

which, while obviously guided by the **principles of the internal market, always respect the needs of citizens/consumers, companies and tax authorities.**

4.15 With regard to **alternatives** to reduced rates, the Commission asks whether these might be replaced by **direct subsidies**: this is a more effective, more transparent and less expensive policy instrument. The Committee believes that national-style alternatives are viable in some specific cases on a temporary basis, provided that any measures resembling state aid are avoided. However, any kind of national solution as an alternative to VAT derogations should be decided on the basis of

criteria ensuring transparency, bearing in mind that, in any case, it would move us **further away from the objectives of the single market.**

4.16 Finally, as a back-up to its numerous opinions on the subject, the Committee would reiterate a suggestion inspired by transparency and common sense: **the VAT regime should cease to be called 'temporary'**. This adjective — which is still used thirty years on and has no medium-term prospects of becoming definitive — is deceptive and damages the credibility of EU rules. It also proves, if ever proof were needed, the old adage that 'nothing is more definitive than the temporary'.

Brussels, 22 April 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

Opinion of the European Economic and Social Committee on 'Strategy for the outermost regions: Achievements and future prospects'

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On 21 September 2007 the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Strategy for the Outermost Regions: Achievements and Future Prospects.

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 28 March 2008. The rapporteur was Mr Coupeau.

At its 444th plenary session, held on 22 and 23 April 2008 (meeting of 22 April), the European Economic and Social Committee adopted the following opinion by 128 votes to three, with five abstentions.

1. Introduction

1.1 Article 299(2) of the EC Treaty recognises the particularity of outermost regions (hereafter ORs), enabling them to preserve their special characteristics and to mitigate their constraints.

1.2 The seven regions classified as outermost regions are the autonomous Spanish community of the Canary Islands, the Portuguese autonomous regions of Madeira and the Azores and the four French departments of Guadeloupe, French Guiana, Martinique and Réunion.

1.3 Since 1989, these regions have benefited from a specific programme to support socio-economic development measures aimed at achieving greater convergence with the rest of the European Union.

1.4 Through its Communication of 12 September 2007 entitled *Strategy for the Outermost Regions: Achievements and Future Prospects*, the Commission has launched a public consultation process to gather the views of all stakeholders on its OR policy in view of the major challenges to be faced by these regions in the coming years. This opinion is the EESC's contribution to that process.

1.5 The EESC maintains that while the EU's OR financial policies have had certain beneficial effects, structural difficulties remain, which must be resolved: these policies must therefore be stepped up in future.

1.6 The Committee notes that access to Europe and its market is a constant issue for ORs, as a result of their remoteness and insularity (except for French Guiana) and their particular geographical and structural nature.

1.7 The EESC points out that the location of the ORs, near such spheres of influence as Mercosur, West Africa, South Africa and the Caribbean, gives Europe a global dimension. Also, being located in several different oceans, the ORs give Europe an exclusive economic area amounting to 25 million km² containing wealth and resources the extent of which has not yet been estimated.

1.8 The Committee would also highlight that by their very nature outermost regions suffer a competitive disadvantage:

- economies of scale are precluded by the smallness of the markets;
- paucity of natural resources, such as oil, gas and minerals;
- economic development heavily dependant on only a few products: tourism, agriculture and fisheries;
- given the small size of the markets, there is a tendency for businesses to concentrate and create monopolies or cartels, which undermines competitiveness.

1.9 The EESC feels that the Commission's OR inter-service group must be maintained, perhaps even strengthened, to increase the effectiveness of EU policy.

2. OR sectors of industry: analysis and recommendations

2.1 Tourism

2.1.1 The tourism sector is a major segment in the OR economies and in some cases the sole source of economic growth.

2.2 The Canary Islands have developed a diversified tourist industry attracting more than ten million tourists per year. Madeira has also developed its tourist industry by significantly increasing its capacity. There is also a significant tourist industry in the Antilles and Réunion, though it remains vulnerable. Profiting from their outstanding natural environment and propitious climate, the ORs have developed high-end tourism. But this has increased their economic dependence and is a risky strategy, as the vagaries of the climate, euro exchange rates, health concerns, etc., make tourism demand extremely fickle.

2.3 The Committee believes there is an urgent need to develop and publicise an OR logo, and to promote these regions in all European countries and even in other countries neighbouring the ORs, in order to diversify and enhance the quality and sustainability of their tourism.

2.4 Stakeholders in tourism must make more use of sustainable practices, in view of the need to preserve natural resources, and must consult with all local players to establish suitable development criteria. While there is clearly awareness of sustainability within the ORs, this must be accompanied by a policy worked out by local stakeholders and backed by EU funding.

2.5 Agriculture

2.5.1 The EESC notes that while agriculture is a traditional sector and remains an important pillar of the ORs' economies,

its contribution to added value is declining. Agriculture represents a key source of employment, and must at all costs be preserved, and if possible developed:

- The most agricultural of the outermost regions are the Azores, where the sector accounts for 24 % of workers (not only livestock farming, but beet, tobacco and so on). Fisheries is a strategic sector in terms of exports — especially of tuna — but has been shrinking of late.
- The ORs also produce:
 - bananas (Canary Islands, Madeira, Martinique and Guadeloupe);
 - sugar cane (Réunion, Guadeloupe and Martinique);
 - tropical fruit (Réunion and French Guiana);
 - tropical flowers (the Antilles);
 - beverages (Madeira, Canary Islands, Martinique and Guadeloupe).

2.5.2 It should be noted that there is stiff competition from third countries, which explains some of the fall in added value.

2.5.3 There are two types of agriculture: for the home market and for export. These two types have often been in conflict, but they may also complement each other. The EESC stresses the vital need for local distributors to promote agriculture for the home market.

2.5.4 With regard to agriculture for export, the EESC calls for a promotional campaign for OR produce and for these products to be specially labelled, highlighting their compliance with the EU's exacting social, environmental and health standards.

2.5.5 The EESC stresses the urgent need for the EU to bolster its third-country product surveillance policy to prevent the introduction of animal and plant diseases, with a view to safeguarding farms.

2.5.6 The Committee could envisage a certain degree of compatibility between third-country and OR produce, provided that this:

- does not threaten local farms;
- raises people's standard of living in third countries; and that
- there is a forum for consultation to foster a sustainable development framework.

2.5.7 The EESC highlights the natural handicaps of ORs, discussed above, and considers that measures compensating for them should be retained.

2.5.8 The Committee is concerned about land management in certain ORs, as agricultural areas must be preserved. The EU must urge the local authorities to classify the areas to be preserved and the areas to be urbanised, within a sustainable development framework.

2.5.9 The ORs are rich in biodiversity and this is an undoubted economic asset. Policy in this area should be ambitious and adequately funded, so as to sustain a rich agricultural fabric using methods that respect the ecosystem.

2.6 Fisheries

2.6.1 This is an important sector for outermost regions, but management of fish stocks will prove problematic. Thought should be given to finding new fish supply sources, perhaps marine aquaculture.

2.6.2 Research and targeted policies should ensure ways of maintaining fish supplies. The schemes undertaken so far have been broadly successful in sustaining the sector.

2.6.3 The aquaculture sector is still in its infancy, but is firmly established in the Canary Islands and Réunion. The EESC points to French Guiana's success in the area of shrimp farming.

2.6.4 The location of the ORs gives the European Union a large maritime area (Indian and Atlantic Oceans, the Caribbean, etc.) and a remarkable biodiversity of fish resources. The EESC maintains that sea basins must be managed individually, as the situation in the Indian Ocean differs from that in the Atlantic; this should also take account of actual fish stocks.

2.7 Distributive trades

2.7.1 These form an important sector in the ORs, though reliant on imports from the Member States; consumption is sustained by the local population, but also fluctuates in accordance with tourist numbers.

2.7.2 The EESC believes that there is a need for a retail segment focusing on local products to offer a variety of products and a service tailored to the population and to tourists.

2.8 Companies and competition

2.8.1 Given the modest size of the local market in outermost regions, a small company can quickly find itself in a monopoly position. Thus, what is considered a large company in ORs would correspond to a modest-sized company in continental Europe; as a result, there is no economy of scale in these regions.

2.8.2 The Committee highlights the need to increase market transparency and to foster competition between companies.

2.8.3 The extra costs faced by ORs are often difficult to pin down. They include:

- transporting goods and materials by sea and air;
- frequently complicated business travel between the continent and the ORs caused by a lack of direct connections, inconvenient

timetables and high costs due to distance and twofold insularity;

- higher warehousing costs due to lack of sea and air connections;
- higher recruitment costs, since in-house training is required to make less skilled workers more productive;
- higher outlay on transport, staff training and greater warehousing capacity than businesses in continental Europe: this increases overheads and so reduces competitiveness;
- higher installation costs due to import of materials.

2.8.4 The EESC thinks that EU policies should take account of these extra costs and take measures to try to mitigate them as far as possible.

2.9 Energy

2.9.1 Scarcity or unavailability of traditional energy sources and dependence on external energy is a structural weakness of the OR economies. Nevertheless, ORs have a wide range of possibilities for developing renewable energy:

2.9.2 The EESC points out that energy is a recurring problem in these regions, but that numerous opportunities exist, such as solar, geothermal, sea and wind energy.

2.9.3 Furthermore, these regions do have something of a problem with managing waste, which could be a source of energy. A policy of energy diversification could simultaneously solve the problem of public hygiene:

- most of the regions have a tropical climate and can capture the energy this offers;
- some regions are on volcanic terrain where geothermal energy can be exploited;
- profiting from the proximity of seas, sea-based energy could be developed;
- waste is a possible energy source.

2.9.4 The Committee feels that diversifying energy sources must be considered a long-term goal, for which there must be a financial incentive.

2.10 Research and development

2.10.1 New communication technologies must be developed to put an end to isolation and open up opportunities for economic development in the ORs.

2.10.2 It is important to develop research for both traditional and non-traditional sectors and to find answers to the issues facing ORs.

2.10.3 The EESC thinks that making these regions more welcoming for research centres would have a very positive effect. This would also provide a useful source of diversification for the economy of the ORs.

2.11 *The importance of developing and diversifying regional economies*

2.11.1 Development in individual ORs differs greatly. With the exception of a few initiatives, new sectors are not very well established in the ORs and can on no account be an alternative to the traditional sector.

2.11.2 It should be highlighted that the public sector (European, central and regional administration, public companies, universities and research centres) plays a crucial role as an engine of activity. Also, universities are important in the ORs: retaining them is therefore vital. The EESC suggests establishing a European bursary to attract students of all nationalities.

2.11.3 Local companies lack investment capacity. They are consequently very much dependent on Community aid to carry out projects other than in traditional sectors.

2.11.4 The potential for funding companies is restricted by extra costs. The EESC considers it indispensable to have a financing policy that helps companies to develop their fields of activity. The EESC also wishes to stimulate a policy of company creation by facilitating access to venture capital in order to assist the implementation of projects that would bring added value to the ORs.

2.12 *Living conditions*

2.12.1 The EESC proposes that the specificities of these outermost regions be taken into account and a long-term coherent policy adapted accordingly. Regions and cities should be made more attractive by improving access to them and supporting research and innovation, including new information and communication technologies.

2.12.2 The Committee feels that social dialogue must be fostered in these regions and that EU policy must take this into account in future OR objectives.

2.12.3 More and better jobs should be created by encouraging more people into the labour market and facilitating business start-ups, by making workers and companies more adaptable and by increasing investment.

2.12.4 Local and regional governments responsible for implementing OR policies sometimes tend to overlook the objective of enhancing social cohesion; the EESC considers social and territorial cohesion a priority, which must be factored in.

2.12.5 European policies must take account of these goals and put in place an action policy to achieve economic development. To begin with, the EESC would like to see a policy to make the ORs more accessible:

- through better connections at more attractive prices and by opening up the transport market, improving transit facilities (ports and airports), rationalising transport logistics and compensating for remoteness; and
- by developing traditional sectors, through promotional activity and the training of workers.

2.12.6 The EESC is responsive to the situation of the ORs and wishes to see an improvement in working conditions and a rise in the standard of living through an ambitious policy that tempers the handicaps and paves the way to the creation of added value.

2.12.7 It should be noted that public services of general interest represent one of the main problems faced by OR residents. The EESC thinks that the EU's OR policy should take account of the fact that if convergence is to advance, social cohesion must be increased by enhancing the quality of public services.

2.13 *Cross-border cooperation*

2.13.1 The EESC highlights the need for dynamic cross-border cooperation with other regional groupings apart from the European Union, to establish common synergies for increasing development in these regions; this would be conditional on the involvement of the ORs' local authorities.

2.13.2 The EESC would wish to see a thorough examination of cross-border cooperation and is convinced that solutions can be found. However, the usual safeguards will need to be put in place to make sure no new problems are created.

2.14 *Tax system*

2.14.1 The ORs have specific economic and tax systems, included among those approved by the EU. The EESC believes that maintaining these specific economic and tax arrangements is crucial to helping ORs overcome the structural difficulties they face.

2.15 *Cohesion policy*

2.15.1 Achieving economic, social and territorial cohesion is one of the main EU goals that will have to be stepped up in future. The EESC maintains that European OR policy must be aimed at increasing cohesion so that all sections of the population can enjoy a better quality of life.

2.15.2 Cohesion policy must enable businesses to modernise and develop and new businesses to be created for the young. In pursuit of this goal, innovation is a priority in order to create new opportunities and promote research and training centres in association with the business world.

2.15.3 To increase cohesion, not only must economic development be encouraged, but there must also be an increase in quality of jobs, pay and public services.

2.15.4 The ORs can play a considerable role in regional development, as they are very important European platforms for companies. They can also act as a regional model in developing civil society participation and as a world reference in terms of the social model.

2.16 *Strengthening the Wider Neighbourhood Action Plan*

2.16.1 The location of the ORs gives them the opportunity of a privileged partnership with other neighbouring regions. However, this policy must be further stepped up, as it is insufficiently and unevenly implemented. The EESC points out that this partnership must not be uniquely with the mother countries and on their initiative, and that there should be measures to encourage mutual acquaintance in these parts of the world.

2.17 *Economic Partnership Agreements (EPAs)*

2.17.1 EPAs could offer an opportunity for the development of outermost regions, but this requires study and reliable analysis of these future agreements. The EPAs must take account of the interests of all stakeholders.

2.17.2 The EESC calls for these agreements to foster participation of the social partners and civil society in both the ORs and third countries.

2.17.3 The EESC advocates closer relations and dialogue between the ORs and the ACP States, aimed at identifying synergies and fostering economic development for all.

2.18 *Migratory flows*

2.18.1 The EU is currently drawing up a common immigration policy to take account of the demographic situation, labour

markets and cooperation with countries of origin. Migratory flows are a serious concern for ORs. The ORs need arrangements to reduce illegal and/or irregular flows. Any European migration policy must therefore take appropriate account of the particular needs of ORs and provide sustainable solutions to the problems they face.

2.18.2 An impact assessment should be conducted to provide a better understanding of this matter and offer solutions to migration issues.

2.18.3 The Committee calls for EU immigration policy to be more ambitious, aimed at managing immigration through common legislation and transparent procedures. Europe must be able to facilitate immigration for the ORs by taking account of demographic changes of the labour market.

2.18.4 Given demographic trends in Europe, migratory flows are set to increase. Because of their location, ORs have to deal with problems arising from irregular immigration and need EU solidarity in this regard. The European Agency for the Management of Operational Cooperation at the External Borders must step up its activities in the ORs.

2.19 *Increasing the number of ORs*

2.19.1 Certain Member States, specifically France and the Netherlands, are currently considering the idea of increasing the number of ORs. This move would require a positive decision by the Council. The EESC stresses, however, that if the existing and new ORs are to be better integrated, the EU will have to earmark more funds to this area.

Brussels, 22 April 2008

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS