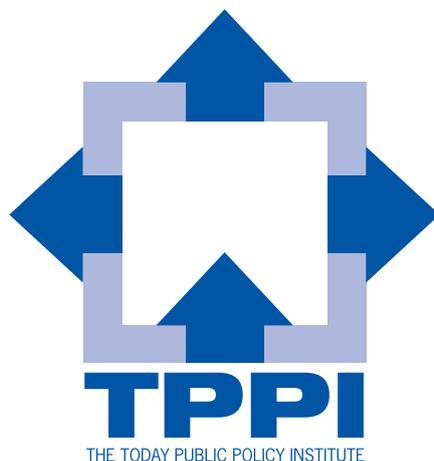


# **MALTA'S EU STORY**

## **HOW TEN YEARS OF EU MEMBERSHIP HAVE CHANGED THE COUNTRY**





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*A Discussion Paper*

June 2014

Lead Author - Patrick Tabone

Research - Veronica Nardelli

# **MALTA'S EU STORY: HOW TEN YEARS OF EU MEMBERSHIP HAVE CHANGED THE COUNTRY**

*A Discussion Paper*

**Published by The Today Public Policy Institute**

**Lead Author: Patrick Tabone**

Presented to the Prime Minister, June 2014

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## **Malta's EU Story**

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# MALTA'S EU STORY

## HOW TEN YEARS OF EU MEMBERSHIP HAVE CHANGED THE COUNTRY

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*“The reforms...affect so many different areas...and require so many changes in traditional patterns of behaviour that what is effectively involved is a root and branch overhaul of the entire regulatory and operational framework of the Maltese economy.”*

European Commission Opinion (Avis) on Malta's Application for Membership, June 1993.

*“The challenge was itself the guarantee of success. It would give us the motivation and the blueprint to reform, to compete.”*

President Emeritus Dr. Edward Fenech Adami, interview, 6 March 2014.

# MALTA'S EU STORY

## HOW TEN YEARS OF EU MEMBERSHIP HAVE CHANGED THE COUNTRY

### EXECUTIVE SUMMARY

In May 2014 Malta celebrated the tenth anniversary of its accession to the European Union. In those ten years, the nature of our relationship with the EU has been transformed from the major point of political contention in the country, to a subject of national consensus.

Much else has also changed in these ten years, such as our level of connectedness with the outside world, our currency, the structure of our economy, the way we manage our environment, and our civil society. Our young country has grown up a little – yet while it has discarded some of its adolescent angst along the way, it has a new set of grown-up problems to contend with.

This discussion paper argues that Malta has found in the EU a community of like-minded states that has provided a coherent set of values, an incentive and a blueprint for development, and systems of benchmarking and 'peer review' that have helped the country to develop and prosper during difficult times.

Like every other Member State to varying degrees, we do not always live up to European ideals, standards or even laws; but even where we fall short it is usually a European value that we are aspiring towards, and an EU yardstick that we are measuring ourselves by.

This clearer sense of who we are and where we want to go has increased our sense of self-assurance and, together with the larger stage offered by EU membership, has changed and enriched the country's international profile and the way it operates on the world stage.

For a small island on the periphery of Europe, the most pervasive and far-reaching change has been wrought by the rich exchanges with Europe at every level – schoolchildren, teachers, students, workers, civil servants, diplomats, politicians, local government officials and more. These people have been exposed to new ideas, new thinking, often a new scale of doing things.

The result is – and this is a positive conclusion shared by all those interviewed for the writing of this paper – that as a people we are far less insular, far more open, and less resistant to change than we were just ten years ago.

In economic terms, the stability and credibility conferred by EU membership and the adoption of the Euro have kept the islands safe during turbulent times.

Most importantly they have given us 'safe haven' status during the international storm, creating

a strong flow of Foreign Direct Investment to a widening range of sectors on the island that has buoyed our economy and made it highly resilient. While other EU economies, especially in the Mediterranean, have stalled or contracted, we have continued to grow.

Two of the major reasons for this success have been the politically difficult reforms that have taken place over the past two and a half decades, and the decision to invest EU funds heavily not only in physical infrastructure, but in Malta's human capital and knowledge infrastructure.

The consequences for Malta had we faced the global economic crisis that broke in 2008-2009 with a small and vulnerable national currency, possibly still dependent on Italian Financial Protocols to help fund our national development, are likely to have been catastrophic.

The country still faces major challenges as it looks to the future. As an EU Member State the EU's problems are now its own, and these problems look more numerous and more serious at present than they have done for a long time.

Elements of the financial and economic crisis that hit Europe still linger. Whether they are effectively addressed, and how, could have significant implications for Malta, and could put into question some of the economic gains the islands have undeniably made since acceding to the Union and adopting the Euro.

Similarly, the EU's perceived democratic legitimacy crisis, and the poor light in which the European project is viewed by its citizens as evidenced by the European Parliament elections in May 2014, makes this a watershed moment for the Union. Either there is a credible response by European leaders, and the EU can re-imagine and renew itself; or the weakening of intra-community bonds already arguably in evidence within the Union will gather pace. Developments in the Eurozone, and in the UK and other countries, will be important to follow in this regard, not least in light of Malta's EU Presidency in 2017.

Malta will also have its own particular challenges to face. It will need to continue weaning itself off European Union funds as it becomes more prosperous. And it will need to continue pushing for its partners to share fairly the burden it currently bears as a frontline state along a major migratory route from North Africa and the Middle East towards Europe.

It will also need to ensure that its economy remains sustainable and continues to deliver results. The readiness to diversify, the regulatory innovation and robustness, and the continuous investment in people and learning that have characterised the first ten years of membership must be preserved and developed, and new niches discovered.

Malta should look ahead to these challenges with the confidence it has earned after ten, well-spent years of EU membership. But it must also keep its eyes wide open to the dangers and challenges ahead, in the knowledge that there are no guarantees of success beyond our own hard work, resourcefulness and good governance.

# MALTA'S EU STORY

## HOW TEN YEARS OF EU MEMBERSHIP HAVE CHANGED THE COUNTRY

### INTRODUCTION

1. In May 2014 Malta celebrated the tenth anniversary of its accession to the European Union. In those ten years, the nature of our relationship with the EU has been transformed from the major point of political contention in the country, to a subject of national consensus.
2. Much else has also changed in these ten years, such as our level of connectedness with the outside world, our currency, the structure of our economy, the way we manage our environment, and our civil society. Our young country has grown up a little – yet while it has discarded some of its adolescent angst along the way, it has a new set of grown-up problems to contend with.
3. This discussion paper seeks to tell the broad story of this process. It does not try to be comprehensive, nor does it try to evaluate progress within all the different sectors affected by EU membership. It is, instead, a broad brushstroke look at what the accession process and EU membership have meant for Malta, and the challenges before us. The paper does not try to provide the answers, but to stimulate a debate.
4. Part I looks at the situation of a pre-accession Malta, in search of its political identity and looking for a way to secure its economic future, turning towards the EU but facing an uncertain and challenging accession path. Part II looks at Malta's evolution as an EU Member State in a number of areas, such as its international profile, its economy, and the management of its environment, while Part III takes stock of some of the challenges still before us.

### Part I

## THE PATH TO MEMBERSHIP

#### The Big Bang

5. On 1 May 2004 Malta officially became a Member State of the European Union, along with Cyprus and eight other Central and Eastern European countries. This so-called 'Big Bang' enlargement of the Union was a significant milestone in the history of the continent.

6. Politically, the 2004 enlargement marked the reunification of Europe after the divisions of the Cold War era, and was hailed as a major success for the European project. It aimed to firmly entrench the EU as a leading player in a world order dominated by the lone remaining superpower, the United States, the rapidly emerging China, and the wounded but still powerful Russia.
7. Economically, it saw the enlargement of the single market to nearly half a billion people, a critical mass considered large enough to fuel continued growth for years to come.
8. Institutionally and administratively, it posed one of the biggest challenges in the EU's history: how to ensure that a decision-making process originally designed for six countries would remain viable with twenty five, and soon to be more, Member States.
9. For the ten new Member States, most of them relatively small and poor as compared to the fifteen, accession was the politically momentous culmination of a complex and challenging preparatory phase.
10. In the prevailing narrative of the day, membership of the Union represented not a final destination, but a different way of travelling – one that the new Member States hoped would be faster, more secure, and in a very clear and common direction.

### In Search of an International Identity

11. If enlargement was a major milestone for all the new Member States and for the European Union as a whole, for the young state of Malta it offered the promise of a coherent identity and accelerated development.
12. At various times during the previous five decades Malta had pushed for integration with the United Kingdom before opting for independence from it; had hosted a NATO sub-headquarters; had signed a secret military agreement with North Korea; had explored the possibility of joining both the Arab League and the European Union; had made the study of Arabic in schools compulsory and built strong ties with Libya; and had declared its neutrality and become an active member of the Non-Aligned Movement.
13. The insecurities of a young country seeking to forge an identity for itself came close to getting the island into serious trouble. Escalating political violence and a constitutional crisis in the mid-1980s led to democracy and the rule of law being called into question.

### Securing an Economic Future

14. These insecurities were not only limited to the question of Malta's position in the world, or the threat to democratic freedoms. There was also a pressing need for Malta to find a sustainable way of securing its economic future.
15. Historically, Malta's role in world affairs had centred round its strategic position in the

centre of the Mediterranean, often just one small pawn in the broader military calculations of external or colonial powers.

16. As a newly independent mini-state with no military ambitions beyond survival, and in an era when rapidly advancing technology had eroded Malta's strategic naval importance, it needed to find different ways of developing and sustaining its economy.
17. The British had seen the islands primarily as a base, and had done little to develop a wider economy beyond the shipyards and dry docks. With no natural resources or wide open spaces, independent Malta's areas of comparative advantage (areas where the islands could compete strongly in the international marketplace and create wealth) were not immediately apparent.
18. Home grown efforts at creating an industrial base had only been partially successful. By the mid-1980s an attempt at local self-sufficiency, through a command economy based on import substitution and 'bulk buying', weakened the economy's capacity to generate sustained growth.
19. Goods produced locally were generally uncompetitive and of poor quality. They survived only thanks to high protectionist barriers that made a captive market of the local population, and insulated operators from the improving effects of competition. That this attempt at economic self-sufficiency, or autarchy, ended in failure, was hardly surprising in a country that was less than 30km long, and that had to import almost all of its raw materials.
20. The local currency, too – the Maltese Lira - needed rigid exchange controls in order to protect it from being dumped by the population in favour of hard currency.
21. This failure, over several decades, to create a diversified, functioning market economy led to people voting with their feet, with Malta losing some of its most ambitious and enterprising citizens. Between 1950 and 1980 over 125,000<sup>1</sup> people left the island in search of better opportunities overseas, a phenomenon also seen in many other Mediterranean islands.
22. International economic trends were moving in the opposite direction to autarchy. Rapid globalisation towards the end of the twentieth century meant that international trade barriers were being torn down both at a multilateral level (notably through the GATT/ WTO) and through regional processes of integration, most successfully in Europe.
23. Malta badly needed to open up its economy. On the one hand, it needed cheap sources of raw materials, and on the other it required access to a much wider market for its goods and services. Yet such an opening would expose a previously sheltered economy to heavy competition that would be hard to withstand without sustained investment in the country's infrastructure and human capital.

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<sup>1</sup> NSO Press Release 107/2002 'The Migration Factor'; and Report on the Working of the Department of Labour and Emigration for 1967 – Government of Malta (for the early data).

24. Tourism had been seen as one obvious path for Malta's development after independence, one area where the island did have a comparative advantage, with its history, weather and sea. Yet even the tourism product required serious investment, and would only ever be able to provide a partial answer to the islands' development needs.
25. In the absence of natural resources, Malta would have to rely on its population to provide its main area of comparative advantage. This would, however, require considerable and sustained investment in human capital. The number of students enrolled in tertiary education, for example, was extremely low. In 1987 just 267 students graduated from the University of Malta, compared to over 3200 in 2013.<sup>2</sup>
26. As Malta entered the 1990s, the Nationalist led Government that had come to power in 1987 dismantled many of the protective barriers that had formerly limited consumer choice. This helped fuel an economic boom and began to improve the sense of well-being in the country.
27. It did not change the fact, however, that Malta was at an extremely delicate and vulnerable phase in its national development.
28. Democracy and the rule of law were still fragile and shallowly rooted after the tensions of the 1980s; the country faced a competitiveness deficit that it could not resolve without massive, sustained investment in infrastructure and human capital; it needed access to a wider market for its goods and services; and it needed a clear sense of confidence and direction.

## Two Visions

29. Throughout this search for the optimal development path for the country, the reality of Malta remained that of an island in the geographical heart of the Mediterranean and on the economic and cultural periphery of Europe.
30. There was wide consensus that these two facets of Malta's reality – its strategic position in the Mediterranean and its European heritage - were central to the island's future orientation. The question of how much weight and significance should be given to each came to dominate the external policies of both major parties, and by the last decade of the century two competing visions had been articulated.
31. The Labour Party emphasised the islands' Mediterranean identity, seeking a close partnership with the European Union while remaining outside it. It sought to preserve full autonomy of action, and to harness Malta's legislative and regulatory distinctiveness as a competitive advantage.

<sup>2</sup> In fact there were almost as many degree and diploma courses offered by the University of Malta in 2012 (262) as there were students graduating in 1987 (267). Figures from *Educational Development in Post-Colonial Malta: Challenges for a Mediterranean Micro-State*; Ronald Sultana, Faculty of Education, University of Malta, Msida, 1997, and University of Malta website: Graduate Statistics 2011-2012.

32. The Nationalist Party wanted Malta to be not a partner to the Union, but a part of it. It sought to share sovereignty within a community of like-minded states that would provide the market, networks and support to accelerate Malta's development and entrench it as a modern, open, and European player.
33. Yet accession was not simply a matter to be decided by the Maltese government or people. The European Union itself also had to accept Malta as a member. A Treaty of Accession would have to be negotiated, and then signed and ratified, by Malta and every one of the other existing and acceding Member States.

### Getting to the Starting Blocks

34. Malta formally applied for membership in July 1990, but initially progress was slow. While there was support for Malta's application in some European quarters, other Member States were at the very least ambivalent.
35. The benefits that Malta might bring to the table were not immediately obvious to all, and on the negative side there was the possibility that Malta could act as a brake on further integration.
36. Memories of the Conference on Security and Cooperation in Europe (CSCE) Helsinki Conference almost grinding to a halt because of Malta's stonewalling in 1973 were still relatively fresh in the minds of many leaders and diplomats. The idea of giving such a small country the disproportionate power that comes with a seat in the Council of the EU gave many pause for thought.
37. Cyprus, with its own very different set of problems, had also applied for EU membership just before Malta. The EU's understandable caution with regard to Cyprus, and some inevitable linkage between the two applications, probably affected the pace at which Malta's application was processed.
38. Malta was also far from prepared for membership at a technical level. The first European Commission 'progress report' issued in 1993 was hardly encouraging. The adoption of the EU's body of law, according to the European Commission, would require *"so many changes in traditional patterns of behaviour that what is effectively involved is a root and branch overhaul of the entire regulatory and operational framework of the Maltese economy."*<sup>3</sup>
39. Thus political ambivalence in some external quarters, a lack of consensus at home, unhelpful linkage with the Cypriot application, and – most importantly - the magnitude of the technical alignment work required, meant that Malta missed the 1995 enlargement that saw Austria, Finland and Sweden join the EU. It should be recalled that these countries already participated in the EU's Internal Market through their membership of the European Economic Area, making their accession negotiations far more straightforward than they would otherwise have been, or than they would be for Malta.

<sup>3</sup> European Commission Opinion (Avis) on Malta's Application for Membership, June 1993, Bulletin of the European Communities, Supplement 4/93, para. 34.

40. This lack of progress in the central electoral pledge of the Nationalist-led Government (coupled with the unpopular introduction of Value Added Tax), contributed to its electoral defeat in 1996, and the freezing of Malta's EU membership application by the new Labour Government led by Dr. Alfred Sant.
41. By this time membership applications had also been submitted by a number of Central and Eastern European states, and the 1997 European Council in Luxembourg agreed that accession negotiations should begin with six candidate countries – Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia.
42. It looked as if Malta, as with the 1995 enlargement, had once again missed the boat.
43. Yet the premature collapse of the Sant government in 1998 led to a renewed electoral mandate to the Nationalist Party to negotiate accession conditions. This time there was an additional pledge to submit the negotiated package to the electorate in a referendum.
44. It took a heavy diplomatic offensive at all political levels to convince European leaders that Malta was serious about membership. The EU's enlargement bandwagon was rapidly picking up steam, and Malta just about managed to clamber aboard in time.
45. The Helsinki European Council of 1999 invited the six remaining candidate countries – Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia – to open negotiations in February 2000, making it clear that they could catch up with the so called 'Luxembourg Group' if they made progress fast enough.

## The Negotiation Process

46. Accession negotiations and preparations entailed a massive technical and political exercise.
47. The experience of Greece's accession to the Union in 1981 served as a cautionary tale. The European Commission had been politically overruled when it tried to take a rigorous approach to Greece's preparations that would likely have delayed accession by several years. Greece had thus acceded to the Union in a poor state of preparation, and it could be argued that it has never made up the lost ground.<sup>4</sup>
48. The institutions of the Union were determined not to be caught out again, and sought to ensure that the accession process and candidate countries' technical preparations for membership were rigorously planned, implemented and scrutinised.
49. The candidate countries needed to demonstrate that they fulfilled three criteria set at the Copenhagen Council in 1993.

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<sup>4</sup> There is a strong argument that this failure to gear itself adequately for EU membership was a contributing factor to the 2009 Greek government debt crisis that devastated the country and almost brought down the Euro.

- ◆ Politically, they had to show that they had stable institutions guaranteeing democracy, the rule of law, human rights and respect for minorities.
  - ◆ They had to show that they had a functioning economy with the capacity to cope with the competitive pressure and market forces within the EU.
  - ◆ And they had to adopt the Unions' body of law and have the ability to take on the obligations related to membership, including eventual Economic and Monetary Union and the adoption of the Euro.
50. Satisfying these criteria entailed an exercise that was politically loaded, technically complex and administratively taxing in the extreme.
  51. For each provision of the EU's myriad laws, said to run to one hundred thousand pages in the Union's Official Journal, the candidate country needed to demonstrate that it was already aligned, or that it would align itself by a set date. It would also have to demonstrate that it had the administrative capacity to enforce those provisions properly.
  52. Permanent derogations were simply not on the cards,<sup>5</sup> while 'temporary special arrangements', that would see full alignment reached beyond the date of membership, might be negotiated in exceptional cases.
  53. Moreover, progress was transparently scrutinised in minute detail, and regularly reported on by the European Commission.
  54. It was such a challenging, and at times intrusive, exercise that only unswerving political determination on the part of Government could keep the process on track.

## The Debate

55. The Malta Labour Party was the only mainstream party in any of the candidate countries that was opposed to membership.
56. The difference in opinion ensured that the arguments in favour or against membership were properly aired.<sup>6</sup> At times, it was a serious, well-argued debate about important issues. At others it descended to the banal and the petty.
57. On the one hand, there was the message that we belong in Europe, and that membership of the European Union would be the best way to take our rightful place there as a modern, open, liberal democracy.

<sup>5</sup> The permanent special arrangement Malta was eventually granted regarding the purchase of secondary residences, was the only permanent special arrangement agreed in the negotiations with any of the ten states that acceded in 2004.

<sup>6</sup> Eurobarometer surveys between 2001 and 2003 consistently show that the Maltese were among the best informed about EU membership among all the candidate countries.

58. On the other, was a view that favoured the negotiation of an agreement that would establish a partnership between Malta and the Union, possibly along the lines negotiated by the EEA countries or Switzerland. These agreements, however, entailed paying for access to the Internal Market, and accepting evolving EU Internal Market legislation without any say in creating it. The 'Switzerland in the Mediterranean' option, later rebranded to 'Partnership', did not in the event fire public imagination to the degree that the possibility of EU membership did.
59. Eurobarometer surveys taken at the time reveal a country with an ambivalent attitude towards the Union. The fears identified in these surveys by the general public during the negotiations phase mirrored the debate in the country – 'loss of power', 'transferred jobs', 'accession is expensive', 'problems for farmers', and an 'increase in organised crime'.<sup>7</sup>
60. The experience of the negotiations themselves, however, seems to have had a favourable effect on public perceptions towards the EU and accession.
61. Most importantly, the Malta-EU Steering and Action Committee (MEUSAC), chaired by then Minister of Foreign Affairs Dr Joe Borg, ensured a level of civil society participation

### Unemployment Fears

One of the fears about EU membership brought up during the pre-accession debate was the possibility of a major influx of EU nationals that could destabilise the labour market.

Many citizens in the EU had a similar fear regarding a possible influx from Eastern Europe, and a seven year transition period was negotiated during which the 'old' Member States had the possibility of imposing restrictions on the Free Movement of Persons from the 'new' Member States should they wish to do so.

Malta and Cyprus argued that given their size there was no possibility of their citizens destabilising the EU's labour market in this way, and got the EU to agree that this transition period would not apply to them.

Malta went a step further, however, and argued that any sudden influx of EU workers to Malta did have the potential to destabilise Malta's small labour market, and convinced the EU that it should retain its work permit system and the ability to impose restrictions on the free movement of persons for the first seven years of membership.

In the event, these measures were hardly resorted to, and the labour market in Malta remained remarkably stable throughout the years of membership.

In fact, Malta is one of only five Member States whose unemployment rate has always stayed below 8% since 1 May 2004 (the others being Austria, Denmark, Luxembourg and the Netherlands). *Figures from Eurostat.*

<sup>7</sup> Candidate Countries Eurobarometer 2001 and 2002.

in the process that was far deeper than mere consultation, with civil society members actually helping to formulate national positions, and then being continually consulted as negotiations progressed. All this was also effectively communicated to the general public by the Malta-EU Information Centre.

62. There was also another dynamic at play. The ‘No’ camp tried to build up a picture of the EU as a faceless, ‘one size fits all’ bureaucracy, and argued that tiny Malta would never manage to achieve tailored solutions to its needs during the negotiations. In the words of Malta’s Chief Negotiator and later Permanent Representative to the EU:

*“The MLP opposition helped in this process by repeatedly insisting that certain things would not be possible in the EU: a good financial package, the 25-mile Fishing conservation zone, Maltese as an official language, hunting, neutrality, restructuring subsidies for the shipyards; while also insisting that the EU would force some unwelcome items on the country: a flood of foreign workers, major house purchases by EU nationals, abortion, increases in VAT. It was only late in the process that the MLP held back from declaring the possible, impossible. By then it was probably too late.”<sup>8</sup>*

63. As robust arrangements were progressively negotiated in these and other areas, they not only served to allay specific, sectoral fears, but contributed to a general feeling that we were entering a Union with partners capable of being politically sensitive and responsive when it mattered.
64. The 2001 Eurobarometer Survey reveals a country with the most ambivalent attitudes to membership in all the candidate countries, with the pollsters commenting that *“The worst image [of the European Union amongst respondents] was found in Malta, where the population is split with 37% feeling positive, a quarter (25%) feeling neutral and a third (34%) feeling negative.”<sup>9</sup>*
65. Yet by October 2003 the corresponding figures had changed to 55% feeling positive, 22% feeling neutral and 17% feeling negative, with that 55% figure beating the average of the 10 acceding countries taken together.<sup>10</sup>
66. On 8 March 2003 Malta voted in a referendum to join the European Union on 1 May 2004 by 53.6% to 46.4%, with a turnout of 91%. Of the nine referenda that took place in the acceding countries, Malta’s referendum featured both the highest turnout, and the tightest result.
67. Together with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, Malta became a part of the European Union on 1 May 2004.

<sup>8</sup> ‘The Accession of Malta to the EU’, Richard Cachia Caruana, in ‘The Accession Story: The EU from Fifteen to Twenty Five Countries’, George Vassiliou, Editor, Oxford University Press, 2007.

<sup>9</sup> Candidate Countries Eurobarometer 2001.

<sup>10</sup> Candidate Countries Eurobarometer 2003.

## Part II

# TEN YEARS ON

### A Rapid Evolution

68. Ten years since joining the European Union, Malta has changed in many ways. For the most part it has been an incremental, and fairly smooth, evolution, but one that has taken the country significantly forward in a number of areas.
69. Some changes are a direct result of EU membership; others are indirectly linked to it; a few may simply be the consequence of life in the modern world.
70. After the previous bouts of national self-doubt, and abrupt shifts in political orientation, Malta has reached a broad national consensus on its place in the world.
71. It is a state of fact accepted by its citizens and by the political establishment that Malta is a part of the European Union, striving to realise its full potential as a modern democracy based on the rule of law, with an open, liberal economy, and with a clear and direct interest in peace and stability in Europe and in the Mediterranean.
72. The country has plugged into Europe at many different levels, and the exposure to European networks has made it less insular, more in touch with global developments, and more cosmopolitan.
73. In 2013, Eurobarometer ranked Malta in second place (after Luxembourg) in its 'International Openness Index' that measures how open a particular Member State is to the rest of the EU and the outside world.<sup>11</sup>
74. This high degree of connection is especially true of the country's youth, who now visit, study and work in other countries in unprecedentedly high numbers. The number of students at first degree level and above studying in other EU countries rose from 5.9% of the total student population in 2003, to 10.8% in 2012 (most recent available data) – a higher rate than for the EU as a whole.<sup>12</sup>
75. Our civil society is stronger and more empowered, busily networking with European peers, and buttressed by an additional, supranational, layer of protection and redress.<sup>13</sup> Commentators note a healthy shift in the balance of power from Government towards citizens and civil society, though this is hard to measure, and is surely a process that still needs to go much further.

<sup>11</sup> Malta had a score of 44% as compared to the EU-28 average of 14%. Standard Eurobarometer 80 'Public Opinion in the European Union' – Autumn 2013.

<sup>12</sup> Standard Eurobarometer 80 'Public Opinion in the European Union' – Autumn 2013

<sup>13</sup> Michael Briguglio's thesis on this topic, with particular reference to Environmental NGOs, concluded that EU accession has "generally enhanced the empowerment of Maltese ENGOS" and states that although this process was "uneven" and influenced by other factors and issues, all in all after 2004 such NGOs "had greater access to opportunities that were unavailable prior to Malta's EU accession."

76. The economy has been transformed into one based primarily on services, while the manufacturing sector has shifted towards more high-value products. This has been achieved, surprisingly, without any employment shocks, and while the country has maintained steady growth.
77. There has been major investment in our infrastructure and human capital, and our environment, built heritage and agriculture have received more funds and attention than ever before. Our farmers have been gradually exposed to competitive pressures, and though some have found it hard to adapt, there are also encouraging signs of a response.
78. On the financial front, the country has safely divested itself of the inherent risks of managing a small currency, adopted the Euro without significant inflationary shocks, and has steadily brought the deficit down to more acceptable territory. Since the start of the Euro debt crisis it has also demonstrated remarkable resilience, far outperforming all its Mediterranean EU neighbours in the process.
79. In short, Malta has proved not only that it is viable, but that its potential and its prospects bear little relation to its size.
80. In all of these areas massive challenges remain. Just as a gym membership does not make you fit, so EU membership has not solved all our problems. But it has provided us with a setting where, if we take the right decisions and work hard enough, success is more likely, and progress can be faster.

## A Seat at the Table

81. Being at the table where decisions are taken was one of the much vaunted benefits that were supposed to come with EU membership. Yet a number of senior political figures suggest that we may actually have underestimated the full import of this change.
82. Within the EU we have the opportunity to make our voice heard on all the political issues facing Europe and the world. On the relatively rare occasions that a matter comes to a vote in the Council of Ministers, for example, while our weight may be small in absolute terms, it is still disproportionately large in relative terms. For the majority of issues that don't come to a vote, we make our arguments like everyone else and they find support or otherwise according to their merits.
83. Maltese nationals appointed, elected or recruited to all the institutions of the Union also create an informal, yet well-connected network that reaches into all the nooks and crannies of the European establishment.<sup>14</sup>
84. While this might sound fairly unremarkable, it must be compared with the situation prior to membership, when enormous diplomatic energy often had to be expended in the

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<sup>14</sup> There are now 964 Maltese nationals employed with the EU institutions, as estimated by the Directorate for Maltese Living Abroad, Ministry of Foreign Affairs.

hope of simply being granted a meeting, and when the number of Maltese citizens in international institutions was comparatively tiny.

85. The tone of our interaction with our European peers has also changed. Dr Joe Borg, whose involvement in Malta-EU affairs spanned the transition from Malta as ‘third country’ to Malta as a Member State, describes how the relationship with European leaders evolved from being ‘almost a teacher-student relationship to a relationship between equals. We are small, of course. But when we have an important interest it has to be taken into account and some sort of *modus vivendi* found.’<sup>15</sup>
86. Outside the European Union itself Malta’s relevance and standing have also risen. The Maltese delegation at any multilateral forum no longer represents just 420,000 people. It is recognised as being part of the EU’s inner workings, and in a position to influence EU policy. Malta’s profile in the Commonwealth and at successive CHOGMs (Commonwealth Heads of Government Meetings), for example, has been substantially raised because it is seen as being a possible spokesperson for Commonwealth issues within EU fora.<sup>16</sup>

### ‘The Motivation and the Blueprint to Reform’

87. While the Maltese Government might not have greatly appreciated the message at the time, the European Commission was right in 1993 that Malta’s economy was in need of a root and branch overhaul.<sup>17</sup>
88. The public sector was heavily bloated, with a surfeit of state monopolies and a culture of uncontrolled state subsidization. Industry and the agricultural sector for the most part sat behind their protective levies, shielded from the full rigours of competition. The Maltese Lira, too, was protected by strict exchange controls that were cumbersome, restrictive, and resented by citizens.
89. Tackling tough, deep-rooted reforms may be rewarding in the long run, but it can also be economically painful and politically fraught in the short to medium term. Carrying those reforms out in the context of a clear and broader goal like EU membership allowed government to make them more palatable by linking them to a worthwhile reward at the end of the process.
90. Some of the necessary reforms began in the late 1980s and early 1990s, such as the dismantling of the import license regime, a rationalisation of the tangle of state-owned entities, the introduction of an EU-compatible Company Law regime, and the conversion of our offshore legislation into the forerunner of today’s highly successful Financial Services regulatory framework. There was also the introduction of Value Added Tax in 1996 (and again in 1998).

<sup>15</sup> Interview with Dr Joe Borg, former Minister of Foreign Affairs and EU Commissioner, 26 February 2014.

<sup>16</sup> As recounted from personal experience by former Prime Ministers Dr Edward Fenech Adami and Dr Lawrence Gonzi, and current Prime Minister Dr Joseph Muscat in interviews carried out during the writing of this paper.

<sup>17</sup> See Footnote 3.

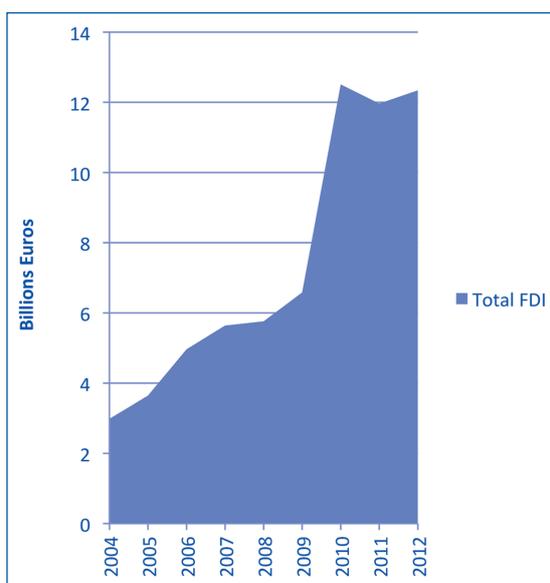
91. The reforms picked up with the reactivation of the membership bid in 1998, including plans for the progressive removal of industrial tariffs and for the liberalisation of telecommunications, and accelerated from 2000 onwards in parallel with the negotiations.
92. Strict state aid disciplines were introduced that drastically curtailed market distorting subsidies, and channelled the remainder more effectively. The EU's more highly developed competition and consumer protection regimes were introduced. There was the first round of restructuring at Air Malta, a first round of pension reforms, the privatisation of Sea Malta, and the restructuring, and ultimately privatisation, of the shipyards.
93. Moreover, very quickly after accession Malta set itself the ambitious goal of joining the Eurozone and adopting the Euro as soon as possible. This meant another series of macroeconomic reforms that included bringing the deficit under control from a high of 9% of GDP in the year prior to accession, down to just 2.9% of GDP two years later. Although there was a small spike up to 4.6% in the year the Euro was adopted (2008), this was brought under control again fairly rapidly and was back at 2.7% of GDP by 2011.
94. It's important to note that in the case of at least some of these reforms, the fact that there was an EU requirement (and an EU template to consult or follow), accelerated their adoption, and probably improved the end result.
95. To illustrate the point, it was repeated EU calls that led to the liberalisation of the telecoms sector being tackled urgently in 1999. In fact, it was the then Minister of Foreign Affairs who initially pushed the issue in the face of the local received wisdom that the Maltese market was too small for more than a single operator.
96. It required the backing of the then Prime Minister to unblock things, eventually paving the way for pluralism, competition, innovation and improved service in the telecoms sector. In the absence of the EU accession process Malta would presumably have liberalised the market under its own steam at some point, but the drive towards EU membership meant that we did it earlier and put ourselves ahead of the curve.
97. Similarly, had we been following our own development path in the absence of EU membership, state aid discipline and the introduction of rigorous competition law would probably have been low on our list of priorities. The prevailing culture was lax on both fronts, and the political will to upset cosy arrangements and vested interests traditionally difficult to summon.
98. Introducing these disciplines and provisions, far sooner than they would have been in the absence of EU accession, has had a profound effect on the Maltese economy. The new state aid discipline alone freed up millions previously spent on propping up uncompetitive operations that could now be ploughed back into the economy much more productively.
99. Clearly, in the case of most of these reforms there is still a long way to go. It's good that we have reined in our deficit, but we are yet to balance a national budget in the twenty-first century, and our public debt should be brought down. We might have improved, for example, our consumer protection, but the market surveillance that would help make it work better is still subject to much criticism. Some state enterprises and companies are still overstaffed and loss-making, and the pensions time bomb is still ticking.

100. These are not, then, issues that have been settled by EU accession and membership. But the drive towards membership helped Government to take many difficult, and very necessary, first steps, and the routine benchmarking with EU peers that goes on ensures that our progress, or lack of it, is transparently clear to all - a powerful motivational tool.
101. Above all, the EU's legislation, and the experiences of other Member States, mean that in carrying out these reforms we are not travelling blind, or in isolation, but going briskly down a well-trodden path in the company of like-minded partners.

## A New Resilience - an Economy Transformed

102. Just as significant as this cumulation of reforms has been the explosion seen in the services sector, and especially in financial services and gaming.
103. One major argument in favour of a partnership with the EU short of membership was that by staying outside the Union we would preserve our legislative autonomy and make our regulatory distinctiveness a major selling point of the islands.
104. As an EU Member State, Malta has obviously adopted EU law with regard to financial services and taxation, yet it has successfully managed to be innovative in its approach to regulation, and to utilize skilfully its full margin of manoeuvre with regard to implementation.
105. It has also built a robust, responsive and well respected regulator in the Malta Financial Services Authority, avoiding the lucrative, yet ultimately corrosive short-cuts attempted by, for example, Cyprus.
106. The adoption of the Euro in 2008 has given added stability and credibility, and removed a major cost of doing business in Malta. The replacement of a small and vulnerable national currency (the Maltese Lira) with the internationally-traded, strong and stable Euro has allowed Malta to better exploit the trading opportunities offered by a market of half a billion consumers. It also resulted in a higher credit rating, a significant consideration for a country heavily reliant on external trade.
107. At the same time massive investment in education and the island's human capital, not least through the European Social Fund, has ensured a highly productive, yet cost-efficient recruitment pool for companies wishing to invest here.

**Foreign Direct Investment in Malta  
Stock Position 2004 to 2012**



Source: National Statistics Office  
(Annual Data on Direct Investment in Malta and Abroad)

<b>EU Funds Invested in Malta's Human Capital 2004-2013 (ESF, ERDF, Cohesion Fund)</b>	
University of Malta: Facilities and Infrastructure	€43,005,802
MCAST: Facilities and Infrastructure	€56,275,980
Investment in facilities/equipment: State schools	€22,019,014
Employment and Training Aid Schemes (ETC)	€23,014,120
Employment and Training Projects (Various)	€45,033,134
Assisting disadvantaged groups enter the labour market (social inclusion)	€14,852,601
Scholarships (Tertiary)	€9,932,353
Establishing Quality Standards & Mechanisms: Further & Higher Ed.	€7,445,825
Training in the Public Sector	€15,497,748
Gender Equality	€1,573,021
<b>TOTAL</b>	<b>€237,076,577</b>
<i>Compiled from <a href="https://eufunds.gov.mt/mt">https://eufunds.gov.mt/mt</a></i>	

1108. The combination of all these factors - innovative yet serious regulation, EU legal compatibility, access to the EU market, adoption of the Euro, and a skilled, productive yet inexpensive workforce - has made Malta very attractive as a financial and other services centre.
1109. The result is that the contribution of financial services to GDP has grown at a very fast rate, from around 3% to 12% of GDP between 2004 and 2013.<sup>18</sup>
1110. During the same period Malta was also benefitting from a healthy net inflow of EU funds. Between 2004 and 2012 just over €1 billion in European funds found their way into the Maltese economy, with just over half that amount (€0.51 billion) flowing in the other direction.<sup>19</sup>
1111. The diversification of the economy and its increasing orientation towards services, together with the significant flows of foreign direct investment and European funds have buoyed the economy and lent it great resilience at a very turbulent time.
1112. The Mediterranean has seen the confluence of two major disturbances over the past five years. On the Northern shores the Euro-debt crisis has meant huge upheaval for the EU Member States in the Mediterranean, while the Arab Spring has led to widespread unrest

<sup>18</sup> Malta Financial Services: An Overview, Kenneth Farrugia, Chairman, Finance Malta, January 2014, <http://mpcc.org.mt/wp/wp-content/uploads/2013/09/FM-Maltas-Financial-Services-Industry-Presentation-January-2014.pdf>

<sup>19</sup> Between 2004 and 2012 the 'operating budgetary balance' for Malta as calculated by the European Commission was always positive, averaging a net inflow for the islands of €55 million per year. See [http://ec.europa.eu/budget/figures/interactive/index\\_en.cfm](http://ec.europa.eu/budget/figures/interactive/index_en.cfm)

and abrupt, often violent, regime change in North Africa, including in two of our closest neighbours.

113. Malta has navigated these troubled waters with skill, and indeed our economic performance at this challenging time has far outstripped that of all our EU-Mediterranean neighbours.
114. Of the eight EU Member States with a Mediterranean coastline (Croatia, Cyprus, France, Greece, Italy, Malta, Slovenia, Spain), Malta has enjoyed the greatest economic growth since the introduction of the Euro in 2008, has the lowest unemployment rate and youth unemployment rate, the smallest budget deficit, and the most favourable debt to equity ratio. It also attracts, proportionately, the greatest number of tourists, whether calculated on a per capita or a per unit area basis.<sup>20</sup>
115. Ten years after accession then, Malta has transformed its economy. Had Malta faced the global economic crisis of the last few years still having a small, vulnerable currency, and without the major inflows of capital that EU membership and the adoption of the Euro have brought, the outlook would have been very different.

**Average Annual GDP % Growth, 2008-2013**

<b>EU-28</b>	<b>-0.1</b>
<b>Euro Area</b>	<b>-0.4</b>
<b>Malta</b>	<b>1.5</b>
Croatia	-1.7
Cyprus	-0.7
France	0.1
Greece	-4.4
Italy	-1.5
Slovenia	-1.0
Spain	-1.0

## Our Environment in the Balance

116. Despite important progress in some respects, when it comes to Malta's physical landscape it is still too early to assess the overall impact that Malta's EU membership will have.
117. There is little doubt that Malta's environmental and agricultural policies have developed much faster since 1998 because of EU preparations and membership, and these two sectors have attracted more attention and funds than at any other time in our history.
118. With EU funds, and often because of EU legislation, there have been areas of significant improvement on the environmental front.
- ◆ We stopped using leaded petrol from one day to the next, despite great initial resistance by Enemalta. (See Box)<sup>21</sup>

<sup>20</sup> All figures from Eurostat.

<sup>21</sup> Box references – See, for example, the 2012 UNEP report at <http://www.unep.org/transport/PCFV/PDF/Algeria/Harmful%20Effects%20of%20Leaded%20Gasoline,%20Jane%20Akumu-%20UNEP.pdf>, and <http://www.motherjones.com/environment/2013/01/lead-crime-link-gasoline>

- ◆ We built sewage treatment plants and have stopped dumping our raw sewage into the Mediterranean, with significantly cleaner seas as a result.<sup>22</sup>
- ◆ We started systematically measuring the quality of our air and our bathing water, and implementing strategies to improve them, not least by reducing the level of sulphur in the fuels used for power generation.
- ◆ We started to manage our waste more rationally, finally beginning to separate it at source so that we could start reusing and recycling it.
- ◆ We closed the Magħtab landfill, formerly a major health hazard and a national disgrace, and started to rehabilitate it, while creating new engineered landfills.
- ◆ We finally started taking the first steps – though both small and belated - towards the use of renewable energy.
- ◆ We designated 34 terrestrial and 5 marine Natura 2000 sites; we are formulating detailed management plans, including conservation measures for each, and are actively managing a number of sites.

### **Getting the Lead out of our Petrol**

Lead in petrol measurably lowers babies' and children's IQs. Besides being strongly associated in adults with elevated violent crime rates, it is known to cause heart and respiratory diseases, miscarriages, stillbirth, and minor birth malformations.

Yet during accession negotiations Malta asked for a transition period to keep the lead in our petrol, so strong was Enemalta's insistence that it was vital that we do so. At one of the first discussions on the Environment Chapter the European Commission expressed incredulity that we could possibly want to go on poisoning ourselves in this way, and implored the Maltese delegation to reconsider the issue.

Enemalta was challenged again by the Core Negotiating Group, and eventually came around. The transition to unleaded petrol happened, at minimal cost and with very little fanfare, at the beginning of 2003.

How much earlier the change could have been made, and the human cost of the delay, do not bear thinking about. Similarly, how much later the change would have happened had we not been on the path to membership is impossible to say. (See Note 21).

<sup>22</sup> In the report on EU bathing water quality for 2013, Malta had 98.9% of its bathing waters rated as excellent, the second highest score for a maritime state. <http://ec.europa.eu/environment/water/water-bathing/pdf/Bathing%20water%20summer%202013.pdf>

- ◆ We have been able to invest significantly in the conservation of Malta's outstanding fortifications in the Three Cities, the historic sites of Fort St Elmo and Fort St Angelo, and many other built heritage sites.
- ◆ We tightened our Environmental Impact Assessment regime, and introduced Strategic Environmental Assessments.
- ◆ We introduced strict EU environmental permitting regulations (IPPC) for large industrial installations, and adapted the same logic and principles to apply to smaller facilities.
- ◆ And we have seen increased enforcement pressure on illegal hunting and trapping, though this remains a highly contentious issue.

119. Besides an unprecedented flow of funds, therefore, EU accession gave Maltese environmental regulators and activists a new language, a new range of tools, and new rights and obligations on environmental information, public participation, and access to environmental justice. In short - a whole new way of looking at, measuring, and acting on, environmental challenges.

<b>EU Funded Environment Projects 2004-2013 (ERDF, Cohesion Fund and Life+)</b>	
Renewable Energy and Energy Efficiency	€56,691,034
Waste Management	€29,177,355
Water Quality/Conservation	€28,869,895
Pollution Monitoring	€4,206,861
Environmental Research	€4,500,000
Biodiversity/Nature Protection	€6,145,816
<b>TOTAL</b>	<b>€146,644,009</b>
<i>Compiled from: <a href="http://www.EUFunds.gov.mt">www.EUFunds.gov.mt</a>; <a href="http://www.mepa.org.mt">www.mepa.org.mt</a></i>	

120. With regard to the local agriculture sector, EU accession has meant far more attention and funds than previously available. Malta's Rural Development Plan between 2007 and 2013, for example, saw some €102 million injected into the sector, of which some €78 million were EU funds.<sup>23</sup>
121. Farmers have been able to access significant investment funds, and a number of them have equipped themselves to operate competitively in the new environment.
122. Yet, despite these significant advances, important challenges with regard to Malta's environment and agriculture sectors remain.

<sup>23</sup> <https://secure2.gov.mt/mrra-ma/funding?!=1>

123. EU membership has done little to mitigate the country's most pressing environmental problems that arise from its small size and high population density – scarcity of land, land-use competition, and insufficient or ineffective *de facto* public commitment to safeguarding the natural landscape. Urban sprawl on the islands has taken its toll over many decades, and the few remaining natural and rural spaces are still on the retreat.
124. The major environmental improvements made as a result of EU membership will stand for little if we still let those few special spaces slip away from us as well. If we insist on further encroaching on our rural spaces – ironically enough, now also in the name of agritourism – then the EU will not be able to save us from ourselves.
125. We have also failed to tackle successfully the country's acute groundwater problem. Malta is listed by the FAO as being one of "the ten poorest countries in terms of water resources per inhabitant".<sup>24</sup> There have been clear and repeated warnings that we are dangerously over-extracting water from our aquifer, with potentially disastrous results in a few short years. Indeed, 13 out of 15 groundwater bodies in Malta are already reported as having nitrate levels which are in excess of the EU quality standard, while the threshold value for chlorides was exceeded in all coastal groundwater bodies.<sup>25</sup> There is no shortage of good, innovative ideas that could help us tackle this problem, but they will take political commitment and substantial funds to implement.
126. With regard to agriculture, despite the new-found attention to this sector pressed upon us by EU membership, progress has not been made at the rate that one would have wished for in a number of sub-sectors.
127. The EU's Common Agricultural Policy has long been one of the least enlightened of the EU's policies (although it has significantly improved as a result of its recent reforms). Moreover, the fit between it and Malta's agricultural sector is poor, mainly because of the different crops we specialize in, our extremely small holdings and the difficulties in mechanisation.
128. During the accession negotiations the Special Market Policy Programme for Maltese Agriculture that was agreed did manage to buy some time for the local sector. Under this Programme, protective levies were removed and replaced by direct income support for local farmers and support for the processing industry, that would gradually taper off after a number of years.
129. Unfortunately, in an aging, conservative sector long used to being shielded from competition, this further income support was taken by many as an extended pay-day rather than as an opportunity to specialize, invest and reform.
130. This time should have been spent planning, preparing and training more intensely – supporting our farmers' efforts to gear up for competition by guiding them towards niche products, and incentivising the creation of higher value added through better product preparation, packaging and processing.

<sup>24</sup> <http://www.fao.org/docrep/005/y4473e/y4473e08.htm>

<sup>25</sup> <http://www.mepa.org.mt/teri09-freshwaters>

131. While there have been efforts and some successes in this direction, such as the resurrection of the Maltese olive industry and other cottage industries, overall progress has not generally been good enough.
132. Cheap imported fruit and vegetables have meant that local crop farmers are finding it difficult to compete. While their produce is usually of a high level of quality and authenticity, they often find themselves competing against cheaper and better presented goods. The disproportionate power of the *pitkala* (agricultural middlemen) remains a problem, although the introduction of the farmers' market has been an important step forward.
133. While the dairy sector seems to have geared up well to the challenge of increased competition, operators in the poultry and pork sectors complain that because of poor traceability and inadequate market surveillance they are often having to compete with previously frozen meat sold misleadingly as fresh.
134. Prior to Malta's EU membership application the environment and agriculture sectors, and the serious challenges faced by each, were not given their due importance by local policymakers. EU membership meant a scramble to try and modernize the approach in these areas, but the reality is that we have been playing catch-up.
135. Encouragingly, civil society is helping to fill the gap. Environmental NGOs have been visibly empowered over the last few years and are seeking, with some success, to hold government to account, while a new generation of young farmers seems to be banding together to support each other and offer some hope for the future of Maltese agriculture.<sup>26</sup>

## Part III

### THE CHALLENGES AHEAD

#### In it Together

136. The fact that we are doing well ten years after accession to the European Union should not be allowed to lead to any complacency.
137. Challenges for Malta abound. One such cluster of challenges stems from the fact that, as part of the Union, problems that the Union has to face are now our problems too.
138. While the Union has faced many crises throughout its history, often emerging a little stronger on the other side, it is also fair to say that the EU project is currently at a low point.

<sup>26</sup> See the increasing clout of the environmental movement in blocking certain developments, from the Golf Club at the site of what has now become the Majjistral Park (where the very NGOs that resisted the development were later entrusted with the park's management), to the more recent blocked development at Ta' Haġrat Temples. In agriculture Leader Funds have been very useful in stimulating civil society through public/private partnerships. See also the recent launch of the Maya Foundation (Maltese Youth in Agriculture) in the agricultural sector (<https://www.facebook.com/MaltaYouthAgri>).

139. The troubles besetting the Euro remain worrying. While the immediate crisis seems to have abated for the moment, some of the structural problems that gave rise to it are still fully to be addressed. An effective resolution to these problems is vital, because any recurrence or worsening of the recent upheavals could negatively impact Malta both directly and indirectly.
140. The ability to periodically update its treaty base in response to the challenges of the day has always been a strength of the Union, but with 28 Member States it is difficult to envisage any significant new treaty being unanimously agreed and ratified. The danger of institutional paralysis is real.
141. More generally, there is also a perceived democratic legitimacy deficit in the EU, which seems to be getting worse. The percentage of EU citizens who feel that their country has not benefitted from EU membership overall has grown steadily from 31% in 2008 to a majority of 54% in 2013.<sup>27</sup>
142. The European establishment seems to have become inured to these bad figures, or at least has not yet found a meaningful way to respond to them. Very few national politicians seem ready to make the case for Europe, while very many are ready to jump on the bandwagon against it.
143. In the long run this level of mistrust is unsustainable, and if it is not successfully addressed, something will have to give. The resurgence of far right, far left and Eurosceptic movements across Europe, as seen so clearly in the European Parliament elections in May 2014, is a worrying sign.
144. Many Member States – including Austria, the Czech Republic, Denmark, France, Greece, the Netherlands and the UK – have elected new Members of the European Parliament who question, or are openly hostile to, the European project.
145. The UK, for example, could be heading towards a major crisis in its relationship with Europe. Prime Minister David Cameron has promised, if re-elected, to renegotiate Britain's relationship with the Union, and to hold an 'in-out' referendum on membership by 2017. While three years is an eternity in politics, the constant sniping at Europe from many quarters in the UK over many years means that it is difficult to see how a positive vote might be achieved.
146. The consequences for Europe as a whole of an 'out' vote in the UK are difficult to predict, but they would certainly be far reaching and potentially disruptive, and could remove from the equation a partner that has often been on the same side as Malta on various questions. With Malta holding the Council Presidency in the first half of 2017 there is also a chance that we will be directly involved in the potential fallout.
147. Europe has time and again shown great creativity and pragmatism in re-inventing itself when necessary. Hopefully it may do so again, but it will take great vision and political leadership across the continent at a time when these qualities appear to be in short supply.

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<sup>27</sup> Figures from the Autumn Wave issues of the Eurobarometer, years 2008-2012.

148. Whichever way these challenges evolve over the next decade or two, Malta will be there with Europe, enjoying or suffering the consequences, and hopefully doing her part to keep the European project on track.

## A Positive Profile

149. For a Member State making its way in the EU, everyday life consists of a series of negotiations over various issues between sets of peers at different technical and political levels.
150. Success in these negotiations depends on many factors, but among them are the profile and the level of credibility that one has managed to build, both personally, but also collectively.
151. Both Prime Minister Dr. Joseph Muscat and former Prime Minister Dr Lawrence Gonzi argue, for example, that the hearing Malta gets in the European Council is commensurate not with the size of the country, but with the respect and the relationships that one is able to build.<sup>28</sup>
152. While no-one was taking score in such a crude way, during the accession negotiations Malta was said to have secured significantly more special arrangements than any other acceding country (including, as we have seen, the only permanent derogation). Yet the Maltese developed a reputation as being good to work with – generally reasonable, but technically well-prepared and creative in finding win-win solutions when they needed to defend an interest.<sup>29</sup>
153. During the years since membership the Maltese operating in the various institutions have generally retained this positive profile – hard-working, technically prepared, and usually easy to get along with, but determined negotiators where there is an important interest.
154. The Snus affair, the intervention by the European Court of Human Rights on the migrant pushback threat, the overwhelming vote against Malta's Individual Investment Programme in the European Parliament (with the accompanying media storm), and the continuing bad publicity regarding Spring Hunting, will have had an impact on our standing and our reputation within the Union. It is important that any damage is repaired, and that the reservoir of goodwill towards Malta is replenished.
155. One arena where we will need support from our partners is in future budget negotiations. It is clear that at some point after 2020 Malta will stop being a net beneficiary of the EU budget and start being a net contributor. In itself this is a natural evolution, the logical consequence of the economic progress we are making.

<sup>28</sup> Interviews held on 3 and 17 March 2014, respectively.

<sup>29</sup> Comments to lead author by various Commission officials and diplomats at the time and since. Malta secured 77 such special arrangements (See *'The Accession of Malta to the EU'*, Richard Cachia Caruana, in *'The Accession Story: The EU from Fifteen to Twenty Five Countries'*, George Vassiliou, Editor, Oxford University Press, 2007, p278). The corresponding figure for other Member States could not be found.

156. How soon this happens, however, and the modalities of the evolution, will very much depend on long and difficult negotiations with our partners in the Union.
157. The way that EU budgetary calculations are carried out often means that Malta is initially disadvantaged in the early workings because of our size, population, and the nature of our agricultural sector, amongst other factors.
158. In the financial package negotiated at accession (for period 2004-2006), and in the two framework budgets that have been negotiated since (2007-2013 and 2014-2020), Malta has so far managed to persuade its partners of the need to revise these initial figures substantially upwards.<sup>30</sup> This took major technical and diplomatic efforts that benefitted, in the end, from the goodwill that Malta has built up over the years.
159. Our upcoming Presidency of the Council in 2017 will have an important bearing on our credibility and standing within the Union for years to come. Given our limited administrative capacity it will certainly be a challenge, but with careful planning and clear thinking it is one we have the ability to meet.

## People on the Move

160. The period immediately prior to accession and thereafter coincided with the first major flows of people trying to get to Europe from Africa and the Middle East through Maltese waters, with some landing or being rescued here. A number have tragically died along the way.
161. While, as we have seen, the influx of EU nationals since accession has been fairly uncontroversial and smoothly absorbed,<sup>31</sup> the same cannot be said for the flow of migrants arriving mainly from Africa and the Middle East. Though it is not an issue caused by EU membership, it has certainly become a major problem in Malta's EU affairs.
162. Irregular migrants have thus far not had a significant impact on the local labour market, except insofar as migrants have tended to fill employment gaps in sectors where the Maltese are often unwilling to work in sufficient numbers (such as in the quarrying and construction industries). Yet there has certainly been a social impact, with many preoccupied that the country's absorption capacity may be surpassed, and with a few falling prey to xenophobia and racism.
163. It is difficult to gauge precisely the effect that EU membership has had on Malta's capacity to deal with this challenge. Malta's position in the central Mediterranean places it directly along the migration path of those fleeing Africa (mainly from Libya) in search of a better future in Europe. This phenomenon started in 2002 before Malta's accession, and would have become an issue whether or not it had joined the EU.

<sup>30</sup> For example Malta's net balance improved by over 30% from the initial Commission proposal to the agreement at the European Council on the 2014-2020 Financial Framework. <https://www.gov.mt/en/Government/Press%20Releases/Pages/2013/February/08/pr0190.aspx>

<sup>31</sup> See Box entitled 'Unemployment Fears' in Part II, page 20.

164. But the situation for Malta within the Union has been exacerbated by the obligation – imposed on all Member States - to adhere to the terms of the Dublin II agreement, which imposes on the country of a migrant’s first arrival responsibility for handling his or her application for asylum and subsequent status, and material assistance thereafter. This has meant that Malta has had a disproportionate load to bear in relation to its physical and population size compared with any other EU Member State.
165. There has also been strong criticism from Malta and other frontline states that the principle of European solidarity has not translated into meaningful burden-sharing in the form of migrant resettlement or relocation. Although the European Pact on Migration and Asylum, which was signed in 2008, sought to integrate and complement the efforts of EU institutions to shape a common approach to both legal and irregular immigration, this only allows for intra-EU relocation of international protection or asylum on a voluntary basis. Malta’s efforts for a formula to cover mandatory burden-sharing and the re-negotiation of the terms of the Dublin Agreement have not so far borne fruit.
166. On the other hand, Malta, which hosts the European Asylum Support Office, does face the global challenge of irregular migration as part of a strong community of states, where the question of burden-sharing may at least be raised. EU funds for Asylum, Migration, Integration and Internal Security – with nearly €80 million allocated for the 2014-2020 period - have also meant that the financial burden of facing this challenge has been greatly mitigated. While about 18,000 irregular immigrants have reached Malta’s shores since 2002, it is estimated that only about 5000 currently remain in Malta. Many others have either been re-located to friendly countries, repatriated to their country of origin or even made their way to the European mainland – which is generally the place they set out for in the first place.
167. As an EU Member State Malta has also pushed, for example, for major flows of EU funds to facilitate development in source countries, recognised as the only possible long term solution to the problem. It also has a chance of persuading its partners in the Union to help more directly by resettling significant numbers of the migrants themselves. This has been a major priority in Malta’s EU relations, and looks likely to remain one for the foreseeable future.
168. Malta should obviously continue to push for improvements to burden- and responsibility-sharing by the EU, while also recognizing that each Member State faces its own difficulties over immigration. If we are sensitive to the reservations of our partners, creative enough in coming up with acceptable solutions, and assiduous enough in building the necessary alliances, there is a chance of ultimate success. Along the way, by keeping up this pressure, we will also be able to ensure that the EU’s considerable resources – such as its political and diplomatic clout, its development funds and expertise, and its border control capabilities – are focused on mitigating the problem to the greatest extent possible.
169. Malta should also do more to tap Europe’s wealth of experience when it comes to migrant integration, which should clearly be an important plank in our raft of policy responses to this complex challenge.

## Challenges on the Home Front

- 170. Malta's recent history shows that we need to be constantly moving forwards in order to survive and thrive, always on the lookout for new economic opportunities. Treading water is simply not an option.
- 171. Just as, by creating the right regulatory environment and setting the right incentives, we have managed to attract investments in the pharmaceutical industry, financial services, back-office work, aviation, computer gaming and online betting, so we must always be on the lookout for the next big thing.
- 172. While Malta sailed through Europe's economic crisis relatively unscathed, most of our EU neighbours are undertaking painful reforms that will make them more competitive. They are slowly coming back out of the woods, and they are leaner and hungrier than before.
- 173. To keep ourselves ahead our own reforms must continue. To name but a few, we must continue to reduce the number of early school leavers and truly become a knowledge economy; get a higher proportion of people, especially women, to participate in the labour force; balance the budget; reduce the size of the public sector; seriously address the future consequences of an aging population; and reduce the administrative burden on economic operators.
- 174. Perhaps most importantly of all we must provide ourselves with a justice system that works in real time.

## No Guarantees

- 175. While EU membership gives a Member State invaluable tools that optimize the opportunities for positive development and economic growth, it offers no guarantees of either.
- 176. To illustrate this it is worth looking at the experience of the two Mediterranean states to accede to the European Union together with Malta on 1 May 2004.
- 177. Slovenia today has a contracting economy, an unemployment rate of 10% in 2013 (as compared to only 6% in the year of accession), and only now seems to be pulling back from the brink of requiring an EU bailout.<sup>32</sup>
- 178. Cyprus has an unemployment rate of nearly 16%, more than three times the rate at the time of accession, and its economy contracted by over 5% in 2013. It is in a worse financial and economic position today than it was before accession.<sup>33</sup>
- 179. Poor governance and bad decision-taking has got them there. In the case of Slovenia there was a failure to tackle institutionalised corruption, an incomplete privatisation

<sup>32</sup> Figures from Eurostat.

<sup>33</sup> Figures from Eurostat.

process and in some respects an incomplete transition from a command economy to a market oriented one.<sup>34</sup>

180. In the case of Cyprus there was, *inter alia*, a massive exposure to Greek debt, and to (often suspect) Russian finance, coupled with the catastrophic error of storing hazardous materials next to the country's major power station. The resulting lethal blast cost around €2.4bn, or nearly 14% of the country's GDP.<sup>35</sup>
181. Another 1 May 2004 EU entrant, Hungary, showed that even in political terms EU membership is no guarantee against regression. In 2011 Prime Minister Viktor Orban mounted what has been called "a constitutional coup" that "all but removed checks and balances to the power of Hungary's government and ruling party", and changed electoral laws in such a way that "could keep the party responsible...in power for years to come".
182. Mr Orban's party was duly re-elected in April 2014 with "44% of the vote but a whopping 67% of the seats in parliament" (enough to allow it to alter the Constitution at will). According to the Financial Times all this exposed "a flaw in the EU's legal framework. While new entrants must prove compliance with democratic norms, there is no comeback if they subsequently fall short".<sup>36</sup>
183. While the EU does have monitoring mechanisms, and its own level of checks and balances, the cases of Cyprus, Slovenia and Hungary show that both in the economic and the political spheres, these might not be enough in the absence of good leadership and governance. The EU cannot save a Member State from itself.
184. Before accession, the EU made progress toward membership conditional on candidate countries toeing the line. That sort of 'teacher-student'<sup>37</sup> relationship came to an end with accession, and that is obviously a good thing. We've joined the big leagues. We have to take full responsibility for our own decisions and actions.
185. Our European partners can give us encouragement, offer advice, and lend a helping hand, just as we can do the same for them. But it is up to us to keep ourselves moving forward and on the right track.
186. It always has been.

<sup>34</sup> See for example <http://www.economist.com/news/finance-and-economics/21590956-fight-avoid-sixth-euro-zone-bail-out-reaches-climax-stressed-out>

<sup>35</sup> Valuation by Credit Suisse, quoted at <http://www.financialmirror.com/blog-details.php?nid=1109>.

<sup>36</sup> All quotes from <http://www.freedomhouse.org/blog/viktor-orban-and-state-hungarian-democracy#.U3KMiYGSwWI> and <http://www.ft.com/intl/cms/s/0/a5fe09ee-3604-11e1-ae04-00144feabdc0.html#axzz31dCrhhUy>

<sup>37</sup> See note 15.

## CONCLUSION

187. Former Prime Minister Dr Edward Fenech Adami contends that ‘a clear sense of belonging was the driving force for EU membership’.<sup>38</sup> This sense of belonging is what has made EU membership feel like a good fit for Malta.
188. 61% of Maltese people think of themselves as European in addition to being Maltese, higher than the equivalent average in the Union as a whole (54%).<sup>39</sup> And while the number of Maltese respondents who view the EU in a positive light has gone down in the last couple of years, it remains significantly higher than the number of those who view it in a negative light, and higher also than the average in other EU Member States.<sup>40</sup>
189. This paper has argued that Malta has found in the EU a community of like-minded states that has provided a coherent set of values, an incentive and a blueprint for development, and systems of benchmarking and ‘peer review’ that have helped the country to develop and prosper during difficult times.
190. Like every other Member State to varying degrees, we do not always live up to European ideals, standards or even laws; but even where we fall short it is usually a European value that we are aspiring towards, and an EU yardstick that we are measuring ourselves by.
191. This clearer sense of who we are and where we want to go has increased our sense of self-assurance, and, together with the larger stage offered by EU membership, has changed and enriched the country’s international profile and the way it operates on the world stage.
192. For a small island on the periphery of Europe, the most pervasive and far-reaching change has been wrought by the rich exchanges with Europe at every level – schoolchildren, teachers, students, workers, civil servants, diplomats, politicians, local government officials and more. These people have been exposed to new ideas, new thinking, often a new scale of doing things.
193. The result is – and this is a positive conclusion shared by all those interviewed for the writing of this paper – that as a people we are far less insular, far more open, and less resistant to change than we were just ten years ago.
194. In economic terms, the stability and credibility conferred by EU membership and the adoption of the Euro have kept the islands safe during turbulent times.
195. Most importantly, they have given us ‘safe haven’ status during the international storm, creating a strong flow of Foreign Direct Investment to a widening range of sectors that has

<sup>38</sup> Interview, 6 March 2014.

<sup>39</sup> Eurobarometer, Autumn Wave, 2013.

<sup>40</sup> According to the 2012 Eurobarometer, 37% of Maltese respondents viewed the EU in a positive light, as opposed to 30% of respondents in other EU Member States. 23% of Maltese respondents viewed the EU in a negative light, as compared to 29% of respondents from other Member States.

buoyed our economy and made it highly resilient. While other EU economies, especially in the Mediterranean, have stalled or contracted, we have continued to grow.

196. Two of the major reasons for this success have been the politically difficult reforms that have taken place over the past two and a half decades, and the decision to invest EU funds heavily not only in physical infrastructure, but also in Malta's human capital and knowledge infrastructure.
197. The consequences for Malta had we faced the global economic crisis that broke in 2008-2009 with a small and vulnerable national currency, possibly still dependent on Italian Financial Protocols to help fund our national development, are likely to have been catastrophic.
198. The country still faces major challenges as it looks to the future. As an EU Member State the EU's problems are now its own, and these problems look more numerous and more serious at present than they have done for a long time.
199. Elements of the financial and economic crisis that hit Europe still linger. Whether they are effectively addressed, and how, could have significant implications for Malta, and could put into question some of the economic gains the islands have undeniably made since acceding to the Union and adopting the Euro.
200. Similarly, the EU's perceived democratic legitimacy crisis, and the poor light in which the European project is viewed by its citizens as evidenced by the European Parliament elections in May 2014, makes this a watershed moment for the Union. Either there is a credible response by European leaders, and the EU can re-imagine and renew itself; or the weakening of intra-community bonds already arguably in evidence within the Union will gather pace. Developments in the Eurozone, and in the UK and other countries, will be important to follow in this regard, not least in light of Malta's EU Presidency in 2017.
201. Malta will also have its own particular challenges to face. It will need to continue weaning itself off European Union funds as it becomes more prosperous. And it will need to continue pushing for its partners to share fairly the burden it currently bears as a frontline state along a major migratory route from North Africa and the Middle East towards Europe.
202. It will also need to ensure that its economy remains sustainable and continues to deliver results. The readiness to diversify, the regulatory innovation and robustness, and the continuous investment in people and learning that have characterised the first ten years of membership must be preserved and developed, and new niches discovered.
203. Malta should look ahead to these challenges with the confidence it has earned after ten, well-spent years of EU membership. But it must also keep its eyes wide open to the dangers and challenges ahead, in the knowledge that there are no guarantees of success beyond our own hard work, resourcefulness and good governance.



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