

JOINT MEMORANDUM TO CABINET BY THE HON. MINISTER OF
COMMONWEALTH AND FOREIGN AFFAIRS AND THE HON. MINISTER
OF TRADE, INDUSTRY AND AGRICULTURE.

The inter-departmental Committee appointed to study whether it is in the interest of Malta's developing economy to join, in some form, either the European Economic Community or the European Free Trade Area, have submitted their report. The Committee have recommended that Malta should seek to join the EEC as an associate. The decision has been arrived at after a careful weighing of the advantages and disadvantages of joining any of the two European trading blocs.

The reasons which have prompted the Committee to recommend joining the EEC are the following:

- (a) The combined population of EFTA is 100 million people but half of it is accounted for by the U.K. which is, to a great extent, a preferential market for Maltese products. Joining EFTA would therefore mean an additional market of just over 50 million. The EEC is a much wider organization than EFTA and accounts for a market of 200 million people. This group has made excellent headway and still has immense potential for further expansion.
- (b) Malta's trade with EFTA accounted in 1966 for 49% of our imports and 36% of our exports. One must, however, also take into consideration that the U.K. accounted for 92% of our imports from EFTA countries and to 85% of our exports to that bloc. The end result is therefore that not much trade is currently being done with EFTA if one were to exclude the U.K. (which is already a preferential market to us). On the other hand, Malta's trade with the EEC accounted in 1966 for 27% of our imports and 21% of our exports. These percentages are higher than those of EFTA (excluding the U.K.) Exports to the EEC have shown an upward trend during the last five years and the indications are that the EEC offers more scope for improvement than does EFTA.
- (c) EFTA does not include agriculture while the Rome Treaty provides for trade in agriculture. Our agricultural exports and products of agricultural origin form a substantial part of our total exports - although it cannot be claimed that Malta's economy is an agricultural one. For this reason, it would be more advantageous - other things being equal - to join that bloc which provides also for free trade in agriculture.
- (d) As in the case of joining EEC, a "price" would have to be paid for the benefit of free access to EFTA markets. We would have to offer something substantial in the way of duty reductions on imports from all EFTA countries. But whereas our duty reductions would have to be made applicable to the whole of EFTA, the duty reductions on EFTA's part would be less than commensurate since we already have a privileged position in the U.K. market via

Commonwealth preference. In the case of the EEC we do not enjoy preferences in any of the member states and we would therefore stand to gain the full benefit on joining.

- (e) A further difficulty would arise because of the existence in EFTA of the "rules of origin" and it could happen that because we are wholly dependent from abroad for our raw materials, a great many of our products would not qualify for EFTA preferential treatment.
- (f) Joining any of the two trading blocs would help in attracting back the very considerable amount of capital invested abroad. The Committee have studied this aspect and have concluded that it would be reasonable to assume that local industrialists would recall their capital invested abroad if large markets overseas are available for their products. They are, of course, more likely to do so for a market of 200 million people (EEC) than for one of 50 million (EFTA less the U.K.). Foreign entrepreneurs would similarly be more prone to invest in Malta if this Island were associated with EEC rather than with EFTA because of the size of the market.
- (g) The continued existence of EFTA has been placed in doubt in recent months by some of its members' declared intention to join the EEC. The wisdom of joining a moribund association is therefore questionable.

The Committee have also examined the view that it could be easier and quicker - because of our connection with the U.K. - to join EFTA. The Committee believe that since EFTA is now on the brink of taking a vital decision on its future, entry into it is even more difficult than into EEC since it is very unlikely that EFTA States would want to jeopardise their chances of joining EEC because of the burden caused by additional members.

The Committee have also considered the several alternatives which are open to Malta to participate in the EEC. Malta can associate herself with the EEC in either of the following ways:

- (a) by applying for full membership under Art. 237
 - (b) by concluding a Trade Agreement
- or (c) by seeking associate status under Art. 238.

Full membership implies observing the Treaty in all its aspects and involves contractual obligations concerning the removal of duties and quantitative restrictions, adoption of the common external tariff and other obligations with respect to social services, trade unions, competition, movement of labour and agriculture, all of which Malta might find difficult to undertake at the present stage of development.

The Committee feel that because of these difficulties it would not be practical for Malta to seek full membership. Moreover, present indications are that the EEC itself would not look with favour upon a request for full membership.

As regards the conclusion of a Trade Agreement, it is not considered that this would meet with Malta's wishes in the economic or political fields. The benefits would be limited to tariff concessions on a few items and this could hardly affect the economic development of the country. Trade Agreements are generally made by the Community with countries producing basic commodities where no other type of association is possible.

Association with the EEC can be concluded under Art. 238. Several variants are possible under this Article and the Committee have recommended that the optimum form of Association Agreement should be based on the following considerations:-

Obligations on the part of EEC

- (a) Elimination of customs duties on industrial products manufactured in Malta and intra-EEC treatment for Maltese agricultural products.
- (b) Elimination of quantitative restrictions to the same extent as that practised between the EEC member states.
- (c) Permission to Malta to retain or impose duties on EEC products because of development needs and/or budgetary reasons.
- (d) Encouragement of private investment to help Malta's industrial development.
- (e) Financial, economic and similar assistance.
- (f) Permission to Malta to deviate from her obligations should this become necessary because of conditions by donor countries other than the EEC (e.g. requirement to use aid funds provided by the U.K. for the purchase of British-made goods).
- (g) Permission to Malta to allow duty-free treatment in respect of raw materials, etc. required by industry and imported from countries outside the EEC.
- (h) Participation of Maltese workers in the benefits enjoyed by migrant labour within the EEC member states.
- (i) Non-applicability of the Common External Tariff.

Obligations on the part of Malta

- (a) Gradual elimination of customs duties on EEC products during a period of ten years.

- (b) Gradual elimination of quantitative restrictions on EEC products during a period of six years.
- (c) Free movement of labour and right of establishment to be limited to most-favoured-nation treatment.

Association with the EEC under these conditions might have some repercussions on Malta's fiscal system. There will certainly have to be changes in duties (affecting customs revenue) but these changes could be compensated by the concession (already conceded to all the other Associated States) to maintain existing tariffs or create new ones to protect infant industries or for revenue purposes.

With regard to the possible effects on the cost of living, the Central Office of Statistics has reported that the cost-of-living index might go down by 3 points (and possibly more) if an Association Agreement on the lines suggested is concluded.

The Ministry of Trade, Industry and Agriculture agrees with the Committee's conclusion that Malta should seek to associate herself with the EEC subject to the provisions outlined above. The Ministry feels, however, that provision should also be made in the agreement for Malta to become a full member within a period of time e.g. 20 years.

Should Hon. Ministers agree with this conclusion, Cabinet would have to decide on the method of approach. The Ministry of Trade, Industry and Agriculture feels that there are two alternatives. We could either file an application for full membership and when this is refused (as it will) request associateship with provision for eventual full membership or apply straightaway for associate membership under Article 238 with adequate provision for eventual full membership within a determined period of time. Both alternatives are worthy of consideration. Under the first alternative, we would gain some measure of negotiating power when our request for full membership is refused while under the second, negotiations could take a shorter time.

Having regard to the complex problems involved it is desirable that the team to be appointed to carry out these negotiations should be given the assistance of a United Nations expert in this field. It is therefore proposed that a request for such an expert should be made as a matter of some urgency.

In the course of the visit to the Community made last November by officials, M. Rey and other members of the Commission proposed, as a first step, that an Ambassador should be accredited to the Community. In their view such a measure would facilitate the eventual negotiations and would enable the negotiating team to have access to the Commission and to its highly specialised staff. It is proposed that early consideration be given to the appointment of an Ambassador to the Community.

Hon. Ministers are asked to consider:

- (a) Whether Malta should apply for full membership of the EEC; or
- (b) for associate membership under Article 238 of the Rome Treaty with adequate provision for eventual full membership within a determined period of time;
- (c) an application to the United Nations for an expert on Common Market matters to assist the Malta Team in the course of the negotiations, and
- (d) the appointment of an Ambassador to the Community.

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