# Excise duty: reduced rate on "traditional" rum produced in French overseas departments

2007/0131(CNS) - 27/06/2007 - Legislative proposal

PURPOSE: to authorise France to apply a reduced rate of excise duty on “traditional” rum produced in its overseas departments.

PROPOSED ACT: Council Decisions.

BACKGROUND: maintaining the cane-sugar-rum sector is crucial to the economic and social development of the French overseas departments. In the three departments most affected namely, Reunion, Guadeloupe and Martinique, the sector produces an annual turnover of about EUR 250 million and provides some 40 000 jobs, 22 000 of them directly. The cultivation of sugar cane is by far the most significant economic activity for the French overseas departments.

In recognition of the unique characteristics of the French overseas departments (and based on Treaty Article 299(2)) in 1995 the Community agreed to adopt legislation that allowed the French to apply a reduced rate of excise duty on “traditional” rum produced in its overseas departments. This provision was later extended by Council Decision 2002/166/EC in respect of a quota of 90 000 HPA. Under the terms of that Decision, France was obliged to send a report to the Commission assessing whether the continuation of lower excise duties on traditional rum should be extended. This the French did by December 2005. In their assessment report the French requested an extension of their reduced rate and to increase the quota by 30 000 HPA.

CONTENT: the purpose of this proposal is to authorise France to apply, from 1 January 2007 until 31 December 2012, a reduced rate of excise duty on “traditional” rum produced in its overseas departments in respect of a quota of 108 000 HPA. The following justifications are cited for continuing the current regime and extending the quota.

Firstly, the production of rum is critical to the economy of these remote overseas departments. The reduced rate benefits the various actors in the cane-sugar-rum sectors as follows: it allows mainland consumers to access traditional rum from the overseas departments at a reasonable price; it allows an outlet for the production of distilleries and at a better value; and it ensure the maintenance of the sugar cane industry thereby allowing for continued employment.

Secondly, the French authorities estimate that the removal of the reduced rate would result in a loss of 50% of the trade outlets (mainly in mainland France) and thus the closure of 75% of the distilleries.

Thirdly, that imports into mainland France of rum of other origins increased by over 500% over the period 2000-2005. The existence of special tax arrangements is not, therefore, preventing competing rums from increasing their penetration onto the French market. Further, the integrity of the internal market is respected. The special tax arrangements granted to the overseas departments, since 1995, have not affected the growth in market share of rums of other origin.

Fourthly, the French authorities note that the reduced rate of excise duty on traditional rum has not encouraged the establishment of large international producers in the overseas departments in order to profit from the tax advantage granted to the sector. Indeed, the last international company stopped operating in Martinique in 2004.

On a final note, although the French government initially asked to increase the quota by 30 000 HPA, the Commission believes that an increase of 18 000 HPA is warranted, since that corresponds to the extrapolation over a six-year period of the consumption trends recorded in mainland France in recent years.

The proposal has no implications on the Community budget.