

# Statement on VAT and duty-free

(10 December 1991)

1. While the Joint Committee supports a Community without internal frontiers, it remains concerned that the envisaged changes in relation to VAT and duty-free sales will adversely affect the competitiveness of EC shipping companies and result in a loss of jobs for EC seafarers. Such concerns are expressed against the background of the Council, the Commission, the European Parliament and the Economic and Social Committee having recognized the need to increase the competitiveness of the EC shipping industry and to stimulate employment.

2. In particular, the Committee considers that the imposition of VAT on passenger fares would have the following consequences:

- passenger fares would have to be increased in that the VAT would be added to the fare and carriers would have to cover the additional administrative and operating costs;
- technical complications would arise in regard to voyages which operate both within and outside the Community (such as cruises and certain ferry services) and to return voyages where the inward and outward legs might be subject to different rates of VAT;
- if the machinery for collecting the tax from non-EC carriers operating between EC ports were not effective, there would be considerable disadvantage for EC operators.

3. The imposition of VAT on shipping operations including freight would also cause the industry problems. In particular:

- the charging of VAT both on ships supplies, etc., and on freight rates would impose a significant administrative burden on carriers with no great benefit to governments, the Commission, or consumers;
- complications would arise for the sector because of the difficulty of separating out trading within the Community from trading outside and of ensuring that the provisions applied to non-EC carriers which had no base in the Community;
- while acknowledging that VAT incurred would be recoverable, there could be cash-flow problems in regard particularly to transactions involving considerable sums; the purchase of a ship for anything between USD 5 million and USD 100 million or more is an example.

4. The proposed abolition of duty-free sales will also have serious adverse consequences for employment, the consumers and the economic health of many EC shipping companies. The Joint Committee recognizes a number of consequences:

- Duty-free sales represent a significant and integral part of the revenue structure for shipping companies in the ferry sector in particular securing the profitability and quality of their present-day services.
- To compensate for the removal of this revenue source, ferry companies would have to raise passenger fares by up to 25%. On some short-haul routes, this figure would be even higher. Improved

on-board marketing techniques could not make up this shortfall.

- Such fare increases would be a disincentive for the travelling public and economically harm the shipping industry. The loss would be felt by more than 20 million passengers across the Channel alone.

5. The Joint Committee fully supports the recent vote of the European Parliament that the Commission should undertake a report on the economic and social consequences of

the completion of the internal market for tax-free sales. The Committee is confident that such a report would justify the maintenance of duty-free sales.

6. EC seafarers support the proposal on the understanding that the vessels concerned would be fully manned by EC nationals. EC shipowners take a different view but in any event believe that the issue of manning is not related to the question of VAT and/or duty-free sales.

