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Malta and the European Community

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Abstract. *Negotiations between Malta and the EC to establish some form of special economic and political relationship started in the mid-sixties, having accession as a final goal. By 1970, an Association Agreement was signed between the two parties. In 1990, Malta applied for full EC membership and since then steps have been taken to gradually harmonise internal legislation and structures with those of the Community. The Commission is currently engaged in drawing up the "avis" on Malta's accession application which should be issued during 1993. Thereafter, Malta expects negotiations on accession to be initiated as early as possible.*

Titre. Malte et la Communauté Européenne.

Résumé. Les négociations en vue d'établir un type spécifique de relations économiques et politiques entre Malte et la CE ont commencé vers le milieu des années 1960. En 1970, un Accord d'Association était signé entre les deux parties. En 1990, Malte postule pour l'adhésion complète à la CE et, depuis, des mesures sont prises en vue d'harmoniser progressivement la législation et les structures internes maltaises avec celles de la Communauté. L'«avis» sur la demande d'adhésion de Malte est en cours de rédaction à la Commission et devrait être prêt pour 1993. Malte souhaite, ensuite, que les négociations sur cette adhésion soient menées le plus tôt possible.

Keywords. Malta – European Community – Association Agreement – Treaty of Rome – Council of Association – Financial Protocol – Neutrality – European Currency Unit – Common Commercial Policy.

I. – Introduction. A Historical overview.

Situated around eighty kilometres south of Sicily, Malta has shared Europe's history for hundreds of years, a relationship accentuated by the very close ties with the Order of St. John. It can in fact be claimed that it was probably the time spent under the Knights that has marked Malta most. Another major historical factor in the Island's "European connection" was undoubtedly the period spanning a century and a half during which Malta was a British colony and which culminated in the role played during the Second World War in the defence of freedom and democracy.

At the time when the Treaty of Rome was signed in 1957, paving the way for the creation of the European Economic Community comprising the original six Member States, Malta's status was therefore still that of a colony subject to British rule, a status that implied that Malta did not enjoy the right to take decisions of its own free will concerning relations with third states and international organisations.

The first general elections held in Malta after the Community came into being and after Malta regained self-government (which had been temporarily suspended) took place in February 1962. Subsequently, the new Government, with Dr. George Borg Olivier at the helm, strove to establish relations with the EC, a task which proved to be an arduous one, not least since Malta was still not independent and since Britain was a long way away from becoming a full member.

The Association Agreement

Soon after Malta attained independence in September 1964, negotiations to establish some form of special relationship with the EC received fresh impetus, however this time with accession as the final goal. The two successive administrations led by Dr. Borg Olivier sought an association with the Community. As Malta had, at the time, just embarked on an industrialization process, this association was considered as the means of guaranteeing future prosperity.

In December 1970, an Association Agreement between Malta and the EC was signed. This constituted the third agreement of its nature concluded between the Community and a non-Member State, in the wake of the ones entered into with Greece (1961) and Turkey (1963). The Association Agreement with Malta thus came into effect in April 1971 and aimed at consolidating as well as extending the economic and commercial relations existing between the two sides.

The Agreement provided for two successive stages, each of five years duration. The scope of the first stage was to progressively eliminate the obstacles to trade between Malta and the EC. In effect, many Maltese exports to the EC were made subject to a reduced rate of import duties and, at a later date, they were totally exempted therefrom. For its part, Malta reduced customs duties levied on imports from the Community.

The final target of the second stage, on the other hand, was the formation of a customs union which was planned to commence in 1976. However, since it was not the wish of the Maltese Administration at the time to enter into this customs union stage, the first stage was initially extended to June 1977 and later to December 1980. Thereafter, the Community unilaterally extended the Agreement until December 1988 when a supplementary protocol was signed, again extending the Association Agreement, this time until the end of 1990.

The supplementary protocol in effect re-established relations with the EEC on a contractual basis. Subsequently, a further protocol was concluded prorogating the first stage of the EEC-Malta Association agreement for a period of one year (until 31 December 1991) but with an additional provision according to which this same stage is automatically prorogated from year to year, except if denounced by one of the parties. Practically speaking, such an arrangement is tantamount to an indefinite extension enabling Malta to continue to benefit from the trade scheme of the first stage until the Community decides to open negotiations on Malta's accession.

Ancillary to the Association Agreement has been the establishment of a Council of Association responsible for its administration and the supervision of its implementation. Council of Association meetings represent the principal means whereby the common position of the Member States, on the desirable ways of achieving a closer rapprochement between the Community and Malta, finds its public expression.

A final essential aspect in the context of the EC-Malta institutional relationship is the financial dimension. To date, three Financial Protocols have been signed between Malta and the Community, the latest one running till October 1993 and providing for 38 million ECUs by way of financial assistance. Under this Protocol, two projects which are directly related to the agriculture sub-sector are the extension of the Sant' Antnin Sewage Purification Plant and the setting up of a Composting Plant.

II. – Malta's Application for Membership

The Nationalist Party led by Dr. Eddie Fenech Adami had declared in its 1981 and 1987 electoral manifestos that it would seek full EC membership when in Government. Upon taking up office in 1987, the new Nationalist Administration initiated a fresh drive for closer ties with the EC in preparation for

membership. In fact, a major diplomatic initiative was launched in this regard between 1987 and 1990 resulting, on 16 July 1990, in the formal presentation of Malta's application for EC membership by Prof. Guido de Marco, Malta's Deputy Prime Minister and Minister of Foreign Affairs to the then President of the Council of Ministers, Mr. Gianni De Michelis.

Earlier in 1992, the Maltese Government opted to call early elections. One of the main reasons for resorting to this option is attributable to Government's desire for the Maltese electorate to pronounce itself once again on the issue of Malta's membership of the Community before the issuing of the Commission's opinion. At last year's February polls, the Nationalist Government was returned to power with an increased majority.

Overall, Malta's quest for membership stems primarily from political considerations. Having shared Europe's fortunes over the last centuries and conscious of their undoubted European identity, the Maltese are looking towards integration within the European Union as the next logical step in the Island's development, a move that would not only guarantee long-term prosperity but will also safeguard Malta's stability and security. Malta looks forward to participating in the mapping out of Europe's future within the framework of a Community of States acting together in harmony and having the means whereby decisions to the common benefit are sought, as well as forming an integral part of the European Union, the foundations of which have been laid down at Maastricht (see Maastricht European Council, 1991).

Even at this stage, being so closely associated with the Community, measures taken at EC level are already affecting Malta regardless of membership. As a result, one can hardly deny the beneficial effects of adhesion. It is therefore no exaggeration to claim that Malta stands to lose far more by remaining at the periphery rather than by full accession. This statement assumes even greater relevance when one glances through the list of candidates knocking on Brussels' door and other prospective candidates who in the space of two years have made gigantic strides in their relationship with the Community. For this reason, it is even more crucial for Malta to be fully integrated in the Union.

Regarding Malta's neutrality, this is not considered an obstacle to membership, especially since it cannot really be termed as permanent but rather as *sui generis*. There is therefore no constraint against Malta adopting the same foreign policy as the rest of the Community in the light of the Common Foreign and Security Policy which emanated from Maastricht.

Economically, Malta already has strong links with the European Community which is evidenced in various aspects of the Maltese system. From a trading point of view, it results that Malta's imports from the EC constitute around 77% of total imports and the percentage is more or less the same in respect of exports. In the tourist sector, well over 80% of all tourists come from EC countries. The European Community is also the most prominent destination when it comes to the placing of Maltese savings abroad, the vast bulk of private savings portfolio being held in the EC. Yet another major contribution to the integration with the European Community is the basket of currencies, on the basis of which the Maltese Lira exchange rate is determined. The European Currency Unit (ECU) has been given a weighting of 58% in the Maltese basket of currencies (the US dollar and the pound sterling have a weighting of 26% and 16% respectively). Such strong ties in the economic sphere would be further enhanced through complete integration within the Community.

Employment, too, provides strong evidence in favour of membership since a substantial number of private sector workers are employed with EC-owned firms operating in Malta. A report by Coopers and Lybrand (1991) estimates that if Malta were to experience half the rate of expansion in foreign direct investment as that witnessed in Portugal, an annual increment of 3,000 or more jobs could be anticipated.

Upon accession to the European Community, Malta would of course have to form part of the customs union in existence among the Member States, as well as binding itself to the Community's Common Commercial Policy and to any other agreements which the EC has with third countries. As a result of

this, Malta will gain from an improved quality of export market access, not only towards Community Member States themselves but also towards EFTA countries. The removal of trade barriers between Malta and the EC will result in increased imports of Community manufactured products. Besides, Malta would also gain access to EC public procurement. All this would surely imply far less uncertainty for prospective new investors, as a result of which Malta would expect an influx of foreign investment.

Another major advantage accruing to Malta following EC Membership relates to structural aid. With a size of just 316 km², Malta will be classified as an Objective 1 region since its Gross Domestic Product per capita falls short of the threshold of 75% of the Community average. Emphasis will be placed on developing the economic infrastructure, including where appropriate the development of facilities linked to exploiting tourist potential, but financial assistance may also possibly be given to general education establishments as well as hospitals and related facilities. Besides, Malta may even qualify for an Integrated Mediterranean Programme to be drawn up for her.

Of specific relevance to Malta is the fact that the European Community recognizes the contributions that small and medium sized enterprises are making to the strengthening of economic and social cohesion. Loans to SMEs now represent about a quarter of all Community loans. This type of enterprise is predominant in Malta. By being excluded from the EC set-up, Maltese firms would not only be forfeiting the opportunity to participate in these loans but be exposed to a relative loss in competitiveness with other SMEs in the Community deriving such benefits.

However, EC membership implies that in some cases Malta would have to undertake changes which, if not tackled properly, could result in hampering the Island's development and stifling the benefits which would otherwise result. The necessity to conform to European standards and regulations, for example, would lead to increased production costs although such harmonization would enhance competitiveness. The Maltese Government is committed towards implementing such reforms, a number of which has already been initiated, within a reasonable timeframe.

In sectors which are highly protected, there may be some casualties once protection of the local industry is removed, unless a certain amount of restructuring is undertaken. The ensuing changes need to be carefully planned, bearing in mind that the environment within which a firm would be operating will be significantly modified. For their part, Maltese firms must become more sensitive to the new market conditions that will prevail.

III. – Current State of Events

Pursuant to the Council mandate authorising the Commission to investigate Malta's application, which mandate was given in September 1990, the Commission has embarked on the preparation of the Opinion. As part of this process, the Maltese authorities have provided the Commission with the information requested on a number of policy areas, following which a fact-finding mission arrived in Malta to investigate further. It is anticipated that the opinion be issued in 1993.

The European Council at Maastricht noted that negotiations on accession to the European Union on the basis of the new Treaty can commence as soon as the Community has terminated its negotiations on Own Resources and related issues towards the end of 1992. Besides, the Conclusions of the Presidency at the end of Lisbon Summit stated that relations with Malta are to be developed and strengthened by building on the Association Agreement, its application for membership and by developing political dialogue. The Commission's report "Europe and the Challenge of Enlargement" which was attached to the Conclusions of the Presidency at Lisbon (1992), had further stated that in the case of Malta, the question of participation in Community institutions will have to be resolved during negotiations on membership. The Maltese Government, for its part, is hopeful that negotiations on accession may begin as soon as possible, maintaining that Malta possesses the necessary prerequisites in order to be included in the first enlargement process.

IV. – Conclusion

The main sectors of the Maltese economy which would require reshaping in order to conform with EC policies include the local tax system which has been characterized by a heavy reliance on direct taxes, namely income tax and on import duties. Accession to the EC will bring about total elimination of customs duties except for the Common Customs Tariff (CCT) charged on imports from non-EC States and a shift to the system of value added tax (VAT) as the general tax on consumption. As for financial services, membership of the Community requires not only adjustments in the local banking and insurance sectors but also the abolition of all restrictions on capital movements.

Other areas which, to a lesser extent, would entail a significant degree of adaptation comprise free movement of goods—since local industry, which has benefited from protectionist practices in the past, will be exposed to Community-wide competition—as well as competition policy especially the provisions on State aids and monopolies.

Regarding difficulties from the Community side, it must be stated at the outset that from a general point of view, Malta should not present the Community with any major problems. With a population of just over 360,000 and a GDP per capita of around 5,500 ECU in 1991, Malta could easily be absorbed into the EC structure without any negative impact whatsoever. In the economic field, Malta should be able to make the necessary adjustments to comply with EC legislation within the stipulated time limit given an adequate transition period. Furthermore, many of the reforms to be carried out would in the long-term be to the country's economic advantage. Besides, Malta's share of EC funds would not place a burden on the Community budget.

Despite the difficulties that may be envisaged in the decision-making process as a result of membership of small states like Malta and the related debate on institutional reform, Malta does not expect such an issue to present an insurmountable obstacle as far as accession is concerned. This is confirmed by the Commission report presented at Lisbon and referred to earlier.

Until some time ago, discussions on “widening versus deepening” occupied centre stage, hampering the membership prospects of applicant States. This polemic has now been resolved as it is generally accepted that the process of widening is inevitable and that widening and deepening can proceed in tandem.

From the Maltese side, one must underline that the desire to be integrated within the European Union runs much deeper than any economic or political considerations. More important, it manifests a commitment by the Maltese Government to link the Island irrevocably with the principles cherished by all Member States within the Community—principles of democracy, liberty and respect for human rights, amongst others.

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