



European Economic and Social Committee

ECO/112
Rates of Excise Duty/Tobacco –
prolongation for Corsica

Brussels, 16 July 2003

OPINION

of the European Economic and Social Committee

on the

Proposal for a Directive of the Council amending Directive 92/79/EEC and 92/80/EEC,
authorising France to prolong the application of lower rates of excise duty to tobacco
products released for consumption in Corsica

COM(2003) 186 final – 2003/0075 (CNS)



On 5 May 2003, the Council decided to consult the European Economic and Social Committee on the

Proposal for a Directive of the Council amending Directive 92/79/EEC and 92/80/EEC, authorising France to prolong the application of lower rates of excise duty to tobacco products released for consumption in Corsica
COM(2003) 186 final – 2003/0075 (CNS).

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 23 June 2003. The rapporteur was **Mr Burani**.

At its 401st plenary session (meeting of 16 July), the European Economic and Social Committee adopted the following opinion by 107 votes to four, with eight abstentions:

1. **Gist of the Commission proposal**

1.1 The proposal concerns a request from France to prolong until 31 December 2009 the derogation allowing the application of a lower excise duty on tobacco products in Corsica than that applied in mainland France. The derogation was granted in a statement in the Minutes of the Council meeting that adopted Directive 92/79/EEC on cigarettes and Directive 92/80/EEC on manufactured tobacco other than cigarettes. It was originally granted until 31 December 1997, subject to the excise duty applicable in Corsica being gradually raised to the national level by that date, and was extended once more to 31 December 2002, at the request of France, in Directive 1999/81/EC.

1.2 Leaving aside the technicalities involved in implementing the directives, which are only a minor consideration in examining the request, the derogation would mean that the retail price of cigarettes in Corsica would be one third lower than in mainland France, whereas cigars, cigarillos and manufactured tobacco other than cigarettes would be 15% cheaper.

1.3 When it submitted the request, France also presented a package of tax measures it intends to introduce in order to bring excise duty on tobacco in Corsica gradually in line with that imposed in the rest of the country by the end of the transitional period requested.

1.4 The request for a prolongation of the derogation is based on a Memorandum of 26 July 2000 pleading recognition of Corsica's special position as an island within the European Union, and a subsequent letter dated 5 November 2002, which deemed the prolongation necessary in order to protect island jobs in the production and distribution of manufactured tobaccos.

1.5 France states that 53 people are employed in cigarette manufacturing in Corsica, and that the additional margin resulting from the application of the derogating tax provisions would compensate for the lower output and higher cost of producing cigarettes in Corsica, owing to the isolation and topography of the island, and resulting in higher manufacturing and distribution costs.

1.6 With regard to distribution, there are some 350 retailers who are said to employ almost the same number of shop assistants, mainly in the four to five-month tourist season. They provide a neighbourhood service, including in sparsely populated mountain areas, thereby helping indirectly to keep the population from moving away.

1.7 At a meeting between the Commission and the French Government, it was agreed that immediate and complete alignment with the tax rules for tobacco in mainland France "could undermine Corsica's economic and social equilibrium". A package of measures for gradual alignment has therefore been proposed:

- until 31 December 2007 the total rate of excise duty applicable to cigarettes, up to a quota of 1,200 annual tonnes, will be 35% of the price charged for cigarettes of the most popular price category in Corsica; subsequently, and until 31 December 2009, the rate will rise to 44%, and then be aligned with the excise rate applied on the mainland (currently 58.99%);
- for cigars and "other tobacco products", there is a relief package of related measures that are differentiated according to type of product, to be applied until 31 December 2009, after which national rates will apply.

2. Comments

2.1 This matter, while in itself not particularly significant in terms of overall revenue from tobacco duty, nevertheless raises a few important problems of principle and of substance. The EESC would draw the attention of the Commission and of the Council to some points that perhaps warrant further consideration.

2.2 The Commission document, which reproduces data provided by the interested party, states that 1,200 tonnes of tobacco (in cigarettes alone) is sold in Corsica every year. With a population of less than 260,000 inhabitants, and taking into account children and a presumable number of non-smokers, every smoker on the island would seem to be smoking almost 8 kilos of cigarettes each. This quantity diminishes when the four to five-month tourist season is taken into account (although not all the tourists will be smokers, of course). Even with this correction, the quantity of cigarettes sold appears to be considerably higher than the actual smoking capacity of residents and tourists.

2.3 It must therefore be assumed that a certain quantity of cigarettes (and probably other types of manufactured tobacco, for which no figures have been provided) is destined for "export" to the mainland. In its opinion¹ on the proposal for a Council directive², the EESC pointed out that cross-border purchases of tobacco were perfectly legal, as long as the quantities stipulated in Directive 95/12/EC were respected. However, in view of the presumably considerable quantities not destined

¹ OJ C 36 of 8.2.2001, p 111

² COM(2001) 133 final

for consumption on the island, it must be wondered whether the directive is genuinely complied with, and whether any type of illicit trade might be going on. This – albeit arbitrary – suspicion would not seem wholly unreasonable.

2.4 At any rate, whether the tobacco leaves the island legally or otherwise, the revenue losses for the French state ought to be considerable. Alongside this lost revenue, we are asked to consider keeping 53 people employed in manufacturing cigarettes, although their output can hardly be expected to meet actual needs. Leaving aside the alleged higher production costs, it seems debatable whether the distribution costs referred to in the Commission document are higher for cigarettes produced in Corsica than for those that have to be shipped or flown in from the mainland.

2.5 The claims regarding distribution would also seem to be open to question. No retailer sells only cigarettes. Consequently, the 350 retailers it is claimed take on staff to cope with increased sales (almost 350 people, according to the document) do so, fortunately, for completely different reasons than tobacco sales. It should also be noted that, according to the third recital of the directive, most of the retailers are to be found in sparsely populated mountain areas. Sadly for them, they are unlikely to experience sales volumes that would force them to take on outside help, in addition to that provided by the family.

2.6 All things considered, the EESC feels that the exemption measures are only marginally warranted by the need, referred to in the fifth recital, "to prevent damage to the island's economic and social equilibrium". Furthermore, it cannot fail to point out that the circumstances described in the French Government's document, and repeated in the Commission document, regarding "Corsica's special position as an island" and the problems raised by the "isolation and topography of the island" are common to almost all islands in the EU, sometimes more acutely.

2.7 All things considered, the EESC feels that the reasons advanced do little to justify the provision, so much so that one might wonder whether this were not almost a case of state aid rather than a temporary tax exemption. However, the Committee is well aware of the political circumstances and of the state of relations between Corsica and the motherland. A refusal would have consequences reaching far beyond the relatively small figures at stake. Consequently, and mindful of its responsibilities, the EESC reluctantly endorses the proposed directive as submitted.

Brussels, 16 July 2003.

The President
of the European Economic and Social Committee

The Secretary-General
of the European Economic and Social Committee

Roger Briesch

Patrick Venturini