

# Outermost regions, French overseas departments: dock dues (extend. Decision 89/688/EEC)

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The Commission presents a report concerning the dock dues tax arrangements in the French overseas departments. Council Decision 2004/162/EC authorises France, up to 1 July 2014, to apply exemptions from or reductions in the tax known as "dock dues" to certain products manufactured in the DOMs. The difference between the taxation of locally manufactured products and the taxation of other products may not exceed 10, 20 or 30 percentage points, depending on the product. It recalls that the specific measures contained in Decision 2004/162/EC were thus designed to strengthen local industry.

In accordance with Decision 2004/162/EC, on 31 July 2008 the French authorities submitted their report on the application of the tax arrangements authorised by the Decision to the Commission. On 22 December 2008 a supplement was submitted, and the further information requested by the Commission on 16 April 2009 was sent to it on 16 April 2010.

**Main elements of France's report:** the report states the view that the differentiated tax arrangements for the dock duties do not constitute an obstacle to trade with the DOMs, since the flow of imports into each of the four DOMs of the products to which a tax differential was applied has continued to grow since 2004. The tax differential has not stopped the products concerned from being brought into the DOMs from outside. The report states that, although overall inflation is higher than in metropolitan France, this is not the case for the manufactured products which are most affected by the tax differentials. The report does not discuss the effect of the dock dues on the general level of prices in the DOMs or the difference between that level and the general price level in metropolitan France.

In terms of assistance to enterprises, the report notes that it is difficult to put an exact figure on the impact of the tax differentials because of the other regional aid in place for enterprises in the DOMs. It concludes that the differentiated tax arrangements for dock dues are an essential prop to the profitability and survival of many production activities in the DOMs. Thus, it notes, even taking account of all the assistance received, enterprises in the DOMs, apart from the largest ones, always have net results that are two points lower than those of enterprises in metropolitan France. As to the largest enterprises, the tax differentials on the dock dues encourage them to invest, which has helped to maintain economic growth in the DOMs. Revenue from dock dues was approximately EUR 923 million in 2006, 95% of which came from dock dues on "imports". The report provides information on how the revenue from dock dues has been used.

In the supplement to the report, received in December 2008, the French authorities provided an update based on the figures for 2007. The revenue from dock dues rose from EUR 923 million to EUR 957 million. The proportion used to finance investments in the DOMs increased to 31%. The tax differentials did not halt the growth in imports, although the growth was smaller, except in Guadeloupe. The share of local production in supplying local demand in the DOMs ranges from 29.1% in French Guiana to 36.7% in Martinique. The figures provided do not distinguish between products which benefit from a tax differential for dock dues and those that do not.

The supplement to the report states that it has not so far been possible to quantify the effects of the dock dues tax differentials on employment in the enterprises producing the products concerned. However, it does provide some general data on unemployment and paid employment in the DOMs. The supplement also states that the impact of the dock dues on the general price level of the products covered by

differentiated taxation and on the inflation rate in the DOMs cannot be determined on the basis of the data available. All that is available is data on product price trends (for products covered by the tax differential and for other products). The information provided leads to different conclusions for the different DOMs.

**Commission's analysis:** the Commission regrets that a precise evaluation of the impact of the measures taken for each category of product benefiting from a dock dues tax differential and the extent to which they helped to maintain or promote local economic activity could not be provided by the French authorities in July 2008 as stipulated in Decision 2004/162/EC. The fact that this study was not undertaken until later delayed the provision of information to the Commission and meant that the information is in part fragmentary and in part very limited, or even non-existent.

The Commission considers that the information provided by the French authorities does not give a complete picture of the economic and social impact on local production in the DOMs of the application of a tax differential to dock dues for local products as compared with products from outside the DOMs. The patchy information provided does, however, show that the differentiated tax arrangements for dock dues has in most cases allowed local production of the products concerned to be maintained and to occupy a greater or lesser share of the local market. Very probably, local production could in many cases not have been maintained without this tax differential, and that would have had a detrimental economic and social effect. In certain cases where local products hold the lion's share, if not almost all, of the market the Commission has more doubts about the need to maintain the tax differential. These doubts are even stronger in those cases where there are no products of a given category coming in from outside at all. This point should, if appropriate, be examined in detail at the end of the period covered by Decision 2004/162/EC. However, for now the Commission proposes removing two products from the list of products to which the tax differential may be applied.

Although the question of how to restore competitiveness to local products in relation to "imported" products is essentially a matter for the French authorities, the Commission regrets that the report from the French authorities does not contain any information on the impact of the differentiated tax arrangements for the products on the general level of prices in the DOMs, and not only on inflation, since the effect of the differentiated taxation is to alter competition between products on the basis of the highest cost price, which is that of products made in the DOMs.