



**Study of the VAT treatment and quantification of vouchers  
at an EU level for the provision of economic analysis in the  
area of taxation**

**Final report to the European Commission**

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## EXECUTIVE SUMMARY

Following the European Commission's initiative to review the application of the VAT Directive relating to vouchers, Deloitte was requested to provide a quantitative analysis on the importance of the European voucher market.

The objective of the quantitative analysis is to contribute to the economic justification for making a legislative proposal to resolve the issues surrounding the VAT treatment of vouchers, in particular issues arising from mismatches between Member States. Therefore the scope of the study is focused on both the actual and potential cross-border exposure.

In general a voucher can be defined as a ticket, a token, a card, an electronic message on a chip or any other medium that carries a right to receive goods or services or to obtain a discount when acquiring those goods or services or to receive a refund at the time of redemption. That right might be indicated as a value expressed in monetary value, percentage, units or quantity.

Given the broad voucher definition and the correlative diversity of the voucher market it was of the utmost importance to first identify the categories and major types of vouchers in use in order to facilitate the quantification.

Based on desk research and expert assessments, a preliminary assessment revealed that:

- (i) Two main categories of vouchers are to be distinguished: free vouchers and paid vouchers. In turn the latter can either qualify as single purpose vouchers (SPVs) or multi-purpose vouchers (MPVs). An SPV entitles the holder to receive specified goods or services in circumstances where the Member State of supply and the applicable tax treatment are definitively set from the outset. A voucher qualifies as an MPV if it expands the conditions to qualify as an SPV.
- (ii) The major types of vouchers in terms of relative importance are:
  - The pre-paid telecom vouchers and gift vouchers, both able to qualify as paid SPVs or MPVs.
  - The discount vouchers and loyalty cards, both qualifying as free vouchers.

Based on the preliminary assessment the pre-paid telecom vouchers represent the biggest share of the voucher market, followed by the gift vouchers, the loyalty cards and the discount vouchers.

After the identification of the (categories and) types of vouchers a specific measurement methodology per voucher type was applied in order to provide an indicative estimate of the total monetary value of the European voucher market.

- (i) In general:

Per voucher type the data collection in principle was limited to 10 Member States: BE – FI – FR – DE – HU – IT – PL – RO – ES and the UK. The selection criteria were geographical spread, old vs. new Member States, the taxation regime and the voucher popularity.

Stakeholders were requested to provide data as per 31 December 2008.

- (ii) Pre-paid telecom vouchers:

Per selected Member State the top 3 mobile telecom operators were selected, based on publicly available information. To ensure a standardized data collection each operator was requested to fill

out an interview guide. Since the data supplied by the telecom sector did not provide a sufficient basis for extrapolation purposes, the obtained data were complemented with data published by the Information Society and Media DG.

The EU pre-paid telecom spending is estimated at a minimum of EUR 37 billion and represents:

- The total mobile revenue per Member State (i.e. derived from the data published by the Information Society and Media DG) multiplied with the pre-paid vs. total mobile spending ratio provided by the telecom market for the following 12 Member States: BE – CZ – DE – EL – HU – IE – IT – MT – NL – ES – SE – UK;
- Plus, for the remaining 15 Member States, the total mobile revenue per Member State (i.e. derived from the data published by the Information Society and Media DG) multiplied with the average pre-paid ratio as calculated based upon the ratio received for the 12 Member States mentioned above.

Based on information received from the sector representatives, nearly 100% of all pre-paid telecom vouchers can be used in a cross-border context, implying a high potential risk on mismatches between Member States. In practice the mobile operators estimated the effective cross-border use at 4% of the total pre-paid telecom spending.

(iii) Gift vouchers:

Per selected Member State two market players perceived as important in their sector (i.e. the fashion retail – diversified retail (i.e. health & beauty, leisure and interior and design) – travel agencies – electronic retail - the specialized voucher market and ticket companies) were selected. Each was provided with a standard interview guide.

The EU gift voucher market is estimated at a minimum of EUR 9 billion and represents:

- The individual results obtained from the interviewees (i.e. 16 individual results and two results for the EU 27);
- Plus, the extrapolation of the data collected from the interviewees per market sector as follows:

Step 1 – Selection of a representative market share per sector and identification of their 2008 revenue: 42 retail companies (i.e. all companies doing business in Europe and ranking in the top 250 of the world's largest retailers); 22 specialized gift voucher companies (i.e. the top three in the EU supplemented with local market players for the 10 selected measurement countries); 4 travel agencies and 35 cinemas (i.e. businesses generating a yearly turnover of over EUR 20 million).

Step 2 - Multiplication of the annual turnover per company by the average ratio of revenue arising from the sale of gift vouchers per market sector (i.e. based upon the collected data points the average ratio equals 33% for the specialized gift voucher market; 0.7% for the travel agencies and 1% for the retail market).

Based on the information received from the interviewees, gift vouchers currently are barely allowed to be exchanged cross border.

(iv) Loyalty cards:

Since the use of loyalty cards is widespread it was decided to approach the market from a 'de minimis' perspective by estimating the total monetary value of discount granted by the grocery retailers (i.e. the biggest retail sector applying loyalty schemes).

The European loyalty card programs are estimated to represent a monetary value of EUR 4 billion at minimum and represent:

- The total monetary value of discount granted by the main five grocery retailers operating in the EU 27, provided by a specialized retailer organization collecting statistical data on the worldwide retailer market; plus,
- The annual grocery sales of the remaining EU retailers multiplied with the average discount percentage as calculated for the main five grocery retailers per Member State.

Generally speaking loyalty cards can only be used in the country of issuance. Cross-border use is allowed exceptionally.

(v) Discount vouchers:

Per selected Member State two market players perceived as important in their market sector were selected. Since the use of discount vouchers is widespread it was decided to approach the market from a 'de minimis' perspective by restricting the assessment to product discount vouchers (i.e. food distributors, electronic retailers and fast food chains). Each was provided with a standard interview guide.

Since market players indicated the information requested was not readily available it was decided to base the quantification upon the data provided by three of Europe's leading coupon clearing offices.

The total monetary value of the discount vouchers redeemed is estimated at EUR 2 billion and represents:

- The total monetary value of the discount vouchers redeemed as provided by the coupon clearing offices for BE, DK, FR, DE, IT, ES, SE and the UK;
- Plus, the multiplication of the average voucher value of EUR 0.79 (i.e. the average value per redeemed voucher as received from the coupon clearing offices) with the total amount of redeemed vouchers per Member State (i.e. equal to the average number of redeemed product discount vouchers per inhabitant with the total number of inhabitants. The average number of redeemed product discount vouchers per inhabitant is based on the average number of redeemed vouchers for the Member States data were provided for. Since markets differ considerably, Member States were clustered in 5 groups and subject to the allocated average).

Based on the above the minimum monetary value of the total European voucher market was estimated at EUR 52 billion of which 71% (or EUR 37 billion) is to be allocated to the pre-paid telecom vouchers, 17% (or EUR 9 billion) to the gift vouchers, 8% (or EUR 4 billion) to the loyalty cards and 4% (or EUR 2 billion) to the discount vouchers.

Given the monetary importance of the pre-paid telephone vouchers as well as the risk on mismatches following their cross-border use, Deloitte was requested to provide an overview of the applicable VAT rules throughout the EU 27.

Generally speaking legal analysis showed that a distinction can be made between two types of taxation systems: taxation upon sale and taxation upon redemption. Out of the 27 Member States, nine however do not apply any specific VAT rules at all.

From the qualitative analysis of the different VAT regimes applied to the sale and resale of prepaid telecom vouchers in all EU Member States where a specific regime for said vouchers was available, the following two main findings can be highlighted.

First of all, the variety of VAT treatments given to the sale and resale of telecom vouchers is remarkable.

Not only did it occur that - even within the same Member State - two totally opposite VAT taxation regimes for pre-paid telecom vouchers do apply - namely taxation upon redemption of the voucher and taxation upon sale of the voucher -, but within these two main regimes further differing and sometimes very country-specific regimes were identified, including variety VAT structures for re-sales (buy-sell models and agency models) and the VAT treatment of partially or non-redeemed vouchers. For a telecom operator who is aiming at selling pre-paid telecom vouchers in different countries, the variety of VAT regimes is a real obstruction for market penetration.

Secondly, except from a very small number of countries, no measures are currently foreseen in national legislations to avoid double or non-taxation of the telecom vouchers used in a cross-border context. Depending on the regimes applicable in both the Member State of establishment of the issuer of the voucher as well as in the Member State of the effective use of the voucher, the sale of one single telecom voucher could be charged twice or not charged at all.

From these two findings, it is easy to derive that a uniform, simple and harmonized VAT treatment of prepaid telecom vouchers, and more in general of all similar vouchers, is required in order to safeguard the neutrality of the VAT system.

## I – INTRODUCTION

In June 2000, the European Commission presented a communication setting out its strategic program for improving the functioning of the VAT system within the context of the internal market<sup>1</sup>. The strategy was for a pragmatic program of action geared to achieve the following main objectives: the simplification and modernisation of existing rules, more uniform application of current rules and a new system of administrative cooperation.

The June 2000 VAT program included a review of the application of the VAT Directive to vouchers as a future priority, which was reaffirmed in the review and update of the VAT strategy priorities of October 2003<sup>2</sup>.

Practice shows that both tax administrations and businesses are increasingly confronted with the question of how to properly apply existing VAT rules to vouchers, since these rules are:

- Not adapted to the reality of commercial and technical developments.
- Inconsistent when applied in cross-border situations, causing double or non-taxation or even acting as a barrier to commercial development. For example, double taxation can arise when a mobile phone card is traded between a Member State that taxes the voucher as a payment on account and another one that taxes the telecommunications service when the service is supplied.
- Lacking clarity, e.g. on how to distinguish vouchers from general payment devices that are subject to a specific VAT treatment (i.e. usually exempt operations). For example, in a number of Member States, operators have implemented telephone card systems - mainly mobile phone cards - that entitle the purchaser to buy both telecommunication services and a range of other goods or services. As the functionality of these vouchers increases, VAT issues arise through the operational convergence of the vouchers with payment instruments that are subject to a specific VAT treatment.

## II – OBJECTIVE AND SCOPE OF THE STUDY

The objective of the quantitative part of this study is to contribute to the economic justification for making a legislative proposal to resolve the issues surrounding the VAT treatment of vouchers, in particular issues arising from mismatches between Member States. Therefore, the scope of the study is focused on both the actual and potential cross-border exposure. Even where there is limited evidence of actual cross-border trade, the potential may be sufficient to give rise to concerns.

During the preparation of the quantitative part of the study, it became clear that there were considerable difficulties in obtaining data from commercial operators. Given these limitations, the study aims to set out an indicative overview of the relative importance, in monetary value, of the main European voucher markets. The applied methodologies should therefore also be viewed in this perspective.

The qualitative part of the study aims to provide an overview of the VAT rules that apply throughout the EU to prepaid telephone vouchers. This part only addresses pre-paid telephone vouchers because, according to the results of the study, this type of voucher is considered to be the most important in terms of monetary value.

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<sup>1</sup> COM (2000) 348 final: *Communication from the Commission to the Council and the European Parliament, 'A strategy to improve the operation of the VAT system within the context of the internal market'* (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2000:0348:FIN:EN:PDF>).

<sup>2</sup> COM (2003) 614 final: *Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, 'Review and update of VAT strategy priorities'* (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0614:FIN:EN:PDF>).

## III – METHODOLOGY AND APPROACH

### 3.1 Introduction

Given the budget constraints and the anticipated difficulties in obtaining comprehensive, relevant, representative and objective data, the contractor and the European Commission agreed to proceed in different phases and to limit the study to a sub-set of EU Member States that are considered to be representative.

The research was performed in three phases, divided in different project steps, as described below:

Phase 1 – Identification of the major voucher types and their relative importance	
Step 1	Identification of the categories and major types of vouchers currently in use within the EU
Step 2	Preliminary assessment of the total voucher market
Step 3	Selection of the voucher types to be further analysed
Phase 2 – Quantitative analysis	
Step 4	Selection of Member States (EU 10)
Step 5	Selection of businesses to be contacted
Step 6	Preparation of the interview guide
Step 7	Data collection
Step 8	Assessment of the total voucher market
Phase 3 – Qualitative analysis	

*Table 1 – Overview of the project steps taken to carry out the study on the VAT treatment and quantification of vouchers at an EU level for the provision of economic analysis in the area of taxation*

### 3.2 Phase 1 – Identification of the major voucher categories and their relative importance

The purpose of the first phase was to limit the scope of the quantification.

Phase 1 identifies and lists the categories and types of vouchers to be considered as important and to be further addressed in phase 2. These were selected based on the relative importance of each type compared to the total EU voucher market. To give context to the economic significance of the types of vouchers selected, a preliminary assessment was made of the total voucher market. The estimations in phase 1 should be considered as operational estimates, primarily as a guide to identifying the most important types of vouchers.

#### 3.2.1 Identification of the categories and major types of vouchers in use within the EU

##### 3.2.1.1.1 Definitions of categories

A voucher is a ticket, a token, a card, an electronic message on a chip or any other medium that carries a right to receive goods or services or to obtain a discount when acquiring those goods or services or to receive a refund at the time of redemption. That right may be indicated as a value expressed in monetary value, percentage, units or quantity.

A distinction can be made between paid and free vouchers. Free vouchers are issued without any charge, mostly to promote a product or service, and can be exchanged to receive a discount on services or goods (i.e. as a percentage, a fixed amount or as additional / free goods or services).

Paid vouchers can be either single-purpose (SPV) or multi-purpose (MPV):

- An SPV entitles the holder to receive specified goods or services from designated suppliers in circumstances where the Member State of supply and the applicable tax treatment are definitively set from the outset. A SPV can be redeemed only in the same Member State in which it was issued.
- A voucher qualifies as an MPV if it expands the conditions to qualify as an SPV by entitling the holder to receive goods or services from designated suppliers and such goods or services or the Member State where they are to be supplied are not sufficiently identified for the VAT treatment to be fixed at the time the voucher is issued. A voucher that can be redeemed in a Member State other than the Member State of issue thus qualifies as an MPV. MPVs are not to be confused with payment systems whose objective is to provide a vehicle for payment for an open-ended range of goods and services.

**3.2.1.1.2 Major types of vouchers in use in the EU**

The following voucher types were identified:

- (i) Pre-paid telecom vouchers
- (ii) Gift vouchers
- (iii) Loyalty cards
- (iv) Discount vouchers (i.e. cash back and money-off vouchers).

The types of vouchers identified can be categorized as follows:

Paid vouchers		Free vouchers
SPV	MPV	
Telecom vouchers	Telecom vouchers	Cash back / Money off vouchers
Gift vouchers	Gift vouchers	Loyalty cards

Table 2 – Overview of the major types of vouchers in use in the EU

**3.2.2 Preliminary assessment of the total voucher market**

The assessment of the relative economic importance of each type of voucher required a description of their scope for the following steps of the study.

The monetary value of each voucher type was assessed for each EU Member State (EU 27) based on publicly available data and by domain experts<sup>3</sup>. This allowed the determination of an estimated quantification of the market share of each voucher type.

Assessments were based on figures collected for year-end 2008.

<sup>3</sup> Domain experts were used per type of voucher. Experts were identified based on in-depth desk research and selected based on their ability to provide relevant data and insights on the identified types of vouchers.

### 3.2.2.1.1 Pre-paid telecom vouchers

#### (1) Scope:

Telecom vouchers, in principle, can take the form of SPVs or MPVs and qualify as 'paid vouchers.'

Pre-paid telecom vouchers used for purposes other than telecommunications (e.g. various other goods or services can be bought, such as content (internet), parking, public transport tickets, etc.) and those used in cross-border situations are to be characterised as MPVs.

Pre-paid telecom vouchers are available in different forms: (i) paper vouchers; (ii) top-ups via ATM; (iii) top-up via credit card or (iv) electronic vouchers.

#### (2) Assessment:

Based on publicly available information, the preliminary estimate of 2008 revenue generated from the pre-paid telecom voucher market represents approximately **EUR 90 billion**.

The assessment was based on the following calculation method, assumptions and data:

- The data from the European Commission's 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package 2008<sup>4</sup> and the 15<sup>th</sup> Progress Report on the Single European Electronic Communications Market 2009<sup>5</sup>.
- The total annual revenue for pre-paid mobile communications per Member State for 2008 was calculated by multiplying the total annual revenue for mobile communication for 2008 by the percentage of pre-paid subscribers for 2008<sup>6</sup>.
- The results obtained per Member State for 2008 were added up to obtain the EU-wide total annual revenue for the pre-paid mobile communications market for 2008.

The following table provides an overview of the total pre-paid revenue calculated as described above:

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<sup>4</sup> COM (2009) 140 final: 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package 2008 (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0140:FIN:EN:PDF>).

<sup>5</sup> COM (2010) 630/1: 15<sup>th</sup> Report on the Single European Electronic Communications Market – 2009, 25.05.2010 ([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/15th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/15th/index_en.htm)).

<sup>6</sup> COM (2009) 140 final: 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package 2008, Figure 7 ([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/14th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/14th/index_en.htm)).

EU Member State	Total mobile revenue 2008 (EUR billion)	Pre-paid mobile subscribers 2008	Total pre-paid mobile revenue 2008 (EUR billion)
Austria	3.4	35%	1.2
Belgium	4.0	55%	2.2
Bulgaria	1.1	51%	0.6
Cyprus	0.3	59%	0.2
Czech Republic	3.4	53%	1.8
Denmark	2.4	14%	0.3
Estonia	0.4	32%	0.1
Finland	2.0	10%	0.2
France	23.9	34%	8.1
Germany	25.5	57%	14.5
Greece	4.5	63%	2.8
Hungary	1.9	61%	1.2
Ireland	2.1	70%	1.4
Italy	22.2	88%	19.5
Latvia	0.3	57%	0.2
Lithuania	0.6	65%	0.4
Luxembourg	0.3	43%	0.1
Malta	0.1	87%	0.1
Netherlands	6.7	58%	3.9
Poland	6.4	58%	3.7
Portugal	3.7	75%	2.7
Romania	2.8	59%	1.6
Slovakia	1.4	40%	0.6
Slovenia	0.7	37%	0.2
Spain	18.8	39%	7.3
Sweden	2.1	44%	0.9
UK	23.1	63%	14.6
<b>TOTAL:</b>	<b>164.1</b>	<b>55.3%</b>	<b>90.7</b>

Table 3 – Preliminary estimate on the total pre-paid mobile telecom revenue (2008)

Given that the post-paid/pre-paid ratio as published in the 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package 2008 was based on the number of pre-paid/post-paid subscribers, the application of this ratio on the total mobile turnover for 2008 resulted in a maximum assessment since the average revenue per user for pre-paid mobile subscribers is generally lower than the average revenue for post-paid mobile subscribers.

### 3.2.2.1.2 Gift vouchers

#### (1) Scope:

Gift vouchers qualify as 'paid vouchers' and can either be in the form of SPVs or MPVs.

For instance, a gift voucher that entitles the holder to exchange it for one or more specified goods or services (e.g. a box with movie ticket vouchers) and for which the VAT treatment can be known from the outset qualifies as a SPV, compare with the case where the voucher has a multi-purpose character (e.g. a holiday voucher entitling the holder to opt for a weekend in Paris or a trip to Amsterdam).

Gift vouchers are available in different forms: (i) paper vouchers; (ii) (reloadable) gift cards (i.e. a plastic card); or (iii) electronic vouchers (i.e. purchased and submitted over the internet).

Generally speaking, the use of gift vouchers seems to be widespread across consumer markets: food retailers, fashion retailers, diversified retailers, travel agencies, electronic retailers, shopping centers, restaurants, local shops, the online music and gaming market, etc. Some EU Member States even have specialised gift box companies on the market (e.g. Belgium, France, Netherlands and the UK).

Gift vouchers generally are redeemable only in the Member State in which they were purchased, although some retailers allow a voucher to be redeemed in more than one Member State.

#### (2) Assessment:

A preliminary estimate of the 2008 revenue arising from the gift voucher market varies from a minimum of **EUR 6 billion** up to a maximum of **EUR 20 billion**.

The publicly available information on the use of gift vouchers was limited and fragmented. To assess the market from a minimum and a maximum perspective, two sets of data were further analyzed.

- (1) The first assessment was based on the total gift voucher revenue per Member State: Estimates on the total monetary value represented by the gift voucher market were available for the Netherlands, Poland and the UK:
- Netherlands: EUR 900 million<sup>7</sup>;
  - Poland: EUR 205 million<sup>8</sup> and
  - UK: £ 3.0 billion or EUR 3.4 billion<sup>9</sup>.

The comparison between the total gift vouchers spending with total consumer spending in each of the given Member States provides an indication of the percentage of the total consumer spending on gift vouchers. The ratio thus calculated is equal to 0.3% for both the Netherlands and the UK. In Poland, the average spending on gift vouchers with a ratio of 0.1% lies considerably lower.

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<sup>7</sup> Data provided by Stored Value Benelux.

<sup>8</sup> ISI Emerging Markets, *'Shopping with vouchers – Special section – Business Incentives'*, Warsaw Voice, 21.09.2005.

<sup>9</sup> Data provided by the U.K. Gift Voucher Association ([www.ukgcva.co.uk](http://www.ukgcva.co.uk)).

Based on the above, the maximum spending on gift vouchers was estimated by applying the 0.3% ratio on the European final consumption expenditure of households and non-profit institutions (i.e. EUR 7,038 billion<sup>10</sup>), resulting in a EUR 20 billion gift voucher market.

Since both the Dutch and the UK gift voucher market are considered as the most developed in the EU, the estimated total of EUR 20 billion is likely to be considered a maximum.

Therefore, it was decided to also approach the market from a de minimis perspective, i.e. by applying the 0.1% ratio on the European final consumption expenditure of households and non-profit institutions. This resulted in a minimum estimate of EUR 7 billion.

- (2) A cross-check of the above result was performed based on the results of a 2010 market forecast report produced by PSE Consulting<sup>11</sup>.

This survey drew on four main sources of information:

- A survey of 44 European and US pre-paid subject matter experts;
- A financial forecast model of the anticipated pre-paid values/volumes/card base for 2006-2010;
- Desk-based research on regulation and market structure; and
- A Mystery Shopper Survey on a number of current pre-paid products available in the UK.

It resulted in an estimate on:

- The total number of gift vouchers;
- The average spending per voucher (i.e. taking into consideration top-ups);
- For the following Member States: Belgium (see The Netherlands); Czech Republic (see Poland); Denmark, Finland (see Denmark); France, Germany, Hungary (see Poland); Ireland (see UK); Italy, Luxembourg (see The Netherlands); The Netherlands, Poland, Portugal, Slovakia (see Denmark); Spain, Sweden (see Denmark) and the UK.

By multiplying the total number of gift cards by the average spending per gift card provided via the report, the total gift voucher spending in the EU was estimated at EUR 19 billion<sup>12</sup>:

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<sup>10</sup> Eurostat: *Final consumption expenditure of households and non-profit institutions serving households* (<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00009&plugin=0>).

<sup>11</sup> PSE Consulting, *Identifying the European pre-paid market*, 09.06.2006.

<sup>12</sup> More detail on the calculation is provided in Appendix 1.

EU Member State	Total number of gift cards <sup>13</sup> (million)	Average spending per card (EUR)	Total gift voucher spending (EUR billion)
Denmark	13	124	1.6
France	32	107	3.4
Germany	53	75	3.9
Italy	31	67	2.0
Netherlands	15	77	1.1
Poland	45	23	1.0
Portugal	6	46	0.3
Spain	23	53	1.2
UK	34	92	3.1
<b>TOTAL EU 17</b>	<b>250</b>		<b>17.8</b>
<b>TOTAL EU 27</b>	<b>269</b>		<b>19.1</b>

Table 4 – Preliminary estimate on the total gift voucher spending in the EU

Taking into account the above data and approaching the gift voucher market from a ‘de minimis’ perspective, i.e. by multiplying the total number of gift vouchers (269 million) by the lowest average spending (EUR 23), the total gift voucher spending would represent a EUR 6 billion market.

### 3.2.2.1.3 Loyalty cards

(1) Scope:

Generally speaking, loyalty cards are defined as cards offered by retailers to their customers for free, allowing the customers to receive advantages that cannot be obtained without such card.

Three types of loyalty cards were identified:

- Loyalty cards that allow the customer to save points that can be redeemed for face value vouchers (e.g. collect 500 points and receive a voucher with a value of EUR 5).
- Loyalty cards that allow the customer to save points or stamps which give an entitlement to a certain discount percentage on the next purchase once sufficient points or stamps are collected (i.e. especially popular with local shops such as e.g. bakeries).
- Loyalty cards that allow the customer to save points that can be redeemed for goods or services. Depending on the loyalty card program, the card holder may have to pay extra in addition to the exchanged bonus points.

<sup>13</sup> Figures on ‘open loop schemes’ were excluded because according to the definitions set forward in this report these are defined as payment devices.

Although most loyalty cards take the form of paper vouchers or plastic cards, a limited number of retailers have launched mobile loyalty cards (i.e. customers have their loyalty card available via their mobile phone).

Loyalty cards sometimes combine functions, such as means of payment, entitlement to credit free interest or extra intangible advantages not available to non-card holders (e.g. shopping during special opening hours, extra discounts on identified products, etc.).

Loyalty cards are widely used across Western Europe and are mostly operated by French, Dutch and Belgian retailers and local shops. German and Central European retailers – in particular the hard discounters - generally prefer to apply the direct discount strategy, thus ensuring a low price setting<sup>14</sup>.

(2) Assessment:

The 2008 overall discount granted via loyalty cards was estimated at a minimum of **EUR 4 billion** based on the following assumptions<sup>15</sup>:

- The use of loyalty card programs is widespread (i.e. applied by both large retailers and local shops). Given the difficulties in obtaining reliable and representative data, it was decided to approach the assessment from a 'de minimis' perspective by limiting the analysis to the loyalty schemes implemented by the European grocery retailers.
- Based on the information collected on the annual turnover and the loyalty scheme implemented by each of the top 5 grocery retailers, followed by an extrapolation of the average discount percentage per Member State for the remaining part the monetary value of the discount granted could be estimated for each of the EU 27.

Since the same assessment approach was maintained for the quantification phase, more details can be found under point 3.4.4.3<sup>16</sup>.

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<sup>14</sup> Based on Deloitte's annual report 'Global powers of retailing 2009,' each company listed in the top 250 of largest retailers around the world and doing business in Europe was screened based on whether or not it has a loyalty card program. The desk research revealed this was generally not the case for retailers originating from Germany and Central Europe, while retailers from Belgium, France and the Netherlands did use these programs. The results of the desk research were confirmed by Planet Retail, one of the world's leading retail analysts providing insights, analysis, news and data covering more than 7,000 retail operations across 211 countries ([www. Planetretail.net](http://www.Planetretail.net)).

<sup>15</sup> The data on the top five grocery retailers per Member State and more in-depth information on their loyalty card programs were provided by Planet Retail.

<sup>16</sup> A detailed calculation at Member State level is provided in Appendix 1.

#### 3.2.2.1.4 *Discount vouchers: cash back and money off*

##### (1) Scope:

Discount vouchers are defined as vouchers granting a price discount expressed either as a percentage or as a fixed amount (i.e. a face value) for the purchase of goods or services or as additional / free goods or services.

A distinction can be made between product discount vouchers and service discount vouchers. Based on desk research, product discount vouchers often seem to be issued by internationally operating distributors, retailers or fast food chains, while service discount vouchers seem to be more common with local service suppliers, such as e.g. health and fitness centers. Due to the wide variety of discount vouchers and the difficulties in collecting representative and reliable data, it was decided to approach the assessment from a de minimis perspective and limit it to product discount vouchers.

In general, there are two types of product discount vouchers: (i) cash back vouchers and (ii) money off vouchers. Based on desk research, cash back vouchers seem to be most common for the electronics and food markets and money off vouchers are more commonly used by food distributors and fast food chains.

Discount vouchers can take the form of: (i) paper vouchers, (ii) e-vouchers or (iii) mobile vouchers.

Desk research revealed that with respect to cash back vouchers for the electronics market and discount vouchers for the fast food chains, the issuer, refunder and redeemer generally are the same party. For discount vouchers in the food market, the issuer / refunder generally seems to differ from the redeemer (i.e. the retailer). The retailer is subsequently entitled to a refund by the distributor. The handling of discount vouchers is often outsourced to a coupon clearing office.

##### (2) Assessment:

The 2008 overall discount granted via product discount vouchers (i.e. both cash back and money off vouchers) was estimated at a minimum of **EUR 2 billion**.

The quantification was based on the following data provided by coupon clearing offices<sup>17</sup>:

- The total number of redeemed product discount vouchers for Belgium, France, Germany, Italy, Spain, Sweden and the UK.
- The average value per redeemed product discount voucher for Belgium, Germany, Italy and the UK.

By extrapolating the data for the EU 7 to the EU 27, the total monetary value of discounts granted at an EU level was estimated. Since the same assessment approach was maintained during the quantification phase, more details can be found under point 3.3.5.3<sup>18</sup>.

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<sup>17</sup> Data for Belgium, France, Spain and Sweden were provided by Highco / Promocon; data for Germany by Acardo and data for Italy and the UK by Valassis. Highco, Acardo and Valassis are considered among the main operating coupon clearing offices within the EU.

<sup>18</sup> A detailed calculation at Member State level is provided in Appendix 1.

### 3.2.3 Selection of the voucher types to be further analyzed

Taking into account publicly available information, the preliminary assessment revealed the total monetary value of the European voucher market could be estimated at **EUR 116 billion**.

The following table provides an overview of the relative importance per voucher type:

Voucher type	Relative importance (%)
Telecom vouchers	78%
Gift vouchers	17%
Loyalty cards	3%
Discount vouchers	2%
<b>Total</b>	<b>100%</b>

Table 5 – Overview of the relative importance per voucher type

The preliminary results of the data collection clearly indicate that the telecom vouchers are considered the most important voucher type.

## 3.3 Phase 2 – Quantitative analysis

### 3.3.1 Selection of Member States (EU 10)

Given the expected difficulties in gathering relevant, objective and representative data, it was agreed to only strive for the collection of data for 10 Member States and to extrapolate the data collected for these Member States to the EU 27. To explore which Member States offered the best prospects for a representative sample for the EU, the following criteria were agreed upon with the European Commission:

- Geographical spread.
- Old versus new Member States.
- For pre-paid telecom vouchers, the time of taxation: for the selection of the EU 10, the ratio of 70/30 (i.e. the ratio following the comparison for the EU 27 between ‘taxation upon sale’ vs. ‘taxation upon redemption’) was taken into account.
- Popularity of the types of vouchers in a given Member State: per Member State, the degree of popularity of each voucher type was analysed. For the selection of the EU 10, it was decided to select Member States where the types of voucher ranged from popular, to normal usage, to not popular.

Based on the above criteria, the following Member States were selected: Belgium, Finland, France, Germany, Hungary, Italy, Poland, Romania, Spain and the UK.

### 3.3.2 Pre-paid telecom vouchers

#### 3.3.2.1 Selection of interviewees

Based on publicly available information, such as annual accounts and market studies, the main mobile telecoms players were identified for each of the 10 selected Member States.

The following table provides an overview of the mobile telecoms operators' market shares for the EU 10<sup>19</sup>:

EU MS	Market share Operator 1	Market share Operator 2	Market share Operator 3	Total coverage
Belgium	45%	33%	22%	100%
Finland	47%	36%	16%	99%
France	45%	37%	18%	100%
Germany	37%	34%	16%	87%
Hungary	44%	35%	21%	100%
Italy	39%	33%	19%	91%
Poland	34%	34%	32%	100%
Romania	39%	32%	27%	98%
Spain	44%	31%	20%	95%
UK	37%	27%	25%	89%

Table 6 – Overview of the market shares of the main European mobile telecom operators

### 3.3.2.2 Preparation of the interview guide

To ensure that relevant data would be collected in a standardized way, a document listing all the questions to be answered by the selected mobile telecoms operators and an accompanying mail that included an introduction to the purpose of the study was developed<sup>20</sup>.

The following information was requested from the selected mobile telecoms operators:

- Global turnover telecom per EU Member State (i.e. the global turnover of telecom services - fixed and mobile - including content, roaming, etc., but excluding all other services, such as financial revenue, television or other).
- Global market share telecom per EU Member State.
- Turnover mobile phone market (i.e. pre-paid and post-paid turnover derived from mobile phone telecommunications services, including content, roaming, etc.).
- Market share mobile phone market (i.e. pre-paid and post-paid) per EU Member State.
- Turnover pre-paid telecom vouchers (i.e. all forms of instruments to add value to sim cards such as paper vouchers, ATM reload, reload via credit card, etc.).
- Market share of pre-paid telecom vouchers.
- Total number of pre-paid telecom vouchers (or other instruments to add value to sim cards).
- Redemption rate (%) of sold pre-paid telecom vouchers.
- Turnover of pre-paid telecom vouchers used to purchase other services / goods (content, parking, etc.) (This figure should also be included in other turnover figures requested).
- Monetary value of pre-paid vouchers that can be used in cross-border transactions (i.e. both mobile phone and other services and goods, including roaming).
- Total number of pre-paid vouchers that can be used in cross-border transactions (i.e. both mobile phone and other services and goods, including roaming).

<sup>19</sup> Mobile market shares are based on the total number of subscribers (Source: COM (2009) 140 final: 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package - 2008). A cross comparison with the market shares based on mobile turnover and reported by the mobile telecoms operators shows that these figures represent a reliable overview of the mobile phone market.

<sup>20</sup> A copy of the interview guide is provided in Appendix 2.

- Turnover from pre-paid telecom vouchers used cross-border (i.e. both mobile phone and other services and goods).
- Turnover arising from roaming services.
- Expectations on future developments with respect to the use of pre-paid sim cards for other purposes, expected market changes (e.g. higher / lower use pre-paid? Reasons?), etc. Although the quantitative analysis primarily focused on gathering insights into the relative monetary importance of pre-paid telecom vouchers, providers were also requested to share their points of view on future developments.
- Other comments.

### 3.3.2.3 Data collection

Although the data collected provided insights into the market as per 31 December 2008 and these data were determined to be reliable as they were obtained directly from the telecoms operators, the data did not sufficiently cover the European pre-paid telecom voucher market for extrapolation purposes.

The reason for this lies in the fact not all telecoms operators were willing or able to participate the study.

### 3.3.2.4 Alternative assessment method

Given the fragmentary information obtained directly from mobile telecoms operators, an assessment of the pre-paid telephone market was based on figures that were officially published in the 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package 2008 and the 15<sup>th</sup> Report on the Single European Electronic Communications Market 2009, combined with figures received from some important telecoms operators willing to share their figures.

The following table demonstrates the extent to which the questions under point 3.3.2.2 were addressed:

Questionnaire on pre-paid telecom vouchers	Data
Global (fixed and mobile) turnover per MS	Yes, as of 31 December 2008
Market share	Yes
Mobile (pre-paid and post-paid) turnover per MS	Yes, as of 31 December 2008
Market share mobile	Yes (i.e. mobile market share based on the total number of subscribers for October 2008)
Pre-paid turnover per MS	Yes (i.e. based on the ratio for October 2008)
Market share pre-paid	Yes
Total number of pre-paid telecom vouchers	Yes
Redemption rate pre-paid telecom vouchers	Partially
Pre-paid turnover arising from the purchase of other goods and services	Partially
Monetary value of pre-paid vouchers useable in cross-border transactions	No – assumption of 100%
Total number of pre-paid vouchers useable in cross-border transactions	No – assumption of 100%
Turnover arising from the cross-border use of pre-paid vouchers	Partially
Turnover arising from roaming services	Partially

Table 7- Overview of the extent to which the questions in the questionnaire on pre-paid telecom vouchers were addressed

The following assumptions, data and calculation method were utilized to assess the total spending in the pre-paid mobile communications market for 2008:

- Based on the 14<sup>th</sup> Report on the implementation of the telecommunications regulatory package and the 15<sup>th</sup> Report on the single European electronic communications market 2009, the total number of mobile subscribers, the average mobile revenue per user (ARPU)<sup>21</sup> and the percentage of pre-paid mobile subscribers<sup>22</sup> for 2008 and per Member State was obtained.
- The total mobile revenue per EU Member State for 2008 was derived from the 15th Report on the single European electronic communications market - 2009<sup>23</sup>.
- The pre-paid versus total mobile spending ratio based was calculated based on revenue figures provided by several main telecoms operators for the following Member States: Belgium, Czech Republic, Germany, Greece, Hungary, Ireland, Italy, Malta, The Netherlands, Spain, Sweden and the UK<sup>24</sup>.
- The pre-paid mobile ratios obtained for the above Member States were applied to the total mobile revenue for these Member States as provided via the 15<sup>th</sup> Report on the single European electronic communications market 2009. This resulted in a total pre-paid mobile revenue for these Member States of EUR 24.2 billion. This figure was compared to the total pre-paid revenue arising from the assessment in the preliminary phase for the above Member States, which amounted to EUR 70.4 billion.
- The comparison of this data showed that the initial figures obtained for the pre-paid spending in the preliminary phase were over-estimated. To calculate the pre-paid spending for the remaining EU 15, for which no representative data were obtained from the telecoms operators, a ratio of 22.33% was applied to the total mobile telecom revenue derived from the 15<sup>th</sup> Report on the single European electronic communications market 2009. This ratio was obtained by calculating the arithmetic average of the pre-paid / post-paid ratio of the Member States from which sufficient data was obtained, resulting in a total EU wide pre-paid telecom revenue of EUR 36.6 billion.

Based on the information received from sector representatives, it appears that almost all pre-paid telephone vouchers can be used in a cross-border context. This implies that the useable cross-border trade is to be considered as nearly 100%.

The effective cross-border use, calculated based on the information received from the mobile network operators, is estimated to be 4% of total revenue arising from pre-paid mobile telephone

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<sup>21</sup> COM (2010) 630/1: *15th Report on the Single European Electronic Communications Market 2009*, 25.05.2010, Chart 6 (Volume 2)

([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/15th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/15th/index_en.htm)).

<sup>22</sup> COM (2009) 140 final: *14th Report on the implementation of the Telecommunications regulatory package 2008*, 24.03.2009, Figure 7 (Volume 2)

([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/14th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/14th/index_en.htm)).

<sup>23</sup> COM (2010) 630/1: *15th Report on the Single European Electronic Communications Market 2009*, 25.05.2010, Chart 1 (Volume 2)

([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/15th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/15th/index_en.htm)).

<sup>24</sup> See Appendix 3 – Assessment on the European pre-paid telecom voucher market.

cards, resulting in an estimate of EUR 1.47 billion. The 4% ratio was calculated by comparing the total revenue of pre-paid telephone vouchers provided by the telecoms operators with the revenue arising from the cross-border use of pre-paid telephone vouchers.

A relatively low percentage of the monetary value of pre-paid telephone vouchers is used to buy other services, such as content, etc. Based on anecdotal information available for a number of mobile telecoms providers, the percentage used for other services can be assessed at 5%.

### 3.3.2.5 Overall result for the EU 27

#### 3.3.2.5.1 Quantitative findings

The following table provides an overview per Member State of the pre-paid mobile revenue for 2008 estimated on a total of EUR 36.6 billion:

EU Member State	Total mobile revenue 2008 (EUR billion)	Ratio pre-paid / post-paid based on revenue 2008	Total pre-paid mobile revenue 2008 (EUR billion)
Austria	3.4	25%	0.86
Belgium	4.0	20%	0.79
Bulgaria	1.1	25%	0.28
Cyprus	0.3	25%	0.07
Czech Republic	3.4	20%	0.69
Denmark	2.4	25%	0.59
Estonia	0.4	25%	0.10
Finland	2.0	25%	0.51
France	23.9	25%	5.98
Germany	25.5	8%	2.03
Greece	4.5	17%	0.77
Hungary	1.9	21%	0.41
Ireland	2.1	40%	0.82
Italy	22.2	52%	11.49
Latvia	0.3	25%	0.07
Lithuania	0.6	25%	0.14
Luxembourg	0.3	25%	0.06
Malta	0.1	55%	0.07
Netherlands	6.7	8%	0.56
Poland	6.4	25%	1.61
Portugal	3.7	25%	0.91
Romania	2.8	25%	0.69
Slovakia	1.4	25%	0.36
Slovenia	0.7	25%	0.16
Spain	18.8	14%	2.69
Sweden	2.1	17%	0.36
UK	23.1	15%	3.54
<b>TOTAL:</b>	<b>164.1</b>	<b>22.33%</b>	<b>36.6</b>

Table 8 – Overview of the estimated pre-paid mobile revenue (2008) per Member State

### 3.3.2.5.2 Qualitative findings

Telecom operators were requested to provide insights into the expected market changes that can be taken into account by the European Commission when drafting new legislation.

Following is an overview of recent developments possibly impacting the assessment of any new legislative proposal:

- Market developments possibly impacting mobile phone revenues:

Deloitte's Global Technology, Media and Telecommunications (TMT) Industry Group forecasts that over the coming years the mobile VoIP (i.e. Voice over Internet Protocol) market will be worth over 600 times more than what is currently the case. Analysts estimate the worldwide mobile VoIP by 2012 be worth more than USD 30 billion. This likely will have an impact on cellular networks, which face a real prospect of losing a major share of their voice traffic and revenue<sup>25</sup>.

- Mobile payment technologies:

Mobile payments for other goods and services can be deducted from a pre-paid account or charged directly to a separate account. The latter application allows a direct split between mobile phone and other services and implies that telecoms providers will no longer intervene in payment transactions performed for third parties. There are four primary models for mobile payments:

- (i) Sms-based transactional payments: the consumer sends a payment request via an sms text message and a premium charge is applied to his/her phone bill or his/her mobile wallet.
- (ii) Direct mobile billing: the consumer uses the mobile billing option during checkout at a web site to make a payment. After two-factor authentication involving a PIN and one-time-password, the consumer's mobile account is charged for the purchase.
- (iii) Mobile web payments (WAP): the consumer uses web pages displayed or additional applications downloaded and installed on the mobile phone to make a payment. The payment is handled via the mobile account or via a separate account.
- (iv) Contactless near field communication (NFC): the consumer uses a special mobile phone equipped with a smartcard and waves the phone near a reader module. The payment can be deducted from the pre-paid account or is charged directly to a separate account.

- Services offered via mobile (smart) phones:

Following the success of smart phones, it is expected that the range of goods and services offered and thus the total number of sales via mobile phones will continue to grow. Some examples of current applications are: pay-as-you-go navigation services, internet, MMS, music downloads, videos, ringtones, online games, wallpapers, transportation fares (bus, subway or train) and parking meters, books, tickets, mobile banking, mobile credit cards, mobile bar coding, mobile peer-to-peer applications, etc.

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<sup>25</sup> Deloitte, *Telecommunications Predictions 2010*, p. 8.

### 3.3.3 Gift vouchers

#### 3.3.3.1 Selection of interviewees

The European Commission requested that information be obtained directly from two market players that are perceived as important in their market sector in the 10 selected Member States.

Since the use of gift vouchers is widespread across consumer markets (e.g. fashion retailers, diversified retailers, travel agencies, electronic retailers, shopping centers, restaurants, local shops, the online music market, specialized gift voucher companies, etc.), it was decided to contact two active market players per market in (preferably) each of the 10 selected (and other) EU Member States.

The following table provides an overview of the businesses contacted. These businesses were selected taking into account their presence in as many EU Member States as possible and making use of Deloitte's client network and networks of professional associations.

Market sector	EU Member State
Fashion retailer (1)	EU 27
Fashion retailer (2)	EU 27
Fashion retailer (3)	UK – IE
Diversified retailer – Interior and design(1)	EU 27
Diversified retailer – Interior and design (2)	FR – IE – PL – ES – UK – SK – RO – NL – LU – CZ – DE – SE – AT
Diversified retailer – Interior and design (3)	FR – PL – IT
Diversified retailer – Interior and design (4)	DE – DK – EE – FI – SE – SL – ES - CZ
Diversified retailer (1)	EE
Diversified retailer (2)	EE
Diversified retailer (3)	EE
Diversified retailer (4)	BU – CY – CZ – EL – HU – IE – LV – LT – MT – PL – RO – SK – SL – ES – UK
Diversified retailer (5)	EU 27
Diversified retailer (6)	UK – IE
Diversified retailer – Health and beauty (1)	DE
Diversified retailer – Health and beauty (1)	AT – BE – CZ – EE – FR – DE – HU – IE – IT – LV – LT – LU – NL – PL – PT – RO – SK – SL – ES - UK
Diversified retailer – Leisure (1)	IE – FR – DE – ES - UK
Electronic retailer (1)	AT – BE – DE – EL – HU – IT – NL – PL – PT – ES – SE – FR – LU
Electronic retailer (2)	BE – FR – EL – LV – PT - ES
Electronic retailer (3)	AT – BE – DE – HU – IT - PL
Gift voucher company (1)	AT – BE – CZ – EE – FR – DE – HU – IE – IT – LU – NL – PL – PT – SK – UK – SK – ES – DK – SE - FI
Gift voucher company (2)	AT – BE – DK – FR – DE – IE – IT – LU – NL – PL – ES – SE
Gift voucher company (3)	IE
Gift voucher company (4)	IE
Gift voucher company (5)	FR – BE – ES – DE – IT – PT - PL
Gift voucher company (6)	UK
Gift voucher company (7)	UK
Travel agency (1)	EU 27
Travel agency (2)	BE – NL – DE – FR
Tele tickets	UK

Table 9 – Overview of the interviewees selected to provide data on the use of gift vouchers within the EU

### 3.3.3.2 *Preparation of the interview guide*

To ensure that the relevant data were collected in a standardized way, a document was developed listing all questions to be answered by the selected businesses, including clear definitions of SPVs, MPVs, payment devices and an accompanying mail including an introduction to the purpose of the study.

The following information was requested from each of the selected businesses<sup>26</sup>:

- Overview of the main market players in the country of economic activity.
- Description of the applied gift voucher system (i.e. SPV vs. MPV, general conditions, etc.).
- Overall turnover per Member State.
- Total number of gift vouchers sold (divided into SPVs and MPVs).
- Monetary value of gift vouchers sold (divided into SPVs and MPVs).
- Total number of gift vouchers redeemed (divided into SPVs and MPVs).
- Monetary value of gift vouchers redeemed (divided into SPVs and MPVs).
- Total number of gift vouchers (i.e. MPVs) that can be used in cross-border transactions.
- Monetary value of gift vouchers (i.e. MPVs) that can be used in cross-border transactions.
- Total number of gift vouchers (i.e. MPVs) redeemed in cross-border transactions.
- Monetary value of gift vouchers (i.e. MPVs) redeemed in cross-border transactions.
- Indication of 'comparable markets'.
- Expectations on future developments (e.g. increase or decrease in the total monetary value of gift vouchers sold, expectations on redemption rates, voucher formats, etc.).
- Other comments.

### 3.3.3.3 *Data collection*

This section provides an overview of the data gathered per Member State. The results are limited because many businesses were not willing to divulge the requested information, either for confidentiality purposes or because the information was not readily available. Retailer and trade organizations indicated they did not have the data available. The UK is the only Member State that has an active gift voucher association that collects data on gift vouchers directly from its members.

In total, 16 individual and two EU-wide results were obtained:

- Eleven individual results for the U.K.
- One for Estonia
- One for Ireland
- One for France
- One for Germany
- One for Sweden
- One for Spain
- Two EU-wide results from international operating businesses both active in 21 Member States.

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<sup>26</sup> A copy of the questionnaire is provided in Appendix 4.

Market sector	EU Member State
Diversified retailer	UK – 3 data points
Diversified retailer	EE – 1 data point
Tele tickets	UK – 1 data point
Gift voucher company	UK – 6 data points
Gift voucher company	IE – 1 data point
Gift voucher company	EU - 21 data points
Gift voucher company	EU – 21 data points
Gift voucher company	BE – 1 data point
Gift voucher company	DK – 1 data point
Gift voucher company	SE – 1 data point
Gift voucher company	FR – 1 data point
Gift voucher company	ES – 1 data point
Travel agency	UK – 1 data point

Table 10 – Overview of the total number of data points collected on the gift voucher market

Below is an overview of the data collected via the interviewees:

Member State	Market sector	Overall turnover (EUR)	Total number of gift vouchers sold	Monetary value of MPVs sold (EUR)	Total number of MPVs redeemed	Monetary value of MPVs redeemed (EUR)	Ratios
Belgium	Gift voucher company	42,023,000	600,328	42,023,000	512,514	35,876,000	Non-redemption rate: 15% Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 70
Denmark	Gift voucher company	901,000	15,534	901,000	11,689	678,000	Non-redemption rate: 25% Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 58
Estonia	Diversified retailer	417,000,000	183,662	2,509,506	183,662	2,616,079	Non-redemption rate: 0% (unlimited in time) Turnover gift cards / Total turnover: 0.6% Average value per voucher: EUR 14
France	Gift voucher company	2,200,000,000	34,900,000	388,200,000			Non-redemption rate: No info Turnover gift cards / Total turnover: 18% Average value per

							voucher: EUR 11
<b>Ireland</b>	Gift voucher company	2,772,263	163,074	2,772,263			Non-redemption rate: 0% - it was stated the gift cards are valid indefinitely Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 17
<b>Spain</b>	Gift voucher company	3,125,000	31,250	3,125,000	21,840	2,184,000	Non-redemption rate: 30% Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 100
<b>Sweden</b>	Gift voucher company	804,000	14,888	804,000	9,648	521,000	Non-redemption rate: 35% Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 54
<b>UK</b>	Gift voucher company	289,242,700	28,638,951	257,750,560			Non-redemption rate: Not received - indicated there are very small levels of non-redemption. Turnover gift cards / Total turnover: 89% Average value per voucher: 9 EUR
<b>UK</b>	Gift voucher company		19,967,383	2,290,832,536			Non-redemption rate: no info available Turnover gift cards / Total turnover: N/A Average value per voucher: 115 EUR
<b>UK</b>	Gift voucher company	1.421.396,04	35,534,901				Average value per voucher: 25 EUR
<b>UK</b>	Gift voucher company		10,182,920				
	Diversified						Non redemption

<b>UK</b>	retailer	1,449,594,800	600,957	27,043,103	576,919	25,961,378	rate: 4% Turnover gift cards / Total turnover: 2% Average value per voucher: 45 EUR
<b>UK</b>	Diversified retailer	8,568,137,440	7,410,654	185,266,362	7,410,654	185,266,362	Non-redemption rate: vouchers are valid indefinitely. Turnover gift cards / Total turnover: 2.16% Average value per voucher: EUR 25
<b>UK</b>	Diversified retailer	15,166,630,500	6,594,187	151,666,305	6,528,245	148,648,145	Non-redemption rate: +/- 1% Turnover gift cards / Total turnover: +/- 1% Average value per voucher: EUR 23
<b>UK</b>	Tele tickets		3,164,505				
<b>UK</b>	Gift voucher company	16,947,130		7,611,373			
<b>UK</b>	Travel agency	3,576,195,660	520,000	26,000,000	510,276	25,513,800	Non-redemption rate: 1.875% Expected growth: 7% per year Turnover gift cards / Total turnover: 0.7% Average value per voucher: EUR 50
<b>UK</b>	Gift voucher company	31,187,960	1,834,585	31,187,960			Non-redemption rate: 0% - it was stated the gift cards are valid indefinitely Turnover gift cards / Total turnover: 100% Average value per voucher: EUR 17
<b>EU 21</b>	(Gift) Voucher company	2,935,000,000	34,900,000	547,000,000	24,000,000	481,600,000	Non-redemption rate: 30% Turnover gift cards / Total turnover: 19% Average value per voucher: EUR 15

EU 21	(Gift) Voucher company	6,205,000,000		271,705,238			Turnover gift cards / Total turnover: 4%
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Table 11 – Overview of the data collected for the gift voucher market

### 3.3.3.4 Extrapolation

The vast size of the gift voucher market that spans all market sectors made it impossible to make precise estimates on the basis of the data points collected. Therefore, it was decided to approach the assessment from a 'de minimis' point of view, implying the following:

(1) Identification of the sectors that mainly issue gift vouchers:

- Specialized gift voucher companies (e.g. Smartbox, Accor, Sodexo, Le Chèque Déjeuner)
- Fashion retailers (e.g. H&M, Inditex)
- Health and beauty (e.g. A.S. Watson)
- Interior and design (e.g. Ikea)
- Electronic retailers (e.g. Metro AG, PPR SA (Fnac))
- Travel agencies (e.g. Thomas Cook, Tui)
- Cinemas (e.g. Kinopolis, Cinemaxx, Multiplex)

(2) Selection of businesses:

- Fashion retail, electronics, health and beauty, interior and design, leisure and diversified retailers: each company doing business in Europe, ranking in the top 250 of the world's largest retailers and issuing gift vouchers. In total, 42 businesses were selected.
- Specialized gift voucher companies: selection of the EU top three, i.e. based on their EU presence and annual turnover (Accor, Sodexo and Le Chèque Déjeuner) supplemented with some local market players for the EU 10 measurement countries and the businesses for which individual data were collected. In total, 22 businesses were selected.
- Travel agencies: four market players issuing gift vouchers based on their EU presence.
- Cinemas: selection of businesses generating a annual turnover of minimum EUR 20 million. In total, 35 market players were selected.

The total number of selected businesses is 103.

(3) For each of the selected businesses, the 2008 turnover was obtained directly from the market players or via the annual accounts. The total turnover of the businesses selected conform point (2) equals EUR 462.3 billion.

(4) Taking into account the specific business activities, a distinction was made between SPVs and MPVs:

- Specialized gift voucher market: gift vouchers mainly qualify as MPVs. A limited number of vouchers, i.e. those issued by businesses selling one specific product,

subject to a single VAT rate and only redeemable in one EU Member State, qualify as SPVs.

- Fashion retail: all vouchers issued, with the exception of those issued in Ireland, Luxembourg, Poland and the U.K. (i.e. in those Member States, different VAT rates apply depending on the category of shoes and / or clothing), qualify as MPVs.
- Leisure and diversified retailers and interior and design: given the variety of goods sold by such retailers, gift vouchers are deemed to qualify as MPVs.
- Health and beauty: given the type of products sold, gift vouchers are deemed to qualify as SPVs. Desk research learned none of the selected businesses seems to allow the cross-border use of vouchers.
- Electronic retailers: given the type of products sold, gift vouchers are deemed to qualify as SPVs. Desk research learned none of the selected businesses seems to allow the cross-border use of vouchers.
- Travel agencies: Since these gift vouchers are generally redeemed with a local travel agency, most vouchers issued within this category of selected businesses seemed to qualify as SPVs.
- Cinema: the vouchers sold qualify as SPVs.

The split-out of the EUR 462.3 billion brings the estimate of the total annual turnover for businesses, respectively selling SPVs and MPVs to EUR 107.9 billion and EUR 354.4 billion.

(5) Based on the data collected from the interviewees, the average of the following parameters was calculated per sector level:

- Specialized gift voucher market:  
Based on the data points received, the following averages would apply:
  - The ratio of revenue arising from the sale of gift vouchers: 33%<sup>27</sup>.
  - The value per gift voucher sold: EUR 27.
  - The redemption ratio: 79%.
- Travel agencies:  
Based on the data points received, the following averages would apply:
  - The ratio of revenue arising from the sale of gift vouchers: 0.7%
  - The value per gift voucher sold: EUR 50.
  - The redemption ratio: 81.3%.
- Fashion retail, diversified retail, health and beauty, interior and design, electronic retailers, cinema and leisure:  
Based on the data points received, the following averages would apply:
  - The ratio of revenue arising from the sale of gift vouchers: 1%.

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<sup>27</sup> Even though one would be of the opinion that the ratio of revenue generated by the specialised gift voucher market would equal 100%, it should be taken into account major businesses such as Accor and Sodexo generating revenue from selling other products such as meal tickets, were also categorized as specialized gift voucher companies.

- The value per gift voucher sold: EUR 25.
- The redemption ratio: 99%.

(6) The total monetary value and number of gift vouchers sold, and the total monetary value and number of gift vouchers redeemed, was estimated as follows<sup>28</sup>:

- The total monetary value of gift vouchers sold: multiplication of the annual turnover (step 3) by the average ratio of revenue arising from the sale of gift vouchers (step 5).
- The total number of gift vouchers sold: the total monetary value of gift vouchers sold divided by the average value per gift voucher sold (step 5).
- The total monetary value of the gift vouchers redeemed: multiplication of the total monetary value of gift vouchers sold by the redemption ratio (step 5).
- The total number of gift vouchers redeemed: the total monetary value of gift vouchers redeemed divided by the average value per gift voucher redeemed (i.e. assumed to equal the average value per gift voucher sold).

### 3.3.3.5 Overall result for the EU 27

#### 3.3.3.5.1 Quantitative findings

This section provides an overview of the estimate of the total gift voucher spending, the total number of gift vouchers sold and the total monetary value and number of gift vouchers redeemed. On EU level, a distinction is made between SPVs and MPVs.

EU Member State	Overall turnover (EUR billion)	Total number of SPVs / MPVs sold (million)	Total monetary value of SPVs / MPVs sold (EUR million)	Total number of MPVs / SPVs redeemed (million)	Total monetary value of MPVs / SPVs redeemed (EUR million)	Average monetary value per SPV / MPV sold (EUR) <sup>29</sup>
Austria	12.8	5.0	126.6	4.9	125.3	25
Belgium	4.3	2.3	84.8	2.2	78.3	37
Bulgaria	0.4	0.5	7.1	0.4	6.1	15
Cyprus	0.2	0.1	2.3	0.09	2.4	25
Czech Republic	6.4	4.2	81.6	3.7	76.3	19
Denmark	8.9	3.6	89.9	3.5	88.8	25
Estonia	1.2	0.4	5.5	0.4	5.5	14
Finland	12.5	5.0	124.8	4.9	123.5	25

<sup>28</sup> A detailed calculation is provided in Appendix 5.

<sup>29</sup> It should be noted the average monetary value seems rather high for Latvia, Lithuania and Slovenia. This is due to the fact the average value on a EU Member State level was taken into account. Given the relative low importance of these countries they however have no impact on the overall estimate of EUR 9 billion.

France	55.0	56.2	936.4	47.6	828.7	17
Germany	93.7	34.4	901.7	34.1	891.9	26
Greece	1.6	0.6	15.7	0.6	15.5	25
Hungary	7.5	5.0	96.7	4.5	90.3	19
Ireland	5.8	2.5	61.0	2.3	57.6	24
Italy	31.5	18.1	373.3	16.6	354.7	21
Latvia	1.0	0.4	10.0	0.4	9.9	25
Lithuania	1.1	0.4	10.6	0.4	10.5	25
Luxembourg	0.4	0.1	3.7	0.1	3.7	25
Malta	0.03	0.01	0.3	0.01	0.3	25
Netherlands	7.4	4.1	161.9	3.7	137.9	39
Poland	10.2	4.0	101.2	4.0	100.2	25
Portugal	4.2	1.7	41.9	1.7	41.5	25
Romania	2.4	4.8	64.7	3.8	53.8	14
Slovakia	3.6	4.2	65.5	3.5	57.7	16
Slovenia	0.3	0.1	2.7	0.1	2.7	25
Spain	36.7	18.2	407.8	17.1	393.6	22
Sweden	6.2	2.5	62.3	2.4	61.5	25
UK	136.0	109.2	4,085.7	101.3	3,449.3	37
Unspecified	10.8	54.0	1,014.9	40.5	868.1	19
<b>MPVs</b>	<b>354.4</b>	<b>302.2</b>	<b>7,909.0</b>	<b>268.0</b>	<b>6,949.0</b>	<b>26</b>
<b>SPVs</b>	<b>107.9</b>	<b>39.4</b>	<b>1,031.7</b>	<b>37.0</b>	<b>986.6</b>	<b>26</b>
<b>TOTAL</b>	<b>462.3</b>	<b>341.6</b>	<b>8,940.7</b>	<b>305.0</b>	<b>7,935.6</b>	<b>26</b>

Table 12 – Overview on the estimate of the total monetary value of gift vouchers sold

Based on the above, the total minimum monetary value to be taken into account for the gift voucher market was estimated at **EUR 9 billion**.

The EUR 9 billion spending represents 0.13% of the European final consumption expenditure of households and non-profit institutions (i.e. EUR 7,038 billion<sup>30</sup>) and lies in line with the ratio published in earlier gift voucher studies<sup>31</sup>.

### 3.3.3.5.2 Qualitative findings

Gift voucher issuers were requested to provide insights on expected market changes, which can be taken into account by the European Commission when drafting new legislation.

Below is an overview of recent developments that could impact the assessment of any new legislative proposals.

Market developments possibly affecting gift voucher revenues:

- Experts expect the gift voucher market to continue to grow and thrive<sup>32</sup> and expect the growth of the market even could be enhanced by the fact banks are seeking more opportunities and seem to show interest in the retail gift voucher sector.

<sup>30</sup> Eurostat: *Final consumption expenditure of households and non-profit institutions serving households* (<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00009&plugin=0>)

<sup>31</sup> PSE Consulting, *Identifying the European pre-paid market*, 09.06.2006.

<sup>32</sup> See data published by the UKGVA at <http://www.ukgva.co.uk/factsandresearch.html>

### 3.3.4 Loyalty cards

#### 3.3.4.1 Selection of interviewees

The European Commission requested that information be obtained directly from two market players that are perceived as important in their market sector in the 10 selected Member States.

Since the use of loyalty card programs is widespread (i.e. applied by both large retailers and local shops), a ‘de minimis’ approach was used and the assessment was based on the loyalty schemes implemented by the five main grocery retailers in each of the 27 Member States.

The retailers were selected based on the data available via a specialized retailer organization collecting statistical data for the worldwide retailer market<sup>33</sup>.

The following table overviews the top five grocery retailers per Member State, including their representative market shares.

EU Member State	Grocery retailers	Total market share
<b>Austria</b>	Rewe-Zentral AG, Spar, Aldi, Schwarz Unternehmens Treuhand KB, Tengelmann	66.8%
<b>Belgium</b>	Delhaize, Carrefour, Colruyt, Aldi	70%
<b>Bulgaria</b>	Metro, Rewe-Zentral AG, Schwarz Unternehmens Treuhand, Delta M Group, CBA	16.5%
<b>Cyprus</b>	Carrefour, Orphanides, AlphaMega, LukOil, L'Occitane	32.1%
<b>Czech Republic</b>	Schwarz Unternehmens Treuhand, Rewe-Zentral, Koninklijke Ahold BV, Tesco, Metro	47.8%
<b>Denmark</b>	COOP, Dagrofa, Dansk Supermarket, SuperBestamba, Edeka Zentrale AG&Co	69.4%
<b>Estonia</b>	ETK, Koninklijke Ahold BV, Kaubamja, Maxima, SOK	64.8%
<b>Finland</b>	SOK, Kesko, Tradeka, Schwarz Group, Wihuri	86.9%
<b>France</b>	Carrefour, Intermarché, E. Leclercq, Casino, Groupe Auchan SA	64.4%
<b>Germany</b>	Edeka Zentrale AG&Co, Rewe-Zentral AG, Schwarz Unternehmens Treuhand KG, Aldi, Metro	60.4%
<b>Greece</b>	Carrefour, Schwarz Unternehmens Treuhand KG, Delhaize, Sklavinitis, Veropoulos	47.8%
<b>Hungary</b>	CBA, Tesco, COOP, Real Hungaria, Spar	54%
<b>Ireland</b>	Musgrave, Tesco, BWG, Stonehouse, Dunnes	45%
<b>Italy</b>	COOP Italia, Groupe Auchan, Carrefour, Conad, Esselunga	33.4%

<sup>33</sup> Planet Retail, one of the world's leading retail analysts providing insights, analysis, news and data covering more than 7,000 retail operations across 211 countries ([www.PlanetRetail.net](http://www.PlanetRetail.net)).

<b>Latvia</b>	VP Market (Maxima), Koninklijke Ahold BV, Aibe, Kesko, IKI	26.2%
<b>Lithuania</b>	Maxima, Norfa, IKI, Koninklijke Ahold BV, Aibe	70.5%
<b>Luxembourg</b>	Cactus, Louis Delhaize, Groupe Auchan SA, Delhaize Group, Aldi	69%
<b>Malta</b>	Schwarz Group	3%
<b>Netherlands</b>	Koninklijke Ahold BV, Aldi, Sperwer, Lekkerland, Sligro	41.7%
<b>Poland</b>	Jeronimo Martins, Metro, Tesco, Schwarz Group, Carrefour	20.9%
<b>Portugal</b>	Jeronimo Martins, Sonae, Intermarché, Schwarz Unternehmens Treuhand KG, Groupe Auchan SA	61.2%
<b>Romania</b>	Metro, Rewe-Zentral AG, Carrefour, Schwarz Unternehmens Treuhand KG, Delhaize	21.7%
<b>Slovakia</b>	COOP, Tesco, Schwarz Unternehmens Treuhand KG, CBA Rewe-Zentral AG	60.5%
<b>Slovenia</b>	Mercator, Spar, TUS Trgovine, Aldi, Schwarz Unternehmens Treuhand KB	77.4%
<b>Spain</b>	Mercadona, Carrefour, Eroski Group, El Corte Inglés, Groupe Auchan SA	63.5%
<b>Sweden</b>	Koninklijke Ahold BV, KF Gruppen, Axfood, Apoteket, Bergendahl	45.6%
<b>UK</b>	Tesco, Sainsbury, Wal-Mart, Morrisones, COOP	54.2%
<b>TOTAL GROCERY BANNER SALES TOP 5 (EUR billion)</b>	<b>599.25</b>	<b>54%</b>
<b>TOTAL GROCERY BANNER SALES (EUR billion)</b>	<b>1,115.0</b>	<b>100%</b>

Table 13 – Overview of the top five grocery retailers per EU Member State

### 3.3.4.2 Preparation of the interview guide

To present the data in a standardized manner, an excel file was created listing the relevant data<sup>34</sup>:

- Description of the applied loyalty card system.
- Total turnover per Member State.
- Market share (i.e. to provide insight in the total market coverage).
- Monetary value of the granted discounts (i.e. via face value vouchers, free goods or discounts).
- Total number of card holders.
- Total number of discount vouchers granted (i.e. only relevant for the loyalty schemes where face value vouchers are issued).
- Loyalty cards useable in cross-border transactions.
- Monetary value of the discount granted in cross-border transactions.
- Other comments (e.g. market developments).

<sup>34</sup> A copy of the interview guide is provided in Appendix 1.

### 3.3.4.3 Data collection and quantitative findings

Desk research provided sufficient insights to estimate the minimum discount granted by retailers operating a scheme allowing to save points redeemable for face value vouchers.

For example, Delhaize Belgium generated a total of EUR 4.5 billion on grocery banner sales for 2008. Knowing this retailer operates a loyalty card scheme under which cardholders receive one point for each EUR 2 spent, it is estimated Delhaize granted 2.25 billion points. The customer receives EUR 5 for each 500 points collected and redeemed, implying the total amount of discounts granted can be estimated at EUR 23 million (i.e. 2.25 billion / 500 multiplied by EUR 5). On average, Delhaize grants a discount of 0.5%. In practice, the effective discount granted might be slightly higher since specific promotions allow customers to collect more points. It should be kept in mind, however, that not all customers dispose of or make use of a loyalty card.

The result of this exercise was subject to expert review performed by Planet Retail who provided estimates for the discounts granted by the remaining European top five grocery retailers operating another type of loyalty scheme.

The following table provides insights per Member State on the top 5 total grocery banner sales, the average percentage of discount and the total monetary value of the discount granted by the top 5 grocery retailers<sup>35</sup>:

EU Member State	Grocery banner sales (Top five) (EUR billion)	Average discount percentage	Total monetary value of discount granted (EUR million)
Austria	14.4	0.23%	33.2
Belgium	18.2	0.59%	106.7
Bulgaria	1.1	0.28%	3.3
Cyprus	0.4	0.54%	2.2
Czech Republic	7.6	0.27%	20.5
Denmark	15.1	0.35%	52.5
Estonia	1.6	0.37%	5.7
Finland <sup>36</sup>	15.3	1.57%	240.9
France	120.3	0.31%	378.0
Germany	139.5	0.19%	262.0
Greece	7.4	0.31%	23.0
Hungary	7.9	0.17%	13.5
Ireland	8.0	0.50%	40.0
Italy	34.9	0.45%	155.9
Latvia <sup>37</sup>	1.4	0.00%	-
Lithuania	2.8	0.42%	11.6
Luxembourg	1.1	0.19%	2.0
Malta <sup>38</sup>	0.01	0.00%	-

<sup>35</sup> A detailed calculation is provided in Appendix 1.

<sup>36</sup> The average discount percentage for Finland is considerably higher than the European average. This is due to the fact Finland's top 3 grocery retailers representing a market share of over 70% seems to apply extreme favourable loyalty programs.

<sup>37</sup> No information on loyalty card schemes is available for Latvia. Given the size of the Latvian market, however, this will not impact the EU-wide estimate.

Netherlands	14.9	0.35%	52.9
Poland	12.5	0.49%	61.0
Portugal	8.9	0.28%	25.0
Romania <sup>39</sup>	4.9	0.00%	-
Slovakia	3.8	0.34%	13.0
Slovenia	2.9	0.33%	9.7
Spain	43.9	0.11%	47.8
Sweden	12.3	0.50%	61.6
UK	97.8	0.71%	693.3
<b>TOTAL TOP 5 GROCERY</b>	<b>599.25</b>	<b>0.386%</b>	<b>2,315.0</b>

Table 14 – Overview per Member State of the minimum estimated monetary value of discount granted by the top five grocery retailers

Since the top 5 grocery retailers' sales represent 54% of the EU-wide grocery sales only and since no detailed information on the effectively applied loyalty schemes by the remainder of the grocery retailers was available, the average discount percentage per EU Member State was extrapolated to the remaining 47% grocery sales.

Subsequently, the following table provides insights per Member State on the EU total grocery banner sales, the average percentage of discount and the EU total monetary value of discount granted.

EU Member State	Grocery banner sales (EUR billion)	Average discount percentage	Total monetary value of discount granted (EUR million)
Austria	21.6	0.23%	49.6
Belgium	26.1	0.59%	152.4
Bulgaria	7.2	0.28%	20.0
Cyprus	1.3	0.54%	6.7
Czech Republic	16.0	0.27%	42.9
Denmark	21.7	0.35%	75.6
Estonia	2.4	0.37%	8.8
Finland <sup>40</sup>	17.6	1.57%	277.2
France	186.9	0.31%	587.0
Germany	231.0	0.19%	433.8
Greece	15.4	0.31%	48.1
Hungary	14.7	0.17%	24.9
Ireland	17.8	0.50%	88.9
Italy	104.5	0.45%	466.7
Latvia <sup>41</sup>	5.4	0.00%	
Lithuania	4.0	0.42%	16.7
Luxembourg	1.6	0.19%	2.9
Malta <sup>42</sup>	0.5	0.00%	

<sup>38</sup> None of the top five retailers operating in Malta had a loyalty card scheme in place in 2008.

<sup>39</sup> None of the top five retailers operating in Romania had a loyalty card scheme in place in 2008.

<sup>40</sup> The average discount percentage for Finland is considerably higher than the European average. This is due to the fact Finland's top 3 grocery retailer representing a market share of over 70% seem to apply extreme favourable loyalty programs.

<sup>41</sup> No information on loyalty card schemes is available for Latvia. Given the size of the Latvian market, however, this will not impact the EU-wide estimate.

Netherlands	35.8	0.35%	126.9
Poland	59.8	0.49%	291.8
Portugal	14.5	0.28%	40.8
Romania <sup>43</sup>	22.6	0.00%	
Slovakia	6.3	0.34%	21.4
Slovenia	3.8	0.33%	12.5
Spain	69.2	0.11%	75.2
Sweden	27.0	0.20%	135.1
UK	180.4	0.71%	1,279.1
<b>EU TOTAL GROCERY RETAILERS</b>	<b>1,115.0</b>	<b>0.386%</b>	<b>4,285.2</b>

Table 15 – Overview per Member State of the minimum estimated monetary value of discount granted by the EU grocery retailers

The total minimum monetary value to be taken into account for the loyalty card market was estimated at **EUR 4 billion**.

#### 3.3.4.4 Qualitative findings

Desk research revealed the following developments on loyalty cards.

- Market developments:
  - Loyalty card schemes operated by one retailer seem to be extended to other partners. For example, Delhaize Belgium has entered into partnerships with BBL, the toy shop Christiaensen and Brussels Airlines.
  - Cross-border use of loyalty cards: Loyalty cards generally can be used only in the country of issuance, although some retailers seem to allow cross-border use (e.g. the Belgian Delhaize Plus Card can be used in Belgium and Luxemburg).
- Services and technologies:
  - Notwithstanding the fact that advanced technologies, such as contactless near field communication (NFC), have been on the market for several years, most retailers still seem to issue paper or plastic loyalty cards.
  - Loyalty cards are becoming more integrated with other functions such as payment and gifting.

### 3.3.5 Discount vouchers

#### 3.3.5.1 Selection of interviewees

As for gift vouchers, the European Commission requested that information be obtained directly from two market players that are perceived as important in their market sector in the 10 selected EU Member States. Since it was decided to approach the assessment from a 'de minimis perspective' by restricting the assessment to product discount vouchers, only food distributors, electronic retailers and fast food chains were contacted.

<sup>42</sup> None of the top five retailers operating in Malta had a loyalty card scheme in place in 2008.

<sup>43</sup> None of the top five retailers operating in Romania had a loyalty card scheme in place in 2008.

### 3.3.5.2 *Preparation of the interview guide*

To ensure the relevant data were collected in a standardized way, a document listing all questions to be answered by the selected businesses was developed<sup>44</sup>.

The following information was requested from each of the selected businesses:

- Whether the handling is outsourced to a coupon clearing office
- Overall turnover per EU Member State
- Total number of product discount vouchers issued
- Monetary value of product discount vouchers issued
- Total number of product discount vouchers redeemed
- Monetary value of product discount vouchers redeemed
- Total number of product discount vouchers issued and useable in cross-border transactions
- Monetary value of product discount vouchers issued and useable in cross-border transactions
- Total number of product discount vouchers redeemed in cross-border transactions
- Monetary value of product discount vouchers redeemed in cross-border transactions
- Indication of 'comparable markets'
- Expectations on future developments (e.g. higher / lower value of discount vouchers issued, discount vouchers granted on paper, via mobile phone, electronically, etc.)
- Other comments.

### 3.3.5.3 *Data collection and quantitative findings*

No relevant information was obtained from the market players themselves primarily because the information requested was not readily available since it is not held centrally.

It was subsequently decided to base the quantification on the following data provided by coupon clearing offices<sup>45</sup>:

- The total number of redeemed product discount vouchers for Belgium, France, Germany, Italy, Spain, Sweden and the UK.
- The average value per redeemed product discount voucher for Belgium, Germany, Italy and the UK.

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<sup>44</sup> A copy of the interview guide is provided in Appendix 6.

<sup>45</sup> Data for Belgium, France, Spain and Sweden was provided by Highco, Promocon; data for Germany by Acardo and data for Italy and the U.K. by Valassis. Highco, Acardo and Valassis are considered among the main operating coupon clearing offices within the EU.

EU Member State	Total number of product discount vouchers redeemed (million)	Average value per redeemed product discount voucher (EUR) <sup>46</sup>	Total monetary value of discount granted (EUR million)
Belgium	238.6	0.71	169.4
Denmark <sup>47</sup>	-	-	-
France	516.7	0.71	366.8
Germany	33.3	1.00	33.3
Italy	178.2	0.66	117.6
Spain	40.0	0.66	26.4
Sweden	61.7	0.71	43.8
UK	633.7	1.12	709.7
<b>TOTAL EU 7</b>	<b>1,702</b>		<b>1,467</b>

Table 16 – Overview of the data collected on discount vouchers

#### 3.3.5.4 Extrapolation

Based on the following assumptions, the data for the EU 7 was extrapolated to the EU 27:

- By dividing the total number of product vouchers redeemed by the total number of inhabitants<sup>48</sup>, the average number of redeemed product vouchers per inhabitant was calculated for the EU 7.
- To estimate the average number of redeemed product discount vouchers for the other Member States, experts grouped the comparable markets as follows<sup>49</sup>:
  - Belgium, France, Cyprus, Greece, Luxembourg.
  - Germany, Austria, Bulgaria, Czech Republic, Estonia, Hungary, Netherlands, Poland, Romania, Slovakia, Slovenia.
  - Italy, Malta.
  - Spain, Portugal.
  - Sweden, Finland, Latvia, Lithuania.

<sup>46</sup> No data on the average value per redeemed voucher was provided for France, Spain and Sweden. According to Highco, the Spanish coupon market is comparable to the Italian market, while Sweden and France can be compared with Belgium. Therefore, the same average value per redeemed voucher was taken into consideration.

<sup>47</sup> According to the information received from the Danish Chamber of Commerce, legal provisions prohibit businesses from issuing discount vouchers.

<sup>48</sup> COM (2010) 630/1: *15th Report on the Single European Electronic Communications Market 2009*, 25.05.2010, Annex 8.3, Volume 2 ([http://ec.europa.eu/information\\_society/policy/ecomm/library/communications\\_reports/annualreports/15th/index\\_en.htm](http://ec.europa.eu/information_society/policy/ecomm/library/communications_reports/annualreports/15th/index_en.htm)).

<sup>49</sup> The grouping of comparable markets was based on input provided by Highco, one of the main European coupon handling offices.

(vi) UK, Ireland.

- By multiplying the average number of redeemed product discount vouchers per inhabitant (i.e. assuming the average number of vouchers per inhabitant to be equal within the group) by the total number of inhabitants per Member State, the total amount of redeemed vouchers at Member State level was assessed.
- Taking into account an average voucher value of EUR 0.79 (i.e. the average value per redeemed voucher according to the information received from the coupon clearing offices), the total monetary value of discount granted at an EU level was estimated.

EU Member State	Population (2008)	Total number of redeemed product discount vouchers per inhabitant	Total number of product discount vouchers redeemed (million)	Total monetary value of discount granted (million)
Austria	8,331,930	0.4	3.4	2.7
Belgium	10,666,866	22.4	238.6	169.4
Bulgaria	7,640,238	0.4	3.1	2.4
Cyprus	794,580	15.0	11.9	9.4
Czech Republic	10,381,130	0.4	4.2	3.3
Denmark	5,475,791	0.0	-	-
Estonia	1,340,935	0.4	0.5	0.4
Finland	5,300,484	6.7	35.6	28.1
France	63,753,140	8.1	516.7	366.8
Germany	82,221,808	0.4	33.3	33.3
Greece	11,214,992	15.0	168.2	132.9
Hungary	10,045,000	0.4	4.1	3.2
Ireland	4,419,859	10.3	45.5	36.0
Italy	59,618,114	3.0	178.2	117.6
Latvia	2,270,894	6.7	15.3	12.1
Lithuania	3,366,357	6.7	22.6	17.7
Luxembourg	483,799	15.0	7.3	5.7
Malta	410,584	3.0	1.2	1.0
Netherlands	16,404,282	0.4	6.7	5.3
Poland	38,115,641	0.4	15.5	12.2
Portugal	10,617,575	0.9	9.3	7.4
Romania	21,528,627	0.4	8.7	6.9
Slovakia	5,400,998	0.4	2.2	1.7
Slovenia	2,025,866	0.4	0.8	0.6
Spain	45,283,259	0.9	40	26.4
Sweden	9,182,927	6.7	61.7	43.8

<b>UK</b>	61,185,981	10.4	633.7	709.7
<b>TOTAL EU 27</b>	<b>497,481,657</b>	<b>4.157</b>	<b>2,068.3</b>	<b>1,756</b>

Table 17 - Overview per Member State of the minimum estimated monetary value of discount granted via product discount vouchers

The total monetary value to be taken into account for the product discount voucher market was estimated at **EUR 2 billion**. In this respect, it should be emphasized the EU 7 alone seem to account for approximately EUR 1.5 billion or 75% of the total.

### 3.3.6 Conclusion

Based on the above, the minimum monetary value of the total European voucher market was estimated at **EUR 52 billion**.

The following table provides an overview per voucher type:

<b>Voucher type</b>	<b>Quantification EUR (billion)</b>	<b>Relative importance (%)</b>
Telecom vouchers	37.0	71%
Gift vouchers	9.0	17%
Loyalty cards	4.0	8%
Discount vouchers	2.0	4%
<b>Total</b>	<b>52.0</b>	<b>100%</b>

Table 18 – Overview of the total monetary value of the selected vouchers in the EU

## 3.4 Phase 3 – Qualitative analysis – Pre-paid telecom vouchers

### 3.4.1 General

The framework of the qualitative part of the expert study included the VAT treatment of pre-paid telecom vouchers in the 27 EU Member States. This verification was made in cooperation with the Deloitte offices in the different Member States and based on current VAT legislation. This analysis is based mainly on administrative practices documented in general guidelines freely available in these countries for all taxable entities when they diverge from the law or when they fill a gap in the law or when the effective VAT treatment of the vouchers would not otherwise be understandable. VAT rules set out in individual administrative decisions were not taken into account unless published as statements of general practice.

Although some Member States have no specific VAT regime applying to pre-paid telecom vouchers (Cyprus, Lithuania, Estonia, Malta, Portugal, Romania, Slovakia, Slovenia and Spain), the analysis focused on countries where a specific VAT regime is in place. In these countries, a distinction can be made between two types of taxation systems: taxation upon sale and taxation upon redemption.

Under the taxation upon sale system, VAT is due at the time a voucher is sold, while under the taxation upon redemption system, VAT is due at the time a voucher is redeemed. Under the latter

system, VAT is not due at the time of sale because the sale is considered either a transaction outside scope of VAT, as an exempt service or as a means of payment.

For both systems, specific and standardized questions were drafted to have a clear understanding of the VAT regime in place in every Member State. Both types of system are further elaborated in the following section, as well as specific measures implemented by some countries in combination with the relevant system<sup>50</sup>.

### 3.4.2 Taxation upon sale

#### 3.4.2.1 *Local VAT treatment*

Taxation upon sale is the most applied system across Member States (i.e. Austria, Bulgaria, Czech Republic, France, Greece, Hungary, Ireland, Italy, Latvia and Poland). Denmark, Finland and Germany use the taxation upon sale system only for SPVs, with taxation upon redemption applying to MPVs. These countries thus use both types of taxation systems depending on the nature of the services or goods that can be acquired at the time the voucher is redeemed.

In all countries applying the taxation upon sale system, the sale of a pre-paid telecom voucher qualifies as a telecommunications service or as a pre-paid telecommunications service on which VAT becomes due at the time the voucher is sold by the telecoms operator to the next link in the chain.

Within the countries that apply the taxation upon sale system, two types of sales structures can be distinguished: (i) the buy-sell structure and (ii) the agent structure.

In buy-sell structure countries (i.e. Bulgaria, Czech Republic, Denmark, Finland, France, Hungary, Ireland<sup>51</sup> and Poland), intermediaries buy and subsequently re-sell vouchers in their own name. The sale of the voucher in each link in the chain qualifies as a taxable supply on which VAT becomes due on the price charged to the next link in the chain.

In agent structure countries (i.e. Austria, Germany, Greece, Italy and Latvia), the telecoms operator is deemed to carry out a supply of a telecommunications service to the final customer. Therefore, the telecoms operator has to pay VAT on the price paid by the final customer at the time of sale of the voucher (i.e. the VAT due is calculated based on the face value of the voucher). Hence, the economic sale of vouchers by an intermediary to a next link in the chain does not qualify as a taxable supply for VAT purposes.

In most countries that apply the agent structure, intermediaries are deemed to carry out a taxable agency service to the telecoms operator or to a previous intermediary. The taxable base of the agency service is calculated as the difference between the net sales price and the net purchase price. In Germany, however, intermediaries are deemed to carry out an exempt agency service.

Because services are taxed before they are actually rendered under the taxation upon sale system, it is possible that the voucher is later redeemed for services on which a different VAT treatment is applicable than the treatment applied on the sale of the voucher. Under Irish and Italian VAT

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<sup>50</sup> A detailed overview for the EU 27 is provided in Appendix 7.

<sup>51</sup> In Ireland, arrangements are possible whereby the telecom operator accounts for the VAT on the full retail price, so that no VAT liability attaches to the intermediary.

legislation, the taxable person can obtain a repayment of the VAT levied on the sale of a voucher if the voucher is subsequently used outside the EU to access telecommunications services. In the Czech Republic and Slovenia (although the system is not fully elaborated in the latter country), VAT payers are entitled to reduce the standard VAT originally declared if a pre-paid telecom card is used for another supply (either subject to a reduced VAT rate, an exempt supply or a supply outside the scope of VAT).

#### **3.4.2.2** *Cross-border VAT treatment*

In all countries applying the taxation upon sale system, the cross-border VAT treatment of vouchers is based on the normal place of supply rules for telecommunication services as set out in the EU VAT Directive. This implies that in a B2B (business-to-business) context, the services are deemed to take place where the customer is established (Article 44 of the VAT Directive). In a B2C (business-to-consumer) context, the services are deemed to take place where the service provider is established to the extent the customer is established within the EU (Article 45 of the VAT Directive). If the customer is established outside the EU, the services are deemed to take place where the customer is established (Article 59 of the VAT Directive).

However, most countries have implemented the use and enjoyment rules in article 59ter of the VAT Directive, so that these services will be taxed locally if supplied in a B2C context by a telecoms operator established outside the EU, but used and enjoyed in their Member State.

Since under the taxation upon sale system, VAT becomes due at the time the telecoms operator sells the voucher, it is unnecessary to further analyse specific measures in the Member States in order to avoid non- or late taxation of the sale of the vouchers, as well as any potential impact on the right of deduction for the telecoms operator due to the revenue obtained from unredeemed vouchers or as a result of the difference between the time of the sale of the voucher and the time of redemption.

### **3.4.3 Taxation upon redemption**

#### **3.4.3.1** *Local VAT treatment*

The taxation upon redemption system is used in Belgium, Luxembourg, Netherlands, Sweden and the UK. Denmark, Finland and Germany use this system only for MPVs. In taxation upon redemption countries, VAT becomes due when the voucher is redeemed. The debtor of the VAT is, in principle, the issuer of the voucher in the case of telecommunications services and either the redeemer or the issuer in the case of the purchase of other services or goods. In Denmark, however, it is unclear whether VAT is due by the redeemer or the issuer when other services or goods are purchased.

Under the taxation upon redemption system, no VAT is due on the sale by the telecoms operator to the intermediary or on a subsequent sale of an issued voucher by an intermediary (except in the case of the sale by an intermediary of retailer vouchers in the UK<sup>52</sup>) since VAT is due only at the time the

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<sup>52</sup> The UK makes a distinction between retailer vouchers and credit vouchers. A retailer voucher is issued by a person that is also a person that provides the goods or services that the voucher can be redeemed against. A credit voucher is a voucher that cannot be redeemed against the issuing company. Contrary to the principles set out above, in the UK, the subsequent sale of an issued retailer voucher by an intermediary is also subject to

voucher is redeemed. When pre-paid telecom vouchers are sold via intermediaries, the intermediary in principle carries out a taxable agency service to the telecoms operator or to the previous intermediary. The taxable base of the agency service is the difference between the net sales price and the net purchase price. However, most countries provide for a simplified process that allows the intermediary not to charge VAT on its agency service. In Denmark, Finland and Sweden, the VAT treatment of these agency services is either unknown or not further elaborated.

To prevent the non-taxation of pre-paid telecom vouchers when they are not redeemed, Luxembourg and the Netherlands provide that VAT is due on the unused credits at the time the voucher expires.

There is no impact on the right of deduction of the telecoms operator in any of the countries as a result of income obtained from the non-redemption of pre-paid telecom vouchers or due to financial benefits arising from the timing difference between the time payment is received for the sale of a telecom voucher and the time VAT is due.

#### *3.4.3.2 Cross-border VAT treatment*

Only a few countries that use the taxation upon redemption system further elaborate on the cross-border VAT treatment of the sale of pre-paid telecom vouchers. Some countries do have a specific regime in place. For example: Belgium has a regime under which the first Belgium-established intermediary becomes the debtor of the VAT if pre-paid telecom vouchers are sold on the Belgian market by an EU-established telecom operator or a non EU-established telecoms operator that has not registered for Belgian VAT purposes. This regime was introduced to prevent the non-taxation of the sale of telecom vouchers on the Belgian market by foreign telecoms operators.

Most of the other Member States applying a taxation upon redemption system, however, did not further elaborate the cross-border aspects of the sale of telecom vouchers, leaving some scope for non-taxation of the services, especially in cases of sales of pre-paid telecom vouchers on their local market by telecoms operators established in a Member State that uses the taxation upon sale system.

In a case where a voucher is sold in the Member State of the telecoms operator to an intermediary established in a Member State that operates the redemption system, the sale is not taxable in the Member State of the telecoms operator because under the general B2B-rule for services, this service took place in the Member State of the recipient. On the other hand, VAT will not become due in the Member State where the taxation upon redemption system is applied either if the voucher is redeemed for a telecommunications service by a private individual in this Member State, according to the general B2C-rule for serviced, this telecommunications service is deemed to take place in the Member State of the telecoms operator.

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VAT at the time the intermediary sells the voucher. The intermediary is also entitled to deduct VAT on the purchase price of the voucher (although this VAT was not accounted for by the issuer).

#### **3.4.4 Conclusion**

The VAT treatment of the sale of pre-paid telecoms services in the individual EU Member States is widely differentiated, and is elaborated more in some countries than in others. This varying VAT treatment can lead to avoidance schemes or the distortion of competition based on the Member State of establishment of the telecoms operator.

## IV - APPENDICES

- Appendix 1 – Preliminary assessment of the European voucher market
- Appendix 2 – Standard questionnaire on the pre-paid telecom vouchers
- Appendix 3 – Quantification of the European pre-paid telecom voucher market
- Appendix 4 – Standard questionnaire on the gift vouchers
- Appendix 5 – Quantification of the European gift voucher market
- Appendix 6 – Standard questionnaire on the discount vouchers
- Appendix 7 - Qualitative analysis on the European pre-paid telecom voucher market