

Memo for Cabinet by the Prime MinisterFinancial Assistance Agreement with Germany

Following consideration by Ministers of Memo 1263 a decision was taken in Cabinet to pursue enquiries further to determine whether the German Government was prepared a) to extend its once and for all offer (£200 000) to a five year commitment; and b) to provide funds on a more significant scale.

It would seem that the German Government is not in fact prepared to meet our wishes. The Ambassador has indicated that what they are willing to provide now is a loan of £200,000 which must be availed of in 1969. He does not rule out the possibility of further aid coming in later years but he has indicated that it is not normal practice for the Federal German Government to 'allocate loans for a period of several years in advance; loans are only provided on an annual basis'.

We are under some pressure now to give an early decision. The German Ambassador is urging us to decide one way or another before the 1969 fiscal year lapses. The opinion of the Ministries concerned has been taken. Finance are reluctant to advise acceptance of the loan offered at this stage for various reasons (vide enclosure A with this memo). Ministry of Foreign Affairs on the other hand, though also somewhat hesitant, feel that it will not be advisable to reject the present offer because this would very well be of prejudice in the future. The feeling is that once we get on the German Government's "aid list" we will have established ourselves there and possibly this should lead to further aid in future.

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Much as we would like to commit the Germans to an aid programme on a larger and more durable scale our pressures have drawn a blank and it does not appear that future efforts on our part are likely to prove fruitful. It is for consideration therefore whether Ministers would want to direct that negotiations be continued to ascertain the terms and conditions of the proposed loan, with its obvious implication of acceptance if the conditions are favourable, or whether Ministers should want to direct that the offer be turned down in view of the small amount involved.

In arriving at their decision Ministers may wish to bear in mind that:-

(a) The German Ambassador in his 'note verbale' is holding out the expectation of future aid if we accept the present offer and he has suggested that it would be difficult for Malta to obtain future aid from Germany if the present offer is not availed of

(b) a project can doubtlessly be found which would qualify for German aid though it is prudent to know whether the aid is tied to German imports of goods and services or not before a project is identified.

(c) acceptance of such a small sum might weaken our financial negotiations with the United Kingdom by highlighting the fact that our possibility of raising funds from alternative sources is limited to very small amounts.

(d) there are practical obstacles in the sense that there are no legislative provisions to enable the Malta Government to borrow medium or long term.

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As regards (d) above it is to be explained that there is nothing which precludes the Malta Government from negotiating a loan but no formal agreement can be entered into and no loan finances can be drawn before either an 'ad hoc' law is passed through the House empowering the Government to borrow £200,000 from the Germans, or before general legislation is enacted empowering the Government to borrow from local or overseas sources. It may not be politically prudent to go to the House for authority to borrow such a small sum at a time when the House is still uncertain about the financing of the current year's capital budget. The alternative of presenting to the House general legislation will probably have to await the outcome of the current controversy with the British Government and the publication of the Third Five Year Plan. This may well mean that we would not be in a position to avail ourselves of the offer during the course of 1969.

On balance Ministers may wish to direct that further enquiries be made with the German Ambassador to establish the precise terms of the proposed loan i.e. rate of interest, period of repayment and whether the loan is tied to German imports.

1 OCT 1969

MINISTRY OF FINANCE, CUSTOMS
AND PORT,
THE PALACE
VALLETTA - MALTA

20th September, 1969

Administrative Secretary

German Financial Assistance

I understand that an immediate decision is required on the question of the proposed loan of D.M. 2 million from the Federal Republic of Germany.

The view from our end is that the proposed offer is not really susceptible of acceptance. The reasons for this are:

- (a) possibly the difficulty of choosing a specific project, which has to be acceptable to the Germans, in the present situation of our dispute with the U.K. Government over the question of financial aid.
- (b) we have no idea of what conditions are likely to be attached to the loan except that they are likely to be stringent ones particularly since in the view of the German Government Malta's economic position does not place her high on the list of priorities for German aid.
- (c) we would have to tie ourselves to accepting the proposed loan in anticipation of specifically required legislative approval.
- (d) we can have no assurance that acceptance of the present offer would definitely lead to any substantial aid for the future.
- (e) consideration may not fall to be overlooked of the points made by the Ministry of Commonwealth and Foreign Affairs at paragraph 7 of the Cabinet Memo on Financial Aid from Germany.

This is the situation as seen from our end. I have to add, however, that the views expressed are solely mine and have not yet been confirmed or rejected by my Minister who has not yet had a chance to see the relative papers.

(sgd. R. Chalmers)
A/Secretary.

c.c. S/M.C.F.A.