

## EUROPEAN PARLIAMENT

# Working Documents

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29 March 1976

DOCUMENT 16/76

## Report

drawn up on behalf of the Committee on External Economic Relations

on the Protocol laying down certain provisions relating to the Agreement  
establishing an Association between the European Economic Community and  
Malta (Doc. 8/76)

Rapporteur: Mr James W. SPICER



By letter of 8 March 1976 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 238 of the Treaty establishing the European Economic Community to deliver an opinion on the Protocol laying down certain provisions relating to the Agreement establishing an Association between the European Economic Community and Malta.

On 11 March 1976 the President of the European Parliament referred this Protocol to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee and the Committee on Budgets for their opinions.

On 17 February 1976 the Committee on External Economic Relations appointed Mr Spicer rapporteur.

It considered this Protocol at its meeting of 16 March 1976.

At the same meeting the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Kaspereit, chairman; Mr Scott-Hopkins and Mr Schmidt, vice-chairmen; Mr Spicer, rapporteur; Mr Barnett, Mr Bayerl, Mr Bermani, Mr Brégégère, Lord Castle, Mr Cousté, Mr D'Angelosante, Mr De Clercq, Mr Dykes, Mr Härzschel (deputizing for Mr Dunne), Mr De Koning, Mr Laban, Mr E. Müller, Mr Nyborg, Mr Radoux, Mr Romualdi, Mr Schulz and Mr Schwörer.

The opinion of the Committee on Budgets is attached.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the Protocol laying down certain provisions relating to the Agreement establishing an Association between the European Economic Community and Malta

The European Parliament,

- having regard to the communication from the Commission of the European Communities,
  - having been consulted by the Council pursuant to Article 238 of the Treaty establishing the EEC (Doc. 8/76),
  - recalling its resolutions of 9 February 1971<sup>1</sup> on the Agreement establishing an Association between the European Economic Community and Malta and of 18 December 1975<sup>2</sup> on recent developments in the Community's Mediterranean policy,
  - having regard to the report of the Committee on External Economic Relations and the opinions of the Political Affairs Committee and the Committee on Budgets (Doc. 16/76),
1. Welcomes the conclusion of a Protocol laying down certain provisions relating to the Agreement establishing an Association between the European Economic Community and Malta which will expand economic and trade relations between the two parties and extend the scope of their cooperation;
  2. Stresses that this extension represents furthermore renewed progress in working out an overall Community Mediterranean policy, the implementation of which it has always encouraged;
  3. Requests the Community authorities to take the necessary measures for the advance implementation of the trade provisions of the above Protocol;
  4. Feels that matters to be covered in the second stage of the 1970 Association Agreement should be defined at an early date so as to permit, inter alia, the creation of a customs union between the parties;

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<sup>1</sup> OJ No. C 19, 1.3.1971, p.14

<sup>2</sup> OJ No. C 7, 12.1.1976, p.36

5. Regrets that the regular contacts with the Maltese Parliament provided for in the Annex to the 1970 Agreement have not yet been established and declares its willingness to take all steps to facilitate the establishment of such relations;
6. Instructs its President to forward this resolution to the Government and Parliament of the Republic of Malta.

EXPLANATORY STATEMENT

1. On 5 December 1970, Malta and the Community - then comprising six countries only - signed in Valetta an Agreement establishing an Association between the two parties. The purpose of the Agreement, which entered into force on 1 April 1971, is to remove gradually the main barriers to trade between the two parties. To this end, the Community agreed to reduce customs duties on all industrial products imported from Malta (with the exception of petroleum products) by 70% and to abolish all quantitative restrictions on them subject to the existence of tariff quotas for the textile industry.

Malta, for its part, would lower its tariffs on most Community exports by 15% once the Agreement entered into force. The figure should reach 35% by the beginning of the fifth year of the Agreement.

2. The Agreement consists of two stages, the first lasting five years. Eighteen months before it expires, negotiations may be opened to define the matters to be covered in the second stage, which should gradually lead to a customs union. The first stage, designed to further Malta's industrial development, particularly its processing industry, excludes agricultural products and processed agricultural products.

3. At the beginning of 1971, the European Parliament delivered a favourable opinion on the content of the Agreement (see Cantalupo report on behalf of the Political Affairs Committee, Doc. 257/70).

The resolution adopted expressed, inter alia, Parliament's satisfaction at the conclusion of an agreement which represented a first step towards the eventual accession of Malta to the Community and stressed the need for establishing at parliamentary level organizational links between the Community and Malta.

4. The resolve expressed by the Community as from 1971/1972 to adopt an overall Mediterranean policy and the accession of the United Kingdom - Malta's primary import and export trading partner - to the Community on 1 January 1973 soon prompted the signatories of the 1970 Agreement to think about extending and strengthening their relations.

To this end, the Council approved the negotiating directives in respect of the countries to which at its meeting of 25-26 June 1973, it had accorded priority as part of its overall approach to relations between the Community and the Mediterranean countries. Malta was one of those countries.

In the Council's opinion, the aim of the draft agreements to be concluded should be the removal of obstacles to trade in the greater part of products between the parties, the granting of tariff concessions for many of the agricultural products imported from each of the countries concerned and the inclusion of provision for cooperation, the terms to vary according to the stage of development of the signatory countries. In the case of Malta, cooperation could extend to the economic, technical and financial sectors.

5. The negotiations for adapting and extending the 1970 Association Agreement between Malta and the EEC opened in Brussels on 25 September 1974. The offers made by the Community - reduction of customs duties in the agricultural sector, financial assistance amounting to 21m u.a. over a five-year period and cooperation in the spheres of industrialisation, marketing and technology - were considered inadequate by the Maltese delegation, especially in the case of financial assistance.

After sounding the Maltese delegation informally on various occasions in the spring of 1975 to find out what kind of improvements it wanted, the Commission forwarded in June 1975 a communication to the Council on the improvements to be made in the Community's offers.

After further delays caused by internal disagreement on the question of the amount of financial aid, the Council finally decided at the beginning of December 1975 to increase the amount of financial assistance offered by the Community from 21 to 26m u.a. (for five years). The Council similarly decided to improve the Community offers as regards certain agricultural products and to make the rules of origin more flexible.

6. It was then possible to reopen negotiations between the Community and the Maltese delegation on this new basis and bring them quickly to a successful conclusion. On 23 December 1975 the new agreement was initialled subject to confirmation and formally approved by the Council on 20 January 1976. It was formally signed in Brussels on 4 March 1976. At the February part-session in Strasbourg the relevant committees of the European Parliament were, in accordance with the 'Luns procedure', informally notified by the President-in-Office of the Council of the content of the agreement.



7. The Agreement consists of:

- a Protocol laying down certain provisions relating to the Agreement establishing an Association between the EEC and Malta and containing certain transitional and adaptation arrangements, the treatment applicable to certain agricultural products, arrangements for the establishment of cooperation, and five declarations and an exchange of letters;
- a Protocol concerning the definition of the concept of 'originating products' and methods of administrative cooperation, together with a declaration;
- a Financial Protocol together with a declaration and an exchange of letters.

What are the main points of the Agreement?

8. Firstly, the Agreement extends the Association formed in 1970 between the Community and Malta to the United Kingdom, Ireland and Denmark. It also provides for the inclusion of an agricultural section in the trade provisions of the 1970 Agreement. The Community also grants preferential treatment (duty reduced by 40 to 60% in general) for most of Malta's agricultural exports: new potatoes, early vegetables, tomatoes, onions, etc., for bottled wines the reduction is 75% provided that the import price of the wine is at least equal to the Community reference price. Lastly, one of the main provisions of the agreement is that it enables the Community to participate, within the framework of financial and technical cooperation, 'in the financing of projects designed to contribute to the economic and social development of Malta'. As stated above, the Community will for this purpose make available to Malta for a period of five years, 26m u.a., 16 in the form of EIB loans on market terms, 5 in the form of special term loans and 5 in the form of grants.

This amount may be used for the financing of capital projects in the fields of production and economic and social infrastructure aimed in particular at diversifying the economic structure of Malta.

9. The Agreement does not constitute the 'second stage' of the 1970 Agreement to which we have already referred. Negotiations on the second stage should be opened within the next few months and proposals on the matters to be covered are now being considered by the Commission. Since the first stage should normally come to an end five years after the entry into force of the Association Agreement, in other words on 31 March 1976, the Commission has just forwarded to the Council a proposal for a regulation extending the first stage until 30 June 1977.

10. In accordance with the opinion expressed in the Cantalupo report on the 1970 Association Agreement, the European Parliament welcomes the intensification of economic relations and political links that will result from the implementation of the various protocols concluded between the Maltese delegation and the Community delegation; for Malta is one of the small number of Mediterranean states in which representative democracy and ideological pluralism are still held in honour.

In view of the above, the fact that the enlarged Community has decided to make a substantial contribution to the economic development of a very small country is to be welcomed. With its 313 km<sup>2</sup> and its 330,000 inhabitants, Malta has limited natural resources. The amount of Maltese exports, agricultural products in particular, affected by the facilities offered by the Community is negligible when compared with the production and consumption of the Nine.

Because, however, of its strategic location in the middle of the Mediterranean and the close relations it is establishing with certain neighbouring Arab countries, Malta holds a position of key importance in the overall policy which the Community has undertaken to pursue towards all the Mediterranean countries and on which the European Parliament recently expressed an opinion. (See Pintat report on recent developments in the Community's Mediterranean policy, Doc. 385/75). On that occasion Parliament expressed its regret at the delays in implementing the overall policy, which were often due to internal disagreement within the Nine.

11. The negotiations with Malta have suffered a similar fate and the Maltese authorities have not concealed their disappointment at the Community's dilatoriness and contradictory behaviour.

Fortunately these delays are now a thing of the past and Parliament hopes that it will be possible to apply the trade provisions of the protocols concluded at the end of December, prior to their ratification by the Member States. We also hope that the negotiations on the matters to be covered in the 'second stage' can be started and concluded quickly.

Lastly, Parliament stresses the importance it attaches to the possibility of establishing regular contacts with the Maltese Parliament in accordance with the annex to the 1970 Agreement, which provides that the contracting parties agree to take all necessary steps to facilitate cooperation and contact between the two parliaments. It is difficult to explain the delays in implementing this cooperation and we hope that the implementation of the protocols recently concluded will provide the opportunity for establishing the necessary contacts between our two Parliaments.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman : Mr BANGEMANN

On 19 February 1976, the Committee on Budgets appointed Mr Bangemann draftsman.

It considered the draft opinion at its meeting of 18 March 1976 and adopted it unanimously.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Bangemann, draftsman; Mr Artzinger, Lord Bruce, Mr Concas, Miss Flesch, Mr Früh, Mr Gerlach, Mr Lautenschlager, Mr Shaw and Mr Yeats.

1. The document before the Committee on Budgets is a 'communication' from the Commission on the Conclusion of certain protocols to be annexed to the Association Agreement between Malta and the Community.

These protocols have been negotiated by the Commission and initialed by it and by the Maltese representative. They must now be confirmed by a Council regulation before they are finally ratified by the Parliaments of the Member States of the Community.

2. There are three separate draft protocols concerning:

- (a) certain provisions relating to trade made necessary by the enlargement of the Communities;
- (b) the definition of the concept of 'originating products' and methods of administrative cooperation between the parties to the Association Agreement;
- (c) details of financial cooperation between Malta and the Community.

3. The Committee on Budgets must concentrate more specifically on the financial protocol which, in view of its context, is of special interest.

The draft financial protocol between Malta and the Community

4. This protocol provides for financial assistance from the Community spread over a period over five years, with an aggregate total of 26m u.a., broken down as follows:

- (a) 15m u.a. in the form of loans from the EIB, granted from the Bank's own resources;
- (b) 5m u.a. in the form of special loans granted by the Community for a period of 40 years at an interest rate of 1%;
- (c) 5m u.a. in the form of non-refundable aid granted by the Community to subsidize interest rates on EIB loans and to finance technical cooperation measures.

5. From the financial and budgetary angle the Committee on Budgets wishes to make two sets of observations on this protocol; these observations concern:

- (a) the source of the funds loaned or granted to Malta by the Community;

- (b) certain technical details of the granting of financial assistance

The origin of Community financial aid. The question of the budgetization of this aid.

6. With the exception of the financial aid granted in the form of EIB loans (16m u.a.), the protocol gives no details of the source of funds to finance the special loans (5m u.a.) and the non-refundable grants (5m u.a.)

7. This omission is regrettable since a basic principle is at stake. Two separate methods of financing are possible;

- (a) financing through the budget: appropriations to cover special loans and grants would be entered in the Community budget and adopted under the general budgetary procedure;

- (b) financing outside the budget : appropriations would be provided directly by Member States, without passing through the Community budget, with a specific proportion from each country.

8. The second method closely resembles that at present used in the EDF and the Association Agreements with Greece and Turkey. The first formula is already used by the Community to finance Community contributions to United Nations emergency aid to the least-favoured developing countries, and to finance the exceptional aid granted to Portugal; it will also be used - after the budgetary decisions on 1976 - to finance Community aid to non-associated developing countries.

9. The Committee on Budgets and the European Parliament believe that financing through the budget is the only acceptable method for both political and legal reasons:

(a) extra-budgetary - or bilateral - methods clearly conflict with the necessity for communitization of Member States' aid to developing countries;

(b) extra-budgetary measures clearly run counter to the letter and the spirit of Community legislation<sup>1</sup>;

10. In addition, mention must be made here briefly of Parliament's attachment to the question of the budgetization of all Community expenditure. Since 1970, Parliament has succeeded in bringing about a significant increase in its budgetary powers - thus compensating in part for its limited legislative powers. But these powers are obviously nullified whenever any individual category of Community expenditure remains outside the budget; the example of the EDF shows clearly that the European Parliament loses all real control of expenditure which is not included in the budget - and it is precisely for this reason that the ad hoc working party of the Committee on Budgets is at present looking into ways of budgetizing the EDF, as well as methods of budgetizing Community borrowing and loans.

11. Finally, it should be noted that the financial protocol between Malta and the Community is only the first of a series of financial agreements between the Community and various developing countries.<sup>2</sup>

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<sup>1</sup> See Article 199 of the EEC Treaty:  
'All items of revenue and expenditure of the Community (...) shall be shown in the budget'  
See Article 3 of the Financial Regulation (OJ No. L 116, 1 May 1973)  
'All revenue and expenditure shall be entered in full in the Budget and in the accounts'

<sup>2</sup> Financial agreements are at present being negotiated or planned with the following countries:  
- Malta  
- Portugal  
- Maghreb (Algeria, Morocco, Tunisia)  
- Cyprus, Lebanon  
- Arab countries (Egypt, Jordan, Syria)  
In the case of Malta and the Maghreb countries the amount of the proposed financial assistance is as follows:

|         | <u>EIB Loans</u> | <u>Special Loans</u> | <u>Grants</u> |
|---------|------------------|----------------------|---------------|
| Malta   | 16               | 5                    | 5             |
| Algeria | 70               | 19                   | 19            |
| Morocco | 56               | 58                   | 16            |
| Tunisia | <u>41</u>        | <u>39</u>            | <u>15</u>     |
|         | 183              | 121                  | 55            |

(These appropriations are given in m.u.a. and cover periods of 5 years)

These agreements are already in preparation and will probably be patterned very closely on the financial protocol with Malta.

This protocol must therefore be considered by the Committee on Budgets as a test case for the budgetization of Community financial aid to developing countries and therefore for the extent of the European Parliament's powers in this field.

12. The Commission is fully aware of the importance of the question of budgetization and the fact that the financial protocol with Malta is in the nature of a precedent.

Until recently it avoided any statements on this matter but it now seems to have decided to give full support to the notion of budgetization. However, it has met with stiff resistance from certain Council delegations opposed in principle to the budgetization of aid appropriations for developing countries, anxious as they are not only to limit the growth of the Community budget but also to avoid the technical and political 'inconveniences' of budgetization. Disagreement between the institutions on this matter is clearly liable to delay the implementation of the agreements planned between the Community and the developing countries<sup>1</sup>; if this happened, it would be for each institution to face up to its responsibilities in this field.

#### Remarks on certain technical features of the Financial Protocol

13. Apart from the question of budgetization, the Protocol calls for the following additional remarks and clarifications:

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<sup>1</sup> See the precedent of the ~~Euratom~~ loans, which have been blocked at Council level for a year, partly because of the problem of their budgetization.

(a) control of the use of appropriations: the second paragraph of Article 11 states that 'the Community shall make sure that this financial aid is expended in accordance with the agreed allocations and to the best economic advantage'. This control is likely to pose delicate problems of national sovereignty and it would be useful to know in more detail how the Commission intends to proceed.

(b) guarantee by the State of Malta: Article 14 states that 'where a loan is accorded to a beneficiary other than the State of Malta, the provision of a guarantee by the latter or of other guarantees considered adequate may be required by the Community as a condition of the grant of the loan'. It would seem appropriate to provide for a similar guarantee to be required from the State of Malta in every case.

(c) annual examination of financial cooperation: Article 16 states that 'the results of financial and technical cooperation shall be examined annually by the Association Council (...)'. It would be desirable - in the general framework of the European Parliament's responsibilities for the control of Community expenditure - for it to be informed of the 'results' of this financial cooperation.

(d) unit of account to be used: a declaration by the Community annexed to the protocol states that the unit of account used to express the amounts of Community aid will be the new unit at present applied by the EIB and the EDF. This unit of account (variable) differs from that used in the Community budget: this divergence may make it difficult for the amounts of aid to be entered in the budget and it would be useful if the ~~Committee~~ Committee on Budgets could have additional information on this subject.

#### CONCLUSIONS

The Committee on Budgets therefore asks the committee responsible to take into account the following conclusions

- (a) The appropriations earmarked for special loans and non-refundable aid to the Republic of Malta must be specifically mentioned in an appropriate entry in the Community budget after their adoption by the budgetary authority in the framework of the general procedure for authorizing expenditure. Should the Council object to their entry, the Committee on Budgets reserves the right to propose recourse by Parliament to the consultation procedure;



- (b) The Community must in all cases make the granting of loans to a beneficiary other than the State of Malta conditional upon the provision of a guarantee by the latter;
- (c) the annual results of financial cooperation should be communicated to the European Parliament.





