

Cabinet Memo on the Free Port Project  
at Marsaxlokk

As Hon. Ministers are aware Government issued a letter of intent to Messrs. Medport on the 22nd January, 1968 which specified 'inter alia' that Medport should, not later than the 22nd January, 1969, submit for Government's consideration:

(1) Detailed arrangements and programming, together with the necessary assessment of performance, satisfactory to Government, covering:-

- (a) the construction, operation, maintenance and development of the proposed port and its industrial complex, including the construction of breakwaters, deep water quays, wharves, roads and buildings and the provision of the mechanical means and of the equipment required for the working of the port proper and the operation of the free trade area in general;
- (b) the manner in which the company will finance the proposed development as is necessary in order that the port proper and such part of the land area as will be made available on the grant of the licence may be operated as a port and as a free trade area; and

(2) firm assurances satisfactory to the Government that adequate user arrangements have been made for the Free Port so as to justify the proposed arrangements.

2. Insofar as port development is concerned a number of studies have been commissioned by Medport. The Franzius Institute of Hanover carried out wave tests in July, 1968, and came to the conclusion that Marsaxlokk port is inoperable due to wind and wave conditions for only a few days of the year. Engineering studies have been conducted by Gibbs and Partners, Taylor Woodrow - Beton and Monierbau, Scandia Consult and Frederick Harris. Gibbs and partners advocated fixed breakwaters at a total cost of some £15 - 20m. Taylor Woodrow advocated a floating breakwater, Scandia Consult a submerged mole at Delimara point and Harris consider that based on the Franzius findings breakwaters, submerged moles and other protective devices are not

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necessary. Their idea is for a pier as far out into the harbour as possible. This latter scheme is estimated to cost £6 - 8m.

3. Medport have naturally favoured the latter scheme though they have suggested in their report dated the 25th October, 1968, that they would be asking for independent advice from a world famous marine consulting engineer to assess the relative merits and demerits of each proposal.

4. On the 15th August, 1968, Booker Brothers withdrew from the project "in view of the failure to establish feasibility". Medport in their October, 1968, report stated: "The facts are that Booker's felt that the economic feasibility of the Medport concept had not been proven - which is true - no potential user was prepared to make any formal commitment to Medport and hence private financing would be impossible. Booker's therefore decided that the project had too great an element of risk for their company to continue in it".

5. Following the withdrawal of Booker Brothers, the Banca Commerciale Italiana (B.C.I.) joined the consortium.

6. Medport have attempted to obtain firm assurances that adequate user arrangements have been made, but here they have failed. They recognised that their prospective users would be:

- (a) dry bulk;
- (b) cereals in bulk;
- (c) liquid bulk;
- (d) container operators;
- (e) forest products; and
- (f) manufacturers and distributors.

7. From extensive inquiries they only obtained indications of a possible interest of 1m. tons of bulk cargo. This estimate has now gone up to 2½m. tons. They have not however justified this anticipation of an additional 1½m. tons beyond a rather doubtful estimate that Tunisia might want to route ½ million tons of phosphates and iron ore through Malta. The advantage the Tunisians would reap out of a double handling of their products is not understood.

8. It would appear that, unless Medport is withholding information, no proper or adequate feasibility study has been conducted to determine the possible potential of Malta as a central consolidation and distribution point for all forms of cargoes and shipping traffic in the Mediterranean. Engineering studies have seemingly been based on a variety of estimates as to combinations of cargo types and volumes but these estimates as far as is known, have never been based on any detailed analytical feasibility study of possible traffic flows but only on allegedly intelligent guesses, and the somewhat non-committal replies received in response to a general circular letter put out by Medport to a number of potential users in the bulk cargo field. It is pertinent to point out that the designs and layout presented so far all give the impression that bulk cargoes have been uppermost in the minds of the designers and that container handling arrangements have had to be tailored to suit.

9. On the 11th December, 1968, a financing plan was submitted to Government. The idea was that the Random Corporation of New York, which is partly owned by Mr Anderson, one of the promoters, will supply 31 million dollars finance for 30 years at 7½ per cent. Medport stated that they had negotiated with the Italian Government an investment guarantee on the understanding that the Bonifica consortium (owned jointly by Fiat and the Vatican) would be the contractor to undertake all aspects of the work. Medport also stated that it is an essential condition of the Italian legislation that the guarantee given by the Italian Government would be counter guaranteed by Malta.

10. Apart from the fact that it is dubious whether under existing legislation the Italian Government can guarantee private finance provided by American sources, our Ambassador in Italy reported that "the former Foreign Minister, Signor Medici, had left no written record at the Farnesina of his discussion in the United States over the guaranteeing of

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finance for Medport. It appears that a completely fresh start will have to be made ...." Our Ambassador summarized the position "It looks as if we are back at square one, and the Medport Consortium may well like to give consideration to the initial proposal of getting a guarantee from the United States Government". It may be added that according to Medport's own projections the project could not sustain a loan burden of 31 m. dollars at 7½% even though repayable over thirty years.

11. Because of this unsatisfactory state of affairs, Medport were given an extension of two months within which to submit a financial plan which would include 33 1/3 per cent of the required capital in the form of equity, and the necessary studies which would lead to an indication of the feasibility of the project as a whole.

12. Just before the extension of the letter of intent lapsed, Medport stated that a major user had been found for the Port; a European oil consortium led by Tampimex of London who are claimed to be the largest independent oil traders in Europe with an annual turnover of £20 million. This consortium plans to use the Free Port as a major blending and transshipment terminal for crude oil. Heads of agreement between Medport and the Consortium have recently been signed in London, but Tampimex must first carry out a feasibility study before entry into a definite commitment. The Company expects to finalise this study before September 1969. This project would give direct employment to about 40 people besides shipchandling services and the probability of tanker repairs at Malta drydocks. The anticipated turnover would be from two to four large tankers per week. If feasibility is established by Tampimex it could provide a major user for the Free Port and could make the Free Port project viable.

13. Another recent development was a meeting in London between Mr Anderson, Mr Norton and the Deputy Crown Advocate General at which Dr Masseri, an Italian diplomat, was present. According to Dr Masseri the Italian Government could guarantee the finances provided by the Random Corporation without the requirement of the counterguarantee by the Government of Malta;

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and that the Italian Government could also subsidise part of the interest due on those funds. He therefore advised Medport to make the necessary applications to the Italian Government, quoting Bonifica as the works contractors. It must be pointed out, however, that Dr. Masseri had no mandate from the Italian Government, and that it is still doubtful whether the interpretation given by him of the position under Italian law is correct.

14. The position reached so far is as follows:-
- a) Although Medport have given proof of availability of funds, those funds would only be available if at least one Government were prepared to guarantee their repayment by Medport, and it is not yet clear whether that guarantee can and will be forthcoming; moreover, those funds are available on loan; that loan though repayable over thirty years, carries interest at the rate of  $7\frac{1}{2}\%$  p.a. and, to say the least, it is doubtful whether Medport can support that rate;
  - b) A major user has shown interest, but definite commitments must await further studies by the party interested;
  - c) Physical plans have been prepared aimed mainly at handling dry bulk cargo. These plans have still to be submitted to consulting engineers and might have to be amended to take account of the requirements of the major user that has shown interest as above;
  - d) Insofar as the feasibility of the scheme is concerned we are no better off than we were after the earlier M.I.D.S. studies.

15. Apart from other considerations, the above points raise two matters which call for a political decision -

- (1) It is understood that the oil that would be shipped to Malta for blending and distribution would originate mainly from countries which, for political reasons, might find it difficult to dispose of it, and Malta would serve to camouflage the identity of the source, or possibly to make acceptance of that oil more palatable. In fact an essential pre-condition would be that Maltese certificates would be issued in respect of the oil passing through the Malta terminal. It is not yet clear what international,

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and possibly even commercial, repercussions this might have; but it would be prudent to take these possibilities into account.

(11) As regards the Italian Government Guarantee, although the debtors would be a private company they would be licensors of the Government of Malta for the operation of the Free Port and the Government of Malta might even be the holder of equity shares in the Company; it might not therefore be easy to avoid completely a Government to Government relationship. Moreover it could become politically advisable for the Government to ensure the continued viability of the Company, and the Government might therefore get involved in the repayment of the loan also for this reason. Here again it is felt that these matters be kept in mind before the financing plan submitted by Medport is accepted.

16. There are also economic reasons to be considered before the oil terminal proposal and the Medport financing plan are accepted. It is felt in the first place that the Government should ensure that the original concept of a free port - namely a distribution centre for bulk and container cargo (subject to possible alternatives in regard to the latter as explained later) coupled with ancillary industries - should not be allowed to be reduced to an oil terminal. In the second place, it would appear that a financing plan based entirely on a loan to the tune of 31 m. dollars bearing interest at  $7\frac{1}{2}\%$ , with hardly any risk capital accompanying it, and available not on the findings of a feasibility study but only if some Government were prepared to guarantee its repayment, is, to put it mildly, not the best way of financing a Government sponsored project.

17. On the other hand it is felt that Government should await further developments before reaching a final conclusion, and it would therefore be proper, in the circumstances, to extend the period of the letter of intent by a further four months by which time the parties interested in the oil terminal will have concluded their studies and there would be a clearer indication of the intentions of the Italian Government.

18. Taking some of the above facts into consideration, the United Nations Team advising the Government on the Freeport project have recommended:-

- a) that the Malta Government declares clearly what priority should be given to the Free Port project;
- b) that if high priority is given, a high ranking inter-ministerial coordinator and expeditor be appointed who with the help of a fulltime U.N. expert will negotiate and develop the whole project;
- c) to study an alternative solution if the Medport Scheme falls through; and
- d) to prepare holding companies and maritime legislation.

19. It is obviously not possible for Government to declare the priority to be given to the scheme before knowing whether it is feasible. Though over recent years a number of prominent people have expressed views that the general concept is a good one, to date there has never been presented to the Government anything like a meaningful economic feasibility study. If negotiations with Medport fail, then it will be important to study the project in depth and to analyse the alternatives. However, whether the Medport project is found acceptable or alternative solutions will have to be explored, it is important to retain the services of the U.N. advisory group and to consider the suggestion of asking for a full time U.N. expert at a later stage.

20. One of the U.N. experts (Mr Bathurst) has recently raised a matter of considerable importance which could have a bearing on the negotiations with Medport and which, in any case, it is felt calls for further studies now. The problem relates to containerised cargo, and in a nutshell it is whether there should be a containerised cargo terminal in Grand Harbour, and if so whether it would be advisable to have two such terminals, one at Grand Harbour and another at Marsaxlokk, the whole problem to be considered in the light of whether eventually there would or would not be two commercial ports in Malta.

21. Hon. Ministers are requested to approve:

- a) that the United Nations be asked for the assistance detailed in paragraph 19.
- b) that Medport be granted a four month extension of the Letter of Intent;
- c) that Consultants like P.E. or Metra be commissioned to make a study of the position of Malta in relation to containerised cargo and in particular as to the location or locations of a container berth, the matter to be considered in the light of whether eventually there would be one or two commercial ports. Such consultants would also be commissioned to carry out, during the four months by which the letter of intent would be extended a feasibility study about Malta becoming an International Transshipment Centre.

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16th April, 1969.