

European Communities

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EUROPEAN PARLIAMENT

# Working Documents

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DOCUMENT 1-59/84

## Report

drawn up on behalf of the Committee on External Economic  
Relations

on economic and trading relations between the European  
Economic Community and Malta

Rapporteur: Mrs M. F. BADUEL GLORIOSO

PE 88.580/fin.  
Or. It.



At its sitting of 16 May 1983, the European Parliament referred the motion for a resolution tabled by Mr Schmid and others pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible.

At its meeting of 24 November 1983, the Committee on External Economic Relations decided to draw up a report and appointed Mrs Baduel Glorioso rapporteur.

The committee considered the draft report at its meetings of 22 February 1984, 28 February 1984 and 21 March 1984. At the last meeting it adopted the motion for a resolution by 9 votes to 2 with 4 abstentions.

The following took part in the vote: Sir Fred Catherwood, chairman; Mr van Aerssen, second vice-chairman; Mrs Baduel Glorioso, rapporteur; Mr Blumenfeld, Mrs Cinciari Rodano (deputizing for Mr Galluzzi), Miss Hooper, Mr Hopper (deputizing for Mr Spencer), Mr Key (deputizing for Mr Caillavet), Mr Pelikan, Mr Pasmazoglou, Mr Radoux, Mr Rieger, Mr Seeler, Mr Stella, Sir John Stewart-Clark and Mr Zarges.

The report was tabled on 23 March 1984.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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A

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on economic and trading relations between the European Economic Community and Malta

The European Parliament,

- having regard to the motion for a resolution tabled by Mr Schmid and others (Doc. 1-206/83),
- having regard to the report of the Committee on External Economic Relations (Doc. 1-59/84),
- A. having regard to the political, economic and cultural ties which have traditionally linked Europe and Malta,
- B. having regard to the interests which the Community maintains in this central Mediterranean region on the basis not only of economic considerations but also of political and strategic considerations,
- C. whereas the political line adopted by the Maltese Government at international level, in particular in connection with its declaration of neutrality founded on the principles of non-alignment, makes it imperative to view economic and trading relations between the two sides in the context of the economic and political balance necessary in the Mediterranean area,
- D. having regard to the Association Agreement between Malta and the European Economic Community and in particular the need to give its trade provisions a contractual basis,
- E. recognizing that there have been serious tensions between Malta and the Community,
- F. whereas the 1982 Commission proposal renewing the financial protocol provided for 35 MUA and 10 MUA in the form of special aid, and the EEC Council in October 1983 reduced the figure of 35 MUA to 28 MUA, rejecting

the proposal for special aid,

- G. whereas there has been no protocol extending the Agreement, with the result that Malta continues to regard Greece as a third country,
1. Reaffirms the need to develop further and consolidate economic and financial relations with Malta so as to make a contribution to the economic and social development of its population;
2. Stresses that economic and financial links between the EEC and Malta could be an important factor in the development of the Maltese economy, given the specific structure of agriculture and industry in that country and their link with the Community market;
3. Declares that the Community, more so than it has done in the past, should consider in a spirit of sympathy and cooperation the Maltese requests for new agricultural and industrial export possibilities in the EEC;
4. Expects that the Maltese Government will agree to negotiate with the Community on the renewal of the trade provisions of the Agreement which expired on 31 December 1980 and have since been applied autonomously by the Community;
5. Expects also that the Maltese Government will agree to enter into negotiations with the Community on a protocol extending the Agreement to take account of the accession of Greece;
6. Is of the opinion that the Community should take care to consider the Maltese requests in the light of the problems which will arise from the forthcoming enlargement and the reform of the common agricultural policy;
7. Requests, with regard to the renewal of the financial protocol, that:
  1. account be taken of the Commission's proposal to grant special aid for 1984;
  2. the total figure be reviewed;
8. Expects that the Maltese Government will agree to negotiate a new financial protocol with the Community on this basis;
9. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENTI. INTRODUCTION

Following the constitutional changes which occurred in 1947 and 1961 and established self-government in Malta, the country became an independent and sovereign state in September 1974.

In 1971, the Labour Party were in power and intended among other things to consolidate Maltese independence and national sovereignty by improving social conditions and the level of economic development in the country. It would be useful here to draw attention to the Declaration by the Government of the Republic of Malta on the country's neutrality. This Declaration stated the determination to 'contribute to peace and stability in the Mediterranean region by changing Malta's unnatural role of a fortress into a centre of peace and a bridge of friendship between the peoples of Europe and of North Africa. It specified the Government of the Republic of Malta was 'Conscious of the special contribution the Republic of Malta can make towards that end by assuming a status of neutrality strictly founded on the principles of non-alignment'. The Declaration also provided evident proof of the Maltese determination not to consent to their territory being at the disposal of any foreign armed forces.

Given the geographical and strategic position of the island, and the posture of non-alignment adopted by its government, clear conclusions can be drawn as to the economic and above all political interests linking the Community with the Republic of Malta, geographically situated as it is on the boundary dividing Europe and North Africa and politically placed in a pivotal sphere between Europe and the Arab world, acting in the context of non-alignment and playing a prominent role in relations between industrialized and developing countries.

II. THE EEC-MALTESE ASSOCIATION AGREEMENT

Under the Agreement establishing an Association between the EEC and Malta, which was signed on 5 December 1970, it was planned to phase out barriers to trade, with this process to be conducted in two successive stages, each lasting five years. It was the intention of both sides that the second stage would culminate in the establishment of a customs union.

The spirit of the Agreement is expressed most forcefully in Article 2, which states that :

- '1. The aim of the Agreement is progressively to eliminate obstacles as regards the main body of trade between the European Economic Community and Malta and thus to contribute to the development of international trade.
2. The Agreement provides for two successive stages, the first being of five years' duration and the second, in principle, of five years.
3. Negotiations are provided for during the eighteen months preceding the expiry of the first stage, with a view to defining the content of the second stage, providing for a further elimination of obstacles to trade between the European Economic Community and Malta and the adoption by Malta of the Common Customs Tariff.'

Following arduous negotiations, a Protocol adapting the Association Agreement to take account of the three new Member States in the Community (Great Britain, Ireland and Denmark) was signed in 1976.

The first stage of the Association Agreement was extended to 31 December 1980 with an additional Protocol which was signed in 1977 and enabled Malta to export certain agricultural and industrial products to the EEC under more favourable conditions.

Since January 1981, and by unilateral decision, the Council has extended for periods of 6 months the overall trade agreements regarding the first stage of the Association Agreement, since the Maltese side had indicated that, for economic and political reasons, they did not want the transition to the second stage the aim of which was the establishment of the EEC-Malta customs union.

Since 1981, the Agreement has been unilaterally extended for periods of six months by the EEC, with the latest renewal covering the period 1 January 1984 - 1 June 1984.

This series of renewals will continue until the Maltese Government reaches a decision on whether to start negotiations on the transition to the second stage.

In addition, a first financial protocol was signed on 4 March 1976 and came into force on 1 November 1978 for a period of five years. It has now



expired and negotiations for a new financial protocol have not yet started.

The Community has just made new proposals and is waiting for the Maltese Government to be ready to negotiate.

### III. Trade between the Community and Malta

The EEC is Malta's chief customer and chief supplier: between 1978 and 1980, on average 72.2% of Maltese exports found a market in the Community and 73.2% of imports into Malta originated in the Community.

However, Malta is experiencing a growing deficit in its trade with the Community (see Annex I).

#### A. TRADE ARRANGEMENTS

##### 1. The system of preferences applied by the Community

###### Agricultural products

Early potatoes: tariff reduction of 40% from 1/1 to 15/6

Wines: tariff reduction of 75% (with respect to the reference price).

Fruit juice and vegetables: no concession

Tobacco: no concession

###### Non-agricultural products

Tariff concessions are 100 % for industrial products, except for ECSC products and certain textile products which have been governed by a voluntary restraint arrangement since 1978.

Under the agreement at present in force, which expires at the end of 1983, the ceilings for exports to the EEC are as follows: 8.8 million pairs of trousers, 550,000 blouses and 2,180 tonnes of cotton yarn. The Commission does not intend to increase these quantities appreciably for 1984-1985.

##### 2. Trade concessions granted to the EEC by Malta

They are about 35 % for agricultural and industrial products.

B. The products traded

(1) The main products exported from Malta to the Community:

(a) Agricultural products

	Percentage share of the products in agricultural exports to the EEC  average for 1978-80	Percentage share of the EEC in total exports of the product  average for 1978-80
Early potatoes	22	100
Wines	2	60
Fruit juices and vegetables	2	66
Raw tobacco	23	100

(b) non-agricultural products

	Percentage share of the product in non-agricul- tural exports to the EEC  average for 1978-80	Percentage share of the EEC in total exports of the product  average for 1978-80
Clothing	52	86
Yarns, fabrics and finished textile products	5	89
Prints	6	91
Scientific, medical and optical equipment and instruments	6	82

(2) The main products imported by Malta from the EEC

(a) Agricultural products

Mainly meat and meat preparations, dairy products, sugar and cereals.

The EEC supplies 58 % of Malta's agricultural imports.

(b) non-agricultural products

Mainly yarns, fabrics, finished textile products, machines, electrical equipment and appliances.

The EEC supplies 77 % of Malta's non-agricultural imports (average for 1978-1980).

An important aspect of trade between Malta and the EEC is the substantial outward processing traffic in the textile sector between Malta and Germany, Benelux and the United Kingdom.

#### IV. Financial Cooperation

The first financial protocol, which had been in force since 1 November 1978 expired on 31 October 1983 without the total amount provided for having been used and without negotiations on the conclusion of a new financial protocol having started. The first financial protocol provided for the allocation of 26 million ECU, 5 million being in the form of grants or interest rebates, 5 million in the form of special loans and 16 million in the form of EIB loans, i.e., at market rates. 13 million ECU were used to modernize the port of Valletta and for various technical assistance programmes. The remaining 13 million could not be released because of Maltese law which forbids the government to accept loans with rates of interest higher than 3 %.

#### V. Tension in EEC-Malta relations

For several years relations between the Community and Malta have been going through a critical phase.

Neither the Maltese authorities nor the Community wish to achieve Customs union quickly, although this is the ultimate aim of the Association agreement. However, the Maltese Government wants to make improvements to the existing agreement, which it finds inadequate from the commercial and financial points of view.

Regarding the commercial aspect, it feels that the Community concessions are insufficient. In particular it would like to abolish the safeguard clause and ceilings for textiles and would like to have free access for agricultural products and cumulation of origin of rules, especially in order to take into account its growing trading links with the Maghreb countries. In the field of financial cooperation, the Maltese Government feels that the Community has shown itself to be inflexible and at the last Association Council (held in Luxembourg on 22 June) it asked the EEC to commit itself to negotiating a second financial protocol.

## The Community's answer

The Community has not proposed any appreciable changes to the existing trading arrangements, which explains why the two parties have not been able to agree on an extension of the first phase of the agreement and why trade is at present governed by autonomous measures. As far as financial aid is concerned, the Commission proposed a special subsidy of 10 million ECU in October 1982. The Council of Ministers was unable to agree unanimously on this proposal. At the same time the Commission proposed opening negotiations with Malta with a view to concluding a second financial protocol for 35 million ECU (a total of 45 million ECU). On 17 October last, the Council settled on a much lower figure, namely 28 million ECU for the next five years, divided up as follows: 16 million in the form of EIB loans, 9 million in the form of subsidies and 3 million in the form of special loans. In order to avoid the problems of the first financial protocol, the normal EIB loans could be partially subsidized. The Commission thus now has a brief for negotiations with Malta.

## VI. Conclusions

The European Parliament, as it has already done on other occasions<sup>1</sup>, acknowledges the need for a better relationship between the European Community and Malta. Better cooperation and economic relations will undoubtedly also bring beneficial results at political level.

It should be borne in mind that the economic and financial concessions proposed by the Community to Malta could according to the EEC make an important contribution to strengthening and restructuring the economy of that country. Malta is not in fact very rich in natural resources, and the facilities offered by the Community, coupled with initiatives by the Maltese Government, could yield positive results to raise the level of economic and social development in Malta.

Malta occupies a strategic position of the highest importance, and the policy of non-alignment adopted by the Maltese Government favours the policy pursued by the EEC aimed at maintaining stability and peace in the region.

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<sup>1</sup> See BERSANI report (Doc. 378/77); SPICER report, 29 March 1976, Doc. 16/76; van den HEUVEL report, Doc. 1-368/83.

The Community has often been reluctant and disconcerted when faced with Maltese requests to secure free access to Community markets for its agricultural produce. It has adopted delaying tactics in the face of the Maltese request to have the system of cumulation for the rules of origin extended to all the products originating from Malta. This system would allow North African products processed in Malta, to be admitted onto Community markets on preferential terms.

The European Parliament believes that the request for free access to Community markets for Maltese agricultural produce needs to be considered and assessed carefully by the Community, especially in the light of the future modifications to the common agricultural policy, bearing in mind, on the one hand, the small quantities of products which would be favoured but without, on the other hand, ignoring the risk of creating a precedent.

TRADE BETWEEN EC (10) AND MALTATABLE No. 1

in m ECU

	IMPORTS			EXPORTS		Trade balance m ECU
	The Ten m ECU	1970=100		The Ten in ECU	1970=100	
1970	23	100		108	100	85
1971	27	117		105	97	78
1972	38	165		105	97	67
1973	56	243		126	117	70
1974	67	291		182	169	115
1975	73	317		195	181	122
1976	121	526		243	225	122
1977	160	696		301	279	141
1978	197	857		329	305	132
1979	234	1017		422	391	188
1980	253	1100		488	452	235
1981	277	1204		531	492	254
1982	289	1256		562	520	273
1983 (first half)	162	.		304		142

TABLE No. 2EEC-Maltese trade - Share of each Member State in the EEC total (%)IMPORTS

	EEC 10	F	Bel-Lux	NL	FRG	I	UK	Irl	Dk	Gr
1980	100	4.6	7.3	7.4	42.7	9.8	26.6	0.2	1.2	-
1981	100	3.6	10.2	6.6	42.5	8.8	26.8	0.2	1.2	-
1982	100	3.9	6.0	3.7	43.2	15.0	26.2	0.4	1.3	0.1

EXPORTS

1980	100	4.5	5.6	4.6	18.7	30.7	30.1	2.3	3.4	-
1981	100	4.8	5.0	5.3	19.2	34.9	26.5	1.5	2.1	0.7
1982	100	5.9	4.5	4.1	20.0	38.7	22.8	1.0	1.5	1.4

Source: Commission of the European Communities

Data on the Maltese economy

Population : 323,000

(1982)

Composition of the Gross Domestic Product in 1981

Agriculture and fisheries	3.9 %
Manufacturing industries	26.6 %
Shipyards (building and repairs)	4.7 %
Building industry	4.5 %
Tertiary sector	60.4 %

Average rate of growth 1970 - 1979 11 %

1981 4.2 %

1982 8 %

Per capita income in 1981 : \$ 3.782

Trade balance:	with the world	US \$ 453 million (deficit)
(in 1980)	with the EEC	US \$ 335 million (deficit)

Balance of payments:	US \$ 72.2 million (surplus)
(in 1982)	

Rate of inflation : 5.8 % (1982)

Rate of unemployment : 8.7 % (1983)

The economic crisis was rather late in affecting Malta.

1982 was a bad year, especially as far as tourism and the shipyards were concerned. The number of tourists, which had been growing steadily for many years, fell in 1982.

Source: Economist Intelligence Review

ANNEX

MOTION FOR A RESOLUTION (Doc. 1-206/83)

tabled by Mr SCHMID, Mr MAJONICA, Mr GATTO, Lord HARMAR-NICHOLLS, Mr LIMA, Mrs LIZIN, Mr O'DONNELL, Mr PAPAPIETRO, Mr PININFARINA, Sir Peter VANNECK and Sir David NICOLSON pursuant to Rule 47 of the Rules of Procedure on relations between the European Community and Malta

The European Parliament,

- A. noting with satisfaction the changed parliamentary situation in Malta following the swearing in of Nationalist Members of Parliament on 29 March 1983,
1. Recognizes that the context of its resolution of 10 March 1983 has changed;
  2. Urges the Council to come to early and favourable decisions on the mandate for the second European Community/Malta Financial Protocol and on special financial aid to allow full use of funds under the first Financial Protocol;
  3. Urges the delegation for relations with Malta to take up contacts with the Maltese House of Representatives as quickly as possible, preferably in Malta;
  4. Asks its delegation to report on the new situation in Malta before any further general Parliamentary debate on the situation in Malta;
  5. Instructs its President to forward this resolution to the Commission of the European Communities, the Council of the European Communities, the governments of the Member States and to the House of Representatives of the republic of Malta.

PE 88.580/fin./Ann.