SCENARIO 1	No output VAT exemptions + National Standard rates + retain Article 148 input tax exemptions. Current rules of place of supply remain : Taxation on distance
Description of this scenario	The national standard rates will apply to outputs of all modes of urban, other domestic and intra-community passenger transport. **Note**: the Member States in which the transport is provided will be the place of taxation
Distortion addressed	Different VAT rates
Criteria for consideration	**Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. **Even more, new distortions will appear** between routes which do not follow the same distance, whilst shorter routes with smaller prices might be taxed more than longer routes with higher prices depending on the routes sailed. It is important to note that the journey is not always the same on the outward leg and the inward one. It would be difficult to explain that one leg is taxed differently than the other. Moreover, the cost of taxation will be different from one journey to another even with the same distance covered. It would be commercially impossible to explain. In the absence of any harmonization between rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). Intra-EU travels by ship will become more expensive than travels out of EU. **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced.

	Environment Risk of modal backshift, leading to increased CO2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths. **Administrative burdens** Taxation on distance will bring disproportionate administrative complications and will arise in this scenario as VAT will be payable to different Member States on the journey. In B2B situations (coaches, tour operators, Travel agents and corporate customers) it will create huge difficulties for invoice compliance. All this will require high investment costs to update IT systems are required at a time when investments are required for adapting the fleet to environmental challenges. **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport **Legal** Risk of multi-jurisdictional trading. **Fairness** Less fairness then the current practice.
Overall judgement	The current system is fair; exemptions are here for a reason and can serve a good purpose. All Member States currently apply a zero-rate VAT to intra-EU and international

	transportation by sea and air and a vast majority of Member States also apply a zero rate to intra-EU and international passenger transport by rail or road. Taxation on distance would create additional administrative burdens and particularly for invoice compliance. With the plethora of VAT rates currently used in the EU, applying the national standard rates will give rise to competitive distortions between Member States and cause disproportionate administrative complications both to operators and to national officials. This will create huge additional burdens and complexity (i.e. need to calculate the place of supply according to distance) and legal issues, and make the costs of sea transport higher, with the listed negative consequences. For Intra-EU shipping, the European Commission's goal is to create a real internal market for shipping without boundaries (through the Blue Belt exercise). However, taxing intra-EU transport under the present "where the transport takes place" will instead create (tax) burdens and thus run contrary to the Commission's Blue Belt policy.

<u>SCENARIO 2</u>	**No output VAT exemptions + reduced national rates + retain Article 148 input tax exemptions Art 148. Current rules of place of supply remain : Taxation on distance**
Description of this scenario	Similar to scenario 1. The national reduced rate will apply to all models of urban, other domestic and intra community passenger transport. If no reduced rate exists, the standard rate will apply.
Distortion addressed	Different VAT rates
Criteria for consideration	**Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. **Even more, new distortions will appear** between routes which do not follow the same distance, whilst shorter routes with smaller prices might be taxed more than longer routes with higher prices depending on the routes sailed. It is important to note that the journey is not always the same on the outward leg and the inward one. It would be difficult to explain that one leg is taxed differently than the other. Moreover, the cost of taxation will be different from one journey to another even with the same distance covered. It would be commercially impossible to explain. In the absence of any harmonization between rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). Intra-EU travels by ship will become more expensive than travels out of EU. **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced.

	Environment Risk of modal backshift, leading to increased CO2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths. **Administrative burdens** Substantial, especially for border crossing transport. Taxation on distance will bring disproportionate administrative complications and will arise in this scenario as VAT will be payable to different Member States on the journey. In B2B situations (coaches, tour operators, Travel agents, and corporate customers) it will create huge difficulties for invoice compliance. All this will require high investment costs to update IT systems are required at a time when investments are required for adapting the fleet to environmental challenges. **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport **Legal** Risk of multi-jurisdictional trading. **Fairness** Less fairness then the current practice.

Overall judgement	As in scenario 1, applying national rates – being it a reduced rate or the standard rate in absence of a reduced rate – will give rise to the same negative consequences. The size of the negative effects might be less than in scenario 1. However, the administrative burdens and complexity will be comparable to scenario 1, as will be the effects for administrations.

<u>**SCENARIO 3**</u>	**No output VAT exemptions + National Standard rates + retain Article 148 input tax exemptions. Change the place of taxation to country of departure**
Description of this scenario	As for Scenario 1, but with the place of taxation changed to the Member State of departure/arrival. **Note**: the report states that both options for the place of taxation (departure or arrival) will result in the same outcome, as it assumed that the trips are all a round-trips.
Distortion addressed	1, 4a (Different VAT rates, Place of Taxation/ Supply)
Criteria for consideration	**Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. In the absence of any harmonization between rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). Thus, it would be difficult to explain that one leg is taxed differently than the other. More importantly Intra-EU travels by ship will become more expensive than travels out of EU **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced. **Environment** Risk of modal backshift, leading to increased CO_2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths.

	Administrative burdens There will be additional requirements for invoice compliance on B2B travel as the industry will have to issue 2 invoices for the inward leg and for the outward leg (or do an invoice quoting 2 VAT numbers and 2 VAT rates). **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport. Many Member States apply either 0% or reduced rates to passenger transport. **Legal** This rule does not comply with the rule "where the consumption takes place" **Fairness** Less fairness then the current practice.
Overall judgement	Taxation on the basis of a country of departure/arrival does not respect the principle of "taxation at the place of consumption". The difference with scenario 1 is that the complexity is reduced, as the place of taxation is shifted to the place of departure or arrival and taxation is easier for transport that passes through multiple countries. Nevertheless, the negative effects (economic and its environmental consequences and so on) are of the same magnitude as in scenario 1. For trips that are not a round-trip, or where the mode of transport differs from the return trip, additional complexities are introduced.

	It should also be noted that the amount of journey time spent in the territorial waters of a Member State of departure or arrival is often "de minimis" compared to the entire journey time. Furthermore, without VAT rate harmonization itinerant transport operators will be encouraged to migrate their departure or arrival points to low taxing Member States. Finally, taxing high seas transit during an intra-EU voyage will present potential conflicts with the taxing jurisdiction of third countries (vide Articles 92 and 127 UNCLOS).

<u>SCENARIO 4</u>	**No output VAT exemptions + Reduced national rates + retain Article 148 input tax exemptions. Change the place of taxation to country of departure**
Description of this scenario	As for scenario 2, but with the place of taxation changed to the Member State of departure/arrival
Distortion addressed	1, 4a (Different VAT rates, Place of Supply/Taxation)
Criteria for consideration	**Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. In the absence of any harmonization between rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). More importantly Intra-EU travels by ship will become more expensive than travels out of EU. **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced. **Environment** Risk of modal backshift, leading to increased CO_2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths. **Administrative burdens** There will be additional requirements for invoice compliance on B2B travel as the industry will have to issue 2 invoices for the inward leg and for the outward leg (or do an invoice quoting 2 VAT numbers and 2 VAT rates).

	Social Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport **Legal** Risk of multi-jurisdictional trading. **Fairness** Less fairness then the current practice.
Overall judgement	Taxation on the basis of a country of departure/arrival does not respect the principle of "taxation at the place of consumption". The difference with scenarios 1 & 2 is that the complexity is reduced, as the place of taxation is shifted to the place of departure or arrival and taxation is easier for transport that passes through multiple countries. Nevertheless, the negative effects (economic and its environmental consequences and so on) are of the same magnitude as in scenario 2. For trips that are not a round-trip, or where the mode of transport differs from the return trip, additional complexities are introduced. It should also be noted that the amount of journey time spent in the territorial waters of a Member State of departure or arrival is often "de minimis" compared to the entire journey time. Finally, without VAT rate harmonization itinerant transport operators will be encouraged to migrate their departure or arrival points to low taxing Member States.

<u>**SCENARIO 5**</u>	**No output VAT exemptions + current rates the Member States currently apply (normal or reduced) + retain Article 148 input tax exemptions. Change the place of taxation to country of departure/arrival**
Description of this scenario	Current VAT rates but the place of taxation changed to the Member State of departure/arrival.
Distortion addressed	4a (Place of Supply/Taxation)
Criteria for consideration	**Distortions addressed** Distortions between countries will appear in the absence of harmonized rates and treatment (reduced or zero in some countries, standard rate in others). These distortions might even be greater than in Scenario 3 and Scenario 4. It would be difficult to explain that the outward leg is taxed differently than the inward leg. Intra-EU travels by ship might become more expensive than travels out of EU. Intra EU will vary depending on the national VAT rate of the country of departure or arrival. **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price on routes arriving in or departing from countries with high VAT rates will lead to less demand for sea transport. Furthermore, some routes may become “freight only routes” or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced. **Environment** Risk of modal backshift, leading to increased CO2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths.

	Administrative burdens There will be additional requirements for invoice compliance on B2B travel as the industry will have to issue 2 invoices for the inward leg and for the outward leg (or do an invoice quoting 2 VAT numbers and 2 VAT rates). **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport **Legal** Risk of multi-jurisdictional trading. **Fairness** Less fairness then the current practice.
Overall judgement	Consequences the same as in scenario 1, but the magnitude of effects depend on the VAT rate of the country of arrival or departure. Complexity is reduced compared to scenario 1 & 2 as the place of taxation is shifted to the place of departure or arrival and taxation is easier for transport that passes through multiple countries. For trips that are not a round-trip, or where the mode of transport differs for the return trip additional complexities are introduced. Taxation on the basis of a country of departure/arrival does not respect the principle of "taxation at the place of consumption" It should also be noted that the amount of journey time spent in the territorial waters of a Member State of departure or arrival is often "de minimis" compared to the entire journey time.

	Finally, without VAT rate harmonization itinerant transport operators will be encouraged to migrate their departure or arrival points to low taxing Member States.

SCENARIO 6	**Current VAT rates (including zero rates where these are applied) + remove input tax exemptions Article 148**
Description of this scenario	Exemptions according to Article 148 of the VAT Directive abolished. We assume that the text on page 84, explaining this scenario, is not entirely correct. Especially the second part of the text refers in our opinion to scenario 7.
Distortion addressed	3a (Exemptions Article 148 VAT Directive)
Criteria for consideration	**Distortions addressed** Abolishing current exemptions of VAT on some passenger transport inputs means that ferry operators will have to pay a higher price for these inputs and can reclaim the VAT afterwards. This would add complexity and can create cash flow problems particularly when maintenance takes place in countries where the operator is not trading. At paragraph 3.8.3 of the Accompanying Staff Working Paper to their green paper on the future of VAT the Commission recognized that in view of the level of investment needed in the transport sector there may be valid reasons for exempting certain inputs. They also recognized that paying VAT on the purchase of 'durable goods of significant value' could have a 'non-negligible' effect on the cash flow of transport providers which would need to be financed. By nature shipping is very international and it would add additional administrative burdens – also for non EU based shipping companies – with Member States refunding at different places. **Economic** EU ports will become less competitive internationally for the ordering and delivery of VAT taxed inputs. **Environment** n.a. **Safety** n.a.

	Administrative burdens Additional administrative requirements in order to reclaim VAT. Removing Article 148 would also make the administration more complex for the tax authorities who would have to process a large number of refunds to EU and non EU based operators. **Social** The decreased attractiveness of EU ports as a place for ordering and delivery of VAT taxed inputs, can haven detrimental effects on port labour and of course have negative employment effects in the supply chain of these inputs. **Legal** n.a. **Fairness** Less fair than the current practice.
Overall judgement	As the Commission has stated in the Staff Working Document, which accompanied their Green Paper: "It is difficult to imagine a review of the exemptions without also looking at the rules governing the place of taxation of transport services and the rates that may be applied." Furthermore "Experience has shown that unless the place of taxation, the rates and the exemptions are addressed as a whole, little progress is likely." Additional administrative burdens for the shipping industry and the Member States' administrations to reclaim input VAT.

<u>SCENARIO 7</u>	**Extend Article 148 input tax exemptions to buses and trains**
Description of this scenario	Exemptions according to Article 148 of the VAT Directive extended to buses and trains.
Distortion addressed	3a (Exemption Article 148 VAT Directive)
Criteria for consideration	**Distortions addressed** A relatively simple and sensible approach to address some distortions, listed as 'small' in the report, for passenger transport by bus and train. No major impact on passenger transport by sea is expected.
Overall judgement	No major impact for passenger transport by sea.

<u>**SCENARIO 8**</u>	**No output VAT exemptions + reduced national rates + retain Article 148 input tax exemptions. Change the place of taxation to country of departure or arrival. Obligation to extend VAT to extra-EU passengers departing from a Member State.**
Description of this scenario	As for Scenario 4, but with obligation to VAT extended to extra-EU passengers departing from a Member State. The tax base is the price sold to customers (everything paid by the customer). **Note:** the text on page 85 says: '... to make the Member State of departure of the passenger that where the VAT is incurred, but extending that liability to **the domestic part** of an extra-EU passenger trip'. This raises many questions.
Distortion addressed	1, 4a (Different VAT rates, Place of Supply/Taxation
Criteria for consideration	**Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. It would be difficult to explain that one leg is taxed differently than the other. Moreover, the cost of taxation will be different from one journey to another even with the same distance covered. It would be commercially impossible to explain. In the absence of any harmonization between reduced rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). Travelling from the EU will become more expensive than travelling to the EU. **Economic** The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced.

	Environment Risk of modal backshift, leading to increased CO2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths. **Administrative burdens** There will be additional requirements for invoice compliance on B2B travel as the industry will have to issue 2 invoices for the inward leg and for the outward leg (or do an invoice quoting 2 VAT numbers and 2 VAT rates). **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport **Legal** Risk of multi-jurisdictional trading. **Fairness** Less fairness then the current practice.
Overall judgement	Same consequences as scenario 4. Taxation on the basis of a country of departure/arrival does not respect the principle of "taxation at the place of consumption" Depending on what is meant by 'the domestic part of an extra-EU trip', additional consequences and complexities will be introduced.

	Why tax part of an international transport journey? To all intents and purposes the EU VAT system zero-rates other supplies of goods and services that are 'exported and used' outside the EU.

SCENARIO 9	**No output VAT exemptions + reduced national rates + retain Article 148 input tax exemptions Art 148. Change the place of taxation to country of departure or arrival. Obligation to extend VAT to extra-EU passengers departing from a Member State. Change in tax base.**
Description of this scenario	As for Scenario 8, but with VAT applied to pre-tax fares as for the Air Passenger Duty. **Note:** this scenario is meant to dampen part of the negative effects of scenario 8 for extra-EU passengers
Distortion addressed	1, 4a (Different VAT rates, Place of Supply/Taxation
Criteria for consideration	**See below.**
Overall judgement	Scenario meant to dampen the negative consequences of scenario 8. However, the text on page 85 creates so much confusion of what is actually meant, that a proper judgment of this scenario is not possible.

<u>SCENARIO 10</u>	**Implementation of One-Stop-Shop for all VAT transactions (taxation on distance is the current rule)**
Description of this scenario	Implementation of One-Stop-Shop for all VAT transactions without changing any other regulations.
Distortion addressed	4a, 4b (Exemptions Article 148 VAT Directive, Treatment of inputs in the passenger transport sector)
Criteria for consideration	**This scenario is fairly unclear and as such makes it difficult to comment. If it is meant by it that a One-Stop-Shop (OSS) is introduced but the rest of current provisions (including exonerations) are maintained, then the scenario would not have any major impact on maritime transport. However, if the OSS is introduced and the exonerations are lifted and thus a taxation on distance is introduced the scenario would have severe consequences, listed below:** **Distortions addressed** On page 71 the report itself states that the practical impact of the distortion this scenario tries to address is **much less** than its potential one, 'as there is only limited competition between the markets that could be influenced by transport fares'. **Even more, new distortions will appear** between routes which do not follow the same distance, whilst shorter routes with smaller prices might be taxed more than longer routes with higher prices depending on the routes sailed. It is important to note that the journey is not always the same on the outward leg and the inward one. It would be difficult to explain that one leg is taxed differently than the other. Moreover, the cost of taxation will be different from one journey to another even with the same distance covered. It would be commercially impossible to explain. In the absence of any harmonization between rates at European level, there will be distortions between travels from and to some countries (these distortions do not exist today). Intra-EU travels by ship will become more expensive than travels out of EU.

	Economic The demand for sea transport and passenger transport in particular is highly responsive to a change in its price (price-elasticity). The higher price will lead to less demand for sea transport. Furthermore, some routes may become "freight only routes" or be closed as Ferry companies may have to reduce their costs if income from passenger transport is reduced. **Environment** Risk of modal backshift, leading to increased CO2 emissions, more accidents, increased road congestion and noise pollution from increased road traffic **Safety** More road traffic leads to more accidents, injured persons and deaths. **Administrative burdens** Taxation on distance will bring administrative complications and will arise in this scenario as VAT will be payable to different Member States on the journey although the OSS will simplify the payment of the VAT. In B2B situations (coaches, tour operators, Travel agents, and corporate customers) it will create huge difficulties for invoice compliance. All this will require high investment costs to update IT systems are required at a time when investments are required for adapting the fleet to environmental challenges. **Social** Reduced demand for sea transport will be very detrimental to the economy and to the employment of seafarers working onboard ships operating in reduced or closed routes. Also jobs in ports are at stake. Passenger traffic to remote regions becomes more expensive, having negative social impacts This scenario and its expected effects go against the policy goals of most EU governments and the EU itself to promote public transport

	Legal Risk of multi-jurisdictional trading.
Overall judgement	It is assumed in the Scenario 10 it introduces some output taxation although nothing is said on the rate (standard or reduced?). The place of taxation is assumed to be on distance. However the text on p. 85 is not very clear.

<u>SCENARIO 11</u>	**Implementation of 0% rate for all modes on intra EU transport**
Description of this scenario	Implementation of 0% rate for all modes for intra EU transport
Distortion addressed	Distortion between modes.
Criteria for consideration	**This would be a sensible approach and would not jeopardize the economics of the industry.** **No additional administrative costs.** **The economics of the travel industry would remain "as is" and the industry could concentrate on the other challenges.** **It would require very little change in practice as it is widely what is happening already today (see example in the ECSA main document comparing train, air, sea and road between UK and France).**
Overall judgement	ECSA fully support this proposal.

22.9.2014