aquavit	333	327	316
Other spirits	511	502	486
Beer	833	818	792

As Table 1 shows changes in retail prices, and Table 2 shows the Danish "total tax" as a percentage of the German, these two tables cannot be directly compared.

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Nevertheless, 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.

For cigarettes and beer the trends shown in both tables are broadly in the same direction. For spirits, the price changes for whisky and cognac shown in Table 1 are consistent with the slightly reduced gap in tax shown in Table 2. Other spirits prices, however, point to an increased gap between retail prices, notwithstanding the slightly reduced tax gap. This suggests that these increased retail price differences stem from price changes unrelated to taxation.

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	
Aalborg	270	25	202	205
Aarhus	175	20	150	155
Odense	150	15	116	114
Fredericia	100	10	74	76
Vojens	50	10	34	38

*Based on a car using 1 l petrol (3.80 kr/l) per 10 km

Transport costs can be of importance for Danes contemplating a shopping trip to Germany, particularly if the distance involved is considerable. Table 3 shows that the organised day-trips or "shopping excursions" by bus offer by far the cheapest means of travelling between Denmark and Germany. In particular, the fact that organised day trips by bus cost only a fraction of the train fare suggests that such trips are subsidised.

IX. Conclusions

During the period under review the Danish cigarette tax has been considerably increased, and the Danish VAT rate has been increased by more than the German VAT rate. These changes have significantly increased the gap between the prices of cigarettes in Denmark and in Germany.

Looking to spirit products as a whole, the price gap has been slightly increased, because the retail prices of some of the products have decreased in Germany even more than the Danish crown has been devalued. For beer, the situation is broadly unchanged.

The derogation for Denmark from the Community regime of tax allowances from 1 January 1978 until 31 December 1982 has now been in force for nearly two years. For the products covered by the derogation, their prices have in general increased more in Denmark than in Germany; the situation would have been worse if Denmark had not devalued the crown, as mentioned on page 4.

As regards the coming year, it is already apparent that the full effect of the devaluation in September, and the latest devaluation of the Danish crown by 5% on 30 November 1979, will increase German prices, expressed in Danish crowns, by more than 7%. Other than a proposal for a change in the German excise on cigarettes, which will have only a minor influence on the retail prices for cigarettes, no proposal has as yet been made to change the excise duties in Denmark or Germany.

In conclusion, the Commission notes that in general - as in 1978 - no significant progress has been achieved in 1979 in reducing the differences between the prices of the products concerned. On the contrary, so far as cigarettes are concerned, the price gap has increased considerably, as a direct result of the Danish tax increases.