

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 658 final

Brussels, 23 November 1979

COMMISSION COMMUNICATION
TO THE COUNCIL
ON COMMUNITY RELATIONS WITH MALTA

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I. At the end of 1978/ beginning 1979, the Community reviewed its relations with Malta. This examination was prompted by certain problems which had arisen particularly in connection with textiles and implementation of the Financial Protocol. At the same time, the Community was faced with urgent requests from the Maltese authorities to conclude a second financial protocol.

The Commission informed the Council about the state of relations with Malta (1) and of its approach for defusing the crisis which had increasingly marked these relations, particularly since the autumn of 1978.

2. A two-stage approach was then adopted. Initially, the Community was to deal with three specific matters: measures to combat swine fever, exceptional aid in the form of pigmeat because of the swine fever (and, pending its entry into force, the sale of meat on favourable terms) and the granting of aid to Malta under the 1979 Community programme. Secondly, in the framework of exploratory talks with the Maltese authorities, the Commission was to examine all the problems outstanding in the present relations and Malta's views on the development of the Association.

It was agreed that the Commission would then report to the Council on the content of its exploratory talks.

Special measures

3. With regard to the specific measures envisaged under the initial stage, in May 1979 the Community granted Malta aid amounting to 5 million u.a. for the eradication of swine fever. Then, in order to help Malta cope with the difficulties of securing supplies of meat,

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(1) See Commission Communication to the Council of 30.II.1978 (S/2094/78(M 24) (COM R/326) of 7.12.1978).

it supplied 2.670 t of pigmeat between April and October 1979, involving refunds totalling approximately 900.000 u.a., pending a decision regarding the exceptional food aid. At the beginning of October 1979, the Council decided to grant Malta exceptional aid in the form of a donation of 2.500 t of pigmeat, worth 4.2 million u.a.

Lastly, the Community granted Malta food aid comprising 500 t of common wheat and 200 t of milk powder(300.000 u.a.) in May 1979, deliveries of which started in September 1979.

Exploratory talks

4. In the second stage of the approach recommended by the Community regarding outstanding problems in relations with Malta, the Commission had a series of exploratory talks, which began by contacts with the Maltese authorities on 15 and 16 March 1979 in Valletta and continued on 6 April and from 26 to 28 June in Brussels.

During these discussions the Commission, together with the Maltese Government, tried to find solutions to the immediate problems in their relations with each other both in the trade sector and in the field of financial cooperation, and then recorded Valletta's opinion on the development of the Association.

5. Textiles were the main concern in the field of trade. An arrangement was finally initialled on 29 June 1979; it was signed on the 31st October 1979 and entered into force immediately.

In the field of financial cooperation, the Community and the European Investment Bank continued their efforts to find procedures in accordance with Maltese legislation for financing projects. On 29 May 1979 8 million u.a. loan contract was signed for enlarging the Grand Harbour in Valletta (5 million u.a. in special loans at an interest rate of 1 % and 3 million u.a. in subsidized 3 % loans). An initial payment of 3 million u.a. was made at the beginning of June 1979.

The Maltese Government has adopted the following position as regards the balance of the Financial Protocol, namely 13 million u.a. in EIB loans and 4.5 million u.a. in grants:

The remainder of the grants should be earmarked exclusively for technical assistance and training projects, as Malta wishes to forgo any further subsidizing of capital projects. For the 13 million u.a., the Maltese authorities had submitted a project involving shipyards. Since this project had not been selected by the Commission, the Maltese authorities, speaking of behalf of the Government, announced that they would forgo the balance, because of the legislative constraints regarding the interest rate. The sum of 13 million u.a. would henceforward be available to private investors who wished to apply for unsubsidized EIB loans.

For the purposes of implementing the technical assistance and training under the Financial Protocol, the Maltese Government submitted 23 projects amounting to 11.2 million u.a. The Commission selected 17 projects totalling 4 million u.a. and is currently appraising those projects.

Lastly, the Maltese Government requested that the Community finance three projects outside the Financial Protocol : the first concerns the setting-up of a dairy industry, for which aid of 5 million u.a. has been requested; the second project involves the agricultural development of the island of Comino, to cost 1.6 million u.a.; the third project concerns underwater prospecting of the Maltese continental shelf, to cost an estimated 0.8 million u.a.

6. With regard to the development of the links existing between the Community and Malta under the Association, the Maltese Delegation stressed during the exploratory talks its concern with the consequences for Malta of the Community's enlargement both in the industrial and the agricultural sector and the need for negotiations for the conclusion of a second financial protocol to be opened soon.

From the trade angle, the Maltese Government is afraid that the enlargement will harm its position on the Community market, in particular because of the protection measures which the Community could apply to Malta for sensitive products such as textiles. In order to lessen risks, Malta asked the Community to waive application of the safeguard clauses against it.

On agriculture, Malta stressed that its production is by definition very limited and that consequently its exports could not in any way present difficulties for the Community. It therefore asked for duty-free admission into the EEC for the majority of the products covered by the Association and for the period of preference (1) to be extended for certain others. Malta also asked for duty-free entry (2) for sixteen products currently not covered by the Agreement.

Lastly, Malta returned to the question of derogations from the rules of origin for preserved meat, chocolate, intermediate-frequency transformers, transistors and tape-recorders, the previously existing derogations having come to an end during 1978. Malta also wanted cumulation of the rules of origin with other Mediterranean countries along the lines of the system the Community has granted to three Maghreb countries.

7. Maltese requests concerning a second financial protocol (see annex) for the period 1980 to 1982 are aimed at obtaining aid from the Community to cover part of its financing requirements over those three years estimated at 320 million u.a.. The requested sum of 68 million u.a. would consist of 8 million u.a. in grants for technical assistance and long-term 2 % loans totalling 60 million u.a. These funds are intended for investment in the public sector and the terms proposed by Malta take into account the constraints of Maltese legislation, which prohibits the Government from subscribing to loans involving an interest rate of more than 3 %.

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- (1) New potatoes, onions, cut flowers and flower buds, other live plants.
(2) Notably flower seeds, other seeds, grape juice.

Commission assessment

8. The Commission feels that, by means of the various specific measures which the Community has implemented in favour of Malta this year outside the Financial Protocol, the Community has demonstrated in practical terms that the Community is keen to strengthen its links with Malta and help it to cope with its economic problems. Concurrently with these support measures, the Community has succeeded in implementing the Financial Protocol, at least for the capital projects and technical assistance and training projects submitted by Malta, which have absorbed half the amount budgeted. Lastly, the discussions on the development of the Association have enable both sides to understand each other's position better and to pinpoint the problems.

The first stage of the Association Agreement governing trade arrangements with Malta expires at the end of 1980, and so does the Financial Protocol. During the coming year, negotiations will take place to determine the terms of the trade arrangements to be applied as from 1981 between the Community and Malta. At the same time, the Community should give Malta an answer to its request regarding a second financial protocol.

9. The Commission feels that the requests formulated by the Maltese Government on trade matters should be answered in 1980 in the overall framework of the relations envisaged and in the light of the solution adopted for the period starting 1 January 1981.

The Commission will transmit the proposals on this subject to the Council during the first half of next year.

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10. It should be stressed that the Maltese Government attaches capital importance to the question of continuation of financial cooperation and regards it as much an urgent matter that the Community should give its reply, at least in principle, at the beginning of next year.

The Commission feels that the Community could not remain insensitive to the problems which Malta will be facing in the years ahead. These involve first of all the need to restructure the economy which has traditionally been based on services, and to reach the degree of industrialization which would provide employment for the island's population and therefore ensure Malta's economic survival. The analyses carried out to assess the foreseeable consequences of enlargement for the co-contracting Mediterranean countries have shown that Malta is one of the countries which will be most affected. Lastly, the continuation of financial cooperation with Malta will enable the Community to maintain the momentum of its relations with that country under the Association.

Malta: The medium-term economic problem
An additional Memorandum

The discussions which took place in Brussels on the 26th and the 28th June 1979 between the Commission and the Maltese delegation served to put into perspective the economic difficulties which Malta will be facing during the next five years. It was explained that Malta's economic problems would be greatly eased by a further financial protocol on terms and conditions which can be borne by the Maltese Exchequer.

The Memorandum presented to the Commission in April 1979 outlined the main difficulties which beset Malta in its task to restructure the economy and to absorb both the direct loss of about 28 million units of account per year to the Government budget as rental payment for the British base in Malta as well as the additional loss of a further 20 million units of account per year which represented a direct contribution to the Maltese economy out of the British war expenditure in Malta.

The Memorandum indicated that Malta requires heavy investment in productive enterprises in order to absorb available manpower. In order to undertake the required massive investment programme in industrial enterprises, Malta is actively seeking to establish a strong

industrial base especially by attracting joint venture partners to push forward its industrialization programme. In this way Malta will, by 1985, earn adequate levels of foreign currency to replace the financial inputs which have been lost following the closure of the British military base in March 1979.

The investment requirements which are needed to support Malta's industrialization programme are expected to come mainly from three sources - equity shareholding by foreign investors, local investors and the Maltese banking system.

Until these projects mature and provide the required number of jobs the Government of Malta has no option but to continue absorbing surplus manpower in the labour corps by deploying them on essential infrastructural projects. It has been estimated that in order to push forward this programme of development projects a total amount of around 320 million u.a. must be found for public investment in economic and social infrastructure as well as in directly productive activities between 1980 and 1985.

It is obvious that given the magnitude of the problem and Malta's complete lack of resources, Malta has no other option but to resort in the medium term to foreign

assistance. Malta is accordingly requesting the Community development assistance under a supplementary financial protocol making available 68 million u.a. This request is at the same time being supplemented by other efforts to secure additional finance from other countries, especially those which benefitted most from Malta's new status of neutrality in the cause of peace.

The funds requested from the Community will be mainly utilised to implement the public sector investment programme which includes the building of factories for new manufacturing enterprises; the provision of new port facilities required to promote Malta as a trade centre; the conservation and development of water resources to meet the agricultural, domestic and tourist needs; and the further expansion of the electricity generation and telecommunications systems which are both vital factors if Malta's process of economic growth is to go on unabated.

It is now widely accepted that Malta is not faced with the normal development problems experienced by other developing countries. Indeed, Malta's problems are unique and call for a different solution: thus, for instance, due to the substantial loss of income from the Military base and other factors peculiar to Malta

the Maltese budget is unable to bear loans on commercial terms. For these reasons the Government is precluded by law from borrowing at commercial rates.

Given Malta's peculiar development problems, further assistance by the Community should not therefore follow the normal pattern of financial aid consisting of a mix of soft and hard loans. Further financial assistance to Malta should therefore be aimed at and tailored to the Maltese economy's special conditions and circumstances.

For this purpose, it is requested that a grant of 8 million units of account be made available for technical assistance requirements while a long-term loan of 60 million units of account at an interest rate of 2 per cent be provided during the next three crucial years so that Malta will not only be able to avoid a fall in living standards but also fulfill the set economic and social development objectives within the shortest possible time.

July 1979