



**EUROPEAN CONFERENCE OF MINISTERS OF TRANSPORT  
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**Council of Ministers**

**ROAD TRANSPORT: REFORM OF THE QUOTA AND ACCESS TO THE MARKET**

**PHASING OUT DISCRIMINATORY CHARGES IN INTERNATIONAL ROAD HAULAGE  
CONCLUSIONS AND RECOMMENDATIONS**

*This document will be examined under item 3.2 "Roadl Transport" of the draft agenda of the Moscow Council of Ministers.*

*Ministers are invited to implement the Recommendations set out in this report.*

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## Recommendations

As Ministers agreed in 1999, the response to political issues over the fairness of charges should not be to introduce transit taxes and further complicate the taxation of international haulage. It should instead be to simplify taxation, preferring territorial taxes (paid by all hauliers) to nationality based taxes.

In the short term the emphasis should be on abolishing transit charges and reducing the weight and complexity of nationality based taxes, replacing them with territorial charges, ideally tolls, km-charges or eurovignette type charges (with the option to purchase at a daily rate).

In the longer term, migration towards a simple structure of three main categories of taxation is desirable:

1. a territorially based charge in the form of a km charge, tolls or the Eurovignette, differentiated according to environmental costs;
2. nationality based annual vehicle taxes (without complementary transit charges);
3. fuel excise tax (without rebates that discriminate on the basis of nationality), differentiated according to environmental characteristics (e.g. sulphur content).

Retaliatory charges are by definition discriminatory and should not be deployed in any circumstances.

Miscellaneous charges to cover costs related to border controls, local customs inspection costs, policing costs, parking at borders etc., although not necessarily discriminatory, should be minimised due to their complexity. These costs would be better covered through an element of a generalised territorial charge. At the least, a small, single entry charge (applicable to all hauliers regardless of nationality) would be preferable to a multiplicity of charges. Such charges as persist should be subject to strict national guidelines as far as their nature and level are concerned if proliferation and inflation of charges is to be avoided.

Finally, when new charges are planned, or changes made to the level or scope of application of an existing charge, Ministries of Transport should notify the ECMT, through the Secretariat to the Road Transport Group, and the IRU so that they can inform hauliers of the change in advance, with at least 1 month's notice, in order to facilitate logistics planning and help avoid fraud.

## PHASING OUT DISCRIMINATORY CHARGES IN INTERNATIONAL HAULAGE

### Introduction

There is concern in some countries over the fairness and complexity of taxation in international haulage. In the newer Member states in particular, there was a proliferation of new charges during the transition from centrally planned to market oriented economies. The enlargement of the European Union saw the elimination of some discriminatory charges and the emergence of new charges that have the potential to discriminate between vehicles registered in EU countries and those registered in other countries. Traditional bilateral exemptions are proving an inadequate response, and in themselves are a source of discrimination. A first report on the issue was presented to Ministers in 1999 [CEMT/CM(99)15], setting out three principles as the basis for fair systems of taxation:

- non-discrimination;
- non-accumulation;
- and reasonableness;

and making a series of recommendations adopted by Ministers and set out on page 3 of this report.

The present report examines the taxes and charges on international haulage in place in all ECMT Member Countries in the light of these principles and seeks to highlight problematic charges. A full examination of the basis for efficiency in road haulage taxation is available in the publication *Reforming Transport Taxes* published by ECMT in 2003.

The present report identifies the existence of a number of discriminatory charges, most notably some large transit taxes in a small number of countries, which act as a barrier to trade and to fair competition. It also notes a number of potentially discriminatory charges that have recently been abolished (highlighted in the tables in *italics*). It reaffirms the importance of implementing the recommendations adopted in 1999.

### Principles for establishing the fairness of taxation in international haulage

All ECMT Member countries levy fiscal charges on goods transport by road, usually through a combination taxes on the possession of vehicles and charges related to their use on the roads. Some of the charges are ***territorially based***, i.e. to some extent related *pro rata* to the use of specific infrastructure, for example electronic km charges and the Eurovignette<sup>1</sup>. Others are levied on the owner of the vehicle regardless of the

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1 In Germany, Belgium, the Netherlands, Luxembourg, Denmark and Sweden, countries with no history of applying motorway tolls, growth in international traffic led to the development of the

amount he uses given infrastructure (labelled vehicle taxes, road taxes and sometimes also vignettes). As taxes in this latter category are levied on vehicle owners at their place of business, they can be regarded as ***nationality based*** charges.

The nationality based charges give rise to difficulties in international transport as governments have to decide whether and how to apply them to foreign owned vehicles. The traditional response has been to levy transit charges.

The most common *domestic* nationality based charges are annual taxes on the possession of vehicles, or annual permits for the use of the road system. These have a potentially useful economic function<sup>2</sup> and can avoid discrimination if foreign registered vehicles are able to purchase entry to the system on a daily basis. In the European Union vehicle taxes for heavy vehicles are subject to a legal minimum rate in order to avoid tax competition (i.e. one country reducing rates to attract haulage businesses to re-locate).

***Transit charges*** are waived in many cases, and sometimes reduced, under the terms of reciprocal bilateral agreements. Where transit charges are levied, they may either be calculated according to the formula used for the nationality based charge applied to domestic hauliers or under an entirely separate scale of charges. Hauliers can sometimes choose whether to pay charges at a daily rate or reduced weekly, monthly or quarterly rates. Discounted charge rates may also be available for journeys restricted to areas close to border crossings. The formulae and definitions employed vary greatly between countries.

The level of transit charges applied also varies greatly between countries. This gives rise to concern over the fairness of transit charges. The main principle on which fairness should be judged is ***non-discrimination*** which means that domestic and foreign hauliers should be taxed equally. The simplest approach and that recommended here, is simply not to employ transit charges, and where it is felt necessary to charge foreign owned vehicles to prefer territoriality based charges such as electronic km charges.

For a transit charge to be non-discriminatory it should not result in foreign hauliers paying significantly higher charges than domestic hauliers over similar hauls. To determine whether transit charges are discriminatory in country A, we need only examine the taxes levied in that country. If the sum of taxes levied in respect of a haul on domestic hauliers is more or less identical to the sum of taxes levied on a foreign haulier

territorial based Eurovignette to replace former nationality based charges in large part. Eurovignette fees are paid annually or over shorter periods, and the pooled revenues from third country hauliers are redistributed under a formula designed to relate income to the actual use of roads nationally. Germany abolished the Eurovignette in 2003 in anticipation of its new electronic km charge (LKW Maut) introduced in January 2005.

- 2 As a fixed charge they do not have an impact on the use made of the network. In circumstances where a government seeks to charge roads according to the marginal costs of road use with a km charge or some other territorially based charge, but then seeks to recover higher revenues, it is less distorting to do this with a fixed charge than by increasing the rate of the km charge.

(from country B) for the same haul, then there is no discrimination. The tax system of country B is irrelevant to the comparison. If foreign hauliers face higher charges, there is discrimination against them. Conversely if they face lower charges there is discrimination in their favour, though this has rarely become a political issue.

A more subtle but more common form of discrimination arises when different **discounted tariffs or short stay tariffs** are available and vary according to the country of registration of the vehicle. This can happen both in the case of a transit charge based on a domestic charge and when both domestic and foreign vehicles are subject to an equivalent territorial charge. Thus, for example, the daily rate for a charge on a foreign vehicle may be calculated as a fraction of a tax levied as an annual charge on national vehicles (say 1/360<sup>th</sup> per day), but the length of the minimum stay permit for foreign trucks differs according to their country of registration. The basis on which the minimum stay is calculated may vary from a day to a month and have nothing to do with the time a truck is likely to spend in the country. A second case can arise when a large charge is levied for using the road network (usually in the form of a vignette) on both domestic and foreign vehicles. Absence of a daily or weekly rate for foreign trucks can be considered discriminatory.

The practice of waiving transit charges under bilateral agreements developed as a pragmatic response, on a case by case basis, to overcoming political concerns over individual transit charges that were seen (rightly or wrongly) as discriminatory. Bilateral waivers have proved a useful instrument in removing barriers to trade but they are a source of discrimination in themselves and their widespread development has led to the mistaken perception in some quarters that all transit charges are necessarily unfair.

This in turn leads to the mistaken practice of examining fairness by comparing the tax system of country A with that of country B. Following this mistaken reasoning, when country A finds that country B applies some unfamiliar tax instruments to all hauliers operating there it decides to invent a similar instrument to apply to hauliers just from country B. It does this in the hope of later negotiating a bilateral treaty to waive the kind of tax in question. It should be remembered that the normal use of bilateral waivers is to provide exemption from a transit charge that normally applies to all foreign operators -- not to provide exemption from a charge targeted at only one country's hauliers, or hauliers from a small group of countries.

Following this mistaken logic, some countries have introduced special, retaliatory taxes targeted at hauliers from countries that operate the Eurovignette. This is wrong as the Eurovignette is a territorially based charge that all hauliers pay, not a nationality based charge. Territorially based charges only have to be examined for fairness in the unusual case that domestic hauliers are granted a discount or exemption.

Retaliatory taxes (or special exemptions) should not be applied. Their deployment is likely to provoke further retaliatory measures from the targeted country, which will lead to further complication of the already complex set of charges to which international haulage is subject. This can only result in higher costs for hauliers, longer delays at borders, new opportunities for corruption and higher administrative and policing charges. They are a

barrier to trade and are likely to undermine economic growth, both in Europe as a whole and in the individual country deploying the special tax. The impact of such special taxes can be large. The IRU estimated in 1998 that in the worst cases they amount to several hundred Euro per haul<sup>3</sup>.

Finally, many countries offer partial ***fuel tax refunds*** to hauliers with vehicles registered in their country, and in the case of EU and EFTA countries on fuel purchased for trucks registered in any member country. It is unclear to what extent bilateral agreements might extend this reciprocity to other groups of countries. In the absence of such extensions, refunds are clearly discriminatory. These refunds exist in order to support national haulage industries. An alternative would be to lower the rate of excise duty on diesel, but this is constrained by the markets for diesel cars and light commercial vehicles. The eventual introduction of electronic km charges for all vehicles could provide scope for compensating reductions in basic rates of fuel taxes and an end to fuel tax rebates in the long term, though no lower than tax floors agreed internationally, for example by the European Union<sup>4</sup>, to prevent tax competition. The minimum appropriate rate of fuel tax is also a function of policy towards greenhouse gas emissions, since fuel taxes are the instrument best suited to internalising the external costs of CO<sub>2</sub> emissions. Fuel tax refunds also act to undermine climate change policies.

## Identifying discriminatory charges

### ***Transit charges***

This report does not attempt to analyse in detail the fairness of the treatment of foreign and domestic hauliers as a result of the application of traditional transit taxes (charges designed to make foreign hauliers contribute to infrastructure costs in a similar way to domestic hauliers). A comprehensive analysis could be attempted, however, on the basis of a methodology for making international comparisons of taxation developed by ECMT<sup>5</sup> for 16 countries, for the purpose of examining more general distortions of competition in the international haulage market. The starting point would be to identify nationality based charges (as opposed to territorially based charges) and quantify their impact on a standard haul by a domestic haulier. The impact of transit charges applied to foreign hauliers on the same standard haul could then be computed in a similar way, and compared.

As a first step, the transit charges in force are listed in the table below (more details of the taxes and charges in force in each Member country are given in the tables in report CEMT/CM(2005)17). It should be noted that most of the transit charges are subject to exemptions (full exemption or for an annual quota of transits) under bilateral agreements, which creates an additional layer of discrimination. Data on the annual

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3 IRU Tax Survey in Central and Eastern Europe, IRU Geneva, 1998.

4 Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity.

5 Road Haulage Database <http://www1.oecd.org/cem/topics/taxes/AnnexB3e.xls>

revenues collected by transit charges might reveal the impact of the bilateral agreements, as well as the overall value of levying transit charges.

### **Transit charges:**

| <b>Country</b>        | <b>Charge for single transit or entry</b>  |
|-----------------------|--|
| Albania               | € 0.015 / tkm Gross weight   |
| Armenia               | € 75 /day<br>+20% for 2-7 days<br>+30% for 7-30 days<br>+40% for over 30 days  |
| Belarus**             | € 31 per transit since 1.1.2005  |
| Bulgaria              | € 75   |
| Croatia               | € 7 – 12   |
| FYR Mac.              | € 0.3 / km   |
| Georgia               | € 100 maximum transit charge abolished on 1 January 2005   |
| Greece                | € 18.30 per entry  |
| Hungary               | € 244 for transit up to 48h<br>€ 122 for bilateral transport up to 48h   |
| Italy                 | € 3.5 for 1-10 days<br>€ 1.05 for 1-3 days under bilateral agreements.   |
| Moldova*              | € 25 plus € 0.25 / km subject to ECMT and bilateral exemptions   |
| Portugal              | Bilateral agreements determine how Road Haulage Motor Vehicle Tax is applied   |
| Romania               | € 0.92 / km<br>Vehicles registered in Turkey in transit pay the lower than standard rate of €100 per 36 hours plus €5 per additional hour. |
| Serbia and Montenegro | € 0.09 – 0.14 / km<br>€ 0.17 / km for countries with no bilateral agreement  |
| Turkey                | € 0.4 – 0.6 / km   |
| Ukraine*              | € 10 plus € 0.02 / km subject to ECMT and bilateral exemptions<br>\$ 320 per entry additional charge                                       |

\* ECMT licence holders and trucks covered by bilateral agreements are exempt from the two part transit charges in Moldova and Ukraine, but not from the \$320 entry charge in Ukraine.

\*\* Belarusian hauliers are also subject to this charge for carrying goods purely in transit across the country. The charge operates as a time-based vignette with a minimum rate for 1 day (\$40), together with a 1 week rate (\$60), 1 month rate (\$150) and 1 year rate (€ 1480). (*Entry charges of € 62 to €120 were abolished on 1.1.2005 when the previous regulatory regime expired*).

### **Retaliatory charges**

Detailed analysis is not required in the case of retaliatory charges. As stated above, they are by definition discriminatory and should not be applied. No retaliatory charges were identified in 2004/2005.



### ***Exemptions to territorially based charges***

Exemptions, or discounts, to road tolls and other territorially based charges for domestic hauliers are discriminatory, as explained above, and should not be applied. None have been identified (but see the footnote to the table on transit charges in relation to the “transit vignette” introduced in 2005 by Belarus).

### ***Absence of short stay vignettes for the use of roads***

Time based territorial charges, such as the Eurovignette, are usually available to foreign hauliers at daily, weekly or monthly rates as well as the standard annual rate. No precise criteria have been developed in relation to average transit journey times in order to identify how many days the minimum purchase for a road user charge should cover, or what scale of discounting is appropriate in relation to the annual rate for daily, weekly or monthly vignettes. However, the absence of a daily or at least weekly rate for a time based road charge suggests discrimination between domestic and foreign trucks.

The EU defines the fair minimum charge as a one day permit (attachment II to the Eurovignette Directive) or no more than €8 regardless of specific length of validity. Bulgaria and Romania’s vignettes lack daily rates but do provide for weekly rates. In Romania a daily vignette can be purchased within the country, or to extend an initial vignette, but not on arrival at the border. The Bulgarian vignette was initially levied at different rates for domestic and foreign hauliers. The rates are converging in steps to 2007 when the weekly rate will be € 29.

### ***Short stay vignettes are not available in the following cases:***

| <b>Country</b> | <b>Charge</b>               | <b>Minimum length and rate</b>             |
|----------------|-----------------------------|--|
| Bulgaria       | Charge for the use of roads | 1 week, € 42                               |
| <i>Hungary</i> | <i>Motorway vignette</i>    | <i>Daily rate available since 1.1.2005</i> |
| Romania        | Charge for the use of roads | 1 week, € 25                               |

### ***Differences in minimum stay periods for the purpose of calculating charges***

The Italian *Tassa di circolazione*, an annual charge for domestic vehicles, is applied to foreign vehicles pro-rata according to their length of stay. However, the minimum validity period for which the charge could be purchased used to vary according to the country of registration of the vehicle. Major trading partners negotiated minimum validity periods of one to three days whereas some other countries’ hauliers were eligible only for 120 day minimum fees. This discriminatory system has now ended and been replaced with a more transparent and less discriminatory system that provides for minimum permits of 10 days for all foreign hauliers and 3 days for those subject to bilateral agreements.

### ***Discrimination in the minimum periods for which payment is required:***

| Country | Charge                      | Notes  |
|---------|-----------------------------|--|
| Italy   | Charge for the use of roads | 10 day minimum reduced to 3 days under bilateral agreements. |

### ***Weight and abnormal load charges***

These are normally not discriminatory, so long as they are applied in the same way to foreign and domestic hauliers. In Eastern Europe they have been employed in some countries to compensate for the fact that roads were not designed to carry the weight of modern standard trucks. Thus trucks with an axle weight exceeding the design standard for trunk roads are charged fees related to the excessive wear their use entails, regardless of their country of origin. The fact that domestic operators generally operate trucks with lower axle weights is irrelevant. However, if domestic hauliers enjoy exemptions to axle weight fees there is discrimination and the practice should end. This can arise in practice by default in countries where there is no control of weights and dimensions except at borders.

### ***Countries for which weight limit is below 40t:***

| Country | General maximum weight limit       | Charge / notes   |
|---------|------------------------------------|--|
| Albania | 38t                                |  |
| Armenia | 36t                                | Charge up to 40t \$ 0.2 / km plus Road Tax of \$ 0.02 / km |
| Austria | 38t (40t for EU registered trucks) | No charge, thorough controls                               |
| Belarus | 38t                                | Charge \$0.03 per ton per km                               |
| Georgia | 36t                                |  |
| Russia  | 38t                                |  |
| Ukraine | 38t                                |  |

### ***Other fees***

There is a range of other fees to which international haulage is subject: taxes for the use of terminal facilities; border crossing charges; environment taxes; sanitary inspection fees; fees for parking at border stations, etc.. These are not necessarily discriminatory if they are levied on both foreign and domestic hauliers in the same way. Even if the method of application differs between foreign and domestic hauliers, there may not be discrimination. However, in such cases it is difficult to determine whether the amount of tax levied is fair or discriminatory (see paragraph on transit charges). More fundamentally, these services are normally funded by central government in a market economy. Delegating entire responsibility for the levying and collection of fees to local administrations starved of resources will almost inevitably lead to proliferation in the number and inflation in the level of charges.

**Charges for services that it would be preferable to fund from general budgets:**

| <b>Country</b>   | <b>Charge</b>   |
|------------------|---|
| Albania          | Disinfection fee , € 11 (ALL 1400)  |
| Armenia          | Environment charge €20 per entry  |
| FYR<br>Macedonia | Weighing vehicles €10, disinfection €5, parking at border €10 per 12<br>hour period |
| Romania          | Customs €15, disinfection €13-15  |
| Slovakia         | Phyto-veterinary controls SKK3-80   |
| Turkey           | Customs out of office hours €7, Phyto-veterinary controls €34,<br>Disinfection €2-5 |
| <i>Ukraine</i>   | <i>Regional taxes in border regions abolished in 2004.</i>                          |

The diversity of such charges coupled with the fact that new charges are introduced and rates changed without sufficient notice to international hauliers, itself represents a significant barrier to trade. The uncertainty opens the door to fraud and hauliers find it increasingly difficult to plan adequate financial provision for covering charges levied at borders.