



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.02.1999  
COM(1999) 69 final

**REPORT**

**UPDATING THE COMMISSION OPINION**

**ON**

**MALTA'S**

**APPLICATION FOR MEMBERSHIP**

(presented by the Commission)



## Contents

### **A. INTRODUCTION**

- a) Context**
- b) Methodology**
- c) Bilateral relations**
  - c.1 Association Agreement**
  - c.2 Financial co-operation**

### **B. MEMBERSHIP CRITERIA**

#### **1. POLITICAL CRITERIA**

- 1.1 Introduction**
- 1.2 Institutions**
- 1.3 Political pluralism and the election process**
- 1.4 Public administration**
- 1.5 Judicial system**
- 1.6 Human rights and respect for and protection of minorities**
- 1.7 General Evaluation**

#### **2. ECONOMIC CRITERIA**

- 2.1 Introduction**
- 2.2 Developments since the Commission opinion**
  - Macroeconomic developments
  - Structural issues
- 2.3 General Evaluation**

#### **3. PROGRESS IN ADOPTING THE ACQUIS**

- 3.1 Introduction**
- 3.2 Internal Market**
  - General Framework
  - The Four Freedoms
    - Free Movement of Goods
    - Free Movement of Capital
    - Free Movement of Services
    - Free Movement of Persons
  - Competition

- 3.3 Customs
- 3.4 Taxation
- 3.5 Employment, Working conditions and Social Affairs
- 3.6 Economic and Monetary Union
- 3.7 Regional Policies and cohesion
- 3.8 Industry including SMEs
- 3.9 Agriculture and Fisheries
- 3.10 Energy
- 3.11 Environment
- 3.12 Telecommunications
- 3.13 Audio-visual
- 3.14 Transport
- 3.15 Education, Training and Youth
- 3.16 Science and Research
- 3.17 Consumer Policy
- 3.18 Statistics
- 3.19 Financial Control
- 3.20 Co-operation in the fields of Justice and Home Affairs
- 3.21 Common Foreign and Security Policy
- 3.22 General Evaluation

## **C. CONCLUSION AND RECOMMANDATION**

### **ANNEX**

Statistical Data

## A. INTRODUCTION

### a) Context

In September 1998, the government of Malta informed the European Union that it had decided to reactivate its application for membership of the EU. On 5 October, the Council invited the Commission to “present an update of the 1993 Opinion on Malta’s application for membership in the EU”.

The present report constitutes the European Commission’s response to that request. It takes into account the Presidency’s conclusions of the Vienna European Council in December 1998, which welcomed Malta’s decision and noted “the intention of the Commission to present at the beginning of next year an updating of its favourable Opinion of 1993.”

The Commission’s opinion, submitted to the Council in June 1993, was prepared following Malta’s application for Community membership made in July 1990. The Opinion stated that “the adoption of the *acquis communautaire*, especially on trade, economic, financial and competition issues depends on a thoroughgoing overhaul of the Maltese economy’s regulatory and operational systems”. The Opinion also stated that “the problems posed by such an overhaul are far from insurmountable, but ... the government’s undertaking to adopt the *acquis communautaire* in its entirety must be backed up by the adoption of an overall structural reform programme. Once these priority reforms are implemented and the global reform programme has been adopted, accession negotiations could get under way.”

The reform programme was agreed in an exchange of letters between the Maltese authorities and the Commission in March 1994. It concerned primarily monetary policy, tax reform (the introduction of VAT), the dismantling of most of Malta’s tariff protection, alignment on the Common Customs Tariff, the adoption of competition law modelled on the *acquis* and environmental issues. In March 1995, the Commission presented to the Council a report on the implementation of this programme. The report pointed out that “these reforms have been introduced in a very short period of time” and that “to a very large extent Malta has fulfilled its commitments under the reform programme with the Commission”. The report concluded that “Malta still has further to go in order to be able to participate fully in the common foreign and security policy and third pillar activities, particularly visa policy.”

In April 1995, the Council decided that accession negotiations with Malta should start six months after the conclusion of the Intergovernmental Conference in the light of the results thereof. The European Council confirmed this on several occasions<sup>1</sup>.

In June 1995 a structured dialogue between the European Union and Malta was established and certain elements of the strategy to prepare for Malta’s accession to the European Union were agreed. This strategy focused on the continuation of efforts to familiarise the Maltese administration with the *acquis communautaire*, the harmonisation of Maltese legislation with the *acquis* and Malta’s participation in Community programmes.

---

<sup>1</sup> Cannes (June 1995), Madrid (December 1995), Florence (June 1996)

Following the general elections in October 1996, the new government decided to freeze Malta's application for membership. As a consequence the structured dialogue was suspended. Malta was therefore not included in the enlargement process, launched by the Luxembourg European Council in December 1997, and the accession negotiations, which were opened on 31 March 1998.

In November 1996 the Maltese government expressed its wish to seek "as close a relationship with the Union as is compatible with Malta's particular economic and geo-political circumstances, while mindful of the Union's acquis and its framework of operations." In response to a request of the Council, the Commission transmitted in February 1998 a Communication to the Council on "future relations between the EU and Malta", based on the existing framework of agreements. The substance of this communication was endorsed by the 10<sup>th</sup> EC-Malta Association Council in April 1998. In the margins of the Association Council, two joint declarations were adopted, one on political dialogue and the other on co-operation in the fields of justice and home affairs.

Following a general election in September 1998, the new government decided to reactivate Malta's application for membership.

## **b) Methodology**

In preparing this report, the Commission drew on information regarding conditions in Malta collated during visits by EU experts and by the Maltese authorities. The Commission addressed a series of detailed questions to the Maltese authorities, including in areas not covered by the 1993 Opinion such as Justice and Home Affairs.

## **c) Bilateral relations**

### **c.1 Association Agreement**

Malta's relations with the European Union are governed by the Agreement establishing an Association between the EEC and Malta, which entered into force on 1 April 1971. The Agreement provides for the creation of a customs union in two five-year stages, involving the total elimination of obstacles to trade between the two parties and the adoption of the common customs tariff by Malta.

The first stage has been extended on a regular basis since 1977, first by agreement between the EC and Malta and, since December 1991, automatically on an annual basis without notification. As the first stage has not been completed, the second stage has not been initiated. Therefore, the Association Agreement has not yet had the intended effect of opening the Maltese economy to European competition and aligning the country's legislation, practices and competitive performance with those of the Community.

The institutions established by the Association Agreement, notably the Association Council, are functioning smoothly.

Malta is an active participant in the Euro-Mediterranean Partnership; it has hosted numerous activities, including the second Foreign Ministers meeting in April 1997, training seminars for diplomats and the preparatory meeting of the Parliamentary forum.

## **c.2 Financial co-operation**

Malta has received a total of euro 93.5 million (including EIB loans and risk capital) under three successive financial protocols extending from 1978 to 1993. All these funds have been committed.

A fourth Financial Protocol worth euro 45 million came into force on 1 January 1996. It consists of euro 30 million in EIB loans, euro 13 million in grants and euro 2 million in risk capital.

The indicative programme for the fourth Financial Protocol was signed on 27 June 1996 and focused on the pre-accession strategy. The Commission and the Maltese authorities reviewed this programme following Malta's decision to freeze its membership application. The indicative programme was amended on 9 July 1998 to focus on supporting Malta's industrial restructuring programme, the improvement of the Maltese education system and the continuation of the "European Community Scholarship and Fellowship Fund".

The fourth Financial Protocol expired on 31 October 1998. Following the Maltese authorities' request, a proposal for the extension of the period during which its funds may be committed, namely until 31 December 1999, has been presented to the Council.

## **B. MEMBERSHIP CRITERIA**

### **1. POLITICAL CRITERIA**

#### **1.1 Introduction**

The 1993 Opinion stated that the "human rights situation in Malta does not give rise to concern or comment. The country's institutions operate in a proper and satisfactory manner". It went on to underline that "bearing in mind the country's democratic status and its consistent respect of human rights, Malta is entirely justified in asserting its vocation of membership of the European Union".

This section analyses the political situation and developments since the 1993 Opinion.

The Commission has based its analysis on the political criteria for accession established at the Copenhagen European Council in 1993.

#### **1.2 Institutions**

The 1964 Constitution guarantees the protection of human rights and establishes a parliamentary democracy based on universal suffrage. The Constitution was first amended in 1974, when Malta became a Republic, and then again in 1987, when the country adopted a neutral status. Amendments to the Constitution require a two-thirds majority in the Maltese Parliament.

The office of the President of Malta was established in December 1974. The President is appointed by Resolution of the House of Representatives for a five-year term. The term of the current President in office, Mr Ugo Mifsud Bonnici, expires on 3 April 1999.

The President and the House of Representatives constitute the Parliament in Malta. The Parliament makes laws by means of bills, which are passed by the House of Representatives and require the assent of the President before they take effect.

Ministers are selected by the Prime Minister from the elected members of Parliament. The Prime Minister is responsible before Parliament.

#### **1.3 Political pluralism and the election process**

There are two political parties represented in the 65 seat House of Representatives, the Nationalist Party (NP), which has 35 seats, and the Malta Labour Party (MLP), which has 30 seats. It was under an NP government that Malta submitted its application for membership in 1990 and that the frozen application was reactivated in September 1998. The MLP won the general elections of October 1996 and froze Malta's application for membership in 1996. Both parties consider relations with the European Union as a priority and that the issue of EU membership should be the subject of a referendum. The NP intends to hold a referendum upon completion of negotiations, the MLP prior to accession negotiations.

Apart from the 65 members of Parliament, there is the Speaker, who is elected by the House of Representatives from within or outside the House. There are no independent Members of Parliament, nor are other minor parties or movements represented.

General elections are normally held every five years under a system of proportional representation. The local councils, which are statutory local government authorities, are elected every three years also by proportional representation.

Elections have taken place under normal conditions.

#### **1.4 Public administration**

The executive's institutions function smoothly. The civil service numbers 30,500 employees in central government, which represents approximately 20% of the working population. There is scope for improving the efficiency and effectiveness of the public administration.

The post of Ombudsman was created in 1995. He is an officer of Parliament, elected by at least a two-thirds majority of the House of Representatives and holds office for three years. The Ombudsman may carry out independent investigations into complaints concerning alleged maladministration by public organisations, agencies with a government controlling interest and local councils. Cases concerning the period before 1995 are dealt with by a Tribunal for the Investigation of Injustices, chaired by a judge, which was established in 1997; its remit covers complaints concerning alleged maladministration between 1987 (prior to 1987 a Commission against injustice, meanwhile abolished, dealt with such cases) and 1995.

Allegations of corruption are investigated by the Ombudsman. In addition, Malta has established a "Permanent Commission against Corruption" to protect citizens' rights. The Commission may be headed either by a judge, a magistrate or an advocate. It reports to the Minister for Justice on the results of its investigations and presents an annual report to the Maltese President.

#### **1.5 Judicial system**

The judiciary is independent. One of the Superior Courts, the Constitutional Court, adjudicates, among other things, on the constitutionality of legislation, human rights cases and cases related to the election of Members of Parliament.

Judges are generally of a high professional standard and their integrity is not questioned. The court system in general can be rather slow but the lower courts work well. Lawyers are plentiful and accessible in Malta, well trained and experienced. There is a legal aid scheme offered to citizens lacking the means to afford legal defence.

#### **1.6 Human rights and respect for and protection of minorities**

There are no problems regarding the observation of fundamental rights and freedoms.

Malta has ratified and passed into national law the European Convention on Human Rights (1950) as well as the 1<sup>st</sup> protocol. As Malta has ratified Protocol n° 11 to the European Convention on Human Rights, it has recognised the competence of the European Court of

Human Rights to receive individual petitions. Malta has also ratified the International Covenant on Civil and Political Rights and granted individuals the right to file a petition with the UN Committee of Human Rights.

In 1991 Malta ratified Protocol n° 6 to the Convention for the Protection of Human Rights concerning the abolition of the death penalty. There is no death penalty.

Malta has ratified the European Social Charter, the European Convention for the Prevention of Torture and the International Covenant on Economic, Social and Cultural Rights.

Prison conditions have improved and cases of improper police conduct are rare.

Freedom of expression, association, economic and social rights and the protection of minorities are fully guaranteed and respected. No cases of non-respect have been reported.

The population of Malta includes a small minority (less than 1% of the total population), mainly consisting of Libyans, working and living in Malta.

### **1.7 General evaluation**

This evaluation confirms the conclusion of the 1993 Commission opinion. Malta's institutions function normally and there are no problems regarding human rights and the protection of minorities. Furthermore, there are no apparent weaknesses in the judicial system. However, efforts are required to improve the efficiency and effectiveness of the civil service.

## 2. ECONOMIC CRITERIA

### 2.1 Introduction

The 1993 Opinion on Malta's application for membership concluded that for the country to successfully become integrated with the EU economy "what is effectively involved is a root-and-branch overhaul of the entire regulatory and operational framework of the Maltese economy" and that it therefore remains important for the EU to encourage the Maltese authorities to "undertake vigorously the required reforms to transform Malta's economy to an open and competitive one". This report provides a brief account of developments since the Opinion.

A small island economy of some 376,500 inhabitants and with limited natural resources, Malta is heavily reliant on transit trade. Although Malta's level of GDP per capita increased by approximately 20% in real terms since 1993, it remains low in comparison to the EU average. Maltese statistics do not allow for direct international comparisons on a purchasing power basis.

The share of *agriculture and fisheries* in GDP is small, at around 3%. The *industrial sector* in Malta accounts for less than a third of GDP (at factor cost). Of this, manufacturing and shipbuilding and repair represent the largest sub-sectors. The electrical machinery sector continues to be a driving force in terms of exports, investment and employment. Its share of total manufacturing value added increased from 15.2% in 1993 to 27.9% in 1997. The *service sector* has grown further in importance over the last decade and today accounts for almost two-thirds of GDP. The tourism sector is by far the most important sub-sector with its contribution to employment and extensive linkages to other sectors of the economy. More than one million tourists visit Malta each year, four-fifths of whom are from the EU and half of those are tourists from the UK.

Overall, the working population increased from 132,000 persons in 1993 to approximately 137,000 in 1997. The share of public sector employment, including civil servants in central government, continues to remain high. It was close to 40% in 1997 or approximately 55,000 persons.

Malta has developed an open, trading economy and is a Member of the World Trade Organisation (WTO). On accession Malta would have to renounce its status as a developing country and thereby its right to transitional periods, e.g. under the Trade - Related Aspects of Intellectual Property Rights (TRIPs) and Customs Valuation Agreements (if these periods do not expire before EU accession). Malta would also have to subscribe to the plurilateral WTO agreements to which the Community adheres.

### 2.2 Developments since the Commission opinion

#### Macroeconomic developments

Real GDP growth during the period 1993-1996 recorded a strong performance of approximately 5% on average per year with an exceptional expansion of output of 9% recorded in 1995. In 1997 growth slowed, in particular due to a collapse in exports.

Unemployment in the Maltese economy has historically been low; during the past ten years it has averaged a rate of 3.5-4%. At the end of 1997, however, the unemployment rate had increased to 5% reflecting the slowdown in the economy.

With the exception of a temporary surge in inflation, following the 10% devaluation of the Maltese Lira in November 1992, inflationary pressure has been contained as a result of tighter monetary policies. Inflation averaged a modest rate of 3.5% per year throughout the period 1993-1997. Since 1989, the Maltese lira has been pegged to a basket of three currencies: the ECU, the pound sterling and the US dollar. The commitment to an exchange rate anchor has helped Malta achieve considerable price stability.

Despite signs of tighter fiscal policies, the budget deficit rose from 4% in 1995 to approximately 10% of GDP in 1997 due to structural imbalances. Government borrowing to finance the growing gaps in the budget has more than quadrupled between 1994 and 1997. The budget deficit for 1998 is projected to fall to around 9% of GDP, but if one-off privatisation receipts are excluded this figure becomes higher. Increasing recurrent expenditure, including the wages of government employees, strongly contributed to the worsening of public finances. Since the early 1990s, the gap between social security contributions and payments has steadily widened. On the income side, non-tax receipts have been falling, partly as a result of the weakening financial performance of public enterprises. Revenues based on customs and excise duties have also fallen; they have almost halved since the 1995 tariff reforms, and in 1997 represented only 8.5% of total ordinary revenues.

In mid-1997, following a change in government, VAT legislation, introduced in 1995, was repealed and replaced by the Customs and Excise Tax Act, a system of excise tax on imports and on local production, reversing the positive trend of trade liberalisation and restoring increased reliance on import taxes. However, Malta reintroduced VAT on 1 January 1999.

Tax collection needs to be strengthened, notably by establishing clear long-term policies on taxation, by clarifying responsibility for this function within the Maltese administration and by bringing previously unrecorded economic activity within the tax net.

As well as widening budget deficits, Malta has experienced a rapid build up in the level of public debt (i.e. government debt excluding loans taken by public corporations) which as a ratio of GDP increased from 33.2% in 1993 to 50.8% by end-1997. If state guaranteed loans taken by public enterprises are included (which amount to some Lm 500 million or euro 1,150 million to date), the figure for public debt swells to Lm 1208 million, which represented about 92% of GDP in 1997.

Malta's current account position shifted from a balanced position in the early 1990s to wide deficits, which peaked in 1995 at 11% of GDP. A surge in domestic demand for imported consumer goods following the tariff reductions in 1995<sup>2</sup> combined with a fall in tourism

---

<sup>2</sup> At the same time as introducing VAT in 1995, the Maltese authorities eliminated custom duties on imports from the EU and reduced duties on non-EU imports; Malta also aligned itself more closely on the EU's tariff structure. A number of levies on imports remain; they are due to be dismantled under an agreement with the EU. The average effective tariff rate on taxable goods (mainly consumer goods) declined from 32.3% in 1994 to 6.5% in 1996. Moreover, quantitative restrictions on agricultural products were dismantled and replaced with import levies. The average effective tariff rate has subsequently been affected by the introduction of excise taxes in mid-1997 and the reintroduction of VAT at the start of 1999.

receipts were the major factors behind this development. In 1997, however, the current account deficit had come down to 5.4% as result of increased tourism revenues and a decline in the trade deficit. On the service account, receipts from tourism play a vital role with more than a quarter of total foreign exchange earnings. Malta's external public debt in 1997 stood at 27.7% of GDP, including the external debt of the government, which represented some 4-5% of GDP. Official foreign reserves at end-1997 amounted of approximately euro 1,300 million, equivalent to 5 months of imports.

The EU continues to be Malta's principal export market, absorbing over 53.9% of Malta's exports in 1997, despite a recent decline from 73.8% in 1994 (mainly because of a sharp drop in exports to Italy, which tumbled from euro 480 million in 1994 to approximately euro 80 million in 1997 owing to a decrease in the exports of electronics). The share of imports from the EU has remained more steady at around 70%. During the same period, exports to Asia and America have expanded rapidly, having more than doubled their share of total Maltese exports to 33%, mainly in the sectors of electrical machinery and equipment. The high degree of concentration of merchandise exports in a single sector product (one electronics firm accounts for approximately 50% of Malta's total merchandise exports) makes Malta's trade performance highly susceptible to sudden shifts in international demand.

Malta is a functioning market economy. However, notwithstanding the considerable trade integration with the European Union, the ability of the Maltese economy to cope with the competitive pressures within the Union remains a challenge. This is particularly true for small enterprises in sectors such as agro-industry, services, handicraft and furniture. The first step should be to establish a functioning customs union, as already envisaged with the programme of economic reforms in 1994, according to a clear timetable; this is a long-standing objective of the Association Agreement that up to now has not been implemented. Certain economic reforms, part of the 1994 programme agreed between Malta and the Commission, also need to be addressed without delay.

## **Structural Issues**

### **Financial Sector Developments**

In recent years, Malta has implemented a number of policy reforms in order to liberalise the financial system. In late 1994, the Central Bank of Malta (CBM) was given greater independence in the conduct of monetary policy and in setting interest rates. Interest rates have since been effectively deregulated, with the ceiling on deposit rates lifted in 1994 and controls on lending rates effectively eliminated in 1995. Prudential regulations have been brought largely into line with EU directives in areas such as licensing procedures, capital adequacy ratios, liquidity requirements, and single customer exposure limits. Furthermore, Malta has accepted the obligations of the IMF's Article VIII which prevents the government from imposing restrictions on payments and transfers for current international transactions or from engaging in discriminatory currency arrangements. The partial privatisation of the Bank of Valetta and the entry by the Midland Bank of the UK have increased competition and promoted financial innovation in the financial sector. Despite these positive developments, the government continues to play a central role in the Maltese banking system through its shares in the two largest domestic commercial banks (Mid-Med Bank, in which it has a majority stake, and the Bank of Valetta, in which it has a minority stake). Together they account for over 90% of all deposits and loans held in the domestic banking system. Liberalisation of

capital movements has been gradual and remains incomplete. It will be important to ensure that any activities of the off-shore sector are in line with the acquis.

### **Public Sector Enterprises**

Over the last couple of years, the financial position of state-owned enterprises in Malta has weakened considerably. All Malta's major public corporations suffer from a deteriorating operational surplus as a result of inefficiencies, rising personnel costs, difficulties in collecting arrears and a lack of market-based price policies. This development has been particularly acute in three large public enterprises: Telemalta, Enemalta and the Water Services Corporation. Two other corporations, Malta Drydocks and Malta Shipbuilding, continue to be supported by large subsidies, in the order of 1.3% of GDP in 1995-96. State-guaranteed debts accumulated by the large loss-making public corporations now account for around 41% of GDP. With the sale of its 45% stake of the postal services and another 40% stake in the telecoms monopoly, the Maltese government has only very recently initiated the process of privatisation and restructuring of the public sector. It has also attempted to gradually reduce subsidies on selected utility services by allowing increases in tariff rates. However, large state enterprises continue to constitute a heavy burden on the government budget.

### **2.3 General Evaluation**

Malta, a functioning market economy, has experienced rapid real GDP growth, averaging 5 % per year between 1993 and 1996. Furthermore, since 1993 Malta has taken certain steps in order to prepare its economy for accession to the EU. However, the Maltese authorities still face a number of structural issues which need to be addressed in a sustained manner. A major challenge is to put the budget on a sounder footing. To this end, Malta needs to improve tax collection and reform the public sector. The reintroduction of VAT from 1 January 1999 represents a step in the right direction. Loss-making public sector enterprises need to be restructured and face market discipline. The public administration needs to be adapted to the needs of the Maltese economy and EU membership. Another priority for Malta will be to ensure that the financial system is strong enough to face a fully liberalised capital account regime and increased competition by foreign financial institutions in the context of EU integration.

In order to strengthen Malta's capacity to cope with the competitive pressures within the Union, a functioning customs union should be established as a first step, according to a clear timetable. Moreover, Malta will need to build up a track record in the establishment of a stable and sound macroeconomic environment and in the continued implementation of reform and liberalisation. Provided a thorough reform programme is established and implemented, Malta should be able to cope with the competitive pressure and market forces within the Union in the medium-term.

### **3. PROGRESS IN ADOPTING THE ACQUIS**

#### **3.1 Introduction**

In its 1993 Opinion, the Commission noted that regarding the adaptation of their laws to Community legislation, the Maltese authorities “do not seem to have got much beyond setting up the administrative machinery” and also noted that “no specific proposals have been tabled for adoption of the acquis in a given field”.

Since the Opinion and in particular since 1995, a structured dialogue has been put in place, which covered areas, such as transport, environment, common foreign and security policy and justice and home affairs. Following Malta’s decision, in 1996, to freeze its application for membership, the structured dialogue was suspended. Therefore unlike other candidate countries there was no programme for the systematic alignment of Malta’s legislation with the acquis allowing the Commission to monitor the approximation of Malta’s legislation with the acquis. Moreover, the establishment of a customs union, as foreseen in the Association Agreement, has not progressed and reforms concerning, among others, the elimination of levies applied to imports originating in the EU and the alignment on the common customs tariff, which Malta should have already addressed, still need to be implemented.

Sector by sector, this section examines in detail progress since the Commission opinion of 1993. It includes an assessment of Malta’s progress in aligning its legislation with the acquis as well as of its capacity to apply the acquis. The European Council in Madrid in December 1995 referred to the need to create conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. It is important to incorporate Community legislation into national legislation effectively, but even more important to implement it properly in the field via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

#### **3.2 Internal Market**

The EU’s internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection. It also requires effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which economies operate.

#### **General Framework**

Regarding public procurement, new Public Service (Procurement) Regulations came into effect in Malta in August 1996. The new regulations do not include any restrictive measures

on the basis of the country of origin. Nevertheless, they correspond only partially with the obligations provided for in the EC Directives on public procurement. The new regulations apply to government departments and some public corporations which are directed by the government (Enemalta Corporation, Water Services Corporation, Malta Standardisation Authority, Housing Authority and Malta Maritime Authority). To be in line with the *acquis*, the scope of the Regulations would have to be extended also to cover local authorities and other bodies governed by public law.

Maltese law provides for preferential treatment of local manufacturers, who are allowed a 10% preferential margin over foreign suppliers. This practice is incompatible with EC public procurement rules.

The judicial review system does not fulfil the requirements of the relevant EC Directives. A review of contracts other than those processed through the Department of Contracts is not guaranteed. The information available does not indicate that an effective review by a body independent of both the contracting authority and the contracting firm is provided.

As far as intellectual property rights are concerned, significant efforts have been made since 1993 in order to align Malta's legislation with the *acquis*. However, a number of adaptations still need to be carried out in order to fully comply with the *acquis* in this area. Malta is due to implement all TRIPs provisions by 1 January 2000. Accession to the whole of the Paris Act of the Bern Convention on copyrights and to the Rome Convention on neighbouring rights would also be necessary.

Malta urgently needs to adapt its industrial property law to Community standards. With regard to patents, Malta will have to replace the relevant provisions of the Industrial Property Ordinance with a new Patents Act which will be in line with the European Patent Convention and the EC Regulations creating Supplementary Protection Certificate (SPCs) for medicinal products and for plant protection products. In addition, it is necessary to know which other international conventions in the field of industrial property Malta intends to accede to in the foreseeable future. Special attention has to be paid to enforcement, including border enforcement, and to measures and procedures set up to combat counterfeiting.

As far as company and accounting law is concerned, Malta has adopted nearly all Directives except the 11<sup>th</sup> concerning disclosure requirements in respect of branches opened in a Member State by certain types of companies governed by the law of another State. The 8<sup>th</sup> Directive on statutory audits is regulated by the Accountancy Profession Act of 1979. It therefore appears that Malta has, overall, achieved a fairly good degree of compliance with the *acquis* in the field of company law.

Malta does not have any general legislation in the field of personal data protection.

### **The Four Freedoms**

The Association Agreement provides for the abolition of customs duties and the harmonisation of accompanying policies, including the harmonisation of legislation. These measures represent the first steps towards full harmonisation in the field of free movement of goods. Further to the provisions of the Association Agreement, Malta will have to implement all the *acquis* concerning the four freedoms.

## **Free Movement of Goods**

Free movement of goods implies removing all measures which restrict trade, that is not only customs duties and quantitative restrictions, but also measures with equivalent effect. Where technical regulations are not harmonised, free movement of goods must be ensured by applying the principle of mutual recognition of national rules. This principle was established by the Cassis de Dijon judgement. For the purpose of harmonisation the European Community has developed the New Approach which, instead of imposing technical solutions, is limited to establishing the essential requirements that products must meet. Nevertheless, some directives follow the traditional regulatory pattern of providing fully detailed rules. This applies to products such as pharmaceuticals, chemicals, motor vehicles and food stuffs. The horizontal directive on liability for defective products also constitutes an essential element for the free circulation of goods.

With regard to the product liability Directive, Maltese civil and consumer policy legislation does not provide rules on manufacturer's strict liability set by EC law.

The institutional set up in the context of the new approach is not yet finalised. Currently, the Malta Standardisation Authority (MSA) plays a central and predominant role. Besides being empowered to issue standards under the Malta Standardisation Authority Act it is responsible for accreditation (of which the overall strategy is under review) and metrology as well as for certain aspects of market surveillance. In addition it co-ordinates an effective conformity assessment system (notified bodies). Maltese standards are entirely voluntary. MSA, which is, at the moment, an affiliate member of the European Committee for Standardisation (ECS), a full member of the European Telecommunication Standards Institute (ETSI) and an associate member of the International Standards Organisation (ISO), has made progress in transposing EU standards into Maltese standards and is continuing efforts to further speed up this process. Given the dominant role of MSA, sufficient independence of the different activities, namely standardisation, certification, accreditation and metrology is not assured.

As far as the EC Directives on toys, appliances burning gaseous fuels, personal protective equipment and on simple pressure vessels are concerned as well as in the field of motor vehicles, foodstuffs and chemicals, the Maltese authorities have not been in a position, on the basis of the legal texts provided, to demonstrate that full conformity with the *acquis* is ensured.

In the field of pharmaceuticals, national legislation exists only regarding distribution channels but not regarding authorisation of products.

## **Free Movement of Capital**

The 1993 Opinion pointed out that capital movements were, with a few minor exceptions, prohibited or subject to prior authorisation and that also current payments remained subject to restrictions. It was also noted that the monetary regulation system needed to be overhauled and the financial institutions to be adapted to a market-based system as a prerequisite for successful liberalisation of capital movements and payments.

Since then, the instruments and procedures for monetary policy have been reformed accordingly. Market-based instruments are now the principal tools of monetary policy and the direct controls on interest rates have been largely phased out. Furthermore, with the introduction of new legislation regulating banks and other financial institutions, with the privatisation of two of the three state-owned banks and with the partial opening of the financial markets for foreign credit institutions, a market-oriented system appears now to be on its way.

Remaining restrictions on current payments have been completely removed and IMF Article VIII Status was attained by the end of 1994.

Although early plans of full liberalisation by 1997 (except acquisition of real estate by non-residents) have not been realised, some progress has been made in the liberalisation of capital movements. Notably, restrictions on inward direct investment have been loosened, except for sensitive sectors, such as, real estate and wholesale and retail activities. Still, all direct investment is subject to Central Bank approval, even if the authorisation procedure seems to be mainly kept for reasons of prudential control. Furthermore, the acquisition of real estate in this context is possible only if requested for business projects approved by the Government. Similarly, other acquisition of real estate by non-residents has been opened up for larger properties, provided that the aim is to use the property as a personal residence.

Numerous restrictions and demands for authorisation also remain concerning inward capital movements other than direct investment and real estate, as well as on outward capital movements. Even so, most outward operations are permitted without license up to an amount of Lm 8,000 (approximately euro 18,300) per year and Lm 300,000 (approximately euro 688,000) for direct investments and acquisition of real estate.

Malta should adopt a precise calendar in order to embark with more determination on an orderly liberalisation path, starting by dismantling the remaining restrictions on long-term inward and outward capital flows.

### **Free Movement of Services**

The basis of the free movement of services is the prohibition of discrimination in particular on grounds of nationality. The implementation of the relevant rules implies the existence of administrative structures and greater co-operation between Member States in the area of enforcement (mutual recognition arrangements). A substantial amount of the legislation applicable to the free movement of services relates to financial services.

Malta is a signatory to the General Agreement for Trade in Services (GATS). In the framework of this agreement, Malta made commitments regarding financial services, tourism and transport, as well as horizontal commitments on commercial presence, although these commitments are limited in scope. Malta did not participate in the GATS Fourth Protocol on basic telecommunications, but made additional commitments on financial services at the end of the negotiations on this sector, covering in particular insurance, banking and foreign exchange controls. Malta, unlike the EU, does not have any MFN exemption on audio-visual issues. Given the Union acquis, this may cause problems, as the WTO may question any extension of Malta's MFN exemptions to fit the EU regime.

As regards the banking sector, the conditions for granting licences for taking up and pursuing banking activities are those of the EC Directives. However, the initial capital should be increased to euro 5 million, which is the minimum required by the 2<sup>nd</sup> banking Directive. A separate licence is required for investment services activities. There is an offshore banking sector. However, existing offshore banks will have to convert to 'onshore' or surrender their license by 2004 or 10 years after the license was issued. The sector's activities need to be aligned with the *acquis*.

Legislation applied in the insurance sector has been recently modified (Insurance Business Act, 1998 and Insurance Brokers and other intermediaries Act, 1998, which entered into force on 1 October 1998). The new provisions are intended to follow EC Directives. Further information on the legislation and its application is needed.

Concerning the securities markets field, the EU Investment Services Directive of 1993 and the UCITS (Undertakings for Collective Investments in Transferable Securities) Directive of 1985 have been transposed by a single measure (the Investment Services Act of 1994). A licence is required for the provision of investment advice, which goes further than (but is not incompatible with) the Investment Services Directive. Certain firms do not appear to be covered by initial or ongoing capital requirements, whereas the Capital Adequacy Directive would require this of EU-based firms. No scheme for investor compensation has yet been brought into force, although EU investment firms and banks have to be covered by such a scheme. Banks can be authorised to carry out a wide range of securities-related activities, which mirrors the position under the Second Banking Directive. Clarification is required as to whether banks may become direct members of the Malta stock exchange, which is a freedom envisaged in the Investment Services Directive. Prospectus and listing requirements seem fully in line with the *acquis*, as do the rules relating to insider trading.

Maltese legislation on payment systems does not contain specific provisions which reflect those of EU Directives on cross-border credit transfers and on settlement finality in payment and securities settlement systems. An integrated electronic payment system for the banking system should be implemented in the next years and will improve the level of payment systems in Malta. As regards large value payments, the volume of transactions has not required so far the introduction of a Real Time Gross Settlement System (RTGS) system. Nevertheless, a RTGS system will have to be introduced and implemented in reasonable time in order to align the Maltese payment system to those existing in the Member States of the European Union.

### **Free Movement of Persons**

The free movement of persons encompasses two concepts with different implications in the Treaty. Article 7a implies that persons are not to be subject to controls when crossing the internal frontiers between Member States. The abolition of frontier checks must apply to all persons, whatever their nationality. The rights deriving from Article 7a have not yet been fully applied throughout the EU. However, on the entry into force of the Treaty of Amsterdam, the Schengen *acquis* will be integrated in the framework of the EU. Article 8a gives every citizen of the EU the individual right to move and reside freely within the territory of the Member States, subject to certain conditions.

### *Free movement of Union citizens*

The right of Union citizens to enter, reside and obtain employment in Malta is still partly restricted. The necessary actions will have to be taken to ensure effective alignment with the *acquis*. In the field of mutual recognition of professional qualifications, training requirements for pharmacists, nurses and architects appear *prima facie* and in general terms to be in conformity with EC Directives. This is not the case for general practice doctors, dentists and midwives for whom either the content or the duration of the training differs from EC legislation. The formalities needed to practice regulated professions (warrants, registration certificates) would have to be made considerably lighter in the case of provision of services.

### *Abolition of checks on persons at internal frontiers*

Malta will have to abolish checks on persons for air and sea transport within the EU.

### **Competition**

Malta has a Competition Act, which entered into force on 1 February 1995. This constitutes an important development in the antitrust field since the 1993 Opinion. On the basis of the information available, the antitrust provisions in this Act seem to be satisfactory even if further fine-tuning will be necessary on various aspects. It largely follows the EC rules and principles contained in Articles 85 & 86 of EC Treaty. The Act provides for individual and block exemption as well as negative clearance procedures. Clarification is, however, needed for example on the status of notified agreements pending a decision. As for the *de minimis* rule, the introduction of a market share criterion could be envisaged. The amendments to the Competition Act proposed by the Office for Fair Competition should be examined in detail. As for merger control, there are currently no adequate and specific instruments similar to the ones in the EC. This should be remedied.

No specific and adequate system of State aid control comparable to the EC system exists in Malta as yet. Various types of State aid (export aid, operating aid, ...) are likely to create problems. State aid to the shipbuilding and ship-repair industries are quantitatively important and should be brought into conformity with the EC rules. A proper legal framework, a fully transparent register of aid and an independent state aid monitoring authority should be set up.

Another important problem lies in the regime for public undertakings and undertakings with special or exclusive rights. Apart from the case where private undertakings are granted a monopoly right through an exclusive license, no provision similar to article 90 EC exists in Malta. This should be addressed. In view of accession, certain markets still under monopoly (notably telecomms and postal services) will have to be opened to competition. Monopolies of a commercial character that are contrary to the provisions of article 37 EC will also have to be adjusted.

As far as the institutional set up is concerned, it is important that independent authorities are given the necessary powers to perform the task of ensuring free competition in all sectors of the economy. The division of tasks between the Commission for Fair Trading (which is responsible for decision-making) and the Office for Fair Competition (responsible for investigation) should be further clarified. Some aspects should be improved. For example, the

independence of the system still needs to be assessed and an appeals procedure should be introduced in the case of decisions made by the Commission for Fair Trading.

## **Conclusion**

As far as the general framework of the internal market is concerned, some progress has been made with the adoption of new legislation on public procurement, company and accountancy law. However, significant improvements are still needed in the intellectual and industrial property rights sector as well as concerning legislation on personal data protection. Additional efforts may also be necessary on enforcement aspects.

Malta has made progress in the transposition of the *acquis* in the field of the four freedoms. However, concerning free movement of goods major institutional arrangements regarding the implementation of the *acquis*, in particular the New Approach are missing or not yet finalised.

As far as the free movement of services is concerned, a first assessment shows that the situation of the legislative framework in the Maltese banking sector is, quite well developed. Some measures need still to be adopted, like Deposit guarantee schemes, and Supervision on a consolidated basis. In the insurance sector, a deeper assessment is needed to confirm the progress made. In the securities markets field, the relevant EU Directives appear to be largely in place in Maltese legislation. The Maltese legislation on payment systems will have to be slightly adjusted to comply with EC Directives. As regards the chapter on free movement of persons it seems to be a certain level of conformity with EC Directives in the field of mutual recognition of diplomas.

On competition, some progress has been made in the anti-trust field with the adoption of the Competition Act 1995. In the other fields, such as merger control, state aid, public undertakings and state monopolies, the adoption of the *acquis* has to be undertaken as a priority. As far as the institutional set-up is concerned, improvements should be made to the existing bodies and procedures, and a State aid monitoring authority should be set up.

### **3.3 Customs**

The *acquis* in this sector consists of the Community Customs Code and its implementing provisions, the EC's Combined Nomenclature, the Common Customs Tariff including trade preferences, tariff quotas and tariff suspensions and other customs related legislation outside the scope of the Customs Code.

The objective of the Association Agreement of a customs union has not yet been achieved. Under this Agreement, the Community grants free entry for industrial products originating in Malta and puts in place certain provisions for agricultural products. Malta conceded a 35% preference for Community products. Import levies, collected by the customs services in addition to customs duties, were introduced in terms of the Local Manufacturers Promotion Act. They are applied also to EC's products.

The Maltese customs services are responsible both for the imposition of import duties and excise duties, of protective levies on behalf of the Ministry of Industry and for the enforcement of legislation on drug prevention and arms smuggling. Maltese customs

legislation is to a large extent not in line with the acquis. The system for the valuation of goods is not in line with the acquis and must be reviewed.

As far as customs procedures with an economic impact are concerned, Malta only applies drawback and temporary admission facilities. A form of inward processing is permitted but there is no provision for outward processing. Processing under customs control is allowed only under warehousing procedures. There are no free zones in Malta; however, the Freeport legislation provides for the granting of licences to companies to carry out in a Freeport certain trade or business. The legislation on customs warehouses is not in line with the acquis and should be reviewed. Maltese legislation does not foresee the use of simplified procedures.

Malta has an integrated tariff, which is published annually and applies the Harmonised System (HS) for the classification of goods since 1990. The adoption of the Combined Nomenclature should therefore not be problematic.

Malta does not operate a system of tariff quotas and ceilings or a system of tariff suspensions. A Binding Tariff Information System has to be set up. At the moment the customs services issue classification information on request from the importer on the basis of an informal arrangement. Malta does not apply the Single Administrative Document (SAD).

Particular attention must be paid to preparing the customs administration for the operation of all the customs procedures with an economic impact, the system of tariff suspensions and the administration of tariff quotas and ceilings. The computerisation process is also to be considered as a matter of high priority in order for Malta to participate appropriately in the various computerised systems necessary for the management of the customs and indirect taxation provisions in the internal market.

Since the publication of the 1993 Opinion, Malta has improved its system of customs control, previously based on 100% physical inspection, by introducing a system based on intelligence and risk analysis and management.

Legislation on counterfeited and pirated goods will also have to be reviewed to bring it in line with the acquis.

Malta does not have an Agreement on Mutual Administrative Assistance on customs matters with the EC although it already signed bilateral agreements of this nature with some member States.

The system of import levies set up by the Local Manufactures (Promotion) Act imposes charges having equivalent effect to customs duties. These levies must be abolished.

## **Conclusion**

The principal issue is the full and rapid alignment of the Maltese legislation with the acquis as well as a substantial reform of the customs administration in order to provide it with sufficient staff and with an adequate level of infrastructure and equipment, in particular in terms of computerisation and investigation.

The system of levies will have to be imperatively eliminated at the earliest possible date in accordance with the Association Agreement. In general terms, the adoption of the Common Customs Tariff (CCT) could be problematic, as it would lead to a decrease in the protection level and a loss of revenue.

In view of the work still to be carried out, Malta will have to undertake substantial efforts in order to fulfil the responsibilities of an EC customs administration.

### **3.4 Taxation**

The *acquis* in the area of direct taxation mainly concerns corporation taxes and capital duty. The four freedoms of the EC Treaty do, however, have a wider impact on national tax systems.

#### *Direct taxation*

The two company taxation directives and the Arbitration Convention provide for a mechanism which applies on the basis of reciprocity. Respective provisions can therefore, by definition, not be expected to enter into force prior to accession.

Malta's tax provisions relating to offshore companies were revised in 1994 resulting in a phasing out of the existence of offshore companies by 2004. The registration of offshore companies in Malta ceased by the end of 1996.

In addition, business taxation will have to be assessed on its possible impact on unfair fiscal competition and in particular on the location of business.

#### *Value Added Tax*

The current VAT system introduced in January 1999 has been based on the main principles of the VAT legislation of the Community and thus represents a solid starting point for its future alignment on the Community VAT *acquis*. At present a dual VAT-rate system is applied: a standard rate of 15% and a reduced rate of 5%, the latter applicable only to hotel accommodation. In addition zero-rating is applied to a range of goods and services.

However, Malta's approach regarding exempt transactions deviates, to a large extent, from that of the Community *acquis* both in terms of scope and substance. Various transactions that are exempt under Community legislation fall within the taxable scope under Malta's VAT system, but are taxed at 0%. Furthermore, Malta does not operate any arrangements for refunding VAT to non-registered foreign taxable persons not established within the country; thus, VAT represents an increased cost to such traders.

The special import levies applicable to certain goods in addition to the import VAT represent discrimination towards importers and should be abolished at the earliest possible date.

Malta's accession would require additional adjustments to bring the VAT legislation into line with the requirements of the Community *acquis*, both in respect to the general provisions of the Community VAT legislation and as regards the system of taxation necessary in a Community with no internal frontier controls.

### *Excise duties*

There are significant discrepancies between the Maltese excise regimes and the Community requirements. In general, the excise duty levels in Malta are below the minimum rate levels applied within the Community. One of the most distinct differences is that cigars and pipe tobacco are taxed at a zero-rate in Malta whereas the Community applies a positive duty rate. As for cigarettes, only a specific duty is applied; this is contrary to the Community requirements of a dual tax structure (specific and ad valorem elements). Furthermore, non-filter cigarettes are taxed at a lower tax rate than filter cigarettes, which is not only in contradiction to the Community acquis, but could also give rise to breach of the non-discrimination rules. Moreover, Malta will have to apply the same rate per litre of alcohol for all types of spirit. Malta would also have to make a distinction between wine and intermediate products, which is not the case at present. Excise duties on mineral oils are in general in compliance with the Community acquis although kerosene for international flights will have to be exempt from taxation.

### *Mutual assistance*

There would also be a need, on accession, to implement the appropriate arrangements for administrative co-operation and mutual assistance between Member States. These requirements are essential for the functioning of the internal market.

### **Conclusion**

Malta has introduced a VAT system, based on the main principles of the VAT legislation of the Community. However, additional adjustments are required in order to bring the VAT legislation fully in line with the acquis. Moreover, the effects of its application will need to be assessed. While the issue of excise duties still needs to be addressed, Malta should be able to comply with the acquis concerning VAT and excise duties, provided a sustained effort is made over time. It should be possible for Malta to start participating in mutual assistance as the tax administration develops its expertise in this respect.

### **3.5 Employment, Working conditions and Social Affairs**

The 1993 Opinion noted that the accession of Malta would not raise major difficulties in the social sphere. It is still the case that the social situation is comparable to that of EU Member States. Registered unemployment has gone up in recent years, but remains below the EU average. Registered unemployment is significantly higher for men than for women.

The Malta Council for Economic Development, on which employers, trade unions and other relevant bodies are represented, is consulted by the government on major social issues. There is a tradition of social dialogue between employers and trade unions which forms a sound basis for strengthening such dialogue in line with the approach of EU Member States.

Concerning labour law, improvements in aligning Malta's legislation with the acquis have been made, for example as regards conditions of work of part-time employees. However, the main labour laws still have to be reviewed to achieve full compliance with EU Directives. In the area of legislation concerning the equal treatment of men and women, a number of acts

have been adopted since 1992 to eliminate instances in which there is sex-based discrimination. The main provisions of EC legislation in this area appear to be covered but a detailed review, covering issues of enforcement, still needs to be carried out.

As regards health and safety at the work place, Malta has embarked on a substantial revision of its legislation. Under the Occupational Health and Safety (Promotion) Act of 1994, four specific health and safety regulations have been issued which, together with other regulations still to be issued, will replace or revoke the regulations issued under the old Factories Ordinance Act. The new regulations aim to bring health and safety practices in Malta more into line with relevant EU provisions, in order to achieve full conformity in the coming years. With regard to efficiency of enforcement, the former separate units of the Departments of Health and of Labour were merged. A new two-year Diploma Course at the University of Malta on Occupational Health and Safety is expected to produce new graduate Inspectors of the Department of Labour as of 1999.

In the field of social assistance, a public sector agency, the Social Welfare Development Programme, has been set up. Government spending in this area, and also on the provision of services to the growing number of elderly, has increased considerably. Less than 1.5% of the labour force are immigrants, about half of them coming from EU Member States. A bilateral agreement on the co-ordination of social security for migrant workers (providing reciprocity) has been concluded between Malta and the UK.

### **Conclusion**

In the above-mentioned fields, parts of the *acquis* have been transposed, but further progress is necessary in the main legislative areas.

### **3.6 Economic and Monetary Union**

As the third stage of the EMU has commenced, all Member States, including new ones, will participate in the Economic and Monetary Union, but they will not necessarily be expected to adopt the Euro from the start. Their economic policies will be a matter of common concern and it will be involved in the co-ordination of economic policies. Upon accession, Malta will be required to respect the stability and growth pact, to renounce any direct central bank financing of the public sector deficit and privileged access of public authorities to financial institutions and to have completed liberalisation of capital movements. Accession means closer monetary and exchange rate co-operation with the European Union. Member States not participating in the euro area will be able to conduct an autonomous monetary policy and participate in the European System of Central Banks (ESCB) on a restricted basis. Their central banks will have to be independent and have price stability as their primary objective.

As membership of the EU includes acceptance of the global goal of EMU, the convergence criteria will have to be fulfilled by Malta, although not necessarily upon accession. They remain key points of reference for stability oriented macro-economic policies, and must in time be fulfilled by new Member States on a permanent basis.

Malta will have to continue to prepare for integration into Economic and Monetary Union.

The Central Bank of Malta is not fully independent from the government. Whilst members of the Board of Directors are not to receive or accept instructions from any person or authorities under the current legal framework, the Minister of Finance may still, in exceptional circumstances, give instructions to the Bank on the conduct of monetary policy.

Malta does not comply with the EC-Treaty on the issue of central bank financing. At present, the Bank may both grant temporary advances to the government and buy government bonds on the primary market. An amendment to the Central Bank of Malta Act, which would abolish the overdraft facility, has not yet been brought into force. According to the Maltese authorities, the government does not have access to financing from financial institutions on preferential terms.

### **3.7 Regional Policies and Cohesion**

Given the size of the archipelago, Malta does not operate a regional policy in the classical sense, but the island of Gozo (together with Comino) has a ministry responsible for specific issues there as well as specific aid programmes (according to the Industrial Development Act) to compensate partly for its handicaps.

The Commission does not dispose of precise statistics on GDP per capita in purchasing power parities and it is therefore too early to assess the eligibility of Malta for structural funds.

### **3.8 Industry including SMEs**

The 1993 Opinion referred to the protected nature of Malta's economy, the difficulty of assessing the Maltese industry's ability to withstand competitive pressure within the EU and the clear need to restructure local industry before accession. This Opinion remains in general valid.

As a legacy of long-standing protectionist policies, Maltese industry retains a dualistic structure consisting of an internationally competitive export-oriented segment financed mainly by FDI, existing side by side with a relatively uncompetitive, inefficient and protected sector producing mainly for the local market. Significant restructuring in certain industries, such as the agri-foodstuffs and furniture sectors, must take place before accession in order to adjust to increased competition. Furthermore, Malta's economy is over-dependent on imported technology and on the performance of a handful of foreign companies (one foreign company makes up over 50% of total manufacturing export earnings with one product - semi-conductors). Direct State participation in industry is rather limited following the implementation of Malta's privatisation strategy, the shipbuilding and ship repair sectors being exceptions.

Malta's economy is dominated by SMEs, mainly involved in the manufacturing industry and services. The most important SME sectors in Malta are the construction industry, transport and motor vehicle repair, clothing, food & beverages and tourism. SME enterprises in all sectors share a number of structural weaknesses associated with their size: distance from export markets; machinery operating below capacity; a tight labour market and lack of expertise in management and sales promotion; and limited access to finance.

In 1998 the Institute for the Promotion of Small Enterprises (IPSE) was set up to support local enterprises. IPSE will also act as 'project managers' for the industrial restructuring process. It is important that this restructuring process is implemented through instruments compatible with an industrial policy based on open and competitive markets, something which cannot be assessed on the basis of the information received. The restructuring process must accelerate to ensure a sustainable and competitive industrial structure is in place before accession.

Malta does not have an official industrial policy. A reliable assessment of the compatibility of Malta's industrial policy with EU industrial policy and competition rules can only be made when an industrial policy has been developed.

Malta's participation in the Third Multi-annual Programme for SMEs could be considered.

## **Conclusion**

For Malta's industry, consisting mainly of SMEs, to withstand the competitive pressure within the EU, a clear industrial restructuring policy must be implemented without delay.

The adoption of SME related acquis is unlikely to pose any serious problems.

## **3.9 Agriculture and Fisheries**

### *Agriculture*

Agricultural production accounts for about 2.7% of GDP (1997 figure) and 1.6% of total employment; these percentages were in 1990 respectively 3.4% and 2.4% implying a diminishing role of agriculture in the Maltese economy. The incidence of part-time farming, however, continues to increase and is of great economic significance (about 3,000 full-time farmers and 14,000 part-time farmers in 1991). Exports concern mainly new spring potatoes and, to a much lesser extent, other horticultural products such as flowers, tomatoes and strawberries.

Maltese agricultural land accounts for about 12,000 hectares (1991 figure) of which 6% is irrigated land. Lack of water constitutes a natural limit for the expansion of agriculture. Malta continues to safeguard agricultural land through the creation of rural conservation zones and undertakes efforts to transform more dry land into irrigated land.

Compared to the situation in 1993, the protection of Malta's agricultural sector underwent changes due to the implementation of the GATT Uruguay Round commitments. The levies currently in force, which are much lower than Malta's bound rates, still afford a sufficient level of protection for Malta's agriculture. As regards EU Malta bilateral trade, tariff concessions exist within the framework of the Association Agreement of 1971.

Malta's agriculture still enjoys public support. The current financial assistance scheme foresees grants to cover part of capital investment costs and subsidies on interest on commercial loans granted. For the beef sector, specific support measures exist, including guaranteed minimum prices for local beef and an intervention system. In general, Maltese agricultural policy measures are still not in line with the acquis and the role of the State in the production and marketing of agricultural produce remains important. Implementation of the

Common Agricultural Policy would also require a reinforcement of the institutional and administrative capacity and in particular the setting up or adjustments of institutions to implement Community agricultural legislation.

A scheme for the application of (international) standards for fruit and vegetables as well as the establishment of a control mechanism to enforce compliance has to be introduced. As far as the protection of the environment is concerned in this respect, there are currently programmes to encourage the use of organic farming and integrated pest management to reduce the quantities of pesticides applied. Further, for the introduction of new agrochemicals and pesticides, strict control measures exist.

### *Fisheries*

Local fisheries is a small sector of economic activity, amounting to 3% of the national GDP. The fishing industry provides direct employment to about 2,500 people. 95% of the production is exported to EU member states (mainly Italy).

Malta has still to carry out a number of adaptations, in particular regarding its policies on controls, imports and state aid, as well as the fleet register, to align its fisheries policy on that of the Community. This will require in particular a major reform of its administrative structures.

### **Conclusion**

The integration of the Maltese agriculture and agricultural policy into the Common Agricultural Policy will still require efforts. As for Malta, the adoption of the Common Agricultural Policy could improve its capacity, in particular the food processing export industry, as well as its efficiency. The implementation of the Common Fisheries Policy should not pose any major problem.

### **3.10 Energy**

Malta has no indigenous energy sources and is dependent on imported fuels. Its primary energy supply needs are met by crude oil and oil products. The total electricity production in 1997 is 1.720 GWH with a forecast for increase of 2-3% per annum. Considering its electricity consumption, Malta could be considered as an isolated electricity network in respect of EU legislation. There are no refineries in Malta.

ENEMALTA Corporation, a state-owned monopoly, is presently the sole supplier of Malta's energy requirements. Energy policy formulation in Malta is entrusted with the Malta Council for Science and Technology, a body appointed by the Government. An independent Regulator for the development and monitoring of energy policy should be created.

Although the use of renewable energy sources in Malta is still low, Malta has the potential to exploit solar, wind and biomass energies. Concerning the protection of the environment, Act V of 1991 provides general guidelines, notably in the field of energy. However, the implementation of these guidelines must be ensured.

Malta will have to adopt the acquis on crude oil and oil products trade. Legislation on oil stocks needs to be aligned. Malta has no relevant legislation for specific measures in the case of an oil crisis. The only crises measures available are the purchase of oil from private companies - Mediterranean Offshore Bunkering Company and San Lucian Oil Company.

There are no specific laws or policy regarding energy efficiency, although a potential in all end-use sectors remains important.

## **Conclusion**

Malta is not expected to face specific problems in aligning its legislation with the acquis. However, the vast majority of the acquis still needs to be transposed. Special attention needs to be paid to the restructuring of Malta's institutional structures to separate policy formulation and regulation and to the reinforcement of its capacity to implement the acquis.

### **3.11 Environment**

Since 1993, Malta has made limited progress in the adoption of the EC environmental acquis. However, the recent establishment of an independent Ministry for the Environment, the on-going review of the 1991 Environmental Protection Act, together with the preparation of a national State of the Environment Report, are encouraging signs.

The transposition of legislation is in a very preliminary phase. Malta still needs to transpose most EC legislation in sectors relating to the environmental acquis. Important pieces of framework and sectoral legislation, together with the preparation of the necessary implementing regulations, will also have to be developed.

Some implementation activities are currently taking place, mainly in the water and waste sectors as well as for some horizontal issues (EIA, Access to Information), but without a clear focus on the EC acquis. Due to the specific geographic and economic characteristics of the island, air and water quality, waste management and nature protection seem to be the most sensitive areas for the implementation of the acquis.

It is important that Malta fully transposes the acquis communautaire as far as the Birds Directive is concerned.

The Environmental Protection Department (EPD), which deals with the environmental issues within the Ministry of the Environment, is in the process of strengthening its staff and management, through re-training and recruitment of additional staff. This process is essential in order to deal with activities related to the transposition and implementation of the EC legislation. Specific training on the EC environmental acquis and on sectoral issues, such as nature protection or integrated pollution prevention and control, is needed both for ministerial officials and for the local authorities. Environmental monitoring mechanisms also need to be strengthened.

## **Conclusion**

Important efforts will have to take place in order to bring Malta's legislation in line with the environmental acquis. A detailed programme for the legislative transposition as well as for

implementation and enforcement should be prepared. Investment plans for environment-related sectors should be clearly focused on the implementation of the acquis.

### **3.12 Telecommunications**

Malta's telecommunications networks are fully digitalised and therefore advanced services are provided such as high speed data transmission, frame relay service, telematics applications, GSM mobile telephony and Internet (10 licensed service providers at present). The penetration rate in fixed telephony of 49 % is close to the average rate in the EU Member States.

As for the regulatory framework, the telecommunications law of 1997 is not in line with the acquis. On the basis of this law, the public network operator, Maltacom, has been granted a monopoly for the provision of voice telephony and most other services up to the year 2010, except for Internet, turnkey radio services and information services. Furthermore, in order to comply with EU telecommunications legislation, regulatory instruments need to be adopted on licensing, interconnection and universal service, numbering, data protection etc. and a tariff rebalancing scheme on the basis of cost-orientation is required.

From the institutional point of view, the requirement of the separation of the regulatory function from the state's control function over Maltacom has been fulfilled: the telecommunications regulator reports to the Ministry of Transport and Communications whereas the ownership function is exercised by the Ministry of Economics.

A first step towards privatisation has been taken by selling 40% of the capital of the national telecommunications company Maltacom via a public offering in June 1998, 20% on the domestic market and 20% at international stock exchanges.

### **Conclusion**

Although significant progress has been made by Malta in the field of telecommunications, the decision of the government to maintain a monopoly until the year 2010 remains a major problem.

### **3.13 Audio-visual**

Malta's broadcasting legislation (Broadcasting Act of 1991, as amended) is broadly, though not entirely, in line with the acquis in the audio-visual sector. Some discrepancies remain, in particular with respect to the measures for the promotion of European and independent works and the 1997 amendments to the acquis. Approximation efforts are needed.

The television broadcasting sector was subject to growth in recent times with the licensing of two non-public service broadcasters in 1997. In 1998, there were five national television channels, two of which transmit exclusively on cable, and one cable television service offering 52 channels.

Implementation and enforcement of the existing legislation/license conditions is effectively carried out by the Broadcasting Authority.

### **3.14 Transport**

Maritime transport and aviation are key transport issues for Malta. However, the Community acquis on air transport has not yet been fully adopted. This is a key condition for the Community in order to consider associating Malta to the envisaged European Common Aviation Area (ECAA) agreement. Malta is a member of the International Civil Aviation Organisation (ICAO), the European Civil Aviation Conference (ECAC) and Eurocontrol. The country is a candidate member for Joint Aviation Authority (JAA) and is presently undergoing an evaluation for full membership of this organisation.

The situation is less satisfactory concerning maritime transport, where there is still a long way to go to achieve compliance with the acquis. Conditions for setting up shipping companies in Malta and obtaining the Maltese flag are less stringent than those generally applied by Member States and implementation of international safety and pollution standards lags behind the average for the Community fleet. Furthermore, Malta still does not apply certain key safety requirements and progress is urgently needed.

In the field of road transport considerable efforts are needed in order to bring legislation into line with the acquis, mainly concerning the access to the profession, driving time and rest periods as well as taxation. Moreover, Malta is not yet a signatory to a number of the more important multilateral conventions under the United Nations Economic Commission for Europe (European agreement concerning the work of crews of vehicles carrying out international road transport (EART), European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR), Automatic Train Protection (ATP)), all of which are incorporated into the acquis.

At present Malta does not participate in the work of TINA (Transport Infrastructure Needs Assessment of the applicant countries). The guidelines for the development of the Trans-European networks are not applied to Malta.

### **Conclusion**

Substantial efforts are still needed in order to implement the entirety of the acquis, especially for maritime transport.

### **3.15 Education, Training and Youth**

Malta still has to incorporate into its legislation the Directive on the education of children of migrant workers.

Free circulation of persons and the principle of non-discrimination, in particular, on grounds of nationality must be applied throughout the fields of Education, Training and Youth.

Special attention should be given to facilitating access to and participation in vocational training measures, especially for women. Social partners' involvement in policy formulation should be encouraged.

Malta's participation in Community programmes in the field of education, training and youth is envisaged. It should strengthen Malta's preparations for accession and its implementation of the *acquis*.

### **3.16 Science and Research**

Research and technology development co-operation between the EU and Malta has continued principally through the EU Framework Programme. For the duration of the Fourth Framework Programme, Malta decided not to formally join this Programme, but committed euro 2 million of its financial agreement to foster integration in the framework programme on a project by project basis. To that effect, the Malta Science and Technology Council set up a network of local correspondents overseeing the completion of this exercise; this substantial effort is still going on.

Regarding the Fifth Framework Programme adopted at the end of December 1998 by the Council and Parliament, Malta has not yet decided whether to seek association or not.

In any case, the International Co-operation Programme of the Fifth Framework Programme includes a specific component for EU collaboration with third Mediterranean Countries and substantial involvement in this activity of Maltese scientists is expected.

### **3.17 Consumer Policy**

In the field of consumer policy Maltese legislation is still not in line with the *acquis* regarding Product Liability, Misleading Advertising, Unfair Contract Terms and Distance Selling. The same applies to the Directives on Dangerous Imitations and General Product Safety and the Package Travel Directive as well as Consumer Credit, Timeshare or Comparative Advertising. Considerable work still needs to be done to ensure transposition of the *acquis*.

### **3.18 Statistics**

In terms of compliance with the statistics *acquis*, the Central Office of Statistics of Malta (COS) has not been able so far to meet EU requirements sufficiently. Certain statistics are not yet compiled in accordance with present statistical methodologies and practices. The most urgent issues, where technical assistance is needed, are GDP estimation, harmonised consumer price indexes, short-term indicators, social statistics, business register and balance of payments. A co-operation agreement between EUROSTAT and COS, signed in 1996, has not been implemented so far for lack of adequate financing.

However, based on own resources, COS has achieved a satisfactory level of statistical compilation in trade statistics as well as tourism statistics.

### **3.19 Financial Control**

The implementation of Community policies, especially for agriculture and the structural funds, requires efficient management and public internal control systems for public expenditure, including provisions to fight fraud. Approximation of legislation is moreover needed to allow the system of own resources to be introduced, with satisfactory provisions for accounting.

Further clarification is needed on the effectiveness of Malta's legislative and administrative systems in respect of internal and external financial control as well as of procedures to fight against fraud.

### **3.20 Co-operation in the fields of Justice and Home Affairs**

At the tenth EC-Malta Association Council meeting on 28 April 1998, the two parties recognised in a joint statement the importance of co-operation in the fields of Justice and Home Affairs. Beyond that, accession will require work on "updating" and transposing the *acquis* to enable that co-operation to be implemented.

#### *Immigration/ frontier controls*

Although Malta is not a destination for illegal immigrants it could become a country of transit for immigrants coming in particular from North Africa or the Middle/Near East. A special police force, the Immigration Police, controls the situation of persons residing and working illegally in Malta but a fuller picture is needed of Maltese legislation and how it is implemented at the borders, particularly the sea frontiers.

Between January and October 1988, 2.190 persons were refused entry to Malta.

#### *Asylum*

Malta has no specific legislation on asylum. It has ratified the 1951 Geneva Convention on the status of refugees and the 1967 protocol but entered a geographical reservation to that protocol as takes in only refugees of European origin. This gap must be rectified without delay.

#### *Police*

Crime is countered by the Police, the Security Service, the Drugs Intelligence Unit, the Customs and the armed forces, which are responsible for policing the coasts.

The "Prevention of Money Laundering" Act of 1994 is aimed at curbing the circulation of money stemming from criminal activities. On 5 November 1998, Malta signed "The 1990 European Convention on Laundering, Search, Seizure and Confiscation of the proceeds of crime". It remains to be seen how these provisions will be implemented once the Convention has been ratified.

#### *Drugs*

Malta is not a producer of illegal drugs but its geographical location could make it a country of transit for drugs coming from North Africa.

Although it has ratified the UN Convention Against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 20 December 1988, Malta has yet to sign the Agreement on illicit traffic by sea, implementing Article 17 of that Convention, an agreement that is particularly relevant given the country's location.

### *Co-operation on Justice*

It remains to be seen how Malta envisages implementing in its domestic law the EU's decisions relating to co-operation on justice.

In civil matters, Malta has not yet ratified the following conventions:

- Convention on Civil Procedure (The Hague, 1 March 1954).
- Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters (The Hague, 15 November 1965).
- Convention on the Taking of Evidence Abroad in Civil or Commercial Matters (The Hague, 18 March 1970).
- Convention on International Access to Justice (The Hague, 25 October 1980).
- Convention on the Civil Aspects of International Child Abduction (The Hague, 25 October 1980).
- Convention on Jurisdiction and Enforcement of Judgements in Civil and Commercial Matters (Lugano, 16 September 1988).
- European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children (Luxembourg, 20 May 1980).

In criminal matters, Malta has yet to ratify the following conventions:

- European Convention on the International Validity of Criminal Judgements (The Hague, 28 May 1970).
- European Convention on the Transfer of Proceedings in Criminal Matters (Strasbourg, 15 May 1972).
- Additional Protocol to the European Convention on Extradition (Strasbourg 15 October 1975).
- Second Additional Protocol to the European Convention on Extradition (Strasbourg, 17 March 1978).
- Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters (Strasbourg, 17 March 1978).

### **Conclusion**

The main short-term requirement concerns lifting the geographical reservation to the Geneva Convention. Further information is needed on the practical implementation of the right to asylum, the prevention of illegal immigration, the fight against organised crime, notably the fight against drugs and the means of combating them.

Malta must also boost its participation in international co-operation in the field of justice, both civil and criminal.

### **3.21 Common Foreign and Security Policy**

Since 1993 Malta has generally supported EU positions as outlined in the CFSP and in its voting at the UN. Between June 1995 and November 1996 it participated in the structured dialogue with the associated countries and sought to align itself with the CFSP. The political dialogue arrangements lapsed following the change of government in 1996 and although new arrangements were agreed at the Association Council meeting in April 1998 they did not provide for Malta's alignment with the CFSP of the Union.

Malta is a member of the UN, OSCE, Council of Europe and many other international organisations. It is an active participant in the Euro-Mediterranean Partnership (Barcelona Process) and the Mediterranean Forum. It was briefly a member of NATO's Partnership for Peace but the previous Labour government did not continue Malta's participation. It established a dialogue with the WEU in 1995 but this was also not pursued by the Labour government.

Malta has no territorial disputes with its neighbours. It has particularly close relations with Italy. It has also signed a Treaty of Co-operation and Friendship with Libya (1984).

Malta is a signatory to the Non Proliferation Treaty and has signed the Safeguards Agreement with the IAEA. Malta does not manufacture or export arms. Its small armed forces (1,600 strong) are under democratic control.

Regarding export controls, Malta is not a member of any of the non-proliferation regimes and does not apply controls on the full range of products covered by the EU export control regime on dual-use goods. In this area, as others, Malta will have to assume the obligations of the *acquis communautaire*.

Malta remains a neutral country with its strict neutrality provisions anchored in the constitution. The first article of the constitution confirms Malta's adherence to a policy of non-alignment and refusal to participate in any military alliance. A two-thirds majority would be required to change the constitution.

Although the government has stated its intention to support the objectives of the CFSP, the principle of neutrality and non-alignment set out in the Maltese constitution could lead to difficulties in future CFSP arrangements of the Union.

### **3.22 General Evaluation**

As regards the adoption of the *acquis*, a large number of the instruments required for the progressive adoption of the *acquis* are contained in the 1971 Association Agreement and its additional protocols. On the basis of these instruments, the final objective of a customs union has, however, not yet been achieved.

In the Internal Market area, Malta has made some progress since the 1993 opinion. In general terms, there would not appear to be major problems for Malta to adopt the *acquis*. Progress

has been made with the adoption of new legislation on Public Procurement and Company and Accountancy Law, although further adjustments are needed. However, significant improvements are still needed in the Intellectual and Industrial Property rights sector as well as concerning legislation on Personal Data Protection. Considerable efforts may also be necessary on enforcement aspects.

Concerning free movement of goods major institutional arrangements regarding the implementation of the acquis, in particular the New Approach, are missing or not yet finalised. In the field of free movement of capital Malta should adopt a precise calendar in order to embark on an orderly liberalisation path. As far as the free movement of services is concerned some measures still need to be adopted, such as deposit guarantee schemes and supervision on a consolidated basis. The Maltese legislation on payment systems will have to be adjusted to comply with EC Directives. As regards the free movement of persons the conformity with EC Directives in the field of mutual recognition of diplomas will have to be further examined.

Furthermore, varied progress in adopting the acquis can be noted in most of the areas. However, priority should be given to significant improvements, which are still needed. Important transposition and implementation activities will require considerable efforts from the Maltese authorities in order to achieve full conformity of Maltese legislation with the entirety of the acquis in the years ahead.

As concerns Malta's administrative and judicial capacity to apply the acquis, it seems that major problems will not be encountered. However, administrative capacities remain to be improved in a number of areas, among others, in the field of customs, competition, maritime transport and Justice and Home Affairs.

### C. CONCLUSION AND RECOMMENDATION

At the political level, this report confirms the conclusions drawn in the Commission's 1993 opinion: the institutions are functioning smoothly and there are no particular problems on the human rights front. Malta's public administration has sufficient personnel but efforts are required to make it more effective. The country does not seem to be having any major problems in adapting its administrative and governmental structures in preparation for participation in Community institutions. In this context the Commission points out, as it did in Agenda 2000, that a new intergovernmental conference has to be convened ahead of enlargement to effect a thoroughgoing overhaul of the provisions of the Treaty relating to the composition and functioning of the institutions.

At the economic level, Malta has since 1993 taken a number of measures to prepare its economy for EU accession. It displays all the characteristics of a market economy. As regards its ability to cope with competitive pressure and market forces within the EU it should be stressed that Maltese enterprises, notably those in the public sector, will need to be restructured. In addition, Malta will have to make sure that its financial system is able to cope with total liberalisation of the movement of capital and increased competition from foreign financial institutions. Certain problems of a structural nature, notably in the financial sector and in public enterprises, require vigorous action; this also goes for tax policy. Malta also needs to make a concerted effort to reduce its budget deficit. The introduction in January 1999 of a VAT system should be followed up by supplementary measures aimed at fully aligning Maltese legislation on the *acquis communautaire* in that field. Provided a thorough reform programme is established and implemented, Malta should be able to cope with the competitive pressure and market forces within the Union in the medium term.

In this report the Commission has analysed both the current state of play regarding the adoption of EC legislation and Malta's rate of progress in alignment with the *acquis* since the opinion. This analysis has revealed that limited and uneven efforts of alignment of Maltese legislation on the *acquis communautaire* have been made since 1993, in particular in the field of the internal market. Substantial work remains to be done in most fields examined in this report, and in particular in the chapters covering the internal market: customs, industry, maritime transport, competition and the environment. Furthermore, as it undertook in 1994, Malta will have to rapidly apply the Common Customs Tariff and abolish taxes on imports of certain products. This work would be facilitated if Malta were to establish a programme for the adoption of the *acquis*.

Malta's preparations for EU membership differ from that of other applicant countries, in particular as a result of its decision to freeze its application for two years. This interruption to Malta's membership preparations reduced its authorities' exposure to the *acquis*, the knowledge about its evolution, as well as its commitment to narrow the gap between the Maltese legislation and the *acquis*.

A particular effort is now needed on the part of Malta to give a new impetus to its preparations for membership. The establishment by Malta of a comprehensive national plan, setting out both the economic and legislative measures that need to be implemented in view of EU

membership, would facilitate this process. The Commission considers that a specific pre-accession strategy for Malta should also be established.

As far as the adoption and implementation of the *acquis communautaire* is concerned, it is important that the Maltese programme sets out the timetable, financial needs and human resources required. In this programme, particular attention should be paid to the administrative and judicial capacity to apply the *acquis*, a priority field in which the Commission does not currently have sufficient information from the Maltese authorities. The programme will provide a benchmark for following Malta's progress in adopting and implementing the *acquis*. Financial co-operation will be focused on addressing priorities set out in this programme.

The Commission recommends to the Council that the screening of Malta's legislation should begin as soon as possible with a view to starting negotiations at the end of the year. This will enable the Commission and Malta to identify more clearly where Malta's efforts to adopt and implement the *acquis* should be intensified.

The Commission will prepare a regular report, setting out in detail the state of play regarding Malta's preparations for membership, which would be submitted at the end of the year along with reports on the other candidate countries and their progress towards accession. The Commission expects that, at that juncture, when the European Council discusses the possibility of extending the accession negotiations, Malta will be able to join the candidate countries with which negotiations are already underway.

ANNEX

STATISTICAL DATA

# STATISTICAL DATA

	1993	1994	1995	1996	1997
<b>Basic data</b>					
Population (end of period)	366 431	369 451	371 173	373 958	376 513
	in square km				
Total Area	-	-	-	-	315.59
<b>National Accounts</b>					
	in Millions of Maltese Lira				
Gross Domestic Product at current prices	940.0	1028.5	1145.5	1201.3	1282.0
	in Millions of ECU				
Gross Domestic Product at current prices	2100.6	2293.1	2482.2	2625.1	2938.5
	in ECU per capita				
Gross Domestic Product at current prices	5733	6207	6687	7020	7805
<b>Structure of Production</b>					
	in % of Total Gross Value Added (at factor cost)				
- Agriculture (and Fisheries)	3.0	2.8	2.9	2.9	2.9
- Industry (incl. Electricity, Gas & Water)	25.7	25.9	25.2	24.4	23.9
- Construction (and Quarrying)	3.1	3.7	3.6	3.4	3.4
- Services	68.1	67.6	68.3	69.3	69.8
<b>Structure of expenditure</b>					
	as % of Gross Domestic Product (at market prices)				
- Final consumption expenditure	79.8	79.5	81.6	85.3	83.2
- household and NPISH	59.7	59.1	61.1	63.7	62.6
- general government	20.1	20.4	20.5	21.6	20.6
- Gross fixed capital formation	29.8	30.7	32.0	28.6	26.1
- Exports of goods and services	95.4	96.7	93.8	87.0	85.0
- Imports of goods and services	105.0	106.9	107.5	101.0	94.5
	% change over the previous year				
Gross Domestic Product	7.5	9.4	11.4	4.9	6.7
	in Purchasing Power parities				
Gross Domestic Product per capita	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Inflation rate</b>					
	% change over the previous year				
Consumer Price Index	4.14	4.13	3.98	2.49	3.11
<b>Balance of payments</b>					
	in millions of Maltese Lira				
-Exports of goods	518.2	593.3	669.9	615.1	611.3
-Imports of goods	746.9	830.9	934.0	903.1	882.9
-Trade balance	-228.7	-237.6	-264.1	-288.0	-271.6
-Services, net	137.9	132.9	107.6	120.8	151.0
-Income, net	35.5	19.3	12.0	3.2	19.4
-Net current transfers	23.3	35.6	18.2	35.5	25.6
-of which government transfers	7.9	12.2	3.7	20.4	12.0
-Current account balance	-32.1	-49.7	-126.3	-128.5	-75.6
-Reserve assets (incl. gold)	549.5	690.4	580.7	554.1	561.7

-Reserve assets (excl. gold)	539.3	683.3	577.1	550.5	560.4
<b>Public Finance</b>	in % of Gross Domestic Product (nominal)				
General Government Deficit/Surplus	3.4	4.3	3.1	9.2	10.0
Gross foreign debt	19.7	26.6	22.1	22.1	22.0

	1993	1994	1995	1996	1997
<b>Financial indicators</b>					
<b>Monetary Aggregates</b>	in Millions Maltese Lira				
- M1 (Narrow Money)	425.1	463.5	436.8	454.1	479.9
- M3 (Broad Money)	1366.7	1570.3	1691.4	1868.3	2047.0
- Domestic credit	858.0	967.2	1224.8	1429.6	1644.7
<b>Average short-term interest rates</b>	% per annum				
- Lending rate	7.15	7.26	7.49	7.93	8.04
- Deposit rate	3.90	3.95	4.00	4.24	4.39
<b>ECU exchange rates</b>	(1ECU=..National currency)				
- Average of period	0.4475	0.4485	0.4615	0.4576	0.4363
- End of period	0.4410	0.4528	0.4633	0.4510	0.4328
- Effective exchange rate (nominal)	93.0	93.4	94.5	93.4	94.8
- Effective exchange rate (real)	89.3	90.8	92.6	91.5	94.0
<b>Foreign Trade</b>	In millions of Maltese Lira				
Imports	830.9	918.8	1037.7	1007.8	984.2
Exports	518.3	592.4	674.9	624.1	628.9
Balance	-312.6	-326.4	-362.8	-383.7	-355.3
<b>Terms of trade</b>	previous year = 100				
	n.a.	n.a.	n.a.	n.a.	n.a.
	as % of total				
Imports with EU-15 (EU-12 for 93-94)	71.5	75.6	72.6	68.5	71.4
Exports with EU-15 (EU-12 for 93-94)	71.7	73.3	71.4	56.8	54.2
<b>Demography</b>	per 1000 of population				
Natural growth rate	6.7	5.8	5.1	5.8	5.2
Net migration rate	2.1	1.8	1.4	0.8	1.0
	per 1000 live-births				
Infant mortality rate	8.2	9.1	8.9	10.7	6.4
	at birth				
Life expectancy : Males	74.7	74.9	74.9	74.9	74.9
Females	78.6	79.1	79.5	79.8	80.1
<b>Labour market</b>	in % of labour force				
Economic Activity rate LFS (ILO methodology)	95.5	95.1	96.3	96.6	95.0
Unemployment rate LFS (ILO methodology) :	4.5	4.1	3.7	4.4	5.0
Average employment by NACE branches (LFS)	in % of total				

- Agriculture and Fisheries	2.4	1.9	1.9	1.9	1.9
- Industry	24.2	24.4	23.5	22.6	22.3
- Construction	4.0	3.9	4.3	4.3	4.1
- Services	34.6	34.1	35.9	36.5	32.5
<b>Infrastructure</b>	in Km per 1000 Km2				
Railway network - NO RAILWAYS IN MALTA	-	-	-	-	-
	in km				
Length of motorways	-	-	-	-	157 #
<b>Industry and Agriculture</b>	previous year = 100				
Industrial production volume indices *	103.4	116.7	129.5	121.7 p	121.3 e
Gross agricultural production volume indices	n.a.	n.a.	n.a.	n.a.	n.a.

\*

Quarrying  
Manufacturing  
Construction

(a)

< 26 years and as percentage of registered unemployed

p: provisional

e: preliminary estimate

#: Arterial roads. In addition there are: 1167 km urban streets and 647 km non-urban streets



ISSN 0254-1475

COM(99) 69 final

# DOCUMENTS

EN

11 06 02 16

---

Catalogue number : CB-CO-99-084-EN-C

---

Office for Official Publications of the European Communities

L-2985 Luxembourg