

European Commission
Directorate-General for Taxation and
Customs Union
VAT and other turnover taxes
Rue Montoyer 59, office 5/96
B-1049 Brussels
Belgium

Brussels, 7 May 2008

Dear Madam,
Dear Sir,

Re.: Consultation on the review of existing legislation on VAT reduced rates

COLIBI is the Association of the European Bicycle Industry. COLIPED is the Association of the European Two-wheeler Parts' & Accessories' Industry.

We welcome the Commission's Consultation Paper relative to the review of existing legislation on VAT reduced rates.

In the introductory and background note of this paper, the Commission indicates that the application/introduction of reduced rates for environmentally friendly, energy efficient and energy saving goods needs further in-depth analysis before conclusions can be drawn as to the effectiveness of the reduced rate tool.

In our view, this is a very important issue and, as already pointed out in earlier correspondence with the Commission, we strongly feel that **ALL bicycle products and services** should benefit from a permanent reduced rate of VAT.

As environmentally friendly and sustainable mode of mobility, the bicycle can contribute to the realisation of many European policy objectives. These objectives relate, among other things, to the environment, energy, public health, transport, economy, development, etc.

We fully agree that a further harmonisation in VAT is necessary and that 1 reduced rate of VAT should be applied, yet not only to needs that are basic, but also to those (products/services) that deserve preferential treatment, for instance environmentally friendly products & services.

Please find below our contribution to the Consultation paper.

Yours faithfully,



Greet Engelen
Secretary General
COLIBI - COLIPED

Questions submitted to the public and all parties concerned

Contribution by COLIBI & COLIPED – 7 May 2008

Locally supplied services including labour-intensive services

4. Do you see any possible problems for the functioning of the internal market?

→ On the contrary. In our view, there can only be advantages related to the application of a reduced rate of VAT on bicycle repair, and, in general, on **ALL bicycle products and services**.

An increased bicycle mobility, as well as an increase in regular checks of the bicycle (and if necessary: small repairs) at the independent bicycle dealer can only benefit road and road users' safety, the environment, health and mobility. As a result, costs for the community will decrease.

5. What is your view on the reasoning developed under chapters 3 to 6 regarding labour-intensive services, locally supplied services, housing and restaurants and the possible extension of the possibility to apply reduced rates to all these services?

→ We strongly believe that the temporary provision (e.g. application of a reduced VAT rate on bicycle repair) should be made permanent in order to be even more effective.

We further believe that the criterion of 'environmentally friendly' service or product should be included and given much more attention (see also our reply to question 12).

Considering the multiple benefits it will generate, and in addition to 'minor bicycle repairs', **ALL services (and products)** related to the bicycle should be included.

6. Are there any additional arguments in favour or against the measure of reduced rates in this respect?

→ A very important argument in favour of reduced rates is the environmentally friendliness of the service and product.

Furthermore, one should also look at the effect of reduced rates on other European policies and objectives. A product or service that can contribute positively to the realisation of European goals should get a preferential treatment (i.e. reduced rate).

As indicated earlier, the bicycle (and an increased bicycle use) can contribute positively to the realisation of goals in the following fields (non-exhaustive list):

- * environment (air & noise pollution, energy efficiency);
- * public health & safety;
- * mobility (especially in urban areas) & safety;
- * liveability of towns and cities
- * economy;
- * urban and regional development and growth;
- * tourism and culture.

Therefore, **ALL bicycle products and services** should benefit from a reduced rate of VAT.

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Other issues

11. Do you have other comments or suggestions related to chapter 7?

→ We strongly believe that **ALL bicycle products and services** should be added to Annex III of the VAT Directive, so they can permanently benefit from a reduced VAT rate. The arguments in favour of this have already been listed above.

Environmentally friendly and energy-saving goods/services

12. In your view, what are the relevant arguments either in favour or against applying reduced VAT rates to environmentally friendly products, energy efficient products (such as computers, car, ...) or energy saving goods? Which – necessary – criteria to differentiate products/services would you recommend? What kind of goods/services should be eligible for reduced rates in these cases?

→ In our view, the most important argument in favour is that these products/services contribute to the realisation of many European policy goals (see above). Of course, a clear-cut and unambiguous definition of environmentally friendly product/service needs to be determined. Also, criteria should be set. For instance: the potential of the product/service to contribute to CO2 reduction.

Transport is the second largest single source of greenhouse gas emissions in Europe and is rising rapidly. Urban mobility accounts for 40% of all CO2 emissions of road transport and up to 70% of other pollutants from transport.

While the EC's objective is to have a 20% reduction in greenhouse gas emissions by 2020, transport is the only sector in the EU in which CO2 emissions have not fallen once since 1990, indeed, they have risen by almost 30%.

We were very surprised to see cars mentioned as example of an energy efficient product in the above question.

Unquestionably, a bicycle is the most environmentally friendly, energy efficient and sustainable mode of wheeled mobility. A bicycle doesn't consume any fuel, oil or gas, it doesn't pollute and it merely needs human (muscle) power. As such, the bicycle is not only a great contributor to a better environment; it also helps citizens and governments to save on their energy expenditures.

Therefore, we strongly **recommend adding ALL bicycle products and services** to the list of products/services to which a permanent reduced VAT rate can be applied.

Deletion from the list of certain categories currently eligible for a reduced rate
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15. Should some reduced rates currently in force be abolished where they concern environmentally damaging products?

→ Yes. Applying a reduced rate of VAT to such products/services goes against many European goals.

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16. Would you recommend adding or deleting any other item to or from the list of goods and services eligible for a reduced VAT rate under EU VAT legislation?

→ Yes, we strongly **recommend adding ALL bicycle products and services** to this list of products/services.

Why?

→ Because it concerns environmentally friendly and energy-saving products/services and because the bicycle and an increased bicycle use will contribute positively to the realisation of many European objectives (see also our reply to questions 6 & 12).

Moreover, the loss of revenues from applying a reduced VAT rate to **ALL bicycle products and services** will automatically be compensated by the growth of bicycle mobility and thus jobs in this labour-intensive sector.

Efficiency and effectiveness of reduced VAT rates

17. The main purpose of VAT is to enable Member States to raise revenue and allocate these according to the budgetary and fiscal policies chosen. Also, reduced VAT rates are considered to be ill-targeted (...). Many economists therefore consider more targeted direct aids to final consumers with low revenue (...) a superior instrument. What is your view on this?

→ As indicated above, the loss of revenues from applying a reduced VAT rate to **ALL bicycle products and services** will automatically be compensated by the growth of bicycle mobility and thus jobs in this labour-intensive sector. Furthermore, Member States will make considerable savings. Example:

The World Health Organisation (WHO) summarizes the health benefits of regular physical activity, such as a total of 30 minutes' cycling on most days of the week (even if carried out in 10 – 15 minute episodes), as:

- 50% reduction in the risk of developing coronary heart diseases;
- 50% reduction in the risk of developing adult diabetes;
- 50% reduction in the risk of becoming obese;
- 30% reduction in the risk of developing hypertension;
- 10/8 mm Hg decline in blood pressure in hypertensive subjects.

The average cycling trip in Europe is about 3.5 km and takes about 15 minutes to make: two such trips each day would be enough to provide the recommended "daily dose" of physical activity.

Obesity is already responsible for 2-8% of health costs and 10-13% of deaths in different parts of the WHO European Region.

In our view, applying a reduced VAT rate on **ALL bicycle products and services** cannot be ill-targeted, as it can only offer benefits.

In the case of bicycle products and services, we believe that direct aids or subsidies would be ill-targeted. Each and every European who cycles, irrespective of social status or revenue, contributes not only to his own personal well being, but also to that of Europe.