

The impact of the **European Single Market** on Maltese businesses

October 2019



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The impact of the European Single Market on Maltese businesses

Commissioned by the Malta Business Bureau (MBB)

Dear Mr. Tanti,

In accordance with the instructions set out in our proposal dated 31 May 2019, we have pleasure in enclosing a copy of our report prepared in connection with research on the impact of the European Single Market on Maltese businesses and the barriers that need addressing in the next EU mandate.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Malta Business Bureau (MBB) for our work, our report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee(s) for any purpose other than in connection with the preparation of this study.

This report is issued on the understanding that our attention was drawn to all matters, financial or otherwise, which may have an impact on our report up to the date of signature. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.

If you have any questions in respect of this report or its contents, please contact George Vella on +356 9925 4746 or via email on: george.vella@mt.gt.com.

Yours faithfully,

George Vella,

Partner - Transaction Advisory Services



Executive summary

Executive summary

The impact of the European Single Market on Maltese Businesses

Study background

In May 2019, Malta commemorated fifteen years since becoming a member of the European Union (EU). This gave Maltese businesses and consumers access to the European single market (henceforth the 'Single Market'), which consists of more than 500 million consumers and 20 million enterprises.

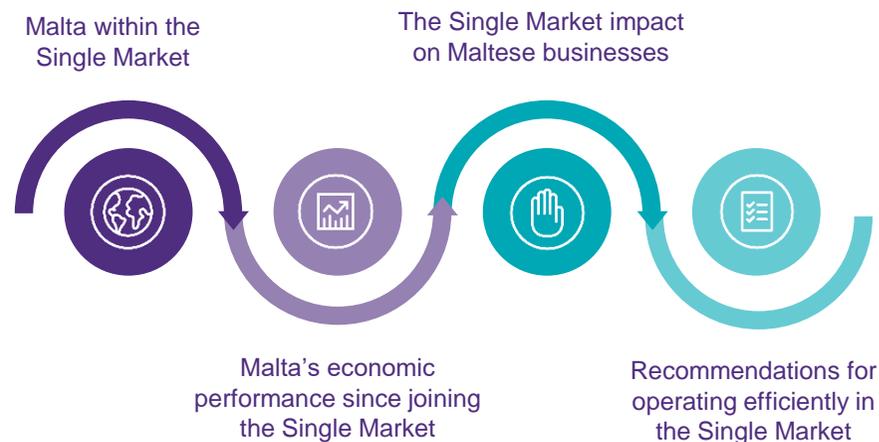
On paper, the Single Market refers to the EU as one territory, without any internal borders or other regulatory obstacles to the free movement of goods, services, capital and people. This ought to have stimulated competition and trade, improved efficiency, raised quality, and cut prices; ultimately fuelling economic growth and improving the everyday life of European businesses and consumers.

In practice, however, several barriers to the freedom of movement remain in place. In some cases, this is due to inadequate EU legislation or improper implementation of EU legislation at a national level; while in other cases it is due to protectionist policies by national governments in areas not covered by EU legislation. These constitute significant bottlenecks to cross-border business within the EU and, in this sense, the Single Market is imperfect, and remains work-in-progress.

Objectives of the study

Against this background, and in an attempt to inform future policy decisions at national and EU level, the study has the following objectives:

1. To assess how the Single Market impacted Maltese businesses;
2. To identify key challenges faced by Maltese businesses when participating in the Single Market; and
3. To identify gaps in legislation at national and EU level in order to restructure business access to the Single Market, while proposing a way forward.



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The European Single Market

Article 3 of the 1957 Treaty of Rome, which established the European Economic Community (EEC), says:

“The activities of the Community shall include...the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods...; the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital.”

These four freedoms remain at the very heart of the Single Market. They were meant to eliminate, or reduce, trade barriers in order to reduce structural imperfections in European markets. They were intended, and expected, to increase the intensity of competition between the firms serving the market, and to consequently reduce price-cost margins to the benefit of consumers, and to trigger industrial restructuring that would lead to greater specialisation and exploitation of economies of scale.

The EU's main tools to improve its functioning are based on Article 115 of the *Treaty for the Functioning of the European Union (TFEU)* which establishes that the Union can draft its own binding legislation in the form of ‘regulations’ and ‘directives’. While the former are legal acts that are directly applicable throughout all EU Member States (and therefore homogeneous in their application across Member States), directives simply lay down certain results that must be achieved, with each Member State free to decide how to transpose directives into national laws. Since directives are not directly applicable, and the onus is on the governments of the Member States to ensure the correct implementation of directives, different interpretations across different Member States arise, which in some cases result in fragmentation across the EU.



Freedom of movement of goods

Aimed at ensuring the free movement of goods within the market, a high safety standard for consumers, and the protection of the environment.



Freedom of movement of services

Relates to two aspects; the right to open a business in another EU Member State and the right to provide services without any barriers.



Freedom of movement of capital

Aims at creating an integrated and efficient financial market, where companies can invest in and own other European companies and raise money where it is cheapest.



Freedom of movement of people

Aims at creating an environment where EU nationals enjoy equal treatment in access to employment, working conditions and all other social and tax advantages when seeking employment in another EU and EEA Member State.

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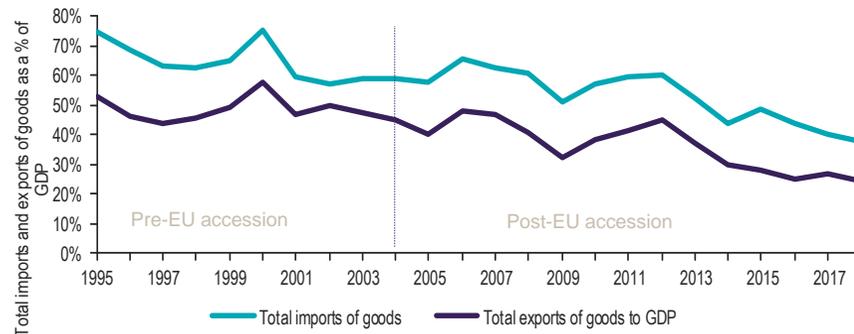
Malta within the Single Market

Following a lengthy application process, Malta joined the EU and the Single Market in 2004. Strong exportation and importation of services, together with strong inward investment and migration, suggest that the country integrated well into the Single Market.

Freedom of movement of goods

Imports and exports of goods as a percentage of the country's Gross Domestic Product (GDP) declined since EU membership (2004-2018). This may be counter-intuitive as the Single Market ought to have facilitated rather than restricted trade in goods. However, it is largely a reflection of an economy that over the years increased its reliance on the services sector. In fact, when analysed in value (rather than percentage) terms the annual growth rate of imports of goods averaged 4.1%. However, the comparable growth rate for exports was more moderate at 3.3%; partly reflecting the restructuring of the manufacturing sector due to the removal of tariff protections following EU

Malta's Imports and Exports of Goods as a % of GDP

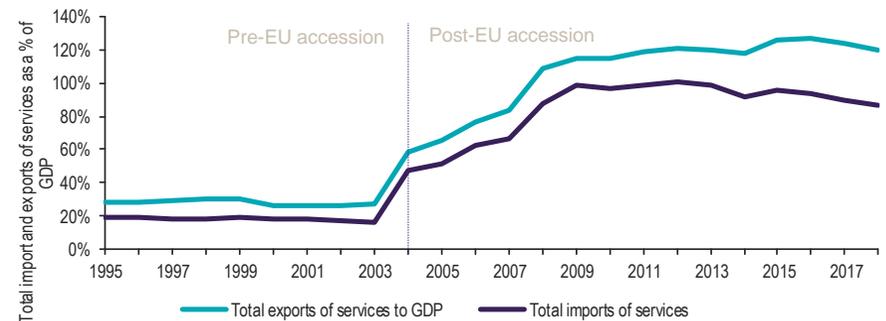


accession. While these trends suggest moderate integration in terms of the free movement of goods; Malta's openness to international trade (as measured by the ratio of the sum of exports and imports to GDP) remains in line with the EU average.

Freedom of movement of services

Both exports and imports of services recorded significant growth in the period following Malta joining the Single Market. These developments were primarily driven by activity related to online gaming and financial services, but more recently also relating to professional services and IT. It is unlikely that such significant growth in exports of services would have been possible had Malta not joined the Single Market. In fact, the intra-EU trade in activities that has driven this growth generally requires that the suppliers of such services are domiciled in an EU Member State.

Malta's Imports and Exports of Services as a % of GDP



Sources: 1. Eurostat
2. Grant Thornton analysis (2019)

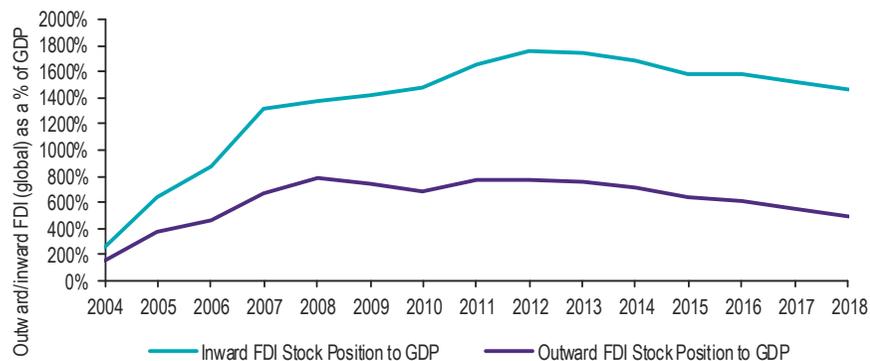
Executive summary

Freedom of movement of capital

Malta had been a strong recipient of FDI even before EU accession. However, the data presented in the figure below suggests that the country benefitted strongly in terms of FDI in the years following Malta joining the Single Market. And while this may, in part, reflect inflows related to Special Purpose Entities (SPEs), these too create jobs in the local economy. These are typically related to professional services (such as accounting, legal and other consultancy services); which have grown significantly in recent years.

Irrespective of the impact that FDI inflows and outflows may have had on the Maltese economy, the strong inward and outward movement of capital suggests that Malta has integrated well into the Single Market as far as movement of capital is concerned.

Malta Inward and Outward FDI Stocks as a % of GDP

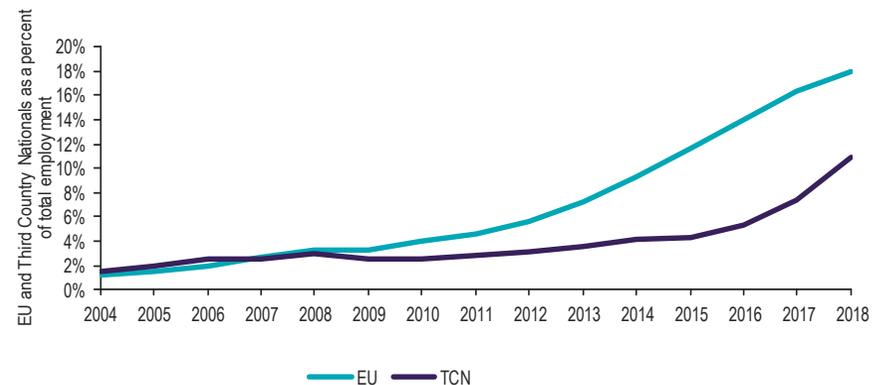


Sources: 1. NSO
2. Grant Thornton analysis (2019)

Freedom of movement of people

While there was little growth in the employment of EU Nationals in Malta in the early years of EU membership, their number increased significantly over the past few years. Specifically, the data presented in the figure below shows that the share of EU nationals in total employment grew from 1.2% in 2004 to around 14% in 2018. Furthermore, the figure also shows that the growth in the share of EU nationals in total employment outpaced that of third country nationals (TCNs). While the share of TCNs in total employment marginally exceeded that of EU nationals in 2004, by the end of 2018, the share of EU nationals in Malta's total employment was 5.5 percentage points higher than that of TCNs. This is another clear indication of Malta's integration within the Single Market.

EU and Third Country Nationals as a % of Total Employment



Sources: 1. Jobsplus data
2. Grant Thornton analysis (2019)

Executive summary

Malta's economic performance since joining the Single Market

While it is difficult to isolate the impact that the Single Market has had on Malta's economic performance, it is possible to conjecture about the impact that it may have had by analysing the economic performance of Maltese businesses since Malta joined the Single Market.

During this period, the country's real GDP grew by an annual average of 4% such that GDP per capita increased from around 50% of the EU-average in 2004 to over 80% by the end of 2018. This relatively fast growth was primarily driven by the *arts, entertainment and recreation* sector (which includes iGaming); the *professional services* sector; the *wholesale and retail trade* sector; and *public administration, education, health and social work* activities. Although some sectors, such as *manufacturing*, were not main contributors to economic growth, the impact that the Single Market has had on their

Survey with Maltese Businesses

As part of this exercise, we carried out a survey with Maltese businesses to shed light on Maltese businesses' perception of the Single Market. The sample's key characteristics are reported below for ease of reference:

- 150 complete responses by Maltese businesses;
- Representative of various sectors of the Maltese economy;
- Representative of businesses of varying sizes (i.e. includes micro, small, medium and large businesses);
- Over 67% of respondents reported that their business was incorporated prior to Malta officially joining the Single Market in 2004.

Detailed survey characteristics are reported in Appendix I, and the survey questionnaire is presented in Appendix II.

performance is crucial because of their traditionally large contribution to the economy.

We summarise the *sectoral* economic analysis on the next page. We show each sector's contribution to Malta's economic growth, the perception of the impact of the Single Market by sector, as well as the Single Market's impact on competition and administrative burden in the respective sectors. The analysis is based on administrative data published by the National Statistics Office (NSO), a survey carried out with Maltese businesses (henceforth the 'Survey'), and a stakeholder consultation exercise with a number of business representatives (henceforth the 'Stakeholder Consultation'). The key characteristics of the Survey and the Stakeholder Consultation are summarised below.

Stakeholder Consultation

Stakeholder consultations were intended to encourage information exchange and open discussion on how Maltese businesses have been affected by the Single Market. Feedback was received from business representative of various sectors, including:

- Financial services;
- Manufacturing;
- Wholesalers, retailers and importers;
- Accommodation and restaurants; and
- Others

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Malta's economic performance

The table below summarises the sectoral analysis. 'Positive' and 'negative' refer to the perception of the majority of respondents from the sector; while the 'ticks' in the other columns identify the sectors' *major* barriers to trade with other EU Member States.¹

Sector	GVA Growth on average per year from 2004 - 2018	Single Market impact	Rise in national competition levels	Rise in European competition levels	Impact of increased competition levels	Unusual testing, certification and approval procedures	Additional costs to provide products/services to Member States	Lack of harmonization of legislation on cross-border transactions	Language barriers and issues with translation	Difficulty hiring workers	Regulations protecting public interest and/or consumers	Environmental, health and safety standards	Large amounts of paperwork	Complex tax rules	Excessive legislation	Being wiped out by competition	inefficient implementation of legislation	Ineffective enforcement of EU law at national level
Manufacturing	2.7%	Positive			Negative	✓							✓		✓			
Wholesale and retail trade	5.4%	Positive	✓	✓	Negative		✓	✓	✓				✓		✓			
Professional services	10.4%	Positive	✓		Positive			✓					✓		✓			
IT and communications	9.0%	Positive	✓		Positive				✓				✓	✓	✓	✓	✓	✓
Accommodation and food services	6.4%	Positive	✓	✓	Positive/negative				✓	✓			✓		✓			
Construction and real estate	3.0%	Positive			Positive/negative		✓						✓	✓	✓	✓		
Education, health and public administration	6.1%	Positive	✓		Positive						✓		✓		✓	✓		
Arts, entertainment and recreation	25.0%	Positive	✓	✓	Positive/negative		✓	✓					✓	✓				✓
Other	9.8%	Positive			Positive/negative	✓	✓		✓	✓		✓	✓		✓	✓		✓

Notes: 1. A barrier is identified as being 'major' if 30% or more of the respondents operating in the sector identified the barrier as a concern.

2. Cross-border transactions include inbound and outbound transfers of property, stock, as well as financial and commercial obligations between related entities that are resident or operate in different tax jurisdictions.

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The Single Market impact on Maltese businesses

While it is difficult to isolate the impact that the Single Market has had on Maltese businesses, we sought to assess it by asking a targeted group of Maltese businesses about their perception of how the Single Market affected their business.

The majority of the 150 businesses responding to the Survey indicated that they are 'better off' since Malta joined the Single Market. Of these, 82% indicated that they are 'better off' due to access to the Single Market. However, a portion of respondents indicated that they are not 'better off' – a perception prevalent in the wholesale & retail sector and the manufacturing sector.

89% of survey respondents indicated that they are better off since Malta joined the Single Market

82% of survey respondents that are 'better off' indicated that they are better off *due to* the Single Market

21% of survey respondents from the manufacturing sector indicated that they are not better off since Malta joined the Single Market

18% of survey respondents from the wholesale and retail sector indicated that they are not better off since Malta joined the Single Market

Although the majority of respondents to the Survey report that joining the Single Market has generally been beneficial to their business, they also report that it has brought about several challenges. These have been broadly categorised into the following: (i) barriers to trade, (ii) increased competition, (iii) administrative burden, (iv) size and insularity, and (v) legislative issues.

Barriers to trade

While the main aim of the Single Market project was to eradicate all barriers to trade, several barriers remain. In fact:

28% of respondents that conduct business within the Single Market indicated that they are facing barriers to trade.

The most common barriers faced by Maltese businesses relate to:

-  Language
-  Costs to provide products and services to other Member States
-  Testing, certificated or approval procedures
-  Lack of harmonization of legislation on cross-border transactions

Executive summary

29%

of **micro** businesses are experiencing barriers when trading with other Member States, with the majority of firms operating in the wholesale and retail trade sector. Language barriers and issues with translation, seem to be the most prominent barriers.

33%

of **small** businesses are experiencing barriers when trading with other Member States, with the majority of firms operating in the wholesale and retail trade sector. Additional costs to provide products or services to other member states, seem to be the most prominent barriers.

26%

of **medium-sized** businesses are experiencing barriers when trading with other Member States, with the majority of firms operating in the manufacturing sector. Testing, certification or approval procedures seem to be the most prominent barriers.

10%

of **large** businesses are experiencing barriers when trading with other Member States, with the majority of firms operating in the manufacturing industry. Costly arrangements for cross-border transactions seem to be the most prominent barriers.

The bad news for Malta is that a larger portion of smaller businesses experience barriers to trade within the Single Market (see infographic above). Respondents who indicated that they are currently experiencing barriers within the Single Market report that the persistence of the barriers is due to the lack of uniformity of rules across Member States (44%), and legislation being too complex and burdensome (43%).

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Increased competition

Since the Single Market project was intended to increase competition, it is no surprise that most survey respondents whose businesses were established prior to 2004 experienced higher levels of competition since Malta joined the Single Market:

65% of survey respondents whose business was established prior to 2004 experienced higher levels of competition at a *national* level

55% of survey respondents whose business was established prior to 2004 experienced higher competition at a *European* level

While medium- and small-sized businesses report a more significant increase in competition at the national level; large businesses report an increase in competition at both national and European levels.

The majority of these business report having been both positively and negatively affected by the Single Market. The positives relate to access to a larger market and expanded business, while the negatives primarily relate to loss of market share and profits as a result of increased competition.

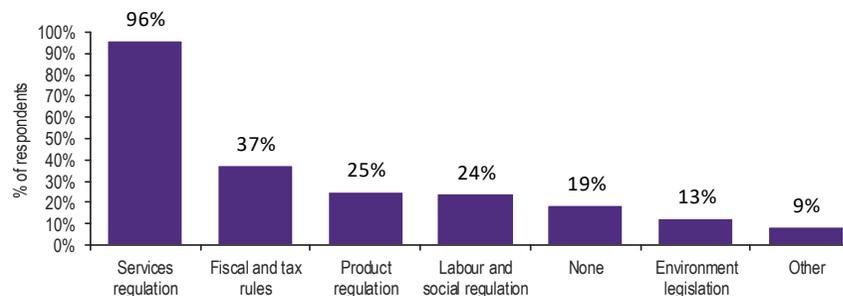
There is, however, some asymmetry in the way in which businesses of different sizes have been impacted by the increased competition. While large,

medium and small business reported both positive and negative impacts from increased competition, the majority of micro businesses reported negative effects.

Administrative burden

43% of survey respondents indicated that they are subject to large amounts of paperwork by national and/or European authorities when conducting business locally and/or in the EU; but 39% of respondents indicated that they are currently not subject to any administrative burden. The burden exists across businesses of all size (see infographic on the next page); and, in particular, 96% of businesses reported wanting simplification of the Services Regulation (see figure below).

Aspects of administrative procedures respondents would like simplified



Executive summary

65%

of **micro** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

55%

of **small** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

54%

of **medium-sized** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

70%

of **large** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

They allude to aspects such as:

- the need for the Services regulation to factor in national economic climate;
- the need to define a standard for all services at an EU level to eliminate disparities in standards across different Member States; and
- the introduction of a single EU gaming license that can be utilized across all EU Member States.

Size and insularity

Malta's smallness and insularity were always going to be a challenge for the functioning of Maltese businesses inside the Single Market. High transportation costs relative to those faced by other businesses in mainland Europe remain a concern, as does the 'one-size-fits-all' approach at times

adopted by the EU. While the former is reported to be more problematic for the manufacturing and wholesale & retail trade sectors, the latter is more of a concern for the accommodation & food services sector and the wholesale & retail trade sector.

If we take GDPR as an example, which came into force in May 2018, all companies operating within the Single Market, as well as all companies targeting customers within the Single Market, had to alter policies and procedures, as well as amend company operations, in order to be compliant with the newly introduced regulation. Many businesses argue that large companies can sustain increased costs relating to the implementation of new legislation better than small businesses can. A small family business had to implement GDPR into its business to the same extent as Google.

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Legislative aspects

The Survey also revealed many Maltese businesses' concerns about several aspects of legislation:



of survey respondents indicated that they are concerned with excessive legislation



of total survey respondents are concerned about ineffective enforcement of EU law at a national level



of total survey respondents are concerned about the inefficient implementation of legislation

The stakeholder consultation meetings revealed that several sectors were facing issues arising from the transposition of directives at a national level. It was reported that Malta tends to transpose directives to the “full extent” – a concept known as ‘gold-plating’.

In particular, businesses complained that government:

- Often extended the scope of the directive;
- added regulatory requirements beyond what is required by the directive in question;
- not taken (full) advantage of any derogations;
- retained Maltese national regulatory requirements that are more comprehensive than is required by the directive in question;
- used implementation of a directive as a way to introduce national regulatory requirements that actually fall outside the aim of the directive;
- implemented the requirements of the directive earlier than the date specified in the directive;
- applied stricter sanctions or other enforcement mechanisms than are necessary to implement the legislation correctly.

This approach has often resulted in more stringent regulation and higher costs for local operators, causing a competitive disadvantage.

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Recommendations

On the basis of the identified challenges, we propose a set of recommendations aiming to enable Maltese businesses to operate more efficiently within the Single Market:

Recommendation 1

Set realistic cross-border public procurement targets at EU and Member State level.

Area: Public procurement

Target level: EU

Addresses: barriers to trade, unfair competition

State of play: Since 2014, the European Commission has been very active in the area of simplification and modernisation of EU public procurement. However, there still exist a number of practical issues that limit the ability of SMEs to participate in cross-border competitive tenders. Notably, the participation of Maltese businesses in foreign public procurement is low when compared to the participation of foreign companies in competitive bidding for public tenders in Malta. While this may be related to the country's geographic location and/or the lack of economies scale that are required to cater for large-scale projects, there also exist clauses or rules "hidden" in tender documents that prohibit foreign and/or small suppliers or service providers from bidding for public tenders. For example, some governments impose restrictions on businesses to supply products or services using only local inputs; or require foreign businesses to own resident subsidiaries; or require foreign firms to submit the final report in a specific language. Rather than addressing these specific barriers, the EU may seek to encourage cross-border procurement by setting voluntary quantitative targets for cross-border public procurement at both EU and Member State level.

Executive summary

Recommendation 2

Addressing problems with banking for companies to ensure that Malta remains an attractive host-country for foreign direct investment.

Area: Cross-border banking

Target level: EU / national

Addresses: barriers to trade

State of play: Malta's accession to the EU made it an attractive host for multinational companies operating in many different sectors. However, these companies are facing difficulties related to banking their operations in Malta, including opening a bank account – primarily because domestic banks have had to drastically change their risk appetite due to pressure from correspondent banks in response to increasing ECB pressure as well as more stringent compliance requirements in the implementation of Anti-Money Laundering legislation both at the EU and global level. Over recent years, de-risking exercises by Malta's major domestic banks led to the termination of services for numerous companies operating in Malta, particularly those operating in the iGaming industry and those with an international ownership dimension. This does not only put the future of these companies in jeopardy but is also a significant deterrent for companies considering setting up in Malta. While neither national governments nor the EU can interfere with the banks' risk appetite, the Maltese Government as well as key government bodies can implement solutions to facilitate an open banking infrastructure, particularly for payments.

For example, article 73 (1) of the Companies Act provides that “The consideration for the acquisition of shares in a company whether on the original subscription or a subsequent issue, may only consist of assets capable of economic assessment, and furthermore, future personal services and in general any undertakings to perform work or supply services may not be given by way of consideration.” The law lays down no requirement, that any evidence that such consideration has in fact been received by the Company, be provided. However, as a matter of practice, the Malta Business Registry will only register a company if it has been provided with evidence that the paid-up share capital of the company, as specified in the Memorandum and Articles of Association has indeed been paid. Historically, banks were forthcoming to accept a deposit of funds and provide a deposit slip confirming the afore-referenced deposit of share capital. However, as at present, due to the prevailing banking situation, shareholders and corporate services providers are having to resort to alternative channels to provide evidence of paid up share capital. Businesses have sought to overcome this issue by depositing funds in accounts held with E-Money Institutions licensed in Malta or the EU. The Malta Business Registry has thus far refused to accept deposit slips issued by these institutions, despite the fact that such institutions are authorised to carry out payment services including the operation of a payment account. A shift in this approach could substantially ease the banking problem the country is currently facing.

The issue of banking is predominantly a result of the current challenges small Member States face when it comes to correspondent banking. Malta should ensure this issue is put on the EU's agenda to ensure small Member States are not unfairly treated as a result of their size.

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Recommendation 3

Ensure that market surveillance units at EU and Member State level have the capacity to effectively monitor and enforce the requirements of EU regulations.

Area: Market surveillance

Target level: EU / national

Addresses: barriers to trade, unfair competition

State of play: Market surveillance should be in place to ensure that only goods that meet EU health and safety standards enter Malta; to ensure that proper labelling and language restrictions on packaging are adhered to; and to ensure that goods do not enter Malta undeclared within the Union. However, the enforcement of EU rules, such as consumer protection or product safety, is a challenge; and national market surveillance authorities have weak incentives to act against non-compliant companies in their own jurisdiction. Therefore, Malta should push for improved capacity of national market surveillance units so that they can properly monitor and enforce the requirements of EU regulations. This could go a long way in ensuring that these authorities have the ability to impose dissuasive penalties and exchange information more effectively.

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Recommendation 4

Establish timeframes for follow-up on recommendations/opinions emanating from tools that are intended for ongoing case-by-case evaluation of existing pieces of legislation (such as the REFIT Programme).

Area: Simplification and harmonisation of existing regulation

Target level: EU / national

Addresses: barriers to trade, administrative burden, size and insularity, legislation

State of play: Many regulations are too complex to be understood by SMEs. When legislators draft a new law, they should think about people and businesses affected by that legislation. Businesses' divergent views on whether legislation is an obstacle or a benefit suggest that it is only by seeking their views on specific pieces of legislation that concrete areas for simplification can be identified. These should be carried out at both EU and Member State level. The EU Regulatory Fitness and Performance Programme (REFIT) is intended for precisely this purpose; with special attention as to how SMEs can be disproportionately affected by the burden of implementing EU rules.

Reviews of the REFIT initiatives in 2019 showed that REFIT opinions often take several months to be formed; which in some cases may hamper the process. Eventually, when the opinion is issued it is difficult to distinguish between the REFIT achievement and the inevitable updating of the laws triggered through other channels. Some observations have indicated that the REFIT mechanism is lacking in tangible progress. This suggests that certain inefficiencies and bureaucratic behaviour should be corrected to improve efficiency. REFIT should consider imposing timelines on committees within the European Commission for the adoption of its opinions.

In fact, a REFIT platform brochure published in 2017 indicated that out of a total of 272 submissions from all Member States, Malta only accounted for two of these submissions since the programme's inception. This suggests that awareness is lacking. Publicising the use of the REFIT programme would enhance its reach, contributing to less burdensome implementation processes in Member States.

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Recommendation 5

Improve the effectiveness of tools intended to help businesses and citizens deal with unfair rules/decisions and discriminatory red tape when working in another EU country (such as the SOLVIT), while increasing the awareness of Maltese businesses on the availability of such problem-solving mechanisms and other information portals.

Area: Problem-solving mechanisms

Target level: EU / national

Addresses: barriers to trade, unfair competition, administrative burdens, legislation

State of play: SOLVIT is an online service provided by the national administration in each EU country, as well as in Iceland, Liechtenstein and Norway. It aims to find solutions within 10 weeks – starting on the day the case is taken on by the SOLVIT centre in the country where the problem occurred. To ensure effectiveness of the tool, we suggest giving an economic operator the possibility to request the SOLVIT Home Centre to ask the Commission to give an opinion to assist in solving the case, rather than letting the Home Centre decide whether to ask the Commission unilaterally. The Home Centre may refuse this request but must provide justification for its refusal. If, however, the Commission is asked to give an opinion, the Commission should enter into communication with the operator within 30 working days.

In addition to SOLVIT, there are several resources available for businesses operating in the Single Market. The Your Europe portal, as well as Points of Single Contact are tools that businesses and/or citizens may use to either lodge informal complaints or gain information on how to complete administrative procedures online. However, survey respondents indicated that only 15% are aware of SOLVIT and only 29% are aware of Your Europe portal and/or Points of Single Contact. Awareness of the availability of resources may lead to improved efficiency and reduction in administrative burdens.

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Recommendation 6

Ensuring effective use of resources for the transposition of EU directives such that Malta makes efficient use of derogations.

Area: Implementation of legislation

Target level: national

Addresses: unfair competition, administrative burden, legislation

State of play: Incorrect implementation of directives often creates a competitive disadvantage for businesses. Government should ensure that it efficiently utilises its resources to properly evaluate how the implementation levels of directives would affect the competitiveness of Maltese businesses, and avoid simply transposing directives verbatim with little consideration for the local context.

By way of example, over the years Malta has often failed to consider possible derogations in directives. One example is when Malta failed to adopt the derogation allowing for Specialized Banks license authorization. Lithuania was one of the countries who took advantage of this derogation making it possible to obtain a Specialized Bank License with a minimum equity capital requirement of €1,000,000. These specialized banks can offer lending, payment services, receive deposits, exchange currency, issue e-money and guarantees, among others. Such a derogation could have proved especially attractive in the face of 'Brexit', as many UK based financial institutions look for alternative jurisdictions in which to establish themselves to ensure the maintain their passporting rights post Brexit.

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Recommendation 7

Carry out a study to identify the barriers that have prohibited Malta from taking advantage of the internationalisation of capital markets.

Area: Internationalisation of capital markets

Target level: national

Addresses: barriers to trade, size and insularity

State of play: Internationalisation of capital markets refers to the issuers, investors, brokers, dealers and marketplaces that cross borders in search of a financial transaction. This is generally deemed beneficial for all participants, including the Member States involved, if they are managed efficiently. However, Malta has not yet managed to capitalise on such opportunities. The successful track record in this area of other small EU Member States, such as Ireland and Luxembourg, suggests that Malta may be well placed to emulate their model.

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Recommendation 8

Ensure a cohesive and continuous evaluative process throughout the lifecycle of the legislative process.

Area: legislative process

Target level: national

Addresses: legislative issues, size and insularity

State of play: Malta should constantly monitor the impact of legislation both by assessing the potential impact of emerging legislation, whilst also continuing to assess the impact post-facto. In particular, national impact assessments of emerging legislation should include a proportionality estimate of the likely effects which an EU proposal might have on the domestic industry. If conducted in a timely manner, this will help Maltese negotiators understand the potential impact of the proposed legislation; and if the proposed legislation is likely to have a negative impact at the national level, then the national impact assessments can aid in identifying alternative solutions to the proposed legislation. In addition, Government should carry out effective ex-post evaluations of laws and regulations to ensure the achievement of regulatory goals.

Furthermore, consultations with the business community carried out for the purpose of this exercise, suggested that Maltese businesses are not being effectively consulted on legislative aspects. Effective stakeholder consultation can provide valuable insight in to how the proposed legislation will impact the conditions in which Maltese companies operate.

Executive summary

Recommendation 9

Ensure that *all* positions taken by Government in relation to drafting of legislation at EU level are published on the national online public consultation platform to allow for the provision of feedback and comments by businesses; and make it compulsory for administrative bodies responsible for the draft legislation to consider to all comments.

Area: Stakeholder engagement

Target level: national

Addresses: legislative issues

State of play: Many stakeholders often do not get the opportunity to provide input at the early stages of the policy development and it is not clear how their feedback is being considered. Effective consultations that draw on the experience of businesses and the public should be key for an effective negotiation strategy. For example, in Croatia, major draft regulations are published for consultation on the interactive consultation portal e-Savjetovanja for a minimum of 30 days. The website allows the public to provide general feedback on the draft or to provide comments on the individual articles of a draft regulation. The administrative bodies responsible for the draft legislation are required to respond to all comments. Malta should try to increase its efforts to reach stakeholders and obtain their feedback and contribution on potential legislation by possibly replicating the Croatian model.



Objectives of the study

Study background and objectives

This year Malta commemorated 15 years since becoming a member of the European Union.

Study background

In May 2019, Malta commemorated fifteen years since becoming a member of the European Union (EU). This gave Maltese businesses and consumers access to the European single market (henceforth the 'Single Market'); which consists of more than 500 million consumers and 20 million enterprises.

On paper, the Single Market refers to the EU as one territory, without any internal borders or other regulatory obstacles to the free movement of goods and services. This ought to stimulate competition and trade, improve efficiency, raise quality, and cut prices; ultimately intended to fuel economic growth and make the everyday life of European businesses and consumers easier.

In practice, however, several barriers to freedom of movement remain in place. In some cases, this is due to inadequate EU legislation or improper implementation of EU legislation at a national level; while in other cases it is due to protectionist policies by national governments in areas not

covered by EU legislation. These constitute significant bottlenecks to cross-border business within the EU. In this sense, the Single market is imperfect, and remains a work-in-progress.

Against this background, this study seeks to shed light on the beneficial impact that the Single Market has had on Maltese businesses, and aims to uncover the challenges that are hindering the performance of Maltese businesses in the Single Market.

Objectives of the study

- 1** To assess how and why the European Single Market (hereafter 'ESM') has impacted Maltese businesses.
- 2** To identify key challenges Maltese businesses face when participating in the European Single Market;
- 3** To identify gaps in legislation at national and EU level in order to restructure business access to the Single Market, while proposing a way forward.

Scope of work

The study entails in-depth economic and legal analyses that inform future lobbying efforts in relation to the functioning of the Single Market at national and EU level.

Scope of work

Following a call for proposals, the Malta Business Bureau (MBB) engaged Grant Thornton Malta to carry out the study. To fulfil the objectives of the study set out in the previous page, the scope of work includes the following:

- an economic analysis to gauge the impact that the Single Market has had on the performance of Maltese business and the Maltese economy in general;
- a legal analysis to identify shortcomings and gaps in the legislation at the national and EU level that hinders the functioning of Maltese businesses in the Single Market;
- a survey on the effects of the Single Market on Maltese businesses to identify the benefits and challenges that they are currently facing;
- a stakeholder consultation with industry professionals to gain insight on the benefits and challenges experienced by Maltese businesses across different sectors; and

– a set of recommendations on what can be done to improve the functioning of Maltese businesses within the Single Market.

The remainder of the report is organised as follows: section 2 provides a background on the European Single Market; section 3 on Malta in the Single Market; sections 4 and 5 present the findings of the economic and legal analyses, respectively; section 6 identifies and discusses the various challenges currently faced by Maltese businesses in the Single Market, and section 7 outlines a set of recommendations intended to improve the functioning of Maltese businesses in the Single Market. The methodologies employed to carry out the survey and the stakeholder consultation are outlined in the appendices to the report.

Economic analysis

Legal analysis

**Survey with
Maltese businesses**

**Stakeholder
consultations**

Recommendations

Outline

Malta within the
Single Market

The Single Market impact on
Maltese businesses



Malta's economic
performance since joining
the Single Market

Recommendations for
operating efficiently in the
Single Market



Background on the Single Market

The European single market

With over 32 participating countries, the European single market is deemed to be one of the greatest achievements of the EU.

The European Single Market

The Single Market is deemed to be one of the greatest achievements of the EU since its inception. The concept of the four freedoms of movement of goods, services, capital and people across such a large region is unmatched, with businesses having access to over 500 million consumers, and residents within the Single Market having free movement to over 30 countries.

The Single Market Programme was designed to generate structural changes in the EU. The aim was that the elimination or reduction in trade barriers would reduce existing structural imperfections in European markets, and hence increase welfare and efficiency. It was also hoped that the Single Market would help to improve EU competitiveness in world markets.

Although it was formally established over 25 years ago, businesses and residents are still not able to reap the full benefits that a fully-functioning Single Market has to offer. Therefore, one may question whether a highly efficient market can be achieved in practice, and if so,

whether complete freedom of movement does in fact add value.

Participants in the Single Market

The European Single Market currently consists of 32 countries. These are made of the 28 members of the EU, the three European Economic Area members; Norway, Iceland and Lichtenstein, as well as Switzerland which does not form part of the EEA but is treated as part of the European Single Market through a series of bilateral treaties.

-  Members of the EU
-  Members of the European Economic Area
-  Switzerland (through bilateral treaties)



The four freedoms of movement

The freedom of movement of good, services capital and people is at the very heart of the European single market.

The four freedoms of movement

Article 3 of the 1957 Treaty of Rome, which established the European Economic Community, says: “The activities of the Community shall include . . . the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods . . . ; the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital.”



Freedom of movement of goods

This is aimed at ensuring the free movement of goods within the market, a high safety standard for consumers, and the protection of the environment.



Freedom of movement of services

This movement is based on two aspects; the right to open a business in another European Union state and the right to provide services without any barriers.



Freedom of movement of capital

This is aimed at creating an integrated and efficient financial market, where companies can invest in and own other European companies and raise money where it is cheapest.



Freedom of movement of people

This is aimed at creating an environment where EU nationals enjoy equal treatment in access to employment, working conditions and all other social and tax advantages when seeking employment in another EU and EEA member.

Regulations and directives governing the Single Market

The creation of regulations and directives

The EU's power to take decisions is founded on The Treaty on the Functioning of the European Union (the "TFEU"), sometimes referred to as The Lisbon Treaty. Article 115 of the TFEU establishes that the Union can draft its own binding legislation in the form of regulations, directives, decisions, recommendations and opinions, also known as secondary legislation. Regulations and directives being the most popular instruments utilised by the EU.

Regulations

Regulations are legal acts which are directly applicable throughout all EU Member States from the moment they enter into force and therefore, ensure homogeneous application of the law across the EU.

Directives

Directives seek to harmonise national law across all Member states. Member States achieve the desired result by adapting the provided measures into national legislation within a designated period of time; an exercise known as transposition. Since they are not directly applicable, and the onus is on the governments of the Member

States to ensure the correct implementation of directives, different interpretations across different Member States arise, which in some cases result in fragmentation across the EU.

Harmonisation of laws across Member States

There exist two forms of harmonisation: complete harmonisation or minimum harmonisation. When a directive targets complete harmonisation, national measures are precluded from deviating from the provisions of the directive. On the other hand, directives targeting minimum harmonisation establish the minimum norms that all Member States are required to fulfil within the respective area of the law. The European Commission will conduct various checks to ensure that Member States have correctly transposed the directive and such transposition has been handled on time. The failure of a Member State to transpose a directive within the period established, or an incorrect transposition of a directive would result in infringement proceedings being brought against the Member State by the European Commission as the body responsible for preventing distortion of the internal market.

Legislative procedure

The ordinary legislative procedure of the EU begins at the European Council where the Heads of Member States make decisions on the general policies of the EU. The political direction and priorities are then communicated to the European Commission where the legislation is initiated. The Commission accepts proposals from itself, other EU institutions, Member States and/or following public consultations. The Commission will evaluate the potential economic, social and environmental impact on all the Member States. In order to assess the consequences, it prepares impact assessments which list the advantages and disadvantages of such proposals.

The Commission interacts with stakeholders whose interests may be affected by the legislation at hand, including NGOs, national authorities and representatives from the respective industry or sector. Key professionals provide their expertise on the technical issues in order to safeguard the rights and needs of those who will be affected by the regulation. Public consultations are also available to citizens, businesses and various other stakeholders.

Timeline of Malta and the EU

- 
- 1970** ● An association agreement was signed in December 1970. This agreement was aimed at creating a free trade area between Malta and the European Economic Community (EEC). This entered into force in April 1971.
 - 1990** ● Malta submitted a formal application to join the European Committee on 16th July 1990, which was received positively by the Committee.
 - 1996** ● Malta halted the formal application submitted in 1990 due to a change in government.
 - 1998** ● Following a plan presented by the European Commission outlining a free-trade area and enhanced cooperation with Malta, as well as free elections, the Maltese government moved ahead with their application for EU membership.
 - 2000** ● Formal accession negotiations began to take place.
 - 2002** ● Accession negotiations were concluded.
 - 2003** ● Due to a political rift, a referendum was held in order to resolve the matter at hand, with most of the electorate members voting yes to entry into the EU. In April, the Treaty of Accession was signed.
 - 2004** ● Malta officially became a member of the EU and **joined the European Single Market** on 1st May in what happened to be the biggest enlargement in the history of the EU.
 - 2008** ● Malta adopted the Euro and became part of the Eurozone on 1st January 2008.

Sources: 1. <https://www.eu2017.mt>



Malta within the Single Market

Malta within the European Single Market

Malta's integration into the Single Market is assessed on the basis of the four freedoms of movement.

The effects of the freedom of movement

In this section of the report, we analyse Malta's integration into the Single Market, i.e. the extent to which goods and services are traded with other Member States; people moving in and out of Malta; and capital flowing to and from other Member States. It should be noted that in the process leading to EU accession, Malta began amending economic and political conditions to be in line with those of the EU. Among others, Malta opened its borders to participants of the Single Market, allowing goods, services, capital and people to flow in and out of the country freely. Therefore, the effects of the Single Market on Maltese businesses and the Maltese economy in general, may have started to materialise before Malta's official membership in the European Union in 2004.



Freedom of movement of goods



Freedom of movement of services



Freedom of movement of capital



Freedom of movement of people

The freedom of movement of goods

Imports and exports of goods as a percentage of GDP declined, but Malta's trade openness remains in line with the EU-28 average.

Imports and exports of goods

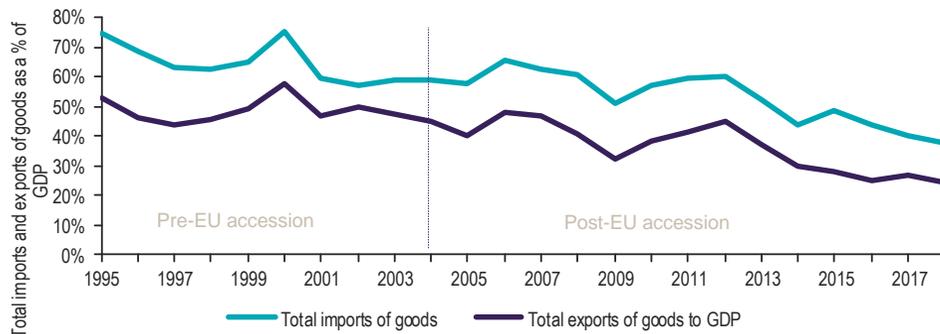
Reliable time series data on Malta's *intra-EU* imports and exports of goods that pre-date Malta joining the Single Market is not available. Thus, the analysis presented here relates to Malta's *total* imports and exports of goods.

The below figure shows that Malta's exports and imports of goods as a percentage of the Gross Domestic Product (GDP) declined gradually over the years.

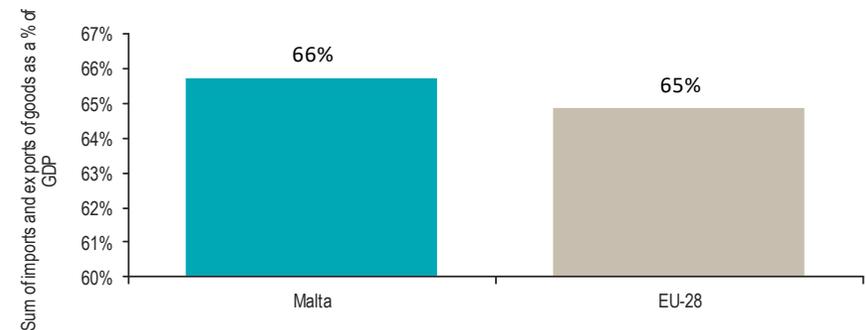
This may be counter-intuitive (as the Single Market ought to have facilitated rather than restricted trade in goods). However, it is largely a reflection of an economy that over the years increased its reliance on the services sector. In fact, when analysed in value (rather than percentage) terms, between 2004 and 2018, the annual growth rate of imports of goods averaged 4.1%. However, the comparable growth rate for exports was more moderate at 3.3%;

partly reflecting the restructuring of the manufacturing sector due to the removal of tariff protections following EU accession. While these figures suggest moderate integration in terms of the free movement of goods; the figure below shows that Malta's openness to international trade (as measured by the ratio of the sum of exports and imports to GDP) remains in line with that of the EU-28 average.

Total Malta imports/exports of goods as a % of GDP from 1995 - 2018



Sum of imports and exports of goods as a % of GDP for Malta and EU average in 2018



Sources: 1. Eurostat
2. Grant Thornton analysis (2019)

The freedom of movement of services

It is unlikely that such significant growth in exports of services would have been possible had Malta not joined the Single Market.

Exports and imports of services

Reliable time series data on intra-EU exports and imports for the period between 1995 and 2018 is not available. Thus, the analysis presented here is based on data for *total* exports and imports of services.

When measured as a percentage of GDP, both exports and imports of services recorded significant growth in the period following Malta joining the

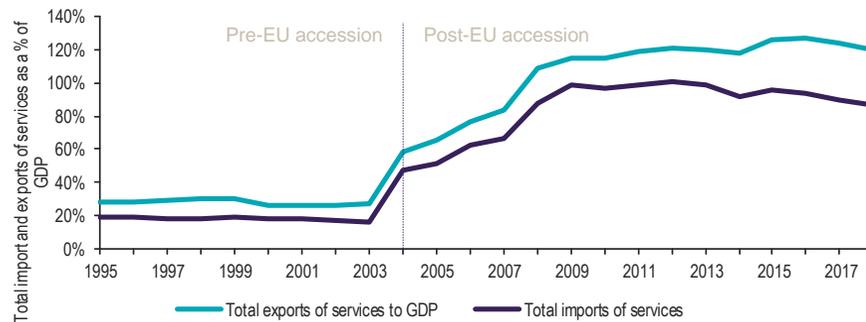
Single Market. These developments were primarily driven by activity related to online gaming and financial services, but more recently also relating to professional services and IT.

It is unlikely that such significant growth in exports of services would have been possible had Malta not joined the Single Market. In fact, the intra-EU trade in activities that has driven this growth generally

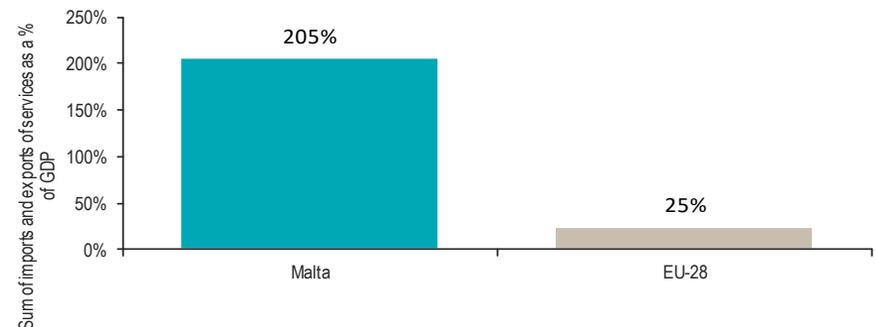
requires that the suppliers of such services are domiciled in an EU Member State.

Malta's strong integration into the Single Market (as measured by exports and imports of services) is also confirmed when benchmarked against that of the EU-28 average. In fact, the figure below shows that Malta's ratio of the sum of exports and imports of services to GDP is 8x that of the average of the EU-28.

Total Malta imports/exports of services as a % of GDP from 1995 - 2018



Sum of imports and exports of services as a % of GDP for Malta and EU average in 2018



Sources: 1. Eurostat
2. Grant Thornton analysis (2019)

The freedom of movement of capital

The strong inward and outward movement of capital suggests that Malta has integrated well into the Single Market.

Inward and outward FDI stocks

Capital flows take several forms: foreign direct investment (FDI), portfolio investment, international bank loans, and many others. However, data is only available for FDI flows. Thus, the analysis presented here focuses only on FDI.

At the same time, data on FDI tends to be heavily distorted by the presence of Special Purpose Entities (SPEs). These are complex financial structures used by multinational firms to channel investments through various countries before reaching their final destination. These have the effect of inflating FDI statistics even though SPE investments have little direct link to the host economy. Thus, data on FDI which is inclusive of SPEs (such as that presented here) should be interpreted with caution.

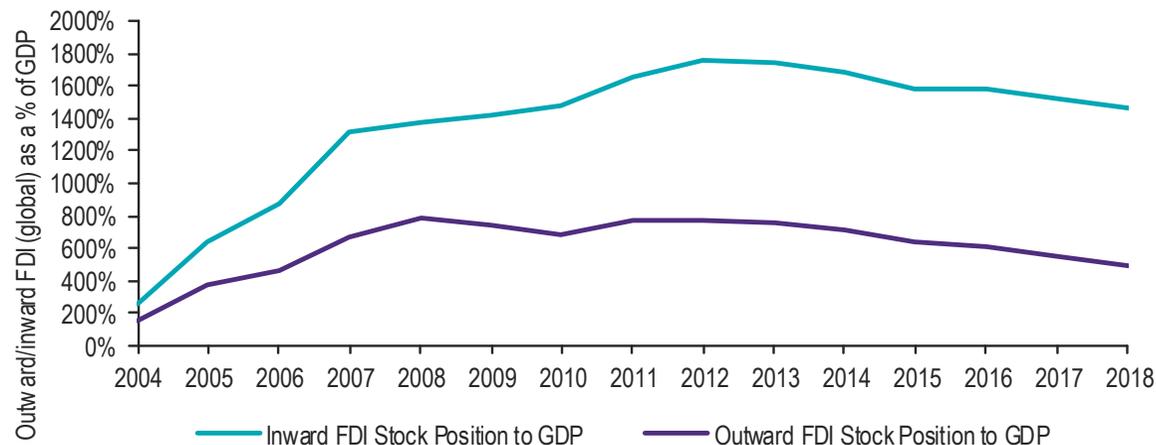
Malta had been a strong recipient of FDI even before EU accession. However, the data presented in the adjacent figure suggests that the country benefitted strongly in terms of FDI in the years following Malta joining the Single Market. While this may be reflective of inflows related to SPEs, these too create jobs in the local economy. These are

typically related to professional services (such as accounting, legal and other consultancy services); which have grown significantly in recent years.

Irrespective of the impact that FDI inflows and outflows may have had on the Maltese economy,

suggests that Malta has integrated well into the Single Market as far as movement of capital is concerned.

Total Malta inward/outward FDI stocks as a % of GDP



the strong inward and outward movement of capital

Sources: 1. NSO
2. Grant Thornton analysis (2019)

The freedom of movement of people

The share of EU nationals in total employment grew from 1.2% in 2004 to 14% in 2018.

Employment of EU nationals in Malta

National statistics on migration for the years preceding 2006 are scarce and subject to several breaks in the data series. For this reason, we analyse the movement of people into Malta by looking at data available from Jobsplus.

The data represents the number of persons in employment as at the end of December each year. These figures include those persons in full-time employment as well as those in part-time employment (if it is their primary job).

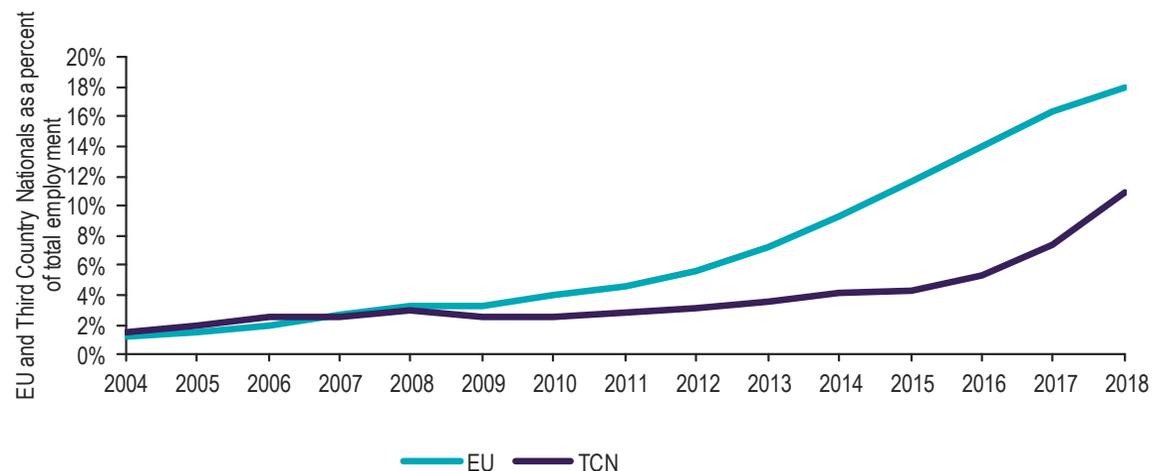
While there was little growth in the employment of EU Nationals in Malta in the early years of EU membership, the number of EU nationals increased significantly over the past few years. Specifically, the data presented in the adjacent figure shows that the share of EU nationals in total employment grew from 1.2% in 2004 to around 14% in 2018.

Furthermore, the figure also shows that the growth in the share of EU nationals in total employment outpaced that of third country nationals (TCNs). Specifically, in 2004, the share of TCNs in total

employment (1.4%) exceeded that of EU nationals (1.2%). However, by the end of 2018, the share of EU national in Malta's total employment stood at circa 14%; 5.5 percentage points higher than that of TCNs. This is another clear indication of Malta's integration within the Single Market.

Data on the outward migration of Maltese nationals to EU countries is not reliable. However, it suggests that a number of Maltese national migrated to EU countries in the immediate period following EU membership (reflecting jobs taken up by Maltese nationals in EU and related institutions); but it suggests moderate outward migration of Maltese nationals in subsequent years.

EU and Third Country Nationals as a percent of total employment



Sources: 1. Jobsplus data
2. Grant Thornton analysis (2019)



Malta's economic performance since joining the Single Market

Malta's overall economic performance

Following Malta joining the Single Market, real GDP grew by an annual average of around 4%, such that GDP per capita increased from circa 50% of EU average to over 80% by the end of 2018.

While it is difficult to isolate the impact that the Single Market has had on Malta's economic performance, it is possible to conjecture about the impact that it may have had by analysing the economic performance of Maltese businesses since Malta joined the Single Market. We complement this by assessing Malta's economic growth relative to the EU-average and that of the nine Member States that joined the Single Market in the same year as Malta.

Real GDP growth

Over the 15-year period since Malta joined the Single Market, the economy grew at different speeds. In the early years of EU membership (2005-2007), the Maltese economy grew at a moderate rate of around 3%.

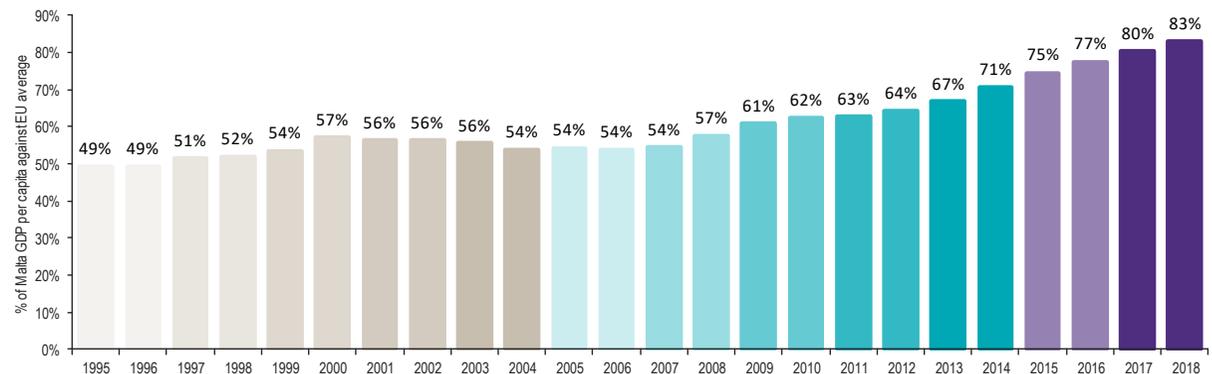
In 2008 and 2009, the world economy entered into a prolonged recessionary period which was initiated by an international financial crisis which started in the US in 2007. During this period (2008-2012), the Maltese economy proved relatively resilient. It recorded an average annual real GDP growth rate of around 1.7%, and only recorded negative growth in 2009.

Following this period, the Maltese economy started growing at a very fast rate, primarily reflecting the economic vision of a government that was keen to explore new avenues for growth, while at the same time building on Malta's past successes. Annual real GDP growth for the period between 2013 and 2018 averaged 7.2%.

GDP per capita

The strong performance of the Maltese economy was reflected in Malta's economic standing relative to that of other EU Member States. In fact, GDP per capita grew from around 50% in the years preceding Malta joining the Single Market to 83% by 2018. This is indicative of significant income convergence to the EU-28 average.

Malta's GDP per capita as a percentage of EU-28 average GDP per capita



Sources: 1. Eurostat
2. NSO

Comparison to other Member States

In terms of GDP per capita, Malta outperformed other Member States that joined the Single Market at the same time as Malta.

GDP per capita of the 'Accession 10'

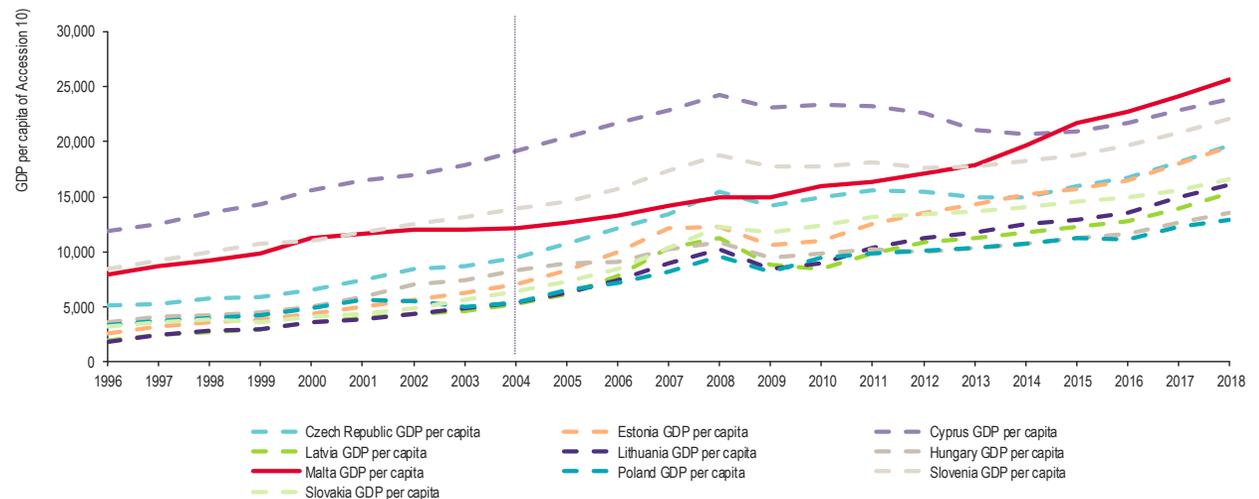
Together with Malta, nine other countries joined the EU in 2004; collectively known as the 'Accession 10'. These countries are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

In order to give Malta's GDP growth context, we compare Malta's GDP per capita growth to that of the nine other countries that joined the Single Market at the same time as Malta.

The adjacent figure shows that Cyprus, Slovenia and Malta have the highest GDP per capita among the Accession 10. Cyprus' GDP per capita was substantially higher than that of its counterparts from 1996 till 2008. Slovenia's GDP per capita surpassed that of Malta in 2000 and was increasing steadily. However, in 2008, both Cyprus and Slovenia registered lower level of GDP per capita, which is consistent with the effects of the financial crisis.

On the other hand, Malta's GDP per capita experienced a steady increase over the period from 1996 – 2017, with GDP per capita being the highest among its counterparts from 2014 till present.

Malta's GDP per capita compared to GDP per capita of remaining Accession 10 countries



Sources: 1. Eurostat

Sectoral contributions to economic growth

Arts and entertainment (incl. iGaming) and professional services were key contributors to economic growth, but traditional sectors (such as manufacturing) continue to play a major role.

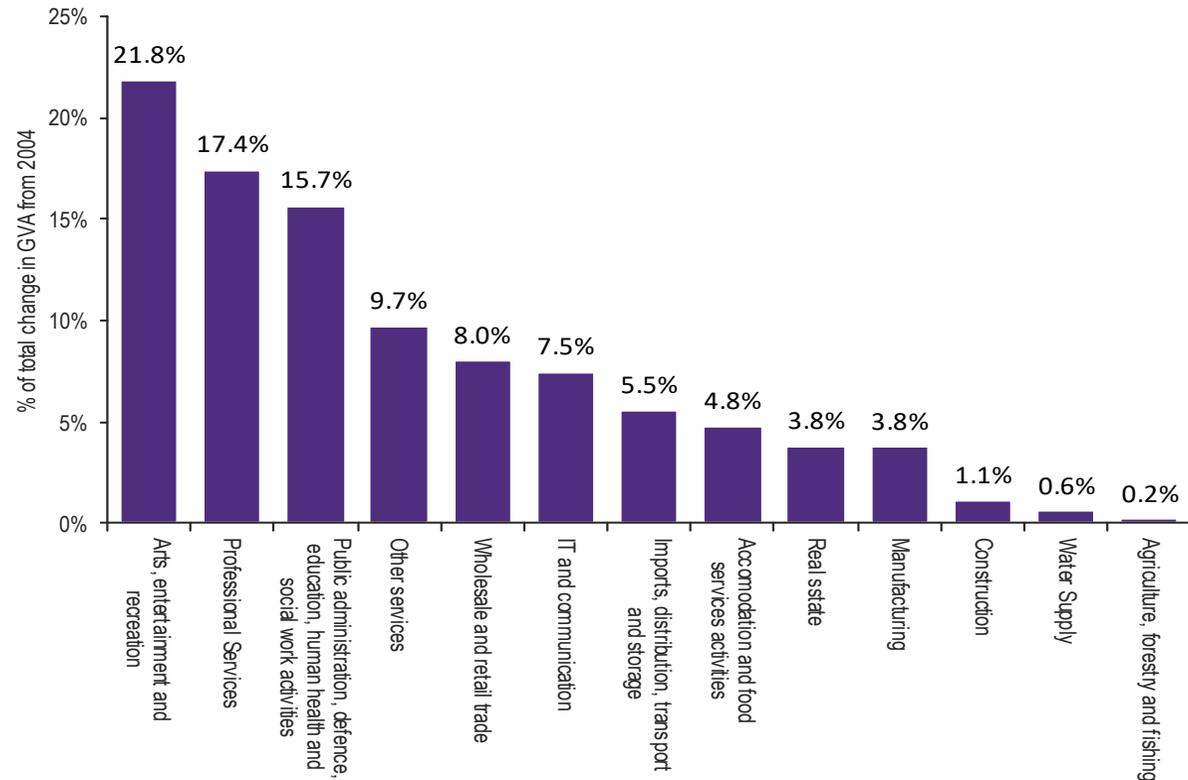
Sectoral GDP growth

The increase in GDP reported on page 42 is the sum of the growth in the Gross Value Added (GVA) of each sector in the Maltese economy. The adjacent figure shows that the primary contributors were the Arts, entertainment and recreation sector, the Professional services sector; and Public administration, defence, education, health and social work activities.

Although some sectors, such as manufacturing and wholesale and retail, were not main contributors to economic growth, the impact that the Single Market has had on their performance is crucial because of their large contribution to the economy.

In the remainder of this section of the report, we assess the performance of these key sectors, using official national accounts data, as well as data gathered through a survey and stakeholder consultations with a number of Maltese businesses, which are both summarized on the following page.

Sectoral contributions to GVA growth (2004-2018)



Key survey and consultation characteristics

Sectoral information was gathered through stakeholder consultations as well as a survey distributed among Maltese businesses.

Survey with Maltese Businesses

As part of this exercise, we carried out a survey with Maltese businesses to shed light on businesses' perception of the Single Market. The **sample's key characteristics** are reported below for ease of reference:

- 150 complete responses by Maltese businesses;
- Representative of various sectors of the Maltese economy;
- Representative of businesses of varying sizes (i.e. includes micro, small, medium and large businesses);
- Over 67% of respondents reported that their businesses were incorporated prior to Malta officially joining the Single Market in 2004.

Detailed survey characteristics are reported in Appendix I, and the survey questionnaire is presented in Appendix II.

Stakeholder consultation

The responses to the survey were complemented by the feedback received from Stakeholder consultations. These were intended to encourage information exchange and open discussion regarding how Maltese businesses from all sectors have been affected by the Single Market.

Feedback was received from business representatives from various sectors, including:

- Financial services;
- Manufacturing;
- Wholesalers, retailers and importers;
- Accommodation;
- Restaurants; and
- Others

Manufacturing sector

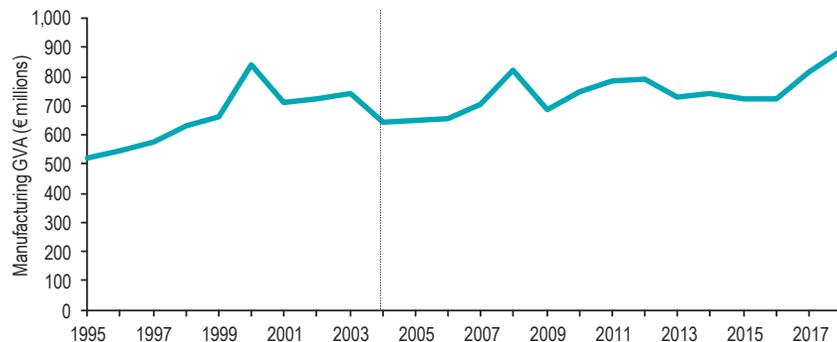
Following the removal of protective tariffs, the manufacturing sector re-invented itself and many businesses in the sector report having benefitted from Malta joining the Single Market.

Manufacturing GVA

The removal of protective tariffs in the years preceding Malta's accession into the EU had a negative impact on the manufacturing sector. In fact, the figure below shows a decline in the Gross Value Added (GVA) generated by the sector during this period. This led some manufacturing sub-sectors, most notably those manufacturing furniture and textiles, to almost vanish from the Maltese economy.

However, these sub-sectors were gradually replaced either by those businesses that re-invented themselves (e.g. importing instead of manufacturing furniture) or new ones (such as aviation maintenance and the production of generic pharmaceuticals). The sector's GVA has in fact increased – albeit at a moderate rate – over the latter years of the period under analysis.

GVA for Manufacturing sector from 1995 - 2018



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO



Key findings

GVA growth 2004-2018: 2.7% on average per year

Single Market Impact: Positive

Rise in national competition levels: No

Rise in European competition levels: No

Impact of increased competition levels: The majority indicated that competition levels haven't increased, however, the portion that have experienced an increase in competition indicated that this has been mostly negative.

Barriers: Testing, certification and approval procedures

Administrative burdens: Large amounts of paperwork

Business concerns: The possibility of excessive legislation

The observed improvement in the performance of the manufacturing sector is supported by the outcome of the Survey. 79% of survey respondents from the manufacturing sector indicated that the Single Market has had a positive impact on their business.

Manufacturing sector (contd.)

Competing in the Single Market led a number of manufacturing companies to re-invent their business and restructure.



Manufacturing sector

Respondents identified that they have experienced the following benefits:

- the industry has become more innovative;
- influx of skilled and unskilled workers from other participating Member States;
- access to a larger variety of suppliers;
- increased profits;
- easier import and export procedures.

However, respondents are also concerned about:

- the possibility of excessive legislation;
- other EU Member States leaving the EU following Brexit;
- competition levels.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Wholesale and retail trade sector

The wholesale and retail trade sector performed positively in the years following Malta joining the Single Market but has been negatively impacted by increasing competition.

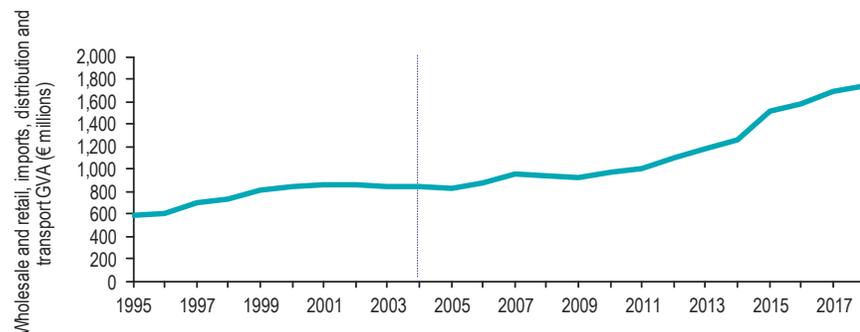
Wholesale and retail trade GVA

The wholesale and retail trade sector remains one of the largest sectors of the Maltese economy. Largely serving the domestic market, it has grown in line with the economy, i.e. moderately until 2011-12, and at a faster rate following 2013. On average, it grew by 5.4% per annum since Malta joined the Single Market.

The stakeholder consultation revealed that the sector has benefitted from the following as a result of being part of the European Single Market:

- opportunity to expand activities;
- opportunity to bring more brands into the market;
- access to a larger workforce.

GVA for Wholesale and retail trade sector from 1995 - 2018



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO



Key findings

GVA growth 2004 - 2018: 5.4% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: Yes

Impact of increased competition levels: Mostly negative

Barriers: Additional costs to provide products/services to Member States, lack of harmonization of legislation on cross-border transactions

Administrative burdens: Large amounts of paperwork

Business concerns: The possibility of excessive legislation

However, it was also reported that access to the Single Market is negatively impacting their businesses since consumers now have access to products from all over Europe, including companies that benefit from economies of scale and can thus charge lower prices. Businesses in this sector also seemed concerned about market surveillance both on a national and European level, in particular with goods coming in through private ports that do not always satisfy the standards set by the EU or that avoid paying VAT.

Wholesale and retail trade sector (contd.)

Wholesale and retail businesses have benefitted from access to a larger marketplace but are concerned about “excessive” legislation and increased competition.



Wholesale and retail trade sector

80% of respondents operating in the wholesale and retail sector reported that their businesses are better off since Malta joined the EU, with benefits being derived directly from the Single Market.

Many of the respondents operating in the wholesale and retail sector report that they have benefitted from:

- access to a larger marketplace;
- expanded business, and increased profits;
- a larger variety of suppliers; and
- easier import and export procedures.

However, respondents have several business concerns, including:

- the possibility of excessive legislation;
- competition levels;
- ineffective enforcement of EU law at a national level;
- inefficient implementation of legislation.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Professional services sector

The Single Market (together with an advantageous tax rate) benefitted accounting and legal services, but more stringent regulations and compliance costs are proving challenging to banks.

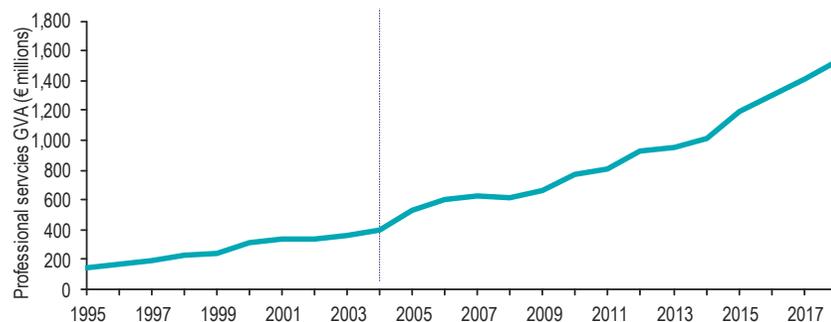
Professional services GVA

The professional services sector was one of the major drivers of economic growth in the years following Malta joining the Single Market. It grew by an annual rate of 10.4% (as is shown in the figure below).

The stakeholder consultation held with representatives of the sector revealed that the advantageous rates offered by Malta's tax regime were a key factor that contributed to this growth. This was particularly true for businesses providing accountancy and legal advisory services.

However, the same consultation revealed that the banking sector (which also categorised as professional services) has not benefitted to the same extent. In particular, it was reported that banks are now experiencing high compliance costs and a need for specialised people in the field.

GVA for Professional services sector from 1995 - 2018



Key findings

GVA growth 2004 - 2018: 10.4% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: Neutral

Impact of increased competition levels: Mostly positive

Barriers: Lack of harmonization of legislation on cross-border transactions, difficulty opening bank accounts in Malta

Administrative burdens: Large amounts of paperwork

Business concerns: The possibility of excessive legislation

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO

Professional services sector (contd.)

Professional services have benefitted from a larger customer base, but certain activities (such as banking) are concerned about excessive legislation and ineffective enforcement of EU law.



Professional services

According to the Survey carried out with businesses from the professional services sector, the majority of respondents indicated that they are better off as a result of the Single Market. These respondents identified that they have experienced the following benefits:

- access to a larger marketplace, and larger customer base;
- industry has become more innovative;
- expanded business;
- access to a larger variety of suppliers;
- increased profits.

However, respondents also have business concerns:

- the possibility of excessive legislation;
- ineffective enforcement of EU law at a national level;
- other EU member states leaving the EU following Brexit; and
- inefficient implementation of legislation.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

IT and communications sector

The IT and communications sector grew significantly, supported by the inflow of skilled foreign workers that was facilitated by the freedom of movement of people between EU Member States.

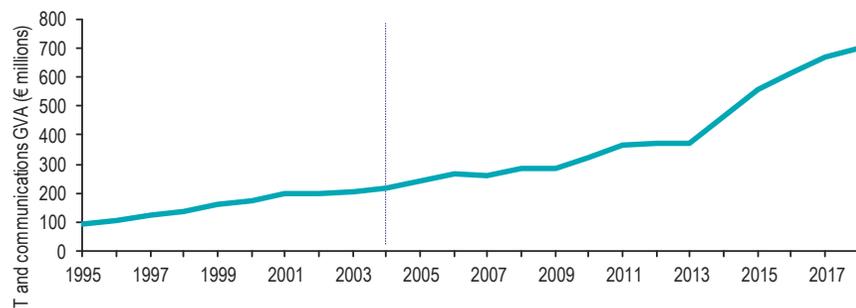
IT and communications GVA

The IT and communications sector grew at a relatively fast pace since Malta joined the Single Market (circa 9% p.a.), particularly post-2013. The stakeholder consultation revealed that the significant growth experienced by the sector was aided by:

- the inflow of skilled resources from the EU; and
- the ease of setting up a business in another country.

It was also noted that a large portion of the customer base is local. However, IT and communications companies have benefitted from the influx of companies, as demand for IT and communications services has risen.

GVA for IT and communications sector from 1995 - 2018



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO



Key findings

GVA growth 2004 - 2018: 9% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: No

Impact of increased competition levels: Mostly positive

Barriers: Language barriers and issues with translation

Administrative burdens: Large amounts of paperwork

Business concerns: Being wiped out by competition, the possibility of excessive legislation, inefficient implementation of legislation, ineffective enforcement of EU law at national level

However, it was also iterated by industry professionals in this sector that although the industry has become more innovative, innovation is not encouraged enough to stimulate significant growth that can be achieved on a local level.

IT and communications sector (contd.)

GVA in the IT and communications sector increased by 9% on average per year from 2004.



IT and communications

88% of respondents operating in IT and communications sector indicated that their businesses are better off since Malta joined the EU, with benefits being derived directly from the Single Market, as well as from markets outside of the EU.

Many of the respondents also indicated that competition has increased, with effects being both positive and negative.

Many of the respondents operating in the IT and communications sector have benefitted from the following:

- a more innovative industry, however there is still room of more encouragement in order to stimulate further innovative growth;
- expanded business, and increased profits.

However, respondents also have the following business concerns:

- the possibility of excessive legislation;
- competition levels;
- ineffective enforcement of EU law at a national level;
- inefficient implementation of legislation;
- problems with access to funding.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Arts, entertainment and recreation activities

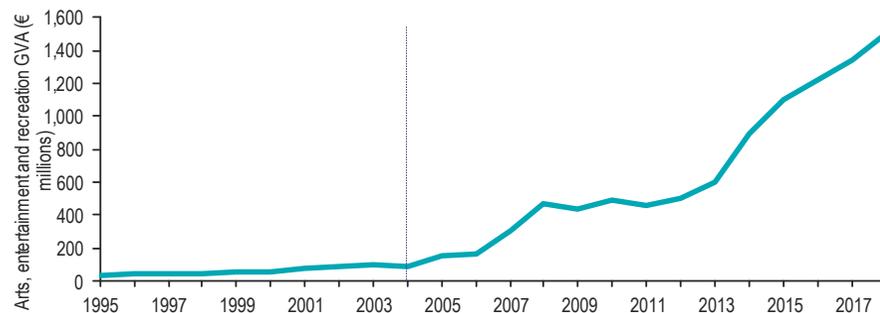
On average, GVA in the arts, entertainment and recreation activities sector (which includes iGaming) increased by 25% per year from 2004.

Arts, entertainment and recreation activities GVA

One of the biggest industries in Malta, which only emerged over recent years, is iGaming. In recent years, there has been a large number of gaming companies moving their operations to Malta; driven by a strong legislative framework that enables them to operate within the Single Market and a favourable tax regime. This influx of gaming companies has led to the creation of an ecosystem, which is an additional factor attracting these businesses to settle in Malta.

The GVA of these companies is included in the arts, entertainment and recreation activities sector, which explains the unprecedented growth, particularly from 2012 onwards. This sector is also the largest contributor to

GVA for Arts, entertainment and recreation activities from 1995 - 2018



Key findings

GVA growth 2004 - 2018: 25% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: Yes

Impact of increased competition levels: Both positive and negative

Barriers: Lack of harmonization of legislation on cross-border transactions, lack of regulation at EU level and thus lack of passporting rights

Administrative burdens: Complex tax rules, large amounts of paperwork

Business concerns: Ineffective enforcement of EU law at national level

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO

Arts, entertainment and recreation (contd.)

GVA in the arts, entertainment and recreation activities sector increased by 25% on average per year from 2004.



Arts, entertainment and activities

The majority of respondents operating in arts, entertainment and recreation sector indicated that their businesses are better off since Malta joined the Single Market, with benefits being derived directly from the Single Market. The respondents also indicated that competition has increased; with effects being both positive and negative.

Many of the respondents operating in this sector have benefitted from the following:

- access to a larger marketplace;
- expanded business, and increased profits;
- a larger variety of suppliers;
- influx of skilled and unskilled workers from other participating member states;
- a more innovative market.

However, respondents seem to be concerned with:

- ineffective enforcement of EU law at a national level;
- the possibility of excessive legislation;
- competition levels.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Accommodation and food services sector

Businesses providing accommodation and food services activities are experiencing increased competition as the sector continues to experience significant growth.

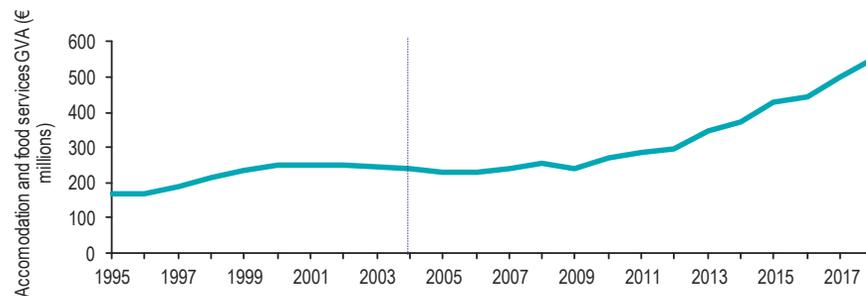
Accommodation and food services activities GVA

Prior to Malta joining the Single Market, and until 2008, the accommodation and food services sector experienced low-to-moderate growth. As from 2009, the sector's GVA began to increase steadily; increasing by 7% from 2009 till 2018. Several factors have helped drive the growth of the sector, including the introduction of Airbnb, the adoption of the Euro, easier access to online platforms (like booking.com).

Industry professionals also discussed the benefits the tourism sector has experienced as a result of access to the Single Market. These include:

- opportunity to upgrade products and standards of service;
- access to ERDF funding;
- larger market for suppliers.

GVA for Accommodation and food services sector from 1995 - 2018



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO

Key findings

GVA growth 2004 – 2018: 6.4% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: Yes

Impact of increased competition levels: Both positive and negative

Barriers: Language barriers, difficulty hiring workers

Administrative burdens: Large amounts of paperwork

Business concerns: The possibility of excessive legislation

Accommodation and food services sector

GVA in accommodation and food services activities increased by 6.4% on average per year from 2004.



Accommodation and food services

All survey respondents operating in the accommodation and food services sector indicated that their businesses are better off since Malta joined the EU, with benefits being derived directly from the Single Market, as well as through markets external to Europe.

All respondents in this sector indicated that competition has increased, with effects being both positive and negative.

Many of the respondents operating in this sector have benefitted from the following:

- access to a larger marketplace;
- expanded business, and increased profits;
- a larger variety of suppliers;

- a more innovative industry;
- access to a larger variety of suppliers;
- influx of skilled and unskilled workers from other participating Member States.

However, respondents also have business concerns:

- the possibility of excessive legislation;
- ineffective enforcement of EU law at a national level;
- other EU member states leaving the EU following Brexit.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO

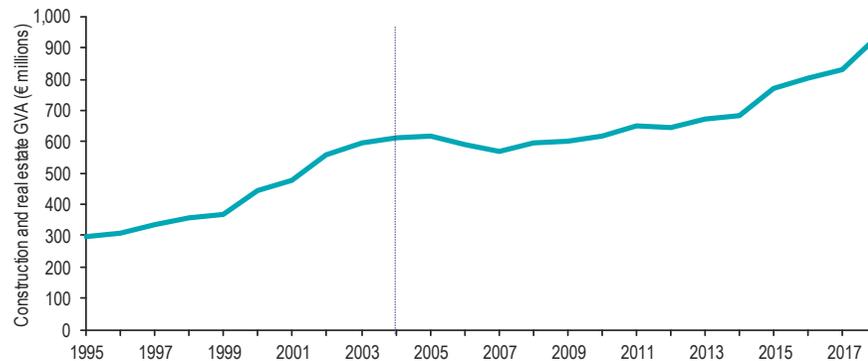
Construction and real estate sector

GVA in the construction and real estate sector increased by 3% on average per year from 2004.

Construction and real estate sector GVA

As shown in the graph below, the construction sector faced a decline following EU accession. However, the sector's growth started picking up again in 2009. The sector experienced two phases of fast growth: in the run-up to the adoption of the Euro, as well as in the last few years, which is driven by an increase in demand from economic migrants. However, amid these two phases of growth, the sector also experienced a slowdown which resulted from the international financial crisis.

GVA for Construction and real estate sector from 1995 - 2018



Key findings

GVA growth 2004 - 2018: 3% on average per year

Single Market Impact: Positive

Rise in national competition levels: Neutral

Rise in European competition levels: No

Impact of increased competition levels: Both positive and negative

Barriers: Additional costs to provide products/services

Administrative burdens: Large amounts of paperwork

Business concerns: Being wiped out by competition, the possibility of excessive legislation

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO

Construction and real estate sector (contd.)

86% of respondents from the construction and real estate sector indicated that their businesses are better off since Malta joined the Single Market.



Construction and real estate

86% of respondents operating in the construction and real estate sector indicated that their businesses are better off since Malta joined the Single Market, with benefits being derived directly from the European Single Market, as well as through increased demand for property in Malta.

Many of the respondents also indicated that competition has remained relatively the same.

Many of the respondents operating in this sector have benefitted from the following:

- access to a larger marketplace;
- expanded business, and increased profits.

However, respondents are concerned with the possibility of excessive legislation, and being wiped out by competition.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Education, health and public administration

GVA in the public administration sector increased by 6.1% on average per year from 2004.

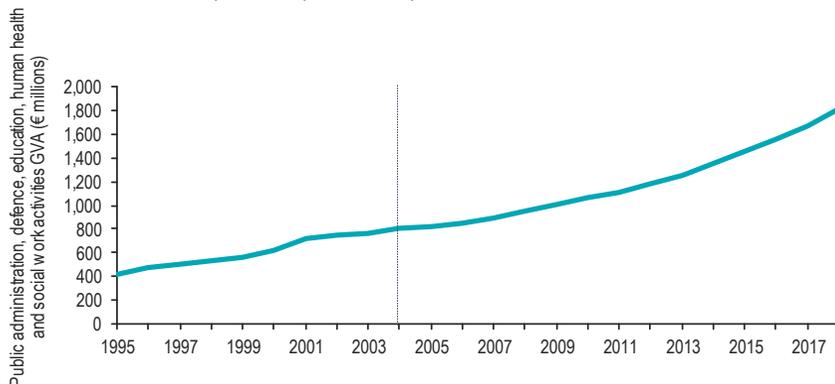
Public administration, education, health and social work GVA

Output in this sector experienced growth throughout the entire period under analysis. Prior to EU accession, growth was somewhat linear, however, after EU accession, the growth rate appears to have accelerated.

90% of respondents operating in this sector indicated that they are better off since Malta joined the European Single Market.

All respondents indicated that access to the European Single Market has made carrying out business activities easier, whilst 75% of businesses incorporated after EU accession disclosed that access to the European Single Market was an important factor in setting up the business.

GVA for Public admin, defence, education, health and social work activities from 1995 - 2018



Many of the respondents operating in this sector have benefitted from the following:

- a more innovative market;
- expanded business;
- a larger variety of suppliers;
- influx of skilled and unskilled workers from other participating member states.

Key findings

GVA growth 2004 - 2018: 6.1% on average per year

Single Market Impact: Positive

Rise in national competition levels: Yes

Rise in European competition levels: No

Impact of increased competition levels: Mostly positive

Barriers: Authorisations and/or licenses for access to markets.

Administrative burdens: Large amounts of paperwork

Business concerns: Being wiped out by competition

Other services sector

GVA in the other services sector increased by 9.8% on average per year from 2004.

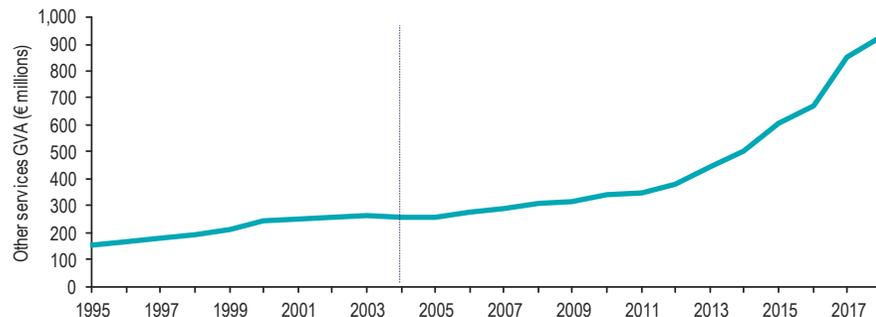
Other services sector GVA from 1995 - 2018

Prior to EU accession, growth in the output of the 'other services' sector was moderate, as shown in the figure below. GVA started to increase significantly from 2011. This sector was directly affected by access to the European Single Market since the elimination and reduction of tariff barriers enabled service providers to enter markets in participating Member States.

100% of survey respondents operating in this sector were better off since Malta joined the European Union in 2004, with benefits directly derived from the European Single Market, as well as from external markets.

The majority of respondents operating in this sector disclosed that competition levels remained relatively the same since accession in 2004. On the other hand, those businesses that experienced an increase in competition were impacted negatively.

GVA for Other services sector from 1995 - 2018



Respondents indicated they are also concerned with the following:

- the possibility of excessive legislation;
- ineffective enforcement of EU law at a national level;
- inefficient implementation of legislation.

Key findings

GVA growth 2004 - 2018: 9.8% on average per year

Single Market Impact: Positive

Rise in national competition levels: No

Rise in European competition levels: No

Impact of increased competition levels: n/a

Barriers: Environmental and health safety standards, Difficulty hiring workers who are EU residents, but not Maltese residents

Administrative burdens: Large amounts of paperwork

Business concerns: The possibility of excessive legislation, ineffective enforcement of EU law

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. NSO



The Single Market impact on Maltese businesses

Businesses' perception on the impact of the Single Market

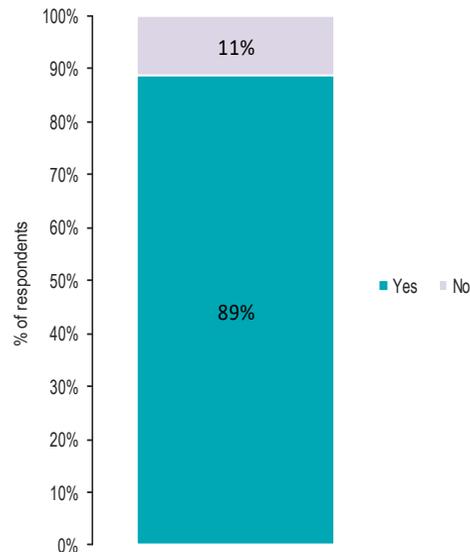
89% of respondents indicated that they are 'better off' since Malta joined the Single Market; of which 82% indicated that they are 'better off' *due* to access to the Single Market

While it is difficult to isolate the impact that the Single Market has had on Maltese businesses, we sought to assess it by asking a targeted group of Maltese businesses about their perception of how the Single Market affected their business. The majority of responses to a survey with 150 Maltese

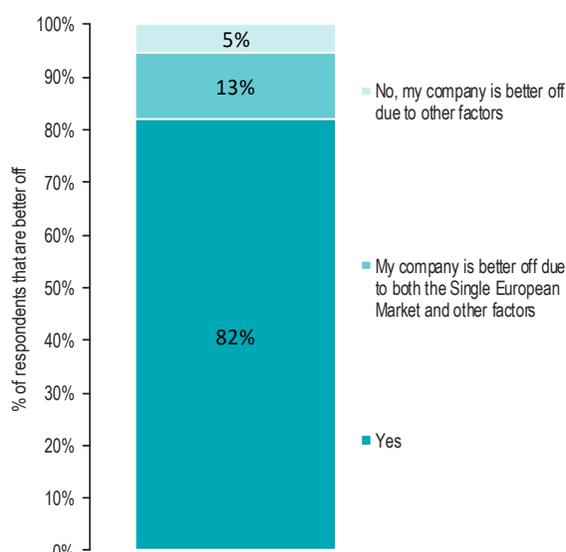
businesses (89%), indicated that they are 'better off' since Malta joined the Single Market. However, external factors may have contributed to businesses being better off. Therefore, another question followed, whereby 82% indicated that they are better off due to access to the Single Market. However, a

portion of respondents (11%) indicated that they are not 'better off'. This negative perception is prevalent in the wholesale and retail sector and the manufacturing sector.

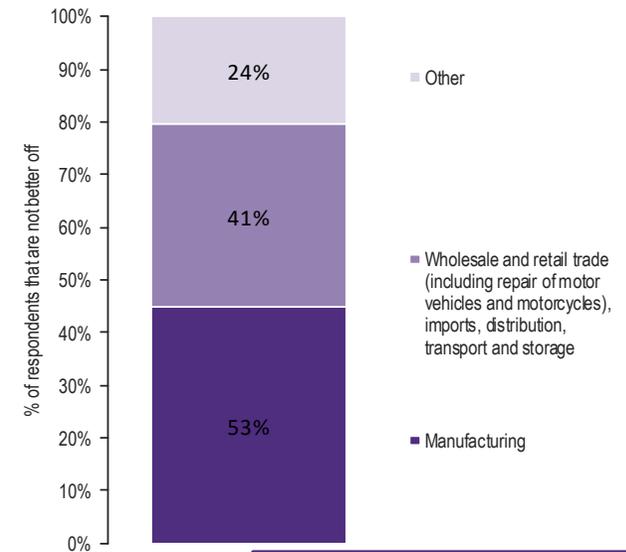
Respondents indicating whether they are better off since joining the EU



Respondents indicating whether they are better off due to access to the Single Market or due to external factors



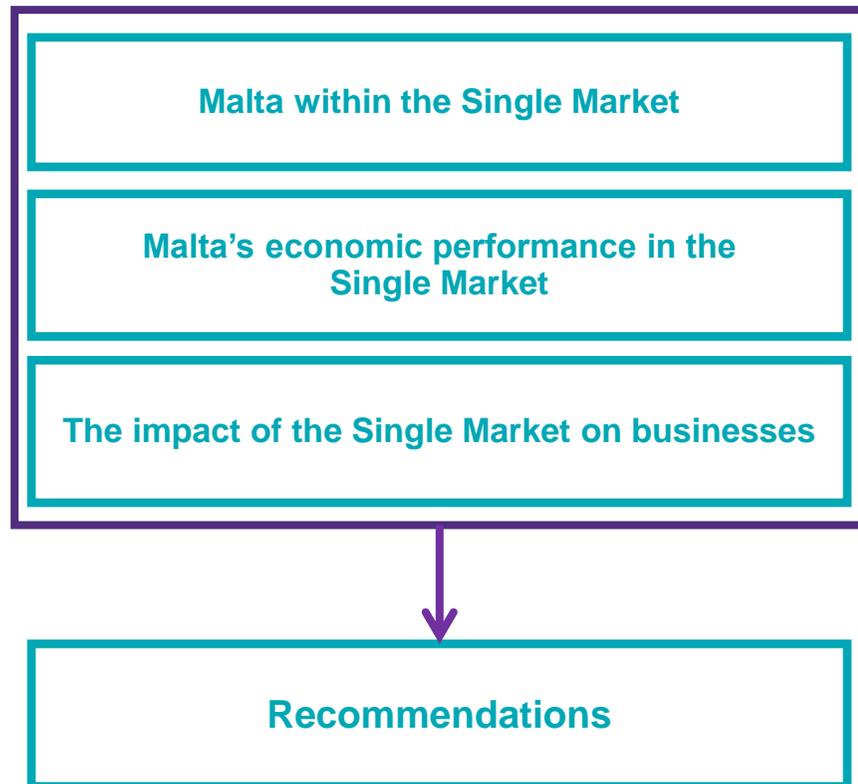
Respondents who indicated they are not better off since joining the EU, according to sector



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Challenges brought about by the Single Market

Malta joining the Single Market has been positive overall but challenging.



Categorisation of challenges brought about by the Single Market

Although the majority of respondents to the Survey report that joining the Single Market has generally been beneficial to their business, they also report that it has brought about several challenges. These have been broadly categorised into the following:

1. **Barriers to trade**
2. **Increased competition**
3. **Administrative burden**
4. **Size and insularity**
5. **Legislative issues**

In this section of the report, we elaborate on each of these challenges using responses obtained from the Survey, feedback gathered from the stakeholder consultation, as well as the outcomes of the economic and legal analyses presented in earlier sections of the report. This is intended to provide a basis for the recommendations presented in the next section of the report (see adjacent figure).

While some challenges are common across the various sectors that participated in the Survey, a number of challenges are sector-specific. These have been identified in the respective sector's overview provided in the previous section of the report.

Barriers to trade

28% of businesses operating in the Single Market are currently experiencing barriers or obstacles to trade with other Member States.

Barriers to trade experienced by Maltese businesses

The main aim of the Single Market is to eradicate all barriers (including tariff and non-tariff barriers) so that residents and businesses within it can operate and move freely and efficiently. Although the Single Market was founded over 25 years ago, several barriers remain, and the European Commission continues to push for a Single Market free from barriers.

28% of respondents that conduct business within the Single Market indicated that they are facing barriers to trade.

The most common barriers faced by Maltese businesses are:



language barriers;



costs to provide products and services to other member states;

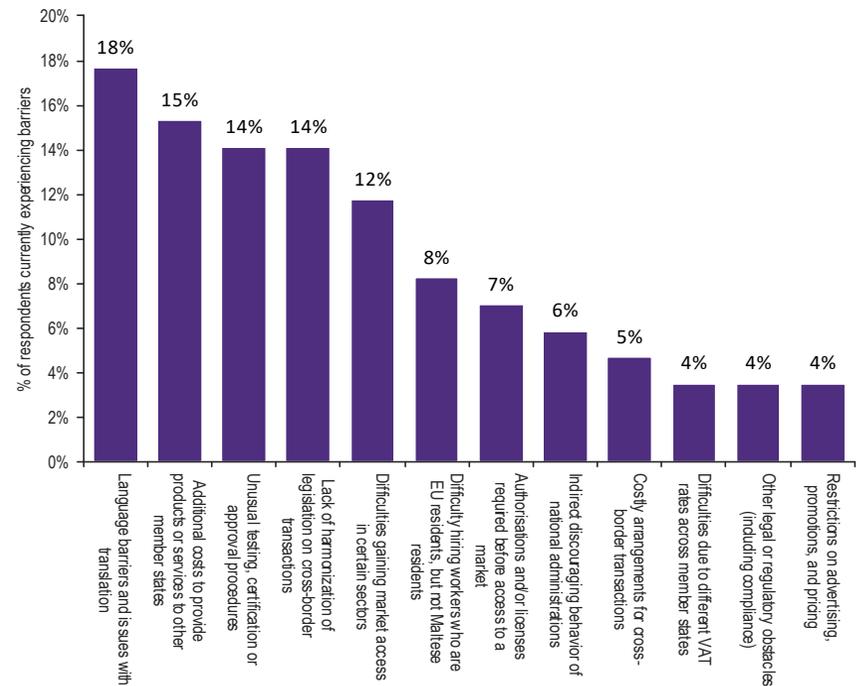


testing, certification or approval procedures that would need to be attained;



a general lack of harmonization of legislation on cross-border transactions.

List of barriers experienced by Maltese businesses



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Barriers (contd.)

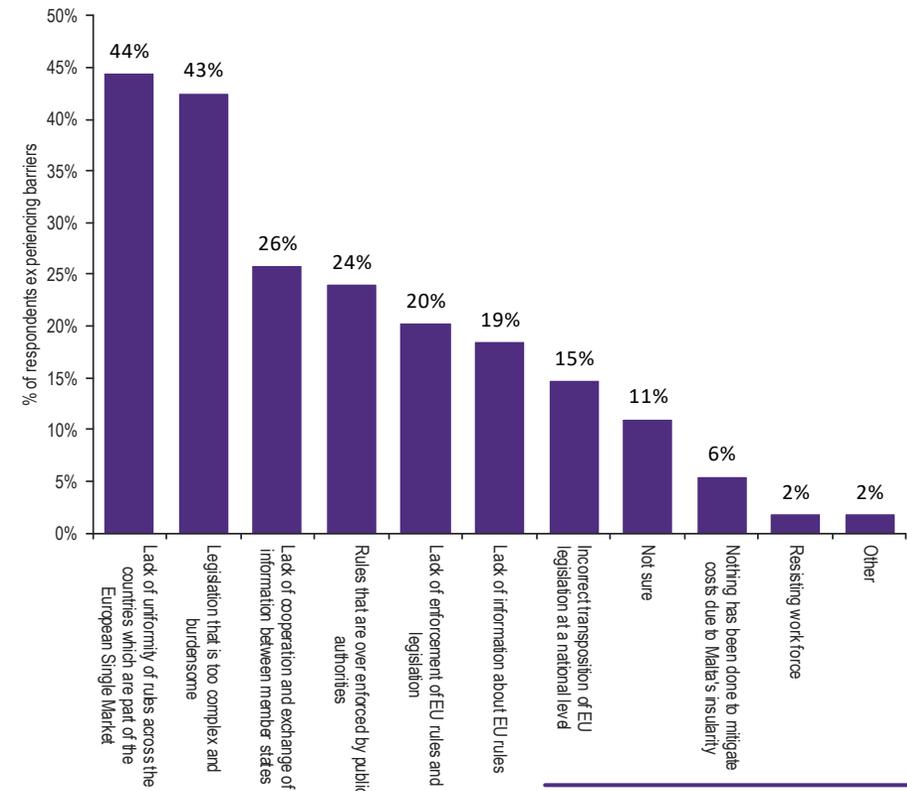
44% of respondents currently facing barriers believe that the persistence of these barriers are due to the lack of uniformity of rules across Member States.

The persistence of barriers

Respondents who indicated that they are currently experiencing barriers within the Single Market were asked to identify the reasons behind the persistence of the barriers. The results indicated the following:

- 44% blame the lack of uniformity of rules across member states for the persistence of barriers;
- 43% believe that legislation is too complex and burdensome;
- 26% believe that there is lack of cooperation and exchange of information between member states;
- 24% believe that rules are over enforced by public authorities;
- 20% on the other hand blame lack of enforcement of EU rules and legislation for the persistence of barriers;
- 19% believe there is a lack of information about EU rules;
- 15% blame the persistence of barriers on incorrect transposition of EU legislation at a national level; and
- 6% believe that nothing has been done to mitigate costs arising from Malta's insularity.

Perception of businesses on the persistence of barriers



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Barriers to trade (contd.)

A larger portion of smaller businesses experience barriers to trade within the Single Market.

Respondents experiencing barriers according to business size

29%

of **micro** businesses are experiencing barriers when trading with other participating member states

33%

of **small** businesses are experiencing barriers when trading with other participating member states

26%

of **medium-sized** businesses are experiencing barriers when trading with other participating member states

10%

of **large** businesses are experiencing barriers when trading with other participating member states

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Barriers to trade (contd.)

Barriers are also prevalent in public procurement, with language barriers being identified as one of the most prominent barriers hindering cross-border procurement.

Public procurement barriers

Barriers in public procurement markets can either be:

- Overt barriers
- Covert barriers

The former are barriers which arise when a government uses specific laws to limit participation solely to local suppliers, whilst the latter are barriers that arise when participation of foreign companies is hindered by some form of hidden action.

A common example of overt barriers are buy-national provisions, whereby governments impose restrictions whereby products or services must be provided by local firms.

On the other hand, covert barriers may be harder to detect. These are usually inserted in the tender document as clauses or rules.

According to Chiara Carboni et. al (2017), governments may seek to limit foreign businesses submitting a bid, by:



imposing restrictions on businesses to supply products or services using only local inputs;



imposing restrictions whereby foreign businesses must own subsidiaries locally to be eligible for the tender;



Providing tender documents which are not in a common international language, which not only causes operational issues, but translation services come at an extra expense to companies that would require such services;



Imposing restrictions whereby the foreign firms must submit the final report in a different language;

Sources: 1. Grant Thornton analysis
2. Barriers To Public Procurement: A Review and Recent Patterns In The EU, By Chiara Carboni et. al (2017)

Barriers to trade (contd.)

Barriers to trade have been experienced more intensely by businesses operating in wholesale & retail trade sector and IT and the manufacturing sector.



Barriers faced in the wholesale and retail

In addition to the barriers identified on the previous page, businesses operating in the wholesale and retail trade sector also seem to be experiencing the following barriers:

- regulations protecting public interest and/or customers;
- state aids focused on particular sectors;
- extra costs or lengthy procedures when raising capital in another country participating in the Single Market;
- obstacles set by public authorities to sell products or provide services legally marketed in another Member State, without a justified reason;
- limits imposed when re-claiming VAT paid in other participating states;
- higher shipping costs when trading online.



Barriers faced in manufacturing

One of the main barriers experienced by businesses in this sector is access to banking services and the opening of a bank account Malta as well as in other Member States. During the stakeholder consultation with manufacturing industry professionals, those in attendance indicated that access to services from banks in the US are far more accessible than banks in the Single Market.

Due to increased regulation within the banking sector, European banks are choosing to mitigate their risks and would rather bank domestic customers and companies exclusively and are hesitant to accept international business due to the risk and costs associated with such clients. Anti-money laundering legislation places a significant burden on banks, especially small banks, as well as other sectors such as iGaming and payments.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

Barriers to trade (contd.)

The professional services, and the IT and communications sectors are also experiencing barriers to trade.



Barriers faced in the IT and communications sector

- In addition to the barriers outlined earlier, the sector also seems to be experiencing barriers relating to bank services and the opening of a bank account.
- Participants also informed us that they are currently experiencing a mismatch in legislation relating to energy related products (ERP) in a number of countries, mainly: Italy, Germany, and the UK. This mismatch is thus creating a barrier when attempting to offer services in other participating member states.



Barriers faced in the professional services sector

Apart from the barriers outlined in the previous page, one of the main barriers experienced by businesses in this sector is access to banking services and the opening of a bank account in other Member States. The industry professional present during the meeting who directly represents the banking sector indicating that this is due to higher compliance checks required and is a direct result of increased regulation in the sector.



Barriers faced in the iGaming sector

- Apart from the barriers outlined in the previous page, this sector's main barrier is that iGaming companies cannot operate in other countries within the European Single Market freely once obtaining a license in one member state, but must on the other hand apply for a separate license in each country it decided to operate in within the European Single Market.
- The sector is also encountering issues with obtaining banking services. In many cases, iGaming companies are not within the banks' risk appetite. In fact, in early October, several companies in this industry received notice of imminent termination of banking activities for their company. Without any recognition from the EU, the industry will continue to be classified as high-risk and therefore banks will continue to refuse to onboard such businesses as clients.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

Increased competition

The majority of respondents whose businesses were established prior to 2004 experienced higher competition at both national and European level.

One of the primary aims of the establishment of the Single Market was the elimination of (or reduction in) trade barriers to reduce existing structural imperfections in European markets. This was intended, and expected, to increase the intensity of competition between the firms serving these markets and to consequently:

- reduce price-cost margins to the benefit of consumers; and
- trigger industrial restructuring that would lead to greater specialisation and exploitation of economies of scale.

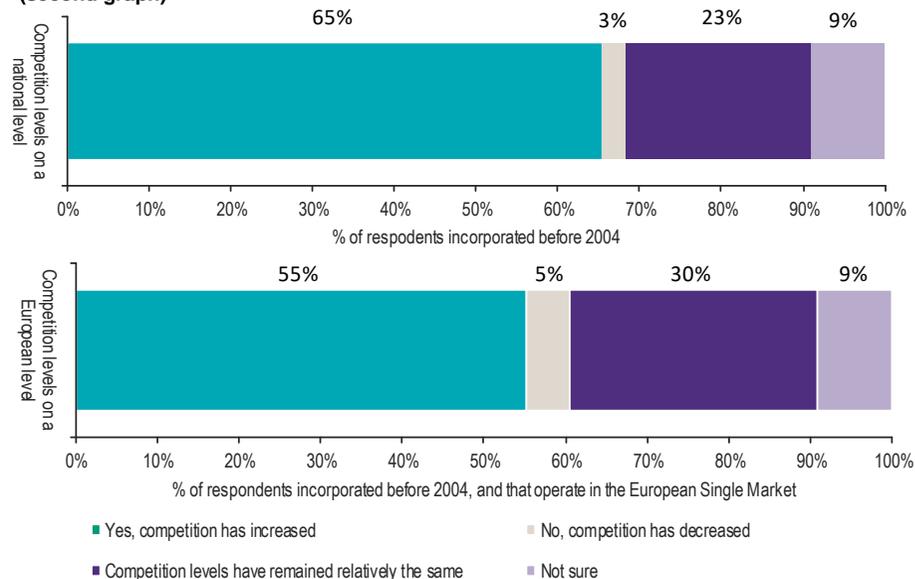
By joining the Single Market, Maltese businesses have had to compete with over 20 million enterprises. Therefore, it is no surprise that most survey respondents whose businesses were established prior to 2004 experienced higher levels of competition at both national and European level:

65% of survey respondents whose businesses were established prior to 2004 experienced higher levels of competition at a **national level**; and

55% of survey respondents whose businesses were established prior to 2004 experienced higher competition at a **European level**.

69% of survey respondents who experienced higher competition levels identify access to the European Single Market as the cause.

Change in competition levels on a national level (first graph) and on a European level (second graph)



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
 2. Grant Thornton analysis
 3. Allen et al. (1998) The Competition Effects of the Single Market in Europe, Economic Policy 13(27), 439-486

Increased competition (contd.)

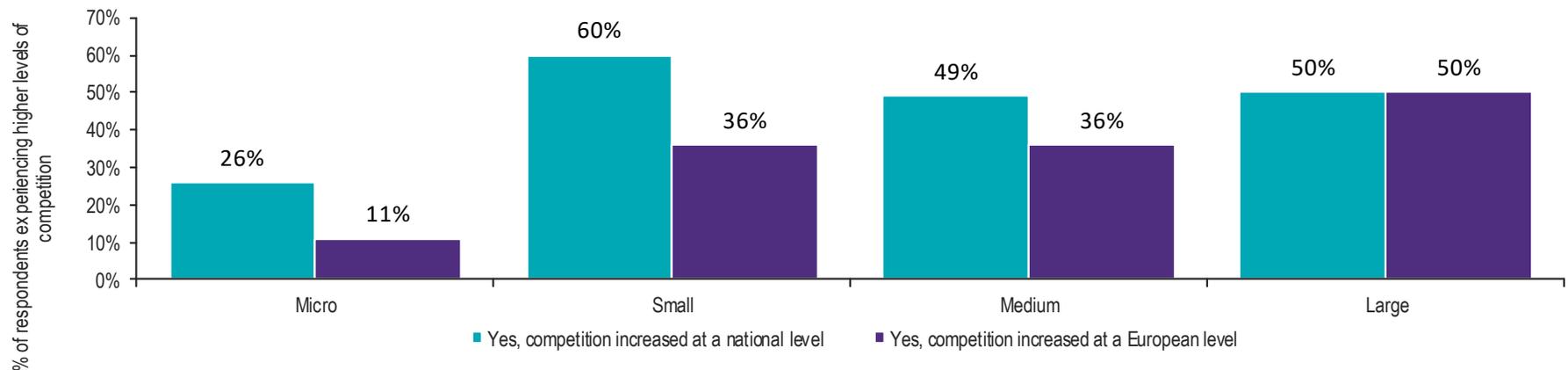
While medium- and small-sized businesses report a more significant increase in competition at the national level; large businesses report an increase in competition at both national and European levels.

Competition levels according to business size

The increase in competition at national level appears to have been more intense in markets served by Malta's small business; of which 60% reported an increase in competition at national level since 2004. But a significant increase in the intensity of competition at national level is also reported by c.50% of both medium and large businesses.

In contrast, the increase in competition at European level appears to have been more intense in markets served by Malta's large business (which are more export oriented than micro-, small- and medium-sized businesses). In fact, 50% of large businesses report an increase in the intensity of competition at European level since 2004. The comparable figures for small and medium businesses is 36%; and only 11% of micro enterprises claim to have experienced an increase in competition at European level.

Respondents experiencing higher levels of competition according to business size



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

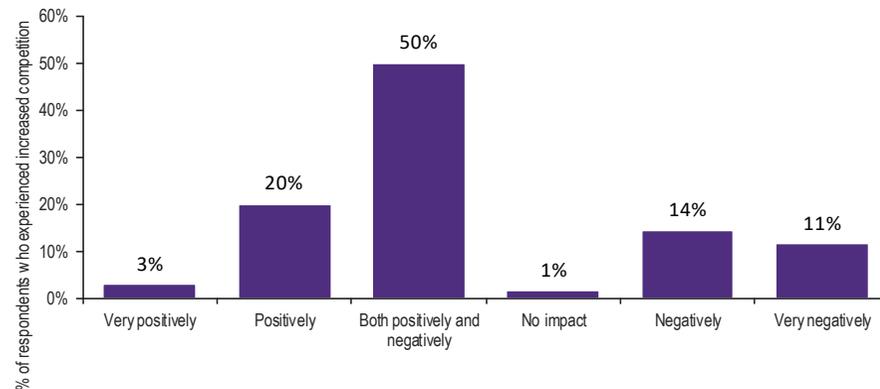
Increased competition (contd.)

50% of survey respondents whose businesses were established prior to 2004 were **both negatively and positively affected** by access to the Single Market.

Advantages and disadvantages to increased levels of competition

Out of the respondents who experienced increased competition on either national or European level, 50% were affected by increased competition in both positive and negative ways, and 25% of respondents were affected negatively or very negatively, as shown below:

The effects of increased competition



The intended consequences of the establishment of the Single Market, i.e. the lowering of price-cost margins and industrial restructuring, are reflected in what Maltese businesses consider to be the negative and positive effects of an increase in the intensity of competition, as shown in the adjacent box.

Advantages



59% of respondents reporting that they have been positively affected by increased competition, report having benefited from access to a larger marketplace, and number of customers.



45% of respondents reporting that they have been positively affected by increased competition, report having benefited from expanded business.

Disadvantages



53% of respondents who were affected negatively by increased competition have experienced a loss in market share.



60% of respondents who were affected negatively by increased competition have experienced lower profits.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

Increased competition (contd.)

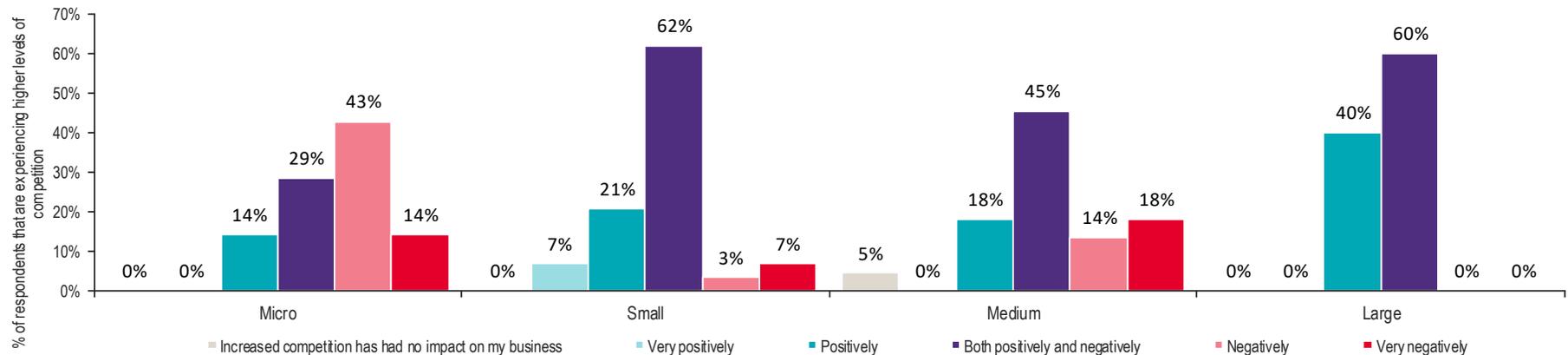
While large, medium and small business reported both positive and negative impacts from increased competition, the majority of micro businesses reported negative effects.

They survey results also show that there is some asymmetry in the way in which businesses of different sizes have been impacted by the increased intensity of competition. Specifically, 57% of micro businesses reported that they have been negatively impacted by the increased intensity of competition. In part, this reflects the limited ability of micro

businesses to benefit from the advantages that are brought about by the Single Market, particularly for those that do not engage in international trade. In contrast, small, medium and large businesses report that they were affected both positively and negatively by the increased intensity of competition. This reflects both their ability to exploit the

advantages brought about by the single market (in terms of being able to access a larger consumer market and a larger pool of suppliers and the restructuring their business to keep up with competitors abroad), but also the challenge of having to compete with a larger number of businesses both in local and foreign markets.

The effects of increased competition according to business size



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
 2. Grant Thornton analysis
 3. Stakeholder consultations (2019)

Increased competition (contd.)

Importing and distributing, hotels and restaurants, as well as manufacturing are among the sectors who experienced increased competition.



Manufacturing sector

The industry professionals during the manufacturing stakeholder consultation also disclosed that lack of R&D in Malta (among other reasons that are to be discussed in the coming pages) is acting as a deterrent to investment.



Barriers faced in the imports, distribution, transport and storage sector

Businesses in this sector seemed concerned about market surveillance both on a national and European level, in particular with goods coming in through private ports that do not always satisfy the standards set by the EU or that avoid paying VAT.



Accommodation and food sector

Hotels and restaurants also feel under threat due to increased competition, particularly from the influx of small businesses, which is contributing to the already saturated market.

- Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)
4. <https://timesofmalta.com/articles/view/think-twice-before-investing-in-hotel-sector-hotel-association-warns.733531>
5. <https://timesofmalta.com/articles/view/updated-virtu-ferries-in-angry-reaction-to-chamber-officials-comments.517894>

Administrative burdens

61% of respondents indicated they have been subject to administrative burdens by national and/or European authorities when conducting business.

Administrative burdens

43% of survey respondents indicated that they are subject to large amounts of paperwork by national and/or European authorities when conducting business locally and/or in the EU. On the other hand, 39% of respondents indicated that they are currently not subject to any administrative burdens.

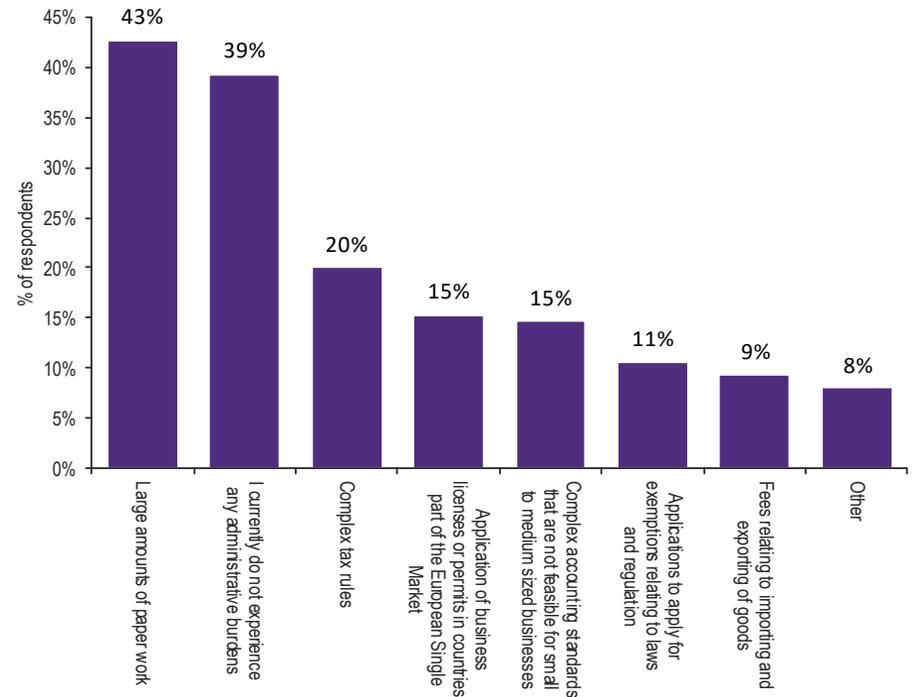
Other administrative burdens that are currently being experienced by Maltese businesses include complex tax rules, the need for a separate business license or permit in other Member States, complex accounting standards that are not feasible for SMEs, excessive compliance rules, tedious processes when applying for EU funds, as well as lengthy processes when hiring foreigners.

The sectors experiencing the most administrative burdens according to the survey are as follows:

100%	Construction, quarrying and mining, and real estate	75%	IT and communication
78%	Public administration and defense, compulsory social security, education, human health and social work activities	73%	Professional services

Administrative burden experienced by respondents

(total percentage exceeds 100 because respondents were able to select more than one answer)



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Administrative burdens

Administrative burdens are challenges for businesses of all sizes.

65%

of **micro** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

55%

of **small** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

54%

of **medium-sized** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

70%

of **large** businesses have been subject to administrative burdens by national or European authorities when conducting businesses locally and in the Single Market

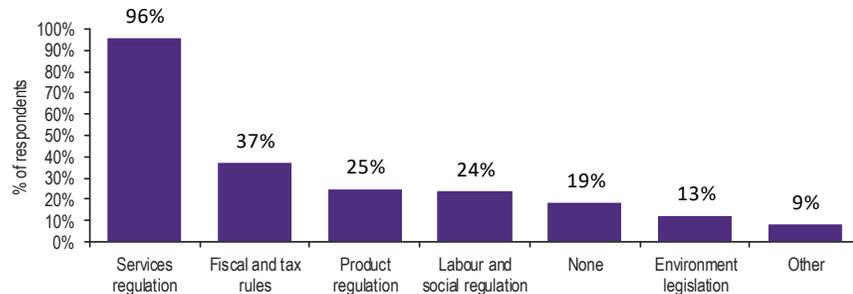
Administrative burdens (contd.)

96% of total respondents indicated that they would like aspects of services regulation simplified.

Simplification of administrative procedures

When respondents were asked which administrative procedures they would like simplified, the results yielded the following:

Aspects of administrative procedures respondents would like simplified



Respondents were then asked to indicate which aspects they would like simplified. The results for each of the categories are in the adjacent text boxes, as well as on the following page.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Services regulation

- Defining a standard at EU level for the same service, since disparities across different member states in the provision of such services are very common;
- Other respondents indicated that Malta may benefit from service regulation factoring in national climate;
- The introduction of one single EU gaming license, which can be utilized across all European Single Market participants;
- Other respondents indicated the need for regulation and enforcement of real estate agents' professional qualifications through the Single Market.

Fiscal and tax rules

- More incentives should be introduced to support local entrepreneurs and investors, as opposed to just foreign;
- Lack of uniformity in the way member states are transposing the tour operator scheme;
- Simplification of income tax rules and transfer pricing;
- Simplification in tax exemption applications.

Administrative burdens (contd.)

96% of total respondents indicated that they would like aspects of services regulation simplified.

Fiscal and tax rules (contd.)

- Increased clarification on tax rules when working abroad, as well as information on the protection of pension funds;
- Simplification in the application and interpretation of the Travel Agent Margin VAT scheme;
- Simplification on tax paid on dividends.

Labour and social regulation

- Simplification of leave and social entitlement;
- Introduction of common compliance, including guidance on salaries tailored to each member states economic growth and activity;
- Clarification on how to apply national labour laws to laws in other member states in instances of posting of workers
- Simplification of employee registrations;
- Simplification of consumer regulation and GDPR.

Product regulation

- Simplification when registering and certifying products;
- Clear rules on product labelling;
- Harmonization of product standards (particularly the electrical plug);
- Simplification on application of HS codes and eco tax;
- Clearer strategy on single use plastics;
- Regular changes in rules relating to food declarations is causing packaging to become obsolete;
- Clearer rules on dual use products and services.

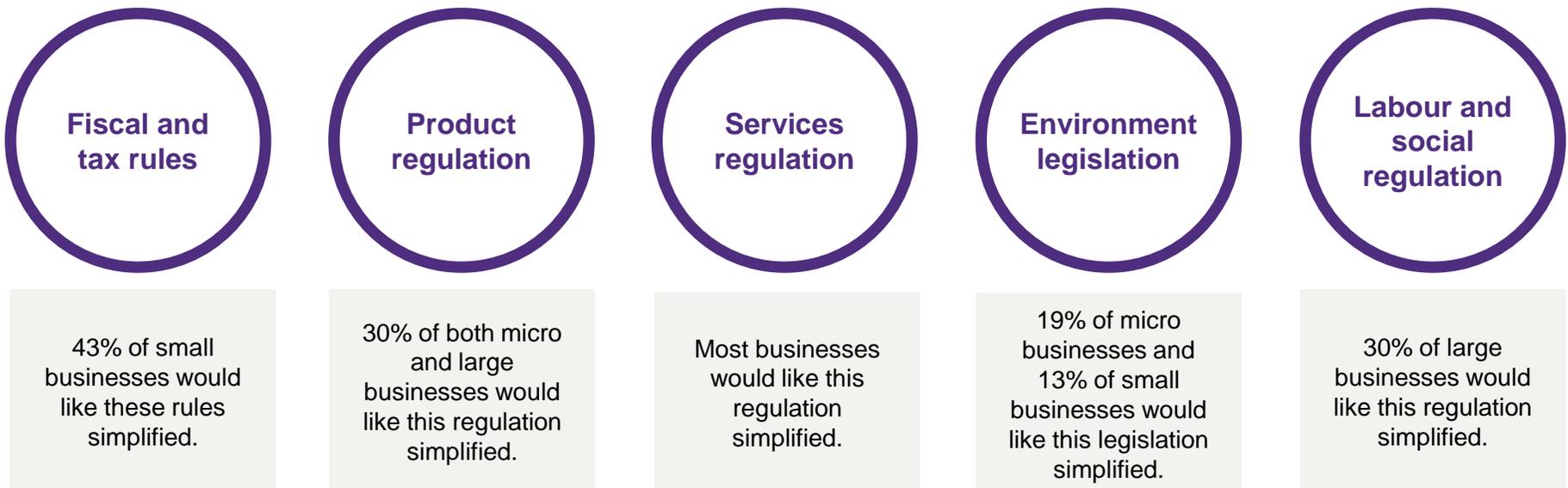
Environment legislation

- Clearer strategy on disposal of product packaging, as this is becoming a burden, particularly for the manufacturing industry;
- Simplification in calculating waste contributions.

Administrative burdens (contd.)

96% of total respondents indicated that they would like aspects of services regulation simplified.

Simplification of administrative procedures according to business size



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Size and insularity: transportation costs

The manufacturing, as well as the wholesale and retail trade sectors appear to be most affected by the high cost of transportation.

Malta's high transportation costs as a result of insularity

Malta is one of the southernmost points of Europe; situated over 200 miles away from mainland Italy. Due to it being situated directly between mainland Europe and North Africa, Malta's positioning is deemed favourable, specifically boosting shipping and bunkering sectors, as well as tourism, due to the abundance of water and beaches. However, Malta's insularity creates a barrier for many businesses operating in Malta; high transportation costs.

Malta's insularity, and the effects this has on businesses featured both in the survey and during the stakeholder consultations held with several industry professionals from different sectors. The sectors that seemed most affected by this issue are the following:



Manufacturing sector



Wholesale and retail trade sector

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)



Food manufacturing

Due to Malta's size, food manufacturers cannot rely solely on producing for the local market. Therefore, exportation is a must for these firms to survive.

Transportation costs experienced by this sector are also high. If we also factor in the constraint of perishability, and the high volume-low costs nature of these products, transport costs are, in many cases, prohibitive.

Malta's insularity also diminishes Maltese business' competitiveness when considering economies of scale. Due to their size, businesses in Malta are not able to benefit from economies of scale, and therefore has a hard time competing on price with food manufacturers in other countries within the European Single Market.

Maltese businesses, particularly in this sector, strongly believe that incentives should be put in place to combat the challenges faced as a result of Malta's insularity.

Size and insularity: one size fits all

Many businesses argue that large companies can sustain increased costs relating to the implementation of new legislation better than small businesses can.

One size fits all mentality at a European level

Since Malta is now a member of the European Union, and by default the Single Market, laws imposed at a European level must be adhered to the fullest extent by Maltese citizens and businesses. This was introduced in order to create common standards across the Market.

On one hand, it can be argued that this helps eradicate barriers, and aids in the convergence of each member state. On the other hand, businesses often argue that these laws, specifically those targeted at businesses, must be adhered to by all businesses, irrespective of company size.

If we take GDPR as an example, which came into force in May 2018, all companies operating within the European Single Market, as well as all companies targeting customers within the Single Market, had to alter policies and procedures, as well as amend company operations in order to be compliant with the newly introduced regulation.

Many businesses argue that large companies can sustain increased costs relating to the implementation of new legislation better than small businesses can. A small family business had to implement GDPR into its business to the same extent as Google.

The survey and stakeholder consultations showed that the following industries are dealing with situations where they feel they are at a disadvantage due to the size of their business, and the extent to which they must adhere to European regulation:



Accommodation and food services



Wholesale and retail trade

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

Legislative issues

49% of the Survey respondents are concerned about excessive legislation.

Businesses' concerns

In fact, when respondents were asked about their business concerns in today economic and political climate, the survey yielded the following results:



of survey respondents indicated that they are concerned with excessive legislation;



of total survey respondents are concerned about ineffective enforcement of EU law at a national level;



of total survey respondents are concerned about inefficient implementation of legislation.

Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis
3. Stakeholder consultations (2019)

Implementation of directives at a national level

Before Malta officially joined the EU, a convergence process took place, whereby Malta's national legislation were altered to be in line with relevant EU laws. Thus, several industries underwent significant changes in order to comply with such laws and regulations.

Although this convergence is a pre-requisite to joining the EU, member states are still left with a level of autonomy when transposing directives. During the stakeholder meetings, it was clear that several different sectors were facing issues arising from the transposition of directives at a national level, as it appears that when given room to derogate, Malta tends to transpose directives to the full extent.

In fact, according to a study commissioned by the American Chamber of Commerce to the EU (AM CHAM EU) and conducted independently by LE Europe in 2017, Malta ranks first when it comes to punctuality vis-a-vis transposition deadlines.

This can be attributed to the process our jurisdiction applies when implementing the EU *acquis* into domestic legislation.

Malta frequently adopts EU law into domestic legislation by exceeding what the EU legal act requires. This concept is known as 'gold-plating'. Gold-plating practices are fuelled by various factors:

- member States' fear of non-compliance due to legal uncertainty which in turn creates administrative burdens;
- the avoidance of costs by simply adopting all the provisions of a directive verbatim without taking any consideration into national demographics of the Member State;
- a lack of resources to carry out any meaningful analysis or impact assessment to tailor the implementation process.

Malta's approach has more often than not resulted in more stringent regulatory burdens and higher costs than necessary for local operators. This in turn results in competitive disadvantages within the domestic and internal market. It is clear that Malta needs to review its approach and adopt a more tailored method to ensure that EU legislation has a more positive impact both at the local and supranational level.

Legislative issues (contd.)

Several sectors are facing challenges resulting from Malta not opting for applying derogations that are possible in certain aspects of directives.

During the stakeholder consultation meetings, many of the business representatives identified that they have been subject to gold-plating, whereby the Maltese government has:

- extended the scope of the directive;
- added regulatory requirements beyond what is required by the directive in question;
- not taken (full) advantage of any derogations;
- retained Maltese national regulatory requirements that are more comprehensive than is required by the directive in question;
- used implementation of a directive as a way to introduce national regulatory requirements that actually fall outside the aim of the Directive;
- implemented the requirements of the directive earlier than the date specified in the directive;
- applied stricter sanctions or other enforcement mechanisms than are necessary to implement the legislation correctly.

Sources: 1. Grant Thornton analysis
2. Stakeholder consultations (2019)
3. AmCham report: The EU Single Market: Impact on Member States (2017)

The following are cases where the Maltese government has gold-plated directives, and transposed more than the minimum requirement.

- **Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market** was transposed into Maltese law via the provisions of the **Services (Internal Market) Act, Chapter 500 of the Laws of Malta** to establish general provisions facilitating the exercise of freedom of establishment for service providers and the free movement of services in the internal market. It is a framework law of horizontal application which also amends several other domestic laws, such as, Traffic (Regulation) Ordinance, Postal Services Act, Accountancy Profession Act, Doorstep Contracts Act, Engineering Profession Act, Education Act, Malta Transport Authority Act, Employment and Training Services Act, Periti Act, Malta Travel and Tourism Services Act, Malta Resources Authority Act, Trading Licences Act and Cultural Heritage Act. Article 16 of the Directive was reproduced in Article 6 of the Services Act and also implemented through sector-specific legislation. Article 6 of the Services Act gives effect to the requirements of the freedom to provide services. It continues by stating that national competent authorities cannot subject incoming service providers to more compliance than domestic service providers, such as unnecessary authorisation schemes, unless these requirements can be justified on the grounds of public policy, public security, public health or environmental protection. Article 16 of the Directive was reproduced almost verbatim.

Legislative issues (contd.)

Below are examples of legislative issues that are of concern to Maltese businesses.

- **Directive 2001/95/EC of the European Parliament and of the Council of 3 December 2001 on general product safety** was transposed into Maltese law via the provisions of the **Product Safety Act, Chapter 427 of the Laws of Malta**: adopting EU rules on product safety to ensure that only safe products are sold on the market. This directive is also a horizontal law framework complementing sector specific legislation. These rules apply to toys, cosmetics, chemicals, electrical and electronic goods. This piece of legislation allows businesses to sell only products that are safe and requires them to notify the consumers of the risks correlated to the purchased product. This directive introduced the 'CE' marking on products, which is required for products to be legally sold on the market in any Member State. Member States are responsible for their own territorial market surveillance through their own national contact points. The latter are responsible to ensure that the products available in the domestic markets are safe according to legislation. The rules being applied were majorly replicated from the directive in question, yet the meetings with the business stakeholders highlighted that enforcement was extremely lacking, especially in respect goods coming from Sicily through the use of a local ferry service.

Legal analysis of incorrect implementation

- **Directive 90/314/EEC of 13 June 1990 on package travel, package holidays and package tours** was transposed into Maltese law via the provisions of the **Malta Travel and Tourism Services Act, Chapter 409 of the Laws of Malta**. Following Malta's accession into the EU, the Maltese government had failed to transpose the provision in the directive which

required the creation of an insolvency fund to protect the rights of customers in the case of bankruptcy of a travel agent. Whilst the directive was still in force, in 2014, a local travel agency was declared insolvent. A large number of people were affected by this incident, losing the money they had paid for their holidays because nothing in the law provided for compensation or refunds in instances where travel agencies go bust.

In the meantime, the European Parliament and the Council published Directive (EU) 2015/2302 on package travel and linked travel arrangements the transposition deadline of which was 1 July 2018. In order to counter the incident of the local travel agency, the Maltese government immediately transposed Article 19 of the said Directive into Maltese law by virtue of the Package Travel Insolvency Fund Regulations, Subsidiary Legislation 409.18, in 2016. The directive included a mechanism as to how the insolvency fund was to be created and managed but left it to the Member States to determine. Contributing to the said Fund became compulsory in terms of the authorization of the travel agency license. In its implementation of this provision the Malta Insolvency Board opted for a 'one-size-fits-all' mandatory deposit of €10,000 to protect clients against the possibility of insolvency of any travel agent.

The smaller agents requested to have their companies pay up in accordance with their size, turnover and risk profile, however not much has been done to alleviate their issue.

Legislative issues (contd.)

Below are examples of legislative issues that are of concern to Maltese businesses (contd.).

On 20 May 2015, the **Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, also known as the 4th Anti-Money Laundering Directive (herein after referred to as the 4AMLD)** was published. Member States were required to transpose the 4AMLD by 26 June 2017.

In December of the same year, the European Commission issued reasoned opinions to several Member States, including Malta, for failing to transpose the 4AMLD into national law within the stipulated timeframe. In its report, the European Commission also indicated that infringement proceedings were to be initiated if Member States would not implement the 4AMLD within a reasonable timeframe. Malta managed to transpose the stipulated obligations in the 4AMLD on time and therefore, no infringement proceedings were initiated against the country.

Subsequent to Malta's transposition of the 4AMLD, various subject persons voiced their concerns that the anti-money laundering and counter financing of terrorism requirements imposed by local Authorities were too onerous in comparison to what other Member States were implementing. Particular concerns arose when the Financial Intelligence Analysis Unit (FIAU) updated the first part of the Implementing Procedures and the regulations pertaining to the beneficial ownership register were enforced through the enactment of the Companies Act (Beneficial Owner Register) Regulations (S.L. 386.19), the Trusts and Trustees Act (Register of Beneficial Owners) Regulations (S.L. 331.10), the Civil Code (Second Schedule) (Register of Beneficial Owners - Foundations) Regulations (S.L. 16.15) and the Civil Code (Second Schedule) (Register of Beneficial Owners – Associations) Regulations (S.L. 16.16) of the Laws of Malta. The local industries' main concerns have been that the required information and documents are rigorous when compared to other Member States. Examples of same include:

- the identification and verification of the permanent residential address is requested in Malta, but other Member States do not require this;
- the level of data collected for the beneficial ownership register is more detailed than other Member States;
- enhanced measures are expected even if non-face-to-face customers are not considered as high risk; and
- the definition of the ultimate beneficial ownership was changed to include the analysis of the voting rights of all shareholders to determine effective control.

Industries in Malta are also expected to implement best practice measures in their line of business with the aim to mitigate threats, vulnerabilities and risks. Usually, these best practice measures are not indicated in any laws, regulations and guidelines. Nonetheless, authorities expect businesses to implement same. This is mostly the case when applying the risk-based approach as subject persons need to convince authorities that the measures they implement mitigate any risks they have identified.

Authorities such as the FIAU, the Sanctions Monitoring Board and the National Coordinating Committee were set up in order to effectively combat money laundering and financing of terrorism. Additional authorities such as the Malta Financial Services Authority (herein after referred to as the 'MFSA') and the Malta Gaming Authority (herein after referred to as the 'MGA') also assist in this process. The coordination between various entities is valued and is highly emphasized by the European Commission. Nonetheless, the 4AMLD does not outline how the national strategy should be applied. Therefore, caution is required when setting up various entities as it may hinder harmonisation when implementing the anti-money laundering and counter financing of terrorism strategy.



Recommendations

Executive summary

Recommendations

On the basis of the identified challenges, we propose a set of recommendations aiming to enable Maltese businesses to operate more efficiently within the Single Market:

Recommendation 1

Set realistic cross-border public procurement targets at EU and Member State level.

Area: Public procurement

Target level: EU

Addresses: barriers to trade, unfair competition

State of play: Since 2014, the European Commission has been very active in the area of simplification and modernisation of EU public procurement. However, there still exist a number of practical issues that limit the ability of SMEs to participate in cross-border competitive tenders. Notably, the participation of Maltese businesses in foreign public procurement is low when compared to the participation of foreign companies in competitive bidding for public tenders in Malta. While this may be related to the country's geographic location and/or the lack of economies scale that are required to cater for large-scale projects, there also exist clauses or rules "hidden" in tender documents that prohibit foreign and/or small suppliers or service providers from bidding for public tenders. For example, some governments impose restrictions on businesses to supply products or services using only local inputs; or require foreign businesses to own resident subsidiaries; or require foreign firms to submit the final report in a specific language. Rather than addressing these specific barriers, the EU may seek to encourage cross-border procurement by setting voluntary quantitative targets for cross-border public procurement at both EU and Member State level.

Executive summary

Recommendation 2

Addressing problems with banking for companies to ensure that Malta remains an attractive host-country for foreign direct investment.

Area: Cross-border banking

Target level: EU / national

Addresses: barriers to trade

State of play: Malta's accession to the EU made it an attractive host for multinational companies operating in many different sectors. However, these companies are facing difficulties related to banking their operations in Malta, including opening a bank account – primarily because domestic banks have had to drastically change their risk appetite due to pressure from correspondent banks in response to increasing ECB pressure as well as more stringent compliance requirements in the implementation of Anti-Money Laundering legislation both at the EU and global level. Over recent years, de-risking exercises by Malta's major domestic banks led to the termination of services for numerous companies operating in Malta, particularly those operating in the iGaming industry and those with an international ownership dimension. This does not only put the future of these companies in jeopardy but is also a significant deterrent for companies considering setting up in Malta. While neither national governments nor the EU can interfere with the banks' risk appetite, the Maltese Government as well as key government bodies can implement solutions to facilitate an open banking infrastructure, particularly for payments.

For example, article 73 (1) of the Companies Act provides that “The consideration for the acquisition of shares in a company whether on the original subscription or a subsequent issue, may only consist of assets capable of economic assessment, and furthermore, future personal services and in general any undertakings to perform work or supply services may not be given by way of consideration.” The law lays down no requirement, that any evidence that such consideration has in fact been received by the Company, be provided. However, as a matter of practice, the Malta Business Registry will only register a company if it has been provided with evidence that the paid-up share capital of the company, as specified in the Memorandum and Articles of Association has indeed been paid. Historically, banks were forthcoming to accept a deposit of funds and provide a deposit slip confirming the afore-referenced deposit of share capital. However, as at present, due to the prevailing banking situation, shareholders and corporate services providers are having to resort to alternative channels to provide evidence of paid up share capital. Businesses have sought to overcome this issue by depositing funds in accounts held with E-Money Institutions licensed in Malta or the EU. The Malta Business Registry has thus far refused to accept deposit slips issued by these institutions, despite the fact that such institutions are authorised to carry out payment services including the operation of a payment account. A shift in this approach could substantially ease the banking problem the country is currently facing.

The issue of banking is predominantly a result of the current challenges small Member States face when it comes to correspondent banking. Malta should ensure this issue is put on the EU's agenda to ensure small Member States are not unfairly treated as a result of their size.

Executive summary

Recommendation 3

Ensure that market surveillance units at EU and Member State level have the capacity to effectively monitor and enforce the requirements of EU regulations.

Area: Market surveillance

Target level: EU / national

Addresses: barriers to trade, unfair competition

State of play: Market surveillance should be in place to ensure that only goods that meet EU health and safety standards enter Malta; to ensure that proper labelling and language restrictions on packaging are adhered to; and to ensure that goods do not enter Malta undeclared within the Union. However, the enforcement of EU rules, such as consumer protection or product safety, is a challenge; and national market surveillance authorities have weak incentives to act against non-compliant companies in their own jurisdiction. Therefore, Malta should push for improved capacity of national market surveillance units so that they can properly monitor and enforce the requirements of EU regulations. This could go a long way in ensuring that these authorities have the ability to impose dissuasive penalties and exchange information more effectively.

Executive summary

Recommendation 4

Establish timeframes for follow-up on recommendations/opinions emanating from tools that are intended for ongoing case-by-case evaluation of existing pieces of legislation (such as the REFIT Programme).

Area: Simplification and harmonisation of existing regulation

Target level: EU / national

Addresses: barriers to trade, administrative burden, size and insularity, legislation

State of play: Many regulations are too complex to be understood by SMEs. When legislators draft a new law, they should think about people and businesses affected by that legislation. Businesses' divergent views on whether legislation is an obstacle or a benefit suggest that it is only by seeking their views on specific pieces of legislation that concrete areas for simplification can be identified. These should be carried out at both EU and Member State level. The EU Regulatory Fitness and Performance Programme (REFIT) is intended for precisely this purpose; with special attention as to how SMEs can be disproportionately affected by the burden of implementing EU rules.

Reviews of the REFIT initiatives in 2019 showed that REFIT opinions often take several months to be formed; which in some cases may hamper the process. Eventually, when the opinion is issued it is difficult to distinguish between the REFIT achievement and the inevitable updating of the laws triggered through other channels. Some observations have indicated that the REFIT mechanism is lacking in tangible progress. This suggests that certain inefficiencies and bureaucratic behaviour should be corrected to improve efficiency. REFIT should consider imposing timelines on committees within the European Commission for the adoption of its opinions.

In fact, a REFIT platform brochure published in 2017 indicated that out of a total of 272 submissions from all Member States, Malta only accounted for two of these submissions since the programme's inception. This suggests that awareness is lacking. Publicising the use of the REFIT programme would enhance its reach, contributing to less burdensome implementation processes in Member States.

Executive summary

Recommendation 5

Improve the effectiveness of tools intended to help businesses and citizens deal with unfair rules/decisions and discriminatory red tape when working in another EU country (such as the SOLVIT), while increasing the awareness of Maltese businesses on the availability of such problem-solving mechanisms and other information portals.

Area: Problem-solving mechanisms

Target level: EU / national

Addresses: barriers to trade, unfair competition, administrative burdens, legislation

State of play: SOLVIT is an online service provided by the national administration in each EU country, as well as in Iceland, Liechtenstein and Norway. It aims to find solutions within 10 weeks – starting on the day the case is taken on by the SOLVIT centre in the country where the problem occurred. To ensure effectiveness of the tool, we suggest giving an economic operator the possibility to request the SOLVIT Home Centre to ask the Commission to give an opinion to assist in solving the case, rather than letting the Home Centre decide whether to ask the Commission unilaterally. The Home Centre may refuse this request but must provide justification for its refusal. If, however, the Commission is asked to give an opinion, the Commission should enter into communication with the operator within 30 working days.

In addition to SOLVIT, there are several resources available for businesses operating in the Single Market. The Your Europe portal, as well as Points of Single Contact are tools that businesses and/or citizens may use to either lodge informal complaints or gain information on how to complete administrative procedures online. However, survey respondents indicated that only 15% are aware of SOLVIT and only 29% are aware of Your Europe portal and/or Points of Single Contact. Awareness of the availability of resources may lead to improved efficiency and reduction in administrative burdens.

Executive summary

Recommendation 6

Ensuring effective use of resources for the transposition of EU directives such that Malta makes efficient use of derogations.

Area: Implementation of legislation

Target level: national

Addresses: unfair competition, administrative burden, legislation

State of play: Incorrect implementation of directives often creates a competitive disadvantage for businesses. Government should ensure that it efficiently utilises its resources to properly evaluate how the implementation levels of directives would affect the competitiveness of Maltese businesses, and avoid simply transposing directives verbatim with little consideration for the local context.

By way of example, over the years Malta has often failed to consider possible derogations in directives. One example is when Malta failed to adopt the derogation allowing for Specialized Banks license authorization. Lithuania was one of the countries who took advantage of this derogation making it possible to obtain a Specialized Bank License with a minimum equity capital requirement of €1,000,000. These specialized banks can offer lending, payment services, receive deposits, exchange currency, issue e-money and guarantees, among others. Such a derogation could have proved especially attractive in the face of 'Brexit', as many UK based financial institutions look for alternative jurisdictions in which to establish themselves to ensure the maintain their passporting rights post Brexit.

Executive summary

Recommendation 7

Carry out a study to identify the barriers that have prohibited Malta from taking advantage of the internationalisation of capital markets.

Area: Internationalisation of capital markets

Target level: national

Addresses: barriers to trade, size and insularity

State of play: Internationalisation of capital markets refers to the issuers, investors, brokers, dealers and marketplaces that cross borders in search of a financial transaction. This is generally deemed beneficial for all participants, including the Member States involved, if they are managed efficiently. However, Malta has not yet managed to capitalise on such opportunities. The successful track record in this area of other small EU Member States, such as Ireland and Luxembourg, suggests that Malta may be well placed to emulate their model.

Executive summary

Recommendation 8

Ensure a cohesive and continuous evaluative process throughout the lifecycle of the legislative process.

Area: legislative process

Target level: national

Addresses: legislative issues, size and insularity

State of play: Malta should constantly monitor the impact of legislation both by assessing the potential impact of emerging legislation, whilst also continuing to assess the impact post-facto. In particular, national impact assessments of emerging legislation should include a proportionality estimate of the likely effects which an EU proposal might have on the domestic industry. If conducted in a timely manner, this will help Maltese negotiators understand the potential impact of the proposed legislation; and if the proposed legislation is likely to have a negative impact at the national level, then the national impact assessments can aid in identifying alternative solutions to the proposed legislation. In addition, Government should carry out effective ex-post evaluations of laws and regulations to ensure the achievement of regulatory goals.

Furthermore, consultations with the business community carried out for the purpose of this exercise, suggested that Maltese businesses are not being effectively consulted on legislative aspects. Effective stakeholder consultation can provide valuable insight in to how the proposed legislation will impact the conditions in which Maltese companies operate.

Executive summary

Recommendation 9

Ensure that *all* positions taken by Government in relation to drafting of legislation at EU level are published on the national online public consultation platform to allow for the provision of feedback and comments by businesses; and make it compulsory for administrative bodies responsible for the draft legislation to consider to all comments.

Area: Stakeholder engagement

Target level: national

Addresses: legislative issues

State of play: Many stakeholders often do not get the opportunity to provide input at the early stages of the policy development and it is not clear how their feedback is being considered. Effective consultations that draw on the experience of businesses and the public should be key for an effective negotiation strategy. For example, in Croatia, major draft regulations are published for consultation on the interactive consultation portal e-Savjetovanja for a minimum of 30 days. The website allows the public to provide general feedback on the draft or to provide comments on the individual articles of a draft regulation. The administrative bodies responsible for the draft legislation are required to respond to all comments. Malta should try to increase its efforts to reach stakeholders and obtain their feedback and contribution on potential legislation by possibly replicating the Croatian model.



Appendix I: Survey methodology

Survey with Maltese businesses

The survey aims to shed light on effects the European Single Market has had on Maltese businesses, and to identify the challenges that they are currently facing.

Survey objectives

The survey aims to shed light on:

- Business participation rates in the European Single Market, and whether this has made them better off (or not);
- Competition levels experienced by Maltese businesses since joining the Single Market;
- Barriers and obstacles faced by businesses within the Single Market;
- Concerns that Maltese businesses may have in today's political and economic climate; and
- Administrative burdens faced by Maltese businesses.

Methodology

The methodology involves four stages: survey design and approval; survey distribution and data collection; data editing; and data analysis.

Design and approval

The target population comprised all businesses

operating in Malta and Gozo. The questions were based on similar research studies carried out by the European Commission. The main reference was *the European Commission's press release MEMO/97/99*.

The draft questionnaires were then sent to the Malta Business Bureau for review. Feedback was provided and the questionnaire amended accordingly. Following approval, the questionnaire was uploaded onto a customised survey tool and used by all research partners.

Survey distribution and collection

The survey was conducted through an online survey which was distributed to Members of the Chamber of Commerce, MBB as well the Malta Hotels and Restaurants Association (MHRA). In order to increase the number of responses, a number of computer assisted telephone interviews (CATI) were held with businesses randomly identified through public directories.

The CATI system allowed the data to be entered directly on to an online data entry system. The use of the online data entry system catered for skipping

non-applicable questions such that the respondent (or interviewer) was directed to the next relevant question.

The data collection took place between 2 July and 10 August 2019.

Data editing

To produce high quality statistics, the survey responses were cleaned out for any errors. We dealt with three types of errors: range errors (i.e. answers which fall outside the valid domain of answers); consistency errors (i.e. inconsistencies found in a specific logic) and routing errors (i.e. the route through the questionnaire is incorrect and irrelevant questions are answered, or relevant questions are left unanswered).

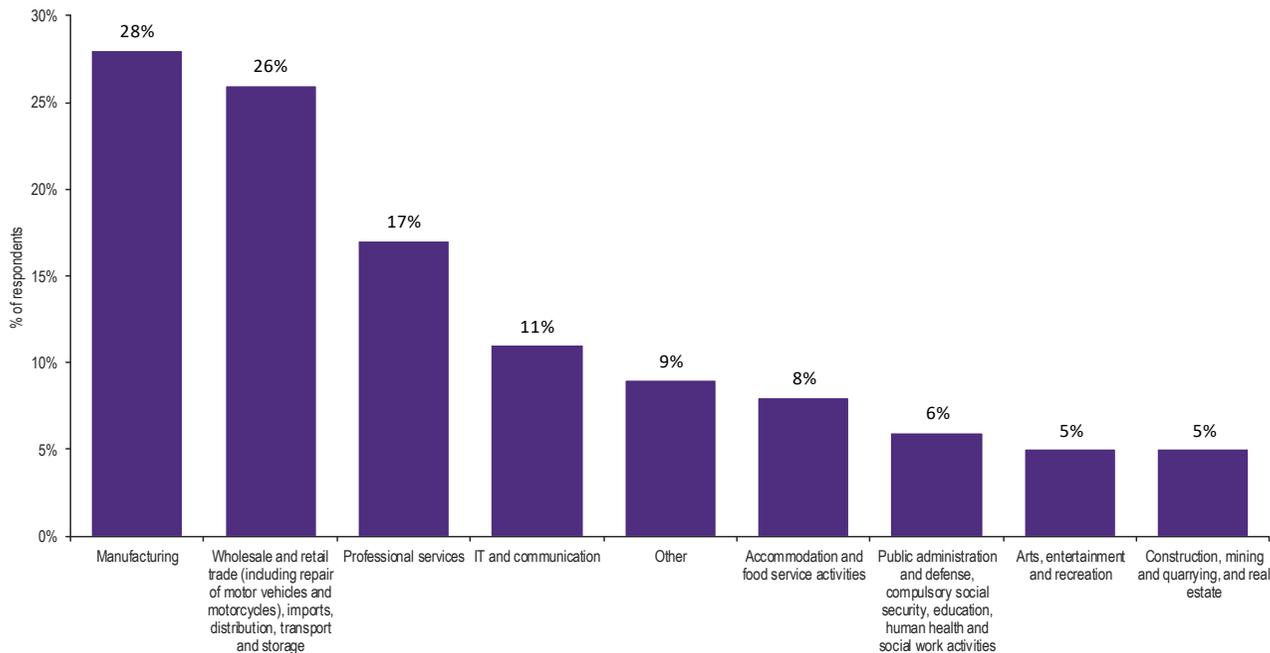
Analysis

For the purposes of this research, we opted for an exploratory analysis. This is where there are no pre-set ideas, and the aim is to detect possibly existing patterns, structures and relationships in the collected data which is used to make inferences on the population.

Sample characteristics

150 valid responses across various sectors were collected through an online survey and computer assisted telephone interviews (CATI).

Distribution of sample of businesses by sector



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis



Clarifications

Sector classification in this survey is based on NACE Rev. 2, which is the statistical classification of economic activities in the European Community.

- **Wholesale and retail trade, imports, distribution, transport and storage** also includes the repair of motor vehicles and motorcycles.
- **Professional services** includes financial and insurance activities, engineering and architectural activities.
- **Other** includes Agriculture, forestry and fishing, the repair of household goods and other services, electricity supply, gas, steam, water supply, air conditioning supply, sewerage, waste management and remediation activities.

Sample characteristics (contd.)

Survey responses are representative of business of different size.

Size characteristics

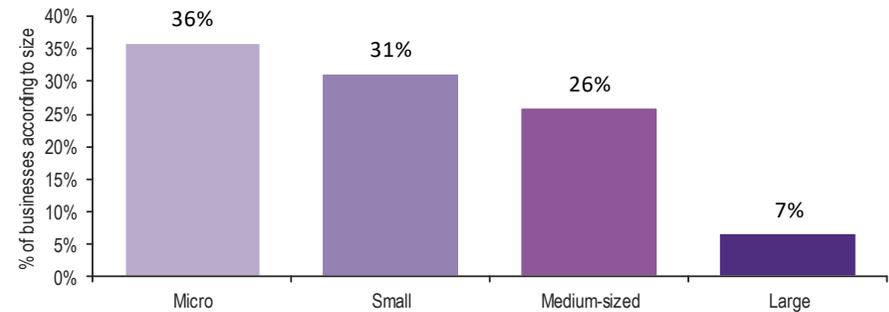
The adjacent charts show the distribution of the sample according to the size of the business. The majority of the business are micro and small businesses, with is fairly consistent with business demographics in Malta.



Definitions

- **Micro** businesses have less than 10 employees employed by the business, and an annual turnover of less than of equal to €2 million.
- **Small** businesses have less than 50 employees employed by the business, and an annual turnover of less than of equal to €10 million.
- **Medium-sized** business have less than 250 employees employed by the business, and an annual turnover of less than or equal to €50 million.
- **Large** businesses have more than 250 employees employed by the business, and an annual turnover of more than €50 million.

Size distribution of survey respondents



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis

Sample characteristics (contd.)

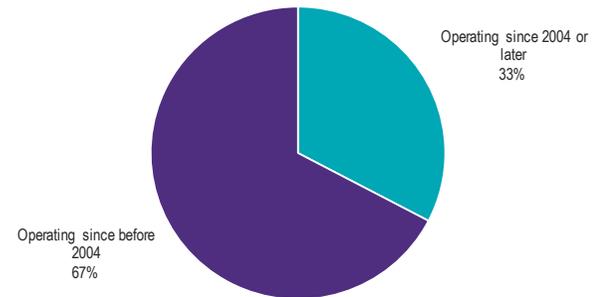
Over 67% of respondents reported that their businesses were incorporated prior to EU accession in 2004.

Sample characteristics

The adjacent charts show the distribution of the sample according to the whether the business was incorporated pre-EU accession, or post-EU accession.

The majority of respondents (67%) indicated that their business was incorporated prior to Malta joining the European Union in 2004, and the European Single Market by default. The remaining 33% indicated that their businesses were incorporated between 2004 to 2019.

Sample of businesses by period of establishment (pre- or post-2004)



Sources: 1. The effects of the European Single Market on Maltese businesses survey (2019);
2. Grant Thornton analysis



Appendix II: Survey questionnaire

Welcome message

Telephone interviewers were prompted to give background information to the respondent.

The objective of this survey is to assess the effect that the European Single Market has had on Maltese businesses, and to identify ways in which the Single Market can enable Maltese businesses to further benefit from EU membership.

The survey is being carried out by the MBB, with the support of Grant Thornton. The survey is not expected to last longer than 12 mins. We thank you in advance for your participation.

Privacy: This survey is anonymous. Responses will not be linked to any personal information that may identify or make the individual identifiable. All information provided in the survey shall be processed for research and statistical purposes and shall be kept strictly confidential.

Should the individual agree to participate in the survey, the interviewer would begin with survey questions. Sections are as follows:

Section A: Demographics

Section B: Business participation in the European Single Market

Section C: Competition levels experienced by Maltese businesses

Section D: Barriers and obstacles faced by companies

Section E: Business concerns

Section F: Access to information

Section G: Administrative burdens

Section A: Demographics

Question number	Conditions	Question	Possible answers
1	All respondents Manual entry	Your role within the company (e.g. <i>Manager, Director, CEO, etc</i>)	Respondents were kindly asked to enter their role within the company
2	All respondents Multiple select	Country where the business is registered (<i>May select more than one answer</i>)	EU-28 Countries
3	All respondents Single select	Year the company was incorporated	Range includes from 1850 to 2019
4	All respondents Multiple select	Sectors the company operates in (<i>May select more than one answer</i>)	Agriculture, forestry and fishing; Construction, mining and quarrying; Electricity supply, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities; Manufacturing; Professional services, Wholesale and retail trade (including repair of motor vehicles and motorcycles; Imports, distribution, transport and storage; Public administration and defense, compulsory social security, education, human health and social work activities; IT and communication; Tourism; Arts, entertainment and recreation; Gambling and betting; Real estate; Repair of household goods and other services; Accommodation and food service activities; and/or Other (please specify)
5	All respondents Single select	Size of the business	Micro – Less than 10 employees, and an annual turnover of less than or equal to €2 million Small – Less than 50 employees, and an annual turnover of less than or equal to €10 million Medium-sized – Less than 250 employees, and an annual turnover of less than of equal to €50 million Large – More than 250 employees, and an annual turnover of more than €50 million

Section B: Business participation in the European Single Market

Question number	Conditions	Question	Possible answers
6	All respondents Single select	Would you say your company is better off since Malta joined the European Union?	Yes No
7	If 'Yes' to Q6 Single select	Do you think your company is better off due to access to the European Single Market?	Yes No, my company is better off due to other factors My company is better off due to both the Single European Market and other factors
8	If 'Yes' is not selected in Q7 Single select	Kindly indicate which other factors have made your company better off	Respondents were kindly asked to disclose which other factors made their company better off
9	All respondents Multiple select	Do you do business across borders with other participants of the European Single Market? <i>(For example, do you import/export goods or services to or from the countries participating in the European Single Market?)</i>	Yes, through exporting/importing of goods Yes, through exporting/importing of services Yes, through investment No and/or Other (please specify)
10	If 'No' is not selected in Q9 Multiple select	In which European countries do you do business?	EU-28 Countries
11-37	If '[country selected in Q10]' Single select	Kindly rate your experience in doing business in [country selected in Q10]	Likert scale ranging from 1 to 5. 1 being negative and 5 being positive
38	If smaller than '2004' in Q3 Single select	Did the company do business in Europe prior to Malta joining the European Single Market in 2004?	Yes No

Section B: Business participation in the European Single Market (contd.)

Question number	Conditions	Question	Possible answers
39	If 'Yes' to Q37 If smaller than '2004' in Q3 Single select	Was it more difficult to carry out business activities prior to Malta joining the European Single Market in 2004?	Yes No It is relatively the same now as it was prior to Malta joining
40	If greater or equal to '2004' in Q3 Single select	Was access to the European Single Market an important factor in setting up your business?	Yes No
41	If 'No' to Q9 Multiple select	Do you wish or plan to actively participate in the European Single Market?	Yes, through eventually offering services to other member states Yes, through obtaining services from other member states Yes, through exports of goods to other member states Yes, through imports of goods from other member states Yes, through cross-border investments No
42	If 'No' to Q9 Multiple select	What is discouraging you and your business from entering and actively participating in the European Single Market?	Too administratively burdensome with regard to authorisation and costs; Lack of harmonization of rules among member states; Fear of being wiped out by competition; Barriers to enter a specific market or sector; Lack of information needed regarding how to enter markets in other member states; Lack of information about market needs; Lack of company resources to determine market needs; and/or Other (please specify)
43	All respondents Single select	Do you do business with other countries outside of the European Union?	Yes No
44	If 'Yes' to Q43 Manual entry	Kindly disclose which non-European countries	Respondents were kindly asked to disclose which non-European countries they do business with
45	If 'Yes' to Q43 Manual entry	Kindly indicate an approximate proportion of business activities done with business/countries outside the European Union	Respondents were kindly asked to input a number between 0 to 100 as an indication of the proportion of business activities done with business/countries outside the European Union

Section B: Business participation in the European Single Market (contd.)

Question number	Conditions	Question	Possible answers
46	If 'No' is not selected in Q9 Manual entry	Kindly indicate an approximate proportion of business activities done with business/countries within the European Union (excluding Malta)	Respondents were kindly asked to input a number between 0 to 100 as an indication of the proportion of business activities done with business/countries within the European Union (excluding Malta)

Section C: Competition levels experienced by Maltese businesses

Question number	Conditions	Question	Possible answers
47	If smaller than '2004' in Q3 Single select	Have you experienced a higher level of competition at a national level since Malta joined the European Single Market in 2004?	Yes, competition has increased No, Competition has decreased Competition levels have remained relatively the same Not sure
48	If smaller than '2004' in Q3 If 'Yes' to Q9 Single select	Have you experienced a higher level of competition at a European level since Malta joined the European Single Market in 2004?	Yes, competition has increased No, Competition has decreased Competition levels have remained relatively the same Not sure
49	If smaller than '2004' in Q3 If 'Yes' to Q47 and Q48 Single select	Do you think this increased competition is due to the European Single Market?	Yes No Not sure
50	If 'Yes' to Q47 and Q48 Single select	In what way has increased competition impacted your business?	Very positively Positively Both positively and negatively Negatively Very Negatively Increased competition has had no impact on my business
51	If smaller than '2004' in Q3 Single select	Did you have to increase product or service standards, or make any other changes to your business operations as a result of Malta joining the European Union?	Yes No
52	If 'Yes' to Q51 Manual select	Kindly specify what changes your business had to make	Respondents were kindly asked to specify which changes their business had to make
53	If 'Very positively' or 'Positively' or 'Both positively and negatively' to Q50 Multiple select	Which of the following has your business benefitted from?	Access to a larger marketplace, and a larger number of customers; Expanded business; Increased profits; Industry has become more innovative; A larger variety of suppliers; Influx of skilled and unskilled workers from other EU member states; and/or Other (please specify)

Section C: Competition levels experienced by Maltese businesses (contd.)

Question number	Conditions	Question	Possible answers
54-60	If '[answer to Q53]' Single select	Would you attribute the company's [answer to Q53] to Malta being part of the European Single Market?	Yes No Not sure
61	If 'Both positively and negatively' or 'Negatively' or 'Very negatively' to Q50 Multiple select	Which of the following has your business experienced as a result of increased competition?	Loss of market share; Lower profits; Lower prices; Increase in costs relating to compliance; and/or Other (please specify)
62-66	If '[answer to Q61]' Single select	Would you attribute the company's [answer to Q61] to Malta being part of the European Single Market?	Yes No Not sure

Section D: Barriers and obstacles faced by companies

Question number	Conditions	Question	Possible answers
67	If 'No' is not selected in Q9 Single select	Do you currently experience any barriers or obstacles to trade with other EU member states?	Yes No
68	If 'Yes' to Q67 If 'No' is not selected in Q9 Multiple select	Which barriers are you currently experiencing?	Additional costs to provide products or services to other member states; Unusual testing, certification or approval procedures; State aids focusing on particular sectors; Difficulties due to different VAT rates across member states; Difficulties gaining market access in certain sectors; Environmental, and health and safety regulations; Language barriers and issues with translation; Indirect discouraging behaviour of national administrations; Authorisations and/or licenses required before access to a market; Regulations protecting public interest and/or consumers; Costly arrangements for cross-border transactions; Lack of harmonization of legislation on cross-border transactions; Other legal or regulatory obstacles (including compliance); Obstacles set by public authorities to sell products or provide services legally marketed in other countries part of the European Single Market, without a justified reason; Restrictions on advertising, promotions, and pricing; Insufficient protection of trade marks, technological inventions, intellectual property, and copyrights; Difficulty hiring workers who are EU residents, but not Maltese residents; Obstacles when investing in, or purchasing European companies; Extra costs and lengthy procedures when raising capital in another country which is part of the European Single Market; and/or Other (please specify)
69	If 'Yes' to Q67 If 'No' is not selected in Q9 Manual entry	In which sectors are you experiencing these barriers? (e.g. Manufacturing, gaming, services, etc...)	Respondents were kindly asked in which sectors do they experience such barriers

Section D: Barriers and obstacles faced by companies (contd.)

Question number	Conditions	Question	Possible answers
70	If 'No' is not selected in Q9 If smaller than '2004' in Q3 Single select	Have the barriers in the European Single Market increased over the past 15 years?	Barriers have disappeared Barriers have significantly decreased Barriers have decreased Barriers have remained the same Barriers have increased Barriers have significantly increased Not sure
71	If 'Barriers have disappeared' and/or 'Not sure' are not selected in Q70 If 'No' is not selected in Q9 If smaller than '2004' in Q3 Multiple select	Which of the following do you think are responsible for the persistence of these barriers?	Lack of uniformity of rules across the countries which are part of the European Single Market; Lack of information about EU rules; Legislation is too complex and burdensome; Incorrect transposition of EU legislation at a national level; Lack of enforcement of EU rules and legislation; Rules that are over enforced by public authorities; Lack of cooperation and exchange of information between member states; and/or Other (please specify)
72	If 'Yes' to Q67 If 'No' is not selected in Q9 Single select	When faced with barriers to the European Single Market, do you undertake any actions to overcome them and/or file a formal complaint with the relevant competent authority?	Yes No
73	If 'Yes' to Q67 If 'No' is not selected in Q9 Single select	Once filing a formal complaint, did you manage to overcome these barriers?	Yes No I never filed a complaint
74	If 'Yes' to Q67 If 'No' is not selected in Q9 Single select	How important are investment protection agreements and arbitration tribunals for dispute resolution for your company?	Crucial Important Not very important Not important at all Irrelevant
75	If 'No' is not selected in Q9 Single select	Are you aware of the problem-solving mechanisms available such as SOLVIT?	Yes No

Section D: Barriers and obstacles faced by companies (contd.)

Question number	Conditions	Question	Possible answers
76	If 'Yes' to Q75 If 'No' is not selected in Q9 Single select	Have you ever used SOLVIT?	Yes No
77	If 'Yes' to Q67 If 'No' is not selected in Q9 Multiple select	Which means do you use to try to overcome the barriers?	Approach trade associations; Approach chambers of commerce; Contact national authorities; Contact European authorities; More formal procedures like litigation; Own networks; EU problem solving mechanisms; and/or Other (please specify)
78	If 'Yes' to Q67 If 'No' is not selected in Q9 Multiple select	What are your reasons for not making use of national and/or European authorities when faced with barriers?	I am not aware of the procedure to file a complaint; The procedure is too costly and/or complex; It is too time consuming; The efforts to file a complaint outweigh the advantages; and/or Other (please specify)

Section E: Business concerns

Question number	Conditions	Question	Possible answers
79	All respondents Multiple select	What are your biggest concerns about the European Single Market in today's economic and political climate?	Being wiped out by competition; Excessive legislation; Inefficient implementation of legislation; Ineffective enforcement of EU law at national level; The threat of other countries leaving the European Union following Brexit; Problems with access to funding; Deterioration of the Euro; I have no concerns; and/or Other (please specify)

Section F: Access to Information

Question number	Conditions	Question	Possible answers
80	All respondents Single select	Do you have the necessary information to do business with other EU countries?	Yes, I have all the information I do not know all the information but I know enough to sufficiently do business I do not know enough information I know nothing about doing business with other EU businesses
81	All respondents Single select	Are you aware of mechanisms aimed at providing access to information such as Your Europe Portal, Points of Single Contact among others?	Yes No Not sure
82	All respondents Multiple select	Would access to additional information regarding doing business in the EU enable you to expand your business activities within the EU?	Yes No Not sure
83	All respondents Single select	Once filing a formal complaint, did you manage to overcome these barriers?	Yes No I never filed a complaint
84	All respondents Single select	How important is access to the below information for your business? <i>(Precise and good quality information about standards applied to products and services; Information about VAT, tax and fiscal rules; Rules relating to establishing a business in the European Union; Rules relating to posting of workers, labour law, and social security systems; Enforcement of market surveillance; Recognition of professional qualifications; Rules relating to business-to-consumer and business-to-business contracts; Precise information about administrative procedures)</i>	Crucial Important Not very important Not important at all Irrelevant

Section G: Administrative burdens

Question number	Conditions	Question	Possible answers
85	All respondents Multiple select	Have you been subject to any of the following administrative burdens by national or European authorities when conducting business locally or in the EU?	Application of business licenses or permits in countries part of the European Single Market; Complex tax rules; Complex accounting standards that are not feasible for small to medium sized businesses; Large amounts of paper work; Fees relating to importing and exporting of goods; Applications to apply for exemptions relating to laws and regulation; I currently do not experience any administrative burdens; and/or Other (please specify)
86	All respondents Multiple select	Which of the following administrative procedures do you think need to be simplified?	Fiscal and tax rules; Product regulation; Services regulation; Environment legislation; Labour and social regulation; and/or Other (please specify)
87-92	If '[answer to Q86]' Manual entry	Which aspect of [answer to Q86] would you like simplified?	Respondents were kindly asked which aspect of [answer to Q86] would they like simplified
93	All respondents Multiple select	Which of the following would help your company benefit from the Single Market	Simplification of applicable legislation; Clearer and simple instructions on how to comply with legislation; Simplification of overlapping formalities; Provision of predictable legal framework; and/or Other (please specify)
94	All respondents Single Select	Do you think there is room for improvement in terms of the benefits companies can reap as a result of proper legislation relating to the European Single Market?	Yes No Not sure
95	If 'Yes' to Q93 Manual entry	Kindly provide your reasons	Respondents were kindly asked to provide their reasons

Section G: Administrative burdens (contd.)

Question number	Conditions	Question	Possible answers
96	All respondents Single select	Have you experienced any problems due to a discrepancy between national and EU laws?	Yes No Not sure
97	If 'Yes' to Q96 Manual entry	Kindly elaborate on the problems you have experienced due to a discrepancy between national and EU laws	Respondents were kindly asked to elaborate on the problems they experienced due to a discrepancy between national and EU laws



Appendix III: Stakeholder consultation

Objectives of stakeholder consultations

The purpose of the consultation were to:

encourage information exchange and open discussion regarding how Maltese businesses from all sectors have been affected by the European Single Market, since Malta joined the European Union in 2004

Moreover, the main objectives for each meeting were to gather more information about:



Benefits experienced by Maltese businesses due to access to the Single Market



Barriers experienced by Maltese businesses



Changes experienced in the sector since Malta joined the European Union in 2004



Obstacles Maltese businesses have experienced due to issues with legislation

Participants of stakeholder consultations

Meetings with over 30 business representatives took place over a period of three weeks (between 10th July and 31st July 2019).



10th July: Financial Services Sector Economic Group



11th July: Services Sector Economic Group



17th July: Manufacturing Economic Group



25th July: Malta Hotels and Restaurants Association



31st July: Importers and distributors Economic Group



31st July: Food and beverage manufacturers economic group

Glossary

Accession 10	Countries that joined the European Union in the 2004 enlargement
AMCEU	American Chamber of Commerce to the EU
AmCham	American Chamber of Commerce to the EU
CATI	Computer assisted telephone interviews
EC	European Committee
EEA	European Economic Area
EEC	European Economic Community
ERDF	European Regional Development Fund
ERP	Energy related products legislation
EU	European Union
EU-28	28 European Member States
FDI	Foreign Direct Investment
FMD	Falsified Medicines Authority
GDP	Gross domestic product

Glossary

GDPR	General Data Protection Regulation
GVA	Gross Value Added
HS Code	Harmonized system code
IT	Information Technology
MBB	Malta Business Bureau
MHRA	Malta Hotels and Restaurants Association
NGO	Non-government Organization
p.a	per annum
R&D	Research and development
SMEs	Small to medium sized enterprises
SPE	Special purpose entity
TCNs	Third country nationals
TFEU	The Treaty on the Functioning of the European Union
UK	United Kingdom
VAT	Value added tax



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