Extracts from the "Executive Summary" of a study called:

"Establishing suitable strategies to improve sustainable development in the Portuguese ultraperipheral regions of Madeira and the Azores" carried out by the Centre for European Policy Studies.

(...)

"The two inhabited islands of the Madeira archipelago, Madeira and Porto Santo, are undoubtedly ultraperipheral. Funchal is almost one thousand kilometres distant from Lisbon. The problems that arise from isolation are furthermore compounded by severe limitations on the amount of usable land on the main island and by terrain which is unfriendly to agricultural production on Porto Santo.

Despite these handicaps, Madeira is in a very different situation from that of the Azores. The islands' basic infrastructure is more advanced, tourism is better developed and last, but by no means least, the regional authority has established a medium to long term strategy aimed at developing other business activities alongside tourism under the aegis of Madeira's International Business Centre (MIBC)."

(...)

"The principal instrument of the diversification process has been the MIBC. Consisting of four units, the industrial free trade zone, financial services, international services and international shipping, it has been in many respects rather successful, particularly in financial and international services.

A key feature of its success has been an investor-friendly tax regime which offers those concerned exemptions or reductions in income, corporate and stamp taxes. Thanks to these concessions, the number of companies licensed under the MIBC rose from 7 in 1988 to 3 230 in 1998. Over 2000 jobs are reckoned to have been created in the process.

The experience of other island economies that have pursued similar policies, such as Man, Guernsey and Jersey, suggest that growth in both company creation and employment is likely to accelerate over the coming years. In the case of the three other islands, employment in financial and international services has risen from virtually nil to 20% or more of total employment over the last few decades. The corresponding figure in Madeira is currently less than 2% but it is growing exponentially and could therefore well reach these levels of significance if present policies are allowed time to mature."

(...)

"As the analysis in Part A of this report should have demonstrated, Madeira has an overall development plan which is in process of being implemented. The key elements have been the development of infrastructures, the encouragement of tourism and the establishment of the Madeiran International Business Centre."

(...)

"The most important issue at stake is, however, the future of the MIBC. Madeira is widely believed within the European Union to be operating an "offshore regime". As a result, the concessions that apply to those who invest in Madeira are under scrutiny by the Council's Task Force charged with reducing "unfair tax competition". The situation in Madeira is particularly acute, because no new concessions may be granted from December 2000 onwards unless the Commission gives specific approval to the contrary.

We believe that it is of paramount importance to Madeira, and furthermore in the interests of the EU itself, that Madeira should be allowed to maintain its regime in full until 2011 and possibly even beyond.

We justify our belief on the following grounds:

> The Madeira regime is not "offshore" in the normal sense of the term. Concessions are subject to strict rules. The companies that operate in Madeira have to be resident in Portugal and subject to Portuguese official supervision, and residents are treated on the same basis as non-residents.
>
> The regime also meets the criteria set out in the ECOFIN Code of Conduct of December 1997. More particularly, the concessions do not harm the functioning of the Single Market nor, secondly, are they out of proportion to the aims sought, which in this case are business diversification in the context of a development policy for a backward region.
>
> There is every prospect that within the next ten to twenty years, as a result of these concessions, Madeira, like Guernsey, can achieve its growth, diversification and employment goals and begin to phase out its preferential regime. If it did so, the EU would be a beneficiary in the form of drastically reduced subsidies.

The issues raised by the MIBC typify the challenge that Madeira presents to EU and Portuguese policy-makers alike. It is a success story which should be allowed to run its course. As and when it does, Madeira should be in a position to sustain itself and therefore to drastically reduce dependence on EU subsidies."

(...)

November 1999