CHAPTER 19: THE MEDITERRANEAN ISLAND STATES: MALTA AND CYPRUS

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Introduction and Background

The 2004 European Union enlargement also included the Mediterranean island-states of Cyprus and Malta, two former British colonies and members of the British Commonwealth. The islands share a number of similarities but they are also dissimilar in uniquely distinct ways. The membership applications of both states initially presented the EU with a number of political difficulties. With respect to Cyprus, many member states would have preferred to see the island join the Union after the 'Cyprus Problem' had been settled. As for Malta, the island showed a very high degree of Euroskepticism. It froze its application in 1996 but reactivated it in 1998. Apart from this skepticism the island's neutral status, enshrined in the Constitution could present insurmountable problems.

Compared with the other applicant states from central and Eastern Europe, the two Mediterranean isles are more economically and politically advanced. This, combined with their small size, presented the EU with fewer problems of absorbing them. Indeed, both states had experienced self-government and democracy since their independence from Britain in the 1960s and a market economy much before that time. Both had had a long standing economic relationship with the Union predating similar relations between the EU and new member states from central and Eastern Europe by at least two decades. Malta and the European Community signed an Association Agreement in 1970, while Cyprus followed suit in 1972. In 1987, Cyprus embarked on the last phase leading to a customs union with the EU, while in 1989, the much-postponed EU-Malta customs union was shelved indefinitely on the insistence of the Maltese government.

While it is too early to make a thorough assessment of the effects of EU membership on Cyprus and Malta, the membership impact is already being felt in both states. This chapter focuses on the effect of EU membership on Cypriot and Maltese domestic politics, on the ongoing process of economic reform and the two islands' quest to adopt the Euro by 2008, and last, on salient security concerns.

Similarities and Dissimilarities

The two island states enjoy a strategic position in the Mediterranean region. Cyprus is situated in the Eastern Mediterranean close to the Middle East, Turkey and the important maritime gateways of the Bosporus and the Suez Canal. Malta is located in the middle of the Mediterranean Sea close to the main maritime highways that crisscross the region. For more than two millennia and no doubt due to its strategic value, Malta was held by the major powers which dominated the Mediterranean region from the Carthaginians down to the British. The history of Cyprus shows a similar pattern of development.

Malta, Cyprus and Gibraltar together with Alexandria, the Suez Canal and Aden, at the tip of the Arabian peninsula, formed part of Britain's highway or supply chain to India in the heyday of the British Empire. However, the situation changed rapidly after the end of World War II. The independence movement in the British Commonwealth and Britain's gradual retreat from the Far East transformed the geo-strategic importance of Cyprus and Malta without however diminishing their importance. Both islands acquired a new strategic status as a result of the cold war. Cyprus's new strategic value was derived from its proximity to the Dardanelles, the Suez Canal and the turbulent Middle East region not to mention its proximity to the countries of the Baghdad Pact[1], one of the many American inspired alliances surrounding the USSR as part of Washington's containment policy. In the central Mediterranean the geo-strategic situation was also somewhat similar. However, when the UK military bases were closed down in Malta in 1979, their functions were transferred to NATO military bases in Sicily. UK military bases continue to operate in Cyprus within the confines of the Sovereign Military Base Area (SBA) established by *The Treaty of Establishment* signed between the UK, Greece, Turkey and Cyprus on August 16, 1960. The EU-Cyprus Act of Accession also affected the SBA.[2]

The two islands' histories also differ in many respects. In ancient times Cyprus formed part of the Hellenic world, as it still does in contemporary times. Its predominant culture is Hellenic and its religion, Greek Orthodox, with Greek being the main spoken language, while the Turkish Cypriot minority in the Northern part of the island is Muslim and speaks Turkish. By contrast, there are no sizeable ethnic minorities in Malta and the spoken language is Maltese, descended from Arabic, the only surviving relic from the Arab period (800-1000 AD), while the main religion is Roman Catholicism. Both countries' histories are connected with Turkey's but in a distinctly different way. Malta led by the Knights of St John of Jerusalem resisted incorporation into the Ottoman Empire in the epic 'Great Siege' of 1565 while Cyprus fell to the Ottomans six years later in 1571.[3]

Given the small size of their domestic economies, both island states are heavily dependent on trade, especially in the case of Malta.[4] Both have developed tourism as an important source of national income but to a markedly different extent as measured by its contribution to GDP. The economic sectors contributing to the national wealth of the two isles have evolved differently with, for example, agriculture enjoying a more important role in the Cypriot than in the Maltese economy. The different role of agriculture in the islands' economies is also connected to the difference in the physical territorial size of both islands and their respective population densities. Cyprus is 30 times the size of Malta. The Cypriot population at 730,400 is twice Malta's at 399,900[5]. In the world's population density league, Malta with 1,192 persons per km² ranks ninth while Cyprus with 81.61 per km² is in the 114th place. Cyprus is wealthier than Malta: its GDP per capita in PPS compared with the EU average is 82.9%, while Malta's is 73.2% (EU25 = 100).[6]

How and In What Ways Has the EU Influenced Malta and Cyprus?

Membership

Main Hurdles on the Way to Membership Cyprus and Malta applied to join the EU respectively on July 4 and 16, 1990 under the Italian Presidency of the Union. The European Commission's Opinions on both applications were published in 1993.[7] Both island states had to overcome a number of serious obstacles on their respective roads to membership. In Cyprus, there was a quasi cross-party consensus in the Greek part of the island on the membership application and the widely shared view among political elites and the public alike was that membership could help resolve the "Cyprus Problem' which had arisen following the forcible division of the island by Turkey in 1974. The largest Cypriot political party, the Cypriot Communist Party - actual name, the Progressive Party of the Working People (AKEL) - at first opposed EU membership. This would have constituted a serious obstacle to be overcome had this position been doggedly adhered to by AKEL. However, at its 18th Party Congress (1995) AKEL changed its policy. This was probably influenced by the changes which had occurred in Europe following the fall of communism and the need felt within AKEL's ranks of adapting the Party's political program to the new realities, including that of aligning itself with the European democratic left, an issue of political survival within the new European political context.

At the same time the Cyprus Problem was more than just a domestic political issue. Indeed, a broader discussion of Cyprus's EU application has to be contextualized within the special links which Greece, Turkey and the UK have with the island: the three states were involved in protracted negotiations culminating in the London-Zurich accords of February 1959 on the basis of which a number of treaties were concluded according Cyprus a 'conditional independence'.[8] On the basis of these treaties, the UK siphoned off for itself a 'sovereign base area' (SBA) with a total land area the size of the island of Malta (99 square miles). Greece and Turkey secured the right to special links with the respective ethnic communities on the island and to station some troops there. Cyprus, Greece, Turkey and the UK signed a *Treaty of Guarantee* in Nicosia in August 1960 by which they assumed joint responsibility for safeguarding the independence, territorial integrity and security of Cyprus.[9] When Turkey invaded and partitioned the island in 1974, it invoked violation of this *Treaty of Guarantee* as the main pretext for its intervention.

Thus, when Cyprus applied for EU membership, its application became immediately entangled within the nexus of EU-Turkey relations, the tense relationship between Greece and Turkey and Britain's military/strategic interests in the island. Greece, already an EU member state, supported Cyprus's application, but Turkey, which has a long standing Association Agreement with the EC signed in Ankara in 1963, opposed it. The Ankara Agreement, together with Turkey's membership of NATO and the Council of Europe, strengthened Turkey's leverage vis-à-vis the EU. In particular, the Ankara Agreement envisaged Turkey's eventual EC membership in the longer-term (after 22 years). Turkey applied for membership in 1987, but its application was rejected two years later. The application was re-launched following the 1995 EU-Turkey Customs Union Agreement. At the end of 2004, the EU finally agreed on the conditions for starting membership negotiations with Turkey, after considering the European Commission's appraisal of the main implications for the EU of Turkey's membership.[10]

Turkey, which does not recognize the Government of the Republic of Cyprus, is the only state, which recognizes the Turkish Republic of Northern Cyprus (TRNC) established in 1985. Turkey also maintains a strong military force in Northern Cyprus estimated to consist of around 35,000 troops.

A majority of EU member states were reluctant to 'internalize' the conflict in the Union by admitting Cyprus. They initially preferred that the problem be resolved before Cyprus was actually admitted, believing that their stance would coax Cyprus into seeking a lasting solution. In fact, in its Opinion on the Cypriot membership application, the European Commission drew attention to the problems posed by the 'de facto division of the Island', and that the membership application had been contested by the authorities of the self-styled Turkish Republic of Northern Cyprus (TRNC).[11] However, the Commission "…following the logic of its established position, which is consistent with that of the UN where the legitimacy of the government of the Republic of Cyprus and non-recognition of the 'Turkish Republic of Northern Cyprus' are concerned, felt that the application was admissible."[12] Indeed, in 1997, the EU offered the TRNC the possibility of participating in the membership negotiations without requiring mutual recognition with the Government of Cyprus, but the TRNC declined. The Commission also proposed that should the inter-communal talks between the Greek and Turkish Cypriots fail to lead to a political settlement of the Cyprus Problem, the question of Cyprus's accession should be reconsidered in

January 1995.[13] In fact, that is what happened, but also, during that year, the EU-Turkey Customs Union agreement concluded and complicated matters further since it implied the eventual application of trade preferences to the whole of Cyprus, and hence by implication Ankara's eventual recognition of the Greek-Cypriot government. It was also argued that goods from the TRNC could not enter the EU customs union through Turkey unless they came from ports controlled by the Government of Cyprus. At the time, speculation was rife that Brussels had facilitated the conclusion of the customs union agreement in return for Ankara's lifting its objections to membership negotiations commencing with Cyprus. Indeed, in June 1995, at Cannes, the EU Council had reaffirmed that membership negotiations with Cyprus and Malta would commence "six months after the conclusion of the 1996 Inter-governmental conference and taking the outcome of that conference into account."[14] This speculation received a cold shower following the Turkey-TRNC Joint Statement of December 29, 1995, in which the two sides opposed Cyprus's EU membership, underlining that membership would only be possible in conjunction with a solution to the Cyprus Problem, and adding further that Cyprus could join the EU only simultaneously with Turkey.[15]

The EU gradually overcome these difficulties, and The European Council meeting in Helsinki in December 1999 underlined:

"…that a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by the completion of the accession negotiations, the Council's decision on accession will be made without the above (the solution of the problem) being a precondition. In this, the Council will take account of all the relevant factors."[16]

While thus yielding to pressures, started in the EU Council by Greece, prior to the 1994 Corfu European Council, and sustained thereafter, that Cyprus should be allowed to join the

Union whether or not a solution had been found to the Cyprus Problem, the EU made it clear to Turkey that its own membership ambitions depended a lot on progress on this problem. The EU was trying, as it was also doing in Cyprus, to give Ankara the incentive to work for a solution to the Cyprus Problem.[17]

Membership negotiations commenced with Cyprus and Malta in 1998 and went into full gear in February 2000 together with the other applicant countries. Malta had in the meantime reactivated its application in 1998. The negotiations concluded at the end of 2002. A last ditch effort to achieve a solution to the Cyprus Problem before enlargement on the basis of a UN Plan (Annan Plan) failed.[18] The final phase in this last attempt to push through an agreement began in February 2004 with intensive negotiations between leaders of the two Cypriot communities under UN auspices. At the end of these talks, UN Secretary General, Mr. Kofi Annan, optimistically expressed that a solution was “within reach”.[19] Further negotiations in Bürgenstock (Switzerland) in March achieved some progress but the two sides failed to agree on all outstanding issues. At this point, as had been previously agreed, Mr. Annan stepped in to “fill in the blanks”, and the plan was then submitted for approval by the two Cypriot communities.[20] Greek and Turkish Cypriots voted on the plan in two separate but simultaneous referenda on April 24, 2004. The Greek Cypriots voted to reject the Plan while the Turkish Cypriots voted in its favor. As a result, the EU admitted the whole of Cyprus, but the *acquis communautaire* was applicable only in those areas controlled by the Cyprus government. The northern Turkish Cypriot enclave thus remained isolated.

(Insert Table 1 about here)

In Malta's case, EU membership proved to be equally turbulent albeit in contrast to Cyprus only domestic political issues were mostly involved.[21] The Maltese were split down the middle between those who favored membership and those who opposed it. The Nationalist Party (NP) in government since 1987, except for a brief 22 month spell between 1996-98, favored membership while the Opposition Malta Labor Party (MLP) enjoying just under half of the support of Maltese voters, opposed it, proposing instead a 'special relationship' with the Union based on a free trade area agreement. Elected to govern the island in 1996, the MLP suspended the membership application and pursued instead the FTA option under the slogan of a "Switzerland in the Mediterranean". However, following the return to government of the Nationalist Party in 1998, as a result of an unprecedented and unexpected early election provoked by a split in the Labor Party and leading to a defeat for the government in a crucial parliamentary vote, the membership application was reactivated. After the end of the negotiations, the Maltese voters finally decided the issue in a referendum held on the March 8, 2003, and a general election held on April 12 of the same year. In the referendum, close to 54% voted in favor of membership (turnout 91% of registered and eligible voters) while in the election, the PN was returned to govern with slightly less than 52% of the valid votes cast (with turnout about 95%). The main issue in the election was the EU membership question.[22]

Political Effects of EU Membership: The Results of the May 2005 Referendum and the June Elections to the European Parliament

Mindful of the fact that political developments rarely follow a positively linear course and that it is too early to make a thorough assessment of the full impact of EU membership possible, there are clear signs that membership has begun to change the national political landscape in both Cyprus and Malta. It is too early to assess the nature of these changes but what is certain is that both Cyprus and Malta witnessed a spate of political events and developments, which up to a few months before would have been “unthinkable”. The political institutions of both island states have begun to adjust to the new domestic and European context instigated by membership in many ways.

Malta The main change following EU membership was manifested by the MLP’s policy-shift in favor of accepting membership. In Cyprus, membership instigated a relaxation of the restrictive measures applied by both communities on the ‘border’ dividing them, without, however, bringing them appreciably closer to a formal agreement on a lasting solution to the Cyprus Problem. In Northern Cyprus, the Turkish Cypriot community’s reluctance to be left out of the EU’s enlargement led to the first serious challenge since 1960 to the strong political hold exercised by the community’s leader Rauf Denktash.

The referendum and election results in Malta, with high electoral participation rate on both occasions, left no doubt that a majority favored membership. This majority would probably have been larger had the MLP allowed its supporters a free vote on the issue. Faced with this setback, the MLP had to take a pragmatic approach to membership and switch its policy. This was not an easy u-turn to perform, considering that the Campaign for National Independence (CNi), headed by a former MLP leader and Prime Minister, Dr Karmenu Mifsud Bonnici, had played a vocal part in the anti-membership “No” campaign and had strong roots in the MLP. In November 2003, the MLP made an early start to its policy shift when its general conference approved a motion proposed by the party’s executive to accept EU membership. A counter motion by Dr Mifsud Bonnici was withdrawn following acceptance, by both sides, of an additional phrase to the main motion calling upon the MLP to do its utmost to counter all the negative effects that could result from membership.[23] Having taken the first step, the MLP contested the elections to the European Parliament held on June 12, 2004. Surprisingly it won three seats, to the governing Nationalists' two, out of the five seats allotted to Malta. Labor's performance was helped by the fact that the candidate of *Alternativa Demokratika* (AD), the green party, took away enough votes from the Nationalist candidates to allow the MLP to beat the Nationalists at the post for the third seat.[24] Following this success, Labor began its internal debate, on the stand it should adopt, within the Maltese House of Representatives, on the new European Constitution when it came up for ratification. After a lengthy and often acrimonious internal debate, in which Dr Mifsud Bonnici and his CNi acolytes called upon the Party to vote against the European Constitution, the Party conference was asked to vote on two resolutions one proposed by the National Executive favoring ratification with some reservations mainly on Malta's neutrality, and the other by Dr Mifsud Bonnici proposing a rejection of the Constitution. The motion by the national executive was approved by 85.6%, while the Dr Mifsud Bonnici's motion obtained only 14.4% of the votes.[25] The Maltese House of Representatives, thus, voted unanimously in favor of the EU Constitution on July 6, 2005.[26] The vote within the House signaled the beginning of a new political era in Malta in which all the three Maltese political parties, namely the governing Nationalist Party and the Opposition Malta Labor Party, represented in Parliament, and the small green party, Alternattiva Demokratika, which is not represented in the House of Representatives, favor membership in the EU. This internal Maltese political convergence on EU membership occurred after the rejection of the Constitutional Treaty in the referenda in France and the Netherlands.

<u>Cyprus</u> The effect of EU membership on the domestic political scene had dramatic effects. However, in contrast with Malta, the elections to the European Parliament and the ratification of the European Constitution did not jolt the political establishment. Cyprus ratified

the European Constitution on June 30th, 2005 following a special two-day parliamentary session. Thirty MPs voted in favor of Constitution, 19 members belonging to AKEL voted against it, and one member of the Green Party (KOP) abstained because a request he had made for a referendum on the issue had been rejected. According to Article 169 of the Cyprus Constitution, the international treaties have to be approved by Parliament, through a simple majority of members present and voting, with at least one third of MPs present. The parties voting in favor were the Rally for Democracy (DISY), the Democratic Party (DIKO), the Social Democratic Party (KISOS), New Horizons (NEO), United Democrats (EDI) and the Democratic Movement (ADIK). The Elections to the European Parliament saw the six seats allotted to Cyprus go to DISY (2), AKEL (2), DIKO (1) and For Europe (1) with hardly any surprises though turnout at 71.19% was appreciably high.[27]

(Insert Table 2 about here)

The more dramatic political tremors caused by EU membership were felt in the relations between the Greek and Turkish Cypriot communities. The first EU-instigated change took place in Turkish Cypriot Community, where two factors combined to weaken the hold of Turkish Cypriot leader Rauf Denktash. The first was linked to Turkey's keenness to improve its relations with the EU in the light of its membership ambitions. This led to pressure on Mr Denktash to force him to be less intransigent in the Annan Plan negotiations. In time this flexibility proved not to be sufficient to satisfy Greek Cypriot expectations. The second factor was the increasing support for Turkish Cypriot political parties favoring an agreement on the Annan Plan so that the northern enclave would not miss out on EU membership. This led to the election of Mehmet Ali

Talat leader of the Republican Turkish Party (Cumhuriyetçi Türk Partisi) as Prime Minister in 2004 and subsequently as President of the TRNC in April 2005.

In April 2003, a year before Cyprus joined the EU, the TRNC while still firmly in the hands of Mr Denktash, took the unilateral and surprising decision to open its borders to allow Turkish Cypriots to travel to the southern part of the island provided they returned back on the same day (7.00 – 24.00 hours). This arose from an increasing sense of isolation felt in the Turkish enclave given that Cyprus was joining the EU but that part of the country would continue to be barred from the benefits of membership. Soon after the decision to relax the controls on travel to the south, the TRNC allowed Greek Cypriots to visit the North for up to three days, provided they made suitable travel arrangements through a tour operator or supplied evidence on exit from the TRNC of having stayed in hotels.[28] At the end of April 2003, the Government of Cyprus announced measures to make it easier for Turkish Cypriots and other persons lawfully residing in Cyprus to move from the occupied to the Government-controlled areas. The Government announced the creation of more controlled crossing points, the relaxation on the restrictions in force regarding tourists and to facilitate the circulation of vehicles. However, the more important measure from the Turkish Cypriot standpoint was the announcement of measures to facilitate the employment of Turkish Cypriots who live in the occupied areas by employers in the Government-controlled areas with the same terms of employment applicable to the rest Cypriot employees.[29] The measures announced by the government in Nicosia included the facilitation of employment of Turkish Cypriot professionals, even though they obtained their qualifications in educational institutions considered illegal by the Government of Cyprus, participation of Turkish Cypriots in EU educational programs, local and European Parliamentary elections, facilitation of access to medical care, the issuing of travel documents and the de-mining of the buffer zone. Other, less ambitious though important measures occurred in the military field and included, apart from de-mining the borders, troop reductions by the Greeks in sensitive areas.

The main event in Cyprus, prior to enlargement, was the rejection by the Greek Cypriots of the Annan Plan. This decision disappointed many in the EU. However, it is also significant that as Claire Palley has shown in her more detailed analysis of the issue, Greek Cypriot misgivings on substantive parts of the Plan were not answered prior to the poll. These included such matters as financing the unification of the island, the rules governing the recovery and/or compensation of land and property lost by Greeks in the northern part of the island as a result of the 1974 Turkish invasion (property rights), the UK's attempt to extend the territorial waters of its SBA on the back of the agreement, the security of the island post-unification and, last the proper functioning of the proposed institutional framework of the new state proposed under the Annan Plan.[30] In July 2004, the Commission proposed a set of comprehensive measures aimed to help end the isolation of the Turkish Cypriots by facilitating exchanges across the green line.[31] This led to a new Council Regulation and a new regime governing the free movement of goods, services and persons across the 'green line' separating the two Cypriot communities and which came into effect as soon as Cyprus joined the EU.[32] The legal basis of this 'green line' regulation is Protocol 10 of the Act of Accession.[33] The protocol specifies that the application of the acquis is suspended in areas of Cyprus which are not under the effective control of the Government, but the Council, acting unanimously, can define the terms under which provisions of EU law shall apply to the boundaries separating the Turkish occupied Northern part of the island from the government controlled area and from the SBA.

How and In What Ways Do Cyprus and Malta Influence the EU?

Because Cyprus and Malta are small states and because they are also new members (May 2004), they have not had time to exert much influence on the EU up to this time. Their position in the Mediterranean, however, makes them strategically important, and Cyprus, with its mixture of Greek and Turkish cultures and politics has the potential to serve as a bridge nation between Turkey and the European Union. Both states enjoy increased prestige within the Mediterranean region and their own sub-region, attributed to them by the non-EU states on the basis that, as EU member states, Cyprus and Malta can influence the Union's policies. Both states are also relatively strong economically, so their membership has not drained the EU's limited budget. They are on the border of being either beneficiaries or contributors depending on various rulings at different times. Malta, for example, worked hard to change the distribution key for the allocation of funds in order to take account of population density and gain extra funds. Malta has the highest population density in the EU. In December, the European Council decided that high population density should be taken into account in the allocation of the Cohesion funds.[34]

How Do Cyprus and Malta Implement EU Law -- Europeanization or Deepening Modernization?

The analysis now turns to other issues directly related to EU membership. The implementation of the *acquis communautaire* by Cyprus and Malta, which started prior to membership and continued after, has led to a process of modernization, restructuring and consolidation in a number of fields on the two islands.

Many reforms which Cyprus and Malta confront are related to their quest of joining the single currency, the Euro in 2008 and in achieving the goals of the "Lisbon Strategy". The

Lisbon Agenda was launched in March 2000 with the aim of turning Europe into "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment" by 2010.[35] Its aims were renewed by the European Council in the mid-term review of the policy carried out in the spring of 2005.[36] According to this Strategy, the EU member states have to adopt a national plan for achieving the Lisbon Goals. Accordingly, both Cyprus and Malta published their strategies, National Reform Programs (NRPs) as they are referred to by the Commission, in the fall of 2005. These strategies coordinate with the reform *Convergence Plans,* which the new member states are obliged to follow in the run up to their joining EMU and, which for the time being, involves those countries hoping to join the Euro area in the 2007-2009, period.[37]

The main initial difficulty with the reform process to adopt the EU *acquis* concerned whether Cyprus and Malta would be able to cope with the volume of EU laws which had to be transposed into national law, given the small size of their public administrations. The capacity to adopt the *acquis* is one of the main concerns that surfaces when discussing the role of small states in the EU. Constantin Stefanou expressed the issue rather succinctly: "The 80,000 pages of the *acquis* have to be transposed irrespective of whether the applicant country is Poland with a population of 38 millions and a large civil service or Malta with a population of 400,000 and a civil service a fraction of the size of larger member states."[38] Limited capacity is a problem which the smaller states of the EU have to face even after joining the EU when additional pressures begin, such as those generated by the need to keep abreast with Commission and Council working groups and task forces.

Connected to this problem was another issue, namely whether the necessary legal changes could be approved by the respective parliaments as rapidly as required by the brisk pace of the membership negotiations. A 'negotiating chapter' could not be temporarily closed before the EU had ascertained that the necessary adaptations to the *acquis* had been completed by the applicant states. Both Cyprus and Malta created Parliamentary Committees to scrutinize EU laws and to pilot their approval through their parliaments. These committees eventually proved their usefulness in the membership phase as well. They also permitted a stronger involvement of the two national parliaments in EU affairs. In Malta's case, Parliament's role in the pre-accession stage could have been problematic given the Opposition's anti-membership stance, but the government coped well by programming its Parliamentary work and employing its parliamentary majority to approve the necessary bills. In the case of Cyprus, a simplified harmonization procedure was adopted after an uncertain start, which together with the European Affairs Committee within the House of Representatives ensured the timely approval of legislation.[39]

In addition, both Cyprus and Malta employed some of the pre-accession funds to finance the farming out of legal drafting and impact assessment reports of the introduction of EU measures, to private firms and consultancies thus reducing the pressures on the public administration.

(Insert Table 3 about here)

In Malta's case, given that the membership issue would eventually have to be decided in a referendum, the Government took the additional step of involving the organizations of civil society in the negotiating process by establishing an EU-Malta Action and Steering Committee

(MEUSAC), chaired by the Minister of Foreign Affairs, which discussed the various negotiating positions prior to their adoption by the Government. In addition, the Government also set up a Malta-EU Information Centre (MIC) to inform the public about the likely impacts of the more salient parts of the *acquis*.

The national civil services in Cyprus and Malta became involved at a very early stage in the negotiations, indeed during the 'screening phase' when they met Commission officials to assess national legislation for its compatibility with the *acquis*. This 'hands on' approach led to the civil services in both states becoming deeply immersed in the EU policies and issues. It was indeed a learning process in which civil servants were gradually also socialized in the working methods of the European Commission. The implementation of the *acquis* also implied the modernization of a number of public services. For example, both Cyprus and Malta have had to overhaul their national statistics agencies to bring them up to the requirements and methods of the EU statistical agency Eurostat, and to help determine the allocation of structural funds from the EU budget. The improvements in the national statistical agencies of Cyprus and Malta led to the production of improved and useful statistical indicators about the two countries as well as to the identification of the relevant EU benchmarks against which to measure progress in the various fields particularly in education, competitiveness (Lisbon Goals), the environment and social conditions of the people.

The broadening and deepening of the regulatory framework of the two states has necessitated the creation of many hitherto inexistent regulatory authorities in both Cyprus and Malta. These independent bodies include the crucial competition authority, but also regulators in other sectors mainly in the fields of telecommunications, the management of resources, environmental management, consumer affairs and energy. The establishment of these authorities required the separation of the regulatory and supervisory role from that of providing goods or services. These new bodies are leading to a new political culture besides further strengthening the transformation of government's role more and more into that of a regulatory function.

In the economic sphere, Cyprus and Malta had to rein in their respective financial services sectors, particularly the 'off shore' activities, by strengthening their anti-money laundering regime and regulatory framework. Both Cyprus and Malta had to increase regulatory controls on their 'open' shipping registers.[40] International and EU pressure to strengthen inspections by the Maltese and Cypriot maritime authorities of ships on their 'open register' intensified following the December 12, 1999 *Erika* incident in which the single hull tanker sank and spilled more than 10m liters of oil into the ocean and on France's Atlantic coast. A related incident involving another tanker, the *Prestige* which went down in November 19, 2002 causing another environmental disaster in Spain and France, intensified this pressure. Malta is ranked fourth and Cyprus fifth among those countries which maintain an open shipping register, though Malta and Cyprus registered a slight decline, respectively 3.5% and 1.2%, in registered tonnage during 2004.[41]

<u>EU Budgetary Transfers</u>

Cyprus and Malta are re-structuring their economies. Malta has began rolling back its intrusive state sector through privatization, and, by 2008, it is scheduled to terminate all state subsidies which are incompatible with EU law to its shipbuilding and ship repair yards. Cyprus faces the challenge of modernizing its agricultural sector. But the application of the *acquis* has also led to a redistribution of advantages ('welfare' gains and losses) within the two islands: for example, freer trade with the rest of the EU has widened consumer choice and dampened inflationary pressures; but it has also increased competition for domestic producers. Consumer protection laws and environmental regulations have raised the costs of compliance to the producers of goods and services, and these can normally be passed on to consumers. However, such measures may lead to a gradual improvement of the quality of life of citizens, if properly implemented and would have an impact on the two islands' competitiveness. The same can be said of health and safety regulations in factories and construction sites. It is therefore not easy, nor opportune, given the short time that has lapsed since Cyprus and Malta have joined the EU, to make many definite pronouncements on this 'redistribution' effect.

Transfers from the EU budget are another important element of the membership package because they can help mitigate some of the negative effects of restructuring. However, these transfers are slightly more important in the case of Malta than of Cyprus. Malta is treated as a single Objective One region. The regions falling under this heading are the poorest of the EU with a GDP per capita in Purchasing Power Standards (PPS) below 75% of the EU average. Cyprus is eligible to aid under Objective Two and Objective Three. Both Cyprus and Malta qualify for transfers under the Cohesion Fund since their GDP per capita in PPS is less than 90% of the EU average and both have embarked on a Convergence Program to join the Euro area.

The EU budgetary provisions for the period 2007-2013 approved by the European Council in December 2005 indicate that Malta will be a net beneficiary from the EU budget during the period indicated, and Cyprus will remain a net contributor. The Maltese Prime Minister claimed that Malta will receive €805 million at 2005 prices for the whole 2007-2013 period. Its contribution to the budget, including the UK rebate is calculated at around €350 million, leaving Malta a net balance of €455 million.[42] The President of Cyprus indicated that Cyprus will receive around €580 million over the same period but that it would still remain a net overall contributor.[43] Other estimates indicate that Cyprus might be a net beneficiary.[44] What is significant in this case is that revised Commission supplied GDP figures for 1997-99 for Cyprus show that it should have been eligible for Objective 1 treatment for the period 2004-06 but was not treated as such. For this reason the December 2005 European Council allocated additional transfers to Cyprus and decided that the island's starting point in 2007 will be similar to that of those regions of the EU 15 which will have their regional aid gradually phased out in the period 2007-2013 because their GDP per capita has risen above the 75% of EU average as a result of the accession of poorer countries in the EU. These regions would have been classified under Objective One had enlargement not taken place.[45]

Transfers from the EU budget to Cyprus and Malta can help cushion some of the negative effects of the re-structuring process. However, this does not preclude the importance of carrying out reforms. The operation of the structural funds requires the member states to submit sufficient projects which are eligible for such aid and projects have to be co-financed by a smaller national contribution. These projects can strengthen the economic growth potential of the EU states. But setting aside these and similar issues, by far the most important economic challenge which Cyprus and Malta have to face as EU member states is to make progress on the 'Maastricht Convergence Criteria', the macro-economic indicators which will demonstrate their eligibility to join European Monetary Union (EMU). For this reason both countries adopted an economic *Convergence Program.*

Joining the Euro Zone

The new member states are obliged to adopt the Euro once they are ready to do so. It is up to each member state to indicate when it is ready to join the European Monetary Union (EMU). Preparations for EMU have essentially involved all the new member states, including Cyprus and Malta, in a three stage process, the first of which started in the pre-accession phase when they adopted certain preparatory measures by liberalizing capital movements and strengthening the independence of their central banks. The second stage commenced when the new member states joined the Exchange Rate Mechanism (ERM 2) of the European Monetary System. The Maltese Lira and the Cyprus Pound entered ERM 2 on May 2, 2005. The Maltese Lira joined at the central parity rate of Lm0.429300 to the Euro while the Cyprus Pound did so at the rate of £CY0.585274 to the Euro within the standard fluctuation bands of ±15%.[46] Both Cyprus and Malta had missed joining ERM 2 in June of 2004 with the 'first wave' consisting of Slovenia, Estonia and Lithuania, primarily because of their high fiscal deficits. Cyprus and Malta are planning to switch over to the Euro on January 1, 2008 using a 'big bang' approach. Malta has set up a National Euro Changeover Committee (NECC) under the direct responsibility of Cabinet (which has established an internal Steering Committee on the changeover). The NECC receives advice from the Central Bank of Malta and works in close collaboration with it. In the case of Cyprus a Joint Coordinating Committee has been established between the Central Bank and the Ministry of Finance, chaired by the Minister of Finance.

Prior to, but particularly upon membership, the new member states began to take the practical measures to introduce the Euro and to follow monetary and fiscal policies dictated by the need to achieve the Maastricht convergence criteria as a condition for adopting the Euro. These criteria are laid down in Article 121.1 of the Treaty on European Union.[47] Briefly, they comprise: *price stability*: inflation rate must not exceed by more than 1.5 percentage points that of the three best performing countries; *public finances*: the government deficit has to be below the 3% of GDP and the level as well as the evolution of the government debt compared to the reference value of 60% of GDP; *exchange rate stability*: observance of the normal margins of the exchange rate mechanism of the EMS without severe tensions of devaluation for at least two years; *long term interest rates*: not exceeding by more than 2% that of the three best performing countries in terms of price stability.

On the basis of the *Stability and Growth Pact* member states are obliged to provide the Commission each year with detailed information on their economic policies and fiscal stances.[48] Those member states which have already adopted the Euro follow what are called *Stability Programs* while the new member states preparing to join EMU pursue *Convergence Programs*. It is only when they have satisfied the Maastricht criteria for two years, that they are given the green light to join the Euro.

The arguments surrounding EMU and its effect on the new member states have been many but they have turned mainly on whether the Euro area itself is an ‘optimal currency area’, the loss of monetary freedom it entails for its participants and how this may constrain their ability to cope with their respective economic developmental challenges and to deal with exogenous shocks considering that most of them, including Cyprus and Malta, still have a lot of ‘catching up’ to do vis-à-vis the older member states and lastly the timing of introducing the Euro.[49] Underneath the surface of most of these critical perceptions lies some Keynesian ‘hangovers’ based on the belief that governments can still influence the smooth running of their economies by adjusting demand.

Notwithstanding the many misgivings about the adoption of the Euro, there are however some clear advantages. The public authorities in both island states are constrained to promote price stability and to restrict government spending by improving the efficiency of the public sector. Restrictive fiscal policies may also lead to a lower tax burden which in turn affects consumption and the overall competitiveness of the economy. Low public debt and restricted government deficits strengthen the two islands’ resilience to external economic shock.

Furthermore, the two islands' economies are already strongly linked with the EU so that a substantive part of their goods and services' trade take place with the Euro-area, a trend which the changeover to the Euro will help consolidate. However, the likely effects of the Euro on both states are also different.

In Malta's case around 33% of its merchandise exports, 58% of its imports, 41% of the earnings from tourism and 49% of the spending of Maltese tourists overseas are connected with the Euro-area. This indicates the share of the Euro-denominated exchanges, which, *ceteris paribus*, will be taking place as soon as Malta joins the Euro area.[50] For Cyprus, the corresponding figures are 48% for imports, 41% for exports and around 20% for tourist arrivals. The composition of tourist arrivals to both islands shows a marked UK origin component: 41% of all arrivals in the case of Malta and 57% in the case of Cyprus. Hence, the impact of joining the Euro for the Cypriot and Maltese tourist sectors will continue to be impacted by the Euro-Sterling exchange rate as long as the UK remains out of EMU. However, the Cypriot and Maltese tourist sectors depend on the importation of a number of goods and services, accounting for a substantive part of the two islands' high imports. The second observation is that Malta is more dependent on trade with the EU than Cyprus and hence the impact of the Euro in the trade sector is more significant in its case.[51]

Neither the statistical authority of Cyprus nor Malta's publish the contribution of tourism to their respective country's national income, but, in the case of Malta, tourism alone has been estimated to contribute around 24% of GNP[52] while, in the case of Cyprus, a Report for the European Commission estimated tourism's contribution to be around 9.7%. However, in the latter case the writers of the Report cautioned that "the actual importance of tourism for the Cypriot economy is far greater, because almost all other economic sectors support tourism. Only an in-depth analysis…would reveal the extent of Cyprus' dependence on tourism, but an initial estimate would indicate that tourism currently accounts for at least half of the island's economy."[53]

The Convergence Plans

The *Convergence Plans* adopted by Cyprus and Malta provide a snapshot of the way the two island states are confronting the EU membership challenge.[54] However the changes which they lead to, if successfully completed, go beyond the strict requirements of EU membership and help the two countries better confront the challenges posed by globalization. The state of their public finances illustrates the point. The two states started off with a huge deficit in their general government spending which in 2003 reached 9.6% of GDP for Malta and 6.3% of GDP for Cyprus. In Malta's case, the increase in the deficit was due to a one-off payment connected with the restructuring of the ship repair and shipbuilding yards. This one-off payment was intended to free the yards from the burdens of existing debts and recurrent liabilities as part of the government's plan to restructure the sector and phase out all state aid which is incompatible with EU law by 2008.[55] Both Cyprus and Malta have meanwhile reduced their deficits which in 2005 stood at 2.5% and 3.7% respectively. Malta aims to achieve a deficit of 1.4% of GDP by 2007, while the corresponding target for Cyprus is 1.8%[56]

(Insert Table 4 about here)

On progress towards the attainment of the Lisbon goals, Malta did not fare well in the findings of a study prepared by the Centre for European Research (CER) in February 2005. This study showed that when the EU member states are ranked according to their achievement of the

Lisbon Goals, Malta occupies the 27th place in the league, below Romania and Bulgaria which have not yet joined the EU.[57] The study was prepared for the Commission in time for the mid-term review of the Lisbon Strategy. Malta was indicated as a “villain”, i.e. least willing to reform, while the more serious shortcomings were identified in the fields of education and training. Malta also performed badly in the case of the female participation rate in the labor force which is the lowest in the Union. On the bright side, Malta was listed among the ‘e-ready’ member states (strong in the area of information society) and that it had the lowest tax burden for low-wage earners. The report stopped short of giving a definite judgment on Malta because it did not supply data for many of the key Lisbon indicators.

By contrast Cyprus fared much better placing 19th in the league. What the CER study picked up was that Cyprus "has the most expensive electricity prices for industrial users" in the EU-25, and it also ranks among the member states that pay the highest level of subsidies. Cyprus, along with Spain, was reported to have recorded the fastest growth in female employment and had the second fastest growth rate in employment in the Union. When it comes to the transposition of the Lisbon Directives into national law, by June of 2005, Malta placed second jointly with Finland in the EU 25, having transposed 95.2% of legislation while Cyprus placed 5th having transposed 92.1% of legislation.

A summary of the NRPs and CPs of Cyprus and Malta have been included in the **Annex**. The information demonstrates in outline the priorities which both states perceive in their national reform processes. The programs of the two island states bear a number of similarities which become more apparent following a more detailed assessment of the individual NRPs and CPs. Indeed, both Cyprus and Malta target fiscal consolidation, one of the main Lisbon targets, as their priority. This requires them to strive for a smaller public administration and redirection of public expenditure. Both states seek to buttress their international competitiveness through R & D and ICT diffusion, also to counter the negative effects of their loss of competitiveness in the manufacturing sector to emerging markets particularly in Asia. They recognize the importance of education and training in their economic diversification strategies. In the energy sector the challenge they perceive is to economize in order to lessen external dependence, develop alternatives (Malta uses no alternative sources) and more liberalized national distribution systems. Both states plan to tackle the challenges of Health expenditure and sustainable pension schemes which arise mainly from the demographic changes that are occurring in both societies. Competitiveness requires them to provide a more congenial environment to Small and Medium Sized Enterprises SMEs. The programs part company where the experiences of the two Mediterranean states differ considerably. For example, Malta inherited a very pervasive state sector which necessitated a more vigorous restructuring and a broader privatization program than in the case of Cyprus. The two states also favor the use of Private-Public Partnerships (PPP) in the case of key public controlled economic sectors.

Implementation of the CP and NRPs is the main challenge these countries have established for themselves but as has been argued in this section the implementation of these programs has become a test or a measure of their modernization efforts. The decision by both Cyprus and Malta to be among the first group of EU member states to join EMU in 2008, has no doubt acted as a catalyst to their ongoing reform. This combined with their small size could see their economic dynamism increase in the next few years provided that the international environment does not produce shocks large enough to unbalance their national efforts.

Security

One of the dividends the two Mediterranean island states desired from EU membership was an enhancement of their security. Cyprus saw membership as an instrument for resolving the Cyprus Problem, though of course there were no official or public illusions on the Cypriot side that this could happen quickly. The belief in the long-term prospects of a peaceful settlement of the Cyprus Problem finds resonance in the study by Nathalie Tocci, who wrote that while the short-term conclusions from the Cyprus case study may be dispiriting, the longer term prospects may be brighter. Tocci agrees with Christopher Hill that in the longer term the EU can change the environments out of which conflicts spring and that this can also happen in the case of Cyprus.[58] Certainly, the situation in Cyprus outlined in this chapter has displayed a number of false dawns on a solution to the Cyprus Problem but there have also been a number of developments which saw the relaxation of the *de facto* border which separates the two communities on the island. The taw in relations between Greece and Turkey and the latter's own EU membership ambitions provide an added impetus to a solution although the events of last year, when Turkey made a unilateral declaration that by signing the customs union agreement with the EU it was not recognizing the Government of Cyprus, did not help in this. Furthermore, Turkey's obstructionist attitude towards Cyprus and Malta within the so-called "Berlin Plus" arrangement is not conducive towards creating the right environment for a solution.

Both Cyprus and Malta have experienced initial moves towards 'Europeanizing' their national foreign policy processes. Their small foreign ministries have immersed themselves in the EU's foreign policy and are oversupplied with an array of information on a number of world issues on the EU's agenda. Both states have to adopt national positions on these issues within the EU institutions. In addition, Cyprus and Malta both situated on the edge of the EU's stability zone, value the importance of a number of policy instruments such as the EU's Neighborhood Policy and the Euro-Mediterranean Partnership whose aim is to stabilize the Union's neighborhood. Cyprus and Malta benefit from the international and intra-EU co-operation to combat international terrorism and illegal immigration. The two islands' security and welfare are improved by the EU's activities against the proliferation of weapons of mass destruction (WMD). Indeed, working through the EU institutions helps the two states better tackle the security challenges they face then if they had to work alone given their limited human, military and diplomatic resources. EU membership has also strengthened their prestige in the Mediterranean region.

However, when it comes to the development of the CFSP both Cyprus and Malta are only encountering minor setbacks so far. They are currently barred from participating in ESDP (European Security and Defense Policy) initiatives in crisis management in which the use of NATO assets are involved, the so called "Berlin Plus" arrangement, since they are not members of NATO or parties to the alliance's Partnership for Peace (PfP). The "Berlin Plus" arrangement between the EU and NATO had been reached in 2002. Turkey objected to the participation of both states and was about to exercise its veto in NATO to stop the whole process of co-operation. The Copenhagen European Council of December 2002, following a detailed agreement within NATO, decided that the arrangements and implementation of the "Berlin Plus" will apply only to those EU member states which are also members of NATO or parties to the Partnership for Peace.[59] Cyprus and Malta still retain the right to participate fully in the EU's Common Foreign and Security Policy (CFSP) and ESDP and to receive classified information as long as the latter does not contain or refer to any classified NATO information. Turkey's objections may not be directly aimed at Malta but are more likely intended against Cyprus whose Government Ankara still does not recognize. Following the signing of the additional protocol to extend the EU-Turkey customs union to the new member states, Turkey issued a unilateral declaration saying that the signature of the protocol does not amount to recognition of Cyprus.

The main security threat for Malta comes from illegal immigration. It can only be eventually resolved within an EU context even though there are widespread expectations on the part of Malta that the EU could have done more. The phenomenon, known as the "Mediterranean Boat People" affects all the southern EU member states namely Spain, Portugal, France, Italy, Malta, Greece and Cyprus and through them the rest of the EU. In Malta's case, arrivals of such illegal immigrants have surpassed the natural birth rate. In a densely populated island like Malta, illegal immigration has created a number of logistical problems, a financial burden and the threat of the spread of communicable diseases. The EU has realized that it cannot resolve the problem on its own, while Spain has already called for a Euro-African Summit to tackle it, which was endorsed by France in the Franco-Spanish summit.[60] Malta has repeatedly asked for EU solidarity to provide it with the financial means to mitigate the problem (housing the immigrants, re-settling genuine refugees and repatriating those who fail to obtain refugee status).

Malta's illegal immigrants originate in Libya, a country of destination for illegal immigrants mostly from sub-Saharan Africa, as well as a transit point for those wishing to go to Europe. An EU mission to Libya estimated that there were between 0.75 and 1.2 million illegal immigrants in Libya. Evidence shows that the transit route running through the country has gained in importance in the last three years. Libya shares 4,400 km of border with six countries including three poor and unstable ones in sub-Saharan Africa, namely Sudan, Chad and Niger. Its Mediterranean coast is 1,770 km long which adds to the difficulty of precluding clandestine boats from embarking on their journey to Europe.[61] Several proposals have been put forward by the EU on how to deal with the phenomenon including a proposal to try to mitigate the migratory pressure by establishing a scheme for legal emigration to the EU, a logical solution in the light of Europe's aging population.

Future Trends and Prospects

The arguments in this chapter have stressed the similarities and dissimilarities between Cyprus and Malta, respectively the third smallest and smallest of the EU member states. It is difficult, given that the two Mediterranean island states have only been in the EU for about two years, to attempt a comprehensive assessment of all the effects of EU membership on them. However, a number of conclusions have emerged from the above discussion: that so far both Cyprus and Malta are coping and the worse fears about their capacity to absorb the *acquis* or to play their role in the EU institutions are misplaced.

At the same time, membership has begun to affect their national politics. New avenues have opened up to sub-national actors and organizations of civil society (NGOs) to influence the decisions of the Cypriot and Maltese governments through the EU institutions. NGOs are working in a more transparent and information-rich environment than they did before, and they can now align themselves with European transnational NGOs to influence decisions in their national domains. Environmental organizations have used such European connections to pressurize the Maltese government to implement bird protection rules against hunters.

The process of economic reform in both states is moving ahead briskly. It has been argued here that besides permitting them to honor their EU commitments, these changes strengthen their resilience to exogenous shock and help them to integrate better in the global economy by strengthening the two islands' competitiveness. Integration in the EU has led to redistribution effects and helps strengthen economic efficiency. No discussion of the dynamic effects of membership was attempted here.

Some progress has still to be achieved on the security front and particularly the participation of Cyprus and Malta in ESDP. By and large both Malta and Cyprus are more secure by participating in the CFSP and ESDP then they were before. They are in a better position to influence the EU's foreign policies in order to ensure that these work to their advantage. The problems they are encountering in the Berlin Plus arrangement do not obstruct participation in the rest of the CFSP/ESDP.

As to the particular security concerns of each, it is important to note that though a solution to the Cyprus Problem is not in sight yet, the EU has begun to positively influence relations between the two Cypriot communities. The relaxation of the de facto border separating the two communities and increased transactions between them may positively affect the Cypriot political context making a future solution to the Problem easier. Such a solution is unlikely to come before Turkey is admitted as an EU member state.

As for Malta's main security concern on illegal immigration, though a satisfactory solution has not been possible within the context of EU membership, the EU remains the only hope of finding one. Only the EU has the resources to meet the immediate threats which illegal immigration poses to all the EU member states of southern Europe and to the rest of the Union. It is only together with the EU, that solutions to the problems in sub-Saharan Africa and other unstable regions, which are the root cause of the migratory flows, can be more easily solved. The EU alone stands a chance of eventually securing through the necessary incentives, the co-operation of transit states, such as those in North Africa, in helping to combat this phenomenon. And if a legal emigration system or a re-settlement scheme for refugees had to be devised to try and lessen the pressure of illegal immigration, such policies can only be successfully conducted at an EU level.

TABLE 1:

Referenda Results in Cyprus	**Turnout**	**Yes**	**No**
Greek Cypriot Community	88%	24.2%	75.8%
Turkish Cypriot Community	87%	64.9%	35.1%

TABLE 2:

Party	**Votes**	**Percentage**	**EP Seats**
Democratic Rally	94,355	28.23	2
AKEL + Left + New Powers	93,212	27.89	2
DEMOCRATIC PARTY	57,121	17.09	1
FOR EUROPE	36,112	10.80	1
Source: Cyprus News Agency 14.06.2004			

TABLE 3:

	Name of Committee and Date of Establishment	Members
Cyprus	Committee on European Affairs (Ευρωπαϊκών Υποθέσεων) 25 February 1999	15
Malta	Standing Committee on Foreign and European Affairs *(Kumitat Permanenti dwar l-Affarijiet Barranin u Ewropej)* 1995/2003	9
Source: 3rd biannual report of COSAC which takes account of developments up to 4 April 2005 – COSAC stands for co-operation between committees of the national parliaments dealing with European affairs and the European Parliament		

TABLE 4:

Aims of the Convergence Program and National Reform Program			
Convergence Program		**National Reform Program (2005-2008)**	
Cyprus	**Malta**	**Cyprus**	**Malta**
Structural Reforms			
1. Enhance Competition and Business Climate 2. Increase the Diversification of the economy 3. Promote R&D and ICT Diffusion 4. Upgrade the Basic infrastructure 5. Develop Human Capital	1. Privatization 2. Restructuring of Public Enterprises 3. Pension System Reform 4. Health System Reform 5. Industry: promotion of expansion in new sectors; 6. Port reform 7. Public transport reform 8. Liberalization of the Energy Sector	1. Sustainability of Public Finances 2. Improve the quality of Public Finances by redirection of expenditure 3. Diversification of the economy towards higher value added 4. Promotion of R&D and ICT Diffusion 5. Enhancement of Competition and the Business Environment 6. Upgrading basic infrastructure 7. Human Capital Development 8. Enhancement of Social Cohesion 9. Ensuring environmental Sustainability	1. Sustainability of Public Finances 2. Competitiveness 3. Employment 4. Education and Training 5. Environment

[1] Signed in February 1955,it comprised the UK, Iraq, Iran, Turkey and Pakistan.

[2] Act of Accession as published in the Official Journal of the European Union, L236, Volume 46, 23.09, 2003; henceforth referred to as the "Act of Accession."

[3] Voltaire, "Rien n'est plus connu que la siege de Malte" – "Nothing is better known than the siege of Malta."

[4] Malta's exports of goods and services to GDP ratio (provisional figure) stands at 75.8%, *Quarterly Review*, 2005:1, Vol. 38, No 1, Central Bank of Malta, 2005; latest available data for Cyprus pertaining to 1994, shows exports of goods and services to GDP ratio to be 47.7%, *Cyprus at a Glance*, World Bank, www.worldbank.org/data/, 25.08.2005.

[5] *Eurostat News Release*, 136/2005, 25 October 2005. All figures are for 2004 and those for Cyprus refer to the government-controlled area only.

[6] *Regions: Statistical Year Book* – 2005, Eurostat, Luxembourg, 2005. The volume index of GDP per inhabitant quoted here in Purchasing Power Standards (PPS) is expressed in relation to the EU of 25-member states (EU25) average set to equal 100. If the index of a region is higher than 100, this region's level of GDP per inhabitant is higher than the EU average ad vice-versa. Figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries.

[7] Commission's Opinion on Malta's Application for Membership, *Com (93) 312 final;* Commission On the Application by the Republic of Cyprus, *Com (93) 313 final;* both opinions were published in Brussels on 30 June 1993. [Henceforth referred to as the 'Commission's Opinion on Malta' and the 'Commission's Opinion on Cyprus' respectively.

[8] Macris Nicholas D. (ed.), *The 1960 Treaties on Cyprus and Selected Subsequent Acts*, Bibliopolis, Mannheim and Möhnesee, 2003.

[9] Ibid., p. 127.

[10] "Communication from the Commission to the Council and the European Parliament: Recommendation of the European Commission on Turkey's Progress Towards Accession", *Com (2004) 656 final*, Brussels, 6.10.2004. Also, "2004 Regular Report on Turkey's Progress towards Accession", *Sec (2004) 1201*, Brussels, 6.10.2004.

[11] Commission Opinion on Cyprus, points 6 to 8.

[12] Ibid., point 8.

[13] Ibid., point 51.

[14] Conclusions of the Presidency, Cannes European Council, 26-27 June 1995, *Bulletin of the European Union*, No 6, 1995, point 1.12, page 13.

[15] Joint Statement by Turkish President Suleyman Demirel and TRNC President Rauf Denktash, 29.12.1995 www.b-info.com/places/Turkey/news/95-12/dec29.tdn

[16] *Presidency Conclusions: Helsinki European Council*, December 10-11, 1999, point 9(b)

[17] Pace Roderick, "The Domestic and International Politics of the Next Mediterranean Enlargement of the EU", *The European Union Review,* Volume 3, No 1, 1998, Pavia, Italy, pp. 77-101.

[18] UN Plan on Cyprus, *The Comprehensive Settlement of the Cyprus Problem*, as finalized on 31 March 2004, www.un.org/Depts/dpa/annanplan/annanplan.pdf accessed 20.12.2005.

[19] Press Conference on Cyprus by Kofi Annan, UN Head Quarters, New York, 13 February 2004, www.un.org/News/ossg/hilites.htm accessed on 16.02.04.

[20] UN Press Release SG/SM/9239, 31.03.2004; see also Press Release SC/8051 of 02.04.2004.

[21] Pace Roderick, *Microstate Security in the Global System: EU-Malta Relations,* Medsea Books, Malta, 2001.

[22] Cini Michelle, "Malta Votes Twice for Europe: The Accession Referendum and General Election, March/April 2003", *South European Society and Politics,* Vol 8, No 3, Winter 2003, p. 132-146.

[23] Pace Roderick, "Malta's EU Membership: Chapter 1 Concluded, Chapter 2 Just Started", *Mediterranean Politics,* Volume 9, No 1 (Spring 2004) pp. 114-121.

[24] Pace Roderick, "The Maltese Electorate Turns a New Leaf? The First European Parliament Election in Malta", *South European Society and Politics*, Volume 10, No 1, April 2005, pp. 121-136.

[25] In a press statement the Malta Labor Party said that in the general conference, 825 votes were distributed of which 817 were valid. The motion of the national executive obtained 699 votes (85.6%) while that by Dr Mifsud Bonnici obtained 118 votes (14.4%). Only five votes were invalid and three abstained. The statement can be accessed at www.mlp.org.mt/stqarrijiet/print.asp?ContentID=STQ050702A (30.12.2005).

[26] Motion 190 approved by the House of Representatives on the Ratification of the Treaty Establishing a Constitution for Europe; see also Department of Information, Government of Malta, Press Release 1017, July 6, 2004.

[27] Nicosia, Jun 14, Cyprus News Agency (CNA) – Voting in the European Elections in Cyprus: Registered Voters: 483,311; Voted: 344,092 (71.19%); Valid: 234,268 (95.40%); Invalid: 8,747 (2.50%); Blank: 7,372 (2.10); www.hri.org/news/cyprus/cna/2004/04-06-13_2.cna.html#02

[28] Decision No E-770-2003 dated 29.04.2003 amending Decision E-762-2003 of the Council of Ministers (TRNC) dated 21.04.2003 regarding crossings from the Turkish Republic of Northern Cyprus to the South and from the South to the Turkish Republic of Northern Cyprus.
www.trncinfo.com/TANITMADAIRESI/2002/ENGLISH/D... 02.01.2006.

[29] www.moi.gov.cy/moi/pio/pio.nsf/All/745A5D6134331502C2256D9F00338D9A?Open, Document

[30] I can hardly do full justice to this problem here and readers are recommended the very extensive analysis of the Annan Plan by Claire Palley, *An International Relations Debacle: The UN Secretary General's Mission of Good Offices in Cyprus 1999-2004*, Oxford and Portland, Oregon, 2005.

[31] Commission Press Release, IP/04/857, July 7, 2004.

[32] Council Regulation EC 866/2004 of 29.04.2004 - *OJ L 161,* 30.04.2004 - as subsequently amended, see consolidated text 2004R0866, 07.08.2005; Commission Regulation *OJ L 259,* 15.10.2005.

[33] Act of Accession, OJ L 236, 23.09.2003, p. 955.

[34] Ibid, point 32(1).

[35] Conclusions of the Presidency, EU Council Lisbon, 23-24 March 2000, *Bulletin of the EU*, No 3, 2000.

[36] Conclusions of the Presidency, EU Council Brussels, 23-24 March 2005, *Bulletin of the EU*, No 3, 2005.

[37] These are Estonia, Lithuania and Slovenia (2007); Cyprus, Latvia and Malta (2008); Slovakia (2009).

[38] Stefanou Constantin, *Cyprus and the EU: The Road to Accession*, Ashgate, 2005, p. 6.

[39] Ibid., the Forward by President G. Vassiliou, p. xv.

[40] Open registers means briefly that shipping can be registered in those countries independent of the nationality of beneficial ownership so long as they satisfy the conditions of the host country.

[41] *Review of Maritime Transport 2004*, UNCTAD, Geneva, 2005, p ages 32-38.

[42] Press conference reported in *Aggornat*, No 312, Malta-EU Information Centre, 24.12.2005.

[43] Press and Information Office, Nicosia, Press Release, "President Papadopoulos returned from Brussels", 19.12.2005.

[44] The writer in private interviews gathered this information with Cypriot officials who do not wish to be named.

[45] Council of the EU, *Financial Perspective 2007-2013*, Brussels 19 December 2005, point 47. (Document distributed with other Council Documents) No 15915/05 CADREFIN 268
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/87677.pdf

[46] The EU published two communiqués on the entry of Cyprus and Malta in ERM2 on 29 April 2005. All details are included in the communiqués which can be accessed at
http://europa.eu.int/comm/economy_finance/publications/eurorelated_en.htm (07.01.2006).

[47] Treaty on European Union and the Treaty Establishing the European Community, European Communities, Brussels, 2003, page 85 and the Protocol on the Convergence Criteria, Treaty of Maastricht, Luxembourg, 1992, pages 185-186.

[48] The *Stability and Growth Pact* came into effect on January 1, 1999 when the Euro was launched. It is based on Article 99 and 104 of the Treaty, op.cit., pages 71-74.

[49] For a summary of the main misgivings on EMU see e.g. Patterson Ben (ed), *EMU and Enlargement: a review of policy issues,* (written by Holger van Eden, Albert de Groot, Elisabeth Ledrut, Gerbert Romijn and Lucio Vinhas de Souza, NEI Rotterdam), Economic Affairs Series, ECON 117 EN 12/99, Directorate-General for Research, European Parliament, Luxembourg, 1999.

[50] The estimates here have been based on a Central Bank of Malta unpublished memo based on the Direction of Trade statistics published by the IMF and estimates by the Central Bank on earnings from incoming tourists and expenditure by Maltese tourists overseas.

[51] Figures supplied by the World Trade Organization (WTO) (all figures in millions US $ unless otherwise stated): Cyprus – exports 948, imports 5,502; Malta – exports 2,492 – imports 3,670. The share of trade with EU (25) is: Cyprus exports 58.9% - imports 64.8%; Malta exports 47.2% - imports 72.3%.
http://stat.wto.org/countryProfiles/MT_e.htm and /http://stat.wto.org/countryProfiles/CY_e.htm (03.01.06).

[52] A study by the Malta Tourism Authority (MTA, 2000) estimated tourism to contribute 24.3% to GNP. In 2003 the MTA claimed that at the current level of tourism demand, pricing and expenditure, Malta's tourism

industry contributes to a maximum of 24% of the country's GNP; 22% of Government Income; 11% of Imports and Outflows; 17% of full-time equivalent employment www.mta.com.mt/index.pl/tourism_development_in_malta?makePrintable=1 (01.01.2006).

[53] Siemon Smid and Petra Zwart, *Tourism on Cyprus Study on the situation of enterprises, the industry and the service sectors in Turkey, Cyprus and Malta,* IBM Global Services, Business Consulting Services for the European Commission, Annex II of the contract ETD/00/503332 http://europa.eu.int/comm/enterprise/enlargement/doc/cyprus-tourism.pdf (01.01.2006).

[54]For Malta, *Convergence Program 2004-2007*, Ministry of Finance, May 2004 and *Update of Convergence Program 2004-2007*, Ministry of Finance, November 2004; for Cyprus, *Convergence Program of the Republic of Cyprus 2005-2009*, Ministry of Finance, December 2005. The plans are all available at http://europa.eu.int/comm/economy_finance/about/activities/sgp/scplist_en.htm (01.01.2006).

[55] Ibid, Malta Convergence Plan (May 2004), page 19.

[56] Ibid.

[57] Alasdair Murray and Aurore Wanlin, *The Lisbon Scorecard V: Can Europe Compete?* February 2005, Centre for European Reform (CER), UK, www.cer.org.uk/publications/602.html.

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