



Budapest, 3 January, 2007

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Subject: Suggestion for regrouping the EU aid to Hungary on the basis of Hungarian non-compliance of the Operational Programs concerning transport with the community legislation

Dear Secretary General,

The Clean Air Action Group (CAAG) is one of the best-known environmental non-governmental organisations in Hungary, a national federation of 132 NGOs. One of the main fields of our activities is sustainable transport.

We are seriously concerned that the EU aid to be provided to Hungary according to the Transport Operational Program and the Regional Operational Programs in the framework of the National Development Reference Framework of Hungary, would be contradictory to the EU acquis. The financing of the road projects included in these Operational Programs by the EU taxpayers would certainly violate EU legislation concerning the internal market, environment and anti-fraud policy.

Therefore we ask the Commission not to approve any financing for this purpose, but propose to the Hungarian government to plan a regrouping of the financing to other areas so that conformity with the EU acquis is ensured. This is all the more expedient because there are many other fields in Hungary – education, energy efficiency, rail transport, public transport, urban rehabilitation and others – for which EU aid would contribute much more to competitiveness, social cohesion and environmental protection than the EU financing of road building.

This problem is not specific to Hungary. It is characteristic also for other new Member States of the European Union.

A more detailed explanation of the above can be found in Annexes 1-4.

Yours sincerely,

*András Lukács*  
President of the Clean Air Action Group

## ANNEX 1

### **Suggestion for regrouping the EU aid to Hungary on the basis of Hungarian non-compliance of the Operational Programs concerning transport with the community legislation**

The Transport Operational Program and the Regional Operational Programs in the framework of the National Development Reference Framework of Hungary, aiming at receiving EU aid for the years 2007–2013, demand to a large extent EU funding of road transport projects – mainly motorways and expressways. Besides, according to our information, several projects aim to improve surface accessibility to airports.

Here we do not wish to enter into the discussion whether all these projects are necessary at all or not. However, we do assert that **the financing of these projects by the EU taxpayers is contradictory to the EU acquis.**

Road and air transport are already heavily subsidized by the state – partly directly, but largely indirectly. This is recognized also by the White Paper “European Transport Policy for 2010: Time to Decide” which states among others the following: “In its earlier White Paper on a common transport policy the Commission already concluded that *‘one of the important reasons why imbalances and inefficiencies have arisen is because transport users have not been adequately confronted with the full costs of their activities ... As prices do not reflect the full social cost of transport, demand has been artificially high. If appropriate pricing and infrastructure policies were to be pursued, these inefficiencies would largely disappear over time.’*”

According to a study commissioned by the Hungarian Ministry of Environment and Water, and also financed by the European Commission’s PHARE Programme, state subsidies to road transport in Hungary are enormous. Besides, this study and other studies (see Annexes 2–4) also show that road transport is strongly related to illegal activities.

- Annex 2 contains an English summary of the study “State subsidies to road transport in Hungary”.
- Annex 3 is an English summary of the study “Evaluation of reimbursements/allowances and taxation of passenger travel”.
- Annex 4 is an excerpt from the study “Freight: From Heavy Trucks to Rail”.

The direct and indirect subsidies described in the Annexes can be and should be eliminated. These studies show also the means to eliminate these subsidies, so that the “user pays” and the “polluter pays” principle would be applied in practice. For example, kilometer charging could be introduced for trucks as made possible by the *Directive 2006/38/EC of the European Parliament and of the Council of 17 May 2006 amending Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures*. Also, more severe rules for the accounting of car use could eliminate or greatly reduce tax evasion related to car use.

In short, the further subsidizing of road transport – which is already disproportionately highly subsidised – can be considered at least a waste of the EU taxpayers’ money. Even worse, it is very damaging, as this leads to a serious distortion of the market, it is economically and financially unsustainable, and contributes to the further deterioration of the environment.

Therefore further subsidies to road transport from the taxpayers' money would be a clear violation of the market principles as laid down in the **Treaty establishing the European Community** (consolidated text, *Official Journal C 325 of 24 December 2002*), especially

– Article 3: „1. *For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein: (...) (g) a system ensuring that competition in the internal market is not distorted;*”

and

– Article 4: “1. *For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.*”

– Article 174: “2. *Community policy on the environment shall aim at a high level of protection taking into account the diversity of situations in the various regions of the Community. It shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay.*”

(Our emphasis.)

The White Paper “European Transport Policy for 2010: Time to Decide” states that “A modern transport system must be sustainable from an economic and social as well as an environmental viewpoint.” It is well known – among others from the reports of the European Environmental Agency – that the present system of road and air transport is environmentally unsustainable. The Strategic Environmental Assessment of the Transport Operational Program of Hungary also came to the conclusion that this Operational Program, if implemented, will promote environmentally unsustainable activities. Therefore further EU financial aid to these modes of transport would violate the following elements of the EU acquis:

– The **Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94** states the following:

“Article 1

*Establishment and purpose of the Cohesion Fund*

1. *A Cohesion Fund (hereinafter referred to as "the Fund") is hereby established for the purpose of strengthening the economic and social cohesion of the Community in the interests of promoting sustainable development.*”

– The **Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999** states the following:

Article 3

*Objectives*

1. *The action taken by the Community under Article 158 of the Treaty shall be designed to strengthen the economic and social cohesion of the enlarged European Union in order to promote the harmonious, balanced and sustainable development of the Community. This action shall be taken with the aid of the Funds, the European Investment Bank (EIB) and other existing financial instruments. It shall be aimed at reducing the economic, social and*

*territorial disparities which have arisen particularly in countries and regions whose development is lagging behind and in connection with economic and social restructuring and the ageing of the population.*

*The action taken under the Funds shall incorporate, at national and regional level, the Community's priorities in favour of sustainable development by strengthening growth, competitiveness, employment and social inclusion and by protecting and improving the quality of the environment."*

*(...)*

*Article 17*

*Sustainable development*

*The objectives of the Funds shall be pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment as set out in Article 6 of the Treaty.*

**– The Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013** [COM(2005) 0299, Brussels, 05.07.2005] states the following:

*„the principle of environmental sustainability should be respected to the greatest possible extent, in accordance with the White Paper<sup>13</sup>. Balancing the dominance of road transport in Europe by promoting alternative modes and combined transport should be a key concern."*

As it can be seen from the Annexes, at present road transport in Hungary is widely used as means of tax evasion and other illegal activities. Therefore we are seriously concerned that by providing EU aid to road transport in Hungary the following article of the **Treaty** will be violated, too:

*Article 280 "1. The Community and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Community through measures to be taken in accordance with this article, which shall act as a deterrent and be such as to afford effective protection in the Member States."*

There are substantial needs on many other fields in Hungary – education, energy efficiency, rail transport, public transport, urban rehabilitation and others. Therefore a regrouping of the EU financial means to be provided to Hungary should cause no problem. Such a regrouping is all the more expedient because EU aid to these fields would contribute much more to competitiveness, social cohesion and environmental protection than EU financing of road building. (If necessary, we can provide also examples for concrete alternative projects.)

## **ANNEX 2**

### **State subsidies to road transport in Hungary (summary)**

Since 1991 the experts of the Clean Air Action Group (CAAG – a national federation of Hungarian environmental NGOs) have been making calculations concerning the state revenues expenditures relating to transport. In 2004 a new research was undertaken by CAAG, financed by the European Commission's PHARE ACCESS Program and the Hungarian Ministry of Environment and Water. This resulted in the most comprehensive study ever on this issue in Hungary. Here we present a summary of the results concerning road motor vehicle transport.

In 2004 the state revenues from taxes and charges on cars and trucks amounted to HUF 560 billion. The majority of this amount (HUF 390 billion) came from the excise duties on fuels. Further items between HUF 10 and 50 billion are the following: registration tax, annual tax on motor vehicles, tolls, transfer duties on motor vehicles, tax on company cars, and environmental product fees.

State expenditures or uncollected revenues relating to road motor vehicle transport added up to about HUF 4700 billion. This meant a deficit of more than HUF 4100 billion. This can be considered as the amount of subsidies for road transport, which in turn equals to 20% of the GDP in 2004. From this, state revenues relating to cars amounted to HUF 480 billion, and the expenditures exceeded HUF 2000 billion, which means that the amount of subsidies was more than HUF 1500 billion. State revenues related to road freight transport were HUF 80 billion, whereas expenditures amounted to HUF 2600 billion. Thus the amount of subsidies was more than HUF 2500 billion. Beyond that, damages caused by heavy goods vehicles are estimated to at HUF 1000 billion, however, most of these are paid by all the participants of transport, primarily by the owners of private cars. (Thus, as regards transport as a whole this is not an external cost but an enormous cross-financing within the sector that cannot be supported by rational arguments.) These are mean values; the overall range of uncertainty is about -30% and +50%.

Where does this huge amount of state expenditures and loss of revenues come from? The first source is the environmental and health damages of about HUF 2000 billion. Then comes the governmentally tolerated practice of accounting private use of passenger cars as company costs: such tax evasion leads to a loss of revenues of more than HUF 800 billion. In 2004 the national and local governments spent about HUF 460 billion for road construction and maintenance. Free parking added up to a subsidy of about HUF 360 billion. Congestion costs were approximately HUF 150 billion. Fuel manipulations (e.g. fuel smuggling) resulted in a loss of HUF 160 billion.

The amount of money gained by road hauliers from tax-fraud, smuggling, and infraction of traffic safety rules and other regulations equaled to about HUF 300 billion. The competitive advantage of road hauliers was about HUF 100 billion due to the fact that the state deprives railway transport, its primary competitor, of this amount of money in a way which is contradictory to the principles of market economy.

The afore-mentioned figures apply only to 2004. Nevertheless, we ought to take into consideration that similar subsidies have been accumulating earlier year by year. Unpaid competitive advantage that accumulated in the previous years benefited the owners of cars and trucks with further subsidies of HUF 4700 billion in 2004 (HUF 2500 billion Ft, and HUF 2200 billion, respectively), if we assume that all these subsidies should be repaid by them within 15 years. Taking into account this figure as well, in 2004 subsidies for motor vehicle road transport amounted to nearly HUF 9000 billion, which equals to 44% of the GDP.

These amounts include only those subsidies that could be quantified by the researchers. Further research is needed to quantify still a number of items. An example is the one-sided information and often even misinformation in the media that favour car and truck transport over other transport modes.

Another example is the cost of future risks. The fact that our society is more and more based on the opportunities provided by road transport might lead to enormous further costs in the future. These opportunities are now largely the basis for how our settlements develop, how the economic actors establish their relationships, and how individuals organize their life. In the same time environmental pollution increases exponentially, oil-reserves of the Earth will become more scarce and expensive to extract, economies based on foreign energy sources might be threatened by political uncertainties (e.g. in Iraq), and world population will be increasing continuously. In case road transport suffers a serious setback as a result of any of these reasons or their combinations, highways, malls built in the suburban areas, housing estates with accessibility only by car, just-in-time producing factories etc. will be much less used or even have to be abandoned completely. Consequently, the social and economic structure of the country in such a case will have to be entirely transformed. It is evident that this would require tremendous expenses which are not included in the above mentioned calculations.

**Hungarian state revenues and expenditures  
related to cars and trucks in 2004  
(billion HUF, mean values)**

REVENUES / EXPENDITURES	Total	Cars	Trucks
<b>REVENUES</b>			
<b>Excise duty of fuels</b>	<b>389</b>	<b>335</b>	<b>54</b>
Out of that: diesel oil	187	139	48
petrol	200	194	6
other fuels	2	2	
<b>Motor vehicle tax (domestic vehicles)</b>	<b>34</b>	<b>22</b>	<b>12</b>
<b>Motor vehicle transfer duty</b>	<b>16</b>	<b>16</b>	<b>1</b>
<b>Product charges (tyres, batteries, lubricating oil)</b>	<b>10</b>	<b>5</b>	<b>5</b>
Out of that: tyres	3	2	2
batteries	1	0	0
lubricating oil	7	3	3
<b>Excess-weight charge</b>	<b>1</b>		<b>1</b>
<b>Motorway toll</b>	<b>19</b>	<b>13</b>	<b>6</b>
<b>Consumption / registration tax</b>	<b>61</b>	<b>61</b>	
<b>Company car tax</b>	<b>26</b>	<b>26</b>	
<b>Motor vehicle tax (foreign vehicles)</b>	<b>3</b>		<b>3</b>
<b>Total revenues</b>	<b>560</b>	<b>479</b>	<b>81</b>
<i>Percentage distribution of revenues</i>	<i>100</i>	<i>85</i>	<i>15</i>
<b>EXPENDITURES</b>			
<b>Road construction and maintenance (state and local governments)</b>	<b>377</b>	<b>165</b>	<b>212</b>
Out of that: road maintenance (national)	71	12	59
<b>Costs of motorway construction on credit</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>VAT exemption of motorway construction</b>	<b>54</b>	<b>27</b>	<b>27</b>
<b>Accounting the private use of cars as company costs</b>	<b>865</b>	<b>865</b>	
<b>Subsidies to car manufacturers</b>	<b>160</b>	<b>160</b>	
<b>Subsidization of the Formula-1 race through budget items and advertising permission</b>	<b>13</b>	<b>13</b>	
<b>Free parking and storage of vehicles</b>	<b>365</b>	<b>344</b>	<b>21</b>
<b>Environmental, health and other similar damage</b>	<b>1713</b>	<b>856</b>	<b>857</b>
Vehicles with Hungarian registration numbers	1171	735	436
Vehicles with foreign registration numbers	542	121	421
<b>Other damage not calculated above</b>	<b>274</b>	<b>188</b>	<b>86</b>
Vehicles with Hungarian registration numbers	210	170	40
Vehicles with foreign registration numbers	64	18	46
<b>Congestion</b>	<b>148</b>	<b>107</b>	<b>41</b>
Vehicles with Hungarian registration numbers	116	97	19
Vehicles with foreign registration numbers	32	10	22
<b>Liabilities of the 40 % property buyout of motorway M5</b>	<b>21</b>	<b>11</b>	<b>11</b>
<b>Availability fee of motorway M5</b>	<b>12</b>	<b>8</b>	<b>4</b>
<b>Total „road damage” (includes damages to buildings, utilities as well as damages to other vehicles due to defected roads)</b>	<b>992</b>	<b>64</b>	<b>928</b>
<i>Out of the above: Road damage paid by truck operators</i>	<i>-130</i>		<i>-130</i>

(table continued from previous page)

REVENUES / EXPENDITURES	Total	Cars	Trucks
<b>Total loss of revenues owing to fuel manipulation</b>	<b>140</b>	<b>71</b>	<b>69</b>
Out of that: owing to fuel tourism			
loss of VAT and excise duty	113	58	55
unlawful reclaiming of VAT	7		7
<b>Annual interests on the capital of fuel manipulations carried out up until now</b>	<b>20</b>		<b>20</b>
<b>Preference of the road transportation sector's daily allowance</b>	<b>11</b>		<b>11</b>
<b>Wage accounting practice of the road transportation sector</b>	<b>110</b>		<b>110</b>
<b>Other aspects of the black economy</b>	<b>100</b>	<b>10</b>	<b>90</b>
<b>Competitive advantage arising from the violation of transport safety regulations and other similar statutes</b>	<b>130</b>		<b>130</b>
<b>Competitive advantage arising from the fact that the state took away the funds from railway freight transportation in a manner contrary to market principles</b>	<b>100</b>		<b>100</b>
<b>Preferred credit terms for cars</b>	<b>100</b>	<b>100</b>	
<b>Total expenditures</b>	<b>5640</b>	<b>3008</b>	<b>2633</b>
<i>Percentage distribution of expenditures</i>	<i>100</i>	<i>53</i>	<i>47</i>
<i>Ratio of expenditures to revenues</i>	<i>10:1</i>	<i>6:1</i>	<i>32:1</i>
<b>Balance of revenues and expenditures</b>	<b>-5080</b>	<b>-2529</b>	<b>-2551</b>
<b>FIGURES AFTER TAKING ACCOUNT OF CROSS-FINANCING (i.e. road damages and related damages to vehicles which are caused by trucks but are financed by all road users)</b>			
<b>Total expenditures</b>	<b>4702</b>	<b>2069</b>	<b>2633</b>
<i>Percentage distribution of expenditures</i>	<i>100</i>	<i>44</i>	<i>56</i>
<i>Ratio of expenditures to revenues</i>	<i>8:1</i>	<i>4:1</i>	<i>32:1</i>
<b>Balance of revenues and expenditures</b>	<b>-4142</b>	<b>-1591</b>	<b>-2551</b>
GDP in billion HUF	20350	20350	20350
<i>Revenues as a percentage of GDP</i>	<i>2.8</i>	<i>2.4</i>	<i>0.4</i>
<i>Expenditures as a percentage of GDP</i>	<i>23.1</i>	<i>10.2</i>	<i>12.9</i>
<b>Debts arising from previous years' preferences granted in a manner contrary to fair competition principles</b>	<b>4661</b>	<b>2166</b>	<b>2495</b>
<b>Total expenditures (after taking account of cross-financing) with repayment liabilities from previous years</b>	<b>9363</b>	<b>4265</b>	<b>5128</b>
<b><u>Aggregate balance of revenues and expenditures (after taking account of cross-financing) with repayment liabilities from previous years</u></b>	<b><u>8803</u></b>	<b><u>3757</u></b>	<b><u>5046</u></b>
<i>The above item as a percentage of GDP</i>	<i>43</i>	<i>18</i>	<i>25</i>

The full study can be found in Hungarian at: [http://www.levego.hu/konyvtar/olvaso/kozl\\_tam.pdf](http://www.levego.hu/konyvtar/olvaso/kozl_tam.pdf)

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### ANNEX 3

## **The car as a means of tax evasion in Hungary (summary)**

This is a summary of the study “Evaluation of reimbursements/allowances and taxation of passenger travel”. The study was done by Hungarian auditors and accountants, but they did not wish to give their name to the study. “We would lose our clients” – they explained.

According to a previous study by the Clean Air Action Group, the Hungarian state loses revenues of more than HUF 700 billion (EUR 2.8 billion) annually from personal income tax and social security contribution because the private use of cars is often illegally accounted for tax purposes as company use, and because actually undriven kilometre distances are also accounted (i.e. in this manner in fact wages are paid unlawfully and exempt from taxes). This amount corresponds to 3 per cent of Hungary's GDP. In the present study it is explained how such tax evasion occurs in the practice.

In the case of business travels by car, when company cars are used, all costs are borne by the company operating the car, whereas if cars owned by private persons (for the sake of simplicity, hereinafter: private cars) are used for business purposes, then all the fuel costs plus an allowance of HUF 9 (about EUR 0.04) per kilometre can be paid out free of taxes. However, the use of cars for commuting to work or for private purposes can be documented almost any time as if the car had been used for business purposes. Tax authorities are unable to control this. Today, for a price of HUF 10 to 20 thousand (EUR 40 to 80), anyone can purchase a computer program which will subsequently generate perfect fictitious travel records – you only have to input the company's customer database and the refuelling data.

Practically without any legal consequences, most enterprises can pursue a practice when they keep employees at the official minimum wage, and pay their wages above that level as refund of expenses for car running. Tax authorities can only detect this if some factual mistakes are made in the records of business travels, or if it can be proved that company cars are provided, or refunds of expenses for business travels by privately owned cars are paid, to such employees whose jobs would not justify making such business trips. The trouble with the latter category is that it is virtually impossible for the tax authorities to prove that this is the case.

For private cars, almost any number of kilometres can be entered in the travel records. As these cars are not company property, tax controllers do not have the right to check the cars or even to look at the kilometre recorder's reading.

Even when companies own company cars, it is simple to evade tax payment because the Hungarian Personal Income Tax Act contains a provision saying that no company car tax payment obligation arises upon such car use for private purposes which use was paid to the company by the private person involved. If, for instance, a company manager travels with his family to a seaside resort by that car and he pays for that trip to the company, then the company concerned is already exempt from the payment of the company car tax. So, the tax law even allows a loop-hole as if by saying: O.K., you do forge your travel records but when it comes to a situation where you cannot avoid entering a private-purpose use in the records, then you just pay something on one occasion, and this is enough to provide you with an excuse for your practice.

Hereafter we make some recommendations aimed at settling the above described situation or at least improving it considerably.

1. In the case of using private cars, the amount of expense refunding could be limited. Technically the simplest way to implement that is to abolish the HUF 9 per kilometre expense allowance. A possible further restriction could be if fuel would only be permitted to be accounted as an expense item up to a certain volume (e.g. at most 5 litres per 100 kilometres).

2. Within the system of expense refunds, only exceptional (i.e. very rare) use of private cars should be allowed. In the event of regular and continuous use, the enterprise concerned



should rent the car from the private person and should operate it as a company car. This is also justified because the regular use of private cars for business purposes means that the company compels its employee to let the company use his/her privately owned asset for the purpose and benefit of the company, in a manner that the company using the car only reimburses its employee partly, and by no means in accordance with market conditions, for the use of the car.

3. It should be made compulsory that if someone uses his/her private car occasionally for business purposes, then he/she should purchase the fuel for the name of the company concerned and should ask for an invoice which also indicates the registration number of his/her own car. Later on, when accounting the car's running performance, he/she should use this invoice to prove the incurred expenses.

4. The Hungarian Personal Income Tax Act's provisions concerning the company car tax should be cancelled, and instead of that a surtax should be imposed on company cars, connected to the running performance (practicably to the accounted fuel expenses) of the cars, regardless of whether it occurred during use for business or private purposes.

Clean Air Action Group already highlighted this problem several years ago. The Ministry of Finance, in its letter sent to Clean Air Action Group, acknowledged the importance of the problem; and Hungary's Central Statistical Office confirmed that it was indeed on the basis of correct data that Clean Air Action Group drew its conclusions. In spite of that, no effective measure whatsoever was taken to modify the applicable rules of law in order to curb the massive tax evasion committed by means of cars. Obviously, such measures would be extremely unpopular. The press is not willing to cover the issue either, which, again, is understandable, since first, a large part of their advertisement revenues come from car advertisements, and second, practically every journalist (and/or their family members and friends) make use of the mentioned illegal methods.

The most important task, therefore, would be to make the general public and decision-makers understand that the present system is both acutely unfair and also bad for the economy.. The attention should also be called to that the tax evasion here described did not only occur in a single year, but it has already been going on for many years. So, as a matter of fact, a just approach would be if the Hungarian state made those who committed tax evasion pay also for the tax amounts tricked away in the past years. Evidently, this is not possible any more; however, any further tax evasion should definitely be prevented.

In almost all sectors of the society and the economy – besides transport, especially in regional development – the prices which do not reflect costs cause damage that are extremely expensive, deteriorate Hungary's competitiveness, degrade the environment and will be very difficult to remedy later. This system is impossible to be financed; and so, sooner or later, it will collapse. A possible step towards avoiding that would be to severely restrict the refunding of expenses for car use.

*The full study can be found in Hungarian at  
[http://www.levego.hu/konyvtar/olvaso/kozlekedesi\\_ktgteritesek06.pdf](http://www.levego.hu/konyvtar/olvaso/kozlekedesi_ktgteritesek06.pdf)*

*Budapest, June 12, 2006*

*András Lukács  
President of Clean Air Action Group*

## ANNEX 4

### **Subsidies to heavy goods vehicles in Hungary (summary)**

**It has already been demonstrated by numerous research studies that enterprises operating heavy trucks are not paying for the damage they cause in any European country. This fact has been confirmed by the European Commission, the Conference of European Ministers of Transport and the Organization for Economic Cooperation and Development (OECD) as well. Hereafter we will briefly summarize the preferences granted to the operators of heavy trucks in Hungary.**

1. They only pay a small part of their share of the costs of road construction and road maintenance.
2. Owing to the road-destroying impact of heavy trucks, huge damage (amounting to many times the value of the road damage) is incurred by other motor vehicles using the roads; and this damage, once again, is not paid for by road carriers.
3. Heavy trucks cause considerable damage to the buildings along the roads and to the public utilities running under the roads; these costs are not borne by the carriers either.
4. They do not pay for the environmental and health damage they cause, including a large part of the accident costs.
5. For the most part, they do not pay the excise duty of fuels either, since they often refill their fuel tanks in countries where fuel taxes are much lower than in Hungary. This is evidently a case of avoiding the responsibility to undertake a proportionate share in the burden of taxation, stipulated by the Constitution of the Republic of Hungary. In recent years, refuelling abroad has even been encouraged by the Hungarian Government through the easing of several statutory requirements. For example, it gradually abolished the requirement – allowed even by EU regulations – that in the originally built-in fuel tanks of trucks at most 200 litres of fuels may be brought into Hungary from non-EU countries without the payment of taxes and customs duties.
6. As a consequence of loose controls and lenient statutory requirements, the black and grey economies represent a huge part within road freight transportation. Obviously, it means a highly preferred status for a subsector if it does not have to pay a considerable part of the applicable taxes and customs duties, in contrast to the rival subsectors (mostly the railways) which do have to pay all these public charges.
7. Road freight transportation is subject to much more lenient safety requirements than its competitors. It constitutes a shockingly great preference that road transportation is allowed to cause hundreds of times as many deaths and injuries per one performance unit as its rival subsectors (primarily the railways).
8. It represents a further preference for road transportation that the profits realized by the goods transportation division of the Hungarian State Railways Co. (MÁV) have been siphoned off year after year in the past two decades, making it practically impossible for the company to implement any improvements or even the necessary maintenance and upkeep works. The Hungarian state ordered MÁV, a state-owned company, to perform its passenger transportation activities with a loss, and to try and cover the deficit so incurred by using the profits realized on rail freight transportation. (This is just as absurd as if the state took away the profits of all road freight transportation companies so as to use these funds to cover the losses of the Budapest Public Transport Company and the long-distance coach operating companies.) This practice is totally contrary not only to the principles of market economy but also to the regulations of the European Union. (Even the European Commission has started to make inquiries about this irregularity.<sup>14</sup>)
9. In the past decades, rail freight transportation has also suffered other substantial dispreferences as a consequence of political decisions made by successive Hungarian

governments. For example, in the COMECON era, with a view to „promoting socialist integration”, railways had to transport goods at extremely low prices. The Yugoslav embargo caused losses amounting to tens of billions of HUF for the Hungarian State Railways Co. (MÁV). Introduction of the scheme of free travel for the elderly resulted in further losses of revenues for the railway company. It is not our task to take a stand in the question whether these decisions were right or wrong from a political viewpoint. Nevertheless, we believe that it is to be disapproved of that the costs of these measures were not covered by the Hungarian state, but rather they were shifted to a company operating on a competitive market, namely the Hungarian State Railways Co., without any set-off.

10. The goods transportation division of the Hungarian State Railways Co. comes under the scope of the Public Procurement Act, since it is part of a state-owned company. This happens so despite the fact that the division does not receive any subsidies from the state. In the keen market competition, where companies have to meet demands quickly and flexibly, this constitutes an almost irrecoverable disadvantage vis-à-vis road freight transportation where there is no such obligation.
11. It means a further significant preference that since the entry into force of Act CXXVIII of 2003 on the Public Interest Character and Development of the High-Speed Road Network of the Republic of Hungary (the so-called Motorway Act), the construction of expressways is subject to much more lenient statutory requirements than other investment projects. Value-added tax may be reclaimed upon state subsidies, the environmental protection and building licensing procedures have to be conducted at an accelerated pace, and civil organizations' commenting and intervening possibilities are very much limited – such and other similar preferences are being granted only to motorway constructions. Other investment projects, for example railway investments, are not eligible for such preferences.
12. All the above advantages make virtually insignificant those preferences worth a couple of billions of HUF annually which appear in the possibility of road carriers to account the daily allowance of official commissions abroad in a much more favourable manner than employees working in other sectors are allowed to do. (What is more, this daily allowance preference is only available if accommodation is not accounted, which induces truck drivers to have less proper rest. This practice, however, further increases the risk of accidents.)
13. It is an invaluable advantage for road freight transportation that leading Hungarian politicians, day after day, keep referring to this subsector and to the subsidization of the requisite infrastructure as to the most important factor for the progress of Hungary, whereas railways are mostly only mentioned as a mere heap of loss. Motorway constructions are being advertised from millions of HUF of public funds, and the counter-arguments are being hushed up.

**The pecuniary value of all the above preferences totals HUF 1000 billion annually.**

(It means that Hungarian citizens grant that much subsidy to heavy truck transport.) Furthermore, it is to be taken into account that these preferences keep accumulating year after year; if, for instance, we add up all the subsidies received by heavy truck operators in the past two decades, then the resulting total will be an amount exceeding HUF 10,000 billion. Obviously, the continuation of this practice is not only undesirable from an environmental protection viewpoint but it will also inevitably lead to ever growing economic difficulties.

*The full study can be found in English at  
<http://www.levego.hu/kamionstop/eng/kamionbooklet1.pdf>*