

Negotiations on Gozo

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DECLARATION BY MALTA ON THE ISLAND REGION OF GOZO

"The Government of Malta,

Noting that the island region of Gozo has economic and social specificities as well as handicaps arising from the combined effects of its double insularity, its environmental fragility, its small population size coupled with a high population density as well as its inherent limited resources,

Noting that the Gross Domestic Product per capita of the island region of Gozo is significantly lower than that of Malta as a whole,

Noting that it is pursuing specific economic and social policies with regard to the island region of Gozo, the object of which is to overcome the permanent structural handicaps from which it suffers,

Recognising that, upon the accession of Malta to the European Union, as a result of the agreement regarding the eligibility of Malta for the Structural Funds Objectives and for Cohesion Fund assistance, as well as of the agreements regarding the VAT zero-rate for inter-island passenger transport and the transitional period for the inter-island transport of agricultural goods, Gozo will be benefiting from measures which specifically address its structural handicaps, in addition to participating in measures of more general economic and social benefit,

Recognising further that the NUTS III classification accorded to the island region of Gozo may not, on its own, ensure implementation of the European Union's stated commitment to take measures for the benefit of less-favoured regions,

Declares that, before the end of each Community budgetary period entailing a redefinition of the Community regional policy, Malta will request that the Commission report to the Council on the economic and social situation of Gozo and, in particular, on the disparities in the social and economic development levels between Gozo and Malta. The Commission would be asked to propose appropriate measures, as required, in the framework of the Community regional policy or other relevant Community policies, to ensure the continuation of the reduction of disparities between Gozo and Malta as well as the further integration of Gozo into the internal market on fair conditions. In particular, in the event that Malta, as a whole, would no longer be eligible to certain measures of the regional policy, the report would assess whether the specific economic situation of Gozo justifies a continued eligibility of Gozo to those measures, and under which conditions, during the reference period."

Negotiations on Gozo: At a Glance

1. A Declaration on the "Island Region of Gozo" will be attached to the Treaty to take account of Gozo's specific circumstances.
2. Gozo will be considered as a separate region from Malta for statistical purposes (NUTS III), while the Maltese islands will be classified together for the purposes of EU funding (NUTS 1 and 2 levels).
3. Gozo's regional development will be a separate priority in Malta's programme for EU funding (Single Programming Document).
4. A Gozo Regional Project Committee will be directly involved in how EU funds are used in Gozo.
5. State aid for transport of agricultural goods will continue for a five-year transitional period after membership.
6. Inter-island passenger transport (Gozo ferry) will remain VAT-free.
7. Gozo ferry transport will remain subsidised for Gozitan residents.

In 2000, Gozo's regional GDP stood at just 71.7% of Malta's national average, which in turn, is just over half of the EU average. This means that Gozo lags far behind when compared to EU countries.

The EU Treaty acknowledges that island regions, such as Gozo, may suffer certain disadvantages which need to be addressed. Malta claimed that Gozo suffers from permanent disadvantages as a result of its status as a small island within an archipelago of islands (double insularity), its small population size coupled with high population density, its limited resources and its environmental fragility. Gozo also has an over-dependence on the primary sector (agriculture) and on the secondary sector (industry) of employment. All these factors have an impact on the economic and social development of Gozo.

In order to address Gozo's disadvantages, Malta sought to negotiate a special arrangement for Gozo that takes into account both its funding requirements as well as its other needs. This was done in three ways:

1. Declaration on Gozo to be attached to the Treaty
2. Gozo's separate regional status for statistical purposes
3. Negotiations on transport-related issues of direct interest to Gozo

Article 158 of the EC Treaty

Article 158 of the EC Treaty states that 'the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.'

Declaration on island regions (No. 30) annexed to the Amsterdam Treaty

Declaration on island regions (No 30) annexed to the EC Treaty states that "island regions suffer from structural handicaps linked to their island status, the permanence of which impairs their economic and social development. The Conference accordingly acknowledges that Community legislation must take account of these handicaps and that specific measures may be taken, where justified, in favour of these regions in order to integrate them better into the internal market on fair conditions."

Definition of an "island region"

- An island region is a segment of a Member State which is entirely surrounded by sea, has no physical links to the mainland and is not the seat of the capital city of any European Union country.
- Gozo is as an "island region" for the purposes of the EU Declaration (No. 30) on island regions.



Declaration on the island region of Gozo

In the final stages of negotiations, during the Copenhagen Summit, Malta and the EU agreed on the text of a declaration that will be attached to Malta's Accession Treaty on the "island region of Gozo". The purpose of this declaration is to highlight Gozo's specific needs (as distinct from Malta's) and the need to address them effectively and specifically even after Malta joins the EU.

The final paragraph of the declaration states that before the EU decides on a new budget - and therefore before it decides on a new allocation of EU funding - Malta will request the Commission to report on the economic and social situation of Gozo. The report should focus in particular on the disparities in the social and economic development levels between Gozo and Malta. The Commission will be asked to propose ways, whether through EU funding or other measures, to ensure that the disparities between Gozo and Malta will continue to be reduced and that Gozo continues to integrate into the internal market on fair conditions.

The first Gozo report will be carried out before the next EU budget that will be adopted in 2006. To be approved, the EU budget will need the agreement of all EU countries (unanimity), including Malta.

The declaration also provides for the situation that may arise if Malta, as a whole, loses its eligibility to the highest level of EU funding, whereas Gozo on its own would still lag behind. Countries or regions that have a GDP level that is less than three quarters (75%) of the EU average benefit from the highest level of EU funding and are known as "Objective One" areas. Upon membership Malta, as a whole, will be an Objective One area.

But although Malta is expected to keep its Objective One status even after 2006, it could lose this status in the following budgetary term, after 2013, if by then, it would have advanced sufficiently to exceed the level of 75% of average EU GDP. Malta therefore wanted to ensure that Gozo would still remain eligible to EU support until this was necessary, even if Malta no longer qualified. It was agreed that in such a case, the Commission report on Gozo would assess whether the specific economic situation of Gozo justifies its continued eligibility and the conditions under which it should be eligible.

The full text of the Declaration on the Island Region of Gozo to be attached to Malta's Accession Treaty is reproduced above.



Objective One: What it means

- Objective One areas are the poorest regions in the EU which have a GDP level that is less than 75% of the EU average. Countries and regions under this objective get the large chunk - 70% - of all EU funding in order to help them catch up. 22% of the EU population live in Objective One areas.
- Upon membership, Malta will be an Objective One area.

Gozo's regional status

It is not up to the EU to decide on the level of autonomy of areas or regions within a member country. This means that the EU does not get into the issue of whether Gozo should be considered as a separate political and administrative region within Malta.

However, Gozo's distinct regionality is still indirectly affected by EU membership. In particular by issues relating to the collection of statistics and EU funding.

Since the eligibility for funding depends on the level of economic development, it is clear that statistics are an important factor in determining whether a country or region qualifies for funding and in that case, to what level of funding. For the purposes of the collection of statistics, a difference is made between one country or region and another depending on its size and other relevant factors. Regions are classified according to a "Nomenclature of Territorial Statistical Units" or "NUTS" classification. The largest NUTS classification is NUTS 1 level. Smaller territorial units that are sub-sectors comprised within the NUTS 1 territory would usually be considered at NUT 2, NUT 3 and so on. The NUTS classification determines the territorial level at which statistics are collected. In turn, statistics have an impact on policy-making (even at EU level) that affect that territory.

Malta had originally submitted that it should be considered as one single region at NUTS 1 level and three separate regions under NUTS 2 and 3 - Malta Majjistral, Malta Xlokk and Gozo (including the island of Comino). This request was subsequently changed and instead, Malta and Gozo as an entire country will be classified as one unit at the levels of NUTS 1 and 2. On the other hand, Malta and Gozo will be considered as separate regions at NUTS 3 level. This was accepted by the EU even though, as such, Gozo has a much smaller population than a typical NUTS 3 region. Comino is included with Gozo. Smaller territorial units, such as local councils will be classified under NUTS level 5.

As a result of this classification, Malta and Gozo will be considered as separate regions for statistical purposes. Separate statistics will be collected for Gozo and this will give a clearer picture of Gozo's specific circumstances - and its special needs. In fact, the first GDP statistics for Gozo revealed that, in 2000, it stood at just 71.7% of Malta's national average.

The NUTS classification does not directly affect Malta or Gozo's eligibility for EU funding because the entire country will, in any case, be classified under Objective One irrespective of



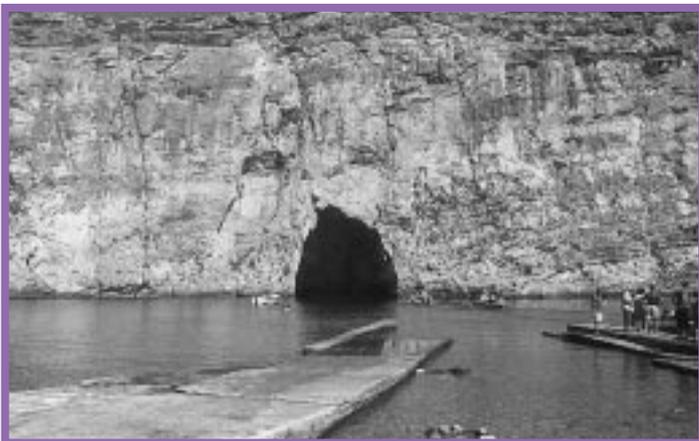
whether it is considered as one or more regions. Both Malta and Gozo will therefore be fully eligible to the highest level of funding from the Structural and Cohesion Funds. As explained above, this is expected to remain the position after the 2006 budget.

However, the NUTS classification does make a difference in two respects.

First, when it comes to managing funds, Malta and Gozo will be considered as a single unit and not as separate regions. For funding purposes, in particular for Objective One funding, the EU normally only considers regions at NUTS 2 level and not lower levels. This has a lot to do with the need to ensure that the region is large enough to have the structures to administer and absorb funds effectively. In our case, it was agreed that EU funding should be administered by the national Maltese structures and not by separate administrations in Malta and Gozo. Separate administrative structures were, in any case, not considered to be cost-effective. As a result, the EU will allocate funding to Malta and Gozo together as one unit at NUTS 2 level and not separately.

But in order to ensure that a high priority is still given to Gozo's needs when it comes to spending EU funds, a separate priority in Malta's "Single Programming Document" will be dedicated entirely to the "Regional Development of Gozo". The Single Programming Document will list the priorities of how EU funds committed for Malta will be used. The separate priority on Gozo's regional development will be based on Gozo's special needs that were identified in a specific study on Gozo and will also include the financial indications for Gozo's priorities, projects and measures. Furthermore, the Ministry of Gozo will set up a Regional Project Committee which will provide an input into the programming phase concerning Gozo's development and also to select and implement projects and measures for Gozo. This will ensure that Gozitans will still be directly involved in how funds are spent in Gozo.

Secondly, the NUTS classification also has a possible impact on Gozo's eligibility for funding in the longer-term if and when Malta no longer qualifies for Objective One status. Since Malta and Gozo are considered as a single unit for funding purposes, Gozo could lose this status when Malta no longer falls under Objective One, even though it may still lag behind. To address this concern, Malta sought to ensure that Gozo's specific needs are still provided for in such a case. This was done through the Declaration on the island region of Gozo discussed above. The Declaration ensures that Gozo's specific needs are assessed before every new EU budget is agreed upon.



MALTA AND GOZO'S NET BENEFICIARY STATUS FROM EU FUNDING

From 2004 to 2006

- Malta will be allocated from the EU Lm81 million (€194.30) more than it will pay. This is calculated by deducting Malta's contribution from its allocation, as follows:
- The EU will commit to Malta a total of Lm154.71 million (€371.30 million) whereas Malta will contribute to the EU budget a total of Lm73.75 million (€177 million).
- EU funds are grants, not loans.

After 2006

- A new budget will apply. To be approved, budget needs agreement of all EU countries (unanimity), including Malta.
- Because of its low GDP level, Malta is still expected to remain a net beneficiary.

Negotiations on transport-related issues of direct interest to Gozo

During negotiations Malta also obtained another two arrangements that are specific to Gozo. The first is a transitional period of five-years to continue granting state aid for the transport of agricultural goods between Gozo and Malta.

This aid must be phased out after five years and will be replaced by a type of assistance that is not operating aid. The second arrangement relates to the retention of VAT exemption on inter-island passenger transport on the Gozo ferry. This means that all passengers using the Gozo ferry will continue to remain exempt from VAT on the ferry tariff.

A third arrangement of interest to industry in Gozo was negotiated during talks on competition. This relates to transport-related incentives. On this point, the outcome was that all SMEs receiving transport aid under the old Industrial Development Act will continue to do so until 2011. They will also continue to receive other IDA aid up until that time unless their aid terminates before that time. Full details on negotiations on competition are available in Aggornat (Special Edition) Edition No. 15.

Finally, it must be noted that EU law allows the payment of subsidies for ferry transport for Gozo residents. Subsidies are allowed to the extent that they benefit Gozo residents directly. Subsidies to the ferry company itself are also allowed to the extent that they cover the additional costs incurred by the company to provide a public service for Gozo residents, such as night trips, even if this is not necessarily commercially viable.

MEASURES FOR WHICH THE ISLAND REGION OF GOZO SHALL QUALIFY

A. Support from the Structural and Cohesion Funds (as Objective One region)

Under the European Regional Development Fund (ERDF)

- (i) Productive investment to create and safeguard sustainable jobs;
- (ii) Investment in infrastructure;
- (iii) Development of endogenous potential by measures which encourage and support local development and employment initiatives and the activities of SMEs;
- (iv) Technical assistance;
- (v) Investment in education and health.

Under the European Social Fund (ESF)

- (vi) Developing and promoting active labour market policies to combat and prevent unemployment;
- (vii) Promoting equal opportunities for all in accessing the labour market;
- (viii) Promoting and improving training, education, counselling as part of lifelong learning policy;
- (ix) Promoting a skilled, trained and adaptable workforce;
- (x) Specific measures to improve women's access to and participation in the labour market.

Under the Financial Instrument for Fisheries Guidance (FIG)

- (xi) contributing to achieving a sustainable balance between fishery resources and their exploitation;
- (xii) strengthening the competitiveness of structures and the development of enterprises in the sector;
- (xiii) improving market supply and the value added to fishery products;
- (xiv) contributing to revitalising areas dependent on fisheries and aquaculture.

Under the European Agricultural Guidance and Guarantee Fund (EAGGF)

- (xv) Support for rural development measures.

B. Support from the Cohesion Fund

- (xvi) Projects relating to the environment and trans-European transport.

C. Transport-related measures

- (xvii) State aid for transport of agricultural goods will continue for a five-year transitional period after membership and may then be replaced by a different type of assistance.
- (xviii) Transport aid for industry in Gozo will continue till 2011.
- (xix) Inter-island passenger transport (Gozo ferry) will remain VAT-free.
- (xx) Gozo ferry transport will remain subsidised for Gozo residents.

For more information see also: • Aggornat Special Edition on Regional Policy • Aggornat Special Edition on the Financial Package • Malta's negotiating position paper on regional policy

Malta's official negotiating position paper on this area is also available from MIC or from:
www.mic.org.mt

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