ANALYSIS OF THE INFLUENCE OF THE NEW SYSTEM OF VAT TAXATION AND ITS IMPACT ON THE WORK OF TRANSPORTATION COMPANIES WORKING ON THE MARKET OF EUROPEAN UNION

Michail Litvinenko

Vilnius Gediminas Technical University
Plytines Str. 27, Vilnius, Lt-2016, Lithuania
E-mail: mlit@takas.lt

1. INTRODUCTION

Recent years have seen substantial reductions in trade policy and other barriers inhibiting developing country participation in world trade. Lower barriers have contributed to a dramatic shift in the pattern of developing country trade-away from dependence on commodity exports too much greater reliance on manufactures and services. In addition, exports to other developing countries have become much more important. These changes have profound implications for the role played by developing countries in the world economy and trade system.

An efficient transport system is a crucial precondition for economic development and an asset in local, regional and international mobility. With the integration of the world market, economic growth and higher levels of income, transport has become a major economic sector, which is characterized by qualitative and quantitative growth [4].

2. THE ANALYSES OF INTERNATIONAL ECONOMY

Over the past 50 years, trade's role in the world economy has increased dramatically. Trade has grown much faster than output, and most of the countries that have achieved the fastest economic growth have done so by rapidly increasing their participation in world trade. By the late 1980s, nearly all of the centrally planned regimes that had eschewed market-based trade had either collapsed or made dramatic reforms that gave foreign trade and investment a prominent place in their development programs.

These reforms led to dramatic changes in developing economies' involvement in international trade. Until the mid-1980s, most developing areas relied primarily on commodity exports, which exposed them to the high volatility of and continuous decline in commodity prices and created concerns about dependence on imported manufactures. But in the early 1980s many developing economies began to dramatically increase manufactured exports. By the late 1990s about 80 percent of exports from developing economies were manufactured goods, greatly easing earlier concerns about the role of trade [3].

But continued increases in integration are far from inevitable as is clear from the concerns about globalisation manifested in huge protests in virtually every city that has hosted a major international policy meeting since 1999. These concerns, and the enormous costs and risks associated with international terrorism, pose serious challenges to closer economic relations between countries. Integrating with the world is a choice that must be made by policymakers, though the costs of withdrawing are considerable. Moreover, there is strong interdependence between the decisions of policymakers.

Choosing policies to manage interactions with the world economy is not simple. Trade policy reform increasingly requires more than just reducing and streamlining border barriers, it also requires developing institutions [1, 2]. Many of the "behind-the-border" reforms needed to take advantage of the opportunities created by open trade regimes requires institutional capacity that is in short supply in developing economies. In addition, supporting policies are likely to be needed to alleviate adverse impacts on particular groups [3]. Globalisation will likely be sustainable only if it is accompanied by

policies that equip people to take advantage of the benefits offered by increased integration with the world economy.

3. THE ANALYSES OF RECENT CHANGES IN TRADE POLICIES AND OTHER BARRIERS TO INTEGRATION

Since the mid-1950s there has been extraordinary growth in world trade and economic openness. In the 1990s trade grew more than twice as fast as income. This rapid growth in the openness of world economies reflects a number of factors, including reductions in trade barriers, transport costs, and communication costs. Related influences include the increasing importance of trade in manufactures, for which two-way trade is far more prevalent than for commodities, and the fragmentation of production processes, which leads to much more international trade in components and services.

In industrial countries, reductions in protection from the high levels reached in the 1930s were already under way when the General Agreement on Tariffs and Trade (GATT) was established in 1947, and they continued under successive rounds of GATT negotiations. Reforms involved reducing tariffs and abolishing quantitative restrictions such as those introduced for balance of payments reasons [3].

But the liberalization process was neither smooth nor continuous. In the 1950s, agriculture escaped most multilateral disciplines. In the 1960s and 1970s, exports of textiles and clothing from developing economies were subjected to a system of quotas that discriminated by country and violated all the fundamental principles of the GATT. As tariffs fell, non-tariff barriers - such as voluntary export restraints and antidumping rules - became more important.

Even so, for the manufactures trade at the heart of the GATT liberalization process, reductions in protection were dramatic in industrial countries. Non-tariff barriers also fell for most of these goods. Trade in manufactures between industrial countries grew rapidly, much of it involving two-way trade in products within the same type of goods.

In developing countries trade liberalization occurred much more slowly. The belief that infant industries could be nurtured behind protective barriers was appealing, and taxes on commodity exports were a convenient way to raise government revenues. Tariff barriers became ubiquitous, as did non-tariff barriers such as quotas and licenses. Foreign exchange restrictions often imposed large additional taxes on trade.

Under import substitution regimes, import quotas frequently generated quota rents equal to large percentages of gross domestic product. Quotas and licenses were often allocated in a way that provided strong incentives to use real resources in pursuit of the rents associated with them, resulting in wasteful dissipation of scarce resources. Such incentives for rent seeking can have extremely negative consequences for development. The protective effects of tariffs, quotas, and licenses in developing countries were often reinforced by distortions in foreign exchange markets. These distortions involved an overvalued official exchange rate coupled with some mechanism to allocate scarce foreign exchange among uses.

The political attractions of import substitution policies for developing-country policymakers were not effectively countered by the multilateral trade system prior to the Uruguay Round of GATT negotiations (1986-94). Developing-country policymakers generally focused their efforts in the GATT on obtaining unreciprocated improvements in access to industrial country markets under the rubric of “special and differential treatment”. This approach may have helped some beneficiary countries by improving their terms of trade. But it also had adverse economic consequences.

First, the approach made it difficult for developing economies to bargain for improvements in market access in the products of greatest interest to them. Second, such access was often constrained by quantitative restrictions and the risk of preference erosion or removal. Third, this approach meant that domestic exporters had no incentive to lobby for reductions in domestic protection as part of a package to improve their access to partner markets. It was no coincidence that industrial countries introduced new barriers in areas of particular interest to developing countries such as agriculture and textiles and clothing-luring this period [3].

Changes in trade policies and reductions in trade barriers have been associated with major changes in developing countries role in the world economy. In particular, as developing economies have lowered their trade barriers, the composition of their exports has changed enormously. Since the 1980s, developing countries have drastically increased exports of manufactures and exports to other developing areas.

4. IMPLEMENTATION OF THE LITHUANIAN FOREIGN TRADE POLICY

Also all these changes in world trade policy have influenced to the Lithuania foreign trade. On purpose to expend international economical relation Lithuania has joined to a main Trade Agreements such as:

- ***Fulfilment of Free Trade Agreements***

On January 28–30, 2003, in Kiev, the negotiations on the change in free trade agreement between Lithuania and the Ukraine were conducted. The key issues discussed: the restriction of exports of rawhide and ferrous metal waste and scrap of Ukrainian origin.

On February 17, 2003, in Vilnius, the meeting of the joint free trade committee of Lithuania, Latvia and Estonia was held. At the meeting Resolution No. 02/2003 "On the Adoption of the Preliminary Decision on Anti-dumping Examination of Imports of Milk of Lithuanian Origin" of 1 January 2003 of the Latvian State Market Protection Bureau was considered.

On April 24, 2003, in Riga, the consultations of Lithuanian, Latvian and Estonian experts were organized, where Resolution No. 03/2003 "On the Approval of Research Results Concerning the Application of Market Protection Measures to the Increased Import of Live Pigs and Pork Products" of 17 February 2003 of the Latvian State Market Protection Bureau was considered.

On June 9, 2003, in Vilnius, the Lithuanian and Polish consultations on the market protection measures determined by Lithuania in respect of the imported pork of Polish origin and subsidies of Poland to pork exports to Lithuania were held.

On July 4, 2003, in Vilnius, the meeting of the Joint Committee of the Agreement on the Abolition of Non-tariff Barriers in the Trade between Lithuania, Latvia and Estonia and of the Joint Committee of the Tripartite Free Trade Agreement of the Baltic States was held.

September 26–27, 2003, the fifth meeting of the Trade, Economic, Scientific and Technical Cooperation Committee between Lithuania and the Ukraine was held in Yalta.

- ***Denouncing of Free Trade Agreements***

On October 21, 2003, the Seimas of the Republic of Lithuania passed the law "On the Denouncing of Free Trade Agreements". After adoption of the Law, i.e. November 1, 2003, the Ministry of Foreign Affairs sent notes to the Contracting Parties on the denouncing of free trade agreements.

The Contracting Parties should receive notes until November 1 of this year, since in the provisions on the termination of the agreements it is fixed that agreements shall become void after 6 months from the receipt of the notification on their denouncing, i.e. from May 1, 2004.

Lithuania from the date of its membership in the European Union will transpose the *acquis communautaire,* regulating the European Union common market and external trade relations. The Republic of Lithuania undertook to terminate bilateral and multilateral free trade agreements by signing the European Union Accession Agreement on April 16, 2003.

- ***Joining the European Economic Space Agreement***

On October 14, 2003, in Luxembourg, the Agreement on the participation of the Czech Republic, Republic of Estonia, Republic of Cyprus, Republic of Hungary, Republic of Latvia, Republic of Lithuania, Republic of Malta, Republic of Poland, Republic of Slovenia and Republic of Slovakia in the European Economic Space was adopted.

- ***The Bilateral Investment Agreement between Lithuania and the USA***

On September 22, 2003, in Brussels, the additional Protocol of the Agreement between Lithuania and USA of 14 January 1998 regarding investment promotion and mutual protection was signed. The additional Protocol signed should be ratified in the Seimas of the Republic of Lithuania

and the USA Senate, and it shall enter into force from the beginning of Lithuania's membership into the EU.

- ***Conception of the Law on Economic and Other International Sanctions***

Resolution of the Government of the Republic of Lithuania "On the Approval of the Conception of the Law on Economic and Other International Sanctions of the Republic of Lithuania", approving thereof the conception of the Law on Economic and Other International Sanctions, has been prepared and adopted on December 23, 2003.

- ***Lithuania's Joining to Conventions and International Economic Agreements***

On November 27, 2003, the informative meeting on joining the conventions and agreements by new member states was held in the European Commission.

5. IMPLEMENTATION OF THE LITHUANIAN FOREIGN TRADE POLICY INTERESTS IN THE EU INSTITUTIONS

From mid-2003, Lithuania started participating under the rights of the observer in the activities of working groups and committees of the EU institutions, designed for the EU general trade policy issues.

In the meetings of the Article 133 Committee (full members) of the EU Council, Lithuania spoke on the harmonization of the positions of the countries observers with the EU issues, environmental issues, drew attention to the sensitivity of the Lithuanian textile sector, supported the European Commission position on the common work principles in the WTO, underlining that by its own actions it will make efforts not to harm the EU trade interests. After the failure of the WTO negotiations stage in Cancun (Mexico), Lithuania participated actively in the discussions on the results of the WTO negotiations, the EU proposed WTO organizational improvements, and the new EU position on the essential issues of the WTO negotiations.

Lithuania exchanges information with the European Commission on the membership of Russia in the WTO: negotiations are conducted with Russia on the bilateral basis; Lithuania speaks on the membership of Russia into the WTO as the not politicised process. Lithuania's priorities in the negotiations with Russia: improvement of trade conditions, customs tariffs for priority goods and support to maintaining the Kaliningrad special economic zone. Lithuania discussed with the European Commission the issue on the extension of the Partnership and Cooperation Agreement with Russia for new EU accession member countries, focusing attention of the Commission to the importance of the said issue and to the fact that trade sanctions initiated by Russia as a response to the non-application of the agreement would not give any benefit, but will only incur still more economic losses.

Positions reflecting the interests of Lithuania are also stated in the EU Council Article 133 Committee working groups of deputies, experts (textile, steel, services), EFTA, conventional arms export, on trade issues and other working groups and the EU Commitology Committees (the working group on the issues of economic tariffs).

On December 15, 2003, at the Ministry of Foreign Affairs a seminar was organized for officials of the Lithuanian state institutions, associated business structures and individual representatives of business. At the event, the EU general trade policy and the principles of its formation were presented; prospects for the participation of Lithuanian institutions in this process were discussed.

6. THE ANALYSES OF FOREIGN TRADE OF LITHUANIA

According to the provisional data of the Department of Statistics, in 2003, as compared to 2002, the foreign trade turnover increased by 6.5 percent, exports by 8.7 percent, and imports by 4.9 percent. The foreign trade balance was negative and, comparing respectively, it decreased by 4.4 percent. The most important foreign trade partners of Lithuania (according to the general trade system) were the following countries: Russia (exports – 10.1 percent of the total exports, imports – 18,1 percent of the total imports), followed by Germany (9.9 percent and 18.0 percent, respectively), Latvia (9.7 percent and 3.8 percent), Switzerland (11.7 percent and 1.1 percent), and Poland (3.4 percent and 6.8 percent).

6.1. Exports of Goods

In 2003, the major part of goods from Lithuania was exported to the following countries: Switzerland (11.7 percent of the total exports of Lithuania), Russia (10.1 percent), Germany (9.9 percent) and Latvia (9.7 percent).

In the period under analysis, the exports of goods of *Lithuanian origin* amounted to LTL 17,731.1 million, or 80.4 percent of the total exports value of Lithuania. The major part of these goods was exported to the EU and the EU accession countries (65.5 percent) as well as the European Free Trade Association (EFTA) countries (17.2 percent).

Of the total share of Lithuanian commodity exports, exports of goods to the EU and the EU accession countries in the period under analysis accounted for 61.3 percent, and its value, comparing respectively, decreased (due to increasing exports of mineral products to Switzerland) by 1.7 percent.

Exports to EFTA countries accounted for 14.1 percent of the total value of Lithuanian exported goods, and their value increased considerably (by 3.7 times).

The share of goods exported to the CIS countries made 16.9 percent of the total Lithuanian exports. As compared to 2002, its value went down by 4.2 percent

The previous year tendencies in the decrease of exports to the EU and the EU countries candidates, and the increase to the EFTA countries were due to the change in flows of exports of mineral products processed in Lithuania (in 2002, their major part was exported to the United Kingdom). The considerable recession in the exchange rate of USD and GBP in 2003 was unfavourable to Lithuanian exporters.

6.2. Imports of Goods

The greatest amounts of goods imported to Lithuania by the consignor country were from the following countries: Russia (18.1 percent of the total Lithuanian imports), Germany (18.0 percent), Poland (6.8 percent), the Netherlands (4.1 percent), and Finland (3.9 percent).

In 2003 the share of goods imported from the EU and the EU accession countries accounted for 66.1 percent of the total Lithuanian import value. As compared to 2002, the import value from the EU and the EU accession countries increased by 6.2 percent

The share of goods imported from the CIS countries accounted for 24.6 percent of the total Lithuanian imports, and its value increased by 2.8 percent.

By commodity sections the largest share of imports belonged to machinery, mechanical and electrical equipment, mineral products, vehicles and equipment, products of chemical and allied industries, textiles and textile articles. As compared to 2002, the import value of the major part of commodity sections under the Combined Nomenclature of Goods (CNG) went on increasing.

Comparing the 2003 Lithuanian foreign trade results with the results of 2002, it could be seen that the development of the total exports of goods was more intensive: export value increased by 8.7 percent, and that of import by 4.9 percent, therefore the consolidated foreign trade deficit dropped by 4.4 percent. Export value of goods of Lithuanian origin went up by 14.3 percent, and the export share of these goods into the EU and the EU accession countries as well as EFTA countries accounted for 82.7 percent.

7. TRANSPORT – ONE OF THE MAIN SUCCESSFUL ELEMENTS OF INTERNATIONAL TRADE

The real costs of trade – the transport and other costs of doing business internationally – are important determinants of a country's ability to participate fully in the world economy [1,5]. Remoteness and poor transport and communications infrastructure isolate counties, inhibiting their participation in global production networks. As liberalization continues to reduce artificial trade barriers, the effective rate of protection provided by transport costs is now, in many cases, considerably higher than that provided by tariffs. To bring countries further into the trading system, it is important to understand both the determinants of transport costs and the magnitude of the barriers to trade that they create.

7.1. The Analyses of Lithuanian Road Transport Companies

As at end-2003, there were 4,493 carriers in Lithuania, which had licenses for transportation of passengers along the distant, and international traffic routes and transportation of freight by local and international routes. These carriers employed 17.2 thousand road transport vehicles. The right of freight conveyance by international routes had 3,681 carriers. Carriers, conveying international cargoes, as at end-2003, had 13.1 thousand licensed trucks. As compared to 2002, the fleet of trucks, used for international freight conveyance, has not changed in terms of quantity, whereas its structure improved from the standpoint of ecology and safety. In 2003, Lithuanian road transport carriers made use of 473 thousand travel passes for international freight transit, or by 5.8 percent more than in 2002. Preconditions for this were formed by the fact that in 2003, in accordance with interstate agreements in the field of road transport, 90 thousand additional travel passes for international freight conveyance have been obtained.

In preparing for operation in the European Union, the appropriate amendments to the Rules for International Freight Conveyance by Road Transport and to the Rules of International Conveyance of Passengers by Road Transport were made by Order No. 3-521 of the Minister of Transport of 23 September 2003 and by order No. 3-735 of the Minister of Transport of 31 December 2003, the Community pass (license) forms were approved. The aforementioned documents will allow the Lithuanian carriers with assurance to enter in due time the international conveyance market of the European Union. The Community pass in freight road transport from 1 May 2004 will replace the travel passes, currently used by the European Union states in international freight carriage. This change in the road transport sector will allow the Lithuanian carriers to provide transport services without obstacles in the European Union economic space.

Aiming at liberalization of international freight conveyance, the currently existing restrictions, applied in respect of the growth of the fleet of vehicles of carriers, have been lifted from May 1, 2003, by Resolution No. 994 of August 7, 2003 of the Government of the Republic of Lithuania "On the Amendment of Resolution No. 1170 "On Licensing of the Road Transport Activities" of October 23, 1997 of the Government of the Republic of Lithuania.

Transit conveyances by road transport through the territory of Lithuania in 2003, as compared to 2002, increased by 7.3 percent. During 2003, by road transport, according to preliminary data, 54.5 million tons of freight was transported, i.e. by 21 percent more than in the course of 2002.

7.2. The New VAT System

And now we would like to present some schemes and their explanation. Changes of VAT have influence on transport companies, because during the transition period these companies do not have required information. Lack of information effects not only transport companies but and Lithuania foreign trade.

In new VAT system has changed relationship between customers, consignees and brokers.

Now we present the situations when Lithuanian transport companies have to apply to VAT system:

- ***The first situation***

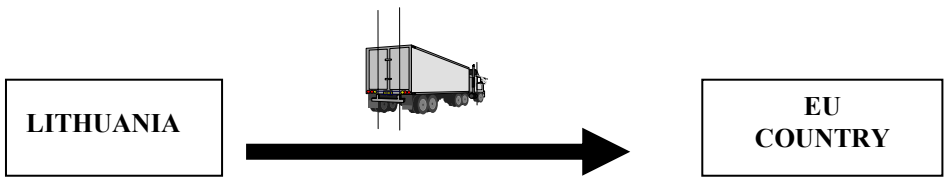

Figure 1*. The first situation*

Table 1. Applying VAT tariff

Consignees of transport service	Applying VAT
Lithuanian firms are the VAT payer	18 %
Lithuanian firms are not the VAT payer	18 %
EU countries are the VAT payer	Not VAT (non-object)
EU countries are not the VAT payer	18 %
Not EU countries	18 %

- ***The second situation***

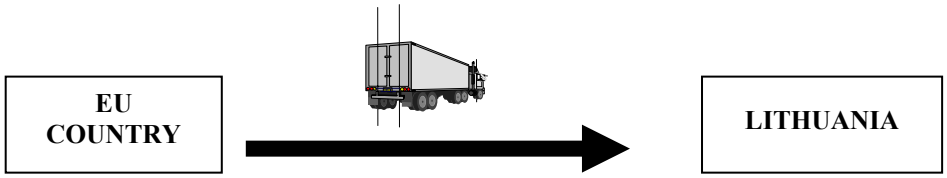

Figure 2. *The second situation*

Table 2. Applying VAT tariff

Consignees of transport service	Applying VAT
Lithuanian firms are the VAT payer	18 %
Lithuanian firms are not the VAT payer	Not VAT (non-object)
EU countries are the VAT payer	Not VAT (non-object)
EU countries are not the VAT payer	Not VAT (non-object)
Not EU countries	Not VAT (non-object)

- ***The third situation***

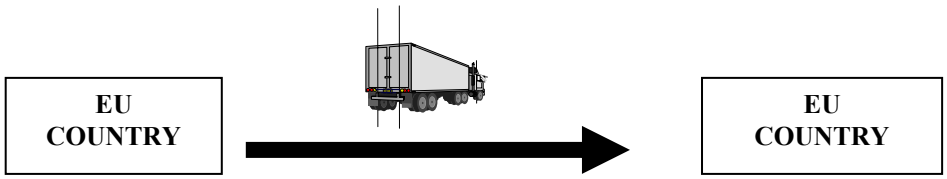

Figure 3. *The third situation*

Table 3. Applying VAT tariff

Consignees of transport service	Applying VAT
Lithuanian firms are the VAT payer	18 %
Lithuanian firms are not the VAT payer	Not VAT (non-object)
EU countries are the VAT payer	Not VAT (non-object)
EU countries are not the VAT payer	Not VAT (non-object)
Not EU countries	Not VAT (non-object)

- ***The fourth situation***

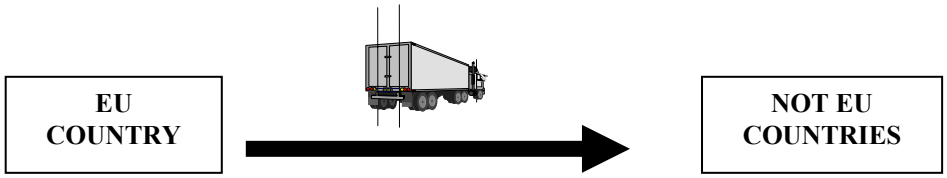

Figure 4. *The fourth situation*

Table 4. Applying VAT tariff

Consignees of transport service	Applying VAT
Lithuanian firms are the VAT payer	0 %
Lithuanian firms are not the VAT payer	0 %
EU countries are the VAT payer	0 %
EU countries are not the VAT payer	0 %
Not EU countries	0 %

- ***The fifth situation***

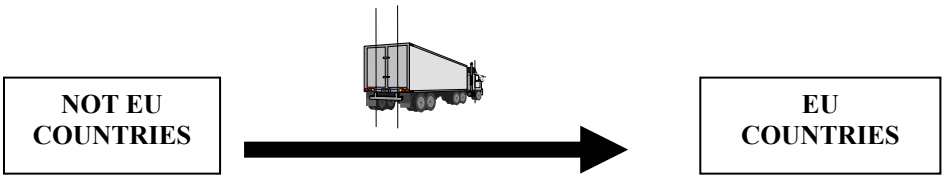

Figure 5. *The fifth situation*

Table 5. Applying VAT tariff

Consignees of transport service	Applying VAT
Lithuanian firms are the VAT payer	0 %
Lithuanian firms are not the VAT payer	0 %
EU countries are the VAT payer	0 %
EU countries are not the VAT payer	0 %
Not EU countries	0 %

8. CONCLUSION

The world has been rapidly integrating in recent decades. Although this process appeared to have broad support in the early to mid-1990s, it has recently come under sustained attack. Whether to continue the process has become a pressing policy question-one with enormous implications.

An important feature of the integration process has been the major shift in trade relations between industrial and developing countries. This shift, from dependence on exports of commodities to much greater reliance on exports of manufactures and services, is sufficiently pronounced as to require rethinking of old views of trade and development. It has also placed major pressures for change on the multilateral trade system because developing countries have become much more active participants. Of course, this shift has not affected all countries equally, and many countries particularly those in conflict have failed to participate. But for countries that have participated, this change has profound implications. Not only does it greatly diminish concerns about potential declines in the terms of trade, it also puts much greater pressure on policymakers to maintain a relatively open regime-one that allows imports of intermediate and capital goods and supports production of manufactured goods for exports.

References

[1] Bergendorff P., Hearn D.W. and Ramana M.V. *Congestion Toll Pricing of Traffic Networks:* Lecture Notes in Economics and Mathematical Systems. Springer-Verlag series, 1997, pp. 51-71.

[2] Dafermos S.C. and Sparrow F.T. Optimal Resource Allocation and Toll Patterns in User-Optimized Transportation Network, *Journal of Transportation Economics and Policy,* 5, 1971, pp. 198-200.

[3] Martin W. Developing Countries' Changing Participation in World Trade, *The World Bank Research Observer,* Vol. 18, No 2, Fall 2003, pp. 187-203.

[4] Yang H. and Huang H. Principle of Marginal-Cost Pricing, *Transportation Research,* 32A, 1998, pp. 45-54.

[5] Yang H. and Zhang X. Multi-Class Network Toll Design Problem with Social and Spatial Equity Constraints, *Journal of Transportation Engineering,* 128, 2002, pp. 420-428.