

A 10-point Call for an EU Islands Strategy

Ahead of the Commission's upcoming Communication on islands and coastal communities, the **Malta Business Bureau** is proposing a 10-point plan for an **EU Islands Strategy**.

Europe's islands and coastal communities occupy a **distinctive** position within the European Union.

Island states like Malta, Cyprus, and Ireland face persistent logistical connectivity disadvantages, relying heavily on maritime and air transport with limited alternatives. High transport costs and fragmented trade make exporters and manufacturers **uncompetitive within their own Single Market**. Overreliance on services and diseconomies of scale hinder island states diversification, leaving their economies narrow, fragile and exposed.

Small market scale compounds these pressures. Islands typically face **limited natural resource** endowments, elevated import dependency and insufficient domestic demand. **Spatial constraints** inevitably influence cost structures, investment feasibility and productivity outcomes.

Energy and environmental transitions intensify these asymmetries. Island energy systems frequently operate with limited diversification options, constrained renewable deployment potential, and elevated generation costs. Simultaneously, climate and environmental legislation, including FuelEU Maritime, ReFuelEU Aviation, the EU Emissions Trading System, and sustainable fuel mandates; introduce compliance costs that **disproportionately affect territories wholly reliant on aviation and maritime connectivity**.

These realities align directly with the spirit and intent of Articles 174 and 175 of the Treaty on the Functioning of the European Union. Article 174 explicitly recognises regions facing permanent natural or demographic handicaps, including islands. Declaration 33 under the same Article further clarifies that the term "island regions" may include island States, in their entirety. **Legislative recognition must therefore extend beyond cohesion instruments alone because structural market failures within the Single Market requires targeted systematic regulatory responses.**

Equality and equity are not interchangeable. **Uniform rules applied to structurally unequal contexts are producing inequitable outcomes.** Treating different situations alike may appear neutral in legal design yet generate disproportionate economic burdens. Effective policy therefore requires proportionality, context sensitivity and flexibility.

In this context, we respectfully call upon the European Commission to advance a comprehensive **EU Islands Pact** that systematically addresses connectivity, competitiveness, energy, climate, mobility, and sustainability challenges.

In line with the Commission Work Programme 'Communication on islands and coastal communities (non-legislative, Q2 2026)',

We put forward our **10-point-plan**:

1. A dynamic assessment of Article 174 TFEU as ‘a living policy principle’, supporting the development of a dedicated **European Islands Policy Agenda** with clearly defined priorities.
2. A rigorous **cumulative impact assessment of climate and transport legislation on island territories, particularly island states**, evaluating combined economic, social and competitiveness effects.
3. A thorough **review and adaptation of EU State Aid rules**, leading to:
 - The creation of an islands-specific sub-category within regional State Aid frameworks¹,
 - Greater flexibility for aviation² and maritime transport undertakings, and
 - Reconsideration of De Minimis Aid ceilings for island economies.
4. **Reassessment of competition and Public Service Obligation frameworks** to ensure connectivity safeguards reflect structural dependency rather than purely market metrics.
5. A **permanent exemption from the EU Energy Tax Directive**, ensuring that island states are not disproportionately impacted, given the absence of road alternatives to continental Europe.
6. Introduce systematic safeguards within the **EU ETS framework** to reflect the structural connectivity constraints of island territories. Specifically, an **‘Islands Clause’ mechanism for maritime and air links**, which are vital services for island populations³.
7. Correction of unintended regulatory distortions. Specifically, the **revision of the Combined Transport Directive**, to mention an example, penalises island operators for selecting longer, more sustainable sea routes⁴.
8. Strengthen resilience instruments, including **adaptation of the EU Solidarity Fund** to reflect evolving climate risks and disaster exposure specific to island states, not just regions.
9. Enhance **statistical data collection to support territorial proofing methodologies**, to ensure that legislative impact assessments rigorously capture island-specific effects in a timely manner within the EU legislative process.
10. More targeted support for **targeted investments in transport, digital connectivity, energy infrastructure**, and sustainable mobility systems essential to achieving climate neutrality without eroding competitiveness.

Island territories **require proportionate frameworks that recognise structural realities within the same objectives**. That is why the EU needs to move from uniform regulations to proportionate, geography-sensitive systematic policies, which are embedded into climate, energy and transport legislation.

That is why an **EU Islands Pact is, in our view, the right tool which signals a binding commitment and accountability**, ensuring Member States and the Commission implement concrete measures, with safeguards, or exemptions, within an enforceable regulatory framework.

¹ A specific category of State Aid for island states that allows for the subsidisation of freight costs for exported manufactured goods from Island States. This should not be viewed as a distortion of competition, but as a rebalancing of the internal market.

² We positively note that the Sustainable Aviation Fuel (SAF) mechanism under Directive (EU) 2023/958 represents a pragmatic example. For territories under 10,000 km², the Commission provided a tangible support measure which recognises connectivity as an economic lifeline for island states like Malta and Cyprus.

³ This targeted adjustment would preserve the environmental integrity of the ETS while preventing disproportionate economic burdens on peripheral island economies that lack viable transport alternatives. Absent such safeguards, carbon leakage will persist, whereby shipping lines re-route via nearby non-EU ports, particularly in North Africa, resulting in economic distortion without delivering any net environmental benefit. Aviation, like shipping, is a global industry requiring a global solution, which is already provided by ICAO’s CORSIA. Yet intra-EU flights face higher costs than routes outside the EU, Switzerland, or the UK, directly undermining EU airline competitiveness. For EU islands, this creates a double disadvantage.

⁴ Cabotage limitations applied after extended maritime legs undermine efficiency gains from unaccompanied trailer models, something which is crucial for islands.