

Malta 2000

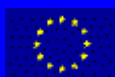
2000 REGULAR REPORT

FROM THE COMMISSION

ON

MALTA'S

PROGRESS TOWARDS
ACCESSION



8 November 2000

Table of contents

A. Introduction	5
a) Preface	5
b) Relations between the European Union and Malta	6
Recent developments under the Association Agreement (including bilateral trade) ..	6
Accession Partnership / National Programme for the Adoption of the Acquis.....	7
Community assistance	7
Twinning	8
Negotiations / screening	8
B. Criteria for membership	9
1. Political criteria.....	9
Introduction	9
Recent developments.....	9
1.1. Democracy and the rule of law	9
The Parliament	10
The Executive	10
The Judicial System.....	10
Anti-corruption measures	11
1.2. Human rights and the protection of minorities.....	11
Civil and political rights	11
Economic, social and cultural rights	12
Minority rights and the protection of minorities	12
1.3. General evaluation	12
2. Economic criteria.....	14
2.1. Introduction.....	14
2.2. Economic developments	14
2.3. Assessment in terms of the Copenhagen criteria	16
The existence of a functioning market economy	16
The capacity to cope with competitive pressure and market forces within the Union.....	19
2.4. General evaluation	21
3. Ability to assume the obligations of membership.....	23
Introduction	23
3.1. The chapters of the <i>acquis</i>	24
<i>Chapter 1: Free movement of goods</i>	<i>24</i>
Overall assessment	25
<i>Chapter 2: Free movement of persons.....</i>	<i>26</i>
Overall assessment	26
<i>Chapter 3: Freedom to provide services.....</i>	<i>27</i>

Overall assessment	27
Chapter 4: Free movement of capital.....	28
Overall assessment	29
Chapter 5: Company law	29
Overall assessment	30
Chapter 6: Competition policy.....	31
Overall assessment	31
Chapter 7: Agriculture.....	32
Overall assessment	34
Chapter 8: Fisheries.....	34
Overall assessment	35
Chapter 9: Transport policy.....	36
Overall assessment	36
Chapter 10: Taxation	37
Overall assessment	38
Chapter 11: Economic and Monetary Union	38
Overall assessment	39
Chapter 12: Statistics	39
Overall assessment	40
Chapter 13: Social policy and employment.....	41
Overall assessment	42
Chapter 14: Energy.....	43
Overall assessment	43
Chapter 15: Industrial policy.....	44
Overall assessment	45
Chapter 16: Small and medium-sized enterprises	45
Overall assessment	46
Chapter 17: Science and research.....	46
Overall assessment	47
Chapter 18: Education and training	47
Overall assessment	47
Chapter 19: Telecommunications and information technologies.....	48
Overall assessment	48
Chapter 20: Culture and audio-visual policy.....	49
Overall Assessment	49
Chapter 21: Regional policy and co-ordination of structural instruments .	49
Overall assessment	50
Chapter 22: Environment.....	51
Overall assessment	52
Chapter 23: Consumers and health protection.....	53
Overall Assessment	53

Chapter 24: Co-operation in the field of justice and home affairs.....	54
Overall assessment	55
Chapter 25: Customs union.....	57
Overall assessment	58
Chapter 26: External relations.....	58
Overall assessment	59
Chapter 27: Common foreign and security policy.....	59
Overall assessment	60
Chapter 28: Financial control.....	60
Overall assessment	61
Chapter 29: Financial and budgetary provisions	62
Overall assessment	62
3.2. Translation of the <i>Acquis</i> into national language.....	63
3.3. General evaluation	63
C. Conclusion	66
D. Accession Partnership and National Programme for the Adoption of the <i>Acquis</i>: Global assessment	69
1. Accession Partnership	69
Short-term priorities	69
Medium-term priorities	71
2. National Programme for the Adoption of the <i>Acquis</i>	72
Annexes	73
<i>Human Rights Conventions ratified by the Candidate Countries, September 2000</i>	74
<i>Statistical data</i>	75

A. Introduction

a) Preface

In October 1999, following the February 1999 update of the Commission's opinion on Malta's application for membership, the Commission issued its first Regular Report on Malta's progress towards accession in view of the Helsinki European Council.

This European Council noted that the next regular progress reports will be presented in good time before the European Council in December 2000.

The structure followed by this Regular report on Malta is largely similar to that of the Commission's 1999 Opinion and of the subsequent Regular Report; however, it differs from that used in previous years on three minor points. Firstly, Part B of the present Report, assessing Malta's ability to assume the obligations of membership, has been structured to follow the list of twenty-nine negotiating chapters. Secondly, Part B has been broadened to cover also Malta's administrative capacity to apply the *Acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the reports includes for the first time a section assessing the progress made by Malta in translating the *acquis* into its national language. In line with previous Regular Reports, the present Regular Report:

- describes the relations between Malta and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Malta's situation and prospects in respect of the economic conditions mentioned by the European Council (a functioning market economy, capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Malta's capacity to assume the obligations of membership, that is, the *Acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *Acquis*, as requested by the Madrid European Council in 1995. At Madrid, the European Council underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capability to implement and enforce the *Acquis*, and added that this required convincing progress in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to regularly report to the Council on the matter.

This report takes into consideration progress since the 1999 Regular Report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 Regular report have been carried out and examines new initiatives. Furthermore,

complementing this assessment of new developments since the last Regular Report, this report provides also an assessment of the global situation for each of the aspects under consideration, and sets out for each of these aspects the main steps which remain to be taken by Malta in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *Acquis* criteria (including Malta's administrative capacity to implement the *Acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the global situation for each of the aspects discussed. In contrast, the economic assessment is based on a longer term evaluation of Malta's economic performance.

The report contains a separate section examining the extent to which Malta has addressed the short-term Accession Partnership priorities, and has started to address the medium term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *Acquis* (screening) and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and Malta

Recent developments under the Association Agreement (including bilateral trade)

No particular developments can be reported as far as the implementation of the Association Agreement is concerned. The establishment of a customs union in two five-year-stages is a long-standing objective that up to now has not been achieved.

¹ For the European Parliament the *rapporteur* is Ursula Stenzel.

Since the issuing of the Commission's last Regular Report, the Joint Parliamentary Committee comprising representatives of the Maltese and European Parliaments met in May 2000.

The EC remains Malta's major trading partner (65.4% of Maltese imports come from the EC). Exports from Malta into the Community accounted for € 905 million in 1999 while imports from the EC amounted to € 1,744 million. Malta imports mainly semi-finished industrial supplies and exports mainly electronic equipment.

Malta has started to implement a plan aiming at dismantling all levies on EC imported products by 2003, except for agricultural products. Following a request from Malta, the Commission is proposing a mandate to negotiate with Malta further trade liberalisation on fish products. A Commission's proposal for negotiations with Malta for a protocol on mutual administrative assistance in customs matters is under consideration by the Council.

Accession Partnership / National Programme for the Adoption of the Acquis

The Council adopted a first Accession Partnership (AP) for Malta on 20 March 2000. The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work, the financial means available to help Malta implement these priorities and the conditions which will apply to that assistance.

Malta has finalised its first National Programme for the Adoption of the *Acquis* (NPAA). Following consultations with all interested parties, it was published on 18 September 2000. This document, which includes an evaluation of the cost of the different measures, sets out Malta's plan for the adoption and implementation of the *acquis*.

Community assistance

Following a request by the Council in March 1999, the Commission proposed in October 1999 a pre-accession regulation for Malta. The Council approved the regulation on the implementation of operations in the framework of the pre-accession strategy for Malta on 13 March 2000.

It provided for a total pre-accession aid to Malta of € 38 million for the period 2000-2004, to be used mainly for institutional capacity building, as well as for participation in Community programmes.

In 2000, the programme focused on the following priorities:

- tax & customs change management project (€ 2.33 million);
- Integrated Administrative and Control System project in agriculture (€ 1.0 million);
- Technical assistance and administrative co-operation including contribution to TAIEX (€ 1.77 million); and
- contribution to the participation of Malta in Community education programmes Socrates, Leonardo and Youth (€ 0.9 million).

The implementation of projects financed under 1999 financial co-operation with Malta started this year, in particular, co-operation with the Central Office of Statistics of Malta for the alignment of its statistical procedures.

Twinning

As the regulation on pre-accession assistance was adopted only in March 2000, there are as yet no ongoing twinning operations with Malta.

Negotiations / screening

The analytical examination of the *acquis* with Malta (bilateral screening) was completed by the end of January 2000. During the first half of 2000, the screening was updated on 23 chapters with due account taken of latest developments in the *acquis* and recent progress.

Negotiations were officially opened at the bilateral intergovernmental conference held in February 2000. In March 2000, substantive negotiations started on 8 chapters of the *acquis*: Industrial Policy; SMEs; Science & Research; Education and Training; Telecommunications; Culture and Audio-visual policy; Common Foreign and Security Policy and External Relations.

The accession conference held in June 2000 decided to provisionally close all the above-mentioned chapters with the exception of Culture and Audio-visual policy.

As recommended by the Commission, the Presidency's proposal is to open the negotiations for 9 additional chapters: Free Movement of Capital; Company Law; Competition; Fisheries; Transport; Economic and Monetary Union; Statistics; Social Policy and Employment and Consumers and health protection.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 Regular Report on Malta’s progress towards accession, the Commission concluded that:

"... the institutions are functioning smoothly and there are no particular problems on the human rights front. Malta's public administration has sufficient personnel, but efforts are required to make it more effective. The country does not seem to be having any major problems in adapting its administrative and governmental structures in preparation for participation in Community institutions."

Below, an assessment is made of developments in Malta since the 1999 Regular Report, as well as of the overall situation in the country, seen from the perspective of the Copenhagen political criteria. Developments in this context are in many ways closely linked to developments regarding Malta’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. The section below aims to provide a general assessment of the situation in Malta from the perspective of the political criteria, including as regards the overall functioning of the country’s executive and its judicial system. Specific information on the development of Malta’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part B of this Report.

Recent developments

Like last year, EU accession has remained high on the political agenda of the governing Party, while the opposition continues to express its dissent.

The Government has been seeking to involve all interested parties and representative organisations in the decision-making process related to the accession negotiations. This has been done both at the technical level and, more formally, in the context of the Malta-EU Steering and Action Committee.

1.1. Democracy and the rule of law

As mentioned in the previous reports, Malta has achieved stability of institutions, guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

The Parliament

The Parliament continues to function in full respect of democratic principles.

Due to a heavier workload brought about in the main by the process of approximating Maltese legislation with the *acquis*, the House of Representatives has, since September 1999, increased the number of weekly Parliamentary sessions from three to five, and more recently to eight. Ongoing discussions on the accession process are also held in the Foreign Affairs Committee of the House of Representatives, with the active involvement of both main parties.

The Executive

In relation with the need to implement the *acquis*, the Government has started restructuring and reinforcing some of its Departments. It has also launched 23 quality service charters committing the Government Departments to provide their customers with a service responding to quality standards.

Various other measures at different levels have been taken to improve the overall functioning of the Maltese administration; however, it is too early to assess their impact. Sustained efforts are required for the reform of the public administration aiming at improving its efficiency and effectiveness, in line with the short-term priority of the Accession Partnership.

The latest round of local elections was held in March 2000 to elect twenty-three Local Councils. The turnout was 71 per cent. This represented an increase of 9.2 percentage points over the 61.8 per cent turnout in the corresponding elections in 1997.

The Judicial System

As already stated in past reports, the principle of separation of powers is fully applied in Malta. The members of the Judiciary are wholly independent of the executive. They may be removed by the President only in the specific cases provided for by the Constitution (proved inability to perform the functions of their office or upon proved misbehaviour). The independence of the Judiciary is further ensured by the fact that the judges and magistrates' salary is borne by a Consolidated Fund.

In general, however, the slowness of the court system remains a source of concern. According to a Report of the Ministry of Justice, there were 14,745 pending cases in the Civil Court in April 2000 compared to less than 11,000 in 1995. This large and increasing backlog of pending cases has highlighted concerns about the judiciary's ability to deliver justice within a reasonable time, a right enshrined both in the European Convention of Human Rights ratified by Malta and in the Maltese constitution.

The Maltese authorities are trying to tackle this problem through various measures aiming at reforming the functioning of the justice system, including the revision of the Code of Civil Procedure and the creation of a Commission for the Administration of Justice. However, these measures have not yet produced significant results.

Anti-corruption measures

As pointed out in the last Regular Report, the "Permanent Commission against Corruption" set up by the Government to fight against corruption in the public administration seems to work slowly and its effectiveness could be improved.

The office of the Ombudsman, which investigates allegations of corruption, continues to function well. The Ombudsman is appointed by a two-thirds majority in Parliament, thus ensuring his / her independence. Some 717 cases were received last year and 361 verbal inquiries were dealt with. The number of cases closed during 1999 was higher than the preceding year with a strong reduction in the caseload at the end of the year.

Malta has ratified the Council of Europe's Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. However, Malta has not yet signed the Council of Europe's Criminal Law Convention on Corruption and the Council of Europe's Civil Law Convention on Corruption opened for signature in 1999. Neither has it acceded to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or to the United Nations' anti-corruption programme for Drug Control and Crime Prevention.

1.2. Human rights and the protection of minorities

As mentioned in the previous regular reports, Malta continues to respect fundamental human rights and freedoms. The following section focuses on subsequent major developments.

Malta has now ratified most of the major human rights instruments, including the European Social Charter (see Annex). However, it has not yet signed the revised European Social Charter.

Civil and political rights

Over the past year, the Parliament has adopted an act that abolished the last remnants of the *death penalty* in Maltese legislation. This Act amended the Armed Forces of Malta Act, which had hitherto included a provision for the imposition of the death penalty in time of war in cases of desertion or aiding the enemy.

As regards the situation with regard to *asylum* and the right of refugees, there has been an improvement since Malta adopted this year an Asylum Act providing a legal framework to deal with asylum seekers. However, a reinforcement of human resources dealing with asylum seekers, a strategy to cover the social integration of recognised refugees, suitable accommodation arrangements, an effective "removals" policy, and adequate infrastructure are equally needed (see Chapter 24 - *Co-operation in the field of justice and home affairs*).

The Maltese Government has addressed problems related to the conditions of *detention* mentioned in last Regular Report, in relation to the detention of illegal immigrants, by setting up a new detention centre offering better conditions. The prison conditions are satisfactory in Malta.

The *freedom of expression* is enshrined in the Maltese constitution and continues to be well respected in practice. The same applies to the *freedom of association and assembly*.

All persons in Malta continue to enjoy *freedom of conscience* and *freedom of religion*. These rights are enshrined in the Maltese constitution.

Basic civil and political rights continue to be respected in Malta, although arrangements for refugees need to be improved. The conclusion of the last Regular Report, that there are no significant problems regarding the observance of fundamental human rights and freedoms, is still valid.

Economic, social and cultural rights

As regards *equal opportunities*, there is a Department for Women's Rights in the Ministry for Social Policy and a Commission for the Advancement of Women. The principal objectives of the Department for Women's Rights for 1999 included the implementation of policies and projects promoting effective equality between women and men in all strata and in all sectors of Maltese society, in particular in education, employment, public service and politics. Progress in this area is slow since it depends on a change in social attitudes. While the situation is quite satisfactory in the field of education, there is room for improvement as regards gender equality in the field of employment and access to political responsibilities.

As regards *persons with disability*, the Parliament enacted the Equal Opportunities Act in early 2000. This act prohibits discrimination against persons with disability on the basis of physical and/or mental impairments, and formally sets up and gives a legal identity to the National Commission for Persons with Disability (see Chapter 13 - Social policy and employment).

Trade unions are powerful and well organised in Malta and the workers' right to undertake collective actions continues to be well established.

Although there is room for improvements as regards gender equality, the overall situation with regard to economic, social and cultural rights is satisfactory.

Minority rights and the protection of minorities

Immigrants, mainly North Africans, constitute approximately 1% of the population of Malta. No significant problems can be reported with respect to their status and situation.

Likewise, there are no significant problems related to racial discrimination to be reported. Section 45 of the Maltese Constitution specifically prohibits any acts of discrimination on the grounds of race. However, Maltese criminal law does not prohibit racial discrimination as required by the UN Convention on the Elimination of All Forms of Racial Discrimination, ratified by Malta, and should be brought in line.

1.3. General evaluation

Malta continues to fulfil the Copenhagen political criteria. Its institutions are democratic and function smoothly and there are no particular problems with regard to human rights.

Basic civil and political rights continue to be respected. The overall situation with regard to economic, social and cultural rights is satisfactory.

However, special attention should be devoted to the issue of the backlog of civil judiciary cases. Malta should also pursue and reinforce the implementation of its policies with respect to the treatment of refugees and gender equality, as well as the reform of its public administration.

2. Economic criteria

2.1. Introduction

In its 1999 Opinion on Malta's application for EU membership, the Commission concluded:

“Malta will need to build up a track record in the establishment of a stable and sound macroeconomic environment and implementation of reform and liberalisation. Given the small size of its economy, Malta should be able to address these issues in an appropriate way and hence become successfully integrated with the European economy”.

This finding was confirmed in the 1999 Regular Report. In its 1999 Regular Report, the Commission found that:

“Malta is a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union provided it takes the appropriate measures, in particular by continued industrial restructuring.”

In examining the economic developments in Malta since the Opinion, the Commission's approach is guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- The existence of a functioning market economy;
- The capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the previous Regular Report.

2.2. Economic developments

After some years of deceleration of the performance of the Maltese economy, the first indications of an economic improvement became visible from the end of 1999. Positive signs stemmed from high GDP growth, good export performance and a slight recovery of domestic demand. Although unemployment increased during the last years, it remains low compared with the EU average and has decreased in the second quarter of 2000. In 1999, the government's medium-term fiscal programme generated the first decrease in the public deficit in four years. Preliminary data for the first half of 2000 confirm this trend. However, the deficit remains very high and fiscal consolidation, so far, has been mainly based on additional revenues. The current account balance is worsening after a good performance in 1999, due to a sharp increase in imports for industry and higher prices for imported oil. Inflation remains at low levels although it is subject to upward pressures, mainly from imported inflation and the short-term effects of higher taxes.

Malta		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	4.0	4.9	3.4	4.2	3.8 Jan-June
Inflation rate (RPI)						
- annual average	per cent	3.1	2.8	3.0	1.9	2.6 Jan-Aug
- December-on-December	per cent	2.5	3.1	2.4	2.1	2.7 Aug
Unemployment rate, end-year	per cent	4.4	5.0	5.1	5.3	4.4 Sept
General government budget balance ²	per cent of GDP	-7.7	-6.6	-11	-8.5	:
Current account balance	per cent of GDP million €	-10.8 -281	-6.2 -180	-5.6 -174	-3.5 -119	-9.7 Jan-June -178
Foreign debt						
- debt export ratio ³	per cent	81.8	110.0	229.4	234.5 E	:
- gross foreign debt	million €	1,866	2,757	6,301	7,273 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP million €	8.4 218	2.4 71	7.7 238	24.4 830	5.8 Jan-June 106

E = Estimates

The government is undertaking a number of important structural reforms that are being gradually implemented. At the end of 1999, an industrial restructuring programme was launched, including measures to remove protective instruments for Maltese industry. It is envisaged that import levies on manufactured products will be phased out in 2003. The sale of Mid-Med Bank to a foreign bank in 1999 and the gradual liberalisation of remaining capital controls, aimed to be accomplished at the end of 2002, are creating the basis for a more efficient and diversified financial sector. In addition, a far-reaching privatisation programme has been approved in 1999 which identified a group of enterprises, including utilities, for privatisation in the next five years. Trade liberalisation and industrial restructuring are progressing, albeit at a slow pace.

² Excluding local authorities.

³ Series break in 1998: more complete definition.

Main indicators of Economic Structure in 1999		
Population (average)	thousand	388
GDP per head ⁴	PPS-€	-
	Per cent of EU average	-
Share of agriculture ⁵ in:		
- gross value added	per cent	2.5
- employment	per cent	1.8
Investment-to-GDP ratio ⁶	per cent	22.8
Gross foreign debt/GDP ⁷	per cent	214.1
Exports of goods & services/GDP	per cent	91.3
Stock of foreign direct investment	million € € per head	: : :

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Generally there is a broad consensus concerning Malta's commitment to the principles of a functioning market economy. The government is committed to implementing the required reforms in order to improve the competitiveness of Malta's industry. However, there has been a lack of political consensus on economic policy choices in recent years, e.g. on taxation policy and the introduction of VAT .

⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁵ Agriculture, hunting, forestry and fishing.

⁶ Data refer to Gross fixed capital formation as % of GDP.

⁷ The 1999 data for foreign debt are estimates.

Real GDP growth has expanded by 4.2% in 1999. Preliminary figures for the first half of 2000 show an increase of 3.8% in comparison with the first half of 1999. Higher exports of goods and services, driven by the pick-up of EU and world economies, were responsible for most of the growth. Domestic demand has been weak during the last years but is showing signs of a slight recovery since the last months of 1999. Although import growth of capital and consumer goods in 2000 confirms this recovery, the short-term effects of enterprise restructuring and stricter fiscal policy appear to be moderating domestic demand.

Unemployment remains at a relatively low level, although it has been increasing in recent years. Registered unemployment continued a steady upward trend and reached 5.3% of the labour force in 1999, but decreased to 4.6% in July 2000. The main reason for the recent improvement is the higher employment created by the private sector, which offset a high non-seasonal increase in labour supply during the first months of the year. Employment also increased in the public sector. Nevertheless, unemployment might be subject to upward pressure as a result of enterprise restructuring.

External deficits have increased during the first half of 2000. Although the current account deficit improved during 1999, down to 3.5% of GDP from 5.6% in 1998, it widened during the first quarter of 2000. The main reason was a steep increase of the visible trade gap. This was mainly due to strong growth in imports, driven by inputs for industry and capital goods imports for the electronics and paper industries, higher demand for motor vehicles, and the higher oil bill due to international oil price increases. The services account surplus decreased due to lower tourist arrivals, while the income account surplus contracted somewhat. Trade figures up to June 2000 confirm the increasing trend in imports, leading to a further increase of the visible trade gap. Nevertheless, the export performance remains strong, with machinery and transport equipment goods leading the trend. Foreign direct investment easily financed the current account deficit in 1999, but remained low if one disregards privatisation proceeds and capital and reserve inflows from international banks.

Inflation remained low at 2.1% in 1999, although it started to increase during the first half of 2000. Relatively weak domestic demand, the appreciation of the Maltese lira against the euro and low wage increases contributed to the decreasing trend in 1999. Tax changes, such as the introduction of VAT on oil products and telephone services, the reduction of subsidies on bread and bus transport, and the slight recovery in consumer demand have been the main reasons for the pick-up of inflation in the first months of 2000. However as the price of oil has been kept constant and has not reflected the higher world prices for oil, the inflation rate is artificially low.

The main monetary policy objective of the Central Bank continues to be exchange rate stability, as an instrument to guarantee low levels of inflation and maintain export competitiveness. The Maltese lira is linked to a basket consisting of the euro (56.8%), the US dollar and the British pound (21.6% each). As a result, from March 1999 to March 2000, the Maltese lira appreciated by 5.7% against the euro but depreciated by 5.5% against sterling and by 7.1% against the dollar. The Central Bank of Malta continued with the gradual liberalisation of interest rates. The discount and the central intervention rates were cut several times during 1999, reducing both rates to 4.75%. The Central Bank was able to lower the rates because of lower international interest rates, low inflation and relatively low domestic demand.

The general government deficit decreased to 8.5% of GDP in 1999 from 11% in 1998. The government aims at a budget deficit of 7.2% of GDP in 2000. The medium-term fiscal plan, which was agreed in late 1998, has succeeded in increasing revenues, but not yet in decreasing expenditure. Preliminary figures for the state budget for the first seven months of 2000 show an increase of 8.5% in ordinary revenue, whereas recurrent expenditure increased by 6.2%. The higher ordinary revenue is mainly the result of new fiscal measures, comprising mainly higher income taxes, increases in social security contribution rates and a wider VAT base. An improvement in tax collection also accounted for a large part of the increased revenues. Recurrent expenditure increased due to increases in wages, salaries and personal emoluments together with higher social security benefits and one-off compensations for the abolition of some product subsidies. Capital expenditure decreased during the same period by 4.4%. Despite the positive trend of the public deficit initiated in 1999, further efforts are necessary to decrease expenditure in order to achieve medium-term fiscal sustainability. Although a Commission on Welfare Reform was created to propose measures for reforming the social security system, no agreement has been reached so far.

Government debt continues to increase as a result of the high level of the government deficit. Government debt as a percentage of GDP was 58.1% at the end of 1999, up from 56.1% in 1998. Significant privatisation receipts have contained the debt increase in 1999. Up to June 2000, government debt increased faster again to about 60% of GDP. In addition to the recorded government debt, guaranteed loans and parastatal borrowing are very substantial in Malta. The largest part of the debt is funded locally through treasury bills and government bonds, with only about 5% funded through foreign borrowing.

Trade liberalisation is a key element in the government's economic policy, even though some sectors still remain very protected. Import levies on manufactured products will be fully phased out by 2003, with the exception of some levies on agricultural products. Although some levies have already been removed (in October 1999 and January 2000), the bulk of import levy reductions will only start in 2001. In general, the domestically oriented enterprise sector in Malta is still adapting to the reduction of protection.

The Maltese economy is generally characterised by the free interplay of market forces, although the price mechanism includes a system of price controls. This applies to both imported and locally manufactured products and comprises maximum margins of profit as well as the regulation of prices through price orders on some essential commodities. A number of services offered by public companies such as the energy company Enemalta or the Water Services Corporation are subject to direct price controls by the government. Social and political pressures have been important factors in price decisions by utility providers. Enemalta has kept energy prices fixed despite the international oil price increases, bearing a cost that endangers its profitability. The weight of essential commodities – except for energy, water and tobacco products – that are subject to price controls amounts to less than 5% of the retail price index.

A privatisation process was announced in 1999, following the publication of a White Paper on privatisation. The government has set up a plan to privatise a number of public enterprises in the period up to 2005. It includes the privatisation of Malta International Airport, Malta Freeport Terminal, Libyan Arab Maltese Holding Company, Air Malta, the Public Lotto Department and the remaining public stake in Maltacom and Bank of Valetta. Most public utilities are likely to be privatised around the end of the period. The

Mid-Med bank was sold in 1999, but no specific privatisation plans have been released during the first half of 2000.

Maltese company law incorporates most of the requirements of the EC Directives. Property rights are clearly established in Malta. Bankruptcy laws have been in place and implemented for a long time. There is a competent and independent judiciary system, corruption remains limited and the entrepreneurial and investment climate is excellent in that respect.

The financial sector is developing more rapidly as a result of the liberalisation of capital markets and the privatisation of the main banks. A gradual shift from traditional deposits to investment funds is taking place and a few banks are now starting to deal with long-term products. The securities market is developing as well and there is a more efficient use of human resources within the sector. The banking regulatory framework has been strengthened. More competition will be introduced in banking since the Central Bank issued two licences to foreign institutions. New licenses were issued as well for investment service companies.

Malta is a functioning market economy. Nevertheless, there is a need to reduce the very large government deficit in order to stabilise the macro economy in an increasingly open environment. The consolidation of public finances, including the reform of the social security system, is required to ensure medium term fiscal sustainability. The completion of price liberalisation is also required, as the system of price controls distorts relative prices and produces an inefficient allocation of resources. Overall, the influence of the state in the economy needs to be further scaled back through the completion of trade and capital liberalisation, the further reduction of state aids, the introduction of more competition in a number of sectors and the implementation of the authorities' privatisation plans.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, Malta's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves within the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Malta is a functioning market economy with a sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of predictability. The ongoing process of restructuring and privatising state enterprises is paving the way for more efficient public and private sectors. The liberalisation of prices, trade and capital controls is leading to a more efficient allocation of human and physical resources, reflected in employment growth in the competitive sectors and lower capital costs.

Malta has a well-educated work force and a good telecommunication and transport infrastructure, which provide a good basis for new and competitive economic activity. The highly educated Maltese work force has been one important factor for the establishment and further expansion of enterprises in the information technology sector in Malta. Low-skilled workers are the most likely to be hit by industrial restructuring and special attention should be granted to training activities for this category of workers. As regards infrastructure, the government is currently focusing on increasing the competitiveness of the port by improving logistics and increasing productivity up to the levels of competing ports. Malta Freeport has been recently expanded by a new terminal.

The government also plans to restructure the shipbuilding industry, although the industry continues to be highly subsidised. It is planned that the two public shipyards will be merged and restructured and that specialised sections for repair, shipbuilding and other activities will be created, with the aim of increasing productivity and guaranteeing commercial viability. The government acknowledges that due to the infrastructure investments required, these plans will only be implemented over the medium term.

Foreign direct investment depends largely on privatisation. Other than privatisation deals and capital and reserve inflows of international banking institutions, it remains lower than expected. The sale of government shares in Mid-Med Bank in 1999, and a sharp increase in own capital inflows and reserves received by other newly established small international banks from their parent companies accounted for most foreign direct investment inflows in the last two years. However, because these banks have not been set up to be very active in Malta, such capital and reserve inflows from international financial institutions have almost no effect on the Maltese economy. The government is aware that the quantity and quality of foreign direct investment is too low and is reviewing the package of investment incentives issued in 1988, hoping that new investments will bring more added value to the country. As the country's economy liberalises, becomes more open and integrates with that of the EU and prospects for accession intensify, these factors are likely to have a positive effect on the confidence of foreign investors, gradually increasing foreign direct investment.

As regards government policy influencing the competitiveness of the Maltese economy, state aids within several sectors remain high. Aids are granted to shipbuilding, agriculture, fisheries, production and distribution of water resources, and tourism. The manufacturing industry also receives state aid through the package of incentives for investment administered by the Malta Development Corporation. The main recipients of state aid are the Water Services Corporation, Malta Drydocks and Shipbuilding, covering both operational and restructuring costs. The government has already started a restructuring process for the last two companies, but there are no prospects of privatisation for the time being. The Ministry for Economic Services set up a State Aid Monitoring Board in June 2000 that will help to develop an inventory of state aids and to determine whether they are compatible with EC legislation. In addition the government influences competitiveness through price controls. The most telling case concerns energy prices. There is clear distortion of relative prices, putting Maltese producers at a comparative price advantage with respect to other countries. The price difference paid by Enemelta is equivalent to a subsidy to energy users.

Malta is well integrated in terms of trade with the Union since the EC accounts for around 49% of Malta's exports and 65% of imports. The export base of the economy is concentrated strongly in a few sectors, mainly in electronics, machinery and transport

equipment, which generated over 70% of total exports in the period between the first quarters of 1999 and 2000. A single semiconductor company, ST Microelectronics, accounts for over 50% of manufactured exports. Although the small size of Malta is clearly a limitation, efforts to attract higher and more diversified foreign and local investment would help to guarantee sustained growth. Due to the composition of the Maltese lira basket, the competitiveness of Malta's exports towards the EC is influenced by the value of the dollar and pound sterling.

About 99% of enterprises are SMEs in Malta, most of them employing less than ten employees and operating within the services sectors. Roughly 11% of the working population are self-employed persons. The Institute for the Promotion of Small Enterprises (IPSE) is launching some programmes specifically for SMEs and carrying out studies on the impact of the removal of levies and adoption of EC legislation in SMEs. The assistance provided by IPSE comprises enhancing management, product development, environmental protection, promoting innovation, human resources, and other areas. In order to improve access to finance, the Malta Development Corporation can now grant loan guarantees to back bank loans to SMEs that would not be granted to them without such guarantees, and an "Alternative Companies Market" for SMEs has been introduced in the Malta Stock Exchange, allowing smaller public enterprises that cannot be privatised via the stock market to be listed. As a way to increase efficiency and decrease red tape, the government is currently testing a system to offer public service on-line and a Small Business Efficiency Unit has been established to facilitate interaction between entrepreneurs and the public administration and private service providers, and to facilitate communication and provide education to small businesses and self-employed (see also chapter 16 – Small and medium sized enterprises).

Malta should be able to cope with competitive pressure and market forces within the Union. Nevertheless, remaining market distortions need to be removed and the structural reforms envisaged need to be completed in due time. Malta is well integrated in terms of trade with the EU, although, as it is a very small economy, its export performance relies on a limited number of sectors. Considerable progress has been made in developing enterprise restructuring and privatisation programmes and initiatives for entrepreneurship promotion, but their implementation is slow, especially as regards the restructuring of loss-making public enterprises.

2.4. General evaluation

Malta is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union.

The Maltese economy is showing the first signs of stronger macroeconomic performance. The government's medium-term fiscal programme generated a first decrease in the public deficit. Progress has been made in developing restructuring and privatisation programmes and initiatives for entrepreneurship.

However, the government deficit remains very high and needs to be further reduced in order to improve the macroeconomic environment. The remaining price controls distort relative prices and produce an inefficient allocation of resources. The influence of the state in the economy is still too high in some areas. The implementation of the restructuring of public utilities and loss-making public enterprises remains slow.

The authorities need to complete the consolidation of public finances, including the reform of the social security system, in order to ensure medium term fiscal sustainability. Market distortions need to be removed and the envisaged structural reforms need to move into the implementation phase. The influence of the state in the economy needs to be further scaled back through the completion of trade and capital liberalisation plans, the further reduction of state aids, the introduction of more competition in a number of sectors, and the implementation of the authorities' privatisation plans.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Malta's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Malta's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Malta's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Malta in translating the *acquis* into its official language.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Malta's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“Since the Commission's last Report in February 1999 there has been little additional progress in the internal market area. Malta should adopt a programme for alignment in this area as a matter of urgency. There has been progress in public procurement where the national preference clause was abolished but deficiencies remain in the area of standardisation and certification. There is a need to accelerate alignment in areas such as protection of intellectual property and data protection. The re-introduction of VAT in 1999 was a positive step although further alignment is still needed. The continuing imposition of levies on imports from the EC is an anomaly which should be removed immediately.

There is quite a high degree of alignment in the area of anti trust legislation although there is no merger law in Malta and undertakings with special or exclusive rights are still not subject to competition rules. There is no systematic control of state aids and no legal framework. Alignment in this area should be given priority, particularly in the areas of

aid to ship building and ship repair. The state continues to play an important role in agriculture and there has been little recent progress in preparing the sector for the common agricultural policy. In the transport sector there is a need for greater alignment especially in the areas of maritime safety and pollution control. Malta needs to adopt an overall strategy for alignment in the environment sector and to strengthen its implementation and enforcement capacity. In the area of justice and home affairs Malta should adopt a law on asylum and lift its geographic reservation. There is a need to strengthen capacity in areas such as immigration control, data protection, the fight against drugs and organised crime.

Institutions still have to be set up in the areas of environment, customs, consumer policy, fisheries, maritime transport and regional policy. Administrative capacity needs to be strengthened across the board.”

3.1. The chapters of the *acquis*

As indicated, the review of *Malta's* ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since the last Regular Report, little progress has been made in the area of free movement of goods.

As regards **horizontal and procedural measures**, a new Standards Authority Act providing the basis for implementing the *acquis* in the area of *standardisation* was adopted. The setting up of independent functional directorates, bringing a separation of roles between *standardisation* and testing has represented some progress in the administrative capacity of the Standards Authority. The responsibility for testing was transferred to the Malta National Laboratory, which has been registered as a limited liability company. This latter has benefited from new equipment purchased and installed with the assistance of the European Community. However, no other progress can be reported as regards the new and global approach, the notification procedure and the interchange of data between administrations.

As regards **sector specific legislation and non-harmonised areas**, no progress has been made. In the field of pharmaceuticals, the administrative procedures related to veterinary medicinal products are being introduced.

No legislative progress has been completed as regards **Public Procurement**. The Department of Contracts, which is an autonomous entity within the Ministry of Finance, is responsible for the application and enforcement of the different aspects of the public procurement legislation (26 persons). The General Contracts Committee is enabled by the Public Service (Procurement) Regulations to become a Committee of Review to hear and decide on complaints submitted by aggrieved tenderers, acting as an arbiter between the

recommending Department/Corporation and the tenderers concerned. In addition, there is legal redress in the commercial courts.

Overall assessment

Although Malta has progressed in aligning with the *acquis*, important work is still needed as regards the new approach and specific sector legislation.

As regards the horizontal and procedural measures, the new Standards Authority Act provides a basis for the alignment with the *acquis* in the area of standardisation. It should allow the Malta Standards Authority to become a CENELEC associate member.

A final list of CEN standards is being prepared as a catalogue; however no specific information has been made available on the number of European harmonised standards transposed or endorsed by the Maltese authorities.

Further work in order to complete the legal framework for the implementation of the EC principles on accreditation, metrology and market surveillance should be undertaken as well as for the set up an efficient conformity assessment system.

Important institutional arrangements regarding the implementation of the new approach, need to be undertaken in particular in the area of market surveillance. As regards safety checks on products at external borders, Malta still needs to establish appropriate customs and market surveillance infrastructure as well as effective administration co-operation between competent authorities.

As regards sector specific legislation, regulations for the transposition of Directives on construction products, lifts, medical devices and active implantable medical devices need to be published. Directives related to pressure equipment, toys, recreational craft, metrology and pre-packaging, mechanical devices, personal protective equipment and appliances burning gas, motor vehicles, chemicals, arms control and restitution of cultural objects must still be transposed.

Mandatory Orders aiming at transposing the Directives on wood in the rough, crystal glass, footwear, cosmetics, detergents and textile names still have to be published by the government.

As regards food safety, there is a good level of alignment with respect to labelling, food additives, nutrition, food control and hygiene, and foodstuffs for particular nutritional use. A new Food Act, replacing the Food, Drugs and Drinking Water and the Quality Control Act still has to be adopted. Laboratory facilities in charge of official control need to be upgraded.

Amendments should also be made to the laws regulating exports of cultural goods in order to bring them in line with the *acquis* in this sector.

Maltese legislation conforms partially to the *acquis* in the field of Public Procurement. Further fine-tuning is needed as regards the procuring entities covered - local Councils and some private companies with exclusive rights are outside the scope.

As regards the remedies system, an Appellate Board chaired by a legal person who would otherwise qualify for appointment as magistrate must be established.

The administrative capacity as far as public procurement is concerned appears adequate for Government Departments. Particular attention should, however, be paid to the appropriate training of staff. With regard to bodies governed by public law, local councils and public undertakings (for utilities), Malta will have to ensure that the existing structures are strengthened to assume the responsibility for supervising and monitoring the application of procurement rules by those bodies which would be subject to EC rules.

Chapter 2: Free movement of persons

No significant development can be reported on any of the fields in this area, i.e. **mutual recognition of professional qualifications, citizen's rights, free movement of workers** and preparations with a view to the future **co-ordination of social security matters**.

Overall assessment

On the whole, a sustained effort will be necessary to ensure compliance with the *acquis*. Particular attention should be given to linguistic requirements (use of Maltese language in certain regulated professions).

Efforts will need to be stepped up in order to ensure that there are no provisions in Maltese legislation which contradict Community rules, in particular with respect to nationality and residence requirements. This is the case in the field of free movement of workers, where legislation is only partially aligned and efforts are required to ensure that such provisions are removed.

For the *acquis* in the area of mutual recognition of professional qualifications, legislation needs to be monitored to ensure that it distinguishes between academic and professional recognition. Malta is partly aligned with the *acquis* in this area. Legislative changes are needed in the near future concerning the strengthening of the professional regulatory infrastructure and the setting up of formal infrastructure for the recognition of specialist training. Another outstanding issue relates to the question of the need to master the Maltese language in order to exercise certain regulated professions.

Further alignment to the *acquis* is still needed on the issue of the voting rights of all EU citizens within the Union. The issue of rights of residence is regulated in Malta by the Immigration Act of 1970. An amendment to the Immigration Act, which would take into consideration the requirement of the *acquis* on the right of establishment, still has to be adopted.

In the field of free movement of workers, Maltese legislation is only partly aligned with the *acquis*. Malta has ratified the European Social Charter.

Efforts will have to be continued to strengthen public employment services with a view to future participation in the European Employment System (EURES) network.

Malta has a bilateral agreement with the UK (as of 20/6/96) covering aggregation of insurance periods. Such agreements facilitate Malta's compliance with the regulations, as

they rely on the principles of the social security co-ordination regulations, and familiarise the administration with the procedures.

Chapter 3: Freedom to provide services

Since the last Regular Report, Malta has made some progress in this area, mainly in the field of financial services.

In the area of **freedom of establishment and freedom to provide services**, no new developments have taken place over the past year.

In the field of **financial services**, no new legislation has been finalised with respect to *banking* and the area of *investment services and securities markets* (deposit protection schemes and investors' compensation schemes, insider dealing). In the *insurance* sector a number of regulations relative to prudential provisions and to accounting rules were issued in June 2000 (entry into force January 2001).

No progress can yet be reported as regards legislation on the **protection of personal data and the free movement of such data**, an area which has been identified as a short-term priority in the Accession Partnership, nor in the field of **information society regulations**.

Overall assessment

Although Malta is progressing in the adoption of the *acquis* in this area, further alignment is still required.

As far as the freedom of establishment and the general principles of the freedom to provide services are concerned, the Maltese Government has recognised the urgent need to simplify and streamline procedures for permits and licences. In many areas discriminatory provisions vis-à-vis EU citizens will also have to be abolished.

In the field of financial services, legislation to bring Maltese banking and investment laws in line with the *acquis* must still be adopted. This concerns in particular deposit protection schemes and investors' compensation schemes, as well as insider dealing.

Malta follows the main principles of the Community prudential legislation and the Banking sector is also assessed against the Basle Core Principles for Banking Supervision. It still needs to set up a deposit guarantee scheme. The Netting Directive and the consolidated supervision Directive remain to be fully transposed.

The recent adoption of regulations relative to insurance companies' prudential and accounting rules has resulted in a significant alignment to the *acquis* in the insurance field and further implementation can be achieved through secondary legislation. Although much of the Community *acquis* concerning investment services and security markets is already incorporated in the Maltese legislation, the UCITS⁸ Directive, the

⁸ Undertakings for Collective Investment in Transferable Securities.

Post-BCCI Directive⁹ and provisions of the Investment Services Directive still have to be transposed. Malta also needs set up an investor-compensation fund.

As far as administrative capacity is concerned, the Malta Financial Services Centre (MFSC) regulates insurance and investment services operators, collective investment schemes and offshore companies while the Central Bank of Malta regulates and supervises credit and financial institutions. 66 officials work at the MFSC. The MFSC issues licences and may suspend, cancel or restrict licences in case of wrongdoing, may carry out investigations and issue public statements. Subject to resource availability, on an ongoing basis, both on-site and off-site compliance inspections are carried out. Investigations are also carried out where necessary. The Insurance and Investment Services sectors are assessed with international norms. In fact many operators in Malta in this field are branches or agents of international companies and are therefore subject to international regulation via their parent companies. Main institutions are in place to correctly implement the *acquis*. However, reinforcement of resources of MFSC in some areas of supervision would be needed.

In the field of the protection of personal data and the free movement of such data, new legislation aimed at achieving alignment still has to be enacted. A public supervisory authority acting independently to monitor the correct application of the data protection provisions is yet to be established.

Concerning the information society regulations, the legislation on electronic commerce and computer misuse still has to be adopted.

Chapter 4: Free movement of capital

Substantive liberalisation measures have been taken since the last report.

As regards **capital movement and payments**, in autumn 1999, the Government initiated a three-stage approach to abolishing remaining restrictions by 2002, with the first stage enacted by the beginning of 2000, announced through the budget process.

Within that context, remaining controls on current payments were removed. Concerning capital movements, for *non-residents*, all exchange controls relating to inward direct investments were abolished (restrictions stemming from sector regulation were, however, maintained). For *residents*, outward direct investments in non-financial companies were liberalised, provided the investor has a controlling interest in the company. Furthermore, outward investments in real estate and portfolio investments are now free up to an annual allowance of, respectively, Lm 50 000 and Lm 15 000 (the allowance has been increased) and the holding of accounts in foreign currency in local banks has become largely facilitated. Furthermore, the allowances for loans between residents and non-residents have been increased.

As regards **cross border credit transfer**, an Executive Payment Systems Committee was set up earlier this year to take over the payment task force to formulate rules and regulations for the payment systems. No further progress can be reported since in this field..

⁹ Directive on the reinforcement of prudential supervision in the financial services.

As for the related *acquis* on **money laundering**, since last Regular Report the list of predicate offences in terms of the Act has been widely extended to conform to recognised standards. In December 1999, the Central Bank instructed all credit institutions to close any remaining bearer deposit accounts by 30 June 2000, which therefore allows all accounts owners to be identified. This reinforces Maltese legislation in this area, which was already largely in line with EC legislation.

Overall assessment

In spite of the progress in the alignment with the *acquis* that Malta has accomplished during the last twelve months, it still has a rather comprehensive system of exchange controls and other restrictions on Capital movements.

With regard to *acquisition* of real estate, under the present legislation foreigners may be allowed to purchase immovable property in Malta provided that the said property is used as a personal primary residence or for business purposes deemed to benefit Malta. Foreigners are also allowed to purchase secondary residences as long as the price is above certain thresholds. Outward medium-term capital transactions are free up to the annual allowances.

The success for the three-stage programme largely depends on how far Malta progresses in its liberalisation efforts through the 2001 budget process, enabling Malta, according to plans, to complete the dismantling of the restrictions by 1/1/2002. The acquisition of certain types of real estate by non-residents and inward direct investments in certain sectors remain issues of concern as regards the adoption of the *acquis*.

Malta has not yet finalised legislation which corresponds to Directives on cross border credit transfers and on settlement finality. Further efforts are required to implement the EC *acquis* in this area.

The Central Bank of Malta, on delegation by the Ministry of Finance, regulates and supervises credit and financial institutions, operates exchange control and oversees the payment system. It has a staff of 329 officials. The Central Bank and the Ministry of Finance are deemed to have appropriate competence and capacity to administer the three-stage liberalisation scheme and to initiate the flanking policies needed to implement a regime of free capital movements.

Malta has not yet set up a separate financial intelligence unit, replacing the current structure where the economic crimes unit in the Maltese police is responsible for the fight against money laundering. The administrative capacity should be reinforced in that respect.

Chapter 5: Company law

Since the last Regular Report, Malta has made substantial progress in this area.

In particular as regards the **protection of intellectual and industrial property rights**, a field which has been identified as a short-term priority in the Accession Partnership, a number of new laws were adopted.

In the field of Intellectual Property Rights, the Copyright Act adopted in February 2000 incorporates the provisions of the *acquis* in this area with the exception of the provisions related to inter-Member State cable retransmission. The Customs Act dealing with border enforcement was also approved by Parliament in February 2000.

In the field of Industrial Property Rights, A new Patents Act (Act XVII) has been adopted and should enter into force in September 2000. The Act *inter alia* incorporates the substantive provisions of the European Patent Convention but does not however incorporate the recent amendments to the EPC dealing with biotechnological inventions. The Trademarks Act (XVI) has been adopted and will enter into force in September. The Act enables the Minister to issue (by regulations) provisions to extend the effect of the Community Trademark in Malta on its accession to the EU.

With regard to **company and accounting law**, no further developments have been reported.

Overall assessment

Following recent progress, Malta has achieved high level of alignment in the area of company law. However, the administrative capacity needs to be strengthened.

The 1995 Companies Act incorporates most of the requirements of the EC Directives on Company law. However the Directives on co-ordination of safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of businesses still have to be transposed. The Registry of Companies is responsible for the implementation of the EC Company law. It operates within the structure of the Malta Financial Services Centre and oversees companies incorporated under the Companies Act, 1995 and partnerships under the Commercial Partnerships Ordinance, 1962. With a staff of 25 people, the Registry of Companies is fully computerised and the existing administrative structure should be adequate to implement and enforce the *acquis*.

The same assessment is valid for accounting law, where Malta's legislation is already to a large extent in line with the *acquis*, but minor adjustments are still needed, *inter alia*, as regards consolidated accounts, voting rights and disclosure requirements for branches. In this field, the Ministry of Finance is responsible for the application of legislation concerning Accountancy. Auditors are answerable to the Accountancy Board (Ministry of Finance). The administrative set up to implement the *acquis* in this area is the Accountancy Board in the Ministry of Finance, but its human resources need to be increased.

Joining the *Brussels and Rome Conventions*¹⁰ will be possible only after accession. In the meantime, Malta is interested in joining the Lugano Convention, which is equivalent to the Brussels Convention and open to third countries. With respect to the Rome Convention, Malta has to prepare the necessary legislation in order to allow for swift implementation of the convention after accession, specifically in relation to the courts, which may be designated for that purpose.

¹⁰ Brussels Convention on jurisdiction and enforcement of judgements in civil and commercial matters; Rome Convention on the law applicable to contractual obligations.

Following recent progress, Malta is now close to alignment with the *acquis* in the field of industrial and intellectual property rights. Concerning pharmaceutical products, *patent* protection has been provided in Malta since 1900. Malta still has to adopt legislation on Supplementary Protection Certificates as well as legislation transposing the Community *acquis* on Designs and protection of biotechnological inventions. Regarding administrative capacity, the Industrial Property Office is responsible for approving registration of trademarks, patents and for designing records assignments. Once goods have been released on the local market, the Economic Crimes Unit of the Police Force enforces intellectual property rights. The Unit carries out regular investigations at retail outlets and on the open markets. The Investigations Section of the Customs Authority is responsible for border enforcement. As far as Intellectual Property is concerned, there is no court specialised in Intellectual Property Rights Cases. Cases are dealt with in the Civil Courts. Two collective societies for the management of copyrights exist in Malta: The Performers' Rights Society and the Kopjamalt-Reprography Rights Society.

The Industrial Property Office would need to be reinforced. Extensive training should be given to Police and Customs Authorities in charge of the enforcement of the Intellectual Property Rights. Border enforcement and the co-operation of the enforcement authorities with the right holders should be further organised and developed. It should be noted that very few judges and prosecutors are familiar with Intellectual Property Rights legislation, and training, as well as development of a court practice, would be needed in that respect.

Chapter 6: Competition policy

Since the last Regular Report, Malta has made limited progress in this area.

In the area of **State Aid**, Malta set up a State Aid Monitoring Board in the summer of 2000. The main task of the Monitoring Board is to supervise State aids (i.e. to assess the compatibility of state aids with the criteria arising from the relevant EC *acquis*).

No further developments can be reported in the field of **anti-trust**.

The authorities to enforce competition rules (rules on restrictive agreements, abuse of dominant position and the control of mergers), the Office for Fair Competition (investigates) and the Commission for Fair Competition (takes final decision) are both independent from the Ministry of Economic Services. The Office for Fair Competition has recently been reinforced with the recruitment of additional technical staff and now has a staff of 7. It has examined a number of cases mainly on the basis of complaints.

Overall assessment

While Malta's antitrust legislation is largely in line with the *acquis*, much remains to be done with respect to State Aid.

Malta is at the very beginning of developing a proper State Aid control system. The first step has been taken with the establishment of the State Aid Monitoring Board in the summer of 2000.

Malta has also embarked on the task of completing a state aid inventory as well as preparing a state aid report, which was a short-term priority of the Accession Partnership. Malta now needs to introduce a framework for the effective application and enforcement

of the Community state aid rules, including the alignment of existing aid measures (in particular the system of tax incentives which is currently being reviewed). This was a short-term priority of the Accession Partnership. State aid in the shipbuilding and ship repair industry will have to be adjusted accordingly.

Malta's anti-trust legislation is largely in line with the *acquis*. Amendments to the current Competition Act are still needed to ensure that all public undertakings and those granted special or exclusive rights are covered by the anti-trust rules. With a view to ensuring proper competition on the market, Malta has undertaken to further improve existing merger control. Further alignment is still necessary, especially in view of developments of the *acquis* on vertical restraints.

The main challenge now is to ensure the effective application and implementation of the anti-trust rules and to give priority to cases concerning the most serious distortions of competition .

Chapter 7: Agriculture

Agriculture in Malta accounted for 2.5% of GDP¹¹ in 1999, thus remaining at almost the same level as in 1998 (2.7%). Also, employment in agriculture has remained stable with a share of 1.8% in total employment. The Maltese agricultural sector is characterised by a limited agricultural land surface (approx. 12.000 ha) and by limited productivity and efficiency due to scarce water resources, land availability and natural disadvantages associated with an island setting. Agriculture has, however, a multi-functional role in maintaining environment, landscape, tradition and social structure.

Agricultural production has increased steadily over the past ten years¹² and did not change significantly in comparison to last year. The most important agricultural sectors in Malta are fruit and vegetables, together with potatoes.

In 1999, EC imports of agricultural products originating in Malta increased by about 16% amounting to € 5.9 million. EC exports to Malta increased by 5% amounting to € 185 million. The trade balance in favour of the Community amounted to € 179 million in 1999, compared to € 171 million in 1998.¹³

Since the last Regular Report, Malta has not taken major steps as regards its agricultural policy. Overall objectives of Malta's agricultural policy remain the production of high quality products at a reasonable price for consumers but providing an adequate and just income for farmers and the preservation and enhancement of the rural environment. An evaluation of trends has lead to the formulation of two programmes to prepare Maltese agriculture for the increased competition due to the single market and for the implementation of the CAP.

Malta has a fragmented farm structure (12,958 farm holdings), holdings are mostly in private ownership. There are no specific land consolidation measures.

¹¹ Source: The source of all agricultura statistics is EUROSTAT unless otherwise specified.

¹² Source: FAO

¹³ Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMTEXT (see Agriculture in the European Union - statistical and economic information 1998-1999 Volume I).

Horizontal issues

As regards the implementation of measures related to the handling of the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, Malta has no experience in managing such a system. No progress can be reported on this issue. Only for the establishment of a Paying Agency is a working model being elaborated.

Preparations are under way to establish an *Integrated Administration and Control System (IACS)*, based as much as possible on existing elements (e.g. farm registration, databases of veterinary service on livestock farms and movements of animals). First steps in this direction have been the setting up of a Geographical Information System for the recording of holdings. Also, in March/April of 2000, the Central Office of Statistics started to take aerial photos of the whole country to identify land use and cover.

In relation to *quality policy*, no standards for labelling or rules for indication of origin currently exist in Malta, but a legal framework is in place establishing a public mark and allowing the recognition of traditional products and quality.

No progress on organic farming could be identified.

Concerning preparations for Malta's participation in the *Farm Accountancy Data Network*, farm accountancy data are not systematically collected in Malta. Only large operators keep accounts, and there is presently no legislation obliging small farmers to do so.

Common Market Organisations

Since the last Regular Report, Malta has not made substantial progress as regards the introduction of a legal framework and administrative structures for the establishment of *Common Market Organisations*. As regards the adoption of specific regulations organising the different markets covered by the EC *acquis*, no progress can be reported.

Rural development and forestry

No progress can be reported in this area as no specific measures have been set or prepared to enhance rural development.

Forests cover only a very small part of Malta's territory (32 ha) and are mostly situated within nature conservation zones. Preservation and maintenance are assured by the Urban and Rural Landscaping Unit of the Department of Agriculture, which runs also a forestry nursery. Though the forest is strongly threatened, no further measures to maintain and/or increase forests have been programmed, in particular to protect them against fire.

Veterinary and phytosanitary issues

Since the last Regular Report, limited progress has been made in the veterinary sector, mainly as regards *animal health*. In the phytosanitary sector, no progress can be reported.

A veterinary health-monitoring programme has been introduced. Some of the Maltese testing standards are being put into conformity with EC requirements. However, slaughterhouse waste disposal is not in line with the *acquis*.

Overall assessment

Since the last Regular Report, Malta has made limited progress as regards the introduction of a legal framework and of administrative structures for the implementation of the Common Agricultural Policy. The horizontal issues related to the mechanisms of the Common Agricultural Policy and the EAGGF are hardly tackled.

Preparatory legislative work in the field of Common Market Organisation is limited to the wine sector and the establishment of producer associations as well as standards for fruit and vegetables. Alignment to the *acquis* therefore needs reinforced efforts. Administrative management of the Common Market Organisations has not yet been specified. Implementation of trade mechanisms related to Common Market Organisation is, however, prepared at the administrative level.

Efforts concentrate on the setting-up of the Integrated Administration and Control System for which preparatory work has gathered a good pace.

In the field of quality policy, the legal framework needs adjustment to Community definitions for quality designations and preparation of institutional framework for registration and control. No progress on organic farming could be identified.

There has been no drafting of multi-annual programmes for rural development and forestry, a short-term priority of the Accession Partnership. While less-favoured areas and afforestation schemes would be important rural development measures for Malta, and implementation of agri-environmental measures is mandatory upon accession, no preparations for these schemes have been started yet.

Continuing of alignment of veterinary and phytosanitary legislation and upgrading of inspection arrangements, in particular at future external borders, were identified as short-term priorities in Malta's Accession Partnership. A lot of work remains to be done in that sector.

As regards administrative capacity in this field, the veterinary service staff includes 4 vets and 7 auxiliaries. These services control all relevant activities from the issuing of licences, certificates for importation/exportation and regular inspections in farms and slaughterhouses to agri-food processing establishments and retail outlets. The Department can induce sanctions in case of non-compliance with regulations. As far as *phytosanitary* issues are concerned, Malta must still transpose the *acquis*. Capacity building is needed to tackle new phytosanitary aspects and reinforce other areas. Three fully functional laboratories – Chemistry, Biology and a Virology Laboratory – are available within the Plant Health Division. A project for the upgrading of the facilities available in the laboratories is currently in progress.

With respect to *control measures*, Malta has an emergency plan which is generally in line with Community rules.

Chapter 8: Fisheries

Since the last Regular Report, no major legislative developments have taken place in this domain.

Malta still has to finalise a fish marketing scheme in order to align with the EC **Markets policy**, in particular in the field of private storage aid, carry-over and rules on withdrawal.

No significant progress has been made as regards **resources management, inspection and control**.

In the field of **structural actions** (including fleet registration), data collection was finalised in July 2000. The database will serve as a basis for new licenses, which were first issued in the 3rd quarter of 2000.

Though limited, **State aid to the fisheries sector** currently exists in Malta. Whereas grants are rarely given for the improvement of the fishing fleet, port facilities and marketing schemes are supported and cold storage facilities are provided.

No developments can be reported as regards **international fisheries agreements**.

Overall assessment

The current reforms in Malta to match Common Fisheries Policy requirements still need to be completed. They cover in particular inspection and control (including introduction of satellite surveillance), structural policy, and fishing vessel registration.

The enabling Act on Fisheries Conservation and Management, which is currently before Parliament, must be adopted and Malta should strengthen the staffing of inspectors in the Department of Fisheries and Aquaculture. Malta needs to align the current fish parameters with the EC marketing standards.

In order to safeguard stocks, Malta has the intention to maintain the fisheries conservation zone within the 25 nautical mile limit it has set since 1971. The extension of the fisheries conservation zone beyond the 12 nautical miles limit is an issue currently not in line with the EC *acquis*.

Malta does not have any bilateral fisheries agreements but is an active member in the General Fisheries Commission for the Mediterranean (GFCM) and observer in ICCAT (International Commission for the Conservation of Atlantic Tunas). Malta has signed but not yet ratified the UN Agreement on Conservation and Management of straddling and highly migratory fish stocks.

The Ministry of Agriculture and Fisheries through its Department of Fisheries and Aquaculture is responsible for the fisheries sector and acts as a Fisheries Monitoring Centre. The Department of Fisheries and Aquaculture is divided into two units: Fisheries (18 people) and Aquaculture (25 people). The Fisheries unit has regulatory functions with its executive, operative and security staff totalling eighteen people. The Aquaculture unit is more oriented towards experiments and training. The health aspect of the Aquaculture industry falls within the responsibilities of the Veterinary Services.

Chapter 9: Transport policy

In the field of transport policy, some progress can be reported since the last Regular Report.

Concerning **land transport**, the Public Transport Authority Bill providing the framework for subsidiary legislation has recently been adopted.

As regards **air transport**, whilst the air safety situation is advanced, no legislative developments can yet be reported. There has been some strengthening of the Department of Civil Aviation through the recruitment of additional professional/technical staff.

As regards **maritime transport**, amendments to the Merchant Shipping Act were passed in July 2000 for which the objective is to align Maltese legislation with the Community *acquis* on crew qualifications and other maritime standards. Adoption of the maritime transport *acquis* was identified as a short-term priority in the Accession Partnership.

Although the Malta Maritime Authority is putting effort into capacity building with the recruitment of 15 additional inspectors, taking the total to 90, the enforcement of regulations and standards is a major weakness and remains a problem. Particular attention has to be paid to the implementation and enforcement of international maritime safety and pollution standards as key safety requirements in the field of maritime transport. Malta has given priority to Flag State inspections over Port State Control, and has consequently increased its efforts in this domain.

Overall assessment

On the whole despite some progress in the maritime and road transport fields, Malta still has to progress in all areas of the transport *acquis* before full alignment can be achieved. Efforts are also needed to improve the administrative capacity to implement the *acquis*, in particular in the maritime safety field.

Malta has made some progress in the adoption of the Community road transport *acquis* but a considerable body of legislation remains to be transposed.

Amendments to the Public Transport Authority Act, which partially align the Maltese legislation with the Community land transport *acquis*, were adopted by the Parliament in August 2000, as were *acquis* provisions for driving licences. Requirements for roadworthiness appear now to be in line with the Community *acquis*. Further efforts have to be made to transpose the remaining *acquis*, in particular on the issues of market access, fiscal harmonisation, transport of dangerous goods and speed limiters.

Due to the size of the country and the limits of the road network on the islands, Malta may wish to make full use of the possibilities for derogations and exemptions with regard to social aspects of the land transport *acquis*, e.g. driving hours and rest periods and tachographs.

Amendments to the Maltese Civil Aviation Act still need to be adopted in order to bring it fully in line with the *acquis*, in particular with regard to slot allocation and ground handling. Appropriate legislation on denied boarding, aircraft noise, computer reservation

systems, air traffic control equipment, Eurocontrol standards and air accident investigation has been prepared but still need to be adopted.

Through the adoption of the amendments to the Merchant Shipping Act in July 2000, Malta has aligned its legislation with the *acquis* on crew qualifications and on certain other maritime safety standards. New legislation expected to be enacted before the end of the year will also incorporate safety rules for passenger ships. EC rules on maritime cabotage still need to be transposed.

Malta has also made limited progress with regard to the fleet's safety record. A full register of vessels under Maltese flag is now established and statistics are continually being improved. Vessels exceeding 25 years old are no longer accepted as new entrants onto the Maltese register. However significant efforts are still required on maritime safety in order to meet commitments for full implementation ahead of accession. Particular efforts are necessary in order to fulfil Community rules on Port State Controls and Flag State inspections. Efforts on Port State Control are necessary in order to reach the target of controlling 25% of the vessels entering port in Malta ahead of accession. Care should be taken that there is a sufficient number of trained inspectors to apply the *acquis*. Improving the frequency of flag state inspections and the establishment of a framework of co-operation with the classification societies are also necessary since the detention rate for inspected ships in Maltese register was 10.6% in 1999 as compared with an average of 3.6% for ships under EU flags.

With regard to **horizontal aspects**, Malta should assess its transport infrastructure needs to prepare its participation in the Trans-European Networks.

Chapter 10: Taxation

Since the last Regular Report, Malta has made some progress in this area, mainly in the field of **VAT**.

The main efforts relate to the taxation of motor vehicle fuel (petrol and diesel) and cable telephony, which since 23 November 1999 and 1 January 2000 respectively, have become taxable at the standard rate of 15%. This has resulted in an amendment of the right of deduction of input VAT for motor vehicle fuel for commercial vehicles as of 23 November 1999. By 21 December 1999 the provisions on VAT refunds to persons enjoying diplomatic status were amended and of 1 January 2000 the scope of taxable persons has been broadened, with the public corporation "Enemalta Corporation" responsible for energy being considered as a taxable person.

In the field of **excise duties** the main progress relates to an increase in the duty rate for certain types of cigarettes with the objective of aligning it with the *acquis*. This has resulted in meeting the Community's minimum incidence of excise duty of 57% for this specific category of cigarettes. Furthermore, the definition of volumes for calculating the excise duty on mineral oils was brought in line with that of the *acquis* by October 1999.

On **direct taxation**, Malta has as of January 2000 abolished the indirect duty of 0.4% on the raising of capital, and its legislation in this area should now fully comply with that of the *acquis*.

The Inland Revenue Department, the Value Added Tax Department and the Customs and Excise Department, all of them part of the Ministry of Finance, are the bodies responsible in the field of taxation.

Concerning **administrative capacity**, Malta has appointed as of 1 January 2000 six new Assistant Directors within the VAT Department. At the same time an Internal Audit Unit has been established as well as a Customer Care Unit to improve the quality of the service to taxpayers. Moreover, in May 2000 a Director for EU matters for the Customs Department was appointed with a brief of co-ordinating and monitoring the implementation of Customs related business strategy for accession. He will form part of the Pre-Accession Unit, to be established during 2000, which will be responsible for the successful implementation of the Business Change Management Plan for Customs and Taxation.

Overall assessment

Overall, Malta has achieved a reasonable level of alignment with the *acquis* in the area of taxation, but substantive efforts are still required.

VAT was re-introduced in Malta in January 1999. It provides the necessary framework for the transposition of the *acquis*. However, substantive further alignment is still required. The main discrepancies between the Maltese VAT legislation and that of the Community relate to the application of rates and the scope of exempt transactions. In particular the excessive application of zero-rating gives rise to significant concern. As full alignment in these areas is most likely to have a significant impact on consumer prices, it is important that Malta establishes a structured pre-accession strategy.

Since 1995 Maltese excise legislation has undergone major changes, which brings it more in line with the Community *acquis*. However, significant efforts are still required both as regards the taxable scope, the level of duty rates and the tax structure. Although the Community's minimum duty rate level of 57% has been reached for cigarettes exceeding 75 mm in length this is not the case for cigarettes below 75 mm in length. Furthermore, the combined (specific/ad valorem) duty structure for all categories of cigarettes remains to be introduced. No progress has been made as regards the duty rate levels on the required alcoholic beverages and mineral oils. Moreover, in contradiction with the requirements of the *acquis*, Malta continues to tax leaded petrol at a higher rate than unleaded petrol and to zero-rate cigars, cigarillos, pipe tobacco and beer.

As far as administrative capacity is concerned, the main structures required for the implementation, control and enforcement of the *acquis* appear to be in place. However, the implications, including those related to computerisation, of adhering to the *acquis* remain a challenge."

Chapter 11: Economic and Monetary Union

A detailed assessment of Malta's economic policy in its various aspects has been given above, in the Chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *Acquis*--as defined by title VII of the EC treaty and the other relevant texts--which candidate countries should implement before accession, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the

public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *Acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since the last Regular Report, Malta has made some progress in the adoption of the EMU *acquis*.

The Minister of Finance removed the possibility for **direct public sector financing by the Central Bank**. This had the effect of abolishing the Government's overdraft facilities at the Central Bank. Although the Government had not borrowed directly through this facility since the beginning of 1995, the elimination of this possibility was required to align with this part of the EMU *acquis*.

In April 2000, the Central Bank of Malta removed the provision relating to the maximum rate of interest that banks could charge on loans and advances on residential units. This provision could have been considered as a case of **privileged access of the public sector to financial institutions**, and its removal represents therefore a substantial progress in the adoption of this part of the EMU *acquis*.

No further progress can be reported in ensuring the **independence of the Central Bank**.

Overall assessment

Malta will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Malta has adopted substantial parts of the EMU *acquis*. However, Malta has not yet aligned its legislation with the requirements of the Treaty concerning the independence of the Central Bank.

Malta has made progress on the issues of the prohibition of direct financing of the public sector and the prohibition of privileged access of the public sector to financial institutions. However, the Central Bank of Malta is also the market maker for the government debt, and can, in this capacity, subscribe to government debt instruments in the primary market. Amendments to the Central Bank of Malta Act to explicitly prohibit the Central Bank from all forms of direct financing of the public sector still have to be adopted.

As regards the independence of the Central Bank, whilst members of the Board of Directors are not to receive or accept directions from any person or authorities under the current legal framework, the Minister of Finance may still, in exceptional circumstances, give directions to the Central Bank on the conduct of monetary policy. Malta needs to make further progress in ensuring the full independence of the Central Bank.

Chapter 12: Statistics

Since the last Regular Report, Malta has made good overall progress in the area of statistics.

Concerning the **statistical infrastructure**, the Central Office of Statistics (COS) is responsible for the compilation of statistical data under the Statistics Act of 1955. Presently the COS is a Department within the Ministry of Economic Services. Its personnel has been substantially reinforced since the last Regular Report and two new statistical units dealing with Environment and Transport statistics have been set up.

Concerning **classifications**, CPA and GEONOM have been adopted, and full compliance with NACE is achieved.

As regards **demographic and social statistics**, a first Labour Force Survey that incorporated all of Eurostat's recommendations and the latest *acquis* on the area was carried out in May 2000. This provides the basis for the implementation of the *acquis* in this area.

Concerning **regional** and geographic information, a NUTS geographical classification for Malta has been devised together with land area and population data (see paragraph on regional policy).

Regarding **macro-economic statistics**, work on the introduction of ESA 1995 is ongoing and covers GDP deflation procedures, GDP estimates and improvement of GDP coverage.

As from this year, the balance of international payments of Malta is being compiled, presented and published in accordance with the fifth edition of the Balance of Payments Manual of the International Monetary Fund.

The COS now produces data within the European Comparison Programme for Purchasing Power Parity (PPP) purposes.

As regards **business statistics**, as from January this year, the COS introduced its short-term indicators programme on manufacturing and construction. Much work still needs to be done in the area of structural business statistics.

Concerning **transport statistics**, the COS is in full compliance with most of the requirements for statistics on transport of goods by road and sea.

The COS has provided Eurostat with **external trade statistics** which are broadly in line with the *acquis* requirements.

In the field of **agriculture**, Malta has already achieved quite a good situation as regards agricultural structures. For crops and animal production, only minor extensions are needed.

Overall assessment

There has been important progress across most of the statistical areas. Malta is on a good track to be fully in line with the *acquis* in this area, provided it pursues the important efforts that it has undertaken. The quantitative reinforcement of the Central Office of Statistics, as well as the training received by its staff, gives Malta an appropriate administrative capacity to implement the *acquis* in this area.

The law that would turn the Central Office of Statistics into an autonomous body corporate should be enacted by the Parliament.

Chapter 13: Social policy and employment

Further progress has been made by Malta in this area since the last regular report.

In the field of **Labour law**, no legislative progress can be reported.

In the field of **equality of treatment**, Malta enacted the Equal Opportunities (Persons with Disability) Act in January 2000 and it will be in effect on 1 October 2000. The Act will prohibit discrimination against persons with a disability in all spheres of life.

The National Commission on Persons with Disability (NCPD) has been set up, as has the Equal Opportunities Unit, within the NCPD, with a view to investigating alleged acts of discrimination against disabled persons. The NCPD has already begun investigating acts of discrimination on an informal level and will proceed with more formal proceedings once the Act enters into force. All building permits are now being assessed by the NCPD in order to ascertain whether the building will be compliant with accessibility standards established between the Planning Authority and the Commission itself.

As regards **Health and safety**, regulations on Signs at Work Places came into force on 1 July 2000. Regulations on Protection of Maternity at Work Places and on the Protection of Young Persons at Workplaces were enacted in April 2000, to come into force on 1 January 2001 and 1 January 2002 respectively.

In the field of **Public Health**, Malta is fully committed to participating in the surveillance and control of communicable diseases and is well prepared to collaborate in the Community Network for the Epidemiological Surveillance and Control of Communicable Diseases. Malta is currently participating in preparatory meetings of the Network Committee. In respect of notifications, the main concern regards food poisoning, as there have been a large number of such notifications of late.

There are two main Ministries responsible for public health in Malta: the Ministry for Social Policy and the Ministry of Health. The latter is responsible for several Departments that include public health, health promotion and health information.

Social dialogue is well established in Malta. There are various mechanisms that are intended to promote social dialogue. The Government has established, by administrative decision, the Malta Council for Economic Development (MCED), composed of representatives of various constituted bodies and Government entities, to provide a forum for broadly based consultation between all social partners. Also, representatives of the social partners may sit on the Board of various Government entities, like the Employment and Training Corporation, the National Employment Authority, the Commission for the Promotion of Occupational Health and Safety, the Labour Board, and the Social Assistance Board and the Panel of Assessors. The new legislation also ensures representation of the social partners in the Occupational Health and Safety Authority. In addition, there is an ongoing social dialogue in both public administration and in state enterprises.

This reinforcement of the Social Dialogue supports social partners' capacity-building efforts to develop and implement the *acquis*, which was a short-term priority in the Accession Partnership.

The **employment** rate is tabled at rather low level of 52.7% but the female employment rate was very low (30.8%) compared to the male rate (74.3%) in 1999. Unemployment decreased from 5.3% in the last quarter of 1999 to 4.6% in the second quarter of 2000, as the upward trend observed in recent years has been halted by the rise in labour demand. Work on the Joint Employment Policy Review has started in 2000, aiming at the adoption of a Joint Assessment Paper in the first half of 2001. An intervention Unit was set up by the Employment and Training Corporation (ETC), the Malta Development Corporation (MDC) and the Institute for the Promotion of Small Enterprises (IPSE) to serve as an early warning system for collective or less substantial redundancies resulting from the restructuring process. Labour market oriented training is provided both by the ETC and by other institutions. The Employment and Training Corporation (ETC) has also started its preparation for participation in European Employment System (EURES), and is already advertising job vacancies over the Internet.

Malta recognises the importance of acceptable **social protection** and is aware of the principles set out in related Council Recommendations. Malta is a signatory to the European Social Charter of the Council of Europe and is committed to an adequate level of social protection and health care.

Overall assessment

Although significant progress has been made in terms of legal transposition in many areas, much legislative work remains to be done before conformity is achieved in areas like labour legislation, occupational health and safety, and equality of treatment between women and men.

In the area of social dialogue, it is important for the state to encourage workers' and employers' representatives to develop an autonomous social dialogue between themselves, in particular at sectoral level.

Malta is engaged in a consultation process with the social partners to review its existing labour legislation with a view to alignment with the EC *acquis*. Following the current discussions with the Malta Council for Economic Development (MCED), Malta should adopt legislation related to a substantial number of areas like the Organisation of Working Time, Collective Redundancies, Transfer of undertakings, Written Statements, European Works Councils and Posting of workers.

With regard to health and safety, Malta is carrying out an economic impact assessment, the results of which should make it possible to establish a timetable for the adoption of legislation on the numerous EC provisions in this area that have not yet been transposed.

In the field of Public Health, Malta still has to adopt legislation on the labelling of tobacco products and the maximum tar yield of cigarettes. It is awaiting the adoption by the Council and the European Parliament of the new directive on this subject.

The overall public health situation is satisfactory in Malta. Maltese health indicators and infrastructure compare well with those in the EU.

Malta has the essential enforcement structures, which the government plans to strengthen further. This will in particular be needed with regard to labour inspection services monitoring health and safety at work, labour law and equality of treatment.

For the implementation of future ESF-type measures, the administrative capacity of the Ministry for Social Policy needs to be strengthened.

So far, there have not been significant problems associated with racism and xenophobia. However, as mentioned in section B.1.2, there is as yet no prohibition of racial discrimination in Maltese criminal law, as required by the International Convention on the Elimination of all Forms of Racial Discrimination. Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to discrimination on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Since the last Regular Report, no major legislative developments have taken place with regard to **security of supply, competitiveness and internal energy market**, and **energy efficiency**. Measures to transpose the *acquis* on hydrocarbons licensing have recently been adopted and will take effect from the end of the year. No further progress can be reported in this area.

Overall assessment

On the whole, Malta still has to transpose most of the *acquis* related to Energy.

As far as **security of supply** is concerned, Malta still does not have legislation compatible with the *acquis* in terms of minimum oil stocks, nor does it have oil supply crisis management legislation. Since it is necessary to keep stocks of different products, some tank building may also be necessary.

In terms of **competitiveness and the internal energy market**, most of the *acquis* still needs to be adopted with regard, in particular, to the elimination of price distortions. The separation of the regulatory and service provider functions has to be enacted.

Enemalta, which is the sole producer and distributor of electricity in Malta, continues to act as the Regulator, since it can grant permission to generate electricity, and it is the provider of licences for the connection of other electricity producers to the network. Legislation establishing a Regulator and dealing with other aspects of the internal electricity market has been prepared but is awaiting final adoption.

The Department of Economic Services is the body responsible for all aspects of energy regulation, except in the case of energy efficiency issues, where the Department of Consumer Affairs, together with the Department of Industry, are the competent authorities.

There are no natural gas or solid fuel markets in Malta. Malta has a small energy market and considers itself as a small isolated system within the terms of the *acquis*.

With regard to the *acquis* on **energy efficiency**, Malta still needs to implement this fully. Appropriate structures to follow-up the implementation of the relevant policies, together with promotion and training, need to be created.

Malta does not use **nuclear energy** for power generation and has no plans for future development of nuclear energy. Malta has ratified a number of IAEA Conventions and has a safeguards agreement with the IAEA. Malta is not part of any bilateral agreements in this field.

Although Malta does not operate nuclear power plants, due attention should be given to preparing the implementation of Euratom safeguards.

Chapter 15: Industrial policy¹⁴

Since the last Regular Report, Malta has made good progress in the area of Industrial policy.

As regards **Industrial strategy**, the Government published in December 1999 the White Paper 'Prosperity in Change – Challenges and Opportunities for Industry'. It provides a strategic overview for future industrial development and looks at the principal issues involved, namely attracting foreign direct investment, expanding export activity, developing high value-added sectors, generating new employment opportunities and promoting joint ventures. A draft industrial policy document has been presented to the Malta Council for Economic Development.

The Ministry for Economic Services, which is responsible for the formulation and administration of the national industrial strategy, is enhancing its capacity to meet the responsibilities explicit and implicit in EU membership. An Operations Review of the main entities that support industry in the Ministry has been concluded in order to strengthen the Ministry's administration of national industrial strategy and the enterprise policy as a whole.

Regarding **privatisation and restructuring**, the White Paper 'Privatisation – a Strategy for the Future', published in November 1999, provides an outline of Government's privatisation programme over a five-year period. The companies to be privatised over this period have already been identified. Its aim is to modernise and bring about efficiency in State-owned enterprises while improving the competitiveness of the Maltese economy. This will be implemented through wider adoption of modern technologies, formation of strategic partnerships with international operators and stronger management structures and practices.

The programme for the dismantling of the import levy regime is being implemented and the levies on the first and second group of products were removed as scheduled in October 1999 and January 2000, respectively. The industrial restructuring programme continues to be implemented with the aim of boosting local industry's competitiveness.

¹⁴ Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 – *Small and medium-sized enterprises*).

The Institute for the Promotion of Small Enterprises (IPSE) has finalised a study on the furniture sector and tabled an action programme for the sector in July 2000. It is now working on studies for the printing industry and the building materials industry.

In March 2000, IPSE also launched the 'Partners in Business' Initiatives. It includes "Business Network", which promotes networking, "Business Connect" which involves subcontracting between larger and smaller enterprises, and the "Business Links" initiative which encourages local enterprises eligible for IPSE's programmes of assistance to seek and form strategic business alliances with foreign enterprises.

The Ministry of Finance established a Privatisation Unit, which has the responsibility of overseeing and implementing the proposed privatisation process.

Overall assessment

Most of the measures taken by the Maltese Government are recent and it is not yet possible to assess their efficiency. Malta has moved forward with the formulation of an industrial strategy that addresses the main restructuring challenges and identifies the main driving forces to developing the competitiveness of Maltese industry. The White Paper 'Prosperity in Change – Challenges and Opportunities for Industry' that forms the basis for the industrial strategy currently under elaboration is in conformity overall with the principles and objectives of EC industrial policy.

The problem of the state aids to the shipyards remains serious and has not yet been solved (see also chapter 6 - Competition)

The administrative capacity, i.e. relevant Departments in the Ministry for Economic Services and IPSE, seems adequate.

Chapter 16: Small and medium-sized enterprises¹⁵

In the field of **SME policy**, the Maltese Government took steps to further develop policies aiming at improving the business environment. In parallel to the work on the industrial strategy, a strategy for entrepreneurship is being developed as announced in the White Paper "Prosperity in Change, Challenges and Opportunities for Industry" of 1999. The focus is on increasing the competitiveness of Maltese SMEs.

Concerning the **Business environment**, simplifying and reducing legal and administrative barriers to enterprise is one of the key priorities of the strategy for entrepreneurship that is being developed as announced in the White Paper "Prosperity in Change, Challenges and Opportunities for Industry" of 1999.

A Small Business Unit has been set up within the Ministry of Economic Services. Its role is two-fold. It acts as a one-stop-shop for individual businesses in their dealings with the

¹⁵ Developments in policy towards small and medium sized enterprises should be seen in relation to developments in the context of industrial policy (see Chapter 15 – Industrial policy).

administration. It also analyses the existing legal and administrative framework with a view to proposing measures to simplify and reduce legal and administrative burden.

Overall assessment

Malta's SME policy is overall in line with the principles and objectives of EC enterprise policy.

The creation of the Small Business Unit is a step in the right direction. It should provide a good basis for improvements to the business environment, one of the key objectives of the enterprise policy currently under elaboration, provided that it is given the necessary resources and recognition within the administration.

The Institute for the Promotion of Small Enterprises (IPSE) continues to provide its specific programmes earmarked for SMEs. These programmes target restructuring small enterprises as well as new start-ups and expansions and provide enhanced assistance to such restructuring enterprises. It is also undertaking other measures including an extensive training programme in business planning and related areas and introduction of the concept of Business Incubation through a comprehensive strategy, this in support of new business start-ups. There are also several other SME development programmes with objectives such as increasing management skills and internationalisation, run by different implementing organisations. Co-ordination between the implementing bodies of the different SMEs programmes, as well as the new Small Business Unit, is important to avoid overlaps and promote synergies.

Malta benefits from Community initiatives such as a Euro Info Correspondence Centres.

It is essential that the Business Promotion Act under preparation is developed in conformity with Community guidelines on state aid for small and medium-sized enterprises.

Malta has no single definition of SMEs. However, the definitions used by the different agencies that support SMEs are more restrictive than the Commission's recommendations.

Chapter 17: Science and research

There has been progress since the last Regular Report as Malta has formally requested full association from 2001 with the 5th Framework Programme (FP5). Calls for proposals closing in September 2000 and beyond are open to Maltese participants.

Since April, the European Union Programme Unit within the Ministry of Education has been responsible for the promotion, administration and evaluation of Malta's participation in EU educational, cultural and research programmes.

The Malta Council for Science and Technology is the Government agency responsible for the management and co-ordination of Malta's participation in the FP5. It has set up a system of National Contact Points (NCP) for each of the 7 thematic actions.

Overall assessment

Overall, Malta is making important efforts to participate in FP5 and the situation is satisfactory in that respect.

Successful implementation of the *acquis* in this area relates directly to the implementation of the Fifth Framework Programme. The NCP for FP5 needs a more effective supporting infrastructure. In this respect, it aims to take on the facilitating role of a “bridging institute” to achieve a higher degree of co-operation and therefore research and technological development (RTD) and innovation potential and to improve links between academia and research institutes, and industry and SMEs. Malta is currently reviewing its statistics relative to gross domestic expenditure on research & development as a share of GDP, in order to align them with the Community methodology. SME involvement and SMEs’ role in technology transfer are minimal. Malta has been a member of COST since 1997.

Chapter 18: Education and training

Since the last Regular Report, Malta has made progress in the field of education and training, mainly as regards its participation in Community Education programmes.

In June 2000, Malta initialled an agreement on its **participation in the Education, Training and Youth programmes**. This agreement is the legal basis for Malta’s full participation in the second generation of the European Community programmes, Socrates and Leonardo da Vinci as from the year 2000, and the “Youth” Community Action Programme as from 2001. The agreement was signed on 29 September 2000 and entered into force the same day. In January 2000, the Ministry of Education established the European Union Programmes Unit (EUPU), a national mechanism aimed at ensuring a co-ordinated approach to the management of the Community Education and Training Programmes. As regards Vocational Education and Training, both the Ministry for Social Policy (through the ETC - Employment and Training Corporation) and the Ministry for Education (through the EUPU) are responsible for its implementation. Two new staff members will strengthen the EUPU. Co-ordinating committees have been set up for Socrates and Leonardo, and one is being formally established for Youth

There has been no progress as regards the question of the **education of children of migrant workers** and the non-discrimination against EU citizens in the field of education.

No major development can be reported with respect to the education system.

Overall assessment

On the whole, Malta’s education system is of a good quality and Malta is well prepared to participate in the Community education programme.

Arrangements and administrative capacity for participation in Community Programmes and Agencies seem adequate.

Malta still has to enact legislation on education of children of migrant workers, as well as on the setting of National Council of Occupational Qualifications, that will provide for non-discrimination towards EU citizens in the field of education.

Chapter 19: Telecommunications and information technologies

During the past year, Malta has made further progress in adopting the *acquis* under this area.

The National Plan for the liberalisation of the **telecommunications market** has been approved by the Parliament, under which the liberalisation will be completed by 1 January 2003. An important contribution to the implementation of the *acquis* in the field of market liberalisation was the award of a second licence for GSM mobile telephony. The company is a 100% subsidiary of Maltacom (also with 40% private ownership) and expects to start operations at the beginning of 2001.

Regulations amending the Telecommunication Act with respect to the licensing regime were adopted in July 2000.

The Ministry of Economic Services exercises the ownership function of the state in relation to the public network operator Maltacom. The regulatory functions were separated from the Ministry of Transport and Communications and exercised by the Office of the Telecommunications Regulator (OTR) till the adoption of the Malta Communication Authority Act in July 2000.

This Act creates the new Malta Communications Authority (MCA) which will be composed of 3 directorates dealing with telecommunications, data protection and electronic commerce. It will enjoy more independence than the OTR and will regulate the communication services and monitor competition in the market.

The Telecommunications Appeals Board settles any dispute between the regulator and operator(s). It consists of a Chairperson and two other members appointed by the Minister for Transport and telecommunications.

The operational responsibilities in respect of **postal services** are with Maltapost, whose majority shareholding rests with the Ministry for Economic Services. The Post Master General, at present the Permanent Secretary within the Ministry of Transport and Communications, is the Administrative Head of the Postal Services and exercises the regulatory functions. Under the Malta Communication Authority Act, the regulatory function for the postal services will eventually be exercised by the MCA.

Overall assessment

Although Maltese telecommunications legislation still is not fully in line with the Community *acquis*, the necessary framework for the transposition of the *acquis* into Maltese law is now in place. Draft regulations which would bring Maltese legislation in line with Community *acquis* in areas like licensing, interconnection, universal service obligations and numbering still have to be adopted. This applies also to regulations related to data protection in telecommunications.

The amendments to the Telecommunication Act adopted by the Parliament in July 2000 have rendered the licensing regime more objective, non-discriminatory, proportionate and transparent.

The new regulatory authority has yet to demonstrate its independence from Government and its efficiency by preparing regulation and licenses, and by monitoring competition. The regulatory function needs to be improved through recruitment of additional qualified staff and further provision of training.

Further alignment will be needed in relation to Postal Services to bring Maltese legislation in line with the Community Postal Services Directive.

Chapter 20: Culture and audio-visual policy

Significant progress has been made since the last Regular Report.

As regards **audio-visual policy**, in June 2000, the Parliament adopted an Amendment to the Broadcasting Act of 1991, aiming at bringing it into line with the *acquis*.

The amendments to the Broadcasting Act introduce a system whereby administrative sanctions replace the penal sanctions used previously in respect of offences by broadcasters.

In October, Malta ratified the Protocol to the Council of Europe Convention on Transfrontier Television, to which it is already a party.

Overall Assessment

On the whole, Malta has made significant progress but still has to finalise some secondary legislation to achieve alignment with the Community *acquis*.

The amended Broadcasting Act is in line with the *acquis*. However, Malta's legislation on audio-visual policy is still not fully aligned, since a number of issues, including jurisdiction, promotion of European and independent works, protection of minors and advertising rules, will be regulated through implementing Regulations, which have still to be adopted. Thus, the short-term priority in the Accession Partnership for alignment with the audio-visual *acquis* was partially met.

The Maltese authorities have provided adequate assurances that Malta's commitments under the WTO/GATS will not pose obstacles to progressive alignment and full adoption of the audio-visual *acquis* by the date of accession.

The administrative capacity in the field of culture and audio-visual seems adequate with regard to the implementation of the *acquis*.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last Regular Report, progress in this area has been limited. As regards the **territorial organisation** (adoption of provisional NUTS classification), Malta does not have a regional structure and there is no intermediate level between national Government

and the 67 municipalities. Gozo (with Comino) has a separate ministry and specific aid programmes.

Since the last Regular Report, no progress has been made as regards the **legislative framework (general, and territorial, administrative, and financial aspects)**, and with respect to the **preparation for programming, evaluation and monitoring system**.

The Maltese Government has set up a Euro-Assistance Task Force to co-ordinate pre-accession funding. It programs and co-ordinates the requests of the different spending ministries as well as the social/economic partners and other interested parties.

The Office of the Prime Minister has been designated as having overall responsibility for regional policy (with the technical support of other Departments, particularly the Economic Planning and Central Office of Statistics). The Maltese Government has commissioned a report to identify the appropriate supporting structures for Malta's needs.

Limited progress has been made since last Regular Report with respect to *administrative co-ordination* whether this concerns *inter-ministerial co-ordination*, *distribution of competencies* or the *application of partnership principle*.

As far as *financial management* is concerned, an Internal Audit Directorate, within the Cabinet Secretariat of the Office of the Prime Minister, has been set up to function, *inter alia*, as a domestic interlocutor with OLAF and DG Audit. Part of its functions will be the implementation of the *acquis* referring to the protection of the EC's financial interests. No progress can be reported on the *budgetary procedures* in relation with Regional Policy.

No statistical data concerning GDP per capita in PPS has been published yet.

Overall assessment

Overall, very limited progress has been made in preparing for managing structural funds, and urgent and substantial efforts are required, in particular to set up appropriate structures and to train the staff concerned.

A NUTS geographical classification has been requested by the Commission and should be made available as soon as possible. Also, GDP per capita in PPS should be published as soon as possible.

On the legislative side, there is a need to define the framework within which the Regional Policy will operate, both institutionally and from a budgetary point a view.

On the administrative side, there is an urgent need to define the arrangements for the programming of the structural policy, and for an appropriate co-ordination within the Government. In that respect, it should be noted that the Euro-Assistance Task Force is seriously understaffed with only two senior officials and would need to be urgently reinforced.

Then there is a need to start preparing appropriate arrangements for programming, monitoring and evaluation of the structural funds, with an emphasis on the elaboration of

monitoring and evaluation indicators. Training for those officials responsible for implementing projects within the spending ministries is also needed.

Chapter 22: Environment

Since the last Regular Report, Malta has made very little progress in the area of environment.

In the field of **horizontal legislation**, Malta adopted the Civil Protection Act in November 1999. This facilitates the implementation of the *acquis* related to Civil Protection.

No legislative progress can be reported concerning **nature protection**.

Malta regulates trade in endangered species since it is party to the Washington Convention on trade in endangered species (CITES). Malta is also a party to the Bern Convention on the Conservation of European Wildlife and Natural Habitats but has a reservation and exception under the convention in relation to the hunting season.

With regard to **water quality**, no progress has been made.

In the **air quality** field, no progress can be reported. Malta has signed and ratified the Convention on Climate Change and signed but not yet ratified the Kyoto Protocol. Malta is not part of Annex I of the Convention, but has the status of “a small island developing State”. This does not exclude Malta from the obligation to comply with the Council Decision related to monitoring and reporting of CO₂ and other greenhouse gas emissions, which is part of the Community environmental *acquis*.

Concerning **waste**, no legislative progress can be reported. Malta has ratified the Basle Convention on the Transboundary Movement of Hazardous Waste. Legislation to implement the obligations of the Convention is already in place.

No legislative progress can be reported as regards **Industrial Pollution Control and Risk Management** and **Noise from Vehicles and Machinery**.

There has been no legislative progress on **Chemicals** or on **Genetically Modified Organisms**.

No progress can be reported with regard to **Radiation Protection** (see Chapter 14 - *Energy*).

As regards administrative capacity, the Ministry for Environment, through its Environment Protection Department (EPD) is responsible for the drafting and implementation of most of the legislation related to the *acquis*. The EPD covers horizontal legislation, nature protection, water and air quality, waste management and Industrial Pollution control and Risk Management. Its capacity is being strengthened. Two new Environment Officers have been recruited to strengthen the Waste Management Section within the Department, while two Legal officers and two Environment Officers will be engaged shortly for the Legal Office and Biodiversity and Protected Species Section respectively. Since the adoption of the Civil Protection Act in November 1999, the staff of the Civil Protection Department has been strengthened by an additional 50 employees, bringing it to a total of 230 employees. 20 of these employees work in the

Pollution Control Co-ordination Unit (PCCU), which is responsible for the monitoring and assessment of air and water quality. The Malta Resources Authority Act was approved by Parliament in September. This independent authority will assume the regulatory functions currently held by the Water Services Corporation in connection with management of water resources.

The Ministry of Home Affairs, through the Planning Authority (PA), is responsible for the land use and delivery of environment permits, with the advice of the EPD which does the environmental impact assessments. The Civil Protection Department in the Ministry of Home Affairs is responsible for civil protection and for marine pollution in co-ordination with the PCCU, the Malta Maritime Authority and the Malta Armed Forces.

The Air Pollution Monitoring Programme has been extended by the introduction of a fully operational mobile Air Monitoring Station and monitoring is being carried out in 31 localities. The bathing water quality programme has been extended by including physio-chemical parameters as indicated in the Bathing Water Directive. This programme monitors 36 different sites.

Overall assessment

The existing level of alignment with the *acquis* is very low in Malta. There is no sector where transposition is really advanced. Substantial efforts will be necessary to adopt and implement the *acquis* in this field. Harmonisation of national legislation with the Community environmental *acquis* could progress at a quicker pace if the new Environmental Protection Act is adopted; which still has to be done.

Malta has not yet adopted a strategy and a directive-specific programme for the transposition, the implementation and the enforcement of the EC environmental *acquis*, a short-term priority in the Accession Partnership also mentioned in last Regular Report.

Malta still has to adopt horizontal legislation on environmental impact assessments -also a short-term priority in the Accession Partnership-, access to information and reporting.

Extensive legislative transposition is necessary in practical all areas of waste management legislation in order to comply with the Community *acquis*.

Legislation transposing the *acquis* related to air quality still has to be adopted.

With regard to water quality, Malta still has to transpose most of the Community legislation, in particular in relation with discharges of dangerous substances into the aquatic environment, nitrates, bathing water and drinking water (at present Malta has only one wastewater treatment plant). The sewage sludge from this plant, along with the remaining collected wastewater (85% of the total), is discharged untreated into the sea through two outlets).

With regard to nature protection, most of the Community legislation has to be transposed, in particular the wild birds and the habitat directives.

Malta still has to adopt legislation with regard to industrial pollution control and risk management.

Malta still has to transpose directives on the contained use and the deliberate release of genetically modified organisms, as well as the regulations on the import and export of certain dangerous chemicals, and on the evaluation and control of the risks of existing substances.

Legislation related to noise and to radiation protection still has to be adopted.

The new Environment Protection Act will, when enacted, provide for the setting up of the Environment Protection Authority that will act as the competent authority as envisaged in the environmental *acquis*.

A separation of the regulatory functions from service provision functions with regard to water and drainage services as well as mineral extraction will now be enacted due to the new Malta Resources Authority Act.

Following the reinforcement of the EPD in the Ministry for Environment, it is difficult at this stage to assess whether further quantitative strengthening will be needed. In all cases new competencies will be needed to deal with the different sectors and issues covered by the *acquis*, and at least a comprehensive training will be necessary in that respect.

The investments needed to implement the *acquis* in the different sectors are certainly of a large scale, in particular with regard to waste management, water quality, nature protection (habitat) and Industrial Pollution Control and Risk Management. This makes it particularly important for the Maltese Government to develop a plan for financing investments (directive specific) based on estimations of costs of alignment, a short-term priority in the Accession Partnership.

Chapter 23: Consumers and health protection

No further progress has been made in terms of legal alignment, although new legislation in this area is under preparation.

The Department of Consumer Affairs within the Ministry of Economic Services is the authority responsible in the field of consumer policy. A Consumer Affairs Council, grouping under its umbrella two consumer associations, is an autonomous structure, with an advisory and consultative role. The Standardisation Authority is autonomous and responsible for standards and ancillary matters. The Consumer Claims Tribunal allows speedy and cheap legal redress for aggrieved consumers.

The Malta Tourism Authority has a new enforcement directorate, which is responsible for the enforcement and the administration of the travel package and timeshare legislation.

Under the **Health Department**, there is an Inspectorate for food safety in restaurants and hotels.

Overall Assessment

The existing Maltese consumer protection policy is not in line with the *acquis*, but transposition has started. Malta still has to enact a draft bill amending its existing legislation with regard to misleading advertising, comparative advertising, doorstep selling, product liability and unfair contract terms. Provisions concerning the sale of

consumer goods, associated guarantees and injunctions and product liability rules should also be included.

Malta still has to finalise and adopt subsidiary Legislation on Travel Packages and Timeshares.

The existing administrative structures provide a good framework for the implementation of the *acquis* but they need to be strengthened. This applies in particular to the Department of Consumer Affairs. An operations review of the structures responsible for the implementation of consumer policies has been commissioned.

Chapter 24: Co-operation in the field of justice and home affairs

Since the last Regular Report, Malta has made some progress in the area of justice and Home Affairs.

No progress can yet be recorded on **data protection**, a short-term priority of the Accession Partnership, nor in the field of **visa policy**.

Concerning **border control**, the passport system has been upgraded and now includes several new security features including digitised images and machine-readable passports.

Malta International Airport has prepared a detailed feasibility study on the implications of the implementation of the Schengen Agreement at the air terminal. The Malta Maritime Authority is carrying out a similar exercise with respect to the sea terminal, which will be constructed over the next two years.

In the field of **migration**, the Malta Citizenship (Amendment) Act adopted this year allows non-nationals marrying Maltese nationals to apply for Maltese citizenship only after 5 years of marriage, thus acting as a deterrent for marriages of convenience.

As regards **asylum**, the Asylum Act was enacted by the Parliament in July 2000, thus partially fulfilling one of the short-term priorities of the Accession Partnership. The new act is largely in line with the *acquis* in this area and with international obligations under the Geneva Convention on Refugees. Until now, in the absence of an administrative infrastructure, Malta has accepted the UNHCR's decisions on asylum and requests have been processed through a non-governmental organisation, the local Migrants' Commission.

Notice has been given to the High Commissioner of the UNHCR that Malta will be lifting its geographical reservation to the Geneva Convention on Refugees. This reservation must be lifted in order to comply with the *acquis*.

No significant progress can be reported in the area of **police co-operation** since last Regular Report.

The inspection squads engaged in the **fight against fraud and corruption**, have been strengthened since the last Regular Report, increasing the staff from 15 to 24 members.

As regards **drugs**, the Dangerous Drugs Ordinance has also been amended so that the Maltese Government is now in a position to ratify, in accordance with the *acquis*, the

Agreement on Illicit Traffic by Sea. This was a short-term priority of the Accession Partnership.

Co-operation Agreements in the fight against illegal trafficking of drugs and organised crime were concluded with Cyprus, Israel and Turkey in 1999 and Slovakia and Hungary in 2000.

In the field of **money laundering**, in March 2000 Malta ratified the Council of Europe convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, which was one of the short-term priorities of the AP.

In the area of **customs co-operation**, the Customs Department has created a Directorship on EU matters, in order to co-ordinate, communicate and monitor the implementation of the *acquis* relating to Customs under this area. A gaps and needs analysis has been done and provides the basis for a Customs change project including the development of an integrated computer system.

Concerning **judicial co-operation in criminal and civil matters**, legislation to enable Malta to ratify the Convention on the Civil Aspects of International Child Abduction and the Convention on Recognition and Enforcement of Decisions Concerning Custody of Children and Restoration of Custody of Children was enacted in the last quarter of 1999. Malta has now ratified these Conventions and is in line with the *acquis* concerning international obligations related to the custody of children as well as the enforcement and recognition of decisions relating thereto.

Overall assessment

On the whole, Malta has achieved a reasonable level of alignment in field of Justice and Home Affairs.

New legislation on **data protection and privacy**, published in a white paper in May 2000, remains to be adopted by the Parliament. A general law on data protection is a pre-condition for participation of Malta in Europol. It is one of the short-term priorities of the Accession Partnership.

In the field of **visa policy**, at present there are no Direct Airside Transit Visas (DATV) as required in the *acquis* for people not leaving the airport terminal. However, there are transit visas for non-national passengers who will arrive and depart within 24 hours.

Many countries on the Common Visa List (CVL) do not require visas to enter Malta. Further alignment is therefore required in this regard.

Concerning **border control**, the Police controls air and sea entrance. At sea, the Armed Forces act on behalf of the Police, informing the latter. Good co-ordination exists among competent authorities. The structure of the border control branch/immigration branch of the Police, including certain units of the Malta Armed Forces (MAF), is sufficiently effective. However, at present, the maritime squad will not be able to guarantee full control of pleasure boats or/and domestic fishing boats on their way to the archipelago of Malta.

Compared to present Schengen standards, equipment is still poor and generally needs to be improved, particularly the control line equipment and ship- and land-based surveillance devices.

The current **immigration** legislation is broadly in line with the *acquis*. However, the legislation covering specific groups temporarily resident in Malta (e.g. students and dependent family members) is not in line with the *acquis*. Amendments are therefore required in this regard.

While the new Act on **asylum** puts Malta largely in line with the *acquis* in this field, aspects like the taking of fingerprints from asylum seekers will have to be taken into account. A reinforcement of human resources in this area, a training strategy, a strategy to cover the social integration of recognised refugees, suitable accommodation arrangements, an effective "removals" policy and adequate infrastructure are still needed.

Malta has no readmission agreements with any other country.

Regarding **police co-operation**, Malta joined Interpol in 1970. The Malta Police force has set up an Interpol office to deal with all related requests. Malta wishes to participate in Europol but it must adopt a law on personal data protection before it can do so. A Europol liaison office is still to be set up. Malta has to prepare for the setting-up of the Schengen Information System.

Agreements on the fight against organised crime have been made with many countries: Italy (1991), France (1998), Spain (1998), Russian Federation (1993), Libya (1995), Egypt (1997), Israel (1998), Cyprus (1999), Turkey (1999).

In the field of the **fight against fraud and corruption**, The Maltese law is not yet fully in line with the standards set by the *Convention on the protection of the financial interests of the European Communities*. There is a "Permanent Commission against corruption" set up by the Government to protect citizen's rights. However it does not appear to be very active. The Internal Audit Department in the Ministry of Finance will also function as the Anti-Fraud Unit, thereby serving as an appropriate interlocutor for officials investigating suspicions of fraud against financial interests of the EC (OLAF).

Malta has so far not acceded to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which was one of the short-term priorities of the AP. Nor has it joined the United Nations anti-corruption programme for Drug Control and Crime Prevention.

Concerning **money laundering**, a new Computer Misuse Bill, published in a white paper in May 2000, remains to be adopted by the Parliament. It is needed to provide the penal framework necessary to prevent and fight computer-related offences.

The Economic Crime Unit should be reinforced in order to deal with the information that will be available from the future Financial Intelligence Unit. This was a short-term priority of the Accession Partnership.

As regards **customs co-operation**, Malta still has to develop an integrated computer system. An agreement on mutual assistance still has to be approved by the Council.

In the field of **judicial co-operation**, Malta has to amend its legislation in order to be in line with the *acquis*, mainly for civil matters.

Overall, Malta must continue its efforts to harmonise its legislation with the *acquis*. In particular, a law on data and privacy protection, the alignment of Malta's visa policy with the EU visa common list and the ratification of number of conventions for civil and penal judiciary co-operation, are necessary.

It must also reinforce its capacity to implement the *acquis* in the JHA field. In particular, the building-up of a capacity to deal with asylum seekers, the updating of equipment for border controls and police co-operation and the reinforcement of the Economic Crime Unit must be considered.

A training programme on EC legislation for judges, judiciary staff and lawyers would also be necessary.

Chapter 25: Customs union

Malta has made some progress in this area during the reference period.

In the area of **Customs Code and its implementing provisions**, the new Intellectual Property (Cross Border) Act entered into force on 23.2.2000. It relates to importation, exportation and re-exportation of goods in contravention of Intellectual Property rights.

Act XIX of 1999 amending the Import Duty Act entered into force on 1.1.2000. It Implements the WTO Agreement on Customs Valuation and is almost completely in line with the E.U. *acquis*.

Legal Notice 66 entered into force on 14.4.2000. It sets up a Binding Tariff Information system compatible with the relevant provisions of the E.U. Customs Code.

Regarding **customs *acquis* outside the Customs Code**, since 1.2.2000 Malta's Customs Tariff has incorporated the subheadings of the Combined Nomenclature (seventh and eighth digits).

Concerning **administrative capacity**, Malta has prepared a Business Change Management Plan based on the EC Customs Blueprints. The aim of the document is to analyse the current structures as well as related training needs as part of the plan to upgrade and strengthen existing administrative structures. A Pre-Accession Unit (PAU) will be responsible for the successful implementation of the Plan. In May 2000 a Director for EU Matters for the Customs Department was appointed.

Ongoing training is provided to Customs Department personnel and traders in the use of new IT systems and in the implementation of new operational provisions, systems, procedures and EC policies.

According to the Maltese authorities, the human resource capacities at the Customs Department are being consolidated and upgraded, most notably in the areas of post clearance audit, systems of tariff quotas, ceilings and suspensions, counterfeit/pirated goods, dual purpose goods, transit and border controls and other procedures.

Preparatory work has started on the setting-up of a CAP Unit within the Customs Department to deal with customs-related aspects of the Common Agricultural Policy (CAP).

A Quality Service Charter for the Customs Administration, to improve trade facilitation and relations with Business has been drafted.

The computerisation of the Customs Department includes the setting up of an Integrated Customs Information System based on ASYCUDA ++ and other complementary IT systems able to interface with EC systems. The project document to make ASYCUDA fully compatible with EC computerised applications will be finalised by the third quarter of 2000.

Overall assessment

Despite some progress in this area, much remains to be done both to align Maltese customs legislation and to develop the administrative capacity to implement it.

The work on the introduction of the Single Administrative Document, on the implementation of customs procedures with economic impact, on the drafting of a consolidated customs code as well as all the other priorities identified by the Maltese Customs Authorities (eg. simplified procedures, free zones, duty relief), should be completed as planned. It is of paramount importance that the Business Change Management Plan, including computerisation, is implemented as scheduled and that the Pre-Accession Unit starts working as soon as possible.

Chapter 26: External relations

As regards the **Common Commercial Policy**, since 1999 there has been some progress in alignment of Maltese tariffs with those of the EC. The tariffs Malta applied in 1999 averaged 7.6% on all products, 7.1% on agricultural products, 3.9% on fishery products and 8.0% on industrial products. By comparison the EC tariffs in 1999 stood at 5.3% on all products, 9.4% on agricultural products, 12.4% on fishery products and 4.2% on industrial products. Upon accession Malta will be required to align tariffs with the EC's Common External Tariff.

The Intellectual Property Rights (Cross Border Measures) Act was enacted in February 2000 in order to implement provisions emanating from the WTO TRIPS (Trade Related Intellectual Property Services) agreement.

While Malta's external commercial policy is within the responsibilities of the Ministry for Economic Services, Malta's relations with the WTO are conducted by the Ministry of Foreign Affairs, in co-ordination with the ministries concerned. An International Economic Relations Directorate has been set up within the Ministry of Economic Services to strengthen its capacity to deal with WTO matters.

Malta has conducted a study on its **bilateral agreements with third countries** in order to verify whether they are in line with the *acquis*. According to the Maltese authorities, minor amendments will have to be made to some Investment Guarantee Agreements that are in force.

No further preferential trade agreements have been notified.

To date Malta has no **development and humanitarian aid** policy.

Overall assessment

When it joins the EU, Malta will have to renounce its status as a developing country and will have to subscribe to the multilateral WTO agreements to which the Community is a party.

In view of the fact that Malta will be required to align its tariffs with those of the EC upon accession, progress towards full alignment in this area should be pursued. Furthermore, Malta should amend, where necessary, its bilateral agreements to bring them fully in line with the *acquis*.

The EU and Malta have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Malta has been supportive of EU policies and positions within the WTO framework. As regards the new round, Malta concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in-agenda would be less substantial in its absence. As regards export of dual-use goods, Malta's legislation still has to be adapted to provide the necessary administrative structures and regulations. Malta still has to align its legislation on export credits with the *acquis*.

Malta is a signatory to the Information Technology Agreement (ITA). However, Malta still needs to become a signatory to the plurilateral WTO agreements on Government Procurement and Civil Aircraft.

As regards the WTO Agreement on Trade in Textiles and Clothing, Malta needs to use the third stage of integration under the ATC to align its integration programmes on those of the EC, while notably avoiding integrating products not yet integrated by the EC. Also, further co-ordination is necessary in order to consolidate the adjustment of the Maltese list of commitments in GATS with the EC commitments and MFN exemptions.

Malta's administrative capacity to implement the *acquis* has been strengthened and would appear to be satisfactory, in particular in relation with WTO and commercial issues.

Chapter 27: Common foreign and security policy

Since the last Regular Report, Malta has continued to align its policies with those of the EU in this area.

As regards **participation in the political dialogue**, in June 1999, Malta resumed the multilateral political dialogue with the associated Central European countries and Cyprus within the framework of the Common Foreign and Security Policy, at the level of Directors, European Correspondents and Working Groups. Malta continues to orient its foreign and security policy towards the Union.

Malta follows the developments of the European Security and Defence Policy as part of CFSP and has actively participated in the exchanges in this context with the EU in EU + 15 format.

Malta strives to contribute to regional stability in the framework of the Euro-Mediterranean Dialogue. It has established strong co-operation with its Mediterranean neighbours.

As regards **alignment with EC statements and declarations**, Malta has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's **joint actions and common positions**. The United Nations Act of 1993 was amended in February 2000 in order to empower the Maltese Government to adopt sanctions which do not originate from the United Nations Security Council.

Overall assessment

The overall alignment of Malta with the *acquis* in the CFSP is satisfactory. As the *acquis* in the field of foreign policy and security develops further, Malta should maintain the orientation of its foreign policy in line with that of the Union.

Malta contributes to regional stability in the framework of the Euro-Mediterranean Dialogue. It has established strong co-operation with its Mediterranean neighbours.

Malta is willing to abide by the EU's code of conduct on arms export. It still has to enact subsidiary legislation that will provide for the necessary mechanisms concerning the export of dual-use goods.

Malta is engaged in bilateral co-operation on technical matters in order to strengthen its capacity in the field of export control.

Concerning the administrative capacity to implement the provisions relating to CFSP, Malta has the capacity to effectively participate in the Associated Correspondents' Network both in terms of staffing allocations and in terms of the appropriate information systems.

Chapter 28: Financial control

Since the last Regular Report, Malta has made substantial progress in this area.

The **Public Financial Control System** has been enhanced by the setting-up of the General Internal Audit Board (GIAB) within the Cabinet Secretariat of the Office of the Prime Minister (July 2000). This board replaces the Internal Audit Monitoring Committee of the Ministry of Finance and ensures complete functional independence for the Governments' internal auditors. Its executive branch is the Internal Audit Directorate (IAD), which is at present in the process of recruiting staff. The IAD will be the national contact point for the relevant Commission services, in respect of both ex ante control and internal audit functions. The IAD will be responsible for harmonising the methodology of ex ante control and internal audit standards.

A plan has been adopted with the aim of establishing Internal audit services in line ministries which will be directly responsible to the IAD. Their tasks still have to be determined and training provided.

The ex ante control function will be the responsibility of the relevant line ministries.

These changes contribute to the strengthening of the public internal financial control system in Malta and to the independence of the internal audit function. Once achieved, they will fulfil three of the short-term Accession Partnership priorities under this chapter.

External financial control is the responsibility of the National Audit Office. The Auditor General is proposed by Parliament and appointed by the President of Malta. The independence of the National Audit Office is entrenched in the Constitution. It reports directly to the Parliament on the adequacy and procedures of the Government's budgetary income and expenditure. The NAO has recently substantially reinforced its staff and has been restructured into sections dealing with regularity, value for money and investigations. The NAO has accepted the INTOSAI standards and prepared a draft code of ethics for its officials.

As regards the **structural action expenditure** and **protection of financial interests of the EC**, the changes made to the internal audit better prepare Malta for the control of structural action expenditure upon accession. The IAD will be the Certifying Body on internal control systems and procedures of Paying Agencies.

The IAD will also function as the Anti-Fraud Unit, thereby serving as an appropriate interlocutor for officials investigating suspicions of fraud against financial interests of the EC (OLAF).

Overall assessment

The recent changes in the Public Internal Financial Control systems represent a significant improvement that provides a good framework for financial control in Malta. However, the establishment of internal audit services in Government spending centres has not yet been finalised and the harmonisation function of control and audit methodology by the IAD has yet to be developed. In this respect it will be necessary to start developing financial management and control manuals for the spending centres as well as audit manuals for the internal audit services (including audit trails). It will also be important to give attention to the ex ante control function within the Government's spending centres. Finally, relevant control and audit staff will have to follow suitable training programmes.

In view of the decentralisation of the implementation of pre-accession assistance, the Maltese authorities should start developing, in co-operation with the relevant Commission services, a plan for the financial management and control/audit of EC pre-accession funds. This is one of the short-term priorities of the Accession Partnership.

Finally, the National Audit Office will need to provide its staff with appropriate training to allow it to perform according to the requirements of the *acquis*.

Chapter 29: Financial and budgetary provisions

Since the last Regular Report, there has been progress, in particular in strengthening the administrative capacity in this area.

As regards **national budget and EC co-financed measures**, the Public Chart of Accounts, which underlies the budget, has been reformed in order to ensure compliance with the European System of Accounts (ESA95). It provides for the inclusion of separate commitments within the Government budget, for the separation in the budget presentation of EC funds from national funds and for accounting and control.

An Accruals Accounting Task Force has been set up to introduce an accruals accounting system in Government by 2005. Auditors have been contracted to compile a new set of financial standards to support the new system.

Additional personnel have been recruited within the Budget Office and within the Treasury with the aim of implementing respectively the *acquis* in connection with public financial planning, and the *acquis* concerning Government accounting systems.

New Offices of Review have been established as part of a pilot project on public management output performance systems. This partly addresses one of the Accession Partnership short-term priorities. These offices are centrally co-ordinated by a Management Efficiency Unit within the Office of the Prime Minister.

As regards **own resources and administrative infrastructures**, significant progress has been achieved by the Central Office of Statistics (COS) - in collaboration with Eurostat - for the harmonisation of its GNP estimates in line with ESA 95 norms, which fulfils another short-term priority of the Accession Partnership.

Overall assessment

Budgetary legislation in Malta seems broadly in line with the standards found in the EU. The procedures for multi-annual budgeting, within a comprehensive medium-term financial framework, should be strengthened. The work already done for introducing a public management output performance system and value-for-money practices should be continued and progressively extended to all government entities, including the management of EC funds.

The Financial Administration and Audit Act must still be amended to take account of the separate roles of the authorising and controlling officer for Government finance purposes.

As regards the Community's Own Resources, there is currently no provision in Maltese law with regard to the levies on trading in and warehousing of sugar. Further alignment for the calculation of the VAT resource is also necessary.

There is a need to set up and strengthen the central co-ordination for the proper collection, monitoring and payment of funds to and from the EC budget. The administrative capacity should be strengthened in the context of the relevant policy areas such as Agriculture, Customs, and Regional Policy.

The harmonisation of statistics will need to be pursued, in particular as regards VAT revenues.

3.2. Translation of the *Acquis* into national language

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the pre-accession programmes. TAIEX may support the candidate countries who wish so to create a centralised Translation Co-ordination Unit.

The Constitution of Malta stipulates (Article 6) that “the National Language of Malta is the Maltese language” and that “the Maltese and the English are both official languages of Malta and the administration may for all official purposes use any of such languages”. It also stipulates (Article 74) that “Save as otherwise provided by Parliament, every law shall be enacted in both the Maltese and English languages and, if there is any conflict between the Maltese and the English texts of any law, the Maltese text shall prevail.”

No part of the *acquis* has been translated.

3.3. General evaluation

Since the last Regular Report, the process of aligning legislation with the *acquis* has gained momentum in Malta, and progress has been significant in most areas, although uneven across the different fields. Malta has also speeded up efforts to strengthen its administrative capacity with a view to accession, and the first results are becoming visible.

There has been some progress with respect to the internal market *acquis*. Considerable further progress has been made in aligning with the *acquis* on industrial and intellectual property, and in the area of company law Malta is now close to full alignment. Malta has adopted a new Standardisation Act, but more work is required to align its legislation with the New and Global Approach, and to transpose sector specific directives. Some further adjustments are also needed to put the public procurement legislation in line with the *acquis*. Despite some progress on free movement of capital and services, much remains to be done to align Maltese legislation in these areas. As regards free movement of persons, efforts should be stepped up to ensure that there are no provisions in Maltese legislation which contradict Community rules. With respect to competition, substantial efforts are still needed to develop a proper state aid control system.

The publication of two White Papers on industrial development and privatisation, as well as the setting up of the Institute for the Promotion of Small Enterprises, have created a suitable framework for the development of an industrial and SME policy. However, the implementation of the privatisation programme remains slow.

While Malta has made progress in the area of social policy, further alignment is still needed in this field, in particular with respect to labour legislation and occupational health and safety.

In the field of taxation, the framework for the alignment of taxation legislation has been created with the re-introduction of VAT; however, further efforts are required with respect to both VAT and excise duties. Despite some progress in the area of customs, continued efforts are needed, not only to align Maltese customs legislation with the *acquis* in this domain, but also to develop the administrative capacity to implement it.

Notable progress has been made in the areas of telecommunications and culture and audio-visual policy. If efforts are pursued, alignment with the *acquis* in these areas, through secondary legislation, may be reached in the short-term.

In statistics, the Central Office of Statistics of Malta has made considerable progress and is pursuing its efforts to fully align its methodologies with EC standards. In the field of financial control, the reinforcement of the National Audit Office and the reform of the internal audit system within the Maltese Government have provided Malta with an adequate institutional framework. This progress should be further consolidated through appropriate staff training.

In the field of justice and home affairs, there has been significant progress in particular with the adoption of the new Asylum Act. Efforts are still needed with respect to data protection, immigration, visa policy and judiciary co-operation, as well as to strengthen administrative capacity.

In the areas of agriculture, the environment and regional policy, progress has been very limited. Malta still has to adopt most of the extensive agriculture and environment *acquis*. As regards the environment in particular, an overall strategy for the adoption and implementation of the environmental *acquis* remains to be developed. As far as regional policy is concerned, Malta has not yet taken the necessary steps to prepare itself for managing structural funds. Substantial efforts in these three areas are needed as a matter of priority.

While the Maltese administration appears to be adequately staffed, considerable restructuring and staff training is still needed for it to be able to implement the *acquis* in many areas. Efforts in this direction have started. Over the past year, the administrative capacity in the areas of statistics and financial control has been considerably improved. Important projects have been launched to reinforce the agriculture administration by setting up an Integrated Administrative Control System, as well as to strengthen the tax and customs administrations. Work in these areas must be continued.

Overall, Malta's administrative capacity still needs to be significantly reinforced with respect to market surveillance and certification, the enforcement of intellectual and industrial property rights, and in the area of maritime transport and safety. Considerable efforts are required also in the fields of environment and regional policy. Concerning justice and home affairs, administrative capacity should be strengthened in particular for the handling of Asylum cases, borders control and in the area of police co-operation. Particular attention should be paid to ensuring the adequate functioning of the newly created State Aids Monitoring Board and the Regulatory Authority for Telecommunications.

The majority of the Accession Partnership short-term priorities have been either partially or completely fulfilled. Progress has been particularly significant in the areas of

industrial policy and justice and home affairs. Further efforts are required in particular with regard to state aids and in the area of the environment.

Malta has already started to address a number of medium-term priorities.

C. Conclusion

Malta continues to fulfil the Copenhagen political criteria. Its institutions are democratic and function smoothly and there are no particular problems with regard to human rights. Basic civil and political rights continue to be respected. The overall situation with regard to economic, social and cultural rights is satisfactory.

However, special attention should be devoted to the issue of the backlog of civil judiciary cases. Malta should also pursue and reinforce the implementation of its policies with respect to the treatment of refugees and gender equality, as well as the reform of its public administration.

Malta is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union.

The Maltese economy is showing the first signs of stronger macroeconomic performance. The government's medium-term fiscal programme generated a first decrease in the public deficit. Progress has been made in developing restructuring and privatisation programmes and initiatives for entrepreneurship.

However, the government deficit remains very high and needs to be further reduced in order to improve the macroeconomic environment. The remaining price controls distort relative prices and produce an inefficient allocation of resources. The influence of the state in the economy is still too high in some areas. The implementation of the restructuring of public utilities and loss-making public enterprises remains slow.

The authorities need to complete the consolidation of public finances, including the reform of the social security system, in order to ensure medium term fiscal sustainability. Market distortions need to be removed and the envisaged structural reforms need to move into the implementation phase. The influence of the state in the economy needs to be further scaled back through the completion of trade and capital liberalisation plans, the further reduction of state aids, the introduction of more competition in a number of sectors, and the implementation of the authorities' privatisation plans.

Since the last Regular Report, the process of aligning legislation with the *acquis* has gained momentum in Malta, and progress has been significant in most areas, although uneven across the different fields. Malta has also speeded up efforts to strengthen its administrative capacity with a view to accession, and the first results are becoming visible.

There has been some progress with respect to the internal market *acquis*. Considerable further progress has been made in aligning with the *acquis* on industrial and intellectual property, and in the area of company law Malta is now close to full alignment. Malta has adopted a new Standardisation Act, but more work is required to align its legislation with the New and Global Approach, and to transpose sector specific directives. Some further adjustments are also needed to put the public procurement legislation in line with the *acquis*. Despite some progress on free movement of capital and services, much remains to be done to align Maltese legislation in these areas. As regards free movement of persons, efforts should be stepped up to ensure that there are no provisions in Maltese

legislation which contradict Community rules. With respect to competition, substantial efforts are still needed to develop a proper state aid control system.

The publication of two White Papers on industrial development and privatisation, as well as the setting up of the Institute for the Promotion of Small Enterprises, have created a suitable framework for the development of an industrial and SME policy. However, the implementation of the privatisation programme remains slow.

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Notable progress has been made in the areas of telecommunications and culture and audio-visual policy. If efforts are pursued, alignment with the *acquis* in these areas, through secondary legislation, may be reached in the short-term.

In statistics, the Central Office of Statistics of Malta has made considerable progress and is pursuing its efforts to fully align its methodologies with EC standards. In the field of financial control, the reinforcement of the National Audit Office and the reform of the internal audit system within the Maltese Government have provided Malta with an adequate institutional framework. This progress should be further consolidated through appropriate staff training.

In the field of justice and home affairs, there has been significant progress in particular with the adoption of the new Asylum Act. Efforts are still needed with respect to data protection, immigration, visa policy and judiciary co-operation, as well as to strengthen administrative capacity.

In the areas of agriculture, the environment and regional policy, progress has been very limited. Malta still has to adopt most of the extensive agriculture and environment *acquis*. As regards the environment in particular, an overall strategy for the adoption and implementation of the environmental *acquis* remains to be developed. As far as regional policy is concerned, Malta has not yet taken the necessary steps to prepare itself for managing structural funds. Substantial efforts in these three areas are needed as a matter of priority.

While the Maltese administration appears to be adequately staffed, considerable restructuring and staff training is still needed for it to be able to implement the *acquis* in many areas. Efforts in this direction have started. Over the past year, the administrative capacity in the areas of statistics and financial control has been considerably improved. Important projects have been launched to reinforce the agriculture administration by setting up an Integrated Administrative Control System, as well as to strengthen the tax and customs administrations. Work in these areas must be continued.

Overall, Malta's administrative capacity still needs to be significantly reinforced with respect to market surveillance and certification, the enforcement of intellectual and

industrial property rights, and in the area of maritime transport and safety. Considerable efforts are required also in the fields of environment and regional policy. Concerning justice and home affairs, administrative capacity should be strengthened in particular for the handling of Asylum cases, and in the area of police and judicial co-operation. Particular attention should be paid to ensuring the adequate functioning of the newly created State Aids Monitoring Board and the Regulatory Authority for Telecommunications.

The majority of the Accession Partnership short-term priorities have been either partially or completely fulfilled. Progress has been particularly significant in the areas of industrial policy and justice and home affairs. Further efforts are required in particular with regard to state aids and in the area of the environment.

Malta has already started to address a number of medium-term priorities.

D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in *italics*.¹⁶

Short-term priorities

Economic criteria: The Maltese government has *established* and started to implement a *medium-term plan for the creation of a stable and sound macroeconomic environment* involving a restoration of public finances, a new taxation policy and a restructuring of the industry. The *new taxation policy* includes in particular the *reintroduction of VAT* and the setting-up of a Tax Compliance Unit to *bring previously unrecorded activity within the tax net*. Several programmes have been launched to help restructure SMEs with, in particular, the creation of the Institute for the Promotion of Small Enterprises (IPSE), and a privatisation plan has been initiated.

It can therefore be considered that the corresponding **priorities have been met**.

Internal Market: All priorities have been addressed to some extent except the legislation on *data protection*. In the field of *Intellectual and Industrial Property Rights*, a Copyright Act, a new Patents Act and a new Customs Act dealing with border enforcement adopted this year put the Maltese legislation largely in line with the *acquis* in this area. As regards *Company law*, there has not been progress. Regarding *Free Movement of Goods*, the government adopted and started to implement a plan in three steps for the *elimination of levies* on goods imported from the EC, except for agricultural products. However, there has been no progress as regards the *product liability directive*.

¹⁶ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Decision 2000/249/EC (OJ L 78 of 29 March 2000, p. 17).

In the area of *Free Movement of Services*, no progress has been made as regards *data protection*. As regards *Free Movement of Capital* the government initiated a three-stage approach to *abolishing restrictions on capital flows* by 2002, with the first stage enacted this year. As regards *Competition*, there has been progress with the setting-up of a *State Aid Monitoring Authority*.

However no progress has been made with respect to merger and state aid laws and to the application of competition rules to public undertakings with special rights; nor has the State Aid Inventory been completed.

The Malta Communication Authority was established to act as an independent regulatory authority in the *Telecommunication* sector. With regard to *Audio-visual policy*, Malta has almost completed alignment of its legislation and some secondary issues will have to be regulated through implementing Regulations.

In the *Taxation* area, although some progress has been registered in the alignment of VAT, there is no *timetable for full legislative alignment of VAT and excise duties legislation*, neither is there a plan to ensure that new tax measures would comply with the *principles of the Code of Conduct for business taxation*. With respect to *Customs*, only the *time-table for harmonisation of legislation* was adopted and Malta still has to adopt the *Combined Nomenclature including the harmonised rules of origin* and to implement the *single administrative document*. A project for the *reinforcement of the administrative capacity* including computerisation has just started and needs to be completed.

Overall the **priorities related to internal market have been partially met.**

Agriculture: There has been little progress in *alignment of veterinary and phytosanitary legislation* and *border inspection posts* have not been sufficiently upgraded. A project for an Integrated Administrative Control System aiming at preparing Malta's administration for the *Common Agricultural Policy* and to the *Rural Development Policies* will be launched. **The priorities in this area have not been met.**

Environment: The priorities in this area have not been addressed, regardless of whether we are talking about a *global strategy for the transposition and implementation of the acquis*, a plan for financing investments necessary to implement the *acquis*, or the *Environmental Impact Assessment Directive*. **The priorities in this area have not been met.**

Transport: Malta has started the transposition of the maritime transport *acquis* as well as the preparation of its implementation. However, no *strategy and timetable for the transposition of the maritime and air transport acquis* has been elaborated, contrary to the priority set . Therefore **the priority in this chapter has been met to a limited extent.**

Employment and social affairs: The government has closely involved the social partners in the accession process, however more could be done to *support their capacity building efforts to implement the acquis*. Therefore **this priority has been met to a large extent.**

Industrial Policy: An *industrial restructuring policy*, mainly for *SMEs*, has been agreed and its implementation commenced. The same applies to a *privatisation programme*, however it does not yet cover the *agri-food sector*. **Therefore the priority in this area has been met to a large extent.**

Justice and Home Affairs: Malta has given notice to the High Commissioner of the UNHCR that Malta will be *lifting its geographical reservation to the Geneva Convention on Refugees (with effective implementation early in 2001)*. It has continued its participation in international co-operation in the field of justice. It has adopted *legislation on Asylum* that is largely in line with the *acquis* but it still has to set up *structures to deal with asylum requests*. Malta signed the *Council of Europe Agreement on Illicit Drug Trafficking by sea*. It has strengthened the staff of the services in charge of the *fight against drugs*, but not yet those of the *economic crime squad*. It has ratified the *European Convention on laundering of proceeds of crime* but not the *OECD Convention on bribery* and the *European Criminal Law Convention*. **The priorities in this area have been met to a large extent.**

Reinforcement of administrative and judicial capacity, including the management and control of EC funds: Malta has completed the legislative framework for *internal and external financial control*. It has set up the Internal Audit Directorate within the government to *harmonise audit and control functions*, as well as *internal audit units in spending centres*. It has introduced *ex-ante control* and *functional independence of auditors at both central and decentralised levels*. It has issued an *audit manual*. It still has to develop an audit trail for control of EC funds. Malta has taken measures to improve *the efficiency and effectiveness of its public administration* but has not adopted a comprehensive *reform programme* in that respect. Finally GDP per capita data has been produced in accordance with EC methodology. Therefore **the priorities in this domain have been met to a large extent.**

Medium-term priorities

Only those medium-term priorities of the 1999 Accession Partnership where some degree of progress was made are mentioned below.

Economic criteria: Malta has significantly *reduced the budget deficit and improved tax collection*. It has continued efforts to *improve the conditions for enterprise creation and development*, with particular attention to small and medium sized enterprises.

Free movements of capital: Malta has started to *abolish remaining restrictions on inward and outward capital movements* in order to achieve full liberalisation.

Telecommunications: Although Malta still has to align in areas such as *transparency obligations, interconnection, universal service obligations, tariff rebalancing, numbering and number portability, and carrier pre-selection*, the *necessary framework legislation for the transposition of the telecommunication legislation* into Maltese law is now in place.

Employment and Social Affairs: Malta has started to transpose EC legislation in the fields of *occupational health and safety*,.

Financial control: Malta has strengthened *public financial control functions* through the provision of adequate staff and training both to the internal auditors and to the National Audit Office, partially meeting the corresponding priority.

Statistics: Malta has adopted EC compatible statistical methodologies and practices as regards *GDP estimation, short-term indicators, social statistics* and *balance of payments*.

2. National Programme for the Adoption of the *Acquis*

Malta recently finalised its NPAA. It was published on 18 September 2000, after extensive discussion with the social partners in the Malta-EU Steering and Action Committee. It was discussed in the Parliament in the second half of September.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
September 2000***

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic Data	in 1000				
Population (average) ¹⁷	378	381	384	386	388
	in km²				
Total area	315,6	315,6	315,6	315,6	315,6

National accounts	Mio Malta Lira				
Gross domestic product at current prices	1.145,5	1.201,3	1.288,2	1.362,3	1.446,3
	1000 Mio ECU/euro				
Gross domestic product at current prices	2,5	2,6	2,9	3,1	3,4
	ECU /euro				
Gross domestic product per capita at current prices	6.600	6.900	7.700	8.100	8.800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	6,2	4,0	4,9	3,4	4,2
	in Purchasing Power Standards				
Gross domestic product per capita at current prices	:	:	:	:	:
	% of Gross Value Added¹⁸				
Structure of production					
- Agriculture	2,9	2,9	2,9	2,7	2,5
- Industry (excluding construction)	25,5	24,8	24,3	25,0	24,8
- Construction	3,3	3,1	3,0	2,8	2,3
- Services	68,3	69,2	69,8	69,5	70,4
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	81,6	85,3	82,9	81,9	82,0
- household and NPISH	61,1	63,7	62,4	62,2	63,2
- general government	20,5	21,6	20,5	19,7	18,8
- Gross fixed capital formation	31,9	28,7	25,3	24,5	22,8
- Stock variation	0,2	0,0	0,2	-0,9	0,6
- Exports of goods and services	93,8	87,0	85,1	87,7	91,3
- Imports of goods and services	107,5	101,0	93,5	93,2	96,7

Inflation rate	% change over the previous year				
Consumer price index	4,0	2,5	3,1	2,4	2,1

¹⁷ Total population (Maltese + permanent residents of foreign nationality).

¹⁸ At factor cost.

Balance of payments¹⁹	Mio ECU/euro				
-Current account	-274	-281	-180	-174	-119
-Trade balance	-553	-601	-579	-555	-581
<i>Exports of goods</i>	1.491	1.395	1.467	1.627	1.891
<i>Imports of goods</i>	2.044	1.996	2.047	2.156	2.429
-Net services	210	233	332	381	414
-Net income	30	9	8	-63	-5
-Net current transfers	39	78	59	63	54
<i>-of which: government transfers</i>	8	45	26	25	21
- FDI (net) inflows	101	218	71	238	830

Public finance	in % of Gross Domestic Product				
General government deficit/surplus ²⁰	-3,5	-7,7	-6,6	:	:

Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy ²¹	60,9	71,2	93,6	201,2	214.1 E
	as % of exports				
Gross foreign debt of the whole economy ²²	64,9	81,8	110,0	229,4	234.5 E
Monetary aggregates	In 1000 Mio ECU/euro				
- M1	0,9	1,0	1,1	1,2	1,4
- M2	3,3	3,7	4,2	4,4	5,2
Total credit	2,6	3,2	3,8	4,1	4,8
Average short-term interest rates	% per annum				
- Lending rate	7,4	7,8	8,0	8,1	7,7
- Deposit rate	4,5	4,5	4,6	4,6	4,5
ECU exchange rates	(1ECU/euro=..Malta lira)				
- Average of period	0,461	0,458	0,437	0,435	0,426
- End of period	0,463	0,451	0,433	0,442	0,415
	1995=100				
- Effective exchange rate index	100,0	100,6	103,4	105,1	105,3
Reserve assets	million ECU/euro				
-Reserve assets (including gold)	1.258	1.232	1.297	1.483	1.820
-Reserve assets (excluding gold)	1.246	1.221	1.294	1.482	1.818

¹⁹ 1998 and 1999 data from Central Bank of Malta (provisional figures) except for exports and imports of goods and government transfers from IMF source

²⁰ Excludes local authorities.

²¹ Series break in 1998: more complete definition.

²² Series break in 1998: more complete definition.

External trade	Mio ECU/euro				
Trade balance	-785	-837	-812	-742	-809
Exports	1.463	1.362	1.438	1.637	1.858
Imports	2.248	2.199	2.250	2.379	2.667
	corresponding period of the previous year = 100				
Terms of trade ²³	:	97,4	98,2	99,1	99,8
	as % of total				
Exports with EC-15	71,4	56,9	54,3	52,8	48,7
Imports with EC-15	72,7	68,6	71,4	69,3	65,4

Demography	per 1000 of population				
Natural growth rate	5,1	5,8	5,2	3,8	3,0
Net migration rate (including corrections)	0,1	0,8	1,0	0,6	0,6
	per 1000 live-births				
Infant mortality rate	8,9	10,7	6,4	5,3	7,2
Life expectancy:	at birth				
Males	74,9	74,9	74,9	74,4	74,6
Females	79,5	79,8	80,1	80,1	80,1

Labour market (ILO methodology)	% of labour force				
Economic activity rate	47,4	47,6	47,6	47,3	47,7
Unemployment rate, total	3,7	4,4	5,0	5,1	5,3
Unemployment rate of persons <25 years	4,3	5,2	6,4	6,5	7,0
Unemployment rate of persons ≥25 years	3,5	4,1	5,1	4,7	4,8
Average employment by NACE branches	% of gainfully occupied				
- Agriculture and forestry	1,9	1,9	1,9	1,8	1,8
- Industry (excluding construction)	25	24,1	23,8	23,9	23,5
- Construction	4,3	4,3	4,1	4,0	3,7
- Services	68,8	69,7	70,2	70,3	71,0

Infrastructure	in km per 1000 Km²				
Railway network	0	0	0	0	0
	km				
Length of motorways	:	:	157	157	157

Industry and agriculture	previous year = 100				
Industrial production volume indices ²⁴	110,9	95,3	89,1	114,0	107,1
Gross agricultural production volume indices	107,0	102,6	113,1	101,0	99,5

²³ Exports unit price index/Imports unit price index.

²⁴ Index based on ISIC. A new index based on NACE is being compiled.

Standard of living	per 1000 inhabitants				
Number of cars ²⁵	478	436	479	497	520
Telephone subscribers	448	465	483	496	510
Number of Internet connections ²⁶	:	:	34	59	64

E = Estimates

²⁵ Private cars + cars for hire only.

²⁶ Based on provisional results of latest COS survey on information society.

Methodological Notes

Inflation

Retail Price Index: Laspeyres Index with base 1995=100. The index weights were derived from a year-long household budget survey held in 1994. The index "basket" is composed of some 530 items for which direct and monthly price observations are carried out by Central Office of Statistics (COS) field officers. The Index is also used for the measurement of local inflation rates.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Exchange rates: against the ECU (euro). European Commission data is used for ECU rates, European Central Bank data for euro rates.

Note on methodology:

General government deficit / surplus: approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis. For Malta, the data exclude local government.

Gross foreign debt: of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. Total credit means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions.

Interest rates: annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates: ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average).

Reserve assets: end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices): trade data is based mainly on the general system although we use also the special system. We exclude transshipment trade (direct re-exports), customs free zones, licences, know-how patents and services. FOB means that all costs incurred in transport are charged to the seller and CIF means that the purchaser pays the additional costs. The value of imports is in CIF/CF and exports in FOB. Regarding classification, the H.S. coding system is used together with the National Tariff that is 10-digit code.

Terms of trade: calculated as Unit Value Index of Export divided by Unit value Index of Imports.

Imports and exports with EC-15: data declared by the Republic of Malta.

Labour force

Economic activity rate (ILO Methodology). Percentage of labour force in the total population aged 15+. This rate is derived from LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

- Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

have no work,

are actively seeking a job and

are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology): percentage of the unemployed in labour force. This rate is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above).

Average employment by NACE branches. This indicator is derived observing the ILO definitions and recommendations.

Gainfully Occupied persons: persons in gainful employment, both employed and self employed, during a period. These have to be registered as such at the Employment and Training Corporation (ETC) which is the official agency dealing with labour data. By law

all gainfully employed have to be registered with ETC. No labour force survey is carried out so that the employment data is not related to any reference period.

Infrastructure

Railway network: all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway: road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices: Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C, D, and E).

Gross agricultural production volume indices: Gross agricultural production volume indices are calculated in constant prices of 1993. The quarter indices are calculation on the basis of the previous quarter.

Standard of living

Number of cars: passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Sources

Total area, infrastructure, industry and agriculture, external trade, inflation rate, labour market, demography: National sources.

National accounts, finance: Eurostat.