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**COMPREHENSIVE MONITORING REPORT**  
**ON**  
**MALTA'S**  
**PREPARATIONS FOR MEMBERSHIP**

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## A. INTRODUCTION

The accession negotiations with Malta were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In an accession referendum held on 8 March 2003, a majority of 53.65% of Maltese voters expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, Malta will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

*“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”*

The Copenhagen European Council in December 2002 concluded that:

*“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”*

and the Thessaloniki European Council in June 2003 stated that:

*“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”*

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Malta. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Malta, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Malta as being in need of further improvements.

The second part gives an overview of where Malta stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. Considering their importance for the implementation and enforcement of the *acquis*, the overall state of readiness of the public

administration and the judicial system, and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which Malta is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Malta must be fully prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Malta's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Malta was invited to provide information on its state of preparedness. The Report also draws on information provided by Malta within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.<sup>1</sup> Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions and by non-governmental organisations.

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<sup>1</sup> For the European Parliament the rapporteur is Mrs Ursula Stenzel.

## **B. ECONOMIC ISSUES**

In its 2002 Regular Report, the Commission concluded that

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

*Further improvements can be made to macroeconomic management by reducing the general government deficit and reforming public expenditure to ensure medium-term fiscal sustainability. More progress can be made on restructuring large loss-making public enterprises and public utilities. Attention should be paid to the supervision of non-performing loans in the banking sector.”*

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Malta including the continuation of the reform path since last year’s Report.

### **1. Economic developments**

*Economic activity remained weak, affected by low external demand and the downturn in the tourism sector. Although GDP growth resumed in 2002, it remained below potential at 1.2%. Output growth was primarily driven by higher private and public consumption. A contraction in fixed capital formation and a rundown in inventories were the main factors responsible for low growth. Despite a sharp increase in investment and government consumption in the first quarter of 2003, GDP fell by 1.9% year on year, largely due to a strong increase in imports that contrasted with slightly negative export growth. The twelve month average rate of inflation decelerated to 2.2% in 2002. Although the Maltese lira depreciated against the euro, the impact on import prices was moderate, influenced by modest domestic demand. The unemployment rate increased to 7.4% in December 2002. The employment rate is relatively low at 55.2 % in 2002. Developments in the private sector largely explain the increase in employment, as low activity in tourism and industrial restructuring in manufacturing accounted for significant job losses (see also the Joint Assessment of Employment Policy Priorities and subsequent progress reports). The current account deficit is estimated to decrease slightly to 3.9% of GDP in 2002. An improvement in the visible trade deficit, to which lower imports of capital goods largely contributed, compensated for a deterioration of the services surplus caused by a fall in tourist arrivals of 3.9% and transport activity. The general government deficit decreased to 6.2% of GDP in 2002 from 6.8% in 2001, remaining well above the levels previously estimated by the government. Interest rates were cut in December 2002 and May and June 2003, mirroring lower interest rates in Malta’s major trading partners. Growth below potential, lower inflation, and the lack of pressures on foreign reserves were decisive for the interest rate cuts.*

Main Economic Trends							
Malta		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	per cent	3.4	4.1	6.4	-1.2	1.2	-1.9 Q1
Inflation rate <sup>a</sup>	per cent	3.7	2.3	3.0	2.5 p	2.2 p <sup>d</sup>	
- annual average							
- December-on-December <sup>d</sup>	per cent	:	:	:	:	:	1.1 July
Unemployment rate		:	:	7.0	6.7	7.4	
- LFS definition	per cent						
General government budget balance	per cent of GDP	-10.8	-8.2	-7.0	-6.8	-6.2 p	
Current account balance	per cent of GDP	-6.3	-3.4	-14.8	-4.6	-3.9 p	
	million ECU/Euro						
Gross foreign debt of the whole economy	Per cent of exports	-194	-116	-576	-190	-159 <sup>b</sup>	:
- debt export ratio	of goods and services	105.2	118.5	156.1	155.0	:	
	million ECU/Euro <sup>c</sup>						
Foreign direct investment in flow		2 913	3 477	6 195	5 492	:	
- balance of payments data	Per cent of GDP	7.7	22.6	17.3	8.5	:	
	million ECU/Euro	238	770	674	350	:	:

Sources: Eurostat. National sources. OECD external Debt Statistics

<sup>a</sup> Index not yet harmonised.

<sup>b</sup> Source: Website of the National Bank.

<sup>c</sup> In order to reflect the importance banking activity, Eurostat has deducted from the series external liabilities of the banking sector held in the form of loans, currency and deposits.

<sup>d</sup> Retail Price Index. Source : Website of Statistical Office

P= provisional figures

*Progress with structural reforms has been mixed.* The privatisation process resumed in 2002 with a sale of shares of Maltapost and Malta International Airport. On the other hand, a number of technical and economic reasons have delayed the privatisation of the Freeport and Air Malta. The plan for dismantling import levies on manufactured goods proceeded as expected, with the final stage accomplished in January 2003. A new programme for dismantling remaining levies on agricultural and food products has been established. Early retirement schemes have been introduced as a major step in the restructuring process of the shipyards and Maltacom. It is important to continue the review of tax and benefit systems to enhance incentives for people to seek job opportunities and to increase labour supply in particular for women and older workers. Further efforts should be made to promote human capital investments and life long learning to make the labour force more adaptable and limit the use of early retirement schemes. The liberalisation of the telecommunications sector has proceeded as planned, reaching its final phase with the liberalisation of international calls and fixed telephony services in January 2003. A plan for reforming the energy sector has been drawn up and should form the basis for introducing competition in the market. The introduction of a price mechanism to gradually link fuel prices to international price developments is progressing as expected. Positive steps have been taken to adapt the price mechanisms of public utilities so as to better reflect production and investment costs, but important problems related to low labour productivity and lack of competition remain. In general,

the restructuring process has advanced faster in the private sector, particularly in the least efficient sectors following the removal of import levies. The lack of in-depth reforms to guarantee the sustainability of the public finances is a matter of concern. Although there is general consensus on the need to reform the welfare system, long-awaited pension reform continues to be delayed.

Main Indicators of Economic Structure in 2002		
Population (average)	Thousand	397.3 c
GDP per head a	PPS	
	Per cent of EU average	:
Share of agriculture b in:		
- gross value added	Per Cent	2.8
- employment	Per Cent	2.2 d
Gross fixed capital formation/GDP	Per Cent	23.1
Gross foreign debt of the whole economy/GDP d	Per Cent	135.8 f
Exports of goods & services/GDP	Per Cent	85.0
Stock of foreign direct investment e	Million Euro	2550
	Euro per head	6418
Long term unemployment rate	Per Cent of labour force	:

Source: Eurostat

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

b Agriculture, hunting, forestry and fishing.

c Total Population (Maltese & Foreigners).

d Data refer to 2001.

e Data refer to 2000.

f in order to reflect the importance of international banking activity, Eurostat has deducted from the series external liabilities of the banking sector held in the form of loans, currency and deposits.

## 2. Implementation of recommendations for improvement

*Very substantial efforts are necessary to guarantee the sustainability of public finances in the medium term.* Although the general government deficit decreased to 6.2% of GDP in 2002, it remained well above the level estimated by the government in 2002. While revenues were positively affected by taxes and fees linked to the privatisation of Malta International Airport, current expenditure increased significantly on account of sizeable spending in health, social security benefits, the shipyards' early retirement schemes and agricultural subsidies. In addition, the increasing general government debt, which reached 66.6% of GDP at the end of 2002, led to significantly higher interest payments. Such expenditure increases, together with lower than expected GDP growth, were the leading factors in a slower than expected reduction of the deficit. Nevertheless, the deficit reduction appears to have been facilitated by the fact that the government transferred some expenditure items from 2002 into 2003. In order to counterbalance the impact, government departments were required to reduce their expenses significantly in 2003 but it remains to be seen whether such a measure will be effective. Developments in the period January-July 2003 are very disappointing, as government total expenditure increased by 8.2% year-on-year while current revenues decreased by 4.3%. Higher capital and current expenditure were largely influenced by the construction of the new hospital and the corresponding equipment supply, but other categories of expenditure also increased significantly, such as subsidies for agriculture support, social security contributions, civil service wages and contributions to government entities. Much needed in-depth reforms which allow for long-term savings are lacking. Achieving fiscal

consolidation is necessary to face critical challenges ahead, as the public finances are expected to remain significantly constrained by demographic developments and investment needs required to comply with EU standards and catching up with EU income per capita levels. Furthermore, some of the necessary reforms to guarantee the sustainability of the public finances will entail initial costs for the budget, e.g. pension reform or the implementation of early retirement schemes. More profound reforms in large loss-making public enterprises and more control of government expenditure are necessary to decrease the deficit

*Although restructuring of **public enterprises** is under way, more far-reaching measures need to be implemented, leading to higher productive efficiency and supporting fiscal consolidation.* The privatisation process resumed in 2002 with the sale of 35% of Maltapost and the sale of Malta International Airport. Nevertheless, other pending transactions, such as the Freeport and Air Malta, which are expected to have a larger impact on overall economic efficiency and the fiscal balance, have been delayed. The lack of competition in the port is perceived as an important problem by the private sector, as the very high fees applied hinder the competitiveness of local enterprises. Progress continues in introducing more cost-recovery mechanisms in services provided by public utilities, such as the gradual linking of fuel prices to international prices over a period of three and a half years. The system is setting the grounds for the energy state monopoly to better reflect the cost of fuel, while it reduces the negative effects that higher international prices used to have in the government budget. Prices of electricity and water are also in the process of being adjusted to better reflect production costs, although further adjustments are necessary to achieve cost-recovery mechanisms, especially to cover the high infrastructure investment needs in these areas. Overall, the ongoing reforms in the public enterprise sector should contribute to increase productive efficiency in the medium term, but very substantial government subsidies continue to be directed to public enterprises, with the consequent negative repercussion in public finances. In general, there is a need to deal more decisively with the real reasons that compel those companies to run losses. While progress is ongoing in adapting prices to better reflect production and investment costs, important problems such as low labour productivity and the lack of competition in public enterprises could be addressed more severely.

*The level of **non-performing loans** in the banking sector remains high, although several steps have been taken to improve supervision and credit assessment.* The ratio of non-performing loans to total loans decreased to 15.3% in March 2003, from close to 18% in 2002. Several factors accounted for the improvement. In 2002, the implementation by banks of new stricter legislation on provisioning and classification of bad loans implied an increase in the proportion of non-performing loans over total loans. Once this statistical effect was fully reflected in bank portfolios, a tightening of risk management controls contributed to reduce the percentage of non-performing loans. The widening of the loan portfolio base due to the inclusion of a new credit institution in the local banking sector in March 2003, which had a low proportion of non-performing loans in its portfolio, contributed further to the improvement. However, the reduction in non-performing loans was also due to the write-off of a number of bad loans, as some of them were considered as irrecoverable. Some steps have been taken to improve financial supervision. The creation of the Financial Stability Division in 2002 is seen as a positive development to guarantee financial stability. During 2002, the Malta Financial Services Authority published several notices giving guidelines on effective management of credit and interest rate risk by credit institutions, providing a valuable instrument for risk assessment. Despite these initiatives, the level of non-performing loans remains high and

the weak economic environment and increasing competitive pressures from abroad emphasise the need to continue with the progress towards tighter control and supervision mechanisms in the financial sector.

## C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Malta is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Malta must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Malta, the Commission found that:

*“Malta is generally meeting the commitments it has made in the negotiations. However delays have occurred in the areas of free movement of persons (citizens’ rights and free movement of workers), fisheries (vessel monitoring, market policy), agriculture (establishment of the Paying Agency), transport (road and maritime transport) and social policy (labour law and gender equality). These issues need to be addressed.*

*Bearing in mind the progress achieved since the 1999 update of the Opinion, the level of alignment and administrative capacity that Malta has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Malta will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Malta needs to continue its preparations, in line with the commitments it has made in the accession negotiations.”*

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“Overall, provided Malta implements its plans to strengthen its administrative capacity as mentioned above, it should be able to ensure a reliable enforcement of the *acquis* and to participate adequately in the Union’s policy-making processes. Malta’s capacity to ensure sound, efficient and controllable management of EC funds is generally good and should be fully adequate once it has finalised its plans regarding the body in charge of fight against fraud and protection of EC financial interests.”*

As part of its continuous monitoring, the Commission services addressed two letters to Malta in 2003 expressing concern over its preparedness in the field of VAT legislation within the taxation chapter, the amendment of the Business Promotion Act, the extension of the scope of the Competition Act to include public undertakings and the implementation of the restructuring plan for the ship repair and shipbuilding industry within the competition chapter, and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Malta in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Malta currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of the *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the

perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Malta in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been respected, and where delays have occurred, but the principal focus of the assessment remains the requirement that Malta must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Malta's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for Malta to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid or environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions<sup>2</sup>.

For each chapter, a conclusion is provided, which is structured in the following way.

*Firstly*, it identifies those areas where Malta is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

*Thirdly*, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system, and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Maltese, are evaluated in a separate Section 1.

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<sup>2</sup> See also the Commission Communication on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments, 16 July 2003 (COM(2003) 433 final).

## **1. Administrative and judicial capacity**

### ***Public administration***

The Maltese constitution provides for an independent Public Service Commission (PSC) to supervise the public service. Its seven members are appointed by the president, acting in accordance with the advice of the Prime Minister after he has consulted with the Leader of the Opposition. The PSC makes recommendations to the Prime Minister on the appointment, promotion or removal of civil servants. The functioning of the PSC and the recruitment and promotion procedures are regulated by law. The law provides for open and competitive selection of public servants. There are clear recruitment, career and salary structures in the public service. However there are autonomous agencies or authorities, some of which have been set up in relation with the enforcement of the *acquis*, which have different salary structures.

Malta has continued to implement change initiatives to reform its public service, with the aim to offer better value for money and deliver better quality services. It has also continued to strengthen its administration to meet the requirements of membership.

The main initiatives taken are a delegation of management powers in the field of human resource management together with a results-oriented employee appraisal system, a quality service charter initiative and an ambitious programme of electronic government. In addition public-private partnerships have been initiated to ensure a more effective use of the resources available in the public service.

While progress has been made in all these different areas, it is in the field of e-government that it has been the most noticeable. The government has launched a new government customer care portal system, whereby Maltese citizens can submit enquiries, suggestions and complaints to the government. The system was selected by the Council of Europe as a best practice model for the improvement of services. The first public internet access point was launched at the end of March in Valletta, with 100 more planned to be set up in the coming months. The Internet access point provides free access to a number of sites including e-government. An initiative called M-government was launched at the beginning of April to provide government services via mobile phone.

The Performance Management Programme, a results-oriented employee appraisal system that applies to staff below senior management level, has been further developed. Senior managers are also accountable for results and can be removed from their post if they fail to deliver. More delegation of management powers has taken place, particularly in the field of human resource management.

The first public-private partnership scheme was announced in November 2002. 301 workers from the Urban and Rural Landscape section of the Agriculture Department have been seconded to a private company for that purpose.

It should be noted however that the significant progress achieved through these initiatives concerns a limited part of the Maltese administration and much remains to be done to further improve the effectiveness of the Maltese public administration as a whole.

Transparency and accountability are enhanced by the presence of independent and effective internal and external audit systems (*see also Chapter 28 - Financial control*) and by the existence of an Ombudsman.

Both the National Audit Office (external audit body accountable to the parliament) and the Internal Audit and Investigation Directorate (internal audit structure reporting to the Cabinet office) have been consistently strengthened over the past years and appear able to fulfil their mission.

The Ombudsman, established in 1995, acts to protect the rights of individuals in their dealings with the public service, to recommend appropriate redress where this is found to be justified, and to promote good governance and high administrative standards. The Ombudsman deals primarily with complaints received from citizens, but he also has the right to investigate matters on his own initiative without receiving a formal complaint. He is appointed by a two-thirds majority in Parliament, which guarantees independence. In 2002 the Ombudsman received 673 written complaints for investigation and 352 enquiries. A total of 719 cases were concluded including 374, which had required a full investigation and a report. There are currently 122 cases pending. The Ombudsman also carried out three investigations on his own initiative. While the Ombudsman's work appears to be largely satisfactory, more attention to this important institution in the parliament would help enhance its status and its effectiveness.

The latest round of local council elections were held in March 2003 in 23 localities together with the referendum on EU membership, with a record turnout of 88% linked to the high turnout for the referendum. Although the local councils instituted in 1993 have limited powers, considerable progress has been achieved in a short period in asserting their role, as shown by the continuously increasing turnout at local elections. There is a Ministry for Gozo, which is responsible for the implementation in Gozo of all policies and projects decided by the Government.

### *The judicial system*

The Judicial system in Malta comprises Inferior Courts, Civil and Criminal Courts of Appeal, and a Constitutional Court. There is a legal aid scheme offered to citizens lacking the means to afford legal defence.

The principle of the separation of powers is applied in Malta. Members of the judiciary are independent of the executive. According to the Constitution, judges and magistrates are appointed by the President upon the advice of the Prime Minister. They may not be removed from office, except by the President upon request by the House of Representatives supported by a two-thirds majority of its members. Consideration could however be given to the possibility of further improving the objectivity of the appointment procedure, which, in the current situation, is controlled by political bodies.

The reform of the judicial system has improved to some extent the situation regarding the backlog of cases. It is based on a strategy to tackle the backlog of pending civil court cases, the main planks of which are an increase in court fees and a wider remit for the Small Claims Tribunal. More efficient information technology tools have also been introduced for the administration of the judicial system. The reform has been partially successful. The statistical report on lawsuits shows a drop in the number of pending civil

cases from around 16 000 cases in December 2000 to 13 000 cases in May 2003, with a slower progress in 2002.

The improvement seems to be largely due to a shift of cases from the Civil and Magistrates' Court to the Small Claims Tribunal. Following the extension of the Tribunal's remit, particularly in the financial field, its pending caseload has increased from 1 296 cases in December 2000 to 1 845 cases in May 2003, which offsets the reduction of the backlog at the Civil and Magistrates' Court. Also the backlog of criminal legal actions in courts of all levels in Malta has continued to rise.

A series of training sessions and seminars have been delivered to members of the judiciary both on EU law and on case management. Training has also been provided to court employees on case management and information technology tools. A training academy, set up in April 2002, started training activities in June 2002. It provided training courses on a variety of topics like management, legal and practical aspects of court staff, and recent amendments to legislation.

### *Anti-corruption measures*

Only a few cases of alleged bribery have been brought to court in Malta, although some of them have been serious. However the public perception is that corruption is more widespread than these few cases would show. Indeed, a recent corruption case, which led to the resignation of a chief justice and a judge has affected the way in which citizens perceive the legal system and could be an opportunity for the Government to develop an efficient national strategy for the fight against corruption.

Malta does not have a specific anti-corruption programme, and there have been few developments in the fight against corruption. Recent events include the entry into force of legislation introducing a right to claim compensation for damages caused by corruption and the effective start of the Public Contracts Appeals Board.

This body examined its first case in June 2003, however it still needs to be strengthened and its procedures need to be streamlined. Malta urgently needs to align its procurement regulations with the *acquis* (see details under Chapter 1 – Free movement of goods). Draft regulations have been prepared, but they still need to be adopted. They would improve the overall transparency of public procurement in Malta.

Having been a member of the Council of Europe's Group of States against Corruption (GRECO) since May 2001, Malta received a group of experts from GRECO on an evaluation mission in March 2002 and an evaluation report was consequently published.

There have been no significant changes since last year in the status and functioning of the Permanent Commission against Corruption, and the actual impact of its work remains low. The GRECO report recommended that the Permanent Commission should be empowered to make use of means of compulsion, publish the results of its investigations itself, and present its reports before parliament. It also suggested that the Permanent Commission should be given the possibility to appoint persons with special knowledge when necessary for its investigations. Such measures are necessary to improve the effectiveness of the Permanent Commission.

More generally, Malta would benefit from a broad anti-corruption programme taking account of the GRECO recommendations such as the strengthening of the police anti-corruption skills and tools, training of the judiciary in matters pertaining to the fight against corruption, the strengthening and empowerment of the Permanent Commission against Corruption, and the adoption of public procurement regulations in line with the requirements of the *acquis*.

Malta has signed all relevant Council of Europe conventions on corruption but it must still ratify the Council of Europe's Civil Law Convention on Corruption, which it signed in January 2003.

### ***Translation of the acquis into Maltese***

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision and publication of the translations, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

Malta started the process of translation of the *acquis* relatively late and is experiencing difficulties to catch up with the Commission's planning. There are probably more than 50 000 pages either not yet revised or not even translated. Due to a lack of human resources, the revision process remains slow. There have been improvements and the Maltese Translation Coordination Unit is now providing the legal revisers with a constant flow of texts so that finalisation goes on regularly and steadily, but the volume remains small. The quality of the Maltese version of the *acquis* appears to be generally satisfactory. Legal revision has improved considerably in recent months.

The number of revised texts must increase greatly in the coming weeks, otherwise the publication of the Special Edition of the Official Journal in Maltese may not be completed in time for accession.

## **2. The chapters of the acquis**

As indicated, the following review of Malta's ability to assume the obligations of membership has been structured in accordance with the list of 29 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

### ***Chapter 1: Free movement of goods***

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general

product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

The **horizontal and procedural measures** necessary for the administration of the Community product acquis in the new approach sector are in place. Legislation has been transposed and is in line with the acquis. The implementation structures for standardisation, metrology, accreditation, conformity assessment and market surveillance are all in place. Training programmes being carried out by these bodies should ensure their operational efficiency by the date of accession. Malta's standardisation body is a full member of CEN and CENELEC.

Malta has transposed all the **sectoral legislation** under the **new approach** with the exception of that on explosives for civil use. An agreement on conformity assessment and acceptance of industrial products has been signed with Malta after an assessment of the sectoral legislation involved (low voltage, electromagnetic compatibility, machinery, lifts, personal protective equipment, explosive atmosphere, radio and telecommunication terminal equipment, toys). This legislation complies with the *acquis*. Other new approach sectors, including recreational crafts, have been assessed and the corresponding legislation has been subsequently aligned with the *acquis*.

As regards the **old approach** legislation, Malta has transposed most of the *acquis* in these product sectors. It still needs to transpose the legislation on drug precursors and pharmaceuticals for human use. A new system for marketing authorisations of medicines has just been put in place, but the administrative capacity of the newly established Medicines Authority still needs to be strengthened. Having recognised that the identification of "new" chemical substances on its market is a matter of priority, Malta should provide for the appropriate notification of such substances in accordance with the *acquis*.

In the field of food safety, the transposition of the relevant *acquis* up to 2002 is essentially completed. However, it should be noted that some pieces of EC legislation (on labelling of genetically modified foods, and some provisions on novel foods) will be applicable only upon accession. The Food Safety Commission, designated by the legislation as the competent authority for food safety and the co-ordinating body for food control, is in place. Guides to good hygiene practice must still be finalised and the Hazard Analysis Critical Control Points (HACCP) system must be enforced at all stages. Training courses on HACCP have started in the food sector but food inspectors need further training, particularly in auditing companies' HACCP plans. The Public Health Laboratory and the Malta National Laboratory in the field of food safety need to be upgraded and accredited. Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

In the course of the accession negotiations, Malta was granted a transitional period relating to the renewal of marketing authorisations for pharmaceutical products until the end of 2006.

In the field of **public procurement**, the adoption of the new Public Contracts Regulations has been pending and amended several times to ensure that they would fully align legislation with the *acquis* in this area. They need to be issued. A Public Contracts Appeal Board has been set up and presents the relevant guarantees of independence and impartiality. It needs to be strengthened and its procedures need to be further developed. The Directorate General of Contracts within the Ministry of Finance and Economic Services, responsible for all public procurement, needs to be further strengthened, particular as regards EU-related procurement. Its staff needs to be trained on new procurement rules and procedures.

In the **non-harmonised area**, following screening of its legislation, Malta has identified a considerable number of provisions that do not comply with the principle of free movement of goods and need to be amended. A timetable has been agreed to complete harmonisation before accession. Import and export licences, which are not in line with the *acquis* will have to be removed by accession. Malta still has to adopt horizontal legislation introducing a mutual recognition clause covering existing legislation. Transposition of the *acquis* as regards arms control and cultural goods is still pending.

In the course of negotiations, Malta was granted a transitional period relating to the existing monopoly in the importation, stocking and wholesale marketing of petroleum products until the end of 2005.

### *Conclusion*

Malta is essentially meeting the requirements for membership in the **horizontal and procedural measures** necessary for the management of Community legislation in the new approach sectors, the **new approach sectoral legislation**, and the **old approach sectoral legislation**. Provided the preparations for the implementation of the food safety and the chemicals *acquis* will be completed and efforts are made to ensure quick adoption of the remaining pending legislation, in particular in the field of pharmaceuticals, Malta should be in a position to implement this *acquis* from accession. Efforts should be made to provisionally notify "new" chemical substances prior to accession so as to ensure the continued marketing of such substances.

The commitments and requirements relating to **public procurement** and the **non-harmonised area** are only partially met. Efforts need to be made to ensure quick adoption of pending legislation in the fields of public procurement, mutual recognition, arms control and cultural goods, and to further strengthen administrative capacity in the field of public procurement. The implementation of the foodstuffs *acquis* needs to be improved.

### *Chapter 2: Free movement of persons*

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the

professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, the Mutual Recognition of Qualifications Act and its implementing legislation globally aligns with the general system of recognition, but the transposition of the general system directives needs to be completed. Alignment with the sectoral rules on lawyers, architects, pharmacists, doctors, dentists, general care nurses, veterinary surgeons, and midwives has been partially achieved. The necessary implementing structures are in place. Malta must ensure that its legislation does not contain any nationality, residence or language requirements that are contrary to the *acquis* after accession.

In the area of **citizens' rights**, amendments to the Immigration Act have been brought into force. However, implementing legislation, in particular in the area of the right of residence, the right to participate in municipal elections and the right to participate in European Parliament elections has not yet been adopted. Legislation ensuring that non-national European Union citizens residing in Malta are entered on electoral rolls in time for the European Parliament elections has not been adopted. The main administrative structures for implementation are in place.

As for **free movement of workers**, Malta has been granted a safeguard clause as regards the free movement of workers. Until seven years after accession, Malta may retain its work permit system for nationals of other Member States provided permits are issued automatically. Implementing legislation in this area has not yet been adopted. Also, subsidiary legislation under the Social Security Act transposing the *acquis* on supplementary pension rights of workers moving within the Community still needs to be adopted.

With regard to **co-ordination of social security systems** no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity still needs to be set up. A substantial reinforcement of staff and consequent training are needed.

### *Conclusion*

Malta is essentially meeting the commitments and requirements in the area of **citizens' rights, free movement of workers and co-ordination of social security systems**. Attention must be paid to the adoption of the outstanding legislation in the area of citizen's rights, including voting rights, and to transposing the *acquis* on supplementary pension rights of workers moving within the EU. Some adjustments need to be made as soon as possible to the legislation on foreigners to allow EU citizens to participate in the European elections of June 2004. The ongoing measures to ensure adequate administrative capacity in these areas should continue.

Malta is partially meeting the requirements relating to the **mutual recognition of professional qualifications**. In order to complete preparations for membership in this area, Malta must enhance its efforts to finalise transposition of the general system directives and the sectoral rules on lawyers, architects and healthcare professions, and to adopt the relevant legislation on pharmacists. Administrative capacity to implement the *acquis* on mutual recognition of qualifications is in place.

### *Chapter 3: Freedom to provide services*

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information society services must also be respected.

In the field of the **right of establishment and the freedom to provide non-financial services**, Malta has transposed most of the *acquis*. Legislation has been screened for potential legislative and administrative restrictions, and Malta is committed to removing any remaining restrictions before accession. The Trade Licence Act does not provide for a clear distinction between economic operators providing services in Malta temporarily and those established permanently in order to ensure the free provision of cross-border services, as required by the *acquis*.

In the field of financial services, Malta is completing the implementation of its commitments with regard to legislative alignment with the *acquis* in the **banking sector**. The legislation transposing electronic money and capital adequacy rules require fine-tuning. The transposition of provisions on winding-up is still outstanding. The regulations on the “European passport” rights for banks still have to be adopted.

As regards the **insurance sector**, the core insurance provisions are broadly already in place. The procedure for Malta becoming a signatory of the ‘green card’ Multilateral Guarantee Agreement, as foreseen in the 1<sup>st</sup> motor vehicle directive, still needs to be finalised and efforts should be made to cope with the responsibilities linked to this status. Some areas still require further fine-tuning, in particular the fourth motor insurance directive. Also, some major updates to the implementing regulations are needed (concerning, in particular minimum solvency and guarantee fund amounts in Euro).

In the field of **investment services and securities markets**, the legislation is broadly in line, although further legislative amendments are still needed. The directive on financial collateral remains to be transposed. Malta also needs to fully comply with the directives on undertakings for collective investment in transferable securities and with the guidelines of the capital adequacy directive, the provisions concerning the access to regulated markets and clearing and settlement systems as well as for off-exchange trading. Finally, Malta has to provide for new listing rules to be in line with the relevant *acquis*.

After the adoption of recent amendments to the Data Protection Act, eliminating possible conflict of interest and safeguarding the independence of the Data Protection Commissioner, Malta has reached a high level of alignment in the area of the **protection of personal data and the free movement of such data**.

As regards **information-society services**, legislation has mostly been brought into line with the *acquis*. More specifically, the full transposition of the e-commerce directive needs to be completed.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **banking, insurance, investment services and securities markets, protection of personal data and information-society services** by the time of accession. Malta needs to complete alignment with the *acquis* in these areas.

Malta is meeting the majority of the requirements for accession in the areas of **the right of establishment and the freedom to provide non-financial services**. Enhanced efforts are needed to remove all possible administrative and legal restrictions to the right of establishment and the freedom to provide non-financial services.

#### ***Chapter 4: Free movement of capital***

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payment systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, Malta is to a large extent in line with the *acquis* but did not meet its commitment to completing the liberalisation programme by 1 January 2003. A new law abolishing a number of restrictions relating mainly to short-term capital movements has been recently adopted. Concerning the permanent special arrangement Malta was granted for the purchase of secondary residences, restricting the purchase of such property by EU citizens who have not been resident on the island for at least five years, legislation has been aligned, and a non-discriminatory system of acquisition of real estate and authorisation procedures in line with the *acquis* has been adopted.

In the field of **payment systems**, Malta has completed its legislative alignment. The necessary implementing structures are in place.

Malta has aligned its legislation in the area of **money laundering**. Moreover, Malta is completing implementation of the Financial Action Task Force recommendations by phasing out bearer accounts. With regard to implementing structures, the financial intelligence analysis unit is now fully operational (*see also chapter 24 – Justice and home affairs*).

#### ***Conclusion***

Malta is essentially meeting the requirements for membership and should be in a position to implement the *acquis* in the area of **free movement of capital** from accession. Concerning capital movements and payments, a limited number of specific issues regarding the liberalisation programme will still need to be addressed before accession.

#### ***Chapter 5: Company law***

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights,

industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, Maltese legislation is essentially in line with the *acquis*.

With regard to **accounting**, Malta has met its commitments and it should be in a position to implement the *acquis* in this field from the date of accession. The administrative structures are adequate.

In the field of **protection of intellectual and industrial property rights (IPR)**, following the adoption of the new legislation on patents, trademarks, and copyright and related rights, Malta has broadly aligned its legislation with the *acquis*. But further legislation remains to be adopted, notably on exceptions to the rights, exhaustion and revival of term. Important parts of the information society directive and provisions on inter-Member State retransmission via cable remain to be transposed. The directive on artists' resale rights needs to be transposed by 1 January 2006 at the latest. Before accession, Malta must fully transpose the Directive on legal protection of biotechnological inventions and adopt legislation on the legal protection of designs. Malta should finalise the preparation of the necessary measures to accede the European Patent Office.

Specific transitional rules will apply in relation to the granting of supplementary protection certificates for medicinal and plant protection products, and in relation to the extension of registered or pending Community trademarks to the territory of Malta.

As regards enforcement of IPR, administrative structures are in place but need to be strengthened. Training, especially of judges and prosecutors, needs to be intensified. Staffing has been increased and training carried out, but there remains a lack of resources and fines lack sufficient deterrent effect. Further efforts are needed especially to cope with the high level of piracy in music and video products. Better co-ordination among enforcement bodies (in particular customs, police and judiciary) needs to be pursued.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible upon accession. Malta should designate the relevant courts or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and home affairs*).

### *Conclusion*

Malta is essentially meeting the requirements for membership, and is expected to be by accession in a position to implement the *acquis*, in the areas of **company law** and **accounting**, and the **Regulation replacing the Brussels Convention** and the **Rome Convention**.

The majority of commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights** have been met. Further legislative adjustments are required in respect of copyright and related rights, including information society rules. Although the legislation and administrative structures are generally in line with the *acquis*, enhanced efforts must be made to

strengthen enforcement of intellectual and industrial property rights. Better co-ordination among enforcement bodies is required, training of enforcement bodies is required (mainly, customs, police and judiciary) and the efficient functioning of a well-trained judiciary should be given particular attention.

### ***Chapter 6: Competition Policy***

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Malta has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. Following the extension of the scope of application of the Maltese Competition Act to public undertakings, the legal framework for antitrust can now be considered complete. Preparations should, as appropriate, continue for the application of the EU's new procedural regulation.

Malta has the necessary implementing structure in place, and the Office for Fair Competition is functioning satisfactorily. Additional resources need to be devoted to enforcement, especially in view of the decentralised application under the new EU antitrust procedural regulation. Further efforts would be opportune to raise awareness of the anti-trust rules of all market participants and to build up a credible and transparent competition culture. A Judicial Committee was set up for the training of the judiciary, but special training for judges could still be usefully developed further.

The enforcement record is generally satisfactory, but has suffered from an apparent lack of activity in the field of public companies. With the amended Competition Act, the Office is now well placed to develop a record of enforcement also in this field. In general, efforts to develop a more effective deterrent sanctions policy must be reinforced. Further efforts would also be particularly opportune to address serious distortions of competition, such as cartels, as well as to focus investigations on practices that are important for the market structure.

In the field of **state aid**, Malta has adopted State aid rules covering the main principles of the *acquis*. With respect to the transposition of the substantive rules, Malta satisfies the basic requirement for the establishment of the necessary legislative framework.

The necessary implementing structures are in place, and the State Aid Monitoring Board is functioning satisfactorily. Malta needs to ensure the enforcement of state aid rules for all new aid measures. Further efforts are needed to raise awareness of state aid rules among all market participants and aid grantors. Malta must also pay further attention to training the judiciary.

On the whole, whilst the enforcement record can be considered generally satisfactory, and the assessment of the aid measures has been carried out in line with the *acquis*, the number of scrutinised cases remains relatively small. The State Aid Monitoring Board

would need to remain vigilant on all new measures proposed by the Government, with a view to ensuring satisfactory enforcement in the period leading up to accession.

Malta has a transitional arrangement until 2008 under the Accession Treaty to grant State aid for the restructuring of its shipyards. The first implementation report shows that the restructuring of the yards has so far not been carried out in accordance with Malta's restructuring plan and with the specific provisions of the Accession Treaty. This puts into serious doubt the proper implementation of Malta's commitments. Malta also benefits from a transitional arrangement in relation to certain fiscal aid benefits (a phase out of incompatible fiscal aid to SMEs by the end of 2011, and modification of incompatible fiscal aid to large companies). Furthermore, Malta is eligible for certain type of operating aid until the end of 2008. These have necessitated amendments to the national legislation, which have been adopted in June 2003. The assessment of the modifications shows that the measures have been satisfactorily brought into conformity with the Accession Treaty.

As regards public undertakings and undertakings with special or exclusive rights, Malta benefits from a transitional arrangement to adjust the market in the importation, stocking and wholesale marketing of petroleum products by the end of 2005.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the **anti-trust** area and is expected to be in a position to implement this *acquis* from accession. In completing preparations for accession, Malta must further strengthen the administrative capacity of its competition authority as well as improve the enforcement record.

Malta is meeting the majority of the commitments and requirements arising from the accession negotiations in the **state aid** area. In order to complete preparations for membership, Malta should ensure effective enforcement of all new state aid measures in the run-up to accession.

There are serious concerns as regards delays in the implementation of the restructuring plan of the *ship-repair/shipbuilding industry*. Unless urgent remedial action is taken, Malta will not meet the requirements for membership in this area by accession.

### *Chapter 7: Agriculture*

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

## Horizontal issues

The **Paying Agency** functions will be the responsibility of a Paying Agency placed within the Ministry for Rural Affairs and Environment. Subsidiary legislation required for the organisation and operational functions of the Paying Agency – including laying down accreditation criteria - remains to be adopted. The administrative structures still remain to be established. Although Malta's agriculture in absolute terms is of limited size, sustained and accelerated efforts are needed to ensure that the agency is operational by accession. Given the lack of experience in managing EAGGF Guarantee aid, developments in Malta need to be followed closely.

Progress with regard to **Integrated Administrative Control System (IACS)** is limited. Unless significant additional efforts are made over the coming months, there is a serious risk that Malta will not have a functioning IACS in place by the date of accession.

As regards **trade mechanisms**, the Paying Agency will manage export refunds and issuing of licenses. The relevant control tasks will be under the responsibility of customs. Administrative structures and procedures remain to be established. Given the amount of work remaining, there are concerns as to whether Malta can have functioning systems in place by the time of accession.

Administrative procedures for **quality policy** have been established but need to be finalised. As regards **organic farming**, Malta is at a very early stage of its preparations and needs to accelerate its preparations to be ready by accession.

Malta has been defined as one region for **Farm Accountancy Data Network (FADN)** purposes. The Ministry of Rural Affairs and Environment acts as liaison agency. There has been progress in this area but enhanced efforts are required on collecting and processing of data.

As regards **state aid**, Malta obtained an eleven year transition period to grant state aid to support agricultural producers, a seven year transition period to grant state aid to support processors and recognised retailers of imported agricultural products and a five year transition period for the granting of state aid for ferry transport of agricultural products from Gozo. The administrative structures to implement these transitional measures will need to be put in place.

As concerns direct payments to farmers, Malta decided not to apply the single area payment scheme (SAPS).

## Common market organisations (CMOs)

Land under **arable crops** is currently being registered under the Land Parcelling Identification System (LPIS) of IACS. Administrative structures responsible for monitoring imports and exports, price reporting and statistics remain to be put in place. Quality inspection procedures and bodies, intervention centres and storage premises remain to be set up.

Subsidiary legislation for marketing standards, and a quality requirements and producers organisation for **fruit and vegetables** remains to be adopted. Administrative structures are in place for the recognition of producers' organisations and management of operational programmes but application of quality standards is still at a planning stage. An inspection body compliant with EU requirements must still be set up. Mechanisms for

reporting of entry prices need to be set up. Malta is granted a 5-year transition period for the application of the processed fruit and vegetable regime to individual producers.

In the area of **wine and alcohol**, the CMO for wine remains to be fully set up. A wine Act has been adopted but secondary legislation remains to be adopted. The distribution of competence between the Vine Products Commission and the Department of Agriculture remains to be established. Further progress is needed with the setting up of the vineyard register and the management and control of new plantings, replanting and grubbing up of grapevines. Inventory of the wine potential should be prepared in accordance with the relevant regulations.

As regards **olive oil**, Malta must finalise the setting up of the register of olive growers. Preparations concerning the Geographical Information System must be speeded up. The setting up of the structures for the management and control of production aid as well as the control of quality standards also need to be finalised. Enhanced efforts are required in the areas mentioned above if Malta is to have functioning systems in place by accession.

Concerning the **milk** quota management, the existing quota mechanism still needs full harmonisation with Community rules. Administrative structures responsible for the management of the CMO are in place, including a national Quota Control Board set up for the management of the quota system. However, they have to be up-graded to ensure that Malta has functioning market mechanisms for milk and milk products by accession.

As regards **beefmeat** and **sheepmeat**, administrative structures for the setting up of the CMO, the carcass classification and price reporting system and labelling system remains to be set up. Concerning **pigmeat**, legislative measures need to be adopted regarding carcass classification and price reporting, as well as the administrative structures for the setting up of the CMO for pig meat and price reporting system. Carcass classification is carried out but needs to be aligned.

For **eggs and poultry**, legislative measures as well as administrative structures for marketing standards, price reporting and the reporting of production statistics still need to be adopted.

## **Rural development**

The rural development planning unit was set up in February 2002 and the draft institutional plan was presented, however the unit needs to be considerably strengthened to allow Malta to utilise the resources allocated to it for rural development. A Draft Rural Development Plan has been submitted, but it remains to be finalised. In order to complete preparations for the EAGGF Guarantee funded rural development measures, Malta still has to submit the information and justifications specified during the accession negotiations, in particular the cost of establishing producer groups, the extent of rubble walls and the level of farm incomes.

## **Veterinary and phytosanitary issues**

Transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has largely been achieved. TSE surveillance and removal of Specific Risk Material are close to compliance with some shortcomings. Collection and

treatment of animal waste is not in compliance. There are serious concerns as regards the finalisation of the construction of incineration plants. A total feed ban is in place.

The legislation on the **veterinary control system in the internal market** has been largely transposed and Malta is participating in the computerised network linking veterinary authorities, ANIMO. As regards the identification and registration of animals, the legislation has been largely transposed and a computerised database is in place but needs to be further developed. The identification system for pigs, sheep and goats also needs to be further developed. The regulation transposing the financing of veterinary inspections and controls has been adopted but it is not yet implemented. Transposition regarding veterinary checks of imports from third countries and rules for imports is not yet complete. As regards their implementation, significant work is still needed to finalise the setting up of border inspection posts in compliance with EU requirements.

The legislation on **animal disease control** measures has been largely transposed. Contingency plans for classical swine fever, food and mouth disease, Newcastle disease and avian influenza have been provided. Malta is participating in the Animal Disease Notification System (ADNS).

Steps have been taken to align the legislation on **trade in live animals and animal products** with the *acquis*.

Legislation on **public health** protection is in place but not fully implemented. The upgrading of establishments needs to be accelerated, in particular in the milk sector. The upgrading of establishments located in Gozo has yet to start.

The *acquis* on **common measures** (including zoonoses) has been transposed. The laboratory capacity for residue-monitoring needs to be improved.

The *acquis* in the field of **animal welfare** has largely been transposed but efforts are needed in order to ensure actual implementation and enforcement. Malta has been granted a transitional arrangement until the end of 2006 as regards the conditions for laying hens in certain farms.

In the field of **zootechnics**, steps have been taken to align the Maltese legislation with the *acquis*.

The *acquis* for **animal nutrition** still needs to be transposed and the evaluation of feed mills completed.

In the field of **phytosanitary** legislation, considerable work is needed to ensure full transposition of the relevant *acquis*, whether it concerns harmful organisms and quality of seed or plant protection products. Attention needs to be given to ensuring effective implementation in the fields of plant quarantine and pesticide residues. The Registration system of operators in the seeds and propagating material sector is in place.

Malta has to ensure that international veterinary and phytosanitary agreements are brought into compliance with the EU *acquis* by accession.

In order to ensure a comprehensive approach to enhance food safety throughout the food chain, the Food Safety Commission, designated by the legislation as the competent authority for food safety and the co-ordinating body for food control, has been put in

place. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations, among the horizontal issues as regards **quality policy, state aid**; among the common market organisations (CMOs) as regards **arable crops, milk, sheep and pigmeat and eggs and poultry**; and in the veterinary field as regards **animal disease control, trade in live animals and animal products, animal welfare and zootechnics**. Subject to good progress being maintained in the areas, Malta should be in the position to implement the *acquis* by accession.

Malta is partially meeting the commitments and requirements for membership as regards **organic farming**, the **Farm Accountancy Data Network (FADN)** and the CMOs for **beefmeat, wine, fruit and vegetables** and for **olive oil**; as regards **rural development**; in the veterinary field as regards, **veterinary control systems in the internal market** (import controls), **common measures** (as regards residues), **public health** in agri-food establishments and **animal nutrition**; and as regards **phytosanitary issues**. Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place at accession.

There are serious concerns about Malta's preparations to set up its **Paying Agency**, to implement the **Integrated Administration and Control System (IACS)** and in the areas of **trade mechanisms** and **TSEs and animal by-products** (availability of rendering plants). Substantial additional efforts are urgently needed in these areas. Unless immediate remedial action is taken, Malta will not be in a position to implement the *acquis* in these areas by the date of accession.

### *Chapter 8: Fisheries*

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, inspection and control**, the fishing fleet regulation remains to be adopted under the Fisheries Conservation and Management Act. In the course of the accession negotiations Malta sought and obtained a specific management regime within 25 nautical miles of baselines of Malta. Malta has ensured the creation, the reinforcement, and the operational capacity of institutions in the field of fleet management, resources, inspection and control. A management plan for fleet capacity has been adopted. A Fishing Vessel Register (FVR) already exists and is operational. Re-measurement of fishing vessels has not yet started. A Vessel Monitoring System (VMS) has not yet been installed on all eligible vessels, including overseas fishing vessels, and the necessary level of personnel has not been reached.

In the area of **structural actions**, the chapter on fisheries in the Maltese Single Programming Document (Development Plan) is currently being negotiated with the

European Commission. The Multi-annual Guidance Plan has been completed and a fishing vessel registration database already exists and is continuously up-dated. However, the Paying Agency has not been set up and additional staff needs to be allocated to the Ministry of Rural Affairs and the Environment. Allocation of sufficient administrative capacity for the managing and paying authorities for Financial Instrument for Fisheries Guidance (FIFG) funded measures remains to be ensured.

With the adoption of the Producer Organisations Act the legal basis for the producer groups as regards **market policy** has been created. Implementing legislation on marketing standards, fishery freshness, size criteria and aquaculture remains to be transposed. The administrative structures in the area of producers' organisations are being established but need further strengthening. Further recruitment of fisheries protection officers is ongoing.

As regards **state aid** to the fisheries sector, Malta allocates limited aid to the fisheries sector. These aid measures must be brought into conformity with the *acquis* by accession.

Malta is not party to any **international fisheries agreements**. Malta has not yet applied for membership to the International Commission for the Conservation of Atlantic Tuna (ICCAT).

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **resource and fleet management, inspection and control, market policy, state aid** and **international agreements** and is expected to be in a position to implement the relevant *acquis* from accession. Malta needs to complete alignment with the *acquis*, particularly as regards fish standards and the implementing legislation on producers' organisations. A Vessel Monitoring System needs to be installed on all eligible vessels, and the strengthening of the administrative capacity should be pursued as planned.

Malta is meeting the majority of its commitments in the area of **structural actions**. In order to complete preparations for membership, Malta must accelerate its efforts to establish its Paying Agency.

### *Chapter 9: Transport policy*

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

The extension of the **trans-European transport networks** has been defined. While the necessary implementing structures in this area are in place, the administrative capacity to prepare for the investments that will be needed in transport infrastructure requires further strengthening, in both qualitative and quantitative terms.

In the land transport sector, Malta needs to complete its legislative alignment with the **road transport acquis**. Framework legislation is in place and in line. According to the transitional arrangement granted to Malta, it should finalise its implementation of the fiscal *acquis* by the end of December 2004 for vehicles operating internationally and by the end of December 2005 for vehicles operating nationally, in accordance with a timetable for the staged introduction of vehicle taxes. As regards the social field, Malta needs to complete its alignment with the *acquis*, notably regarding the three “admission to the occupation” criteria for all new and existing transport operators. In the technical field, implementing legislation remains to be adopted before accession with regard to transportable pressure equipment and dangerous goods transport. The necessary administrative structures – the Malta Transport Authority – in this area are in place. This body has been strengthened, but it will have to be further reinforced and training of its staff should be pursued, notably as regards enforcement issues.

Malta has been granted transitional arrangements for the phasing-in of roadworthiness tests for certain vehicles used in domestic transport (until end of December 2004), and for the retrofitting of certain vehicles used in domestic transport with speed limitation devices (until end of December 2005).

In the area of **air transport**, the framework legislation is in place and essentially in line with the *acquis*, but some modifications are needed, notably regarding noise reduction and ground handling. In addition, rules on fares still need to be transposed and some secondary legislation still requires adoption. The administrative capacity is satisfactory in overall terms, but specific vacancies need to be filled and training of staff should be pursued.

In the field of **maritime transport**, framework legislation is in place and in line with the *acquis*. However, the adoption of implementing legislation remains to be completed, in particular in relation to classification societies, Port State control, Vessel Traffic Management Information System, port reception facilities, system of mandatory surveys for the safe operation of regular ro-ro ferry and high-speed passenger craft services, marine equipment and fishing vessels. The relevant administrative structures in this area are in place, but staffing levels should be further strengthened. Malta should pursue its efforts to further improve safety standards. Delays have occurred in the implementation of the Maltese Action Plan. According to statistics for 2002 under the Paris Memorandum of Understanding, the percentage of Maltese flag vessels detained following Port State control was 7.4%. This compares with an average for EU-flagged vessels of 3.5% in 2002. The *Maltese flag* is still on the black list of the Paris Memorandum of Understanding. Efforts should be sustained to ensure that Malta will meet its objective of removing the Maltese flag from the Paris MoU black list.

### *Conclusion*

Malta is essentially meeting the requirements arising from the negotiations as regards **trans-European transport networks** and in the areas of **road** and **air transport**, and is expected to be in a position to implement the *acquis* from the time of accession, provided that the current pace of progress is maintained. In completing preparations for membership, Malta needs to reinforce administrative capacities for project management regarding trans-European transport networks and complete alignment in air transport. In the area of road transport, Malta needs to complete alignment and further reinforce its administrative capacity.

Malta must give urgent attention to adopt implementing legislation and further reinforce its administrative capacity to implement the *acquis* in the area of **maritime transport**. There are serious concerns as regards resources allocated to the fulfilment of flag state obligations in the field of maritime transport. The implementation of these tasks requires urgent improvements. Unless substantial efforts are made, Malta risks not to meet the requirements for membership in this area by accession.

### *Chapter 10: Taxation*

The *acquis* on taxation largely covers indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

In the area of indirect taxation, Malta is almost fully in line with the *acquis* on **VAT**. The remaining limited issues concern completing alignment of the scope of the reduced VAT rate (electricity) and defining more precisely the scope of the application of the reduced VAT rate and zero-rating (as for the latter, this should be done in relation to the scope of the relevant transitional measures granted, see below). Malta also needs to address taxable transactions by public authorities (electricity and steam) and to fully ensure equal treatment irrespective of origin of certain goods in a few areas. Moreover, Malta should further address the application of certain special schemes which may not be applied without prior EU authorisation. During accession negotiations Malta was granted a transitional period concerning the continued application of zero rate on foodstuffs for human consumption and pharmaceutical products until 1 January 2010. Malta has obtained derogations as concerns VAT exemption of international and inland passenger transport and domestic inter-island sea passenger transport, VAT exemption without credit of input VAT on water supplied by public authorities and on buildings and building land. Finally Malta was granted a derogation concerning the VAT exemption and registration threshold of € 37,000, € 24,300 and € 14,600 for particular categories of small and medium-sized enterprises (SMEs).

The capacity of the tax administration in the area of VAT is adequate. However, control methods, including the introduction of computerised auditing, remain to be improved. Ongoing efforts to improve the level of non-collected tax revenue should be continued and the developed electronic tax return system should be made operational.

As concerns **excise duties**, further alignment is still required, in particular on the taxable scope and the definition of some products; on the level of rates on some products; and on some exemptions, including the elimination of those granted on an ad-hoc basis. Malta also needs to extend its suspension arrangements to include intra-community movements, and to limit its special scheme for small breweries to small independent breweries only, and to ensure that such scheme is implemented in a non-discriminatory manner, irrespective of origin.

The necessary administrative structures remain to be strengthened further, and efforts in this respect should continue. Priority should be given to improving the efficiency of excise duty collection and to introducing risk analysis and auditing techniques.

In the area of **direct taxation**, Malta needs to complete transposition of the *acquis* as concerns the taxation of raising of capital and on mergers, and transpose the *acquis* on interests and royalties and on taxation of savings income. In order to comply with the principles of the Code of Conduct for Business Taxation and taking into account the conclusions of the Council, Malta should remove the preferential treatment of international trading companies for non-residents, remove the preferential treatment of foreign income as defined in its legislation for non-residents; and it should introduce appropriate anti-abuse measures in relation to profit distributions from foreign shareholdings. Malta should also significantly limit the discretionary power of the Minister in granting special tax exemptions and remove the entitlement to additional tax deductions currently granted to investment service companies. The capacity of the tax administration in the area of direct taxation is adequate and qualified staff is gradually being recruited. Methods for the verification of transfer pricing should be established.

On **administrative co-operation and mutual assistance**, Malta is taking the necessary steps to transpose the *acquis* and implement it by accession, both from the legislative point of view and as concerns organisational structures including information technology systems. The Central Liaison Office (CLO) and the Excise Liaison Office (ELO) have not yet been established. Preparations for setting up the VAT Information Exchange System (VIES), the VAT on e-services application, and the excise electronic database (SEED) are ongoing.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **excise duties**, **VAT** and **administrative co-operation and mutual assistance**, and is expected to be in a position to implement this *acquis* by accession. Malta needs to complete legislative alignment, in particular as concerns the scope and the definition of the application of the reduced VAT rate, and of VAT zero-rating, as for the latter where transitional measures were granted. Subject to good progress being maintained as concerns the VIES project and the 'VAT on e-services' application, Malta should have these functioning systems in place by accession.

Malta is partially meeting the commitments and requirements arising from accession negotiations in the area of **direct taxation**. In order to complete preparation for membership, urgent attention must be given to remove the preferential treatment of international trading companies for non-residents and the preferential treatment of foreign income, and to introduce appropriate anti-abuse measures in relation to profit distributions from foreign shareholdings, taking into account the conclusions of the Council on the Code of Conduct for Business Taxation. Unless remedial action is taken by Malta, the Maltese tax system will not be in line with the principles of the Code of Conduct for business taxation by the date of accession.

### ***Chapter 11: Economic and monetary union***

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the

state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Malta will not yet adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

Malta has met the commitments and requirements arising from the accession negotiations in the area of **economic and monetary union** and is in a position to implement the *acquis* as from accession.

### ***Chapter 12: Statistics***

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. Malta needs to make minor legislative adjustments in the areas of demographic and social, regional, macro-economic and external trade statistics. Further strengthening of Malta's administrative capacity is still needed.

### ***Chapter 13: Social policy and employment***

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

In the area of **labour law**, transposition of legislation is still required in the field of fixed-term work. Some legal adjustments are necessary with regard to posting of workers, transfer of undertakings and insolvency. Concerning working time, a transitional arrangement was granted until the end of July 2004 and until the end of December 2004 with respect to existing collective agreements in the sectors concerned. Transposition of the new *acquis* concerning involvement of workers in the European Company and information and consultation of workers is foreseen after accession. The National Labour Inspectorate is in place. Additional posts have been approved and the recruitment of

inspectors is ongoing. Further strengthening, in terms of both staffing and technical facilities, is needed.

In the field of **equal treatment of women and men**, further alignment is still needed on equal treatment in matters of occupational social security schemes. The pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Implementing structures should be put in place.

In the area of **health and safety at work**, legislation has been partially transposed. Further legislative alignment is required in the areas of mineral and extracting sites, fishing vessels, work in potentially explosive atmospheres and limit values. The Occupational Health and Safety Authority has been set up. Further strengthening in terms of staff and technical facilities is still needed. Sustained efforts to ensure effective application of the *acquis* are needed. Transposition of the Directives on mobile construction sites and noise at work has to be done. Malta was granted a transitional period up to the end of December 2005 with regard to the use of work equipment by workers.

As regards **social dialogue**, the institutional and administrative framework is in place, but effective tripartite social dialogue, as well as bilateral sectoral social dialogue, should be strengthened. In general, the administrative capacity of both government and social partners needs to be reinforced.

In the field of **public health**, Malta has recently adopted legislation aiming at transposing the tobacco *acquis*. The legislation with regard to surveillance and control of communicable diseases has been aligned with the *acquis*. However, its implementation needs to be strengthened, and the EU case definitions should also be taken over. New laboratory equipment and training in modern epidemiology, as well as additional computerisation, are needed. Efforts should continue in order to develop a health monitoring system with a view to obtaining health data and indicators comparable with the Community health monitoring system.

Concerning **employment policy**, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). In particular it is important to enhance employment rates, especially for women and older workers, to address the emerging skills mismatches, to increase incentives for people to take up work, to address informal and undeclared work and further improve the public employment services.

As regards the **European Social Fund (ESF)**, the administrative framework is in place. However, development of the administrative structures for the management of the ESF should be accelerated. Preparations for participating in the transnational operations of the EQUAL initiative need to be reinforced. The capacity of the Ministry of Labour and Social Affairs (one of the intermediate bodies for the human resource development priority) should be further strengthened to effectively monitor, evaluate and financially manage the fund, through expansion of its ESF unit. The capacity of the other intermediate body, the Ministry of Education, should be developed and its tasks clarified.

The Commission and Malta are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting

**social inclusion.** On this basis, an integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with EU commonly agreed indicators on social inclusion.

In the field of **social protection**, the activities of the National Commission for Persons with Disability need to be further developed, to ensure the enforcement of the various provisions of the Equal Opportunities Act.

Concerning **anti-discrimination**, Malta has not yet transposed the non-employment aspects of the Race Directive. Adjustments are needed to ensure the full transposition of the Directive on equal treatment in employment. Moreover, the Equality Body required by the *acquis* needs to be established.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **labour law, equal treatment of women and men, social dialogue, employment policy, social inclusion** and **social protection** and is expected to be in a position to implement this *acquis* from accession. Alignment with specific aspects of the *acquis* in the fields of labour law and equal treatment of women and men as well as strengthening of the relevant implementing structures should be pursued.. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Malta is meeting the majority of the requirements for membership in the field of **health and safety at work, public health** (with regard to communicable diseases), **European Social Fund** and to a lesser extent **anti-discrimination**. Further alignment of legislation is needed in order to achieve transposition of all the *acquis* on health and safety at work. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. Enhanced efforts are required in order to ensure full transposition and implementation of the anti-discrimination *acquis*.

### *Chapter 14: Energy*

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects of the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, both framework and implementing legislation are in place in Malta and are in line with the *acquis*. The administrative capacity required - the Malta Resources Authority - is in place, but needs to further confirm itself in its role. Despite some delay for some product categories, building up of oil stocks is essentially taking place in accordance with the transitional

arrangement it has been granted, namely to reach the 90 days of oil stocks required by the *acquis* by the end of 2006. Efforts should be maintained.

In the field of **competitiveness and the internal energy market**, for electricity, framework and implementing legislation have been adopted by Parliament and are in line with the *acquis*. It will enter into force by accession. Regarding gas, framework and implementing legislation are in place and in line with the *acquis*. Malta plans to apply, under the directive, for derogations under the directive as a 'small isolated system' including regarding electricity market opening. There is currently no natural gas in the Maltese economy. Remaining electricity price distortions need to be removed. The regulatory body, the Malta Resources Authority, is established but needs to be further strengthened. Malta should transpose the recently adopted electricity and gas directives in line with the timetable provided for by this *acquis*.

In the area of **energy efficiency and renewable energy**, framework legislation (the Product Safety Act) is in place. Implementing legislation needs to be completed including as regards the newest *acquis*. Administrative structures in this area, with the Malta Resources Authority as the main institution, are in place but need to be strengthened.

In the field of **nuclear energy and nuclear safety**, Malta meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations, Malta committed itself to providing further information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Malta provided such information in January 2002. In August and September 2003, Malta submitted additional information regarding recent progress made in nuclear safety and radiation protection, namely legislative amendments and the awaited establishment of the Radiation Protection Board.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the **energy** chapter and is expected to be in a position to implement the *acquis* in these areas by accession. Malta needs to progressively build up oil stocks in line with the schedule agreed during the negotiations and prepare for the implementation of the electricity directive. In addition, it must complete alignment by adopting implementing legislation as regards the 2002 *acquis* on energy efficiency and renewable energy. It also needs to continue strengthening the administrative capacity in the energy sector.

### ***Chapter 15: Industrial policy***

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Malta's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. An industrial strategy has recently been adopted. The necessary administrative structures in this area are in place.

In the area of **privatisation and restructuring**, Malta needs to develop clear guidelines for the privatisation process. Privatisation remains slow. The restructuring process is ongoing and Malta has to implement the shipbuilding sector restructuring plan. Great care will have to be taken that the restructuring policy is implemented in a manner that conforms to the competition and state aid *acquis* so as to create efficient and competitive firms. The necessary administrative structures in this area are in place, but are still weak.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the **industrial policy** chapter and is expected to be able to implement the *acquis* as of accession. In completing preparations for membership in the area of privatisation and restructuring, Malta has to implement the shipbuilding sector restructuring plan and should continue to strengthen its administrative capacities.

### *Chapter 16: Small and Medium-sized Enterprises*

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Malta is essentially meeting the commitments and requirements arising from the accession negotiations relating to **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. Further efforts should be made to ensure the efficient operation of the Malta Enterprise Board. The implementation of the European Charter for Small Enterprises should be maintained.

### *Chapter 17: Science and research*

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Malta has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

### *Chapter 18: Education and training*

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing

capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Malta has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this part of the *acquis* from accession. However, the relations between the actors involved in the current institutional set up need to be clarified. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, Malta has adopted legislation which transposes the *acquis*. Due implementation of the legislation needs to be ensured.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue

### *Chapter 19: Telecommunications and information technologies*

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Malta's legislation is mostly in line with the 1998-2000 *acquis*. However, there is still a legal limitation on the number of licences (two) to be issued for public mobile telecommunications system and services, and further licences will not be issued before 2005. Moreover, Maltese legislation provides for foreign ownership restriction (subject to international agreements) for companies applying for a licence. In order to further develop the competition in the market, alignment to the telecommunications *acquis* in the areas of carrier selection and cost-orientation of tariffs needs to be completed. The 2002 *acquis* in electronic communications remains to be transposed. The necessary administrative structures in this area are in place. The Malta Communications Authority is fully operational.

In the area of **postal services**, Malta needs to complete legal alignment with the *acquis*, mainly regarding the universal service obligation, accounting issues, quality of service, the general authorisation system and licensing. Transposition and implementation of the 2002 second postal directive remains to be done. The Malta Communications Authority, also responsible for regulating the postal sector, needs to strengthen its administrative capacity.

### *Conclusion*

Malta is partially meeting the commitments and requirements arising from the accession negotiations in the **telecommunications** and **postal services** areas. In order to complete the preparations for accession in the telecommunications area, enhanced efforts are required to abolish the competition restraints (foreign ownership restriction and limitation of number of licences in the case of the mobile market). Malta must also align its legislation with the recent telecommunications *acquis*. Enhanced efforts must be made to finalise the transposition of the *acquis* in the postal sector.

### ***Chapter 20: Culture and audio-visual policy***

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

Malta has met the commitments and requirements arising from the accession negotiations as regards **culture and audio-visual policy**, with certain elements of the audio-visual policy *acquis* coming into force on accession, taking into account Malta's international obligations.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

Malta has agreed with the Commission on a NUTS classification of its **territorial organisation**.

As regards the **legislative framework**, provisions for multi-annual budgeting and budgetary flexibility have to be introduced through a new Public Finance Management Act.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However in order for Malta to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date. Urgent efforts are needed in particular in the area of public procurement.

The necessary **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have all been put in place, including those for the implementation of the specific financial control provisions.

The division of tasks between the Managing Authority and the intermediate bodies has been clearly defined. The precise functions and tasks of the "Regional Committee for Gozo" (responsible for preparing all projects relating to the island of Gozo), its composition, and more important, its links with the intermediate bodies and the Managing Authority, are still being defined.

Specific administrative arrangements have been made for inter-ministerial co-ordination.

The Single **Programming** Document (SPD) has been submitted. It is expected that the programme complement is submitted in October 2003. The ex ante evaluation was submitted with the SPD.

The partnership consultation process for the programming phase relied on the existing structures for social dialogue. A number of sectoral working groups have been set up and broad workshops were organised to discuss the programming document. This process is considered to have been in line with the requirements of the *acquis*. Interministerial co-ordination and the discussions with the partners have progressed satisfactorily. A computerised monitoring system has been set up and is in its testing phase. In order to ensure effective monitoring, a decision on the key indicators to be used needs to be taken.

Efforts are needed to establish a pipeline of projects, in particular for the island of Gozo, that are ready to be implemented in technical and financial terms, so as to enable Malta to benefit fully from Community funds as soon as the programme starts.

The **financial management and control** system has been established. However, the Paying Authority must obtain assurance of the expenditure declared for the purpose of certification. In addition, it should be clarified who is responsible for carrying out the required management checks.

The independent Internal Audit and Investigations Directorate will provide internal audit services to the Managing Authority and the Paying Authority. It is responsible for the systems audits and 5% and 15% on-the-spot checks. The methodology for these checks needs clarification.

Additionality will be verified before approval of the Single Programming Document.

### *Conclusion*

Malta is essentially meeting the requirements for membership in relation to **territorial organisation, institutional structures** and **programming**. Malta needs now to focus, on finalising the setting up of the Regional Committee for Gozo and establishing, in particular for Gozo, an adequate pipeline of well-prepared projects.

Malta is meeting the majority of the requirements as concerns the **legislative framework** and **financial management and control**. In order to complete preparations for membership, it must finalise alignment of its public procurement legislation and to

strengthen its capacity in this field in order to avoid bottlenecks jeopardising the absorption of the allocated funds. Malta needs to ensure that final beneficiaries will be in a position to effectively apply the rules and procedures resulting from the new legislation in order to benefit from Community funding from 1 January 2004. Particular attention must be paid to finalising arrangements for financial management and control.

## ***Chapter 22: Environment***

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

**Horizontal legislation** is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by July 2004 in line with the Directive. Administrative capacities in the area are in place, but further work is however needed within the Malta Environment and Planning Authority to ensure a proper implementation of the *acquis*..

In the **air quality** sector, legislation is in place and is in line with the *acquis*. Administrative capacities are largely in place. However, monitoring capacity needs to be enhanced as well as air quality plans and programmes completed and implemented. The sulphur content of liquid fuels needs to be aligned by accession. As regards volatile organic compound emissions from the storage and distribution of petrol, a transitional arrangement until 31 December 2004, with intermediate targets, has been agreed for certain installations in Malta.

In the field of **waste management**, legislation is in place and is in line with the *acquis*, except for implementing legislation on packaging and the recent *acquis* on end-of-life vehicles. Administrative capacities need considerable strengthening in order to cope with the variety of tasks in this area. The waste management plan needs to be aligned fully with the *acquis* by accession. A supervision system for waste shipments, a deregistration system and permits for end-of-life vehicles, and permit conditions for landfills need to be established by accession. The collection systems (including batteries) need to be expanded, and the register of collectors of waste oils and permits for disposers of waste oils established. The establishment of recovery and disposal facilities needs to continue in order to ensure compliance in accordance with the agreed deadlines. The time-scale for full implementation of the *acquis* is particularly tight and enhanced efforts are therefore required to ensure that the *acquis* in this sector is implemented by accession. Attention will need to be paid to ensuring that staff recruitment is completed in time. Transitional arrangements until 31 December 2009 for the recovery and recycling of packaging waste and until 31 December 2007 for beverage packaging, with intermediate targets, have been agreed.

In the area of **water quality**, further transposition is still taking place. The process remains to be completed by accession with regard to drinking water and bathing water, as well as the recent framework *acquis* on water. Except for the water framework, where the competent authority needs to be designated, the administrative capacities are largely in place, but agreements need to be concluded to achieve better coordination between the various competent authorities. An action programme and code of good practice for nitrates need to be adopted, and drinking water monitoring continue to be enhanced. Authorisations for discharges of dangerous substances need to be issued and programmes for discharges of dangerous substances completed. Transitional arrangements until 31 March 2007 for urban waste water, until 31 December 2005 for drinking water, and until 31 March 2007 for discharges of certain dangerous substances, with intermediate targets, have been agreed.

In the field of **nature protection**, legislation is in place. Enhanced efforts are however required to prepare a list of proposed sites of Community interest and to designate special protection areas by accession, including the completion of the consultation process. Malta needs to ensure that relevant protection measures are applied by accession. The administrative capacities required are largely in place, but considerable efforts are needed to ensure better enforcement of the legislation on birds. Producing an enforcement strategy should be a priority of the national Ornithological Committee. Also, the Ornithological Committee needs to finalise the collection of data, which will allow for scientifically defined hunting seasons. As regards the protection of wild birds, a transitional arrangement, with intermediate targets, has been agreed. Until 2008 Malta will be allowed to use clap-nets to capture seven finch species in order to establish a captive breeding system.

The legislation on **industrial pollution and risk management** is in place and is in line with the *acquis*, except for major accident hazards (land-use provisions) and the transitional arrangement agreed for large combustion plants, which need to be transposed by accession. A licensing strategy for installations subject to the rules on integrated pollution prevention and control (IPPC) needs to be developed, and permits issued and complied with according to the *acquis* deadlines (until October 2007). Compliance with major accident hazards needs to be ensured at the latest by accession, in particular as regards gas bottling. Administrative structures are in place, but need considerable strengthening both for permitting and inspection. As regards large combustion plants, a transitional arrangement until 31 December 2005 has been agreed for certain installations in Malta.

The legislation on **chemicals and genetically modified organisms (GMOs)** has been transposed and is in line with the *acquis*, except for biocides, where there is delay. Administrative capacities are in place, but co-ordination between the organisations involved needs to continue to be enhanced.

In the area of **noise**, legislation is in place and is in line with the *acquis*. Administrative capacities are in place but need further attention.

On **nuclear safety and radiation protection**, legislative alignment has been largely completed and is in line with the *acquis*, except for medical exposure, which needs to be transposed by accession. Administrative capacities in this area are largely in place. However, the regulatory authority still has to be made operational.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations, and subject to ensuring that administrative capacity is enhanced in all sectors, is expected to be in a position to implement the *acquis* in the areas of **horizontal legislation, air quality, water quality, industrial pollution and risk management, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection** by accession. Malta needs to finalise the legal alignment as regards the following areas: horizontal legislation, waste management, water quality, industrial pollution and risk management, chemicals and nuclear safety and radiation protection. It needs to complete air quality plans and programmes and continue to enhance air quality and water quality monitoring. Moreover, Malta must complete authorisations for discharges of dangerous substances and finalise necessary programmes in the field of water. On industrial pollution and risk management, permits for IPPC installations need to continue to be issued and complied with according to *acquis* deadlines, and implementation of provisions on major accident hazards completed. As regards the overall administrative capacity in the above areas, considerable further efforts are needed to ensure that the strengthening of administrative capacity is completed on time before accession and in line with the commitments taken during the negotiations to recruit more staff and enhance administrative capacity. Particular attention needs to be paid so that the Maltese environment structures reflect fully the duties and responsibilities arising from Malta's obligation to implement the *acquis* in all areas, including functioning of the Malta Environment and Planning Authority.

Malta is partially meeting the commitments and requirements in the areas of **waste management and nature protection**. As regards waste management, administrative capacity requires considerable strengthening. Greater efforts are also required to align the waste management plan fully with the *acquis* and to ensure that a supervision system for waste shipments is set up by accession. Greater efforts are needed to ensure that collection systems and recovery and disposal facilities are established in accordance with Malta's commitments. On nature protection, enhanced efforts are required to prepare the lists of proposed nature protection sites and special bird protection areas, including the completion of the consultation process. Considerable efforts are also needed to ensure better enforcement of Malta's commitments regarding the birds Directive. Producing an enforcement strategy should be a priority of the national Ornithological Committee.

### ***Chapter 23: Consumer and health protection***

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisement, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

Malta's legislation is largely in line with the *acquis* on **safety-related measures**. However, Malta still needs to ensure the entry into force of product liability directive and to transpose the revised directive on general product safety. The administrative structures are in place, but need to be strengthened in terms of both infrastructure and human

resources. **Market surveillance** relating to general product safety is largely developed. Malta has created the relevant policy, management structures and information system; their co-ordination capacity is being improved. However, the capacity of the main bodies in charge of market surveillance activities needs to be further developed.

As regards **non-safety related measures**, Malta has largely achieved alignment with the acquis, although some fine-tuning of existing measures may still be necessary. Implementing legislation is needed to finalise transposition of the acquis on price indications and consumer credit. Enforcement activities relating to the protection of the economic interests of consumers are partly developed. More efforts are being deployed to implement the acquis effectively, in particular in the areas of public awareness about consumer policy and consumer rights. The administrative structures need to be further strengthened. This also applies to arbitration bodies, which play an important role in solving consumer cases.

With regard to **consumer organisations** the role of non-governmental organisations is being promoted in order to develop and implement consumer policy and to encourage more active involvement in developing consumer product safety standards. Currently, there is only one registered consumer organisation in Malta, whose financial and human resources are limited. Efforts should be increased to raise consumers' and businesses' awareness of their rights and responsibilities and better involve the consumer organisation in the process of building consumer protection in Malta.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related measures** and **consumer organisations** and is expected to be in a position to implement this acquis as from accession. Malta still needs to finalise alignment with the revised directive on general product safety and strengthen the role of consumer organisations in implementing the consumer policy.

Malta is meeting the majority of the requirements for membership in the areas of **market surveillance** and **non-safety related measures**. In order to complete preparations for membership, Malta needs to strengthen the administrative capacity in the area of market surveillance to ensure the proper enforcement of the necessary legislation of safety and non-safety related measures. It should also complete alignment in the non-safety related area.

### *Chapter 24: Justice and home affairs*

The most developed part of this chapter is the Schengen acquis, which entails the lifting of internal border controls. However, much of this acquis will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the acquis on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection

and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

Preparation with regard to Schengen provisions (**Schengen Action Plan**) relevant to accession is broadly satisfactory, but efforts will be needed after accession to prepare for the lifting of internal borders and for full implementation of the Schengen *acquis* on the basis of a further decision to be taken by the Council. The Schengen Action Plan was recently updated. Malta should continue with the further enhancement of equipment, in particular passport readers at the points of entry. The lack of passport readers at Malta International Airport as a main entrance gate to Malta should be addressed with urgency. Although an IT programme has been established, preparations for integration into the Schengen Information System (SIS) II are still at a preliminary stage, in terms of the development of national applications. Malta should accelerate the implementation of this programme and allocate sufficient financial means and manpower.

In the field of **data protection**, Malta has not yet completed its legislative alignment, in particular concerning the use of personal data by the police. Further amendments to legislation are therefore still needed in that respect. The responsible body, the data protection Appeals Tribunal Board, has been set up.

Malta is broadly in line with the requirements of the EU *acquis* concerning **visa policy**. Malta has introduced visa requirements for Turkey, Morocco, Tunisia and Egypt, but still has to make provision for introducing visas for Libya. Malta still has to align its policy as regards the so-called “positive” visa list. As regards implementation capacity further efforts are needed in relation to infrastructure, recruitment and training of staff, and installation of information technology for the consulates. Some structural modifications at the Tripoli embassy have been achieved. Malta also has to provide all diplomatic and consular missions with equipment to detect forged and falsified documents.

As regards the management of the future **external borders**, the border controls and surveillance are broadly satisfactory. Malta has signed bilateral co-operation agreements with Cyprus, Egypt, France, Greece, Israel, Italy, Libya, Spain, Tunisia, Turkey and Albania. A similar agreement is being negotiated with Morocco. Malta is in the process of upgrading its equipment for border surveillance. The Maritime Squadron is equipped with one state of the art offshore patrol. A second one is due to be delivered in 2004.

In the area of **migration**, legislative alignment has been completed on carrier liability, illegal immigration and illegal employment, admission of self-employed persons and family reunification. Apart from the right to work for students, Malta has aligned its legislation on entry stay and work of third country nationals by accession. The readmission agreement with Italy has entered into force and Malta is taking action to conclude other readmission agreements with neighbouring countries. Administrative structures are in place but Malta should strengthen and implement measures to combat illegal immigration and extend legislation to cover the issue of detention procedures concerning persons having received “deportation orders”, and persons whose entry has been refused. A coherent training system for all migration services, as well as the elaboration of guidelines for Malta’s migration policy has not yet been developed.

In the field of **asylum**, Malta has completed alignment with the *acquis* and the geographical reservation has been lifted. Three remaining reservations (on refugee seamen, naturalisation and public relief services to refugees) need to be lifted upon accession. As regards implementation of the legislation further efforts are needed with regard to the accelerated procedure, legal assistance and the integration of recognised asylum seekers. As a result of the length of the asylum procedure, asylum seekers are kept in detention centres for several months. Although a call for applications has been issued to strengthen the staff of the Refugee Commission in order to cope with the increasing number of applications, substantial efforts are needed to speed up the processing of applications and reduce the current backlog. Malta should accelerate its preparation (technical and organisational) for active participation in EURODAC and Dublinet, and take necessary measures for establishing the corresponding National Action Points, in order to ensure full implementation by accession.

Furthermore, Malta needs to increase and improve its reception and detention capacity. In the area of **police co-operation and combating organised crime**, Malta has an accountable, reliable and fully co-ordinated police organisation. International co-operation is continuously being strengthened. However, the conclusion of a co-operation agreement with Europol is still pending. Once concluded, attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU. Malta has also submitted a formal application to participate in Europol as an observer prior to accession. Negotiations on cooperation agreements related to fight against crime with Bulgaria and Ukraine have been concluded, but are not yet signed. Negotiations on similar agreements are also ongoing with thirteen other countries. Inter-agency co-operation does not seem a problem, given the size of the island. Malta has signed but not yet ratified the UN Convention against transnational organised crime and its first two protocols. The Protocol against illicit manufacturing of and trafficking in firearms, their parts, components and ammunition has not yet been signed.

In the **fight against terrorism**, Malta has ratified the most important Conventions in this area, in particular the 1999 UN Convention for the Suppression of the Financing of Terrorism. However, further legislative amendments are still necessary to comply with the *acquis* and international standards on the fight against the misuse of the financial system and terrorism financing. Furthermore, Malta should accelerate its preparatory efforts in order to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States upon accession.

As regards the **fight against fraud and corruption**, Malta's legislation is largely aligned with the *acquis*, including the provisions of the 1995 Convention on the protection of the European Communities' Financial Interests and its Protocols. Full alignment with Council Framework Decisions on the protection of the euro against counterfeiting should be ensured. Malta has yet to designate a National Central Office, dealing notably with banknote and coin analysis. Malta has signed the Council of Europe Civil and Criminal Law Conventions on Corruption and will ratify them upon accession. As regards corruption, see also *Section C.1. — Administrative and judicial capacity*.

On the **fight against drugs**, Malta has largely completed its legislative measures and the National Drug Strategy 2003-2004 has been adopted. Implementation, however, needs further improvement, including the signature of a co-operation agreement with Bulgaria, Slovenia and the UK. Malta participates in the activities of the European Monitoring

Centre for Drugs and Drug Addiction (EMCDDA) as an observer, and it is building its capacity for active participation. The National Commission on the Abuse of Drugs, Alcohol and other Dependencies will act as the Reitox focal point for EMCDDA.

Following the enactment of the Prevention of Money Laundering Regulation in August 2003 under the Prevention of Money Laundering Act, Malta has completed its legislative alignment with the *acquis* on **money laundering**. A Financial Intelligence Unit is in place, but functioning needs to be monitored. Its information technology system needs to be adapted and training on money laundering issues for judges and public prosecutors should be enhanced (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, Malta is in the process of aligning its legislation, in particular to the Convention on Mutual Assistance and Cooperation between Customs Authorities and to the Convention on the Use of Information Technology for Customs Purposes. Co-operation and mutual assistance with member states and third countries has started with the signature of bilateral Memorandum of Understanding with Italy, the UK and France. Inter-agency co-operation is functioning well. However, Malta should enhance investigative powers of customs officials. Co-operation with businesses on the basis of memoranda of understanding needs to be further developed. Malta has started to implement a new modern Information Technology System, including the enhancement of the current risk analysis system.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment, where still necessary, is ongoing and Malta should be ready upon accession to apply it and accede to the relevant conventions. Particular attention is needed for alignment with Council Framework Decision of 13 June 2002 on the European arrest warrant and with the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place and need to be further strengthened.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.I. – Administrative and judicial capacity*.

Malta has ratified all the **human rights legal instruments** under the justice and home affairs *acquis*.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement *the acquis* in the areas of **data protection, visa policy, external borders, migration, police co-operation and combating organised crime, the fight against terrorism, the fight against fraud and corruption, drugs and money laundering, customs co-operation, judicial co-operation in civil and criminal matters and human rights legal instruments** by accession.

Malta is partially meeting the commitments and requirements for membership in relation to the **Schengen Action Plan** and **asylum**. In order to complete preparations for membership, Malta needs to reduce the duration of the asylum procedures and to improve

the reception and detention capacities. Particular attention must be given to the technical and organisational preparations necessary to fully implement EURODAC and Dublin II. Furthermore, Malta needs to address the issue of the lack of passport readers at ports of entry and accelerate preparation for SIS II.

### ***Chapter 25: Customs union***

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Malta's **customs legislation** is in line with the *acquis* as it stood in 2001, with the exception of the provisions on customs duty reliefs and implementing provisions on customs representation and free zones. Implementation of the remaining *acquis* provisions, including the 2002 and 2003 *acquis* will take place upon accession, when the EC customs legislation becomes directly applicable. At that time, legislation amending the provisions applicable to Malta Freeport and a provision ending certain duty reliefs in the Business Promotion Act should also come into effect to avoid any legal conflict with the *acquis*. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

In the course of negotiations, Malta obtained a transitional period relating to the application of the Common Customs Tariff with regard to the importation of certain textile products until 31 December 2008.

Concerning **administrative and operational capacity**, a functioning customs administration is in place. Malta should continue to carry out its plans for reorganisation of its customs department and continue preparations for the application of measures and provisions that will be introduced only at the time of accession. These include in particular the change in emphasis from clearance to post-clearance controls, as well as the introduction of Community Transit, rules of origin under Community preferential agreements and arrangements, and simplified procedures and valuation rules. Customs offices' capacity to combat fraud and economic crime, in close co-operation with other enforcement bodies, should continue to be strengthened.

Malta must complete the development and implementation of the computerised customs system and solve all the other interconnectivity-related issues.

### ***Conclusion***

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the **customs union** area and is expected to be in a position by accession to implement the relevant *acquis* with the necessary administrative and

operational capacity subject to completion of its preparations by the time of accession. In completing its preparation for membership, Malta needs to continue the development and implementation computerised customs systems and interconnectivity-related issues, and to complete training on measures and provisions which will be introduced at the time of accession.

### ***Chapter 26: External relations***

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation, which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EU's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are in place and sufficient.

Malta has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. Malta should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and Most Favoured Nation exemptions into the EU ones (consolidation EU 25), to be finalised upon accession.

On trade in dual-use goods, following the adoption last year of regulations aligning its legislation with the *acquis*, Malta has now an appropriate administrative capacity to implement it with the setting up of the Trade Services Directorate within the Ministry for Economic Services. Further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Membership in all export control regimes is a crucial factor enabling implementation of export controls by Malta. Based on the Thessaloniki Action Plan to support the acceding countries' membership in export control regimes, the EU supports Malta's accession to the regimes to which it has already applied. Full alignment as regards the Community general export authorisation can only take place upon accession.

As regards export credits, Malta has achieved a high degree of alignment with the *acquis* and an adequate administrative capacity is in place within the Malta Financial Services Authority (MFSA). MFSA still needs to finalise and issue a draft insurance directive to complete alignment in this area.

Malta still needs to complete the analysis of its **bilateral agreements with third countries** to terminate or renegotiate those agreements that are found to be incompatible with the *acquis*. The Authorised Destination Status agreement in the tourism sector between Malta and China will be superseded by the EU Authorised Destination Status agreement with China when the latter one enters into force.

In the area of **humanitarian aid and development policy**, there is no policy framework in force yet. Malta needs to ensure that there is a development policy in line with EU principles, in particular with the guidelines laid down by the OECD Development

Assistance Committee, as well as the commitments and objectives that Malta has approved in the context of UN and other international organisations. Further efforts are needed to ensure that the administrative capacity for Malta's participation in EU committees and working groups for development co-operation is in place upon accession.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy**. Malta should take further steps to develop a development policy framework in line with EU principles.

Malta is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in this area, Malta must take decisive steps towards renegotiating or terminating its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

### *Chapter 27: Common foreign and security policy*

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

Malta has the required administrative capacity to participate in the **political dialogue**.

With regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, Malta has the required legislative framework and administrative capacity in place.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession.

### *Chapter 28: Financial control*

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate ex ante financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, the framework and implementing legislation is in place, and broadly in line with the *acquis*. The 1962 Act on Financial Administration and Audit has to be replaced by a new Public Financial Management Act. The Internal Audit and Investigation Directorate (IAID) is adequately staffed and has reached sufficient administrative capacity in that area.

In the field of **external audit**, framework and implementing legislation is in place and in line with the *acquis*. The National Audit Office is functionally and operationally independent. It has been steadily reinforced over the years and its capacity is broadly satisfactory.

As regards **control over structural action expenditure**, framework and implementing legislation is in place and in line with the *acquis*. Appropriate administrative structures have been set up. The strengthening of administrative capacity is on track, with the exception of the Directorate General of Contracts whose EU department needs further strengthening. Malta needs to continue its efforts to implement the extended decentralised implementation system (EDIS) for Ispa and Phare.

In the area of the **protection of EC financial interests**, Malta has designated the Internal Audit and Investigation Department (IAID) as the Maltese anti-fraud co-ordinating service (AFCOS). An administrative co-operation arrangement was agreed with OLAF in 2003. Malta has reinforced the framework and implementing legislation, in particular through the adoption of the Internal Audit and Investigations Act. Full effect should be given to the AFCOS' operational capacity and effective co-operation with other relevant institutions and bodies, including OLAF.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial control** and is expected to be in a position to implement the *acquis* in this area as from accession. As regards protection of EC financial interests, the administrative and operational capacity of the anti-fraud co-ordination service should now be demonstrated in practice. In the area of control over structural action expenditure, Malta needs to further strengthen the relevant department of the Directorate General of Contracts. Efforts must continue to ensure sustainable implementation of the extended decentralised implementation system.

### ***Chapter 29: Financial and budgetary provisions***

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity has been established and the Customs House will be responsible for reporting on cases of fraud or irregularities (OWNRES) in Malta. Malta must verify

that all the necessary data for the OWNRES system are already available or establish how these will be collected. Procedures and systems for A and B accounts have been developed and will be finalised by the end of 2003. The implementation of the new electronic e-customs IT solution, which will contain the accounting system for A and B statements, needs particular attention.

As regards the **VAT-based resource**, further improvements and refinements are still needed with regard to the correct calculation of the harmonised VAT base, in particular the calculation of the weighted average rate in accordance with ESA95.

For calculation of the **GNI-based resource**, continued efforts are needed to further implement ESA95 and improve the quality and reliability of the national accounts and GNI calculations, including their exhaustiveness.

All institutions necessary for application of the own resources system exist and a unit within the Ministry of Finance headed by the Director General co-ordinates own resources issues.

### *Conclusion*

Malta is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position by accession to implement the relevant acquis. Malta should now focus attention on completing preparations under this chapter by further improving the reliability of GNI statistics, improving the calculation of the harmonised VAT base, completing the collection of the necessary data for the OWNRES system and implementing the new electronic e-customs IT solution.

## D. CONCLUSION

Economic activity remained weak, affected by low external demand and the downturn in the tourism sector. Progress with structural reforms has been mixed.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Very substantial efforts are necessary to guarantee the sustainability of public finances in the medium term. Although restructuring of public enterprises is under way, more far-reaching measures need to be implemented, leading to higher productive efficiency and supporting fiscal consolidation. The level of non-performing loans in the banking sector remains high, although several steps have been taken to improve supervision and credit assessment.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Maltese public administration and judiciary, but there is room for further improvements. In the field of public administration, the current efforts to bring about more efficiency and accountability across the public service need to be continued. The reform of the judiciary needs to be pursued in order to further decrease the backlog of pending judiciary cases and improve the functioning of the small claims tribunal. As regards the fight against corruption, Malta should adopt a comprehensive anti-corruption strategy, taking into account the recommendations of the Council of Europe's Group of States against Corruption. As far as translation of the *acquis* into Maltese is concerned, the number of revised texts prepared by Malta must increase greatly in the coming period up to accession.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Malta has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach and old approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; banking, insurance, investment services and securities markets, protection of personal data and information society services in the area of *freedom to provide services*; the *free movement of capital*, including money laundering; *company law* and accounting; anti-trust legislation in the area of *competition*. In the area of *agriculture*, Malta is expected to be in a position by accession to implement the *acquis* as regards quality policy and state aid; in common market organisations as regards arable crops, milk, sheepmeat and pigmeat, and eggs and poultry, and in some veterinary issues including animal disease control and trade in live animals and animal products, animal welfare and zootechnics; and in *fisheries*, in the areas of resource and fleet management, inspection and control, market policy, state aid and international agreements.

Malta is also expected to be in a position to implement the *acquis* by accession in: the *transport* sector as regards the trans-European transport networks, road and air transport; VAT, excise duties, and administrative co-operation and mutual assistance in the field of *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, social dialogue, employment policy, social inclusion and social protection in

the area of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; *regional policy and co-ordination of structural instruments* as regards institutional structures and programming; in the *environment* chapter as regards horizontal legislation, air quality, water quality, industrial pollution and risk management, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection; safety-related measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs union*; the common commercial policy and humanitarian aid and development policy in the *external relations acquis*; *common foreign and security policy*; *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas Malta partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes public procurement and the non-harmonised area on the *free movement of goods*; requirements for mutual recognition of professional qualifications in terms of *free movement of persons*; the right of establishment and the freedom to provide non-financial services in the area of *free movement of services*; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area, it concerns organic farming and the farm accountancy data network; the common market organisations for wine and alcohol, beefmeat, fruit and vegetables and olive oil; rural development; in the veterinary field, as regards veterinary control systems, public health in agri-food establishments, common measures, animal nutrition; phytosanitary issues; and as regards structural actions in the *fisheries* policy.

This also includes the fields of: direct *taxation*; health and safety at work, public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies* including postal services; the legislative framework and financial management and control for *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in waste management and nature protection as concerns *environment* policy; market surveillance and non-safety measures in the area of *consumer and health protection*; the Schengen Action Plan, and asylum in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries.

Thirdly, Malta must take immediate and decisive action to address six issues of **serious concern** in three chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of state aid in the *competition policy* chapter, where Malta must enhance its efforts to implement its commitments regarding the restructuring of its shipyards. It also concerns the field of *agriculture*, as regards the setting up of a Paying Agency, the implementation of the Integrated Administration and Control System, external trade mechanisms, and transmissible spongiform encephalopathies (TSEs) and animal waste treatment. Finally, it concerns the *transport* field, as regards maritime safety.

## STATISTICAL ANNEX

	1998	1999	2000	2001	2002
<b>Basic data</b>	<b>in 1000</b>				
Total Population (Maltese & Foreigners)	386.4	388.7	391.4	394.5	397.3
	<b>in km<sup>2</sup></b>				
Total area	315.6	315.6	315.6	315.6	315.6

<b>National accounts</b>	<b>Mio Malta Lira</b>				
Gross domestic product at current prices	1,362	1,456	1,563	1,634	1,675
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	3.1	3.4	3.9	4.1	4.1
	<b>in ECU/Euro</b>				
Gross domestic product per capita a) at current prices	8,100	8,800	9,900	10,300	10,400
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	3.4	4.1	6.4	-1.2	1.2
Employment growth	-0.1	0.7	1.2	1.4	-0.7
Labour productivity growth	3.4	3.3	5.6	-2.6	1.9
Unit labour cost growth	-0.5	-0.9	-3.0	3.8	-0.9
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita a) at current prices	11,100	11,700	:	:	:
	<b>in % of EU-15 average</b>				
GDP per capita a) at current prices in PPS	54	55	:	:	:
Labour productivity (GDP per person employed in PPS)	69	71	:	:	:
Structure of production	<b>% of Gross Value Added</b>				
- Agriculture	2.7	2.5	2.3	2.6	2.8
- Industry (excluding construction)	25.0	24.9	26.6	24.5	25.0
- Construction	2.8	2.4	2.5	2.8	3.1
- Services	69.5	70.2	68.5	70.2	69.2
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	81.9	81.6	82.4	84.1	85.1
- household and NPISH	62.1	62.8	63.8	64.0	64.7
- general government	19.8	18.7	18.6	20.1	20.4
- Gross fixed capital formation	24.5	23.4	26.2	23.2	23.2
- Stock variation b)	-0.8	0.7	2.1	-3.0	-4.0
- Exports of goods and services	87.7	90.7	102.7	87.4	85.5
- Imports of goods and services	93.2	96.3	113.5	92.2	89.2

<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index c)	3.7	2.3	3.0	2.5p	2.2p e)

	1998	1999	2000	2001	2002
<b>Balance of payments</b>	<b>in Mio ECU/euro</b>				
-Current account	-194	-116	-576	-190	-159 f)
-Trade balance	-528	-537	-673	-547	:
<i>Exports of goods</i>	1,629	1,891	2,689	2,235	:
<i>Imports of goods</i>	2,156	2,428	3,363	2,782	:
-Net services	340	351	252	354	:
-Net income	-58	30	-171	-6	:
-Net current transfers	51	40	16	9	:
<i>- of which: government transfers</i>	2	-8	1	9	:
- FDI (net) inflows	238	770	674	350	:

<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus	-10.8	-8.2	-7.0	-6.8	-6.2p
General government debt	64.9	60.8	61.3	66.1	66.4p

<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
Gross foreign debt of the whole economy	92.3	107.5	160.2	135.4	:
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	105.2	118.5	156.1	155.0	:
Monetary aggregates	<b>1000 Mio ECU/euro</b>				
- M1	1.2	1.4	1.5	1.6	1.6
- M2	4.4	5.2	5.5	6.2	6.6
- M3	5.0	5.9	6.2	6.9	7.3
Total credit	3.8	4.5	5.0	5.8	5.8
Average short-term interest rates	<b>% per annum</b>				
- Day-to-day money rate	5.5	5.0	4.7	4.7	4.1
- Lending rate	:	:	7.4	7.0	6.4
- Deposit rate	5.4	5.5	5.3	5.2	4.7
ECU/EUR exchange rates	<b>(1ECU/euro=..Malta Lira)</b>				
- Average of period	0.435	0.426	0.404	0.403	0.409
- End of period	0.442	0.415	0.408	0.399	0.418
	<b>1995=100</b>				
- Effective exchange rate index	105.1	105.2	106.7	107.9	107.6
Reserve assets	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	1,449	1,783	1,581	1,904	2,106
-Reserve assets (excluding gold)	1,448	1,782	1,580	1,902	2,105

<b>External trade</b>	<b>Mio ECU/euro</b>				
Trade balance	-742	-809	-1,039	-855	-775
Exports	1,637	1,858	2,657	2,188	2,214
Imports	2,379	2,667	3,696	3,043	2,989
	<b>corresponding period of the previous year=100</b>				
Terms of trade	99.1	99.8	103.5	92.8	96.5
	<b>as % of total</b>				
Exports with EU-15	52.8	48.7	33.5	47.8	46.6
Imports with EU-15	69.3	65.4	59.9	63.6	67.0

	1998	1999	2000	2001	2002
<b>Demography</b>	<b>Per 1000 of population</b>				
Natural growth rate	3.2	2.8	3.0	2.4	2.0
Net migration rate (including corrections)	6.5	8.0	8.5	8.5	7.5
	<b>Per 1000 live-births</b>				
Infant mortality rate	5.3	7.2	6.1	4.4	6.0
Life expectancy :	<b>at birth</b>				
Males:	74.4	75.1	74.3	76.1	75.8
Females:	80.1	79.3	80.2	80.9	80.5

<b>Labour market (Labour Force Survey)</b>	<b>% of population</b>				
Economic activity rate (15-64)	:	:	:	:	59.2
Employment rate (15-64), total	:	:	:	54.2	:
Employment rate (15-64), males	:	:	:	76.4	:
Employment rate (15-64), females	:	:	:	31.6	:
	<b>as % of the total population of the same age group</b>				
Employment rate of older workers (55-64)	:	:	:	31.0	:
Average employment by NACE branches	<b>in % of total</b>				
- Agriculture and forestry	:	:	:	:	2.3p
- Industry (excluding construction)	:	:	:	:	23.9p
- Construction	:	:	:	:	7.7p
- Services	:	:	:	:	66.1p
	<b>% of labour force</b>				
Unemployment rate, total	:	:	7.0	6.7	7.4
Unemployment rate, males	:	:	6.6	6.1	6.4
Unemployment rate, females	:	:	7.8	8.0	9.8
Unemployment rate of persons < 25 years	:	:	:	:	15.2
Long-term unemployment rate	:	:	:	2.9	:

<b>Social cohesion</b>	<b>ratio of top quintile to lowest quintile</b>				
Inequality of income distribution	:	:	4.5	:	:
	<b>% of population aged 18-24</b>				
Early school-leavers	:	:	:	54.1E	52.7E
	<b>% of population aged 0-65</b>				
Population in jobless households (persons aged 0-65)	:	:	:	:	:

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars d)	450	466	481	492	505
Main telephone lines	497	509.3	528.4	534.7	531.5
Number of subscriptions to cellular mobile services	49	62.6	289.8	605	785.5

<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	.	.	.	.	.
	<b>Km</b>				
Length of motorways	.	.	.	.	.

	1998	1999	2000	2001	2002
<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices	110.5	107.0	116.2	93.2	:
Gross agricultural production volume indices	102.5	96.8	95.4	95.5	100.1

<b>Innovation and research</b>	<b>as % of GDP</b>				
Spending on Human Resources (public expenditure on education)	5.21	5.10	4.61	4.74E	6.56E
	<b>as % of GDP</b>				
Gross domestic expenditure on Research & Development	:	:	:	:	:
	<b>per 1000 inhabitants</b>				
Level of Internet access - households	:	:	11.2	:	:

<b>Environment</b>	<b>tonnes CO2 equivalent per capita</b>				
Total greenhouse gases emissions	122ps	126ps	129ps	:	:
	<b>kg of oil equivalent per 1000 euro of GDP</b>				
Energy intensity of the economy	347.8	332.3	396.0	:	:
	<b>as % of total electricity consumption</b>				
Share of renewable energy	:	:	:	:	:
	<b>as % of total freight transport</b>				
Modal split of freight transport	100	100	100	100	:

p = provisional figures  
E=estimated data  
s=EUROSTAT estimate

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.  
b) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.  
c) For Malta the national consumer price index is given, which is not strictly comparable with the interim HICPs  
d) Registered cars.  
e) Retail Price Index. Source: Website of Statistical Office.  
Source: Website of Statistical Office

## Methodological notes

### Inflation rate

#### *Price Index*

The Maltese Retail Price Index is a Laspeyre's 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

*Public finance:* The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

### External trade

*Imports and exports (current prices).* Trade data is based mainly on the general system although Malta uses also the special system. Figures exclude transshipment trade (direct re-exports), customs free zones, licences, know-how patents and services. The value of imports is in CIF/CF and exports in FOB. *Terms of*

*trade*. Calculated as Unit Value Index of Export divided by Unit value Index of Imports. *Imports and exports with EU-15*. Data declared by Malta.

#### Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2<sup>nd</sup> quarter of the respective year. The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

#### Social cohesion

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

#### Innovation and research

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

#### Environment

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

#### Sources

Total area, External trade,. Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.