

MEMORANDUM FOR THE CABINETBY THE HON. MINISTER OF INDUSTRIAL DEVELOPMENT AND TOURISMExport relief to counter 15% surcharge
on exports to the United Kingdom

The recent imposition by Britain of a 15% surcharge on imports has caused consternation and dismay to most of the industries in Malta particularly those recently set up. The effect will vary with the degree of dependence on the United Kingdom market, but it is likely that in more cases than one discharges would soon occur, and closures of some industries cannot be altogether ruled out.

2. These firms have acquired their markets by dint of sheer hard work, expensive marketing tours, and advertising. Moreover the following factors, namely,

- (a) the particular direction that industrial development has taken through the publicised attraction of Malta as a venue for branch factories for United Kingdom industries;
- (b) the traditional direction of foreign trade and shipping which is Britain-wise;
- (c) the existence of the preference rates with Britain; and
- (d) Malta being outside the main European Trade Blocks and some of its exports being highly-sophisticated ones aimed at feeding industries which are not found in the near countries to the south of Malta;

... have accentuated the seriousness of the problem for those industries who have responded to these factors and have set up here to purvey mainly for the British market.

3. It is true that dependence on one market is not a sound long-term arrangement. However, because of our special connections with the United Kingdom and the inevitably unfavourable trade balance with that country, and because of the officially inspired trend of the Aids to Industries Scheme for the first years of development, it was not unreasonable for industrialists to have concentrated on, and for us now to condone and tolerate too strong a reliance on the United Kingdom market. That notwithstanding, any remedial steps taken must be for a period during which these industries will be expected to find alternative markets.

4. Compared with other countries, including most other Commonwealth countries, there are special reasons why Malta should be singled out for compensatory measures, namely,

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- (a) Raw materials are not affected by the surcharge and Malta does not possess raw materials for export to minimise the effect of the loss of the United Kingdom market for industrial products;
- (b) Malta has not set out to industrialise merely because, on grounds of long-term economic considerations, it was found to be more expedient so to do. Malta has been compelled, at short notice, to resort to industrialization because of its imposed past dependence on Services expenditure by Britain, and because of Great Britain's recent decision to contract the Services establishments and reduce the relative expenditure;
- (c) Many of the industries so adversely affected procure most of the raw materials or semi-finished products for their manufacture from the United Kingdom and any special aid extended to such industries would be an indirect aid for the United Kingdom industries producing these raw materials and semi-finished products;
- (d) Malta's possibilities for the next year are limited because of (a) the early stage of development and (b) Malta's intrinsic smallness. The effect of any aid to Maltese exporters would have no effect at all on Britain's balance of payments position.

5. In determining the charge of any relief given to Maltese exports to the United Kingdom, consideration could be given to some of the above factors; but, should the possibility of charging such a subsidy to United Kingdom funds be not possible, it might be considered to be in the long-term economic interests of Malta to find the money ourselves for the purpose of maintaining the export markets, acquired under difficult circumstances and through so much sacrifice. There is all the more reason for this because such a move would also likely cause an upsurge in such exports through the reduced competition from most foreign markets, which upsurge could quite reasonably be expected to continue to some extent after things have returned to normal.

6. It has been estimated that a 15% Government relief on exports to make up for this surcharge would amount to about £150,000 for a full year and taking the 1963 export figures. It is well known, however, that 1963 is not a good basis for estimating Malta's exports to the United Kingdom market under likely normal conditions during the next twelve months. Our two main industries, Phoenix and Chatillon, have only just started producing, and a fairer estimate would be one based on the more likely export

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figure of £2,000,000 involving eventually a maximum subsidy of £300,000 a year. Government might determine to allow only 7½%, that is 50% of the British Government surcharge, as has been done in Ireland.

7. It is reasonable to expect industrialists to make a special effort, and that is possible with the lessened competition from elsewhere. An appeal to the workers to make a contribution by greater efforts would not be out of place on announcing a decision to grant a measure of relief.

8. It has to be recorded that, in the case of Phoenix, the British Government in agreeing to the award of a grant had made it a condition that they should not seek to export to the United Kingdom up to 1966. However the motive behind that restriction was to minimise the effect of British financed competition to the detriment of the United Kingdom Cotton Industry (which was then being rationalized at much public expense) through the expected substantial export trade by Rigg Welts which is not now producing.

9. It is for consideration
- (a) whether to grant relief to those Maltese exports that have been affected by the recently introduced 15% surcharge by Great Britain;
 - (b) when such relief will have effect and its duration;
 - (c) the rate of such relief;
 - (d) if an export boost might result whether to set limitations to such relief and the general nature of such a limitation.

20th November, 1964.