

## EUROPEAN PARLIAMENT

# Working Documents

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3 February 1983

DOCUMENT 1-1179/82

## Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the proposal from the Commission of the European Communities to the Council (Doc. 1-177/82) for a decision authorizing the French Republic to apply in its overseas departments and in metropolitan France, in derogation from Article 95 of the Treaty, a reduced rate of the revenue duty imposed on the consumption of 'traditional' rum produced in those departments

Rapporteur: Mr W.J. HOPPER

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By letter of 22 April 1982, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities for a Council decision authorizing the French Republic to apply in its overseas departments and in metropolitan France, in derogation from Article 95 of the Treaty, a reduced rate of the revenue duty imposed on the consumption of 'traditional' rum produced in those departments.

On 29 April 1982, the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs.

At its meeting of 22 September, the Committee on Economic and Monetary Affairs appointed Mr Hopper rapporteur.

The committee considered the Commission's proposal and the draft report at its meeting of 18/19 January 1983.

At that meeting, the committee decided, unanimously with one abstention, to recommend that Parliament should adopt the Commission's proposal without amendment. It also adopted unanimously with one abstention the motion for a resolution as a whole.

The following took part in the vote: Mr Deleau, acting chairman; Mr Hopper, rapporteur; Mr Beazley, Mr Bonaccini, Mr Desouches, Mr Giavazzi, Mr Herman, Mr Rogalla (deputizing for Mr Walter), Mr Schnitker, Mr Wagner and Mr Wedekind (deputizing for Mr von Wogau).

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission to the Council for a decision authorizing the French Republic to apply in its overseas departments and in metropolitan France, in derogation from Article 95 of the Treaty, a reduced rate of the revenue duty imposed on the consumption of 'traditional' rum produced in those departments

The European Parliament,

- having regard to the proposal from the Commission,<sup>1</sup>
  - having been consulted by Council (Doc. 1-177/82),
  - having regard to the report of the Committee on Economic and Monetary Affairs, (Doc. 1-1179/82),
  - having regard to the result of the vote on the proposal from the Commission,
1. Draws attention to Article 95 of the EEC Treaty which does not allow any Member State to tax their own products lower than those of the other Member States; is of the opinion that derogation from this Article, from which the French overseas departments benefit, is an intervention in the market mechanism and creates a competition distortion which should be avoided;
  2. Is aware of the impact of the reduced rate of the revenue duty imposed on the consumption of 'traditional' rum produced in the French overseas departments on their economic and social situation; points out, however, that no adequate information on the economic situation of the overseas departments has been transmitted to the European Parliament so that it is unable to have a clear judgment of it;

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<sup>1</sup> OJ No. C 107, 28.4.1982, page 6.

3. Requests, therefore, the Commission to examine the possible alternatives for supporting the economy of the French overseas departments, which do not involve any competition distortion; asks the Commission to put forward on the basis of this study adequate proposals by the end of 1983 about which the Parliament should be consulted and which should be adopted by the end of 1985;
4. Awaiting the submission and the adoption of those proposals, approves until the 31 December 1985 the prolongation of the reduced tax rate applied to the consumption in France and in its overseas departments of 'traditional' rum produced in those departments.
5. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

EXPLANATORY STATEMENT

1. Pursuant to Article 95 of the EEC Treaty, Member States may not impose on their own products any internal taxation lower than that on similar products of other Member States so that their own products are indirectly protected and favoured over the products of other Member States;
2. The reduced rate of revenue duty applied by France to rum from French overseas departments in fact favours the products of these French overseas departments throughout French territory in respect of all other spirits both domestic and foreign. This derogation from Article 95 of the Treaty is based on Article 227(2) of the EEC Treaty which covers the applicability of the Treaty provisions to French overseas departments, and which states expressly that care must be taken that the economic and social development of these areas is made possible. This latter provision of the Treaty had always been interpreted by the Commission and the Council to mean that application of the provisions of the Treaty was not automatic, except for the provisions listed in this article. In accordance with this interpretation, France had continued to apply the previous preferential tariff to rum from its overseas departments. In a Court ruling, however, Article 227(2) was interpreted differently: all provisions of the Treaty apply automatically to the overseas departments; however, in order to make due allowance for the special geographic, economic and social situation of these departments, special measures can be established;
3. This proposal for a decision proposes, in derogation from Article 95 of the Treaty, the continuation of the previous preferential duties applied to rum from French overseas departments. Special measures for these departments are justified only if this is necessary for the economic and social development of these departments. Although this is the only basis for making special provisions for these areas, the proposal makes no mention of the economic and social situation in these departments or of the importance of rum production for their economy;

4. One should, however, examine very closely how far it is appropriate to allow France to grant this tax advantage to its overseas departments in order to alleviate their economic and social situation. No Member State is allowed to grant such a tax advantage to one of its regions in order to help it economically or socially, not even to the poorest regions of the Community. Should such a tax benefit then be given to the French overseas departments? In order to avoid competition distortions it does not seem appropriate to continue to prolong this tax advantage. The economy of the French overseas departments is, however, dependent on the export of rum and there is no doubt that the volume of the rum export is influenced by the tax rate applied.
5. Under those circumstances, it is not possible to interrupt at once this tax advantage from which the French overseas departments have benefited for a very long time. This would inevitably create considerable economic problems for those departments. The Committee on Economic and Monetary Affairs is, however, of the opinion that in the long term the economy of those French overseas departments should not continue to be supported by granting them those tax advantages, which create competition distortions in their favour. Possible alternatives for supporting their economy should be examined so that the actual intervention in the market mechanism can be put to an end. The Commission should examine which appropriate measures could replace the actual tax advantage in a detailed study and, on the basis of this analysis, put forward proposals. This study and joint proposals should, of course, be submitted to the Parliament. Pending the result of this study the prolongation of the tax advantage on rum produced in those French overseas departments is inevitable.
6. In view of those considerations, the Committee on Economic and Monetary Affairs requests the submission of other proposals to support the economy of overseas departments in place of the present tax privilege by the end of 1983, which would have to be adopted before the end of 1985, and approves for the intermediate period the continuation of the present tax privilege on the rum produced in the French overseas departments.