

Memorandum by the General Workers' Union on Malta's entry into the EEC (20 April 1988)

Caption: On 20 April 1998, the Maltese General Workers' Union addresses a memorandum to the Valletta Government on the possible consequences of Malta's accession to the European Economic Community (EEC).

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Memorandum from the General Workers' Union, Malta and the Common Market (20 April 1988)

As Malta's entry into the European Economic Community has to be seen from two perspectives, namely the political and the economic, this paper will cover the following headings:

1. The political effect of Malta's entry into the Common Market
2. North-South Division
3. Unemployment
4. Industry
5. Emigration
6. The cost of living
7. Exports and Imports
8. Import substitution
9. Common Agricultural Policy
10. The Maltese lira
11. The Drydocks

The views of the G.W.U.

Due to the economic success currently being enjoyed by the European Economic Community, which is even causing worries to the United States, it is a valid exercise to establish what Malta could continue to gain, by strengthening its relationship with the E.E.C.

Undoubtedly, Malta can never isolate itself from such a large economic grouping without experiencing negative repercussions. The Community provides a huge market. It is made up of 260 million individuals. Malta could choose between two options: one option is to renew the existing agreement, which means a strengthening of the special agreement existing between Malta and the E.E.C, covering preferential treatment on our exports, as happens in the case of textiles exports to Germany. This agreement also provides financial aid by way of loans and grants.

The other option is for us to declare that we wish to become full members of the Common Market. Full membership certainly has its advantages. Equally however, it can today have negative consequences. A serious analysis should be carried out to examine and compare the political and economic perspectives.

Maltese entry into the E.E.C. as a full member would mean that Malta has chosen once and for all its political orientation; this could be incompatible with the policy of neutrality and non-alignment that the General Workers' Union itself has striven for. It was this reason which has kept Finland and Sweden back from taking this step, for they claim that they stand in fear of losing their identity as a neutral state.

The rich and the relatively poor

Even so, whenever we decide to join the Community, the Union would want to establish that the standards of living of Maltese workers can thereby improve. The standards of living of the majority of the peoples within the Community are quite high. But the union can hardly disregard the point that there is a divide in the Community itself between the richer and developed countries, and those countries which are less industrialised. In Italy even, this is factually the case.

Big differences exist. For instance, the income of workers as reported for mid-1987 in Spain, Portugal, Greece, Southern Italy and Ireland is 60 per cent below that of workers in the other E.E.C. countries. It is therefore worthwhile to consider where Malta would fall in this comparison if we become full members of

the Community.

Due to the clash of interests known as the "North South Division" within the Community, it very often happens that the least developed countries fail to agree with the developed countries when they come to devise policies or take decisions. It is certain that Malta does not find itself in the position of Portugal, but neither is it in a stage of economic development comparable to that of Germany or the U.K. There exists a big possibility that Malta would be classified with the comparatively poor countries of the "South".

The newsletter issued about Community affairs in Brussels, Telex Mediterranean, has reported that the plan for all restrictions on exports of goods, services and capital between member states to be eliminated by 1992, so as to create a truly free market, will increase the existing differences.

The State of industry

If Malta has access to more markets, it could increase its exports and thus encourage companies to expand, possibly with the result of even increasing the number of jobs. The General Workers' Union understands that this could happen in those industries which are sufficiently efficient and whose goods could compete with the products of other Community countries.

On the other hand, we have a number of industrial projects which operate successfully in Malta by depending largely on the commercial relations built with Libya and the U.S.S.R., as well as through the preferential system granted by the U.S.A. to our products. These two positive factors are likely to cease as soon as Malta is more closely linked to the European Economic Community. If there were some risk that we would lose European investment if we do not become full members of the Common Market, then we would have understood the urgency for making such a step. Such a threat could arise once we become members.

The Union wishes to know the condition of industry before Malta joins the Community. It is certain that we would have to strengthen the industrial sector. Membership would bring with it harsh competition from the other states since we would have to eliminate import controls and Malta would also have to abandon its policy of import substitution. In the face of such a development, the Union is conscious of the point that the number of unemployed could increase.

The Union's biggest concern is a rise in the unemployment level in the country, or a general reduction of the standard of living. Although unemployment remains the biggest problem in our industrial structure, still we have succeeded to keep it at a lower level than it is in the majority of the member states of the European Economic Community.

In fact, a number of companies which service the local market still survive because they have almost complete protection. In these factories some 8,000 people work. If in addition one also considers the factories which service them, the number of people losing their job could reach 12,000. It follows from this that if we enter the Common Market and the available protection is removed before a concession is given to allow these factories to operate without external competition, the situation could become very difficult. There is nothing to show that the opportunities for employment growth would be greater were Malta to join the Community. We have still not yet been informed of any productive investment that could have been attracted to Malta but which kept back because we are not members of the European Market.

Unemployment

Unemployment could also grow as the result of the specialization which we would have to necessarily adopt. A problem that we would have to face would be unemployment resulting from the introduction of computerization and advanced technology, if we really want to compete with the other countries operating in the same market. The General Workers' Union notes that the unemployment could persist for a number of years.

With full membership, workers could emigrate to whichever country in the Market they prefer, where they

would be given the right to the same social benefits as other citizens in that country. Thus, it could happen that Malta would lose its best skilled workers, to the detriment of its own economy.

On the other hand, by means of this provision we could solve part of the unemployment problem, although in the countries of the Common Market, unemployment also prevails. Although this is not very likely, account must still be taken of the point that some jobs could be lost due to emigration.

It is probable that if Malta joins the Community, the cost of living could rise, as we would have to introduce VAT.

As has happened in all countries which have become members of the Common Market, the prices of the most essential goods and services would become more expensive and the consumer would necessarily have to pay more for his needs, as he would no longer have the freedom to buy cheaper from countries outside the Common Market, or he would have to pay the high protective duties arising from the common external tariff. This would inevitably lead to a rise in wages and of the unit cost of production, which would be so high as to make us lose the attraction for investors that we now have — at least until we make progress in technology and efficiency. It can be stated that a loss of jobs would surely result.

It is useful to point out that between January and September 1987, Malta imported from the Common Market some Lm 188 million. This shows that the Common Market is still the most important source of our purchases. Meanwhile we have also increased our exports to the Common Market. This reached Lm 104.5 million between January and September 1987. If in 1992, the aim of the European Community to secure the integration of all the member states into a single market succeeds, the exports of Malta as a non-member could be badly hit if restrictions are applied to non-members.

With time, the duties that the government charges on goods imported from the Community will need to be eliminated and the duties collected on goods imported from outside the Community will need to be brought to the existing levels with the E.E.C., while the revenues accruing from them would be channelled to Brussels. In order to compensate for the reduction of its budgetary revenues, the government would need to raise excise duties and introduce value added tax (VAT).

If Malta joins the Community, import controls on a number of agricultural products would be abolished. Fruit and vegetables which are also grown in Italy would enter Malta easily and the Maltese farmer would be faced with new competition. As a result of the "common agricultural policy" (CAP) European governments are maintaining the prices of certain agricultural goods at a high level. In this way, the prices of fish, milk and meat would be affected.

The Drydocks

The General Workers' Union cannot but examine how the membership of Malta in the Common Market would affect the largest undertaking that Malta possesses — the Drydocks.

The sources from which the Drydocks obtain their contracts could be affected: one doubts whether the prospects for shipbuilding and shiprepair orders from the Soviet Union would remain attractive. The origin of new materials used by the Drydocks would also have to be investigated: if these come from outside the Community, the situation would have to change with time as duties would begin to apply to such imports.

If the government finds itself under stronger financial pressures especially during the initial years of membership, this would mean that it would be less disposed to consider granting financial aid to the Drydocks if the need arises. It would place a great emphasis on a "transparent" financial situation, in which the Drydocks would need to survive on the basis of the profits it makes.

On the other hand, it could happen that the government succeeds in persuading the Common Market to direct to the Drydocks one of the special projects that would be required to cushion the financial shock of entry, for instance by a programme to modernize the Drydocks' equipment. Against this however, there

would surely be the lobby of the Community shipbuilders and repairers to resist the proposal to provide new aid for some "new" competitor.

A share of the cake

This brings us to the second way by which to assess the effects of membership on the Drydocks:

If Malta becomes a member of the Community, its industrial policy would somehow have to take account of the industrial policy that the Community member states seek to develop through coordination between them. In this sense, it is said that the leading principle is to ensure that wide and fair competition prevails, although in practice there are numerous exceptions to this rule. The ship repair and shipbuilding sector always was a sensitive field in the Community's industrial policy. While the member states always accepted that there was overcapacity in shipyards, they stayed back from abruptly dismantling them, mainly for two reasons. There was the political problem of having to sack thousands of militant workers — an action with which they disagreed politically or which they were reluctant to take. Then there was the recognition that every country had a strategic need not to end up without any shipbuilding capacity.

A complication in all this was that the states themselves were major clients of the shipyards and had introduced subsidization policies on orders made by the private sector. The states running such policies would make sure that the orders that they controlled directly would be allocated to their own shipyards. But such an approach contradicts the principle of open and fair competition among all the Community shipyards and undertakings, free of any preference in favour of anybody. The subsidization policies were frequently discussed among the member states.

European shipyards will certainly not consider Maltese membership in the Common Market favourably, if this would mean that Malta would be given another piece of the cake that they already share. Questions could also be raised about the subsidies that Malta Drydocks have received. In this sense, the Community member states are likely to consider the structure of loans carried by Malta Drydocks, as well as the fact that the government does not press for payments due to it from the shipyard, as an important form of subsidy. As has happened to foundries and in the steel industries under the existing Community schemes, one of the measures could be that of providing subsidies for Malta Drydocks to reduce its workers. On the other hand, there exists no mechanism by which the Drydocks could be guaranteed a proportion of the European market for shiprepair and shipbuilding contracts.

In this field therefore, one has to assess exactly the Common Market's policy towards shipyards; the aid schemes allocated to them; how these are being operated; and it would be necessary to assess the arising pressures from other shipyards to prevent Malta Drydocks from benefiting through such schemes. The experience of Greek, Spanish and Portuguese shipyards would be of interest in this context.

An important argument

In any case, Malta Drydocks would have an important argument in its favour: it is Malta's largest undertaking and the negotiations regarding Community membership would have to take major consideration of its situation and of how it could be affected. Although the shipyard has hardly been affected up to now by the agreement between Malta and the Common Market, any move towards membership would open up new problems which did not need to arise as yet. Also the industrial context in the European shipyard sector would greatly affect Malta Drydocks' future prospects, and this independently of the effect that membership would have on traditional clients of the Drydocks from outside the Community.

Intensive study

The next step would be to obtain more detailed and more up to date information than what is available, regarding the Community's sectoral policies in the shipyard sector, and regarding how the shipyards in the countries which became Community members in recent years, have been affected.

The General Workers' Union questions whether Malta is in a position to become a full member of the Community. It could, as a member, obtain financial and technical aid similar to what is being allocated to the Italian "Mezzogiorno".

In the way by which the government would be setting the rate of exchange for the Maltese Lira, it would have to follow the exchange rate policies being set between the currencies of the Common Market's member states. A possibility would also be that the value of the Maltese lira would depreciate, which would probably increase the upward pressure on prices.

The Union also considers that the entry of Malta into such a substantial market would be useful in encouraging foreign industrialists to invest in Malta.

Certainly, the aspect on which the G.W.U. needs most to be convinced, relates necessarily to the creation of productive employment based on activity which fosters trade among countries and contributes to world peace.

The Union suggests that an intensive study be carried out of the implications arising from Malta's entry into the Community.

Finally, as Malta is still in a stage of industrial and economic development, there would be need for a transition period leading to full Community membership, as happened in the case of Spain and Portugal. If Malta become a full member of the Community, the first step should be a recognition of the appropriate conditions that Malta would need before becoming a full member.