

MEMORANDUM FOR THE CABINET
BY THE HON. PRIME MINISTER

Agreement on Mutual Defence and Assistance -
Importation of Duty-Free Goods by the
British Authorities

There is now clear and irrefutable evidence of the deleterious effects on the Maltese economy resulting from the provisions of paragraph (3) of section 9 of Part 5 of the Defence Agreement, as crystallised by the Exchange of Letters, dated 21st September, 1964, (copy attached) relating to the importation by the British Authorities (i.e. N.A.A.F.I.) of duty-free spirits, cigarettes and beer.

2. As the Malta side had pointed out during the pre-agreement negotiations in London, the scale of the ration to which the British authorities "limit" themselves in regard to issues of duty-free spirits, cigarettes and beer is far too generous and is totally unrealistic in a country the size of Malta. Its impact on the local economy is far more severe than in other countries such as West Germany and Malaysia where British Forces are stationed by agreement, and cannot be "absorbed" in the same manner as in those countries, with a population and area of 53,975,200 and 95,737 square miles and 9,875,350 and 128,460 square miles, respectively. In spite of Maltese arguments, the British Government remained adamant, and the effects, as foreseen by the Malta side, are making themselves felt with a vengeance.

3. The sole controlling issuing authority in regard to duty-free sales is the N.A.A.F.I. From the Malta Government's point of view there is virtue in having one such single source of control in that it is comparatively easy to check imports and issues and thus safeguard revenue. On the other hand the effect on the local retail trade is disastrous, since most, if not all, of the Service clientele has now been lost to N.A.A.F.I. The effects have been felt not only in the duty-free line, but also in the sales of dutiable goods, since entitled Service personnel and their families, in the process of withdrawing their ration of duty-free supplies from N.A.A.F.I. find it convenient to effect the purchase of other items from the same source.

4. Whilst wholesalers have also been hit, although perhaps not so severely, it is the little men who are suffering most. The shops and the bars can all point to a drastic falling-off in trade during the past three months or so, and whilst Government's Customs revenue is safeguarded by virtue of the British Government's undertaking to refund duty which would otherwise have been lost on duty-free imports by the British Authorities or

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authorised Service organisations, Government revenue generally is obviously going to suffer as a result of the retailers' smaller returns.

5. One of the most serious aspects of the situation is the alarming spread of the blackmarket. A black market is probably an inescapable evil which any rationing scheme generates, but the over-generous scale of the present ration scheme has certainly made it easy for trafficking to take on sizeable proportions. Suffice it to say that the total annual whisky ration alone exceeds the total amount of duty-paid whisky normally consumed in a year by the entire population including all the Services, entitled personnel and other non-residents. This is proved by a reference to table 9 of the Trade Returns for 1965 where the imports of whisky for home consumption are shown as 220,938 litres or 24,550 dozen bottles of three quarters of a litre each. By comparison, the ration of duty-free whisky of entitled British personnel in Malta works out at 27,685 dozen bottles in a full year. Whilst not immediately affecting Government Customs revenue, which as stated, is refundable by the British Government, the situation created by the entry of such quantities of duty-free supplies, unless remedied, could eventually weaken the effectiveness of the country's fiscal system since the expected revenue from the importation of spirits, independently of that of cigarettes, is unlikely to be realised because of the easy availability of black market supplies, which in fact would lead greater encouragement to evasion of duty.

6. The availability of cheap drinks and cigarettes in Service messes and canteens has struck a particularly damaging blow at the local bars and wines and spirits shops which have lost a large proportion of their custom, Service and civilian, to Service messes and canteens. The loss of custom in spirits and cigarettes has multiplied itself in the loss of sales in dutiable articles such as biscuits, confectionery, crisps, sandwiches, etc.

7. Government has not been slow in noticing the danger signals, and the problem has been considered in depth for some weeks now. It has also been the subject of discussion at official level with the British High Commission whose attention was repeatedly drawn to the ill-effects of this particular part of the Defence Agreement. Various possibilities designed to soften its effects on local trade were also considered in detail. In fact, the Comptroller of Customs and the Director of Trade made a comprehensive examination of the feasibility of a scheme designed to enable the withdrawal of ration quotas by entitled personnel through local retailers as well as R.A.A.F.I., but it became fairly evident that such a scheme, assuming it were accepted by the British Government, would have serious defects. In the first place, it would be difficult to ensure effective control in the manner exercised by a single authority as at present. This could prejudice our claims for payment of duty. Secondly, it could lead to abuses such as the exchange of a ration card for dutiable items in kind to the same value. This could likewise affect claims for payment of duty. Moreover, the seller of the goods could

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obtain payment in the shape of a refund of duty from Government, thereby defrauding Government revenue. Thirdly, the running of such a scheme, with all its intricacies, would certainly involve a recurrent administrative expense which Government can ill-afford. Finally, it would not really be the perfect answer to the retailers' problems.

8. In fact a cool appraisal of various alternatives such as the early closing of messes, the non-consumption of duty-free spirits in messes, and the sale in messes of spirits at the full commercial price to both Servicemen and civilians, leads one to the conclusion that the only really effective measure would be to stop the sale of duty-free items to entitled personnel altogether, and to have it substituted by the payment by the British Authorities of a monetary allowance, to whatever amount they considered reasonable, for the purchase of what are at present duty-free items.

9. This proposal would, of course, have to be accepted by the British Government, and if agreed, ratified by a fresh Exchange of Letters, whereby the British Government would agree not to exercise its right under the Defence Agreement to duty-free importation in respect of those items which are of particular consequence to the local economy. Whilst the British Government should be prepared to accept the purely economic argument on its own merits, it must also be aware of the consequences which would result if the Defence Agreement signed with the present Government were to become unpopular.

11th January, 1965.

21st September, 1964.

Sir,

I have the honour to acknowledge the receipt of your letter of the 21st September, 1964, which reads as follows:-

"I have the honour, with reference to paragraph (3) of section 9 of Part 5 of the Annex to the agreement on Mutual Defence and Assistance between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Malta, to set out customs procedures agreed in accordance with that paragraph, and also certain special arrangements which were made between us for the purposes of that paragraph, as follows:-

- (a) The Government of the United Kingdom are prepared to limit importation of spirits, tobacco and beer to a quota based on a per capita consumption by persons aged 17 or over of the following quantities:-
- (i) Cigarettes
 - males - 130 a week
 - females - 85 a week
 - (ii) All Spirits
males and females
2 bottles for each 4-week period
 - (iii) Beer, Ale, Porter and Stout
(from Commonwealth countries)
 - males - 22 reputed quarts for each 4-week period
 - females - 12 reputed quarts for each 4-week period
- (b) The Government of the United Kingdom are prepared to discuss the voluntary self-denial by the authorised service organisations of imports of other items where such importation can be shown to have effects detrimental to the Maltese economy.
- (c) In view of special circumstances in Malta the Government of the United Kingdom are prepared to pay to the Government of Malta the equivalent of the revenue lost to the Government of Malta through importation duty free under paragraph 3(b) of Section 9 which prior to independence would not have been duty free.

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The Right Honourable Duncan Sandys,
P.C., M.P.,
Secretary of State for Commonwealth Relations.

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- (d) The Government of the United Kingdom agreed that alcohol and tobacco imported in accordance with these arrangements shall pass through the MAFI bonded warehouse and be subject to check there by the Maltese Customs authorities. Similar procedures will be applied to any other items imported under these arrangements in respect of which a compensatory payment is to be made. Items other than alcohol and tobacco will be sold at prices comparable with those charged locally.
- (e) In the case of items purchased locally by the British Authorities or authorised service organisations being items which they are entitled under paragraph (7) of Section 9 to import duty free
- (i) where any duty in the nature of excise duty is payable on any such items, whether or not in addition to duty upon importation, such duty shall for the purposes of paragraph (7) of Section 9 be treated as though it is duty paid on importation and shall be paid by the Government of Malta to the British Authorities or authorised Service organisations accordingly;
 - (ii) all spirits, tobacco and beer in respect of which import duty or duty in the nature of excise duty is paid by the Government of Malta in accordance with paragraph (7) of Section 9 or these arrangements shall for the purposes of sub-paragraph (e) of this paragraph be deemed to be imported items and included in the quota accordingly;
 - (iii) where any such items would not have been duty free or subject to drawback prior to independence, the reference in sub-paragraph (c) of this paragraph to revenue lost to the Government of Malta through importation duty free under paragraph (3)(b) of Section 9 shall be construed as including a reference to any revenue lost by reason of the payment by that Government to the British authorities or authorised service organisations of import duty, duty in the nature of excise duty or drawback in respect thereof;

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(iv) Subject to any special arrangements agreed between the British authorities and the authorities of Malta subparagraph (d) of this paragraph shall apply to such items as it applies to imported alcohol, tobacco and other items in respect of which a compensatory payment is to be made.

2. I shall be grateful for your confirmation that this letter correctly records the understanding reached between our respective Governments."

In reply I have the honour to confirm that your letter correctly records the understanding reached between our respective Governments.

I have the honour to be, Sir,
Your most obedient,
humble servant,

(Sd) G. Berg Olivier

L-ARKIVI NAZZIONALI TA' MALTA