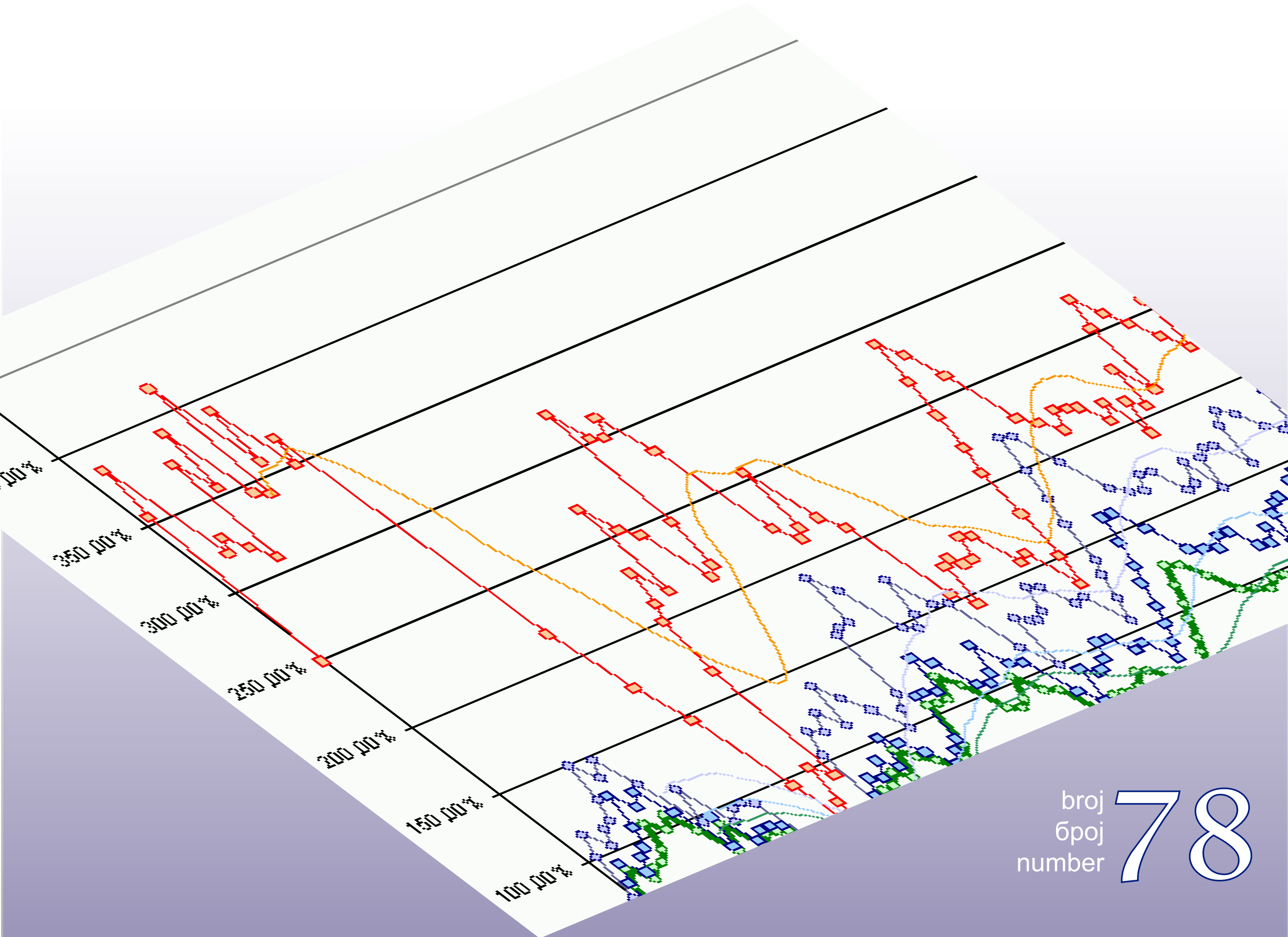
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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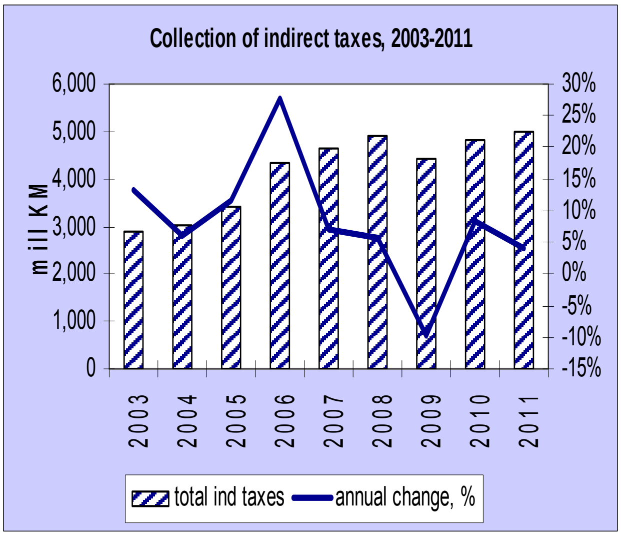
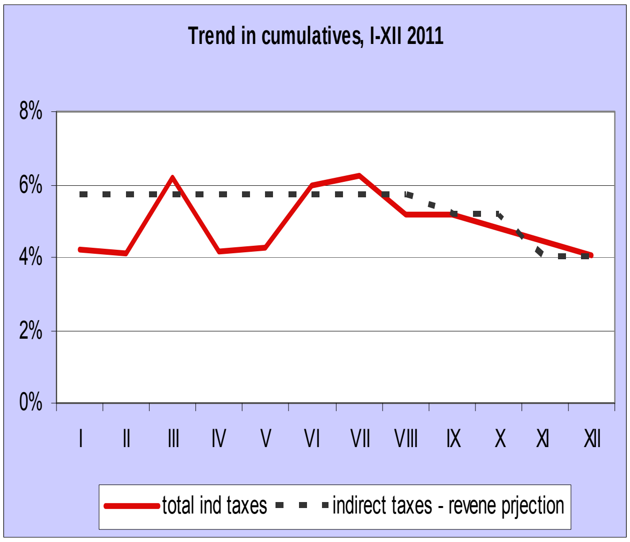
With this issue

According to the ITA preliminary report on the cash flow to the Single Account the ITA collected 4,996 billion KM of revenues from indirect taxes after deduction of refunds or 4,02 % more than in 2010. It is particularly delightful the fact that in 2011 70 million KM more is collected than in pre-crisis year 2008 (Chart 1). Annual revenue growth from indirect taxes is within the revised revenue projection presented in the last double issue. Despite the good results the analysis of trend in cumulative collection in 2011 shows a slowdown and decrease in the second half of the year (Chart 2). For the first six months net revenue growth exceeded revenue projections of that time but then in the third quarter there was a slowdown and a drop of the monthly collection.



Grafikon 1



Grafikon 2

Possible reasons for the slowdown in revenue collection could be the following: (i) a strong increase of VAT refunds, (ii) the abolition of customs records of 1%, which was reflected in a reduction of revenue in the fourth quarter, (iii) changes in the structure of derivative consumption and spreading the volume of exemptions for heating oil which was reflected on revenues from excises, road fees and VAT and, of course, (iv) slowing down the economy and consumption which was reflected in slowing down the growth of gross revenue from VAT. On the other hand, a policy of continuous increase of excise duties on cigarettes brought double revenues on this basis in relation to 2008. Trend of collection by types of revenue will be processed in the next issues of bulletin when the final data for 2011 will be available.

Dinka Antić, PhD
Head of Unit

Table of contents:

Technical design: Sulejman Hasanović, IT expert
Reader/translator: Darija Tošić, professor

Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: oma@uino.gov.ba
Sarajevo:Đoke Mazalića 5, 71 000 Sarajevo, Tel:+387 33 279 553, Fax:+387 33 279 625, Web: www.oma.uino.gov.ba

EU rules on fiscal aid to transport sector

Author: Dinka Antic, PhD

In time when the EU and the rest of the International Community insist on adopting the Law on State aid to B&H, which should be aligned with the acquis communautaire in this area, initiatives for introducing a special excise for financing the railways, besides the analysis of fiscal and macroeconomic implications, also requires a consideration of harmonizing such policy in relation to the EU State aid rules in transport sector. Given that the EU State aid rules will, in the near future, become B&H rules, analysis of the EU legal framework in this area is necessary for all key participants in this initiative – the State, railways and the unions, not only to become aware of State aid rules and limits but also to ultimately direct their efforts towards the much needed railways restructuring.

1. INTRODUCTION

Article 71(c) of the Stabilization and Association Agreement[1] (SAA) in the chapter „Competition and other economic provisions" provides that it is ... „ incompatible with the proper functioning of this Agreement in so far as the trade between the Community and Bosnia and Herzegovina may be affected by … any State aid which distorts or threatens to distort the competition by favouring certain undertakings or certain products. " It further states that any practice contrary to this Article will be assessed "on the basis of criteria arising from the application of the competition rules applicable in the Community, in particular from Articles 81, 82, 86, and 87 of the EC Treaty and interpretative instruments adopted by the Community Institutions.*"*[2]

In the light of the application of Article 71 B&H is obliged to establish an independent public authority which is entrusted with the powers necessary for the full application of the provisions of Article 71 (c) within two years from the date of entry into force of the Agreement. This authority will have the powers to authorise State aid schemes and individual aid grants and to order the recovery of State aid that has been unlawfully granted. In addition, B&H is obliged to record State aid schemes and to align them with the criteria from the SAA within a period of no more than four years from the entry into force of the Agreement. According to Article 72 of the Agreement which sets out the obligations related to public companies, B&H needs to, until the end of the third year from the entry into force of this Agreement, apply the principles from the EC Treaty, with special emphasis on Article 86 of the Treaty, to the public companies and companies to which special and exclusive rights are granted. These obligations have not been fulfilled by B&H, although this is the fourth year of the implementation of the Agreement. Passing the Law on State aid and the establishment of the institution which will monitor the application of the Law is one of the main issues that the EU insists on at the moment and that is the condition for further European path of B&H.

The initiative of introducing the excise duty for financing railways raise familiar issues on fiscal and economic effects of this initiative, especially in times of recession.
Given the commitment of B&H to join the EU any initiative to amend the law should be considered in light of:

- meeting current EU standards (in this case: standards of excise taxation, State aid rules and market competition);
- fulfilling other international obligations, such as obligations under the *stand-by* arrangement with IMF, which, when it comes to measures that affect the fiscal system and

[1] „Stabilization and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina of the other part ", „Official Gazette of B&H – International Treaties", No. 10, 13 November 2008.
[2] After the entry into force of the Lisbon Treaty mentioned Articles are referred to Articles 101,102,106 and 107. Consolidated version of the Treaty on the functioning of the European Union, OJ C 115, 9 May 2008.

have effects on fiscal and economic system of B&H, and thus the country's capacity to finance external debt, may have the final word;
- Consideration of EU strategic documents (such as new tax strategies, strategies of transport and energy sector development), which operational period will coincide with the period of adjustment of legal framework in B&H.

Given the urgent obligation to adopt the Law on State aid, in order to avoid the suspension of SAA, we provide bellow the review of the ground rules of State aid in the EU, as well as State aid rules in transport sector and the guidelines of the European Commission to support railway undertakings.

2. LIBERALIZATION PROCESS OF RAILWAY UNDERTAKINGS IN THE EU

The role of the railways in the transport sector has changed over time. The strengthening of air and road transport in the second half of the twentieth century brought a sharp decline in the volume of transportation of goods and passengers by rail so the total rail freight in 2000 was below the level of transport in 1970, expressed in absolute terms. In the EU framework, fragmented rail systems and networks, modelled on national technical standards, represent the bottleneck of the railway system integration at the EU level. Burdened with inherited problems, which are generally immanent to public corporations and monopolistic market position and confirming the old rule that 'the state is a bad manager' in economic terms, the railways are not able to offer in terms of liberalism faster, more reliable and cheaper transportation of passengers and goods and become more competitive compared to road and air transport. Reasons can be found in the previous monopolistic position of public railway companies. In the absence of competition on the national networks, railway undertakings had no incentive to reduce their costs, the more you could always count on help from the state ('moral hazard' syndrome). In such relations they have no interest in developing new services or to invest, partly because of the lack of interest for the company development and mostly because of chronic lack of own revenue.

In order to revitalize the rail industry, the EC conducted a policy including three main measures:
i. Gradually introducing conditions fostering competition on the rail transport services markets.
ii. Encouraging standardisation and technical harmonisation of the European rail networks, aiming at full interoperability at the EU level.
iii. Granting financial support at the Union level, through the Structural funds and special TEN-T programmes[3].

The liberalisation process within the first measure includes the following activities:
- Separating railway undertakings from the infrastructure regarding organisation and finances
- Management independence of railway undertakings
- Management of railway undertakings according to the principles which apply to commercial companies
- Financial equilibrium of railway undertakings according to a sound business plan
- Compatibility of Member States' national financial measures with the State aid rules at the EU level.

The first liberalisation package of the transport sector was adopted in 2001. The second package for the liberalisation of the railways was adopted in 2004 and the third one in 2007. On 15 March 2003 the trans-European rail freight transport market was opened. At the beginning of 2006 the

[3] Trans-European Transport Network (TEN-T). TEN-T programs are intended to ensure cohesion, interconnection and operability of trans-European transport network and network access. Program includes all modes of transport: road, rail, sea, river/lake, air, logistics and innovation.

market was opened for the international railway transport and from 1 January 2007 for rail cabotage. Since 1 January 2010 an international passenger transport was opened to competition. Despite the worse trends the railways have their place in all strategic documents of the Union, mainly because, compared to other competitors, safety and environmental aspects of rail transportation of goods and passengers will prevail. Given the EU's strategic objectives, which are partly global (for example, the fight against global warming) as well as the constant increase in fuel prices and reduced supplies of fossil fuels, all development strategies of the EU recognize the importance and role of the railways for the sustainable development of the Union. At the beginning of 2011 the European Commission issued a White Paper[4] on the rules of the road according to a Single European Transport Area, which stated 40 initiatives for the next decade to which the transportation system would become competitive in a way that by removing the main obstacles mobility, economic growth and development would be increased. Objectives until 2050 were defined as well. One of the goals is to move 50% of long distance transport of goods and passengers from road to rail and water transport.

3. LEGAL FRAMEWORK OF THE EU STATE AID

3.1. General rules of State aid

The rules regulating the competition in the EU market and the allocation of State aid to public companies are very strict. Basic rules of State aid are provided in Articles 107-109 of the Lisbon Treaty (ex Articles 87-89 of the Treaty on establishing the EC).

According to Article 107(1) of the Treaty (ex Article 87(1)) any aid **in any form**, granted by a Member State or through State resources, which means favouring certain undertakings or production of certain goods, which distorts or threaten to distort competition or trade between Member States, is considered incompatible with the functioning of the Union's internal market. Provisions of this Article show that State aid is generally incompatible with the common market and therefore prohibited. Each aid granted by the State must be tested with regard to conditions given in Article 107.

State aid is incompatible with the objectives and market of the Union if it has following characteristics:

- That it basically represents a transfer of state resources,
- That it provides economic benefits to certain groups of enterprises,
- That it is of a selective nature, directed towards specific groups of enterprises or certain goods,
- That it affects competition and trade.

In the view of the European Court of Justice the transfer of state resources is understood very broadly, regardless of manifestations of the transfer. In the verdict[5] in case of State aid of Italy to road hauliers of goods (tugboats, author's remark) in the form of a special tax credit scheme, the Court expressed the view that the transfer of state resources, in accordance with Article 87. "*includes not only positive benefits, such as subsidies, but also other measures, which in various forms, mitigate the costs that are normally included in financial plans of enterprises and are therefore, without subsides, in a direct sense of the word, like in nature and have the same effect*. *The measure by which the public authority granted a tax exemption to the company, although not involving the transfer of state resources, put the person to whom the exemption applies in more*

[4] European Commission, White Paper - Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system, COM(2011) 144 final, Brussels, 28.3.2011.
[5] See verdict in the case C-6/97, Italy v Commission, 19.5.1999., *European Court reports 1999 Page I-02981.*

favourable financial position than other taxpayers, represents state aid under Article 92[6] *of the Treaty.“* The Court further explained that granting tax exemptions to the road hauliers of goods in Italy directly put their competitors in other Member States in less favourable position at the Community's market.

State aid can produce certain effects in the form of **economic benefits** for the user (company). The existence of the economic benefits of State aid is tested in relation to model of behaviour of private investors in a market economy. In this sense, some aid may be considered as incompatible with the Union's rules if the support would not pass the test of the private investor, i.e. it does not lead to the achievement of the profitability, a goal that is a basis of the market economy of the private sector. So, for example, capital injection for restructuring aiming to qualify the company for privatization, if it has the purpose of maintaining the existing scope and structure of employees in the public corporation, would be considered as State aid incompatible with the EU rules and market rules of operation of the private sector[7].

State aid is considered as **selective** if it is only focused on specific sectors, groups, undertakings or certain goods. In other words, if a certain measure of the government equally affects all market participants or in specific segments, without favour, i.e. discrimination by particular selection, such measure is not considered as State aid which is incompatible with the rules of the Treaty.

Finally, State aids **threaten competitiveness and affect trade between the EU Member States**, even when the company operations are limited only to national market, since in that case companies from the other Member states that already operate or want to operate in the market of the concerned Member State would be discriminated. In addition, according to the verdict of the Court, the amount of State aid is irrelevant, because in case of strong competition in a particular market any State aid may be discriminatory to other companies in that group or sector[8].

3.2. Exceptions of the general nature

In certain cases, strictly regulated by the Treaty on the establishment, Member States are allowed to approve measures representing State aid or directly carry out the transfer of State resources. According to Article 107(2) following cases of granting the aid are considered as compatible measures:

- Aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the product and
- Aid in case of national disasters and exceptional occurrences[9].

According to Article 107(3) following categories of State aid are allowed as well:
(a) aid to promote economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in the Treaty in view of their structural, economic and social situation;
(b) aid to promote the execution of an important project of common interest for the EU or to remedy a serious disturbance in the economy of Member States;

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[6] Article 92 prohibits to Member States to approve the refund of other taxes (other than VAT, excise duties and other indirect taxes), if it is not allowed by the EU legislation.
[7] Compare, verdict of the Court (Case T-296/97, Alitalia, 12.12.2000.) and comment from the study of European Institute for Public Administration from Maastricht (European Institute for Public Administration, „State Aid in the Transport Sector“)
[8] Case T-214/95, Het Vlaamse Gewest v. Commission, 30.4.1998.
[9] It was anticipated another case of economic aids allowed in certain areas of Federal Republic of Germany affected by the consequences of the division of Germany. These grants are approved for the purpose of recovery of economic backwardness as a consequence of this separation. The provision remains in force for five years after the entry into force of the Lisbon Treaty, when the Council may decide to repeal it on a proposal from the Commission.

(c) aid to facilitate the development of certain economic activities or of certain economic areas, where aid does not adversely affect trading conditions to an extent contrary to the common interest;
(d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent contrary to the common interest;
(e) other categories of aid as may be specified by decision of the EU Council on a proposal from the European Commission.

4. EXCEPTIONS IN TRANSPORT SECTOR

In addition to the above mentioned general exceptions in the application of rigorous rules of State aid, which are mainly to achieve the balanced economic development, social and cultural objectives, Article 93 (ex Article 73) of the Treaty provides exceptions in the sector of transport in the following cases:

a. If State aid meets needs for coordination in the sphere of transport
b. If State aid represents reimbursement for the discharge of certain obligations inherent in the concept of a public service.

Given the prohibitive aspect of provisions on State aid in the Treaty on the establishment of the EC Article 73 represents *lex specialis*, the derogation of the Treaty which can be used only in precisely defined cases.

4.1. Coordination of transport

According to Commission's viewpoint presented in documents, the concept of coordination of transport implies more than simply facilitating the development of industry as stated in exceptions of Article 107 (3). Coordination means "an intervention in the market by public authorities because of the transport policy aims"[10] which includes „certain forms of planning by the State"[11]. The scope of coordination is inversely proportional to the degree of liberalisation of the transport sector. As the degree of liberalisation is higher, the State influence to liberalisation process becomes less necessary.

In order to define the conditions for application of provisions of Article 73 relating State aid for the coordination of transport, in 1970 the EU Council adopted the Regulation 1107/70 on the granting of aid for transport by rail, road and inland waterway[12]. Under the provisions of this Regulation, State aid in order to be compatible with objectives of the Treaty should meet three conditions:

- To be earmarked for financing activities or projects of the Community interest
- To be approved without discriminatory conditions
- It should not undermine competition to the extent contrary to the interests of the Community.

Regulation specified four exceptions to the application of general State aid approval rules:

- Compensation of railway corporations for extraordinary costs
- Reimbursement of infrastructure costs
- Financing research and development
- Support for elimination of surplus capacity in the corporate restructuring.

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[10] Commission Decision of 9 July 2003, 2004/261/EC, OJ L 81., 19.3.2004.
[11] Commission Decision of 24 June 2003 on State aid which the Netherlands proposes to implement to assist NV Huisvuilcentrale Noord-Holland (HVC), 2003/879/EC, OJ, 16/12/2003 P. 0039 - 0045
[12] Council Regulation No 1107/70 on the granting of aid for transport by rail, road and inland waterway, OJ L 130, 15.6.1970.

Regulation was applicable until second half of 2008 when Communication from the Commission Community Guidelines on State aid to railway undertakings was published. Regulation was finally repealed at the end of 2009 when Regulation 1370/2007[13] on public passenger transport services by rail and by road entered into force.

4.2. Public service obligations

In accordance with exceptions in the field of State aid to railways as defined in Article 93 of the Treaty (ex Article 73) Member States are allowed to reimburse the obligations inherent in the concept of public service to companies that provide transport service by rail, road and inland waterways. Although it was the obligation of the Member States to terminate all State liabilities in the field of public transport according to Regulation of the Council 1191/69, which builds on the provisions of Article 73 of the Treaty, it was possible for the State to enter into contracts with carriers to ensure adequate levels of service in this area, given the urban, social and environmental aspects of transportation. Regulation is repealed at the end of 2009 by the entry into force of Regulation 1370/2007 on public passenger transport services by rail and by road.

5. GUIDELINES ON STATE AID FOR RAILWAY UNDERTAKINGS

Despite significant steps towards liberalization, the injection of public funds in the railway undertakings was significant. In the period between second and third phase of liberalization (2004-2007) 25 EU Member States have overall contributed funds totalling some EUR 17 billion to the construction and maintenance of railway infrastructure. The amount does not include transfers from the Cohesion and Structural Funds. The Member States pay EUR 15 billion annually in compensation to provision of rail passenger transport services[14]. Large public investments in railways require precise regulation of State aid rules which would be consistent with the basic prohibitive legal framework of the Treaty on the establishment.

In its Communication the Commission states that "*State aid to railways may be granted only if it contributes to the completion of the process of creating an integrated EU market, which is open to the competition, interoperability and sustainable mobility. Commission will ensure that financial aid to the public sector will not endanger competition contrary to common goals*". In these determinations the Commission is entitled, in certain cases, to require from Member States to commit themselves to respect the objectives of the Union in order to gain the right for granting State aid. Guidelines of the Commission are intended to improve transparency of public financing of railway undertakings and legal certainty for all economic operators with regard to the Treaty rules and in light of liberalisation process of the transport market.

Guidelines of the Commission are related to the following areas of State aid:

i. Public financing railway undertakings by means of railway infrastructure
ii. Aid for purchase and renewal of rolling stock
iii. Debt cancellation
iv. Aid for restructuring railway undertakings – restructuring freight transport
v. Aid for coordination of transport
vi. Granting State guarantees to railway undertakings.

For each of the allowed aids there is a special set of rules prescribed by the Guidelines. Some of the Guidelines apply only to railway transport, while others (for example guidelines on aid for

[13] Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, OJ L 315, 3.12.2007.
[14] Source: European Commission data

purchase and renewal of rolling stock) also apply to urban, suburban or regional passenger transport undertakings. These guidelines do not concern public financing intended for infrastructure managers.

i. Public financing railway undertakings by means of railway infrastructure

Railway infrastructure is important not only for railways but also for the economy in terms of speed and reliability of transportation for the whole society considering the safety of passengers, cargo and environment. The Commission may allow public financing of railway infrastructure if it is directed towards the achievement of socio-economic goals. These guidelines apply only to railway undertakings. The guideline provides that, in accordance with the case-law of the Court of Justice of the EU, it should be evaluated whether the infrastructure measure (i.e. public investment in railway infrastructure) has the economic effects in the form of cost reduction of railway undertakings which would, in normal circumstances of market economy, be found in financial plans and reports of railways. If this were the case such measure would put railway undertakings in more favourable position in the market. However, if the use of infrastructure is open to all users, by the same rules and without discrimination, then the public financing is not considered as State aid.

ii. Aid for purchase and renewal of rolling stock

The renewal of mostly ageing rolling stock[15] is not considered as State aid in the following situations: if it is needed in order to bring the railways at the acceptable level of technical equipment with respect of modern standards, if it is required by environmental and safety standards and if it is necessary in order to ensure cross-border operability and establish an European network of railways. On the whole these are the common interests of the Union, of the general character, which go beyond microeconomic objectives of the companies. The Commission requires that the compatibility of aid should be tested in relation to the objectives of the EU common market. For this purpose the Commission proposed a number of criteria which not only take into account the rules of aid to the transport sector, but also rules of aid to small and medium-sized enterprises, rules of aid to environmental objectives, rules of regional aids, and others, in order to avoid distortion of competition in the EU market. As a rule, public investments in rolling stock in transportation are prohibited but the Commission has the view that certain derogations may be approved in the case of regional aid to railway transport of passengers, on certain routes and distances, but under certain conditions:

- That the rolling stock must be exclusively assigned to urban, suburban or regional passenger transport services in a specific region or for a specific line serving several different regions in one or more Member States,
- that the rolling stock must be exclusively assigned to the above mentioned purpose for at least 10 years,
- that the replacement rolling stock must meet at least the following conditions: environmental standards, compatibility with the EU transport network and safety standards,
- that Member State must prove that financing the rolling stock is in accordance with regional development strategy.

iii. Debt cancellation

Bad financial image of railway undertakings and a state of imbalance between their costs and their revenues led to major indebtedness. By the opening of the transport market in early 90-ies of XX

[15] According to 2005 Commission data in former EU-25 70% of the locomotives and 65% of the wagons were more than 20 years old. In 10 new Member States the case is even worse, even 82% of the locomotives are more than 20 years old. By entering Romania and Bulgaria the situation worsened.

century, Member States have undertaken financial restructuring of railways which has significantly reduced their indebtedness. However, two decades after the beginning of restructuring a number of companies is still overdue which prevents them from operating on market principles on equal terms with other companies. In principle, every debt cancellation of railway undertakings by the State is considered as State aid if the company is active in a market that is completely open to competition given that debt cancellation strengthens its position in at least one (i.e. national) market compared to other competitors. In addition, debt cancellation is also tested in terms of Commission's Guidelines on State aid for rescuing and restructuring firms in difficulty[16]. In order to treat debt cancellation as compatible with the Treaty and rules of State aid, certain conditions must be met:

- That the cancellation concerns old debts incurred prior to the opening the market to competition (i.e. to the entry into force of Directive 2001/12/EC);
- That the debts must be **directly** linked to the activity of rail transport or the activities of management, construction or use of railway infrastructure;
- That the cancellation of debts is done in the situation of extreme indebtedness of railway undertakings and aims to facilitate financial restructuring in direction of recovery of companies and productivity increase in order to operate on equal basis in the open market;
- Effects of cancellation must not go beyond the goal – financial recovery and every strengthening beyond that measure would put the company in more favourable position in the market [17];
- Debt cancellation must not give the company competitive advantage that would jeopardize the development of the market in terms of discouraging competitors from entering the market.

iv. Aid for restructuring railway undertakings – restructuring freight transport

Unlike the transport of passengers, which can be subsided in some cases by the Government, the freight transport is left with pure market principles between the customer and the carrier. In addition, the freight transport market was open to competition much earlier (2003) than passenger transport market (2010) which has had serious consequences on the financial position of the railways. In the meantime, the EU market expanded significantly which requires an adequate reorganisation of railways and legal separation of passenger and freight transport. This is the first condition that must be satisfied in order for the Commission to begin the review of the compatibility of State aid for restructuring of railways with provisions of the Treaty. This separation is necessary to exclude internal subsidization between the restructured division and the rest of the undertaking (so the ultimate effects of restructuring would be 'diluted'). In addition, the separation of activities within railway undertakings is necessary to establish new relations between the passenger transport and freight transport activities and that the operating of new legal entities could be placed on market operating principles.

Therefore, before the Member State submits the request for granting the aid, a freight division of a railway undertaking must meet three conditions:

- That it is legally separated from the rest of the undertaking through the restructuring process,
- That it carries out a coherent economic activity,
- That it faces serious difficulties which originated from carrying out basic activities before the restructuring process.

[16] Communication from the Commission – Community guidelines on state aid for rescuing and restructuring firms in difficulty [Official Journal C 244 of 1.10.2004]

[17] The fulfillment of this requirement is measured in relation to companies from the same branch whose operating results are around the average of the branch.

The term „**coherent economic activity**"means a compilation of all activities that are inherent in rail freight transport (industrial, commercial, accounting and financial activities) in the new legal entity. A part of capital, gains and losses, will be allocated to this internal activity on the basis of real economic principles. Internal activities will be *de facto* profit centres whose business can be monitored. Furthermore, the Commission must make sure that the process of restructuring of freight transport will enable **long-term viability of main activity** and its transformation from „ *a protected activity enjoying exclusive rights into one which is competitive on the open market*". The restructuring plan must ensure a standard of quality, reliability and service which meets customers' requirements. In assessing the compatibility with the provisions of the Treaty, the Commission takes into account the differences between rail and other modes of transport, the EU objective in terms of desirable balance between modes of transport but also the situation on the market at the time of restructuring (degree of integration, growth potential, presence of competitors, likely trends).

v. Aid for coordination of transport

Although by opening the transport market there is less need for the intervention by public authorities in the sphere of coordination of transport, there is still a space where it is necessary for the State to intervene. Even after the liberalisation, the transport services market is imperfect and the intervention of the public authorities is necessary in few segments:

- In internalizing externalities (for example external factors of traffic congestion or environment pollution) which manifests themselves in different degrees depending on modes of transport, and which cannot be included in the compensation for access to transport infrastructure;
- In defining a common interoperability standard for rail;
- In the establishment of communication between different transport networks.

Aid for coordination of rail transport can take several forms:

a. Aid for infrastructure (for example if the railway undertakings have to pay charges for the infrastructure they use while other modes of transport do not have to pay such charges),
b. Aid for reducing external costs designed to encourage a shift from road to rail transport due to lower external effects on the environment and society,
c. Aid for promoting interoperability of network, for greater safety, the removal of technical barriers and the reduction of noise in the rail transport.

Guidelines prescribe the criteria for allowed State aid, the costs that can be recognized, the amount of aid and additional requirements for each type of aid.

vi. Granting State guarantees to railway undertakings

General viewpoint of the Commission regarding granting aid in the form of guarantees to undertakings is that unlimited guarantees in a sector open to competition are incompatible with the Treaty. If the market is not fully open to competition, the Commission requires the complete removal of the unlimited guarantee granted to the undertaking as a whole. The Commission Notice[18] on the application of Articles 87 and 88 of the Treaty of the EC Treaty to State aid in the form of guarantees sets out legal requirements applicable to State guarantees, including in the rail transport field. The Commission regards as State aid in the form of guarantee the more favourable funding terms obtained by enterprises that are in process of bankruptcy or are insolvent, or provides an explicit State guarantee or coverage of losses by the State. The rules in this case are very strict so only several large railway undertakings are now enjoying unlimited guarantees, as a historical legacy from the time when they had the status of a state monopoly.

[18] Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees (2000/C 71/07)

Consolidated reports

(Authors: Aleksandra Regoje and Mirela Kadić)

Table 1 (Consolidated report: B&H institutions, entities, SA)

The consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account for external debt servicing,
- transfers from the ITA Single Account for financing Brčko District, cantons, municipalities and Road Directorates,
- revenues and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.

Report doesn't include unadjusted revenues collected on ITA SA.

Tables 2.1-2.4. (Consolidated report: Cantons)

1. The consolidated report includes.
   - revenues and expenditures of the cantonal budgets,
   - revenues and expenditures of the budgets of related municipalities
2. Net financing = loans received – repayment of debt

Consolidated report: B&H, entities and SA, I-XI 2011

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Total
Revenues	409,1	387,7	484,9	460,3	478,9	537,9	527,1	530,8	554,3	524,4	480,9	5376,3
Taxes	383,4	362,1	440,3	413,0	451,0	503,1	468,4	469,2	486,8	455,8	462,2	4895,1
Indirect taxes	366,1	338,5	387,3	373,0	419,3	464,9	438,8	439,8	458,6	428,2	433,8	4548,2
VAT	237,7	222,1	230,2	247,6	249,5	275,9	261,9	284,7	294,7	278,4	278,9	2861,4
VAT on imports	138,3	180,4	210,4	204,1	202,2	227,2	218,3	220,3	228,6	222,0	214,8	2266,6
VAT from VAT returns	149,5	115,6	98,3	108,2	117,9	118,2	109,7	131,6	137,2	123,0	130,8	1340,1
VAT from automatic assessment done by ITA	0,0	0,1	0,1	0,1	0,1	0,3	0,0	0,1	0,0	0,0	0,1	0,9
One-off VAT payments	0,3	0,2	0,3	0,1	0,1	0,0	0,1	0,1	0,1	0,0	0,1	1,3
Other	2,7	2,6	3,0	2,6	2,4	2,5	1,6	3,8	3,4	2,7	3,6	30,8
VAT refunds	-53,1	-76,8	-81,9	-67,4	-73,2	-72,4	-67,9	-71,3	-74,6	-69,3	-70,4	-778,2
Custom duties	15,5	20,9	26,5	23,9	24,1	24,9	25,1	26,7	27,1	23,4	20,7	258,8
Excises	93,2	76,4	107,8	79,2	118,0	138,2	124,1	98,7	108,3	100,3	107,7	1152,1
on imports	60,6	54,1	70,7	52,3	80,2	92,9	74,4	75,9	62,6	61,2	64,7	749,5
on domestic production	32,6	22,3	37,1	27,0	37,8	45,4	49,7	22,9	45,7	39,1	43,0	402,6
Railroad tax	21,2	19,0	22,3	22,6	26,5	24,9	26,4	28,5	27,8	24,9	25,1	269,2
Other	1,5	1,3	1,4	1,6	2,2	2,0	1,8	1,8	1,7	1,7	2,3	19,3
Other refunds	-3,1	-1,2	-0,9	-1,9	-1,0	-1,0	-0,5	-0,6	-0,9	-0,6	-0,9	-12,6
Direct taxes	17,3	23,6	53,0	40,0	31,6	38,1	29,6	29,4	28,2	27,7	28,4	347,0
Profit tax revenues	8,7	10,7	35,1	23,6	13,5	20,0	12,4	11,0	11,1	10,6	11,0	167,6
Income tax revenues	8,1	12,1	16,9	15,5	17,2	17,2	16,3	17,4	16,3	16,0	16,6	169,5
Other direct taxes	0,6	0,8	1,0	0,9	0,9	0,9	1,0	1,0	0,9	1,0	0,8	9,9
Contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Non-tax revenues	23,8	24,3	41,0	46,5	27,5	33,2	33,6	29,4	34,0	39,2	18,2	350,7
Grants	1,9	1,3	3,6	0,9	0,4	1,6	0,2	1,1	3,5	0,3	0,6	15,3
Other revenues	0,0	0,0	0,0	0,0	0,0	0,0	25,0	31,2	30,0	29,0	0,0	115,2

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Total
Expenditures	393,2	372,1	492,6	522,1	461,7	509,0	531,3	489,6	544,3	513,7	484,7	5314,2
Wages and compensations	118,2	118,8	150,3	130,5	131,4	131,2	142,4	127,4	131,3	135,0	130,9	1447,4
Purchases of goods and services	9,9	14,1	19,2	23,2	26,3	31,2	22,3	26,7	27,9	30,6	29,5	260,8
Subsidies and transfers	89,2	83,7	142,8	182,8	105,9	113,5	138,2	112,5	128,6	137,8	143,2	1378,1
Interests (domestic and foreign)	3,3	5,9	9,2	4,7	10,3	19,8	8,2	8,6	21,0	7,3	11,2	109,5
Interests on foreign debt	3,3	4,6	8,2	3,9	10,3	18,1	3,5	8,6	10,1	6,2	9,7	86,3
Interests on domestic debt	0,0	1,4	1,0	0,8	0,0	1,7	4,7	0,0	10,9	1,1	1,6	23,2
Other current expenditure	2,9	3,4	11,8	15,4	16,4	18,5	14,0	12,6	3,4	12,0	12,0	122,3
Capital expenditures	0,2	0,4	1,0	1,3	2,6	12,6	3,1	7,4	26,7	6,1	0,6	62,0
Other expenditures	4,2	2,7	6,8	8,0	7,5	10,1	6,0	5,0	-3,4	8,7	7,4	63,0
SA transfers	166,9	144,5	165,0	160,1	173,9	187,8	198,9	190,5	235,4	175,7	167,9	1966,5
Net lending and capital gains	-1,5	-1,5	-13,5	-4,1	-12,5	-15,6	-1,7	-1,2	-26,5	0,5	-18,0	-95,4
Balance	15,9	15,6	-7,7	-61,7	17,2	28,9	-4,2	41,3	10,0	10,7	-3,7	62,1
Financing	-15,9	-15,6	7,7	61,7	-17,2	-28,9	4,2	-41,3	-10,0	-10,7	3,7	-62,1

Table 1

Central Bosnia Canton, I-VIII, 2011

		I	II	III	IV	V	VI	VII	VIII	I-VIII 2011
1	**Revenues** (11+12+13+14)	**15.495.042**	**13.683.684**	**16.312.551**	**15.396.256**	**18.627.617**	**16.763.325**	**19.628.821**	**17.794.803**	**133.702.098**
11	**Tax revenues**	**13.084.890**	**11.569.724**	**13.685.389**	**12.805.571**	**16.156.249**	**14.136.786**	**16.352.990**	**15.497.001**	**113.288.600**
	Income and profit tax	1.747.848	1.305.155	1.854.480	1.619.010	3.512.288	1.547.164	1.889.863	1.604.881	15.080.690
	Property tax	318.525	415.126	438.206	379.821	471.008	468.345	442.960	429.631	3.363.623
	Indirect taxes	11.003.501	9.830.696	11.370.461	10.792.701	12.149.748	12.106.038	14.002.475	13.433.949	94.689.569
	Other taxes	15.016	18.747	22.241	14.039	23.205	15.239	17.692	28.540	154.717
12	**Non-tax revenues**	**2.076.006**	**1.976.674**	**2.358.588**	**2.170.051**	**2.203.043**	**2.198.095**	**2.705.381**	**2.112.306**	**17.800.144**
13	**Grants**	**334.146**	**137.286**	**268.574**	**420.634**	**268.325**	**428.444**	**570.450**	**185.162**	**2.613.020**
14	**Other revenues**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**335**	**335**
2	**Expenditures** (21+22)	**12.163.282**	**13.464.450**	**13.515.646**	**14.487.272**	**14.705.955**	**17.219.964**	**17.844.855**	**15.644.741**	**119.046.166**
21	**Current expenditures**	**12.163.282**	**13.464.450**	**13.515.646**	**14.487.272**	**14.705.955**	**17.219.964**	**17.844.855**	**15.644.741**	**119.046.166**
	Gross wages and compensations	8.799.259	9.225.131	9.499.622	9.272.416	9.243.647	9.592.237	10.581.477	8.678.617	74.892.406
	Purchases of goods and services	1.720.596	1.984.504	1.930.090	1.865.428	1.392.166	2.028.272	1.476.106	1.656.932	14.054.095
	Grants	1.571.326	2.098.362	1.950.279	3.235.329	3.909.572	5.353.456	5.642.351	5.154.777	28.915.452
	Interests	66.436	50.377	38.473	56.953	96.712	51.363	68.851	91.155	520.320
	Transfers to lower budget units	5.665	106.076	97.181	57.146	63.858	194.636	76.070	63.261	663.893
22	**Net lending***	0	0	0	0	0	0	0	0	0
3	**Net acquisition of nonfinancial assets**	**124.740**	**60.124**	**-26.462**	**262.232**	**579.511**	**396.680**	**739.988**	**662.870**	**2.799.681**
4	**Government surplus/deficit** (1-2-3)	**3.207.020**	**159.109**	**2.823.367**	**646.752**	**3.342.151**	**-853.319**	**1.043.978**	**1.487.193**	**11.856.251**
5	**Net financing** **	**-115.007**	**-116.443**	**-113.615**	**-115.646**	**-114.473**	**-133.075**	**-10.860**	**-177.527**	**-896.646**

Table 2.1.

Una-Sana Canton, I-IX, 2011

		I	II	III	IV	V	VI	VII	VIII	IX	I-IX 2011
1	**Revenues** (11+12+13+14)	**19.263.874**	**16.405.053**	**19.240.970**	**18.578.366**	**18.851.551**	**20.765.687**	**21.850.154**	**20.460.659**	**22.274.241**	**177.690.554**
11	**Tax revenues**	**15.185.987**	**13.341.201**	**15.322.108**	**14.875.171**	**15.536.856**	**16.735.093**	**17.391.648**	**17.096.116**	**17.051.849**	**142.536.030**
	Income and profit tax	1.481.240	1.423.380	2.263.603	2.461.237	1.637.749	1.811.396	2.184.379	1.423.538	1.723.151	16.409.673
	Property tax	625.346	609.199	629.053	351.378	407.572	385.765	321.999	324.876	614.865	4.270.054
	Indirect taxes	13.069.829	11.306.190	12.425.926	12.059.914	13.489.669	14.533.149	14.883.638	15.346.643	14.711.958	121.826.917
	Other taxes	9.573	2.432	3.526	2.641	1.866	4.782	1.631	1.059	1.876	29.387
12	**Non-tax revenues**	**3.167.182**	**2.533.691**	**3.376.067**	**3.272.591**	**3.230.101**	**2.949.296**	**3.856.686**	**2.751.805**	**4.747.809**	**29.885.229**
13	**Grants**	**851.697**	**396.366**	**352.243**	**430.603**	**84.250**	**1.081.358**	**601.820**	**612.737**	**474.582**	**4.885.657**
14	**Other revenues**	**59.007**	**133.795**	**190.552**	**0**	**343**	**-60**	**0**	**0**	**0**	**383.638**
2	**Expenditures** (21+22)	**16.440.652**	**17.676.327**	**19.815.052**	**18.928.354**	**20.998.548**	**19.641.829**	**18.222.280**	**16.605.652**	**19.897.935**	**168.226.629**
21	**Current expenditures**	**16.440.652**	**17.676.327**	**19.416.625**	**18.928.354**	**20.998.548**	**19.641.829**	**18.222.280**	**16.605.652**	**19.897.935**	**167.828.202**
	Gross wages and compensations	13.619.010	11.934.914	12.816.769	13.564.743	11.648.672	12.784.196	11.565.531	10.762.381	12.368.327	111.064.543
	Purchases of goods and services	900.713	1.439.588	2.538.286	1.947.240	2.779.372	1.987.831	2.288.172	2.049.457	1.868.256	17.798.914
	Grants	1.380.994	3.890.567	2.779.259	2.906.299	6.194.097	3.910.443	4.043.234	3.018.851	4.258.547	32.382.291
	Interests	112.989	104.767	253.433	76.550	121.749	168.803	269.060	133.609	167.725	1.408.685
	Transfers to lower budget units	426.946	306.493	1.028.879	433.521	254.657	790.557	56.283	641.353	1.235.080	5.173.769
22	**Net lending***	0	0	398.427	0	0	0	0	0	0	398.427
3	**Net acquisition of nonfinancial assets**	**291.426**	**208.423**	**303.783**	**314.966**	**644.970**	**621.038**	**806.230**	**749.450**	**1.963.396**	**5.903.681**
4	**Government surplus/deficit** (1-2-3)	**2.531.795**	**-1.479.697**	**-877.865**	**-664.953**	**-2.791.968**	**502.820**	**2.821.644**	**3.105.557**	**412.909**	**3.560.244**
5	**Net financing** **	**-5.515**	**-105.378**	**192.203**	**-263.772**	**-66.212**	**-172.678**	**-1.637.113**	**-324.620**	**1.286.833**	**-1.096.251**

Table 2.2.

Zenica-Doboj Canton, I-IX, 2011

		I	II	III	IV	V	VI	VII	VIII	IX	I-IX 2011
1	**Revenues** (11+12+13+14)	**24.847.604**	**22.801.928**	**25.887.529**	**24.695.975**	**28.903.255**	**29.471.555**	**30.262.816**	**29.139.468**	**31.279.119**	**247.289.249**
11	**Tax revenues**	**20.009.986**	**18.605.517**	**21.745.997**	**20.545.454**	**23.770.071**	**23.626.530**	**25.377.644**	**24.098.579**	**24.373.158**	**202.152.936**
	Income and profit tax	2.436.628	2.697.545	3.788.572	3.582.439	4.490.411	3.687.819	3.376.334	3.249.351	3.200.697	30.509.795
	Property tax	466.703	487.759	391.083	402.428	534.250	398.648	406.919	395.418	553.168	4.036.376
	Indirect taxes	17.103.788	15.418.125	17.564.086	16.557.453	18.738.484	19.536.154	21.592.637	20.450.943	20.610.706	167.572.377
	Other taxes	2.866	2.089	2.256	3.133	6.926	3.909	1.754	2.867	8.587	34.388
12	**Non-tax revenues**	**4.418.407**	**3.599.969**	**3.677.229**	**3.858.915**	**4.690.818**	**5.082.256**	**4.291.010**	**4.259.506**	**5.523.112**	**39.401.221**
13	**Grants**	**403.173**	**596.443**	**464.302**	**289.275**	**442.366**	**762.768**	**589.163**	**765.383**	**1.229.432**	**5.542.306**
14	**Other revenues**	**16.038**	**0**	**0**	**2.331**	**0**	**0**	**5.000**	**16.000**	**153.417**	**192.786**
2	**Expenditures** (21+22)	**20.812.372**	**24.958.408**	**26.169.895**	**25.780.747**	**24.963.224**	**28.392.399**	**23.310.931**	**27.103.336**	**29.791.624**	**231.282.937**
21	**Current expenditures**	**20.812.372**	**24.958.408**	**26.169.895**	**25.780.747**	**24.963.224**	**28.392.399**	**23.310.931**	**27.103.336**	**29.791.624**	**231.282.937**
	Gross wages and compensations	13.686.538	14.242.263	15.053.495	14.892.157	15.053.948	15.600.263	13.718.450	17.327.612	15.228.847	134.803.572
	Purchases of goods and services	3.148.473	4.986.701	5.021.479	4.286.085	3.976.155	4.702.854	3.445.535	2.856.004	5.176.436	37.599.720
	Grants	3.834.092	5.561.855	5.767.959	6.508.476	5.755.020	7.689.855	6.081.636	6.532.976	9.125.531	56.857.399
	Interests	131.000	16.000	77.059	15.325	78.702	82.508	26.684	158.402	14.387	600.065
	Transfers to lower budget units	12.270	151.590	249.903	78.703	99.400	316.921	38.627	228.343	246.424	1.422.181
22	**Net lending***	0	0	0	0	0	0	0	0	0	0
3	**Net acquisition of nonfinancial assets**	**212.125**	**563.877**	**937.346**	**1.412.200**	**1.862.315**	**1.518.447**	**985.580**	**1.251.306**	**1.659.097**	**10.402.293**
4	**Government surplus/deficit** (1-2-3)	**3.823.106**	**-2.720.357**	**-1.219.713**	**-2.496.971**	**2.077.715**	**-439.291**	**5.966.306**	**784.826**	**-171.602**	**5.604.019**
5	**Net financing ****	**-130.364**	**-11.167**	**1.000.000**	**-1.000**	**497.167**	**-131.188**	**-22.153**	**-44.018**	**-286.506**	**870.771**

Table 2.3.

West Herzegovina Canton, I-VIII, 2011

		I	II	III	IV	V	VI	VII	VIII	I-VIII 2011
1	**Revenues** (11+12+13+14)	**6.383.860**	**6.324.170**	**9.487.345**	**7.476.649**	**7.470.798**	**8.487.875**	**8.315.304**	**7.795.773**	**61.741.775**
11	**Tax revenues**	**5.302.509**	**4.908.246**	**7.704.580**	**6.119.850**	**5.835.272**	**7.304.805**	**6.339.079**	**6.340.614**	**49.854.954**
	Income and profit tax	1.000.130	1.033.332	3.316.684	1.911.862	1.369.581	1.967.629	1.280.245	1.457.216	13.336.679
	Property tax	182.459	241.592	297.482	130.384	123.635	134.796	74.563	83.910	1.268.820
	Indirect taxes	4.044.846	3.619.005	4.062.373	4.053.752	4.325.606	5.184.554	4.964.200	4.774.311	35.028.648
	Other taxes	75.074	14.318	28.040	23.852	16.449	17.826	20.070	25.177	220.806
12	**Non-tax revenues**	**1.025.771**	**1.398.059**	**1.737.165**	**1.222.108**	**1.256.893**	**967.111**	**1.162.947**	**1.120.871**	**9.890.925**
13	**Grants**	**55.581**	**17.865**	**45.600**	**134.691**	**378.634**	**215.960**	**710.243**	**334.288**	**1.892.862**
14	**Other revenues**	**0**	**0**	**0**	**0**	**0**	**0**	**103.035**	**0**	**103.035**
2	**Expenditures** (21+22)	**5.946.209**	**7.759.915**	**7.262.244**	**6.950.964**	**7.238.335**	**6.911.131**	**7.301.280**	**6.279.794**	**55.649.872**
21	**Current expenditures**	**5.946.209**	**7.759.915**	**7.262.244**	**6.950.964**	**7.238.335**	**6.911.131**	**7.301.280**	**6.279.794**	**55.649.872**
	Gross wages and compensations	4.228.682	4.499.391	4.768.105	4.782.014	4.772.539	4.553.891	4.791.460	4.150.350	36.546.433
	Purchases of goods and services	944.132	1.287.042	937.446	782.406	1.136.274	655.475	617.754	591.561	6.952.089
	Grants	435.656	1.605.707	1.186.298	1.210.091	1.007.091	1.364.426	1.567.991	1.161.490	9.538.750
	Interests	73.458	101.888	87.896	109.373	88.484	75.968	100.508	105.789	743.364
	Transfers to lower budget units	264.281	265.888	282.498	67.080	233.947	261.372	223.566	270.603	1.869.236
22	**Net lending***	0	0	0	0	0	0	0	0	0
3	**Net acquisition of nonfinancial assets**	**-10.270**	**133.816**	**-711**	**97.896**	**103.890**	**54.589**	**26.263**	**-5.326**	**400.148**
4	**Government surplus/deficit** (1-2-3)	**447.921**	**-1.569.562**	**2.225.813**	**427.789**	**128.573**	**1.522.155**	**987.761**	**1.521.305**	**5.691.756**
5	**Net financing ****	**-511.902**	**-587.157**	**-525.810**	**-290.139**	**-208.655**	**-257.348**	**-283.477**	**2.090.393**	**-574.094**

Table 2.4.