

Progress Report to Ministers regarding the Free Trade Zone
Project prepared by the Ministry of Trade, Industry and
Agriculture

1. Hon. Ministers will recall having approved a letter of Intent which was issued to Medport Ltd. on the 22nd January, 1968, after the latter Company produced the articles of association to the satisfaction of Government and was duly registered.

2. This has now set in motion a chain of administrative and legislative developments as contemplated in the Working Papers prepared by the U.N. Mission. It may now be worth while to mention the subjects covered in these papers on which the Free Port Advisory Committee had considered that expert advice would be needed.

3. Paper No. 1 dealt with the problems of the land to be reserved to the Company. The Mission recommended that Government should receive convertible debentures on the land. Inter alia, this would have an added attraction for Government in that it would entitle Government to be represented on the Board of the Free Trade Zone Company.

Paper No. 2 dealt with the establishment of a "Free Trade Zone Authority", which Authority could be directed by a Chairman and an Advisory Committee, and should mainly act as liaison between Government, the proposed Port Authority and the Company.

Paper No. 3 considered some areas for which Government will have the ultimate responsibility, such as the supervision of the applications of laws and Government regulations within the Zone, the maintenance of public order in the zone, etc.

Paper No. 4, which was drawn up following discussions held with the Inland Revenue Department, contained recommendations on the Tax positions of the operating company and of Offshore servicing and Holding companies and stamp duties.

Paper No. 5 dealt with Exchange Control, the Status and control of Banks to be established in the Zone and the position of the Bank of England towards the establishment of Holding Companies.

Paper No. 6 raised some points to be considered in relation to any follow-up action on the work of the United Nations Mission by Government.

4. The position now is that the Government Committee will be pursuing a line of negotiation which would give Government a direct interest in this Free Trade Zone venture. The arrangement aimed will be devised in such a way as to leave Government free from any financial involvement or obligation to put up "cash" to set the project in motion. The contribution by Government would be in kind, in the shape of lands owned by Government as well as cost of acquisition of privately owned lands, payment of compensation for loss of crops and soil removal, approach roads, provision of water, electricity, telephone

and other services up to the perimeter area and perhaps transfer of a part of the serial farm to another location away from Benghajsa.

5. The main objects of Medport Ltd. is to establish an International Transshipment Centre through the provision of a port complex specifically designed and equipped to handle the new bulk shipment and container traffic for which all major international shipping groups are planning over the next two to five years. Within this International Transshipment Centre will be established the necessary breakdown, repackaging and processing plants and services to provide international shippers with the equipment and services needed for the effective needs of bulk and container shippers to the Eastern Mediterranean area. So far as is known, the Malta project is the only one presently proposed to service the whole Eastern Mediterranean seaboard with completely comprehensive shipping and export trading services geared to the new shipping techniques and providing for the breakdown and processing of both bulk and Container traffic.

6. The managers of the new Corporation "Medport Ltd." have demonstrated their bona fide and have proceeded actively to the study of the feasibility of the project with a view to the creation of the special port and, within the limits of the free zone, to create an international transshipment and export processing centre. A full-time manager, (Mr. Greig) has been appointed; wave tests are being conducted in order to determine the best and most economical technical solution for the building of breakwaters; contacts are being established with some potential users; ways and means to utilise available land for repackaging and export processing or other allied purposes are being examined with the co-operation of a specialised developer; legal, fiscal, administrative, and other aspects of the project are under active study and expected to be delivered to this Ministry within a few weeks.

During meetings held between Medport Ltd., representatives of Government and the U.N. Advisers it was emphasized that:

7. - Lands.

Medport Ltd. must give a clear indication of the land required together with appropriate time table as regards phasing. From discussions held, it transpired that Medport required Hal Far in their first phase as this was level ground and thus best suited for the building of factories for the setting up of industries. Areas still retained by the R.A.F. such as messes, married quarters and bathing facilities will have to be released in the Hal Far, Kalafrana and Benghajsa areas. The Malta Government has to negotiate with U.K. Government and a firm Agreement reached for the immediate release of lands and buildings for early development. Medport has rightly commented that as the Free Zone was to be non residential it was not advisable to have within the perimeter land used for residence purposes. Besides, a tentative date when the serial farm will not be needed or is to be resited elsewhere must be given considering that because of "clearance" needs it was not possible to erect buildings near the farm. It was also made clear that it was Hal Far itself which was needed and not any adjoining ground, on the plea that if industries were to be attracted to the Zone, they had per force to be offered the best flat land possible where to build their factories. Aerials required for

civil aviation purposes together with clearance necessary will have to be moved to another suitable location. The Director of Civil Aviation has already earmarked lands at Ricasoli for this purpose.

8. - Financial terms for the lease of the land

Medport are pressing for the conditions at which Government would lease the land to the Company so that they would be able to prepare tariffs for prospective users of the port. Here one may outline three methods:-

(1) Cash payment - (2) Equity - (3) Convertible debentures or a combination of these three.

The Free Port Advisory Committee believes that the method of receiving convertible debentures by Government for the land would be the most appropriate as Government would be able to participate directly in the project.

On the question of interest payable on the land the suggested figure of a 3% which was the rate normally charged at Industrial Estates in Malta, or alternatively a sliding scale system whereby the rate of interest would increase gradually, was not accepted by Medport as a large portion of the land in the Zone could not be developed without enormous expense for levelling. In view of this they maintained that theirs was a different case from any other Industrial Estate.

It was pointed out that the cost of the extension of services to the Free Zone had to be taken into account in valuing the land. There were of course technical difficulties. Priority should be given to the valuation of the land. It was felt that Government should re-assess land values if and when the proposed 50 year lease is to be extended. Medport, however, considers that it must know this beforehand so that it could frame its budget accordingly.

9. - Length of Lease

The question of a 50-year lease is being opposed by Medport and they have the support of their agent developer. They consider this period too short for such a development. Medport contend that anything less than a 99-year lease would hamper potential developers as for tax purposes in U.K. a lease of less than 50 years "being considered a short lease" would bring complications from a capital gains tax point of view. They envisage that prospective industrialists incurring high development costs would be deterred from establishing themselves in the Free Trade Zone and they quote as examples the longer concessions offered in other Free Zones. If participation of Government in the project is definitely decided upon, (and so far it has always been envisaged for Government to participate directly) through its acquiring equity or convertible debentures the length of the lease would become an academic problem. The other alternative would be to offer Medport a 50 years lease with the option of extension to 99 years provided the land is revalued.

10. - Free Trade Zone Authority, Maritime Law, Holding Companies etc.

It is the considered view of the U.N. Team that the enactment of certain laws cannot be postponed any further

and as a matter of urgency a full time legal draughtsman must concentrate at once on the drafting of a Maritime law, Holding Companies and Trusts, and a statute for the establishment of a Free Trade Zone Authority which will act as a liaison and expeditor on the execution of agreed action to be taken by Government or Medport Ltd. As the Law Officers of the Crown Advocate General Office owing to very heavy pressure of work on other urgent business are finding it difficult to devote any time to this essential legislation, it is for consideration whether a private lawyer should not be appointed with the specific task of preparing the necessary legislation. Incidentally the U.N. experts strongly urge that the Maritime Law and Holding Company Legislation should be enacted forthwith independently of the establishment of the Free Trade Zone. This Ministry has already submitted Memos with concrete recommendations on these matters.

11. - Taxation

An early decision on tax benefit to be allowed to Medport proper and Companies licensed by Medport is also indicated. Medport contend that the suggested period of a 20 year tax holiday is too short. In their view this should be linked with the terms of the lease of the area, land valuation and the revenues accruing to the Company from Port users. As against the tax incentives offered by the Aids to Industries Ordinance, to industries in other industrial estates the U.N. Advisers have suggested that a licence fee and a flat annual charge on the share capital would not only attract large international companies to Malta, but would bring in immediately much needed revenue for Malta's budget. With this scope in view draft legislation has to be prepared for eventual discussion during the coming months. This special fiscal treatment is considered by Medport as essential if Companies operating in the Free Trade Zone are not to benefit from grants or loans offered in other parts of Malta.

Legislation or regulations have to be issued to declare the Free Trade Zone a Customs free enclave and exempt the users from the payment of Customs duties. It is felt that all materials, equipment and supplies used in the Zone for production purpose would be duty free but this concession should not include goods used for personal use or consumption.

12. - Labour & Entry Permits

Labour relations with Trade Unions and Government have to be agreed upon in the near future and a full study of labour patterns required in the professional, technical, skilled or unskilled fields and measures necessary to produce personnel with the necessary qualification has to be made. Projections are being worked out so that they could be taken into the next 5-year development plan. Construction workers and other skilled port handling operators could be trained perhaps by the Training and Placement Committee if jobs are expected to be created within a short time. This depends, of course, on the progress that could be made of the various complex process of legislation, etc. required. Early agreement has also to be reached whereby existing Maltese Auditing practices can be reconciled to allow International Auditing Companies to conduct work in Malta, provided they have an office in Malta and train Maltese Officials. The same applies for work permits to be granted to specialised expatriates

when Maltese are not available. Medport were of the opinion that entry permits for expatriates who were needed in the Zone should be issued for longer periods than on a year to year basis. It was certainly difficult to find fully qualified professional and technical men with the desired degree of experience ready to engage themselves on a year to year basis. In view of the new techniques and equipment which are to be available in the Zone Maltese understudies would require more than one year to be efficiently trained. Moreover Medport emphasized the need that entry permits should be issued within a very short time from date of application. They contend that time lost for the issuing of entry permits meant loss of time and money to the Companies concerned.

13. - Port Authority

Navigationals aids, pilotage and tug services, fire fighting and other requisite port facilities in Marsaxlokk Company have to be provided and paid for by users. As a Committee is studying these proposals in order to tender advice to Government for the establishment of a Port Authority it is advisable for the Committee to reach some agreement in advance with the Company for the delineation and demarcation of water areas and responsibilities for navigating, berthing and loading of bulk or container carriers. Medport would have to be allowed to charge accostages or other fees in order to amortize the capital required for the building of the breakwaters and for the infrastructure of the port and industrial complex. The port dues that will be charged by Government would have to take this factor into account. To avoid unnecessary delays and inconvenience to users a system could be devised whereby the port dues due by Government could be collected by Medport together with its fees and passed to the Port Authority. A straightforward charge per ton would be the easiest solution. A meeting between Medport, this Ministry and the Port Committee seems to be indicated to discuss and finalize these important issues. The Company would not be in a position to work out its own Budget without an indication of the charges to be established by Government.

14. - Water, Electricity, Telephone etc.

A sub-Committee of Technical officers held a meeting with Medport for the purpose of studying the provision of water, electricity, drainage, telephone and other municipal services; of these water could be the biggest problem. Consideration has to be given as to whether a new power/distillation plant would be located just outside the Free Trade Zone area. Medport do not favour a suggestion that they should build their own desalination plant for own consumption in the Free Trade Zone. They also disagreed with a proposal to purchasing electric power in bulk from the Malta Electricity Board for eventual resale to user Companies. In order to finalize plans for these services Medport promised to give at an early date full details of their specific requirements during the coming years so that proper plans could be worked out. As the Telephone users in the Free Zone would entail a high incidence of overseas sales owing to the fact that the type of Companies instituted in the Zone would have continuous connections with U.K., Europe and the U.S.A. Telephone connections via Telstar or Satellite is therefore being taken into account.

Summary, conclusions and plan of action

- a) The Free Trade Zone would directly benefit the industrialization of Malta by making available raw materials or stocks in large quantities at a lower cost by minimizing inventory capital and providing sufficient regular transportation.
- b) Enactment of Holding Companies and Maritime Law as a matter of urgency to bring in revenue and capital know-how into Malta immediately.
- c) Prepare draft legislation for the establishment of a free Trade Zone Authority to liaise between Government Departments and Medport Ltd.
- d) Medport to submit a master plan and be pressed to pin point the areas of land required together with tentative dates for actual use.
- e) Negotiate with British authorities release of lands still under their control, such as Hal Far, Benghajsa etc.
- f) Decide on price structure for land and establish a realistic valuation. Government to decide on the issue of convertible debentures at stipulated periods. It will be difficult for Medport to frame its tariff without these data.
- g) Medport after submitting concrete plans for tax concessions must be given definite indication of Government's views on tax matters. This information is vital for the operating Company as well as for offshore and other Companies established within the Zone.
- h) **Legislation** to declare the perimeter around the Free Trade Zone a Customs free enclave for tax purposes.
- i) Demarcation of Controls in Marsaxlokk harbour should be agreed upon between Port Authority and Medport.
- j) Medport to produce labour projections and hold consultations with Trade Unions.

May 21, 1968.

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Another meeting was held with representatives of Medport Ltd. on the 21st May, 1968. It was hoped by Official Side that Medport had completed the set of papers which they had promised to submit to Government by May 1968. It turned out that the Company was not yet in a position to present these papers; however, the Company informed Official Side of the progress achieved so far on the following three points:- (a) Wave tests (b) land survey (c) layout of the Port.

- (a) Wave Tests:- The Company stated that a series of wave tests to determine which type of break-water was most suited were being carried out in Hanover and would be completed by June. Director of Public Works and Commander Mules have gone on the spot to see these tests.
- (b) Land Survey:- An aerial survey had been carried out and a detailed map would be ready by July. A copy would be presented to Government.
- (c) Layout of the Port:- Medport's land developer had been on site and was preparing a plan of the layout of the Port.

By August the Company should be in a position to present to Government their views on the items mentioned in the Progress Report.

Official Side expressed regret that events were not moving as fast as expected.