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Malta: Coherent in
divergence

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On the face of it, Malta seems exceptional among the southern European countries (Portugal, Italy, Spain, Greece, and Cyprus) in having increased both its structural and individual cohesion scores on the EU Cohesion Monitor between 2007 and 2014. This would suggest that, since its accession to the European Union in 2004 and its adoption of the euro in 2008, Malta has become ever more integrated into the EU in economic, political, and social terms. It is true that Malta's cohesion scores on indicators such as Security are increased by the fact that the Maltese political class, and to some extent the populace, accept that cooperation with EU institutions serves the national interest. However, looking at the cohesion resource trends through the lens of the refugee and eurozone crises, it is clear that, in fact, national interest and bilateral relations have played a primary role in determining realities on the ground.

The refugee crisis

As a frontline EU state, Malta has historically received a significant flow of irregular migrants along the central Mediterranean route, primarily through Libya. Over the past two years, however, the number of irregular migrant arrivals has decreased precipitously, by roughly 85 percent. Frontex and EUNAVFOR naval assets operating in the south-central Mediterranean have sheltered Malta from irregular migrant flows, and within EU institutions, Malta remains a champion of developing a comprehensive EU migration policy. Malta's support for an overhaul of the Dublin regulations that place an undue burden on the first country of arrival is no doubt coloured by national interest. Nonetheless, calls for strengthening the European Asylum Support Office and Common European Asylum System, together with commitments to burden-sharing on refugee relocation programmes, reflect the country's genuine willingness to cooperate.

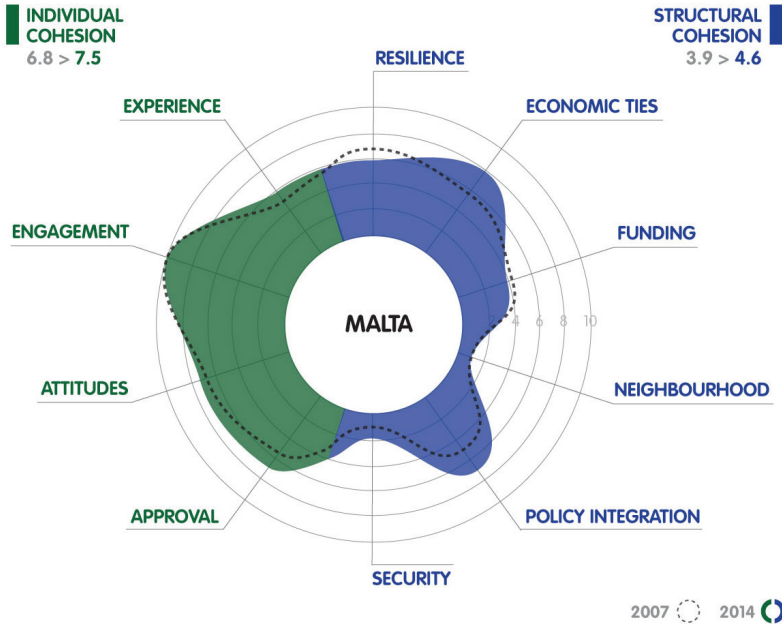
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Even so, the widely praised success of the current Malta Labour Government in resolving the issue of irregular migrant arrivals is not a product of intra-EU cooperation, but rather, of bilateral relations between Malta and Italy. Malta's government has arranged an informal agreement with Italy under which migrants rescued in the expansive Maltese search-and-rescue zone are transferred to Italian vessels or disembarked in Sicily. The conditions of this informal arrangement have not been made public and are a matter of much speculation in Malta, though there are rumours that exploration rights have been granted to Italian energy company Eni in exchange for Italy's assistance in diverting irregular migrant flows to the mainland.

The EU Cohesion Monitor results correspond with greater EU-Malta cooperation in response to the migration crisis. Security cooperation has increased, with Malta participating in Frontex operations and EUNAVFOR's Operation Sophia. Economic ties have been strengthened through financial assistance aimed at alleviating the migration burden in Malta. Policy integration has been enhanced through cooperation on the development of a comprehensive EU policy on irregular migration. Lastly, a sense of European identity has been strengthened in response to migrant arrivals. However, it is bilateral relations, in the form of the Italo-Maltese agreement, which have ultimately ebbed the flow of irregular migrants to Malta. Looking out from the rock, it is clear that in the absence of this bilateral arrangement, Malta might find itself in a position similar to that of Greece, regardless of any intra-EU cooperation.

The financial crisis

Turning to the eurozone crisis and the global financial crisis more broadly, once again Malta's experience has been unique in southern Europe. As countries across the region suffered from economic recession and the social costs of structural adjustment, Malta saw an increase in economic growth and a decrease in its debt-to-GDP ratio. Indeed, the country's higher score in a number of cohesion indicators, for example Economic Ties, reflects the positive role that greater cooperation within Europe has played in Malta's economic growth. Yet, such a simplistic rendering of reality obscures the fact that economic growth has stemmed primarily from the rapid expansion of the iGaming and financial services industries. The Maltese government has nurtured growth in these industries by offering preferential tax rates and pursuing a legislative environment sympathetic to offshore banking services.



In two recent reports, both the European Commission and Oxfam singled Malta out as the fourth-worst facilitator of corporate tax avoidance in Europe.¹ In the wake of the Panama Papers scandal, as calls for greater regulation of offshore banking centres and a harmonisation of European tax policy rang out across Europe, Maltese politicians across the political divide doubled down on their defence of Maltese tax sovereignty and the country’s right to maintain a competitive edge. Despite revelations that a number of high ranking government officials, such as the Minister of Energy, maintained secret offshore accounts, MEPs of all political colours unanimously resisted the Organisation for Economic Co-operation and Development’s Base Erosion Profit Shifting (BEPS) rules. Indeed, Malta successfully campaigned for reference to a “flexible approach” to harmonising European corporate tax policy to be included in the European Council conclusions on BEPS.

The EU Cohesion Monitor fails to capture the extent to which the Maltese government has pursued unilateral and bilateral policies that supersede

¹ “Study on Structures of Aggressive Tax Planning and Indicators”, European Commission, December 2015, available at http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_61.pdf; “The Netherlands: a tax haven”, Oxfam International, 24 May 2016, available at <https://www.oxfam.org.au/wp-content/uploads/2016/06/OXF003-Tax-Havens-Report-FA2-WEB.pdf>.

European cooperation on the refugee and financial crises. Nor does it capture the extent to which these divergent policies are seen by the Maltese public as appropriate and necessary. Nonetheless, both the Italo-Maltese agreement on irregular migration and the growth of the financial services and iGaming industries provide only stopgap solutions to regional crises. It remains a hard truth that the agreement on irregular migration with Italy could be blown away by the winds of political change, and the growth of the financial services industry could be reversed by speculation and capital flight. Malta's precarious position with regard to both of these crises may in the end predispose the political establishment to seek out more stable, comprehensive solutions through greater cooperation within the EU.