

Memorandum for Cabinet by the Hon. Minister of Commonwealth
& Foreign Affairs and the Hon. Minister of Finance,
Customs and Port.

Financial Assistance Agreement with Germany

Some time ago "Finance" were informed by the Ministry of Commonwealth and Foreign Affairs that the German Government was making an allocation of two million Deutsche Marks (about £220,000) as aid to Malta in their 1969 Budget. The aid was to be given in the shape of a soft loan whose terms would be softer or not depending on how basic to our infrastructure the project or projects we suggested (i.e. for which we sought financial assistance) would be. We were therefore required to submit to the German Government a project (or projects) which would qualify for the proposed aid having regard that such aid would have to be tied to the purchase of German goods.

2. At the time "Finance" felt it was too early for Government to commit itself on the financing of any particular project earmarked for inclusion in the Third Five Year Plan until the problems of: (1) the extent of the grant/loan proportion of U.K. aid for the next five years and (2) the purposes for which British financial assistance would be given, had been definitely cleared. In the circumstances we decided to mark time for a bit on the German Aid issue until we would be in a better position to make a positive move.

3. Since then the Ministry of Commonwealth and Foreign Affairs have continued to press "Finance" and "Economic Planning" to make proposals for the allocation of the 2 million Deutsche Marks offered to Malta by the German Government. The Ministry of Commonwealth and Foreign Affairs had meetings with the German ambassador at which they were told that the German Government was prepared to provide 2 million Deutsche Marks as a soft loan towards the financing of the Gozo Desalination Plant. (A German firm who are represented locally are interested in securing the contract for the supply and erection of the plant). The conditions attaching to the loan were "inter alia" to be as follows:-

- (a) The plant should be purchased from and erected by a German firm;
- (b) The German firm would be exempted from the payment of income tax.

4. The German Ambassador emphasized the fact that it was the current practice of the German Government to grant financial aid on an annual basis and that they would not normally commit themselves to the grant of financial aid over a number of years. He added that the economic situation of Malta was not such as to place her high on the list of priorities for German aid. However the Ambassador also indicated to the Ministry of Commonwealth and Foreign Affairs that in the event of a settlement

of the proposed arrangements for the financing of the Gozo Desalination Plant, the way would be open for further financial assistance to Malta from the German Government from 1970 onwards.

5. "Finance" have examined these proposals in consultation with "Economic Planning" and have found it rather difficult to accept the specific purpose for which the soft loan is now being offered (i.e. the financing of the Gozo Desalination Plant) considering that the project indicated by the Germans would probably qualify for grant Aid from the U.K. (the extent of which has yet to be determined) and in respect of which financial assistance has in fact already been requested from Britain. "Finance" have observed moreover that the terms of the loan (particularly the provision that the German contractors who supply and erect the plant - as distinct from the Credit Institutions who provide the finance - should get a "blanket" exemption from income tax) are more stringent than the requirements set out in the "model" agreement sent to us by the German Embassy about a year ago - which gives the general pattern of the Financial Assistance Agreements entered into between West Germany and a number of developing countries.

6. In the circumstances, although there are some schemes (e.g. Telephones, Royal Opera House, etc.) in the new Plan which may qualify for aid under the German conditions and could now therefore be put forward to the Germans as alternatives to the Gozo Desalination Scheme, "Finance" consider it advisable that, instead of committing itself on any particular project at this stage, Government should rather initiate the negotiation of a suitable general Financial Assistance Agreement with Germany which would permit us to obtain finance (up to a total of say D.M. 20m. or about £2.2m.) for a period of 5 years (viz. 1969/74) and would provide us with a steady source of aid on which we could rely in implementing the Third Five-Year Development Programme. Such an agreement would be on the lines of the model which we received from the German Embassy with certain modifications designed to suit our requirements. In the meantime we could choose the projects in the Plan to which German aid could be applied (in the light of developments on the British Aid issue and other considerations) assuming that the Federal Republic of Germany will make available to us financial assistance amounting to DM 2m. in 1969 (this has already been offered to us) and DM 18m. over the next 4 years.

7. It is the feeling of the Ministry of Commonwealth and Foreign Affairs that, in considering the matter, careful thought should be given to the fact that foreign assistance is seldom granted without explicit or implicit political strings. The continuing need for some time still of foreign assistance is recognised, but we often tend to give to its obtainment an emphasis out of proportion to the benefit which we derive, having regard to the political involvement with the donor country and

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the future direction of our foreign policy towards that country. In this particular case, it is indeed relevant to point out whether it would be politically prudent to accept aid for only 1969/70 with no commitment for further aid in the context of the projects included in the Development Plan for 1969/74, considering the paucity of the aid offered. On the other hand, the point can validly be made that acceptance of the offer would likely be the testing point for financial assistance from the German Government in the coming years. In the circumstances on balance it would seem advisable to negotiate with the German Government on the basis of the proposals set out in paragraph 6 above.

8. Hon. Ministers may therefore wish to agree:

- (1) that preliminary approaches should be made to the German authorities for the negotiation of a general Financial Assistance Agreement on the above lines; and
- (2) that the Draft Agreement attached to this Memorandum (Attachment A) which has been cleared by the Central Bank and Deputy Crown Advocate General, should serve as a basis for the proposed negotiations.

13th March, 1969.

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Attachment A

The Government of the Federal Republic of Germany
and
the Government of Malta

in the spirit of the friendly relations existing
between the Federal Republic of Germany and the
Government of Malta,
desiring to strengthen and intensify those friendly
relations by fruitful cooperation in the field of
development assistance,
aware that the maintenance of these relations is the
basis for the provisions of the present Agreement,
intending to promote the development of the Maltese
economy,
have agreed as follows:

Article 1

(1) The Government of the Federal Republic of Germany shall enable the Government of Malta (and/or other borrowers who have been jointly selected by both Government) to take up with the Kreditanstalt für Wiederaufbau (Development Loan Corporation), Frankfurt/Main, loans up to a total amount of 20 million Deutschmarks for the financing of investment projects under the 5-Year Development Plan for Malta - 1974 - .

(2) The financial assistance to be provided under this agreement will be made available in yearly tranches subject to annual ceilings to be agreed upon between the two Governments, for individual economic development projects which after examination are found to be eligible for promotion.

(3) The projects referred to in paragraph 2 of this article may be replaced by other projects if the Government of the Federal Republic of Germany and the Government of Malta so agree.

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Article 2

(1) The utilization of the loans and the terms and conditions (including the question of allocation of delivery orders on which they will be granted) shall be governed by the provisions of the contracts to be concluded between the Central Bank of Malta acting as agent of the Government of Malta, and the Kreditanstalt für Wiederaufbau, which shall be subject to the legal provisions applicable in the Federal Republic of Germany.

(2) The Government of Malta shall guarantee to the Kreditanstalt für Wiederaufbau all payments and the resultant transfer to be made in fulfilment of the borrower's liabilities under the loan contracts concluded.

Article 3

The Government of Malta shall exempt the Kreditanstalt für Wiederaufbau from all taxes and other public charges levied in Malta at the time of the conclusion, or during the execution, of the loan contracts mentioned in Article 2 of the present Agreement.

Article 4

The Government of Malta shall, subject to the provisions of Article 5 of the present Agreement, allow passengers and suppliers free choice of means of transport for such transportation by sea or air of persons and goods as results from the granting of the loans and shall abstain from taking any measures that might exclude or impair the participation of German transport enterprises, and shall grant the necessary permits as required.

Article 5

The loans may not be used to finance deliveries from, or performances by, the countries or territories named by the Government of the Federal Republic of Germany in a separate communication. This also includes deliveries originating in any of those countries or territories. Similarly, deliveries financed from the loans may not be conveyed in means of transport of those countries or territories.

Article 6

Unless otherwise provided in individual cases, deliveries and performances for projects financed from the loans shall be subject to public tender on an international scale - within the Federal Republic of Germany -.

Article 7

The Government of the Federal Republic of Germany is anxious that for deliveries resulting from the granting of the loans, preference should be given to products of industries of Land Berlin.

Article 8

With the exception of those provisions of article 4 which refer to air transport, this Agreement shall also apply to Land Berlin, provided that the Government of the Federal Republic of Germany has not made a contrary declaration to the Government of Malta within three months from the entry into force of the present Agreement.

Article 9

This Agreement shall enter into force on the date of signature thereof.

DONE at on
in four originals, two each in the German and the English languages, all four texts being equally authentic.

For the Government of
the Federal Republic of Germany

For the Government of
Malta.

L-ARKIVI NAZZJONALI TA' MALTA