France and Qatar have unique bilateral relations across the spheres of geopolitics, defense, and energy, yet Paris and Doha have not always seen eye to eye on issues of international relations and finance. While cooperation is significant, there is a taxing issue that needs attention. Part of understanding the yellow jacket protests in France requires looking at a problem from the Nicolas Sarkozy era that brings us to Qatar.

Eleven years ago, Sarkozy exempted Qatari investors from taxes on the fortunes they made in France. Qatar’s Al Thani royal family built up a portfolio of assets in Paris that included a shopping mall at the Champs-Elysees. Such tax advantages on these property deals are still in place today. Their presence is symptomatic of the phenomena of key governments giving breaks to other governments on a personal level. Naturally, many others are guilty of this pattern of behavior.
When the Qatar crisis erupted in mid-2017, then-French Ministry of Justice Francois Bayrou declared that such tax breaks on property deals granted to Qatar and other countries must end. Bayrou's behavior signaled that France's internal politics did put Doha in a favorable light. During the French election campaign, now-President Emmanuel Macron stated he wanted to end Qatar’s tax concessions and seeking more transparency in commercial transactions.

In France, capital gains can be in a sense derogatory of the regulatory inability of Paris to contend with deals made between previous French governments and Gulf States. In the 1990s, France signed a series of agreements with the Gulf countries (including Qatar) to “avoid double taxation and prevent tax evasion” in order to avoid French tax on capital gains on real estate transactions. Importantly, Sarkozy, when he was Minister of the Budget, helped to sign the Franco-Qatari 1994 convention under Jacques Chirac, who was a nine-time visitor to Qatar.

One year later, a new Emir emerged in Doha, and the bilateral relationship grew in the defense sector. Qatar began to invest in properties and other assets abroad, including France. Qatar's purchases of French property grew with the acquisition of the Evreux hotel, place Vendôme, as well as the Île Saint-Louis. The Qatar Investment Authority, Doha’s sovereign wealth fund, was the purchaser in some of the Parisian properties.

With the Franco-Qatari convention between Sarkozy and Emir Hamad Bin Khalifa AlThani during a French presidential trip to Doha on January 14, 2008, the new relationship exempted from capital gains tax all real estate investments made in France by “The State of Qatar or its public entities” which includes the family of the Emir for the real estate sector. It’s an important distinction that goes to the limits of “sovereign sovereignty” when tax law is concerned. The National Assembly approved it at first reading nine months later.

At the time, anti-Sarkozy officials addressed how the taxation issue was negotiated. Marie-Louise Fort, the rapporteur of the Finance Committee, blatantly spoke about Qatar’s “discreet” role in paying the ransom for the release of the Bulgarian nurses held by Libyan leader Muammar Gaddafi in 1998 in the wake of the Benghazi “HIV epidemic” in 1998 said to have been carried out by military intelligence chief Abdullah al-Senussi and foreign intelligence chief Moussa Koussa. Fort said that “Qatar played a discreet but probably decisive role.” This type of language regarding Qatari activity in Libya is quite extraordinary. In the Senate, the then-rapporteur Adrien Gouteyron argued that 80 percent of the equipment of the Qatari army is of French design and the contracts signed by Total, EADS, Technip, Air
Liquide, Vinci Constructions, Suez, and Areva during Sarkozy's Doha visit remain troublingly exempt from taxation. Such language reflects the depth of anger at what Sarkozy negotiated with countries such as Qatar.

Sarkozy's political legacy with Qatar is toxic in France today. The issue of Qatar and taxation in France hurts France's means to maintain its commitment to the OECD model for real estate gains and preferential regimes. In addition, France's ability to negotiate with its European neighbors on key regulatory goals at the European Union level is damaged by this taxing situation. The current yellow jacket phenomena in France adds to the overall malaise that is creeping over Europe where such transactions cannot continue because of domestic budgetary requirements at home. Overall, the taxation issue is an albatross around President Emmanuel Macron's neck that he inherited from Sarkozy's personal relationships. Paris needs to move to reverse this tax exemption status for the betterment of France as well as for the purpose of setting an example for Europe as a whole.

About the Author

Dr. Theodore Karasik (@TKarasik) is a Non-Resident Senior Fellow at the Lexington Institute and a national security expert, specializing in Europe, Eurasia and the Middle East. He worked for the RAND Corporation and publishes widely in the U.S. and international media.

DISCLAIMER: The views expressed in this insight piece are those of the author and do not necessarily reflect the official policy or position of the IndraStra Global.