

DTI/518/60

MEMORANDUM FOR CABINET BY THE MINISTER
OF TRADE, INDUSTRY AND AGRICULTURE
Aids to Industries

The British Ministry of Overseas Development has very recently taken a very rigid stand in the consideration of this Government's recommendations for assistance under the Aids to Industries Scheme. Apart from the delay which is being occasioned by the multiple questions which are being raised on worthwhile applications anticipated to contribute in no small measure to the solution of our unemployment and economic problem, the Ministry of Overseas Development, through the local British High Commission, have now intimated in no uncertain terms that U.K. grants are to be regarded as "pump priming" funds for starting new projects, and that grant assistance should be given only when the project could be carried out without further aid. The British Authorities have also expressed themselves against the granting of assistance to cotton textile industries. This stand is the cause of endless embarrassment and firms, especially overseas firms, are having second thoughts either of expanding or setting up in the Island.

During the twelve months ending 31st March, 1966 thirteen applications were forwarded to the Ministry of Overseas Development for approval. These involved a capital investment of £1.4m. and an employment ranging from 496 to 687. Only seven of these applications were approved by the British Authorities, four were flatly refused and two are still the subject of negotiations as reported hereunder. Of the applications in hand eight are in respect of expansion projects involving a capital outlay of £1.7m. and a potential employment of 829. If the "pump-priming" principle is accepted, funds will not be available to assist these expansion projects.

We have also in the pipeline eight textile industries, five new and three expansion projects. These involve an investment of £2.6m. and a potential employment of 2,295. One of these projects is expected to take over the Rigg welts Factory and will provide employment for some 1000 persons. Unless the British Government is prepared to help, Malta will lose this very substantial development.

The registered unemployed on the 6th April came up to 8,366. The run-down of the Services with its consequential discharges is bound to gather momentum during the years 1966 and 1967 and the Defence White Paper published recently by the British Government confirms that these two years are going to be the most critical periods of the 1964/69 Development plan. The new industries set up so far have provided 2866 new jobs with a potential employment ranging from 3577 to 5798, but this potentiality depends largely on the availability of finance to meet certain expansion projects. Prof. Stolper in his report envisaged a possible unemployment of 15,000.

If Government were to succeed in retaining the present tempo of industrialization, it could be reasonably assured that unemployment could not exceed the current level. Any measure which could reduce this tempo would, however, be disastrous to our economy. The rigid and impossible attitude which the British Authorities have taken of late could have this untoward effect. It is therefore more essential that very strong representations be made to the British Government in this respect.

Two very recent applications which did not find favour with the Ministry of Overseas Development relate to:-

- i. A recommendation, supported by the Aids to Industries Board in Malta and the Industrial Development Board in London and approved by the Hon. Minister of Industrial Development and Tourism for a 50% grant of fixed assets up to a maximum of £81,370 to the Malta Film Facilities has only been partially accepted, and an offer of half the grant (£40,000) and a commercial loan at Exchequer rates ($7\frac{1}{2}/7\frac{3}{4}\%$) has been made by the Ministry of Overseas Development. This offer has been flatly refused by the local representative of the promoters, and there is a distinct possibility that the project will be abandoned unless the British Authorities accept the strong representations made to them.
- ii. An application by a small local firm producing mattresses under the name of "Dreamland", for a grant of £5,959 has been recommended by the London and Malta Boards and approved by the Minister. This application has been rejected by the British Authorities and a suggestion has been made that this might be a case of a loan either from Government or commercial sources, naturally at the accepted rates of interest ranging between 6% (Government) and $7/7\frac{1}{2}\%$ (commercial).

This position has not been accepted by the Ministry and the British High Commission has been addressed in very clear terms to this effect. It has been made out to them that the present stand of the Ministry of Overseas Development is in direct conflict with the Financial Agreement between the two Governments, which is a bilateral one, and as such does not entitle either of the parties to give a unilateral interpretation to any of its clauses. Indeed this Agreement makes no reference to the recently-coined idea of "pump-priming" funds for starting new projects, and its purport was for the attraction of new industries as well as for the development of existing ones. It is pertinent to point out that "existing industries" were unequivocally mentioned in the memorandum annexed to the Prime Minister's Savingram No. 38 of the 11th November 1964, and any new industry, whether large or small, old or new, local or foreign, is eligible for assistance by way of grant or money. The emphasis is on the increase of the export potential of Malta and this can obtain a fillip both from new industries as well as from existing ones. It is obvious that the Ministry of Overseas Development is overlooking the fact that grants are being given as an incentive to development in view of the serious disadvantages which an entrepreneur has

to face in Malta, such as complete absence of raw materials, a very limited local market, limited shipping facilities and a technologically obsolescent labour force. Indeed the point which has been hammered is not whether an entrepreneur has the financial means to carry out the project but rather whether he is prepared to invest money in the face of the disadvantages mentioned.

At a time when the British Government is adopting a very dynamic policy towards expansion and new industrial projects in the United Kingdom by allowing investment grants ranging from 20% to 40% depending on the type of industry and the area, and depreciation allowances ranging from 15% to 30%, the belt is being tightened to an unprecedented extent in handing out grants to Malta Industries.

On the advice of the London Board, Malta Rubber Limited at present employing 360 and envisaging the further employment of 160 hands as a result of a new expansion, involving a capital outlay of £155,128, was offered as a test case an interest free loan. The parent Company in London replied that they were not prepared to accept a loan in lieu of a grant, under any form, adding that they have before them the alternative of expanding at Milford Haven with a 40% outright grant, and a very lavish depreciation allowance. In another instance the London Board advised that assistance should be by way of a 50% loan in respect of the immediate investment, any further finance to be deferred until the Development Corporation in Malta is established. The firm, in this particular instance accepted the terms of assistance but stated categorically that unless Government undertook to give assistance towards the full expansion project they were not prepared to go ahead with it.

The reaction of the British Government to these departmental representations in the two cases already referred to them is still awaited. If they follow the same attitude in respect of projects now in hand, industrial development will suffer a severe blow. It is considered that the time has come for this issue to be taken up at Ministerial level and the British Government informed that the Malta Government considers such attitude in direct conflict with the bilateral Financial Agreement and under the circumstances a review of the whole policy is indicated.

In the Second Development Plan (1964/69) it is stated that to give maximum long term benefit to the economy, whenever possible, interest free loans would be substituting grants. When this policy was formulated Malta was in competition with Ireland and Spain and the incentives offered by Malta were in a general way comparable to, if not slightly better than, those obtaining in those countries. The British Government is now offering grants for plant and machinery in development areas at the rate of 40% and such grants are not limited to new projects and not even tied to the provision of employment. These incentives are supplemented by building grants, the provision of factories and those providing new employment in certain areas are allowed rent-free factories for a limited period of time. In view of this development our industrial scheme has lost much of its attractiveness.

A firm of consultants has been entrusted by the Malta Industrial Development Board to carry out a survey of the potentialities of Malta in the industrial field. The report of this firm has reached a very advanced stage and will be available to Government within a short time. A summary of recommendations has already been given to the London Board and a copy of this document was handed to the Secretary of this Ministry during his recent meeting in London with the Board. The Consultants support fully the view expressed in this memorandum that Malta cannot alter its incentives from grants to loans. The Consultants have in fact expressed themselves in the following terms:-

" Government financial and fiscal aid to new industries compare with that offered in most development areas but is not overgenerous and no major curtailment of the present level of aid should be contemplated. In particular a change from outright grants to interest free loans would seriously lessen the inducement offered to foreign firms even when the Development Corporation is established".

If we are to continue to attract industries to Malta not only cannot we possibly at this stage, orient our industrial policy to higher interest free loans and a lower quantum of grants as contemplated in the Development Plan, but there seems to be a dire need for increasing the current general grant rate of 33 1/3% to 40% and for increasing the 50% rate for labour intensive industries to say 60%, limiting this higher rate to male intensive industries in order to differentiate between male and female intensive industries.

As reported above the British Government's industrial scheme is available to new, expansion or modernization projects, but new projects receive supplementary aids. Not only cannot we therefore accept the policy proposed by the British Government to limit grant to new projects, but we have to devise a system which will give better incentives to new industries. It is proposed in this respect to allow new industries an initial rent free period for Government owned factories or a building grant of 35% (the British rate) instead of the current 25% which will continue to be allowed to expansion projects.

The present system of having to refer to the Ministry of Overseas Development any project recommended for Government assistance is proving to be a source of delay and frustration. Whilst it is appreciated that in the case of substantial assistance such reference may be justified, it is felt that the Minister responsible for the administration of these funds should be given authority to approve grants without prior reference within certain defined limits. This principle was discussed in the joint meeting of the Aids to Industries Board and the London Advisory Board. Both Boards recommended to the then Minister of Industrial Development and Tourism who approved, that the British Government's concurrence should be sought so that the Malta Government would be authorized to approve grants and loans under the Aids to Industries Scheme of amounts of £10,000 and under without the prior concurrence of the British Government. This recommendation did not find favour with the Secretary, Ministry of Economic Planning and Finance and on the 10th March that Ministry

reported that it could not envisage the British Government agreeing to substantial changes in its approach to aided projects, the more so when we may be at the eve of transferring the business of the Aids to Industries Board to the Malta Development Corporation.

In the first place the Malta Development Corporation in the administration of funds made available to it by Government for release as grants and loans will have to follow the policy laid down by Government in that respect. In the light of the above considerations it is therefore essential to determine the policy even before the new institution is in being. In the second place the suggestion does not run counter to the establishment of a Development Corporation, as when that institution is established grants to enterprises provided out of public funds will have to be approved by the Minister and in any case it is not expected that the Corporation would consider proposals involving an investment of less than £3,000.

Government has also in the past been severely criticized for not having encouraged the expansion of existing industries. The policy followed so far in this respect is that assistance should be given only to the local industrialists who wish to expand and to venture into the export market. Such assistance is normally tied to exports and to additional employment. These terms are relatively hard as existing industries are already, generally, labour intensive and the replacement of their out-dated plant and machinery by the more modern equipment necessary to enable them to increase their production and go in for export does not normally bring about the need for additional employees. To give an impetus to locally established industries willing to expand and really to break into the foreign market assistance, tied to export, but not to employment is indicated. This would be in line with the policy being adopted in the U.K. and referred to earlier in this memorandum. The Aids to Industries Board prepared a scheme by which local industrialists falling under the above category should be eligible to the grants available for new industries and expansion projects with a proviso, however, that such grants would be converted into interest bearing loans should the industrialist fail to venture into the export market within a reasonable period of time.

Hon Ministers are therefore asked to consider and approve that:

- a) The new "pump-priming" fund principle which is being applied to Malta by the British Government should be rejected.
- b) Grants to continue to be available for new and expansion projects, of all types, including textile industries. Provided that in the case of textile industries their exports should be largely to countries other than the U.K.

- c) The current minimum grant of 33 1/3% to be increased to 40%; the current maximum of 50% to be increased to 60% in the case of male intensive industries. Such grants are not to be tied to employment but male intensive industries will be eligible to the higher rates of assistance.
- d) New industries to be allowed Government factories at an initial rent free period (say five years) and the building grant in such instances to be increased from the current 25% to 35%.
- e) The Minister responsible for the development of industry to be authorised to approve grants of £10,000 or less without prior reference to the British Government.
- f) Established local industries willing to expand for export to be allowed the grants available to foreign industrialists with the added condition that should they not succeed in capturing the export market within a reasonable period of time (say ten years) the grant would be converted into loan.

2nd May, 1966.