

The challenge of enlargement
Commission opinion
on Malta's application
for membership

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Foreword

1. On 16 July 1990, the Maltese Government submitted to the Council of the European Communities the application of the Republic of Malta for membership of the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EAEC).

2. At its meeting on 17 September 1990, the Council noted the application and decided to set in motion the procedures laid down in Articles 98 of the ECSC Treaty, 237 of the EEC Treaty and 205 of the EAEC (Euratom) Treaty, asking the Commission to draw up an opinion, as required by these provisions.

3. Applications have recently also been received from several EFTA countries and from the Republic of Cyprus, and an application was previously submitted by Turkey. The Commission delivered its opinion on Turkey's application in December 1989, followed by opinions on the applications of Austria (August 1991), Sweden (July 1992), Finland (November 1992) and Norway (March 1993). It is transmitting its opinion on the application submitted by Cyprus simultaneously with this document.

4. The European Council concluded its discussion of the question of enlargement at its Lisbon meeting on 26 and 27 June 1992 with the following observations relating to the EFTA countries:

'The European Council considers that the EEA Agreement has paved the way for opening enlargement negotiations with a view to an early conclusion with EFTA countries seeking membership of the European Union ... The official negotiations will be opened immediately after the Treaty on European Union is ratified and agreement has been achieved on the Delors II package.'

In the light of the decisions taken by the European Council at its Edinburgh meeting on 11 and 12 December 1992, enlargement negotiations got under way in February 1993 with Austria, Finland and Sweden, and in April 1993 with Norway.

As regards applications from other countries, the Lisbon conclusions continue as follows:

'... The European Council considers that if the challenges of a European Union composed of a larger number of Member States are to be met successfully, parallel progress is needed as regards the internal development of the Union and in preparation for membership of other countries.

In this context the European Council discussed the applications which have been submitted by Turkey, Cyprus and Malta. The European Council agrees that each of these applications must be considered on its merits.

Relations with Cyprus and Malta will be developed and strengthened by building on the Association Agreements and their application for membership and by developing the political dialogue.'

5. The European Council which met in Copenhagen on 21 and 22 June 1993 'considered that its guidelines with regard to enlargement with the EFTA countries shall be without prejudice to the situation of other countries which have applied to join the Union. The Union will consider each of these membership applications on its own merits.

The European Council welcomed the Commission's intention to present shortly its opinions on Malta and on Cyprus. These opinions will be examined rapidly by the Council taking into consideration the particular situation of each of the two countries'.

6. In preparing this opinion, the Commission has drawn on data on Malta provided by the Maltese authorities and on the information obtained by Commission officials during missions to the country.

The Commission's opinion on Malta's application for membership is based on conclusions reached following its analysis of all this information and its assessment of the country's political situation and relations with the Community, particularly since the conclusion of the Association Agreement of 1970.

Introduction

7. In the report on enlargement presented to the European Council in Lisbon, which is annexed to the conclusions of the Presidency,¹ the Commission observes that:

'In the case of Malta and Cyprus, the adoption of the Community's *acquis* would appear to pose no insuperable problems. However, both are very small States, and the question of their participation in the Community institutions would have to be resolved in an appropriate manner in accession negotiations. The Commission will address this question in its opinions on these countries' applications.'

8. In response to the Lisbon conclusions and the Commission report, on 11 September 1992 the Maltese Government addressed a memorandum to the Community in which it noted as follows:

'The Government of Malta has continually underlined its commitment to fulfil all the obligations and responsibilities resulting both from the original three Treaties, as amended and strengthened by the Single European Act, and those resulting from the European Union Treaty signed at Maastricht on 7 February 1992.'

As regards the question of Malta's neutrality, which is enshrined in the Republic's Constitution, the memorandum observed the following:

'The Maltese Government believes it to be in Malta's interest to subscribe to the European Union's common foreign and security policy, including the eventual framing of a common defence policy which might in time lead to a common defence.'

The memorandum had the following to say about the issue of participation in Community institutions:

'The Maltese Government understands that Malta's application could appear to raise prematurely the issue of institutional development for the Community. The Maltese Government agrees with the Commission that all questions concerning Malta's "participation in the Community institutions" would be able to be "resolved in an appropriate manner in accession negotiations". The Maltese Government therefore looks forward to the Commission's proposals in its opinion on Malta's application.'

9. The analysis in Part One of this document covers the points raised in the Commission report of 24 June 1992 and in the Maltese Government's memoran-

¹ 'Europe and the challenge of enlargement', Brussels, 24 June 1992 (Supplement 3/92 — Bull. EC).

dum, paying particular attention to the main questions posed by Malta's application, namely:

- (i) the time required by the Maltese Government to modernize the economy, adapting it to European standards so that Malta will be able to make a dynamic contribution to the economic and monetary union;
- (ii) the political and constitutional changes that have to be made to enable Malta to participate fully in the common foreign and security policy, in spite of the neutral and non-aligned status currently enshrined in the Republic's Constitution;
- (iii) the need for the Community to devise sensible institutional arrangements that will allow Malta, given its dimension, to play an appropriate part in the discussions and decision-making of the Community's institutions and to meet all its institutional obligations as a member of the European Union.

Part One

Main features

10. The Republic of Malta is made up of three small islands with a total surface area of 316 km² and a population of 360 000, which makes it one of Europe's most densely populated nations (1 130 inhabitants/km²). Its per capita GNP is estimated at ECU 5 630, which is considerably lower than the Community average, less than Spain or Ireland but more than Greece or Portugal.

Malta became independent in September 1964, having been a British dependency since 1814. The 1964 Constitution gave the islands a constitutional monarchy, with the British monarch as sovereign, and a British governor-general. The Constitution guaranteed the protection of human rights and the separation of powers, and established 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 neutral status — which prohibits its participation in any military alliance — and a policy of non-alignment, although Malta remains a member of the Commonwealth. Amendments to the Constitution require a two-thirds majority in the Maltese parliament.

11. With extremely limited natural resources, cramped space and a very small domestic market, the Maltese economy is highly dependent on foreign trade and on tourism (primarily from the Community), which accounts for a substantial proportion of the country's GNP and goes some way towards offsetting the trade deficit. More than three-quarters of Malta's foreign trade in goods and services is with Community countries.

Given the size of the Republic, its economic potential and the volume of its trade with the Community, Malta's accession would not have any direct repercussions of major significance for the Community's economy.

Consequently, this document will primarily be assessing the impact accession would have on the Maltese economy and society, and on the way the Community functions.

12. The human rights situation in Malta does not give rise to any concern or comment. The country's institutions operate in a proper and satisfactory manner.

Malta's employment legislation, particularly as regards health and safety at work and equality for women and men, is fairly close to that of the Community's Member States.

The Constitution states that Maltese is the national language, but Maltese and English are officially recognized and used.

Political situation

13. Malta's political arena is — and has always been — dominated by the two main parties, the Nationalist Party (NP), which is Christian Democrat in tendency, and the Malta Labour Party (MLP), which together account for nearly all votes and have alternated in power.

The two parties' positions on foreign policy, particularly as regards relations with the Community, have traditionally been diametrically opposed.

14. The NP, which is currently in power, has always advocated closer ties with Europe. It was an NP government that signed the Association Agreement of 1970, and it was an NP government that submitted Malta's application for membership in 1990 and subsequently confirmed that it accepted all the obligations deriving from the Treaties, including Maastricht, in the memorandum cited above.

15. The MLP, which was in power between 1971 and 1987, has always been critical of the Association Agreement, judging the trade concessions and the level of Community financial assistance insufficient. The party refused to endorse the application for membership submitted by the NP government, arguing that Malta's social and economic situation was not compatible with the Community framework. The MLP believes accession would have a negative economic impact, and has proposed an alternative

approach to relations with the Community, involving the creation of a free trade area for industrial products over a period of 15 to 20 years, plus a series of measures to strengthen political and technical co-operation.

In the elections held in February 1992, the NP increased its majority with 51.8% of the votes cast, while the MLP's vote fell to 46.5%.

16. The outcome of these elections brought about a change of heart in the MLP, which appointed a new leadership team that has adopted a less rigid approach to European issues. However, the party remains attached to the principles of neutrality and non-alignment as enshrined in the constitution, and continues to oppose accession in the present circumstances. It accepts that the government may initiate accession negotiations, but pre-emptively denounces the outcome of any such negotiations and the conditions Malta will be obliged to accept.

The support of the MLP, and the interests it represents for the restructuring measures required for accession, could make easier the success of the reforms and hence the adoption of the *acquis communautaire*.

Common foreign and security policy

17. Malta's neutrality was incorporated into the Constitution in 1987 with the adoption of an amendment which states that 'Malta is a neutral State actively pursuing peace... by adhering to a policy of non-alignment and refusing to participate in any military alliance'. The amendment prohibits the installation of foreign military bases on Maltese territory.

Malta's neutrality was recognized by Italy in 1980, and subsequently by the USSR and a number of other countries, including France, Greece, Algeria, Tunisia and Libya. Malta is not a member of any military alliance, and has no military agreements with other countries, although it has concluded 'good neighbour' agreements with Italy and Libya.

18. Although in the past Malta maintained fairly close relations with Libya and certain communist bloc countries, since the change of government in 1987 the policy has been to look more towards Europe, particularly Italy. Malta is a member of the

United Nations, the Conference on Security and Cooperation in Europe (CSCE) and the Council of Europe, and is also active in the 'Five plus Five' group, whose other members are the four EC Member States bordering the Mediterranean to the west (Spain, Portugal, France and Italy) and the five Maghreb Union countries (Mauritania, Morocco, Algeria, Tunisia and Libya).

19. The Maltese Government's statement (see point 8 above) that it is in the country's 'interest to subscribe to the common foreign and security policy' does not alter the fact that it might be necessary to amend the Constitution if Malta is to participate fully in that policy as it develops over the next few years. Any such amendment requires a two-thirds majority in parliament.

The principle of neutrality and of Malta's non-aligned status set out in the Maltese Constitution raise the problem of their compatibility with Title V of the Maastricht Treaty and could lead to difficulties in the area of 'joint action' and future cooperation on defence.

Relations between Malta and the Community

20. Malta's relations with the Community are governed by the Association Agreement signed on 5 December 1970, which entered into force on 1 April 1971.¹

It provides for the creation of a customs union in two five-year stages, customs union being defined as the total elimination of obstacles to trade between the two parties and the adoption of the Community customs tariff by Malta.

Following the election of the Labour government that came to power in June 1971, the second stage never got under way, and the achievements of the Association Agreement have remained restricted to the progress made during the initial years of the first stage, which has been extended on a regular basis since 1977.

21. When the NP returned to power in 1987, the government nevertheless declined to relaunch the

¹ OJ L 61, 14.3.1971.

customs union process envisaged in the 1970 Agreement, arguing that after this long interim period, accession to the Community had become the only practical objective.

Consequently, and in contrast to the practice with the Community's other Associates, the Association Agreement's norm did not result in gradually opening the Maltese economy to European competition and bringing the country's legislation, practices and competitive performance into line with Community standards, with the result that, as the following section demonstrates, the transition required to integrate Malta into the Community is considerably greater.

22. The trade situation is currently as follows.

The Community admits imports of Maltese industrial products entirely free of customs duties, and applies concessions of between 40 and 75% for agricultural products.

Malta applies tariff concessions of some 35% on imports of industrial and agricultural products from the Community, but these concessions must be seen in the light of a trade policy that remains very restrictive when taken as a whole (see points 28 to 30).

23. As regards financial and technical cooperation, three financial protocols have been signed since 1978 (the third is due to expire at the end of 1993), under which Malta has received a total of ECU 93.5 million in financial assistance, consisting of ECU 55 million in EIB loans and ECU 38.5 million from the budget. These funds have been used to finance infrastructure and economic cooperation projects.

The economy: moving towards integration with the Community

24. Since the Maltese Government's decision to put an end to the British military presence on the islands, thus removing a major source of employment, Malta's economic development has essentially been based on the promotion of highly labour-intensive industries and of making use of its tourist resources.

The Republic has an active population of some 135 000, with an unemployment rate of around 4.5%. The public sector, including the central administrative bodies and public services managed by the State,

provides more than 40 % of all employment on the islands.

Malta's manufacturing industries account for 28 % of value-added, 23% of total employment and 52% of the country's exports of goods and services.

Malta was visited by nearly 900 000 tourists in 1991, when the tourist sector accounted for around 23% of GDP, covering 25% of the country's imports.

Agriculture is handicapped by the dearth of land suitable for cultivation and the lack of water, with the result that it plays an increasingly insignificant role in the country's economy: it accounted for only 3.4% of GNP and 2.4% of total employment in 1990.

The dichotomy of Malta's industry

25. Malta's is a small economy, on which the great majority (more than 75%) of its industrial companies employ fewer than five people. Of the 2 300 companies registered, only 61 (less than 3%) employ more than 100 staff and only 12 more than 300.

In terms of productivity, wages, capital, and contribution to GNP and the country's export figures, the performances of the small core of larger companies and those of the mass of mini-companies differ to such a degree that they pose entirely contrasting problems with regard to Malta's integration into the Single European Market.

26. The larger companies are primarily involved in electronics (a sector in which one company, of Community origin, accounts for 40 % of Malta's exports) and textiles; they see their future as being umbilically linked to free access for their products to the Community market and to the retention of a competitive edge on that market, especially in terms of unit wage costs, against their competitors inside and outside the Community.

The shipbuilding and ship-repair sector constitutes one of the main industrial activities on Malta in terms of employment (4.2% of total employment) and of added-value. This activity, which is highly subsidized, would need to be largely restructured in the event of accession to meet the Community's competition rules.

The vast majority of the smaller companies are engaged in sectors such as construction, machinery

repairs, food and furniture, and primarily target the domestic market. These companies account for more than 70 % of industrial employment on the islands: their productivity is very low and their wages generally poor. In most sectors they are sheltered from foreign competition by protective trade legislation and by extremely stringent tariff and non-tariff barriers.

27. Whereas Malta's small group of efficient industrial companies is in a position to take advantage of the opportunities deriving from accession, and would be greatly helped by the associated modernization of the Maltese economy's legal and regulatory framework, most of the country's industrial concerns will have to restructure and become more competitive if they are to cope with the opening-up of their markets to European competitors and the gradual dismantling of the protective barriers behind which they are at present sheltered.

Trade protection

28. Maltese industry has long been sheltered by extremely stringent trade-protection measures which combine very high customs duties and taxes with quantitative restrictions and even outright bans on imports, further reinforced by the existence of public sector monopolies in the importing and marketing of raw materials.

In 1989 the Maltese Government began liberalizing industrial imports by replacing quantitative restrictions with an import levy dubbed the 'local manufacturers protection tax', which is a charge having equivalent effect to a customs duty, and is levied in addition to customs tariff duties. However, in spite of these initial steps, the level of protection remains very high.

29. Customs duties remain extremely high, including those applied to imports from the Community, in spite of the partial concessions from which they benefit. The protection afforded by these customs duties is reinforced by the levies and licensing arrangements. In the most important sectors providing employment, the tariff protection (including excise duties) applied on Community products lies between 15 and 130%, with a concentration around the 40% mark. For imported products of non-Community origin, the range is between 25 and 140%. Exports of certain industrial products, particularly in the processed food sector, also still require licences.

30. High customs tariffs not only play a protective role, they also have an important revenue-raising function. Income from customs and excise duties accounts for one-third of Malta's total tax revenue and three-quarters of its revenue from indirect taxation. The reduction of customs duties has hitherto foundered on the absence of an appropriate system of indirect taxation, which could otherwise be used to offset the loss of customs revenue by raising the rates. The introduction of a VAT system is not only required by Community regulations, it is also a necessary condition for the lowering of customs tariffs. The recently created VAT Office constitutes a first step towards this essential reform, but there remain two further obstacles to its implementation, namely the large number of — often craft-oriented — small businesses, which are difficult to monitor for tax purposes, and the need to create an efficient administrative framework. The Maltese Government plans to start introducing VAT and at the same time reducing customs protection in 1995.

Foreign payments and the monetary and financial system

31. The divergence between the *acquis communautaire* and Maltese regulations governing foreign transactions is very wide. Current payments to foreign countries remain subject to restrictions, even if certain of these have recently been lifted. With a few minor exceptions, movements of capital into and out of the country are prohibited, or subject to prior authorization.

The banking system is focused almost exclusively on the domestic economy. The sector is dominated by three banks which together account for 99% of all deposits, and which are all State-controlled. To pursue their objectives, the monetary authorities in Malta make little use of the instrument of interest rates which are subject by law to a maximum. Instead they base themselves essentially on regulating the volume of credit.

32. Before foreign transactions can be liberalized and the banking sector opened up to international competition, the monetary regulation system must first be thoroughly overhauled, which will require major changes in the behaviour of all the parties involved. The Central Bank should be equipped with the tools that will enable it to maintain monetary stability in an open and competitive environment; in

particular, it must be prepared to adjust interest rates as necessary. Banks, businesses and households — as well as the Treasury — will have to adapt to a system in which market forces determine the cost of credit.

Competition policy and the business environment

33. The Maltese economy is governed by an administrative and regulatory framework which tends to swell production costs and hamper the business sector's ability to adapt and compete.

The restrictive measures include:

(a) rigorous control of prices and profits, currently considered essential by the Maltese authorities to curb the monopolistic tendencies of certain firms that are a consequence of the lack of competition in the Maltese market;

(b) high shipping and stevedoring costs owing to the lack of competition in this sector and to the current practices in Maltese ports;

(c) high energy and telecommunications costs owing to the absence of a clear contract between the State and the monopolies operating in these sectors;

(d) numerous public and private sector monopolies which hinder competition;

(e) the outdated working methods of the customs services, which often cause unreasonable delays in clearance.

The need for reforms

34. The reforms which imply Malta's adoption of the *acquis communautaire* affect so many different areas (tax, finance, movement of capital, trade protection, competition law, etc.) and require so many changes in traditional patterns of behaviour that what is effectively involved is a root-and-branch overhaul of the entire regulatory and operational framework of the Maltese economy.

These reforms are nevertheless indispensable, not only to spare Malta a transition period that would be so drawn out as to be tantamount to constituting 'special membership' of the Community, but above

all to enable its economy to take advantage of all the opportunities provided by accession.

Public opinion increasingly accepts that the Maltese economy has to be restructured, and the government has undertaken a number of studies and set up certain structures. However, the majority of the essential reforms have not yet been effectively launched.

35. The key to successful change is to attract sufficient domestic or foreign investment in productive sectors to make the economy as a whole more competitive and to anchor it firmly to the Single European Market. At the same time, measures will have to be taken to provide training and to redeploy the workforce currently employed in businesses or sectors that are likely to suffer when the Maltese economy is liberalized.

The prospect of accession could help mobilize foreign investment. However, foreign investors are more likely to look favourably on Malta if they see a stable and transparent legal, administrative and tax environment, modern infrastructure, reasonable costs and a skilled workforce.

36. The necessity of the reforms will therefore require the government to adopt a strategy and a strict timetable for the modernization of the Maltese economy and its adjustment to the *acquis communautaire*.

Before starting accession negotiations with Malta, the Community must be assured that the requisite reforms will be pushed through with the necessary conviction and continuity to enable Malta to play a dynamic role in the construction of the economic and monetary union as soon as possible after its accession.

Participation in Community institutions

37. In its report 'Europe and the challenge of enlargement', the Commission observed that the question of participation by Cyprus and Malta in the Community institutions would have to be resolved in an appropriate manner in the accession negotiations. The Commission envisaged addressing 'the question in its opinions on these countries' applications'.

This report undertook a first examination of the series of institutional issues that will have to be addressed and resolved if the institutions of an enlarged Union are to operate smoothly and efficiently.

38. In the case of Malta the existence of two official languages — one of which is English — allows one to foresee the possibility of practical arrangements to avoid the introduction of an additional official language in the Community. There also seem to be practical difficulties for a State with Malta's characteristics to cope with the wide range of responsibilities and obligations entailed by full participation in the Community institutions.

39. Malta has only a very few senior public officials with sufficient international experience to play a full part in the decision-making and operational processes of the Community institutions. This problem will be further exacerbated by the fact that the economic and legislative reforms required to open up the Maltese economy and integrate it into the Community will tie down a large proportion of the available pool of skilled human resources. The diplomatic corps is also very small, being limited to around 15 embassies and consulates around the world. Malta has not yet developed the practice of calling on the diplomatic networks of partner countries in conducting its international relations, nor does it have long-standing experience in cooperating with other European countries.

40. Another question that has to be asked in the light of the above is whether Malta would, in the foreseeable future, be able to take on the wide range of responsibilities and obligations incumbent on the Presidency of the Council.

41. The institutional problems that would be posed by the accession of Malta or any other applicant of similar size should be examined as part of a more general assessment of the institutions of an enlarged European Union that is destined to grow still further.

The intergovernmental conference scheduled for 1996 should address these issues with a view to streamlining the operational structures of an enlarged Community and improving the efficiency of its decision-making procedures, while at the same time ensuring that — regardless of its size — each new Member State, including possibly Malta, is able to play an appropriate part in the discussion and adoption of decisions and to assume its responsibilities.

Conclusions

42. The Maltese archipelago is situated at the hub of the shipping routes that crisscross the Mediterranean and whose culture and history, reflecting the deep links with several of the peoples of Europe, have for centuries developed a European identity.

Bearing in mind the country's democratic status and its consistent respect for human rights, Malta is entirely justified in asserting its vocation of membership of the European Union, a right that should be confirmed by the Community.

43. However, in so doing, the Community must also satisfy itself that Malta's application is such as to hold out every chance of a satisfactory conclusion to the accession negotiations, followed by successful integration into the Community and the European Union.

This opinion has put forward a series of assessments, queries and proposals with regard to the more difficult questions raised by Malta's application, namely the need to reform the overall regulatory framework of the Maltese economy, the question of the compatibility of its neutrality and non-alignment with the provisions of the Maastricht Treaty, and the issue of Malta's participation in the European institutions. Other areas are commented on in the annexes to this opinion.

44. In the light of these assessments and of Malta's indisputably European calling, the Commission feels that it is important to send to the authorities and people of Malta a positive signal to encourage them to undertake vigorously the requisite reforms to transform Malta's economy into an open and competitive one.

The Commission is convinced that such a signal could be given by announcing that the Community is willing to open accession negotiations with Malta as soon as conditions allow. An announcement along these lines would have the effect of mobilizing public support for the reform process in Malta.

It remains, therefore, for Malta and the Community to start now to lay the foundations for the success of this strategy.

45. It is important that the deliberations of the intergovernmental conference of 1996 lead to the development of the more efficient institutional set-up required by an enlarged Community that is destined to grow still further in the future. At the same time,

care must be taken to ensure that Malta — and any other new Member State of similar size — is treated appropriately in the decision-making process and in the discharge of its responsibilities.

46. For its part, the Maltese Government's basic task is to confirm its commitment, and the commitment of the Maltese people as a whole, to a European future by expediting the series of reforms that are essential if the Maltese economy is to move towards integration with Europe. The Commission could offer its assistance in assessing the requirements in this area.

This opinion has shown how far 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 problems posed by such an overhaul are far from insurmountable, but the reforms will affect so many practices and situations with deep roots in Maltese society that 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 and by the effective implementation of its most pressing measures.

47. Once these priority reforms are implemented and the global reform programme has been adopted, accession negotiations could get under way. The

Community and the Maltese Government would then be in a better position to assess the economic, social and political impact of the reform process and to take this into account during the course of the accession negotiations. The reform process itself should continue once the negotiations are under way, in order to reduce the transition periods granted to Malta to a minimum.

48. To contribute towards this objective, the Commission proposes to start immediately with the Maltese Government an intense dialogue with a view to establishing jointly the nature and timetable of the priority reforms needed to equip the Maltese economy to cope with international competition and to prepare the ground for integration with the Community.

This dialogue could also cover technical assistance, financial cooperation, training measures and other assistance that the Community could give Malta in the framework of a protocol of adaptation to help with the implementation of the reforms and to smooth the path of economic transition. It could also serve to familiarize Malta with all the aspects of the *acquis communautaire* to allow it to prepare itself for future accession negotiations.

The Commission proposes to provide the Council with regular assessment reports on Malta's progress in bringing its structures into line with those of the Community.

Part Two — Specific aspects

Agriculture and fisheries

Agriculture

1. Given the very limited extent of Maltese agricultural land — a total of approximately 12 000 ha, 6% of which is irrigated — the accession of Malta to the Community could hardly have more than a tiny effect. This is especially true if one takes into account the virtual impossibility of expanding the area under cultivation and the problem of increasing the availability of water resources.

A number of government intervention schemes have been put into operation to help implement major policies governing food supplies from local and overseas sources. On the basis of existing information, it is not easy to assess their specific impact.

Agricultural policy is based on three kinds of instruments:

- (i) investment incentives and import restrictions — the latter have been somewhat reduced in the last few years;
- (ii) protection of farm income;
- (iii) strict price controls for fresh or processed agricultural products. A Price Stabilization Fund evens out the effect of price fluctuations in overseas markets.

The effect of accession on food-processing export industries currently operating with non-European capital and input should be mentioned. On the one hand, Maltese products would have free access to the common market, which would stimulate local processing, while non-European firms could be replaced by Community enterprises willing to take advantage of the new system.

In conclusion, the impact of accession would be insignificant for the Community and probably positive but limited for the Maltese economy.

Fisheries

The size and structure of the Maltese fishing fleet are such that its integration into the Community fleet should not pose any major problem.

However, the rules for registration of fishing vessels owned by foreign operators are totally unacceptable to the Community. Flagging conditions would have to be brought into line with Community rules.

Malta has a fisheries agreement with Libya, which unilaterally sets guidelines incompatible with the principles of the Law of the Sea. The Community could not take over the agreement as it stands.

The Maltese situation should not pose any major market-related problems for the Community. Only the current restriction on imports of tuna and the ban on foreign landings require special consideration. For Malta, however, the adoption of the EEC legislation might cause some administrative difficulties.

Internal market and industrial affairs

Introduction

2. In view of Malta's size and industrial potential and the arrangements currently applying to its trade with the Community, its accession would be unlikely to have a very significant impact on Community industry. This is borne out by analyses carried out by the various Commission departments, which do not signal any particular problems for the Community industries concerned.

This section therefore looks essentially at the effects of possible membership on the competitiveness of Maltese industry, and at the adjustments which would have to be made by government and industry.

Main features of Maltese industry

The industrial sector in Malta can be divided into two categories. The first consists of traditional industries, with large numbers of small, barely-competitive

firms producing for the local market behind high protectionist walls. In this sector only a handful of the larger firms could match up to their Community peers. The second category contains a number of export-oriented light industries, and these are regarded as having high levels of productivity and quality standards.

The first category would cover the food industry, woodworking and furniture-making. The second category is dominated by electrical and electronic goods manufacturers and the production of integrated circuits and micro-assemblies.

In terms of output at 1989 prices, Malta's largest industry is electrical and electronic equipment, which accounted for 34% of total manufacturing output, having tripled its production in three years. Next comes the textile industry, notably garment-making, which was the islands' largest productive sector until 1987 (18% of manufacturing output), then agri-food, shipyards (mainly ship-repair), printing, furniture-making, chemicals, construction, leather and leather goods, rubber, iron and steel and pharmaceuticals, in that order.

Textiles, clothing and footwear remain the largest employers, with 7 862 people working in the sector in 1991, equivalent to 25% of total industrial employment. The second largest employer is the transport equipment industry (including Malta Drydocks Ltd, which has a workforce of around 3 700), with 7 592 jobs or 22% of industrial employment, then come agri-food (4 484 and 13.9%), electrical and electronic equipment (3 505 and 10.9%), and furniture-making (2 389 and 7.4%).

Of a total of some 2 300 firms only a few hundred employ more than 10 people, and between them these account for 80% of employment, 90% of output and 85% of exports in manufacturing industry.

Generally there is little direct State participation in industry, the exception being the shipyards. Malta Drydocks Ltd has been in the public sector since its nationalization in 1968 and has a virtual monopoly in this sector (predominantly repairs). The State also has a majority shareholding (61%) in Malta Shipbuilding Ltd.

Average productivity in Maltese manufacturing industry (measured as average sales per person employed) was put at LM 370 in 1990. The figure for shipbuilding and ship-repair, however, was far higher (LM 4 715), as was the figure for machinery and electrical equipment (LM 1 022) — though that is

reckoned to reflect poor productivity by the standards of the sector. In the leather and rubber industries productivity was well below average (LM 22); the figure for textiles, clothing and footwear was LM 200, for woodworking and furniture-making, LM 160 and for transport equipment, LM 150.

As regards trade with the Community, the clothing and electrical and electronic equipment industries are far and away the main exporters. In 1990 they accounted respectively for ECU 110 million and ECU 336 million of the total ECU 615 million of Maltese industrial exports to the Community. A comparison of the import and export figures for the electrical and electronic equipment sector, however, suggests that much of this consists of equipment imported and directly re-exported.

A number of industries are undergoing restructuring. In textiles, clothing and footwear 1 300 jobs have been lost in the last four years and sales and exports have contracted, but net investment is thought to be growing strongly. The shipbuilding and ship-repair yards, which have experienced losses due to changing political circumstances and poor competitiveness, are also being restructured with a massive injection of State aid. The plan for the restructuring of the ship-repair yard was approved in 1989; it provides for USD 250 million of public funds over 10 years, and the government is planning to invest LM 8 to 10 million in the next three years to enable shipbuilding to match international productivity levels.

This generous government support coupled with a policy of trade liberalization reflects a strategy which seeks both to modernize local industry and, in particular, to develop export industries. Since the Industrial Development Act became law in 1988, a wide range of incentives has been available to the authorities for this purpose, including tax relief, relief from customs duties, investment aids, deduction of training, export promotion and research and development (R&D) costs from taxable earnings, cheap loans and training awards. In theory these incentives are open to all firms; however, high added-value goods such as electronic equipment and medical equipment get favourable consideration.

Trade arrangements

Malta's industry has long sheltered behind solid protective barriers consisting of very high customs duties and taxes and import bans or restrictions, backed up

by the existence of State monopolies for the import and marketing of various commodities.

In 1989 the Maltese Government abandoned its previous strategy of import substitution and undertook to liberalize industrial imports. Quantitative restrictions on various products were replaced by taxes, supposedly temporary, intended to give local firms time to adjust to an open market.

At the moment, in spite of the progress made and the authorities' intention of continuing the liberalization process, it has to be said that Malta's market is still not exactly unprotected. Customs duties on finished products are still high, often in excess of 20% even on imports from the Community and more for other trading partners, in sectors including agri-food, textiles and clothing, woodworking and electrical equipment.

Import taxes and licensing arrangements still in force for many products regarded as sensitive usefully reinforce the protection afforded by tariffs.

Some industrial products, particularly foodstuffs, are still subject to export licensing.

Malta's arrangements for industrial imports from the Community contrast strongly with the Community's arrangements for imports from Malta. Under the 1971 Association Agreement, as supplemented by various other contractual provisions, very few Community imports of industrial products originating in Malta are still subject to restrictions or duties. One category of garments is subject to an annual import ceiling, several processed agricultural products not listed in Annex II to the EEC Treaty are subject to either the fixed component of the charge applicable to non-member countries, a reduced fixed component or a zero-duty tariff quota, and ECSC products are excluded from the various agreed provisions.

In theory, Community exports to Malta qualify for a 35% reduction in import duties and charges having equivalent effect, with limits in the reduction in force for some categories of product. Malta is not subject to any non-tariff restrictions *vis-à-vis* the Community.

Malta has not yet started to align its tariff on the Common Customs Tariff; this has been postponed to the second stage of the association procedure. There is no stipulation as to Malta's adoption of other common commercial policy provisions.

Adapting Malta's legislation to the *acquis communautaire*

The Maltese authorities say they have started adapting their laws to Community legislation. So far, however, they do not seem to have got much beyond setting up the administrative machinery. The Community Affairs Directorate set up under the Foreign Ministry in 1988 to deal with questions arising from the possibility of accession has carried out surveys of Community legislation but no specific proposals have been tabled for adoption of the *acquis* in a given field.

From what we know of Malta's industrial legislation, it would need to be modernized and a raft of new laws enacted — indeed, the Maltese authorities agree on this point. One area in need of such revision is the law on the protection of intellectual, industrial and commercial property rights, in particular patent law (length of protection, patentability criteria and protection conferred), trademarks, the topography of semi-conductor products, copyright and related rights.

In the audiovisual sector, Malta's law would have to be brought into line with the principle of non-discrimination enshrined in the EEC Treaty and with Directive 89/552 of 3 October 1989 on television without frontiers.

In order to eliminate technical barriers to trade, Malta would have to comply with certain obligations regarding standardization and certification of industrial goods, for example: national standards should be non-binding and based on international or regional norms; the standardization process should be open to all firms; and regional or international rules for conformity-assessment bodies and certification or accreditation systems must be observed. The Maltese authorities have been working with the Commission in this area; continued cooperation would help the country's institutions to make the adjustment to these new rules.

Impact of accession on Malta's industry

The degree of protection still enjoyed by the Maltese market, the substantial aids to firms established there, the absence of any alignment in the commercial policy field and uncertainty about the extent to which

Malta's laws would have to be adapted to the *acquis communautaire* on the operation of the single market all make it difficult to assess the ability of Malta's industry to withstand, let alone benefit from, the stiff competition which would follow accession.

The Maltese authorities seem confident in the ability of their industry to adapt, and judge that the pros of accession would outweigh the cons. They look forward to a market increase in the flow of Community investment in Malta in the industrial sector, the establishment of more joint subsidiaries and the development of subcontracting relationships with Community firms. Access would also give Maltese firms unrestricted access to the Community market and they regard this as vital for a country so dependent on export markets, whose industrial policy accentuates that dependence.

The Maltese authorities' assessment of the possible repercussions of accession for local industries reflect the dichotomy noted above.

While aware of the risks of excessive generalization, they believe there would be no problems for their export-oriented industries. With one or two exceptions, this would apply to textiles, clothing and footwear, transport equipment and electrical and electronic equipment.

The Commission, on the other hand, feels the electrical and electronic equipment sector might well face stiff competition from the Community industry, and that as regards the shipyards, while the government's restructuring plans will undoubtedly ease the sector's integration into the Community, Malta may find it difficult to comply in the short term with Community competition rules.

Among the industries geared mainly to the local market, those most exposed to the competition would (again in Malta's view) include parts of the food industry (canning), leather goods, certain branches of the chemical industry and above all the furniture-making industry, unless it could diversify upmarket. Printing, metal and non-metal products, and the beverages and tobacco branches of the food industry, on the other hand, are not thought likely to be affected by accession.

In any event, one thing on which everyone agrees is that if the weaker local industries are to be prepared for the possibility of accession, restructuring will need to start immediately, without waiting for the start of negotiations or *a fortiori* for a transitional period.

Customs and indirect taxation

General observations

3. Malta's current customs legislation and management reflects economic policy over the last 20 years, in which the customs tariff has functioned as a purely protectionist and fiscal instrument (customs duties and levies make up 35% of government revenue).

A rapid modernization of the customs system would therefore be needed in order to meet the requirements of economic liberalization. Although a reform programme is currently under examination, progress is being seriously hampered by uncertainty as to when the necessary economic reforms will take place. The Maltese Government has committed itself to rationalization of the customs tariff, gradual abolition of the levy system and the introduction of VAT.

Establishment of the customs union

Introduction

The establishment of the customs union should start from the situation created by the application of the Association Agreement between the Community and Malta from 1 March 1971 (OJ L 61, 14. 3. 1971).

Under the Association Agreement, Community imports originating in Malta are admitted duty-free or at reduced rates under the Agreement. Products originating in the EEC qualify for preferential treatment on importation into Malta.

At present, products originating in the Community benefit from a 35% duty reduction on importation into Malta. According to Annex II of the Association Agreement, the reduction applies both to customs duties and to charges having equivalent effect.

Malta has introduced a system of import levies (see below) which is also, without any preferential treatment, applied to EEC products. It appears therefore that, since the introduction of this system, Malta no longer fulfils the obligations of the 1971 Agreement.

Adoption of the Community Customs Tariff (CCT) and Community customs legislation

Quantitative restrictions have been removed for industrial products and replaced by a system of import levies (the 'local manufacturers protection tax', which constitutes a charge having equivalent effect to a customs duty), applied in addition to the customs tariff.

The customs tariff contains some 53 different rates of *ad valorem* duty, varying from 3 to 160%. The average rates are in the range of 25 to 47%.

When import levies and customs duties are both taken into account, the degree of protection is extremely high in comparison with the EEC, rates of 100% being not uncommon.

The access of Malta to the EEC will lead to a much lower level of protection and thus to a significant drop in profits in the most protected parts of Maltese industry. Considerable difficulties would therefore be likely in the negotiations on a transitional regime for realignment on the CCT.

The reduction of import tariffs would also result in a substantial loss of revenue for the Maltese Government. Although value-added tax will provide additional revenue, serious implementation problems are likely to hamper its introduction (see below).

Malta has applied the Harmonized Commodity Description and Coding System (HS) since 1 January 1990. The adoption of the Combined Nomenclature (CN) should therefore not give rise to particular difficulties.

In the event of accession, Malta would have to apply Regulation 802/68 in relation to third countries. Malta, of course, would also have to take over the Community *acquis* concerning preferential origin, for example the generalized system of preferences (GSP).

Maltese customs legislation

As far as Community customs legislation is concerned, Malta has to take over the entire Community *acquis*, specific derogations, of course, being possible during the transitional period.

In this context, the present structure of Maltese customs legislation and administration is archaic.

(i) The valuation of goods for customs purposes in Malta is based on a 1950 system which was abolished in 1980 by all major trading nations. Under this system, which the Maltese authorities would not intend to repeal before accession, the value of the imported goods is fixed by customs regardless of the price actually paid, a course dictated by fiscal and protectionist policy. The real pressure of import duties can thus be considerably higher than appears from the percentage of the duty or levy itself.

(ii) Customs control on importation/exportation is based on a 100% physical inspection, which leads to serious delays in the release of goods.

(iii) Tariff rates are officially considered to be too high to allow simplified procedures for importation/exportation of goods.

(iv) Apart from several drawback and temporary admission facilities, Malta does not apply procedures with economic impact like inward/outward processing, processing under customs control, customs warehouses or free zones. Although customs legislation does provide for bonded warehouses, their introduction is discouraged given the time constraints caused by the system of 100% physical control.

(v) No tariff suspensions, quotas or ceilings are applied by Malta.

(vi) Customs import/export control has not yet been computerized but this is contemplated.

It is also important to note that the bulk of the Maltese industrial sector (2 323 enterprises, of which 75% are small) has not experience whatsoever with 'modern' customs procedures.

Maltese customs needs radical reform before it would be able to cope with the requirements of the Community's customs union, which is a key element in its economic integration. It requires a customs administration which fulfils a role much more sophisticated than mere revenue collection.

The implementation of commercial policy defence measures against illicit commercial practices (in particular anti-dumping measures), or of embargoes, is to a great extent necessarily based on customs technique. Customs provisions are also incorporated in various other common policies like the common agricultural policy (CAP) and environment policy.

Indirect taxation

Value-added tax

At present no VAT system exists in Malta. It is, however, the government's intention to introduce such a tax within a few years regardless of the outcome of Malta's application for accession. In 1990 a first step towards a VAT system was taken when a 10% sales tax on certain services was introduced. The following services are at present subject to the expenditure levy: travel services, restaurant services and transfers for investments abroad.

The computerization of Maltese Government departments is not very far advanced. The lack of experience in this area will undoubtedly also be reflected in the computerized management of the VAT system.

Excise duties

Malta at present operates a system of excise duties on local production of various goods; these are to be replaced by VAT. The government proposes to introduce excise duties on imports of tobacco, spirits and fuels in 1994. In the event of accession, Malta will have to apply the same excise duties on locally produced goods as on imported goods.

Conclusion

We have obtained very little detailed information on indirect taxation. The general attitude of the Maltese seems to be that the introduction of a VAT system would benefit everybody (the traders, the consumer and the Maltese Exchequer) and the implementation of such a tax would not cause any major difficulties. However, the Maltese are still at the initial phase of their preparations for a VAT system.

Malta's levy system requires careful examination in the context of the terms and conditions stipulated in the Association Agreement.

Employment, working conditions and social affairs

4. Malta on the whole has a decent level of social provision, in line with that of the Community. Accession would therefore pose no major problems in terms of Community legislation on social affairs.

The employment picture is good; in 1991, employment grew by 2.2%, faster than in the Community, and unemployment, stable at 3.8% since 1989, is well below Community levels.

There is very little migratory movement; in 1991, 527 Community workers had work permits.

No problems are foreseen as regards Community rules on social security for migrant workers.

Maltese legislation on health and safety at work is consistent with the Community provisions.

As regards equal rights for women and men, Maltese law is in some respects more advanced than that of the Community.

Labour law is broadly similar to that in the Member States, except on one or two specific points (concerning takeovers, collective redundancies and protection of wage claims in the event of insolvencies).

Given Malta's size, the amount of aid payable in the event of its accession (in terms of GNP it is an Objective 1 region) should not be too large — around ECU 10 million.

Competition

Rules on undertakings

5. Maltese anti-trust law is incomplete and not all in the one text. There is no specific legislation and no central supervisory department or agency. The authorities realize that competition will come to play more of a part in the economy and are considering ways of rectifying the situation.

Rules on State aids

Some of Malta's criteria for the granting of discretionary State aids are a good deal vaguer than the Community's approach, which sets very strict conditions, and neither the sectoral approach nor, in particular, the aids to export industries are consistent with Community policy. In some cases, Maltese companies are granted preference; this is contrary to the EEC Treaty, which bans all discrimination based on nationality.

On the strength of the information available we cannot evaluate the cost to the Maltese budget of measures of this type.

We would point out that, as the Maltese authorities themselves admit, the aids currently going to the shipbuilding and ship-repair industries are incompatible with the relevant Community directive.

State commercial monopolies

In Malta, electricity, grains, petroleum and petroleum products are subject to State monopolies. The monopoly on petroleum products covers import, export, transport and distribution. Exclusive import, export and distribution rights are incompatible with Community law.

Public undertakings with special rights under Article 90(1) of the EEC Treaty

Telemalta Corporation has sole rights to provide telecommunications services and enjoys relief from duty on imported equipment. We understand that the corporation is undergoing gradual liberalization; still to be liberalized are the telex terminals, cellular phones and first telephone sets.

Conclusion

Malta's situation in terms of competition law is as follows:

(i) there is no specific anti-trust legislation nor any independent body responsible for overseeing competition;

(ii) the rules on State aids (export aids, sectoral aids, etc.) are not compatible with Community law. A number of discretionary or discriminatory practices and some operating aids were also identified;

(iii) the State monopolies, particularly in the petroleum sector, and special undertakings (posts and telecommunications) would have to be brought into line with Community rules in the event of accession.

Financial institutions, company law and direct taxation

6. Malta has laws covering the banks (1970), direct taxation (1977), offshore companies (1988) and insurance (1981) so it is broadly speaking possible for businesses to set up there and do business in these fields. With a few exceptions, national treatment is accorded as regards both right of establishment in Malta and right to carry on activities. The Commission is not in possession of any law applying to Malta-based subsidiaries of foreign companies. Foreign operators are active in banking and insurance. The Stock Exchange began operating in 1992. The International Business Activities Act 1988 regulates the operations of offshore companies.

However, Maltese legislation does not go as far as Community legislation. This essentially applies to the financial institutions, where the state of play is as follows.

Acquis communautaire

Malta will have to accept the *acquis*, and this will entail thoroughgoing reforms. Full application could be put back a number of years, but the transitional periods would be kept to a minimum. Sensitive questions could arise as to Malta's ability to apply the prudential arrangements imposed by Community directives.

Approximation of legislation

The Association Agreement with Malta contains no provisions on financial services, company law or

direct taxation. Although Malta has decided to align its laws on Community legislation, little headway has been made in this field. Malta should be encouraged to take action as swiftly as possible, as this would facilitate any accession negotiations.

Environment

7. Malta's environmental policy and legislation are fairly recent and the relevant administrative structures are not yet fully operational.

The Environment Protection Act was adopted only last year and consists of framework legislation which should be followed by further detailed implementing regulations. The general principles enacted in it largely correspond to the Community approach. Accession would certainly allow Malta to decide on the necessary implementing regulations in accordance with Community environmental legislation.

Some areas of Community legislation are not relevant in the case of Malta, which has no large industries or activity in the nuclear field, for instance. No problem of compatibility should therefore arise in those areas.

However, unsustainable bird hunting in Malta is an issue of particular importance. Even though the Maltese authorities have enacted regulations to control bird hunting more strictly, these are not sufficient to comply with Community legislation. Considerable efforts will therefore have to be made by the Maltese authorities to implement Community provisions and they should give the Community clear undertakings on this.

Many Community provisions appeared not to be relevant in the case of Malta since they regulate activities or types of pollution which do not exist there (e.g. major industrial activities, nuclear safety). At this stage Maltese environmental legislation is still mainly a framework, the underlying principles of which correspond by and large to Community ones. But it is clear that many implementing regulations will have to be decided on in the near future. This would certainly be the right moment to align them on the relevant Community provisions. Further cooperation with the Maltese authorities in this area would be most welcome and useful.

Telecommunications and information industries

8. Legislation covering the institutional framework is not yet in line with Community telecommunications legislation. If accession negotiations go ahead, the Maltese Government will have to take measures, subject to the usual transitional arrangements, to adapt the country's legislation and bring in Community rules, notably on the establishment of the internal market for telecommunications services.

Boasting 38 lines per 100 inhabitants, 190 450 telephones in 1991 and a network which was almost entirely digital in 1992, Malta does itself proud in the Mediterranean area. But some 16 000 applications for a connection were still pending at the end of 1991, underlining the need to push ahead with the programme to equip the whole island. As regards new types of service, fax is developing apace and data transmission surged by 40% in 1991. Services have also been launched for the elderly and the disabled. Cellular radio services are also available.

The basic telephone service is not lagging far behind given the level of development of the economy, but Malta could use support from the Cohesion Fund to develop new telecommunications services.

Transport

Road transport

9. As regards market access, there is a ceiling on the number of vehicles operating in the bus, coach and mini-bus sector. Regular passenger transport services are subject to authorizations and the current public transport system radiates out from its hub in Valletta.

It has never been deemed necessary to introduce rest and/or driving periods for public transport drivers on Maltese roads, distances being so short, but employees' working conditions are regulated by the public transport authorities.

There is an adequate legal basis in the fields of environment and public health.

Technical standards are laid down for motor vehicles. In the interests of road safety, speed limits exist but

there is no legislation on the use of seat belts at present.

Sea transport

Conditions for setting up shipping companies in Malta and obtaining the Maltese flag are less stringent than those generally applied by the Member States.

Operating conditions under the Maltese flag may lead to distortions of competition owing to low taxation and an absence of crew nationality requirements.

Implementation of international safety and pollution prevention standards lags behind the average for the Community fleet.

Aviation

Malta has signed 34 air services agreements and a further five have been initialled. All Member States apart from Greece have signed or initialled such agreements with Malta.

Conclusion

The following matters would have to be discussed in depth in any accession negotiations:

- (i) road transport: social, environmental, public health and technical standards legislation;
- (ii) maritime transport: cargo reservation, conditions for registration and the implementation of maritime safety and pollution prevention standards;
- (iii) aviation: legislation on liberalization.

Implications for the Community budget

10. The figures below assume that the entire corpus of Community legislation would apply to Malta. They are based on the 1992 budget.

The main features of the Maltese economy that would have an impact on the Community budget are:

- (i) a GNP which is 0.03% of that of the Community;
- (ii) a GDP per capita of around 40% of the Community average;
- (iii) at less than 4% of GNP, agricultural production is too low for the country to be self-sufficient: imports easily outstrip exports;
- (iv) 75% of foreign trade is with the Community, and exports cover about 65% of imports.

These parameters give rise to the estimates set out below.

Expenditure

Agriculture

Output accounts for less than 4% of GNP and Malta is a heavy net importer of agricultural products. Expenditure on Malta is likely to be very low to negligible.

Structural Funds

Malta would be fully eligible under Objective 1. Given a population of around 350 000 inhabitants, and applying the per capita aid given to Greece, estimated expenditure under this heading is around ECU 60 million.

Other

Malta's share of administrative expenditure should match its share of the Community's population and its share of other expenditure should reflect its share of GNP.

These policies should cost an estimated ECU 5 million.

Revenue

In the light of the country's foreign trade, accession would generate traditional own resources estimated at ECU 3 million in agricultural levies and ECU 12 million in customs duties. The Community budget would lose ECU 7 million in customs duties. VAT and GNP resources are estimated at ECU 13 million and ECU 5 million respectively.

Community budget revenue provided by Malta would therefore be roughly in proportion to its share of GNP, amounting to between ECU 25 and 30 million.

Conclusion

Maltese membership would mean extra expenditure of between ECU 60 and 70 million, chiefly out of the Structural Funds. Revenue flowing into the Community budget would amount to ECU 25 to 30 million, making Malta a net beneficiary. However, the effect on the Community budget would be slight.

Cooperation in the fields of justice and home affairs

11. The Maltese Government has undertaken to fulfil all the obligations and responsibilities stemming from the Treaty on European Union.¹ This means accepting all the decisions relating to cooperation on justice and home affairs as defined in Title VI of that Treaty.

Malta has some experience of cooperation with Community countries, notably Italy, in some of these areas: the agreements to abolish visas and the 1991 accord with Italy relating to drugs trafficking are but two examples. However, compliance with the Treaty's Title VI obligations could require a substantial effort by the country's authorities to ensure that the necessary steps are taken to achieve full coopera-

tion in these fields. What needs to be done will only emerge when the two sides have examined the *acquis* in some detail.

Consumer policy

Product safety

12. Maltese legislation will need to be recast to bring it into line with Community legislation.

Transactions

Maltese legislation will have to include specific provisions on unfair contract terms, package travel, consumer credit, contracts negotiated at a distance, time-share and comparative advertising and on aspects of contracts negotiated away from business premises and misleading advertising.

Informing consumers and protecting their interests

Labelling of foodstuffs does not seem to pose major problems.

Maltese legislation on marking the price of foodstuffs and other products is clearly inadequate and the Community directives would have to be transposed into the country's law.

EC directives on the compulsory labelling of the fibre content of textiles and on textile names, and directives on the types of analysis to be used in monitoring conformity, will also have to be incorporated into Maltese law.

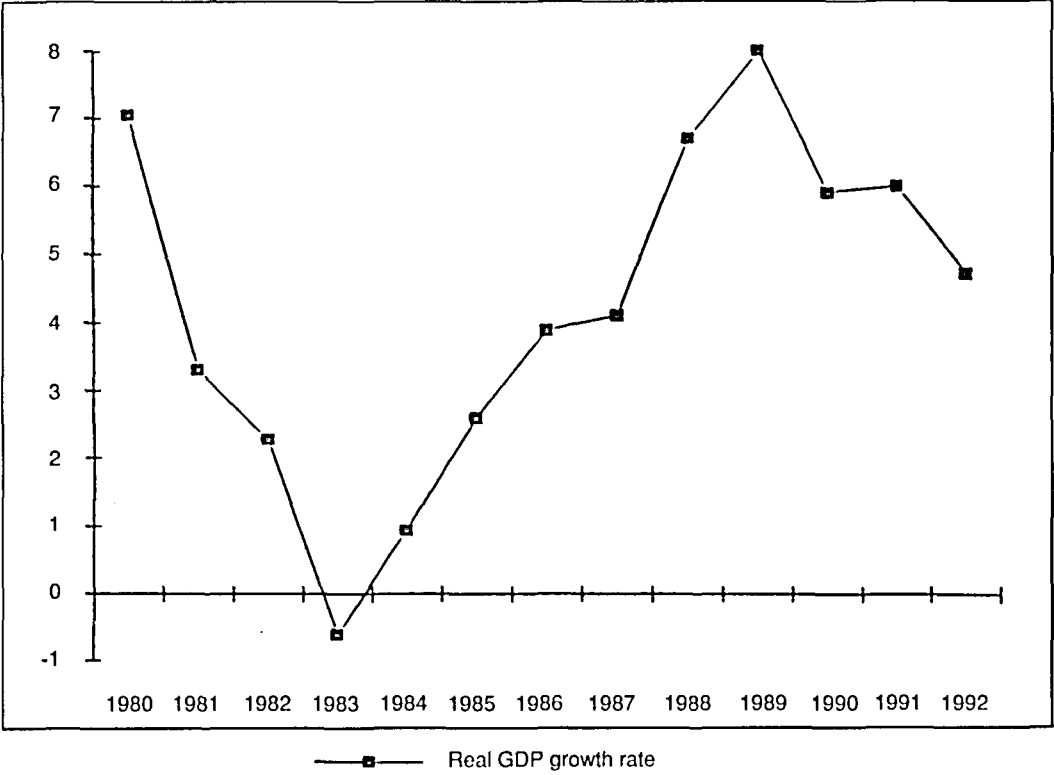
Compulsory provisions in Maltese law not present in Community law (e.g. on product care labelling) should be examined to see that they do not constitute barriers to the free movement of textile products in the Community.

Accession would therefore give rise to considerable legislative changes.

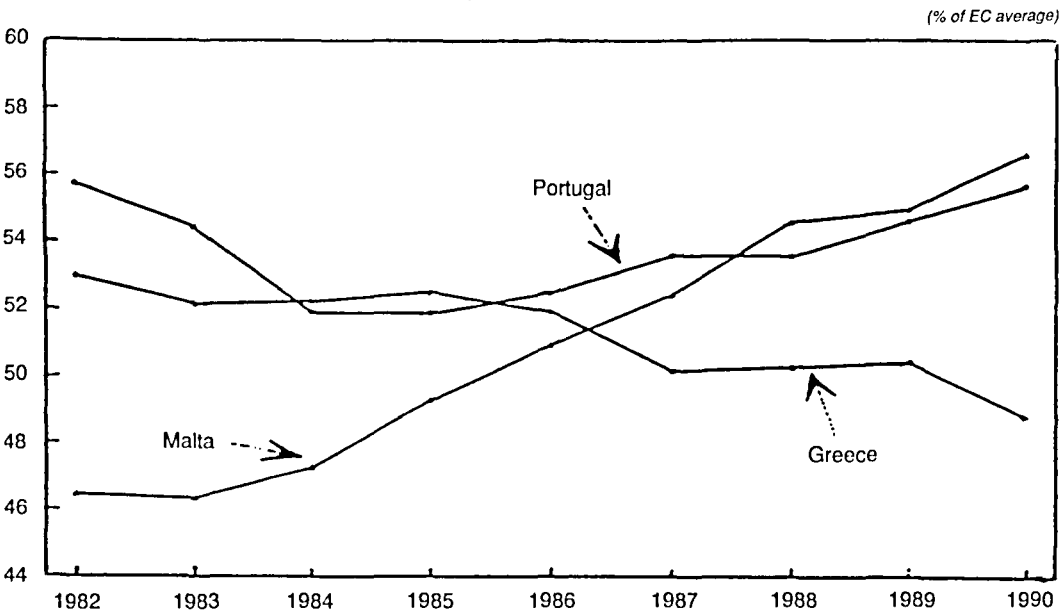
¹ In its memorandum of 10 September 1991.

Statistical annex — Main economic indicators

Graph 1 – GDP growth rate



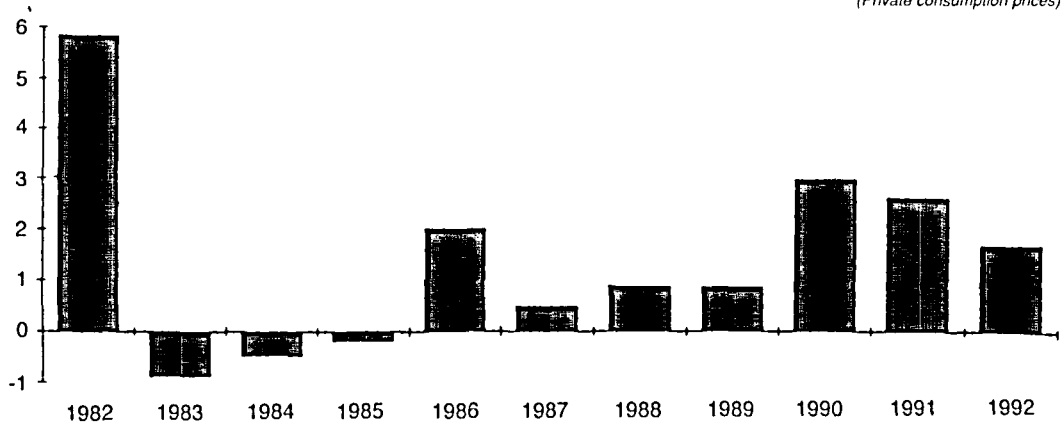
Graph 2 – GDP per capita in purchasing power parities



Sources: World Bank, Eurostat.

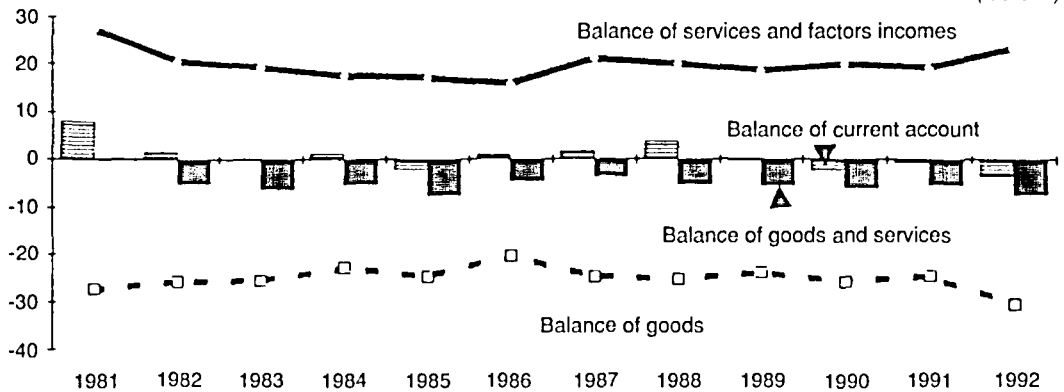
Graph 3 – Inflation rate

(Private consumption prices)

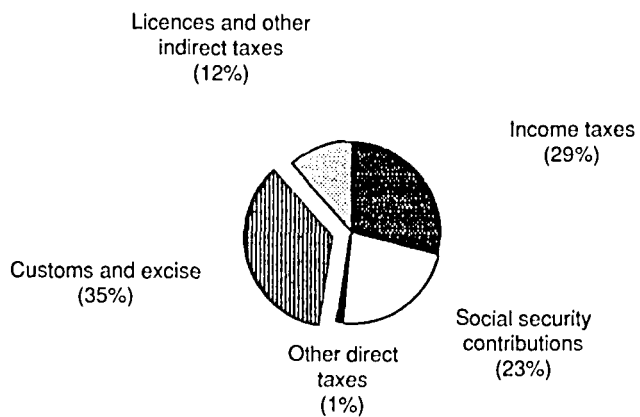


Graph 4 – Balance of current account and its components

(% of GDP)



Graph 5 – *Structure of public sector revenue, 1991*



Malta — Profile

I. Area: 320 km²

II. Population: 360 000
of which working population: 127 000

III. GDP per capita: ECU 5 600

GDP growth rate (%)

1988	1989	1990	1991	1992
6.7	8	5.9	5.6	5

IV. Inflation rate (1992): 4%

V. Unemployment (1991): 3.6%

VI. Structure of employment and GDP (1991)
(%)

	Employ- ment	Source of GDP
Agriculture	3	3
Industry	24	27
Construction	4	4
Private service and others	30	43
Public service (of which public enter- prises)	39 (29)	23 (15)

VII. Trade relations (1992)

(Mio USD)

Imports	2 280
Exports	1 490
Trade balance	- 790
NB: Tourism income	511

EC-Malta trade (1992)

(Mio ECU)

Imports	855
Exports	1 555
Trade balance	700

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