Brussels, 22 September 2015

FICHE 9
TRANSPORT SECTOR BASED OWN RESOURCES

1. CONTEXT

The transport sector is an integral part and provides fundamental support to the functioning of the internal market. It facilitates the free movement of goods, services and people and constitutes a key enabler to all other sectors of the economy. In this context, harmonisation of the legal regulatory framework, and possibly taxation, would help create a level-playing field and avoid competition distortions.

The present 'fiche' examines, by way of example, two potential sources of revenue for the EU: road taxation and aviation taxation. This analysis is for illustrative purposes and not comprehensive.

Regarding road transport, the Directive on road charging, *"Eurovignette"*, 2011/76/EU provides a framework to encourage Member States to charge heavy goods vehicles for their use of transport infrastructure, based on the 'user pays' and 'polluter pays' principle. A more recent Commission communication presents a reference instrument for a possible framework for the application of national road infrastructure charges on light private vehicles ((COM) 199/2012). These charges could in principle possibly be levied at/or channelled to the EU-level. Another variant of a transport-related taxation which could serve as a basis of an own resource is of course the mineral oil excise on diesel and gasoline. The principle arguments regarding the latter alternative are already covered by the technical support document ‘Fiche 6’ on Carbon or CO2-tax based own resources. Taxing transport fuels is common practice and generally considered an efficient way of generating revenue with potential environmental co-benefits. However, the rates and the dynamics across Member States differ significantly.

Concerning the aviation sector, the Directive on airport charges (2009/12/EC) sets common principles for levying airport charges at Community airports. In addition, since 2012, aviation has been included in the EU Emission Trading System to address greenhouse emissions. In 2011, the Commission had examined but discarded kerosene taxation and the VAT on plane tickets for legal and practical reasons. The two options envisaged then were:

- A departure tax: a tax on an airline ticket per passenger on departures from an EU airport, and depending on distance travel and possibly the class of travel.
- A flight duty: a tax on each freight and passenger flight entering, operating within and/or leaving the European Flight Information Region.

Since then, several Member States have unilaterally introduced an airline ticket tax.

2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

1. Equity/Fairness: a common taxation or application of relevant charges in the transport sector would be a step forward for a more equitable treatment of companies and/or consumers. However, from the point of view of Member States and the collection of own resources, there could be similar equity/fairness issues than for customs duties, i.e. countries with the busiest transport networks or which are intensively used for transit would probably bear a larger share.

2. Efficiency: a harmonised regulatory and taxation framework in transport would create a level playing field by reducing competition or tax-related distortions. A common excise duty on motor fuels, for instance, would curb cross-border 'tank tourism'.

3. Sufficiency and Stability: given the importance of mobility in the European economy and the rather high elasticity of prices, the transport sector could provide an important stream of revenue for Member States, and for the EU budget, depending on the percentage levied as own resources. Fluctuations should be expected in line with the business cycle as transport activity (both freight and passenger) is cyclical. Substitution effects might also reduce the potential revenue.

4. Transparency and Simplicity: as the transport sector offers good visibility, the implementation of a common regulatory and tax base or charging system would certainly bring about a simpler and more transparent system. It could be readily understood by consumers, citizens or travellers, if a share of the excise of motor fuel or the costs of a flight ticket were dedicated to the financing the EU budget.

5. Democratic accountability and budgetary discipline: it will depend on the type of collection decided for taxation.

6. Focus on European added value and constrain narrow self-interest: the current lack of harmonisation of national taxes or charges in this sector (notably aviation), can lead to competition distortions or hinder growth. There is therefore a rationale in creating a more coherent framework from the point of view of the single market. The Commission has so far taken initiatives to implement a common regulatory framework by segment in the transport sector. Directives on road charging and on airport charges already set common principles to regulate the sector. This is also a sector where 'earmarking' could be discussed, if appropriate: transport infrastructure financed by EU funds (like the CEF) could be envisaged as revenue source for the EU, for example to finance future infrastructure.

7. Subsidiarity principle and fiscal sovereignty of member states: Member States would have to implement the common legal framework and implement new taxation or charging schemes. The case for such EU-level charges would probably be easier to argue in an own resources context than simply a taxation one, as the principle of transfer to the EU budget and the provisions for revenue sharing arrangements would have to be set out in the Own Resources Decision (unanimity, ratification requirement).

8. Limit political transactions costs: transactions costs are likely to be high. Building a new pan-European road toll system would entail significant upfront costs. Hostility from the sector itself (aviation, companies or industries depending on road transport) should be expected, as well as Member States' reluctance, because taxes in the transport sector represent a substantial part of national revenue, or are considered already very high, or are rejected by principle (DE chose to fully compensate the planned road toll for domestic car owners). Moreover, in the particular case of road transport, part of the network in some Member States is managed by public-private partnerships in which national authorities are dependent on the guarantees given and contracted.

3. ADVANTAGES AND WEAKNESSES OF THE TRANSPORT SECTOR BASED OWN RESOURCES

The introduction of a transport sector based own resource could, if properly designed, contribute to internalising external costs of the sector and as such contribute to a level playing field between transport modes in the internal market. Allocating revenue to the EU budget would not compromise this objective. For example, the "*Eurovignette*" directive does not provide mandatory earmarking of the revenue but provides strong incentives to set aside new revenue for certain types of transport projects defined in the Directive. A charge or tax on aviation could, if properly designed, also contribute to addressing the imbalance between transport modes in terms of taxation and charges in general, even though this complex issue goes beyond the remit of the OR debate. However, once aviation is fully included in the ETS, this argument will be less valid.

One strong weakness is that harmonisation between Member States is currently very remote, as for road transport where many different instruments are being used (time-based vignettes, distance-based tolls with physical barriers, distance-based electronic network-wide tolls), and four Member States do not have any road charging system in place.

A transport-based charge used as an own resource would require substantial harmonisation to define a common base in all Member States, and would affect national taxation systems. Furthermore, harmonisation of charging systems should acknowledge that infrastructure costs for the same type of road may vary according to local circumstances.

Dedicating (parts of) the excise on motor fuels to the EU level would depart from an existing, well established system. Distributional issues would certainly be raised as Member States would assess their relative burden against the status quo (weighted share in revenue from present excise taxes versus share in own resource contributions) or the GNI-scale.

Departure duties have been easily implemented in several Member States, with a modulation according to the distance. However, it has proved difficult to implement such taxes at a national scale in smaller Member States as it has resulted in some displacement of activities (Schiphol airport, NL). There would need to be a balanced approach between the gains to be expected from a coherent, single market perspective (prevent distortions) and other objectives of the EU Aviation strategy which aim at promoting connectivity and create growth and jobs in the sector.

4. Known positions of stakeholders (MS, industry, other)

The aviation sector was strongly opposed to any own resource based on the sector at the time of the proposals for the 2014-2020 MFF.

5. Estimate of revenue for the EU budget

Despite the fact that revenue from road usage charging are capped by the amount of the costs of the road infrastructure investment and maintenance, this amount could represent up to 1% of GDP at EU level (Commission services' estimates). However, at least part of such revenue is used for road maintenance or payback for capital investment (in some cases through concessionaries).

Tax revenue from transport fuel excises in the EU are estimated to sum up to a total above EUR 150 billion and could thus, in principle cover a large part, potentially even the entire EU budget.

Regarding flight duties, the observed income registered in some Member States proves the potential to generate a considerable source of revenue. The flight duty in the UK generates 0.18% of GDP, while the revenue of the German aviation duty amounts to 0.04% of GDP.