

MEMORANDUM FOR CABINET BY THE MINISTER OF
INDUSTRIAL DEVELOPMENT AND TOURISM

FREE PORT

Attached is a copy of a report by Dr. F.K. Liebich, United Nations Trade Policy Adviser, concerning the creation of a Free Port in Malta.

2. After the report was received, arrangements were made for Dr. Laucht, Deputy Chief Engineer of the Port of Hamburg, to visit Malta and advise on the technical possibilities for the development of a Free Port. He made a close study of the various possible districts and came to the conclusion that the best place for a Free Port would be in the Marsaxlokk area. His report is highly technical, but any Minister who wishes to read it can obtain it from the Secretary to the Cabinet.

3. It is felt that the creation of a Free Port would be of great advantage to Malta, and it is suggested that Hon. Ministers should decide in principle that the creation of a Free Port be approved.

4. It is proposed to approach the whole matter in stages. As a first step, a new Industrial Estate would be built in that part of the Kalafrana promontory which is not occupied by the services. (Very little agricultural land would be affected).

5. The second step would be to prepare for the bigger project by negotiating with the services for the return of the land in the Marsaxlokk area, which comprises the following regions, the possible use of which is indicated in brackets:

- a) The Kalafrana promontory, up to and including Hal Far Airport (for transit trade depots and light industries).
- b) The Fort San Luciano promontory (for the building of hotels and villas for use by the directors of the factories, etc., whose yachts could use the fishing part of the Marsaxlokk harbour).
- c) The Delimara promontory (for heavy industries which are not hampered by the steep cliffs and which can pump up their products, e.g. petrol storage and oil refineries).

CONSIDERATIONS CONCERNING THE CREATION

of a

FREE PORT IN MALTA

Report by the United Nations Trade
Policy Adviser

Dr P. K. Liebich

VALLETTA, 18th July 1963.

6. If Hon. Ministers agree in principle that a Free Port be created, the relevant private land will be "frozen" so as to prevent any speculation.

18th December, 1963.

L-ARKIVI NAZZJONALI TA' MALTA

No efficient Trade Policy can be made by a country unless certain basic questions are cleared. In the case of Malta it will be in particular important to know whether or not the island as a whole or part of it could be a Free Port. It is attempted in the following to find a reply to this and some other relevant questions.

Introduction:

2. Malta in her historical past has always been a distributing point for commercial goods. This function only ceased since about 1800. Now with the return to "civil life" it should not be too difficult to revive the international trading functions which Malta exercised so successfully in the past, adapted certainly to the present situation of world trade. This suggestion is not only based on the existing possibilities (to which reference will be made later) but also on the visible fact that the population of Malta is gifted for trade and that a considerable Industrialization would be initiated by such a trade.

What is a Free Port

3. A Free Port situation for the whole territory is achieved if all goods can be imported duty free. Such a situation which can develop only in very special circumstances, exists for example in Hong Kong where only certain fiscal charges are levied.

4. A Free Port is part of a country which politically belongs to it but which is separated from the national customs territory. This means that the customs officials have only the right to ensure that the goods imported into

the Free Port are not trans-shipped into the customs territory. It does not preclude, however, the right of the Government to exercise certain police functions.

5. There are two types of Free Ports. Free Ports which are restricted in their function to the importation and exportation of goods (permitting only the re-packing, sorting etc. of products) and those which permit or even encourage further production. The introductory remark already pointed in the direction that the type of Free Port Malta would require would have to be that which encourages industrialization.

What are the advantages of a Free Port for the users

6. The advantage of a Free Port is the absence of any obligation to pay duties or indirect taxes or to conform to any licensing obligation. The fact that places in the world where this is possible are sought for, shows the demand for such an institution. The trader or producer is not necessarily put in a better position than in his own country, but if he needs (and there are many reasons for this) an entrepot or a production area outside his country, he prefers a place where his goods can be moved freely.

What are the advantages of a Free Port for Malta

7. In the first instance a Free Port brings activities which otherwise would not be attracted. To explain that such activities are of a great benefit to the host country should not be necessary in Malta with the Dockyard, which in fact is a Free Port.¹⁾ The benefits are:

1) It is to be pointed out that the success of the Dockyard has been exclusively due to the fact that it has always practically enjoyed all the benefits of a free port that means the right to import all goods duty free which are destined for the repair and construction of vessels not based in Malta.

8. Additional working places opened for the population of Malta, direct taxes these workers pay (not to mention the reduction of subsistence payments for idle workers) and the spending which is done in many ways by such an enterprise. A Free Port in Malta therefore could be explained as something which operates like the Dockyard with the sole exception that its functions would be more diversified.

9. A Free Port would also create directly budgetary income. In a case of a limited Free Port area this income could be obtained (as in other countries under similar conditions) from renting out the land on which the premises are going to be built. Under such a system the whole Free Port Area would have to become Government property.

Should the whole of Malta become a Free Port

10. After a serious consideration I think this should not be envisaged. In such a case practically no duties or other internal charges would become due, a fact which would require a basic change of the budgetary (and consequently economical) structure of Malta. No possible advantage could, I feel, justify such a risk.

11. But there is also an important trade policy consideration against the whole of Malta to become a Free Port. This is that such a situation would be not only difficult to combine with any agreement with the U.K. but could also become a serious obstacle in the relation of Malta with other countries. The economic reason for this is that such a Free Port Area could raise the fear, in particular, in neighbouring countries that its existence would disturb the existing economic balance. In trade agreements this would express itself in the difficulty (and probably impossibility) to arrive at an agreement between

a country having normal duties and a country granting duty free importation for imports from all countries.

12. A Free Port on the other hand which is limited to a part of the Island should not raise the same economic opposition since it is after all governed by the rules of the surrounding country which in many important facts remains responsible for the Free Port area. A limited Free Port Area should in particular not stand in the way of Malta's relations either with U.K. or any other country. It would not even have any effect on a possible accession of Malta to the EFTA (Denmark with the Free Port in Copenhagen is a member) or to the EC (Germany is a member with its Free Port of Hamburg).

Does a Free Port disturb national enterprises

13. By definition it does not, since (a) the national enterprises of export products will meet with their foreign competitors in any case on foreign markets regardless of the place of production, and (b) duties have to be paid on goods imported from the Free Port into Malta as on any other foreign products.

14. The fact that production in a Free Port to a certain extent will be more advantageous than outside remains. However, two palliatives exist to deal with this problem. First to give to the national Malta export industry all help to be able to produce under similar conditions⁽¹⁾ and second: to select the Free Port industries in a way that they compete as little as possible with the industries existing outside the Free Harbour.

15. As regards the first point Malta should remove many unnecessary obstacles which hamper the national industry.

(1) considerable progress in that direction has already been made in Malta

However, the most liberal procedures cannot create fully the same situation as that which exists in a free port. Great attention must be given therefore, to the selection of industries. There will be a natural selection resulting from the typical functions of the Free Harbour. Industries will develop out from the entrepot trade, as it did, for example, in Hong Kong in the case of the radio production. But the selection could also be influenced by other means. It could be decided, for example, not to give any grants to industries settling down in the Free Port, and loans could be withheld from industries which could disturb the Malta market.

What functions could a Free Port in Malta exercise successfully

16. There is a clear indication - substantiated by contacts with firms - that Malta would naturally fulfil the need of a safe distributing point for goods destined for North Africa. Modern ship lines have direct services to almost any place in the world, but a break of the voyage in Malta would be justified in many cases, by the fact that Africa itself, became a very unstable trading place haunted by "nationalisations" and "confiscations" thus causing a real need for a stable point from where transactions with that area could be carried out nearly and safely.

17. Firms already operating in Malta indicate other possibilities. Legal or other advantages existing only in Malta (as in the case of certain patent provisions) can be decisive.

18. A permanent and minimum trade of a Free Port could in any case be ensured by incorporating a new Industrial Estate (or at least the part which can operate without grant) into the Free Port Area. The Industries working there would

automatically be under customs bond without the usual expenses for guards and without guarantees.

19. Finally, it should be mentioned that all harbours in the world prepare for a fast expanding sea trade. Also Malta will soon have to consider an extension of the existing facilities in the grand harbour. A harbour official in leading position expressed the view that the opening up of a new harbour area for a Free Port should be done outside of the narrowness of the hinterland of the existing grand harbour and free from the various difficulties existing there.

Is there geographically a place available in Malta for the creation of such a Free Port

20. A careful study of the existing possibilities has shown that the only place which offers itself for such an enterprise would be the promontory of Kalafrana. This promontory is extremely favourably situated for the establishment of a harbour. This was confirmed by a renowned Harbour Expert (Dr Laucht, from the Governmental Hamburg Harbour Office) who prepared a detailed report in that sense.

21. The north side of the Kalafrana Bay which is now used by the Navy (without being intensively used and which should therefore be easily obtained) offers itself advantageously for the construction of a safe harbour. The jetty necessary would only have to be much bigger than the new jetty in the Grand Harbour.

22. The fences (separating it from the customs territory) could cross the promontory cutting off, either a relative small part of it or a part of almost a $\frac{1}{2}$ mile. The second solution would have the advantage that the existing fences of the Airport and Radar station could be used so that

very little additional fencing in would be required. On the south side the promontory is separated from the sea by steep cliffs. The customs supervision of this area would therefore be very easy.

23. The Kalafrana promontory would also be an ideal place for a Free Port Industrial Estate. The land on the harbour side is at sea level and goes up only slightly to the south so that the constructions could be easily served from the harbour.

24. It would eventually also be possible to make use of the airport at Hal Far which is at present being used by the Armed Forces. The Airport is in close contact with the site and would give added value to the Free Port.

25. First quality roads link Kalafrana with the existing harbour and Valletta and it should not be too difficult to open up the Kalafrana promontory by providing secondary roads, water and electricity. Practically no valuable land will be lost since a considerable part of that area is barren rock. In the remaining part there are practically no dwellings and the agricultural land seems to be of poorer quality and not fully used.⁽¹⁾

26. In conclusion of these considerations it should be mentioned that the new harbour could not only be installed advantageously but could also be managed in such a way that it would supplement the existing harbour usefully.

How should the Free Port be financed

27. The solution proposed would permit the use of budgetary money available for the creation of new industries for the purpose of establishing an industrial estate within the Free Port.

(1) Therefore, a smaller amount of useful agricultural land would be effected than the pending creation of an additional industrial estate would require in any other area.

made to a sum of about 50 million deutschmarke made available by the Federal Republic of Germany to the U.K. which, if the information received in Germany is correct, is not yet attributed to any special undertaking and which could be used within the Commonwealth for a plan like that of the construction of a new port in Malta.

29. Finally the construction of the new Free Port, if this idea should be accepted, should be added to the undertakings to be financed under the next 5-year plan.

How should the Free Port be run?

30. This is too early to say. Some indications may, however, be made tentatively.

- i) There should be no customs supervision in the Free Port
- ii) The Free Port should be run by an autonomous body
- iii) The Civil and Penal Laws of Malta should apply within the Free Port boundaries
- iv) The tax payment of industries should be based on "tax arrangements" (based e.g. on the space used).

Effect of the creation of a Free Port in Malta's future trade policy

31. If the reason for the above considerations was to know for future trade policy decisions whether or not Malta will have a Free Port, it seems that the reply should be

- 1) that Malta as a whole will not be a Free Port but
- 2) that in Malta a (geographically limited) Free Port Area might be established in addition to the Dockyard which already exercises a similar function.

Conclusion

32. In conclusion it should be stated that the intention to create a regional Free Port should not limit Malta's possibilities to conclude Trade or Tariff Agreements. Such Agreements should, however, refer if possible to the intention to create a Free Port in Malta.

33. Taking into account that the studies carried out regarding the possibility of the opening of a Free Port have shown that Malta offers economically and technically extremely good possibilities for a Free Port it is suggested to pursue the question and to take initial steps towards the creation of a Free Port.

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