E.E.C. ECONOMIC POLICY TOWARDS THE MEDITERRANEAN THE SPECIAL CASE OF MALTA*

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AT a meeting of the Association Committee in Luxembourg on April 25th 1972, the Maltese delegation expressed their dissatisfaction with the functioning and results of the EEC/Malta Association Agreement which commenced in April 1971. The delegation stated that although Malta had obtained substantial tariff concessions in the industrial sector, she was 'unable to take advantage of them'. The raison d'etre of the Agreement was to cosolidate and extend the economic and commercial relations, between the EEC and Malta, by the harmonious development of trade. This was made possible under the terms of Article 238 of the Treaty of Rome.[1] It was hoped that the Agreement would result in an extension of Malta's home market for industrial exports which would absorb the existing spare capacity within the industrial sector. It was also seen as a natural extension of European integration, consolidating the political and economic interests involved.

However just over one year after the inception of the Agreement the Maltese Government were asking for its extension. The Association Council met in Malta in June 1972 to review the performance in trade and to examine how the present agreement should be exploited to the full. The requests made by the Maltese Government fall into four categories:

1. To include Malta among the beneficiaries of the Community's Generalised Preference Scheme.
2. To modify the 'rules of origin' in order that they be less restrictive.
3. To extend the Association Agreement to cover agricultural products of interest to Malta
4. That the Community would provide technical and financial assistance to Malta in order that industrial efficiency may be improved. The

*This study was completed in September 1972.

[1] Article 238 states 'The Community may conclude with a third country, or union of states, or an international organisation, agreements creating an association embodying *reciprocal rights* and obligations, joint actions and special procedures.

government hopes that this increased efficiency will facilitate a more complete exploitation of the trade preferences provided by the existing agreement.

These requests indicate that the Maltese economy was not 'ready' to take advantage of the preferential treatment afforded by the Agreement, or rather, that the Agreement itself was not properly geared to the most important needs of the Maltese economy. There has, of course been one major change in the international sphere since the inception of the Agreement. Mainly the speed with which U.K. negotiations for membership of the EEC were concluded. The resenting threat of the removal of the Commonwealth Preference Tariff was guaranteed to cause some anxiety in official circles.

This paper examines Malta's pattern of trade, and industrial structure in the five years prior to the inception of the Agreement. We isolate the actual products that are eligible for preferential treatment under the terms of the Agreement, and investigate the potential benefits to the Maltese economy of this treatment. We also examine the overall policy of the EEC towards the Mediterranean countries.[2] This involves a comparison of the terms of the EEC/Malta Association Agreement with the terms of EEC Association Agreements with other Mediterranean countries. We do this in the light of recent statements by the EEC which express dissatisfaction with the mixed bag of arrangements that exists at the moment e.g. '...... The Commission considers that, taken as a whole, the agreements concluded with the Mediterranean countries are no more than an inadequate expression of Europe's interest in this region. Through these agreements the Community has so far made only a limited contribution to the economic development of this part of the world.'[3] We suggest various ways in which the community can improve her limited contribution to Malta within the scope of existing policy, and conclude by considering the future economic development of the Mediterranean basin.

Resume of the terms of the existing EEC/Malta Association Agreement

The association Agreement is divided into two stages, both of five years duration. The first stage commenced in April 1971. It was envi-

[2] Excluding France and Italy which are members of the EEC.
[3] Commission Memorandum on: A Community Development – Cooperation Policy (Summary Document). Supplement – 5/71. Annex to the Bulletin of the European Communities 9/10-1971.

saged that negotiations for defining the terms of the second stage would commence eighteen months prior to the completion of the first five year period. Under the terms of the first stage, the Community has agreed to reduce by 70% its common external tariff rates on industrial products originating in Malta. The protective stranglehold of the Common Agricultural Policy was the reason given for the exclusion of agricultural products. The reason given for the exclusion of petroleum products was the absence of a Common Community Policy on Energy. Reductions in tariffs on textiles are restricted to certain specific products, and only for a limited tonnage of these products.[4]

In line with the reciprocity clause of Article 238, Malta agreed to a reduction of 35% in her tariffs on goods originating in the Community. This is to be effected in three stages; 15% on 1/4/71; a further 10% on 1/4/73; and the final 10% on 1/4/75. A tail-piece is added, to the effect that by April 1st 1975 no product originating in the EEC will be at a competitive disadvantage vis-a-vis those products covered by the Commonwealth Preferential Tariff. There are some exceptions to this reciprocal action by Malta. These include specific protective tariffs and tariffs of a fiscal nature, whilst for some products reductions will be limited to the extension of the C.P.T.. Malta also reserves the right to re-establish, increase, or introduce duties against the E.E.C. for the purpose of protecting new and/or infant industries. The 'rules of origin' clause, agreed to by the contracting parties, restricts the tariff concessions to products manufactured from raw materials wholly obtained in Malta, or any other member state of the EEC. If 'Third-Country' raw materials are used, the products concerned are not eligible for preferential treatment unless there is a change of tariff heading.[5]

There are no formal plans for the terms of the second stage, or for the length of its duration, except that 'in principle' it will be for five years. However, at the time of negotiations, there seemed to be a tacit agreement among the contracting parties that this second stage will culminate in a complete customs union. Thus the duration of the second stage will depend on the rate of progress achieved in preparing Malta for the adoption of the Common External Tariff.

[4] See p. 56.

[5] There are some exceptions to this proviso. Some products will qualify even if there is no change in tariff heading; others will not qualify – even if they undergo a change in tariff heading – unless there is also a specified minimum proportion of value added or, in other cases, a change in two tariff headings.

TRADE WITH EUROPE (INCLUDING THE U.K.) 1965-1970

In 1970 83% of Malta's exports (value) went to Europe, and in return Malta received 84% of the total value of her imports from Europe. The predominance of Europe in Malta's pattern of trade is caused by geographical and historical factors. It is the nearest industrialised continent and has a large sophisticated market. History has also created a special relationship between Malta and the U.K. providing for preferential treatment in trade between the two countries. The U.K. was Malta's most important trading partner in 1970, providing approximately 50% of all imports from Europe, and consuming 54.4% of all exports to Europe. Table I shows that total imports have almost doubled over the six year period 1965/70, (91%), while imports from Europe more than doubled during the same time period, (106%).[6] The E.E.C. has provided a constant share of total imports from Europe, averaging 35% of this total, while EFTA has also maintained a steady average of approximately 56%. Thus in the six year period studied, the pattern of imports between the EFTA, the EEC, and Malta has remained fairly stable. It is reasonable to expect that these stable import trends will continue, except for the enlargement of the EEC total consequent upon U.K. entry in January 1973.

Table I

IMPORTS

VALUE £000'S

	1965	1966	1967	1968	1969	1970
Total Imports	35,144	38,880	40,509	51,399	61,516	67,121
Europe (Total)	27,134	30,296	32,741	43,039	50,737	56,013
E.E.C.	9,392	10,635	11,608	14,470	17,693	19,576
E.F.T.A.	15,228	16,802	17,392	24,756	28,721	31,094
U.K.	13,655	15,232	15,803	22,560	26,195	28,123
Continental EFTA[7]	1,573	1,570	1,589	2,196	2,526	2,971
Rest of Europe	2,514	2,859	3,741	3,813	4,323	5,343
EEC as % of Europe	34.5	35.1	35.4	33.6	34.8	34.9
EFTA as % of Europe	56.1	55.4	53.1	57.5	56.6	55.5

Source: COS Trade Statistics, compiled.

[6] We would like to express our gratitude to Mr. Edwin Causon of the Department of Trade for the compilation of these tables, and for the provision of statistics which were otherwise unavailable.

[7] Switzerland, Denmark, Austria, Norway, Portugal, Sweden.

Table II

DOMESTIC EXPORTS

	1965	1966	1967	1968	1969	1970
					VALUE £000's	
Total Domestic Exports[8]	6,199	7,645	7,159	10,205	12,506	12,212
Europe (total)	4,358	5,229	4,818	7,506	9,907	9,705
E.E.C.	1,216	1,378	1,269	2,461	3,846	3,843
E.F.T.A.	2,641	2,886	3,082	4,653	5,506	5,489
Rest of Europe	501	968	467	392	555	373
U.K.	2,074	2,525	2,739	4,170	5,117	8,279
Continental EFTA	567	361	343	483	399	210
EEC as % of Europe	27.8	26.3	26.3	32.8	38.8	39.6
EFTA as % of Europe	60.6	55.2	63.9	61.9	55.7	5.5
U.K. as % of Europe	47.5	48.4	56.9	55.5	51.7	54.4

Source: COS Trade Statistics, compiled.

Table III

DOMESTIC EXPORTS BY SITC SECTION 1970

SITC SECTION	TOTAL	OF WHICH	VALUE £
		E.E.C.	U.K.
0 Food and live animals	776,440	497,522	193,455
1 Beverages and tobacco	201,947	37,698	5,212
2 Crude materials	1,410,293	808,742	312,278
3 Mineral fuels	–	–	–
4 Animal and vegetable oils and fats	223,053	6,520	4,492
5 Chemicals	195,623	2	510
6 Semi manufactured goods	3,666,034	1,220,739	1,643,685
7 Machinery and transport equipment	747,482	110,760	604,318
8 Manufactured goods	4,977,736	1,159,277	2,505,842

Source: COS Trade Statistics, compiled.

[8] Visible Exports only.

There has been a continued increase in exports to both the EFTA and the EEC. Over the six year period studied, exports to the EFTA increased by 108% while those to the EEC increased by a remarkable 216%. In direct contrast to this is the fall in outgoings to the rest of Europe, the 1970 total being 25.5% lower than that for 1965. These are mainly socialist countries of Eastern Europe. It is conceivable that, with a Socialist Government in Malta, this trend will be reversed especially due to the fact that more of the importing is now being carried out by the Government who can more easily 'trade' with the Eastern bloc than can a private businessman.

In January 1973, when the U.K. joins the EEC, the community will be consuming more than 95% of Maltese exports. It seems likely that this percentage will increase if the countries of continental EFTA (i.e. excluding EEC) remain outside the EEC, since they have reduced their intake from Malta by 64% between 1965 and 1970. If some of these countries do join the EEC there is bound to be some reduction in total demand but this will not be marked. It is obvious that the enlarged EEC will play a crucial role in the development of the Maltese Economy. The increased size and sophistication of the European market will create a demand for certain products. This following section investigates how well adjusted the export sector of the Maltese economy is to take advantage of this demand, and its new, more competitive position vis-a-vis other non EEC countries.

Commodities eligible for Preferential Treatment

Within the context of the present agreement certain commodities benefit from the full 70% tariff reduction, others are restricted by quota limits, while others are ineligible for any form of concession. It is crucial for the Maltese economy that the commodities which benefit are in value terms, produced by important growth industries. It is only if these industries are making a meaningful contribution to national prosperity in terms of increased employment and higher productivity that the Association Agreement will be of benefit to Malta.

Table III provides a breakdown of Malta's exports in 1970 into groups classified according to the SITC. The two most important items, which comprise 71% of all exports are semi manufactured and manufactured goods.

Semi Manufactured Goods

The export of semi-manufactured goods is the second most important bringing in a total value of £3,666,034, which was approximately 30% of total export revenue in that year. Although the section comprises forty one items, the bulk of the revenue comes from four types of commodities which account for £3,474,642 or 95% of the section total. Of these four items (Table IV), three qualify for the full 70% tariff reduction; – rubber, nylon yarn and knitted fabric. Rubber articles are the most important, having thrived on the preferential treatment afforded by the U.K. They are produced almost exclusively by one foreign owned company, and take the form of oil seals for automobiles. The company, which has a labour force of 1350, consisting almost totally of Maltese nationals, has considerable scope for expanding its production. It is a subsidiary of a large international group of companies, and thus already has a marketing advantage within the EEC. In 1967 total exports of rubber to the EEC were £38,734, whereas this figure had more than trebled to £117,769 by 1970. In the one year since the inception of the agreement the company has not received any new orders which are 'directly attributable' to their new preferential position.[9] However, due to the technical nature of the product and severe competition from the Japanese, one year is probably too short a period to assess the effect of the tariff cut.

Since the major market for cotton yarn is Canada, the tariff cut from 15% to 4.5% is not expected to cause any large diversion of trade. In 1970 Canada imported £215,596 of cotton, compared with £15,513 to the EEC and £9,447 to the U.K. In the case of knitted fabric Italy accounted for 95% of the total value of exports in 1970. The reduction in duty from 20% to 6% will undoubtedly improve the products' competitive position, and possibly create some new trade with other EEC countries. The most important semi-manufactured export to the EEC is cotton yarn, which brought in £611,358 in 1970. This product is eligible for 70% tariff reduction but is restricted by a quota of 750 tons. Cotton yarn exports are also restricted by a quota under the U.K. Cotton Textile Arrangement of 1966, resulting in only £160,000 going to the U.K. in 1970. However it was the intention of the U.K. to abolish this system and replace it by import duties of 85% of the full rate for exports of Commonwealth countries. This would have resulted in exports to the U.K. being subject to a tariff rate of approximately 6.4%, but no quota restriction. The strength of Malta's bargaining position *vis-à-vis* an increase in quotas, will depend on the speed with which the U.K. eliminates Commonwealth Preference after January 1973. Whatever the situation it seems certain that Malta has a case for an increase in the allowed quotas. Exports to the

[9] According to the Management.

EEC have been increasing steadily, partly caused by the need to find markets other than the U.K. An increase in quotas would be of considerable benefit to the cotton yarn industry in Malta.

Manufactured Goods

The most important section in Table III is item 8, Manufactured Goods, which consists of 86 separate items. Textile articles predominate within this category, with fourteen major export items. Of the fourteen items listed in Table IV, four are subject to quota restrictions, nine are eligible for the full preferential treatment, and one, namely printed books, is exported duty free.

The items that receive an unqualified improvement in their competitive position are, textile gloves; leather gloves; nylon stockings; shirts; capes, coats etc., of furskin; footwear; dolls; smoking pipes; and wigs. Of these nine commodities, five have no previous record of trade with the EEC:

(a) The major receivers of textile gloves are Australia and New Zealand, although the U.K. did take £16,828 in 1970. This pattern remained unchanged in the six years from 1965 to 1970.

(b) The existence of high tariffs and quota restrictions have apparently been the major obstacles to the creation of a nylon stocking trade with the EEC and the U.K. It seems that competition within the EEC is so severe that any imposition of a tariff will eliminate the demand. Thus, even a tariff cut of 70% has brought no new orders from the EEC.

(c) Most of the shirts produced in Malta have been exported to developing countries. Although this commodity is eligible for the full tariff concession some of the manufacturers receive their raw cloth from 'third countries' and are thus prohibited by the 'rules of origin' clause. The possibility of substituting raw cloth from EEC member states, at no increase in cost, is being investigated.

(d) Manufacturers of footwear have avoided the EEC because of high tariffs and fierce competition. This severe competition will probably prevent any marked improvement in demand that might have followed from the tariff concession.

(e) The U.K. has been the major market for smoking pipes, but it is hoped that the new tariff of 5.4% will re-direct some exports to the EEC.

Of the four products which have an existing market with the EEC, only two are of importance. Capes, coats, etc., of furskin are allowed duty free into the U.K., compared with the CET which stood at 24% in 1970. In 1970, the U.K. imported three times the value imported by the EEC. The 70% tariff cut is expected to result in an improvement in trade with the Community, but the 'rules of origin' clause may pose a problem. Exports of dolls have revealed a steady increase, both to the U.K. and the EEC. The reduction in duty to 7.5% brings it below to 12% imposed by the U.K., and thus some improvement in the Community market is expected.

Thus, of the fourteen textile items which make up the major proportion of the exports of manufactured products, the nine that are eligible for the full tariff cut contributed only £41,854 or 0.34% of the total export value in 1970.

Quota restrictions of 300 tons maximum, severely handicap exports of the first three commodities listed in Table IV. Exports to the EEC have been steadily increasing, and it was the major market in 1970. The major company concerned is anxious to increase its trade with the com-

Table IV

EXPORTS OF SELECTED MANUFACTURED GOODS 1970

		VALUE £	
	TOTAL	OF WHICH	
		E.E.C.	U.K.
Men's trouser, shorts and slacks	1,588,042	710,833	361,200
Boys' trousers, shorts and slacks	103,577	5,835	–
Other outer garments, men's and boys	516,149	162,755	316,687
Textile gloves and mittens	89,549	–	11,828
Leather gloves	137,829	2,828	89,914
Nylon stockings	69,694	–	–
Shirts	32,606	–	2,402
Cardigans and infants' garments	438,531	42,448	317,023
Capes, coats etc. of furskin	69,846	17,325	51,231
Footwear	106,007	–	70,724
Printed books	230,431	6,094	169,176
Dolls	94,386	20,446	56,838
Smoking pipes	38,335	–	34,325
Wigs	43,478	1,255	40,809

Source: COS Trade Statistics, compiled.

munity and is hoping for an increase in the quotas, when renegotiations take place. Exports of cardigans and infants garments to the EEC, increased three-fold between 1967 and 1970. It seems obvious that the 100 tons quota limit will seriously hamper the development of trade in this product.

OVERALL EFFECT

The previous statistics suggest that the Association Agreement is not likely to have a profound effect on the Maltese Economy. The potential for trade creation is limited to isolated commodities, and is often hampered by quotas or the rules of origin clause. In fact, the previous analysis presents a somewhat optimistic picture, in that the restrictive effects of this 'clause' are not specifically included. It is assumed that these restrictive effects will be essentially short-term, and that the comprehensive industrial infrastructure of the EEC will provide a substitute source of raw materials presently received from 'third countries'. Malta's industrial sector is such that the majority of export-oriented industries import their raw materials. The main sources of these raw materials are the U.K. and the EEC. The inclusion of the U.K. within the community will remove its 'third country' status, and eliminate the need to switch to the EEC as an alternative source. It seems likely that this switching of sources would have occurred if the U.K. had remained outside the Community. It can be said, that the EEC countries produce competitively all the materials which Malta's export industries presently import from the U.K., therefore minimising the risk of preferential benefits for exported goods being offset by an increase in the cost of raw materials. Also, the bulk of materials used in exportable goods are imported duty free from any source, so that the U.K. has no preferential advantages over EEC countries in this respect.

IMPORTS

In the case of imports to Malta, the basic aim of the Association Agreement was to eliminate the preferential position of the U.K. It was as a direct result of the Commonwealth Preferential System and the historical links, that the U.K. provided 55.7% of total imports from Europe. The percentage share of the two groups has remained relatively stable, with the EEC providing 34.7% of the value of the same import total. It was envisaged that the progressive reduction of 35% in the Maltese tariff wouod eliminate the difference between the General and Commonwealth Preference rates, which is of an average of 15 percentage points. Thus by the termination of the first Agreement period the Preferential rate will be equal to or even higher than that to the EEC. In the majority of items the duty charged on items imported from the U.K. and the EEC would be equal – mainly 13%, 15% and 23%. The inclusion of the U.K. within the EEC in January 1972 has made this largely academic, but it does not seem likely that there would have been a dramatic switching of imports from the U.K. to the EEC. Since the tariff reductions were phased the global effect would only have been felt after four years, and also the EEC would only have gained a position of equal competition.

As was stated previously, the EEC are fully aware that they are only making a 'limited contribution to the economic development of the Mediterranean countries'.[10] They admit that the hotch-potch of agreements signed with these countries are no more than an inadequate expression of Europe's interest in this region. The absence of an overall policy towards the Mediterranean reveals itself in the inconsistency of the terms of these agreements. This inconsistency has been particularly unsatisfactory in the case of the agreement with Malta. If the EEC is genuinely interested in making more than a 'limited contribution', then steps should be taken to eliminate these disparities. The following section highlights some of the disparities which are particularly relevant to Malta by contrasting its Agreement, with those between the EEC and other Mediterranean countries.

Association Agreements with other Mediterranean Countries

Juridicially the Agreements signed between the EEC and Mediterranean countries can be classified into two categories:

1. those signed on the basis of article 238 of the Treaty of Rome[11] which contain the 'reciprocity' clause; and
2. those based on article 113 of the Treaty of Rome which provides for the formation of a 'common commercial policy' after the transition period.

Agreements falling in the first category are those signed with: Greece (9/7/61); Turkey (12/9/63); Tunisia (28/3/69); Morocco (31/3/69) and Malta (5/12/70). Those falling in the second category are: Lebanon (21/5/65);[12] Yugoslavia (17/3/70); Israel (29/6/70); and Spain (29/6/70). However, if the agreements were to be classified according to their

[10] See footnote 3.

[11] See footnote 1.

[12] Negotiations are in progress for a second agreement with Lebanon, since the first has elapsed.

economic features and implications a regrouping would be necessary:

CATEGORY	COUNTRIES	FEATURES AND IMPLICATIONS
A	Greece and Turkey	1. Large number of concessions, both industrial and agricultural. 2. Free movement of persons and services (consultations on). 3. Financial assistance provided. 4. Long transition periods with adoption of CET. 5. Full membership at termination of transition period, if beneficial.
B	Tunisia and Morocco	1. Agreement of 5 years with provision for renegotiations. 2. Covers both industrial and agricultural products. 3. On industrial products, originating in Morocco & Tunisia, immediate freedom of entry into Community Market – free of restrictions as to quantity and free of customs duty or dues having an equivalent effect, except for cork products.
C	Malta	1. Agreement of 5 years with provision made for a second phase which is intended to pave the way for the establishment of a customs union between Malta and the EEC. 2. Covers *only* industrial goods originating in Malta.
D	Spain and Israel	1. Preferential Trade Agreements with provision made for renegotiation – in the case of Israel a specified date for renegotiations established. 2. Covers both industrial and agricultural products, originating in Spain and Israel.
E	Lebanon and Yugoslavia	1. Non-Preferential Trade Agreements. 2. Providing for the most favoured nation treatment. – with the addition of technical assistance in the case of Lebanon.

– with special concessions for beef for Yugoslavia.

Having classified the various agreements into five categories there follows a comparison of the concessions made. This comparison omits the case of Lebanon and Yugoslavia since these agreements do not concern preferential treatment in trade. The case of Malta is taken as the point of reference i.e. the agreements in categories (A), (B), (D) are compared to the case of Malta.

The products dealt with are divided into two groups:

1. Agricultural Products[13]
2. Energy Products – in this context meaning Petroleum products covered in B.T.N. ch. 27.

Industrial products are omitted from discussion in this section since, as shown in the first part of the article, it is these products which really form the subject of the Malta-EEC agreement and practically all these products are included in the tariff concessions.

1. (a) The EEC – Greece Association Agreement provides for the harmonization of both partners' agricultural policies, at the latest, by the end of the transition period. Until such harmonization takes place, the products listed in Annex III of the Association Agreement benefit from the general rules concerning the elimination of customs duties, import quotas and dues, and measures of equivalent effect contained in the Agreement. Annex III covers such products as dried grapes, olive oil and preserved olives and citrus fruits, which are some of Greece's most important export products. Protocol 14 of the same Agreement provides for special treatment for Greek wine in the Community market.

A somewhat similar situation exists with regards to Turkey. The EEC – Turkey Association Agreement provides for three stages: a preparatory stage, a transitory stage and a definitive stage. During the first stage, agricultural concessions were given for specific products. But with the signing of the Additional Protocol,[14] a transitory period of 22 years has been provided for, over which, Turkey shall seek to adjust its agricultural policy with a view to adopting the Common Agricultural Policy by the end of the period. Still, at the beginning of the transitory stage, as shown in Annex 6 of the Additional Protocol, concessions giv-

[13] See Appendix.

[14] Signed 23rd November 1970. The preparatory stage came to an end 1/9/71 and until the Additional Protocol comes into force an Interim Agreement – which was supposed to expire on 30/9/72 but has been extended – is effective.

en vary according to product or group of products; with concessions covering such important foreign exchange earners as hazel nuts, olives and capers, olive oil, dried figs and citrus fruits.

(b) In the case of Morocco, Tunisia, Spain and Israel, products contained in Annex II of the Rome Treaty (this Annex covers the products subject to the Common Agricultural Policy) are excluded from the concessions made in the respective agreements. But in all four cases important exceptions are made. Tariffs applicable to the import of citrus fruits into the Community from these countries have been reduced. For the export of olive oil from Morocco, Tunisia and Spain a reduction of the variable levy applicable on import into the Community has also been conceded. Other agricultural products originating in Spain and Israel benefit from various reductions, with a 100% reduction in CET for lobsters originating in Spain. As regards certain fish and fish products originating in Morocco and Tunisia tariff quotas have been allocated for exports to Germany and Italy, whilst the already existent privileges obtaining on the French market were retained.

Products listed in Annex II of the Rome Treaty are also excluded from the EEC/Malta Association Agreement, but unlike the other agreements mentioned above, in Malta's case there are *no* exception. This may be justified by pointing to the fact that agricultural products have not played a predominant part in Malta's trade with the EEC. However, the EEC imports the largest part of Malta's export of potatoes, with over 90% going mainly to Belgium and Holland in 1971. The EEC also imports a considerable portion of Malta's exports of wine. The favourable climatic conditions plus more intensive systems of cultivation can make the horticultural industry into an important growth sector in Malta's economy. For a number of years, the export of tomatoes, cut flowers and buds, and horticultural plants has been significant. The EEC, so far, has proved to be a limited and unstable market for these products whilst the U.K. has turned out to be the chief importer. The EEC could have provided a stimulus to this industry via the giving of trade concessions, but it was prevented from doing this by its static policy of basing these concessions on past export performance. The entry of the U.K. into the Community in January 1973 will pose a further problem in that at present it is the most important market for the island's agricultural exports. A revision of the terms of the Agreement is thus inevitable unless local producers are to be placed at a disadvantage *vis-à-vis* competitors from Southern Italy.

2. The EEC does not, as yet, have a Common Energy Policy. How-

ever, the numerous discussions and decisions of the Council and the Commission indicate that the formulation of such a policy is being given priority. Given that approximately two thirds of the EEC's energy supplies are imported, a common policy is essential. Trade in energy products is a particularly important component of the EEC's trade with Mediterranean countries.[15] In fact 45% of all the exports from Mediterranean countries to the EEC in 1970 were Petroleum products.

In the case of Greece, Petroleum Products are included within the general terms of the Agreement. Turkey and Spain were respectively given an annual tariff quota of 200,000 tons,[16] and 1,200,000 tons.[17] For Morocco and Tunisia a guaranteed effective annual tariff quota (at zero tariff) of 100,000 tons was allocated.[18] Beyond this amount customs duty *may* be levied in the case of strains on the Community market. It should be noted that a condition placed on these concessions was that they may be altered consequent to decisions relating to the EEC commercial policy and to the drawing up of a Common Energy Policy. Only Israel and Malta have not been given any concessions for Petroleum products. In Israel's case this is a direct disadvantage since it does actually export petroleum to the EEC – to the value of $U.S. 17 million in 1970. For Malta the disadvantage is only an indirect one. Malta does not have an oil refinery nor does it possess known Petroleum resources. However two major oil companies are prospecting off the Maltese coast, and it seems that chances of success are quite high. At present all petroleum products are excluded from the Agreement, with the exception of EEC exports to Malta of lubricating oils and greases which receive a 14% tariff cut. It seems advisable that provision should be made for the inclusion of petroleum products within the terms of the Agreement, if and when they materialise.

In the case of Agricultural products, the reason given for their exclusion from the Agreement was the prohibitive rules of the Common Agricultural Policy. The reason given for excluding Petroleum products was the non-existence of a Common Energy Policy.[19] Both factors, as

[15] Here, Mediterranean Countries, with the exception of France and Italy, are taken to mean all Mediterranean Basin countries and not only those signatories of Agreements with the EEC.
[16] At zero tariff for Turkey.
[17] Tariffs to be equal to CET reduced by 60% by 1/1/73 for Spain.
[18] The products covered by these tariff quotas are those under CCT headings: 27:10, 27:11, 27:12, 27:13, 27:14, with the specifications as to certain subdivisions for Turkey and Spain.
[19] Malta Government White Paper 19/10/70.

seen above were of no hindrance in other agreements.

The previous classifications indicate clearly the heterogeneons relationships existing between the EEC and the Mediterranean. The nature of the Agreements signed are directly linked to the commercial and political ties existing prior to such agreements, to the political atmosphere at the time of negotiating, and to the commodity content of the exports of the countries involved. It can be seen that the concessions given to Greece and, to a certain extent, Turkey, were more generous than those given in later agreements. This is especially true of agricultural products. Since the Common Agricultural Policy was still in its infancy, and the Six probably did not foresee how complex its mechanism could get they were ready to grant more concessions than were possible later. Tunisia and Morocco, being ex-French Colonies, and hence historically dependent on the French market, have also been granted generous concessions, covering practically all products. The policy of basing concessions on past export performance, although politically neutral, tends to be economically static, in that it does not necessarily encourage economically static, in that it does not necessarily encourage economic growth. If the EEC are sincerely interested in promoting development in backward countries they must gear their efforts to fostering potential growth sectors in these economies. This will involve an intensive economic study of each country, and of the prospects of adjusting the economies of these countries to trends in the E.E.C., and the world, market. Trade concessions, although normally tending to increase the amount of foreign exchange earnings of developing countries do not necessarily foster their growth. Developing countries are notorious for their high marginal propensities to import, especially of manufactured products. This problem is aggravated by the fact that these products are mainly articles of conspicuous consumption, such as cars, and transistor radios. This situation is more likely to occur if a general form of reciprocity is sought by the developed countries party to trade agreements i.e. the increased demand for imports following from the rise in foreign earnings will be amplified by the lowering or removal of import tariffs. As we have seen above, 'reciprocity' is an integral part of those EEC Association Agreements signed under the terms of Article 238 of the Rome Treaty.

The Mediterranean Basin

The existing system of Agreements between the EEC and the Mediterranean countries concerned is a fragmented one. If the EEC persists in its recent attitude of identifying the Mediterranean as a region, then a more consistent and positive approach has to be taken in its relations with this area.

The Mediterranean[20] is a developing area with many of the characteristics of backward economies. It is also a very heterogeneous area with significant variations in the level of development and social infrastructures of the various economies.

From the commercial point of view the Mediterranean's relations with the EEC are rather disturbing. The European Community, which runs a deficit *vis-à-vis* developing countries in general, is running a surplus vis-a-vis the Mediterranean Countries. This situation seems to be settling into a trend, as shown in Table V.[21]

The productive structure of the Mediterranean economies is not very diversified with the result that the bulk of trade with the EEC consists of a few, mostly primary, products. Petroleum made up of 45% of Mediterranean exports to the EEC in 1970. Four products, raw cotton, wine, olive oil and citrus fruit together made up 25% of the remaining 55% of exports. Often the bulk of exports of the particular countries consists of very few products. It seems that only Israel and Lebanon have a wide range of exports.

A disturbing factor is the increasing deficits of Greece and Turkey both of which have had an association agreement with the EEC for many years. In the case of Turkey this deficit doubled over the space of five years (1966-1970) while in the case of Greece it increased by about 30% over the same period. Meanwhile the outflow of workers from the Mediterranean countries to the EEC continues. This flow of labour conveys benefits in that it alleviates unemployment problems in the Mediterranean while also proving to be a significant source of foreign exchange in the form of remittances by these workers to their domiciled families. But it is certainly creating social problems in both the countries of emigration, and the areas of immigration. Besides, this flow of labour, is depleting the Mediterranean countries of some of the most enterprising and skilled members of its labour force.

The agreements under discussion here contain no provisions concern-

[20] In this context Mediterranean countries means *all* the Mediterranean Basin countries excluding France and Italy.

[21] The largest relative deficit is that of Malta with the EEC.

[22] Libya is a special case since the boost in exports it is experiencing is due to the extensive resources of oil in that country. These exports are almost exclusively of Petroleum.

Table V

Exports to, and Imports from, EEC of the Mediterranean Countries 1966-1970 in Millions of U.S. Dollars

	1966			1967			1968			1969			1970		
	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.	EXP.	IMP.	BAL.
Morocco	333	249	+84	309	270	+39	295	264	+31	328	301	+27	358	343	+15
Algeria	695	481	+214	716	457	+259	771	588	+183	817	659	+158	859	812	+47
Tunisia	114	129	–15	110	129	–19	95	130	–35	94	151	–57	113	174	–61
Egypt	92	194	–102	89	149	–60	98	184	–86	133	238	–105	173	280	–107
Israel	128	190	–62	125	206	–81	159	346	–187	186	376	–190	194	429	–235
Lebanon	46	174	–128	34	154	–120	76	204	–128	67	186	–119	55	203	–148
Turkey	210	265	–55	215	303	–88	207	314	–107	243	345	–102	279	412	–133
Greece	176	507	–331	221	550	–329	269	584	–315	300	654	–354	344	809	–465
Yugoslavia	348	457	–109	401	660	–259	418	739	–321	544	921	–377	678	1270	–652
Spain	497	1247	–750	500	1202	–702	520	1135	–615	700	1358	–658	903	1476	–573
Malta	4	26	–22	3	31	–28	5	33	–28	9	39	–30	10	48	–38
Cyprus	33	37	–4	23	42	–19	34	42	–8	36	55	–19	36	62	–26
Mediterranean Balance:			–1280			–1407			–1616			–1836			–2376
Libya:[22]	767	197	+570	900	243	+657	1295	293	+1002	1584	297	+1287	1787	249	+1538

Source: Terza Conferenza delle Nazioni Uniti sul Commercio e lo sviluppo – Allegati Statistici. Commissione delle Communità Europee: Bruxelles: 3/3/72.

ing cross relationships within the Mediterranean area. It may be argued that it does not rest with the EEC to take the initiative in encouraging the Mediterranean countries to co-operate amongst themselves. But to a certain extent such economic co-operation is implicit in defining the Mediterranean basin area as a region. The European Community could certainly help the Mediterranean countries take the initiative by rationalizing the existing agreements with these countries. Given that economic conditions in the Mediterranean basin vary quite significantly, the term economic co-operation needs further qualification. It would seem feasible to propose close economic co-operation between countries with similar economic and political features, within the scope of a broader system of co-operation with the rest, whilst a revised relationship is maintained with the EEC.

On the broader base of co-operation, trade in industrial products can be encouraged by a certain amount of freeing of trade within the Mediterranean area. An obstacle in the way of such co-operation lies is the provision which the EEC made in all trade and association agreements regarding most favoured nation treatment. The EEC and its Mediterranean partners grant each other most favoured nation treatment. This treatment makes it impossible for Mediterranean countries to reduce tariffs and other restrictions on trade with each other, without giving the same preferences to the EEC. Exceptions to this provision are to be found in the agreements with Morocco, Tunisia, Spain and Israel where this clause can be overruled in the case of the formation of a customs union or a free trade area involving these countries. But it might not be feasible to the formation of a customs union or a free trade area, and a partial reduction of tariffs and elimination of other trade restrictions might be all that is required. Most of the Mediterranean countries were still only a colony only a decade or so ago. Hence it is unlikely that they will be attracted by arrangements that would seem to remove their new independence. Hence, effectively, this can hardly be considered as a relaxation of the most favoured nation clause in face of the wide variations existing in the Mediterranean. What is more in line with the needs of this region is the joint declaration of the Final Act concerning Art.17 of the Interim Agreement that came into force with Turkey on 1/9/71. This provides for an exception to the most favoured nation clause in the case of economic co-operation between Turkey and other developing countries and in the application of Regional Cooperation for Development.[23] The

[23] R.C.D. is a system of economic co-operation existing between Turkey, Iran and Pakistan.

existing situation in the Mediterranean brought about by the signing of agreements with the EEC, is far from an optimal one. For what is happening is that Mediterranean countries are removing trade barriers with the European Community and maintaining them with the other Mediterranean countries. Generally speaking, Mediterranean markets are less sophisticated than the European Community ones, and firms located in the Mediterranean area are often less efficient than firms located in the EEC. The outcome is that EEC firms often find it easier to sell in the Mediterranean, than vice versa. This is one of the causes of the continued increase in the trade deficit of the Mediterranean with the EEC. The European Community can help to foster economic growth within the Mediterranean area by adopting similar provisions as those existing in the Final Act of the Interim Agreement with Turkey.

The EEC could further foster the region's growth by waiving its strict rules of origin. As things now stand, products exported by the Mediterranean countries, partners to Association Agreements, qualify as originating in the country of export only if the raw materials used are obtained in the country concerned *or* from the European Community itself. In several cases these raw materials can be obtained from the Community at competitive prices but this is not necessarily always the case. Mediterranean countries may, at higher prices, still obtain their raw materials from Community sources as long as the benefits are not totally eroded. Where such cases arise, we are faced with trade diversion, sometimes to the detriment of developing countries. The EEC can help to avoid this trade diversion problem by waiving the rules of origin in the cases where raw materials are obtained from other Mediterranean countries (or for that matter from other developing countries) at lower prices than those ruling in the Community.

In the case of countries with similar economic features and levels of development, closer links could be sought. In this case sectoral industrial co-operation[24] could be feasible; especially for the smaller eco-

[24] Sectoral industrial co-operation has proved to be fairly successful within the L.A.F.T.A. By 1971 something like sixteen of these agreements have been signed involving various countries and sectors. The main aim of this co-operation is to achieve industrial complementarity by creating adequate conditions for the promotion of investment in a form which avoids destructive competition. These agreements are directed towards: (a) the extension of the process of import substitutions; (b) the full utilization of productive capacity; and (c) benefits from economies of scale. U.N.C.T.A.D.'s 'Current Problems of Economic Integration' U.N., New York, 1971.

nomies with limited resources. The case of Malta and Cyprus[25] could serve as an example. Both countries are small, densely populated, and resource poor islands, but with relatively high incomes per capita. Due to their small size and lack of resources, they are not likely to be able to benefit from large scale production if they individually attempt to establish complete production processes. It would seem more feasible for each to specialize in only part of the production process of any particular good, leaving the remaining stages for the other. This would ensure that the overall value added is maximized whilst the benefits of large scale production are reaped. These advantages would be increased by the economies that would result from the improvements in marketing, bulk buying of raw materials and better transport facilities associated with large scale production. Such an arrangement would certainly necessitate a high degree of co-operation between the countries concerned but would still allow for flexibility. The EEC could help similar arrangements by reducing the risk of such joint-operations by giving concessions to these products, so that they could compete on its markets without having to face discriminatory tariffs or other trade restrictions. Reciprocity should not be sought by the EEC until the economic environment in the developing partners concerned is well established enough to bear it.

The absence of a co-ordinated policy with the Mediterranean countries has led to continued deficits in their trade relations with the EEC. The basis of the piecemeal policies that exist is Article 238 of the Rome Treaty, which was more inspired by a desire for a political grouping rather than a need to foster economic growth. Article 238 was drawn up at a time when the ideas of 'the most favoured nation' clause and reciprocity in trade concessions, ruled supreme in G.A.T.T. But today, after three conferences of U.N.C.T.A.D., experience has created disenchantment with the value of these two concepts in relations between developed and developing countries. The EEC has taken upon itself a political commitment towards the Mediterranean. A commitment which is understandable in the light of history and geographic proximity, as well as by the volume of trade linking the two regions. Hence a revitalisation of Article 238 is required, which besides embracing political aims, would also accept economic realities. Development of the Mediterranean basin,

[25] Cyprus is negotiating an Association Agreement with the EEC which is expected to lead in two stages to the formation of a Custims Union between the contracting parties.

as already recognised by the EEC Commission, would benefit both the EEC and the Mediterranean in the long run, and should be regarded as a natural extension of European integration.

Since the writing of the article the EEC has signed agreements with Cyprus, Lebanon and Egypt, all of which have come into effect after January 1. Turkey has now entered into the second stage of its association also since January 1 (it took the Community national parliaments two years to ratify the Additional Protocol).

At the end of September 1972, the Commission issued a communication to the Council on 'Relations between the Community and the Countries of the Mediterranean Basin' which seeks to coordinate the Community's policy towards the area. This document proposes the establishment of a free trade association between the EEC and the Countries of the Mediterranean based on reciprocal concessions.

Appendix

Reductions in Custom Duties Applicable To Agricultural Exports from Mediterranean countries having a Preferential Trade Agreement or Association Agreement with the EEC:CCT = 100%

PRODUCT	GREECE	TURKEY	MOROCCO	TUNISIA	SPAIN	ISRAEL
Oranges	100%	40%	80%	80%	40%	40%
Tangerines, Mandarines, Clementines	100%	50%	80%	80%	40%	40%
Lemons	100%	50%	80%	80%	40%	40%
Grape Fruit	100%	–	–	–	–	40%
Crude Olive Oil	Variable Levy calculated according to Greek supply + reduction of 0.50 u.c./100 k.g. of the variable levy	Reduction of 0.50 u.c./100 k.g. in the variable levy + supplementary *conditional* reduction in the variable levy.				–
Refined Olive Oil	Fixed element not paid	–	Fixed Element not paid		–	–
Unworked Tobacco	100%	100%	–	–	–	–

Wine	Preferences in accordance with Protocol No. 14	Temporary and partial suspension of the CCT[26] applicable for the period 1/1/72-31/8/72. +A system to be decided by Ass. Council.			A system of Preferences to be introduced for certain quality wines.	Exemption from compensatory taxes for wines whose price is guaranteed.
Raisins	100%	100%	–	–	100% for an annual quota of 1,700 tons.	–
Dried Figs	100%	100% after 3rd[26] year of coming into force of Add. Protocol	–	–	30% for an annual quota of 200 tons	–
Hazel Nuts	100%	2.5% ad valorem[26] for annual quota of 18,700 tons	–	–	–	–
Reserved Fruit Vegetables	100%	50% for certain preserved vegetables with or without vinegar. 50% for preserved olives and capers	50% for certain preserved vegetables with or without vinegar. 50% for certain preserved fruits without sugar. 100% for preserved capers and olives		50% for certain preserved vegetables with or without vinegar also for preserved olives and capers	40% for preserved Grapefruit and Pomelos

Source: Rapport sur la politique commerciale de la Communanté dans le bassin Mediterraneen. Rapporteur: M. Rossi – Documents de Seance Doc. No. 246/71.

[26] Added details or updated.