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Executive Secretary

26 Jul 85

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Interagency Group No. 51

TO: OVP - Mr. Donald Gregg
 NSC - Mr. William F. Martin
 CIA - [redacted]
 Defense - COL David R. Brown
 JCS - LTC Thomas O'Connell
 USIA - Mr. C. William La Salle
 AID - Mr. Malcom Butler

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SUBJECT: U.S. Policy Toward Malta

Attached for agency concurrence are an updated study of U.S. Policy toward Malta and a draft NSDD prescribing a U.S. policy response, prepared under the auspices of the Malta Interagency Group (IG). We have updated the study to mention events that have occurred since it was completed in February. CIA has revised its dissenting footnote, and the Executive Summary now includes mention of this dissent. The study is otherwise unchanged.

The draft NSDD, based on the draft circulated in June, has been revised to reflect the comments of agencies. There are no outstanding differences on policy.

With due allowance for CIA's dissent to the analytical study, we believe that the study and the NSDD constitute an interagency consensus appropriate for delivery to the NSC. Agencies are requested to review these two documents and to indicate concurrence to W. Gregory Perett, tel. 632-8210. They should also indicate whether there are any issues of a magnitude that would require a formal meeting of a Senior Interagency Group.

August 2nd.

Agencies should respond by COB ~~July 26~~. If we have not received any substantive dissent or request for a formal SIG meeting by that date, we propose to forward the study and draft NSDD to the NSC as the final product of the Interagency Group.

Nicholas Platt
Executive Secretary

Attachments:

1. Interagency study on Malta
2. Draft NSDD on Malta

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Platt-Gregg, et. al. Malta IG Study and Draft NSDD.

Drafted: EUR/WE: WPerett *W*
7/16/85 x8210 (W1775S) 313

Cleared: EUR/WE: MvanHeuven *h*
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U.S. POLICY TOWARD MALTA

EXECUTIVE SUMMARY

The National Security Council, in a National Security Study Directive of December 10, 1984, called for an analysis of U.S. policy toward Malta. This study examines U.S. interests in Malta, describes trends in Maltese foreign and domestic policies that may affect those interests, and outlines the various policy options available to the U.S. Following are the study's key judgments:

--Longterm trends in Malta do not appear to be moving in directions that we would like.

--Malta, while declaring itself neutral and nonaligned, attempts to use its historic strategic position as a bargaining tool to extract economic benefits from its neighbors and from competing power blocs.

--Malta's strategic importance has declined with the development of modern, long-range weapons. A Soviet or Libyan base on Malta would not play a crucial role in a war involving U.S. or NATO participation. Such a base would be useful, however, for logistic support and would accord some desired redundancy in Soviet assets. Beyond its strictly military ramifications, establishment of a significant Soviet military base on Malta could have a damaging psychological impact on Western public perception of Mediterranean security interests.

--The U.S. has several interests of consequence in Malta. The most important is to deny the use of Malta for terrorism or military purposes by the Soviets or other adversaries. Our bedrock objective therefore meshes with Malta's declared policy of nonalignment.

--The Soviets have undertaken a longterm campaign to counter Western influence in Malta and to gain the support of a nonaligned state. Soviet-Maltese contacts have intensified over the past few years, including high-level visits. If given an opportunity, the Soviets would find it useful and convenient to exploit Maltese facilities for military transit and logistic support.

--The Soviet effort has experienced only limited success. It has been prey to the same blackmail tactics which the Maltese have used toward the West. Moreover, important constraints--Western cultural ties, economic dependence on the West, and the influence of the Roman Catholic Church--stand in

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the way of Soviet efforts to develop their presence into extracting political or military concessions.

--There is also a recent upsurge in Libyan contacts with Malta. Libya is more active than the Soviets and, in the short term, Qadhafi is likely to cause more trouble. Malta is useful to Libya primarily as a political symbol of Libyan influence. It has only marginal value as a base.

--Libya has used Malta once as a staging area for terrorist operations. The Libyans might, if permitted by the Maltese, make heavier use of Malta in the future.

--Libya faces the same constraints as do the Soviets. In addition, the Maltese dislike the Libyans, and a falling-out between them is likely.

--Malta shows a trend toward authoritarian government and a more centralized economy. These trends make a Nationalist Party return to power more difficult, and also tend to discourage Western business firms from investing in Malta.

--At present, our relationship with Malta is sound, insofar as Malta remains nonaligned and has not given military access to our potential adversaries.

--We have good political access with the Maltese government. We have encouraged Maltese economic and commercial ties with the U.S., but have had little success, due in part to the commercial policies of the Maltese government.

--Economic assistance is a high priority item for the Maltese government. Increased U.S. aid might lead to increased influence, but the erratic and opportunistic nature of Maltese policy makes it difficult to evaluate the extent and duration of such influence.

--Malta would probably not be interested in security assistance in the form of equipment. The government wants money and jobs.

--Our allies, particularly Italy, are better placed than we to influence events in Malta. We have already enhanced contacts with them concerning Malta.

--The opposition Nationalist Party, more popular than the ruling Malta Labor Party, hopes to regain power via the 1987 elections. There is a serious threat, however, that the MLP will thwart the democratic process and cling to power.

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--A Nationalist government would remain nonaligned. Still, an NP government would be more open to cooperation with the West, would reopen the economy to free enterprise, and would be suspicious of Libya and the Soviet bloc.

--The Nationalists seek sympathy from the U.S. and Western Europe. Malta is a case in which our human rights interest and national security interest coincide.

--Former prime minister Mintoff probably will continue to dominate policy as long as he is on the scene and the Malta Labor Party is in power. On Mintoff's death, no one seems immediately able to assume Mintoff's dominant role. Thus, the MLP will divide into factions until a new leader asserts control.

--The foreign policy outlook for Malta and for Soviet or Libyan influence involves three possible circumstances: (a) continued domination by Mintoff; (b) a Nationalist government; or (c) a post-Mintoff MLP government.

--(a) Mintoff's rule is a known quantity which, however troublesome, does not threaten important U.S. interests. The continuing erosion of democratic norms is of concern, however, and creates the danger that a later authoritarian government might be less subject to public pressure against abandoning Maltese neutrality in favor of close alignment with the USSR and Libya.

--(b) A Nationalist government would still seek economic benefits, but would improve prospects for cooperation with the West and would discourage ties with Libya or the Soviet Union.

--(c) A post-Mintoff MLP government is difficult to characterize, since we cannot predict who will be its leader. In this situation, we can imagine a scenario in which an unpopular MLP leader, desperate to retain control, might seek Soviet or Libyan support, even to the extent of seeking troops to quell the opposition.

--This worst-case scenario is, however, unlikely. While the degree of opportunity afforded the Soviets and Libyans depends on the scenario that unfolds, many constraints will apply, no matter who is at the Maltese helm. Nationalism, economic links, and cultural ties are among the factors impinging on any Maltese government's attempt to invite Soviet or Libyan encroachment.

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(CIA states the following dissent:

--We believe that the NSSD underplays the benefits that the Soviet Union and Libya could gain from military access to Malta. The Soviets would value military access because it would give them the redundancy they covet in the region, and the Libyans could increase the operational range of their aircraft with longrange radar on Malta. We are also concerned that the Executive Summary does not adequately represent recent Soviet propaganda inroads and the potential threat they pose to Western interests.

--We also believe that the possibilities of political instability on Malta are greater than indicated in the NSSD, mainly because we are not confident that Mintoff will continue to dominate Malta and control its erratic foreign policy. Although he appears to retain at least a peripheral hold on the levers of power, there are signs that the struggle for post-Mintoffian leadership within the MLP is already well underway. This scramble for power could lead to a number of challenges to parliamentary democracy that would fall short of the worst-case scenario outlined in the NSSD, but nonetheless could jeopardize stability and threaten to undermine U.S. goals in Malta. End of CIA dissent.)

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U.S. POLICY TOWARD MALTATHE PROBLEM

Malta under its mercurial leader Dom Mintoff has long pursued a foreign policy of blackmail, playing each neighbor or power bloc against its rival. Mintoff's demand for economic benefits--coupled with threats to look elsewhere if aid is not forthcoming--have frustrated all who deal with him. At the same time, his erratic shifts in policy create opportunities for those who are willing to play his game. In the past few years, the Soviets and their allies have exploited this situation to bolster their position in Malta without making a major economic commitment. More recently, Libya has used some of its resources to reestablish stronger ties following several years of cool relations. These twin developments, accompanied by bursts of Maltese invective toward the West, have prompted some concern that longterm trends in Maltese policy favor our potential adversaries.

A new prime minister, Karmenu Mifsud Bonnici, succeeded Mintoff in December 1984, but Mintoff remains the power behind the throne. Mintoff has a predilection to taunt the West, but he is fundamentally a strong nationalist who will not compromise his or Malta's independence. The situation is less reassuring, however, with regard to his successors, who may lack the leadership skills and the nationalism which have thus far constrained Malta's foreign policy. The Soviets or Libyans might then attempt to expand their influence to the point of obtaining political or military concessions.

We need to assess trends in Maltese foreign and domestic policy to determine whether these pose any significant threat to U.S. interests, and, if so, what measures we should take to arrest this tendency. This study examines:

- U.S. interests in Malta;
- Soviet and Libyan efforts to acquire influence;
- military implications for the U.S. and NATO of Soviet or Libyan access to Maltese military facilities;
- constraints on Soviet or Libyan influence in Malta; and
- means of encouraging Malta's continued Western orientation and political neutrality.

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I. BACKGROUNDA. Political Profile

Located in the narrows of the Mediterranean, some 200 nautical miles from Libya and 50 from Sicily, Malta has long derived importance from its location astride communications routes. Independent from the United Kingdom since 1964, the island republic severed its ties with NATO on the departure of the last foreign military forces in 1979. Since then, while remaining a member of the Commonwealth, the Maltese government has pursued a policy of neutrality. One of its main goals has been to obtain public endorsement or a formal guarantee of that status from the major powers.

Malta has a parliamentary government devised originally by the British colonial administration. Headed since 1974 by a President intended to be a ceremonial leader, it has a Prime Minister as head of government and a unicameral, 65-seat parliament known as the House of Representatives. The ruling Malta Labor Party (MLP), a vaguely socialist party with working-class roots, has 34 of these seats. The opposition Nationalist Party (NP), a more pro-Western, business-oriented party with connections to the international Christian Democratic movement, has the remaining 31.

Elections for a new Parliament are constitutionally required to be held by March, 1987. The opposition NP has at least an even chance of winning an honestly-run electoral contest, but the threat exists that the Labor government may rig the elections or not hold them at all. The Constitution gives the Prime Minister the authority to postpone elections in case of emergency. A claim of "foreign interference," often charged in the past by the MLP, could be used to justify such a finding. The government's sensitivity toward foreign support of the opposition is codified in the Foreign Interference Act, which the regime unsuccessfully tried to use to prohibit Embassy contact with the Nationalists.

Domestic politics have been unusually turbulent since the December, 1981 elections for the House of Representatives. The MLP gained slightly less and the opposition slightly more than 50 percent of the vote. But through clever gerrymandering, the MLP maintained its majority in the Parliament, taking 34 of the 65 seats. In protest, the NP members boycotted Parliament for several months thereafter. Since 1981, there has been an erosion of human rights and democracy, exemplified by intimidation of the press and judiciary, as well as some violence against the NP. In the summer and fall of 1984, a

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dispute between the government and the Catholic Church over student fees paid to Church-operated schools resulted in sporadic bombings and the sacking of the Archbishop's palace on September 28. The Government stated that the Church schools had to offer free education. The Church reacted strongly and was supported by much of the population, which is overwhelmingly practicing Catholic. Towards the end of the controversy, then Prime Minister Mintoff took the issue away from then Education Minister Mifsud Bonnici and reached a temporary compromise settlement. The Maltese government and the Vatican eventually reached longterm agreement on the issue in April 1985. Nevertheless, this incident illustrates the fragile nature of the domestic political situation.

Dom Mintoff, 68, resigned as Prime Minister on December 22, 1984, after governing Malta with an iron hand for 13 years. His officially-designated successor, Karmenu Mifsud Bonnici, Senior Deputy Prime Minister and Minister of Education, then took office. A relative newcomer to political life, Mifsud Bonnici is widely believed to defer to Mintoff's wishes. As Education Minister during the Church school controversy, he was widely considered to have failed his first test in handling a major problem. Mintoff retained his seat in the House. He retains, as well, an overridingly powerful influence on government policy. His long range plans are unclear, but he may aim at a much-strengthened Presidency, transforming that now-ceremonial office via constitutional amendment.

Mifsud Bonnici's survivability as a leader is unsure. Two potential MLP leaders--Foreign Minister Alex Sceberras Trigona and Works and Housing Minister Lorry Sant--are stronger in character and more politically astute than he, and could take control in the future. Sceberras Trigona is a proven vote-getter, and the venal Sant was once Mintoff's designated successor. Both have shown willingness to deal with Libya and the Soviet Union.

The future of Maltese domestic politics is therefore uncertain, particularly in a post-Mintoff period. None of his three lieutenants has displayed the charisma or independent political clout that would permit him to fill Mintoff's shoes. If such a strong leader does not emerge quickly, Malta could fracture into warring groups and become temporarily unstable. Logically, the Nationalists should benefit from MLP disunity and defeat the governing party. This assumes the maintenance of the democratic system, an assumption that is not assured. One of the MLP contenders, such as the tough Lorry Sant, might try to outdo Mintoff himself by establishing an authoritarian regime.

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B. Foreign Policy Developments

Mintoff tried to place his small country in the international spotlight. He kept the Madrid CSCE conference hostage for months by demanding that the meeting focus on Mediterranean issues, and Malta threatens to do the same for the present CDE meeting in Stockholm. Malta has quarreled with Italy and the EC over levels of aid and has established full or partial embargoes against France, Japan, and Italy due to the bilateral trade imbalance. Malta recently asked the U.S. and UK for major soft loans to make up for Italy's "failure" to support Malta. Mintoff has offered himself as mediator in most of the world's major disputes, e.g., North Korea-South Korea and Cyprus. Arrogance and a readiness to provoke confrontation have been Mintoff's trademark. No one--East, West, or Third World, enjoys dealing with Malta.

Under Prime Minister Mifsud Bonnici, the style of Malta's foreign policy, though not its substance, has noticeably changed. The Maltese government remains capable of demanding "rectification" from the U.S. for our 1984 Human Rights Report, or even demanding recompense for Malta's UN Security Council vote on the KAL 007 shutdown. Nevertheless, Mifsud Bonnici has clearly adopted a more civil tone. He has, moreover, repeatedly stated that he wants to improve relations with the United States and Western Europe.

Officially neutral, Malta has in recent years increased its ties to the Soviet bloc. The Soviets established a resident Embassy in 1981, signed a neutrality agreement the same year, and obtained rights to bunker merchant ships. Mintoff visited Moscow December 19-21, 1984, after several years of efforts which the Soviets had resisted.

On the economic front, the two governments concluded an ambitious economic protocol in March 1984 providing \$260 million in trade over three years. The Soviets also agreed to construct a surgical instruments plant and to purchase its products. Recently the Soviets announced the signing of a \$140 million contract for construction in Malta of eight Soviet ships. It remains to be seen whether these agreements will be implemented as envisaged.

Libya also has boosted its presence in Malta. Mintoff courted Libya soon after announcing his neutrality policy in 1979, but relations cooled in a dispute over possibly oil-bearing waters claimed by both sides. Relations gradually improved throughout 1984, largely at Mintoff's initiative,

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leading to a five-year "friendship and cooperation" treaty signed on November 19, 1984. The treaty provides for political, economic, and security consultations, as well as Libyan training of Maltese forces on Malta.

C. Economic Developments

Malta is well off by Third World standards. Its small size and heavy dependence on foreign trade, however, make it vulnerable to external factors. The mainstay of the economy has been shipbuilding and service industries, notably tourism and ship repairs. The major UK/NATO base at Grand Harbor was the foundation for the Maltese economy for decades. Since the departure of NATO forces in 1979, Malta has struggled to find substitutes for that key source of income.

Malta today conducts shipbuilding and repair at the former British facility and produces light manufactured goods, such as textiles and processed foods. Much of Malta's exports are in semi-finished goods for further processing elsewhere. Three-fourths of Malta's trade is with Western Europe, principally the FRG, UK and Italy. Trade with communist countries, though small, is increasing.

Malta has suffered from the recession in Western Europe, and GDP declined in 1983 for the first time since the mid 1960s. The economy rebounded somewhat in 1984 as GDP increased by 2.7 percent. The government's main economic goal is to reduce unemployment, officially given at 7.9 percent but estimated at much higher by opposition economists.

Tourism has fallen off from a peak of 728,732 arrivals in 1980 to 490,812 in 1983. Much of this decline stems from the recession in Western Europe, which provides the bulk of Malta's tourists, but the Maltese are also to blame for giving shabby treatment to tour operators. The tourist industry is vital. Malta regularly runs a sizeable trade deficit, yet income from tourism and from investments abroad has kept the balance of payments in surplus every year since independence. Malta's sizeable foreign currency reserves (about \$1.2 billion) and low external debt make the nation less vulnerable to outside pressure and provide scope for an expansion of the domestic economy.

The government has a policy of encouraging new export-oriented industries with the help of foreign investment. This campaign has experienced only limited success.

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II. U.S. INTERESTS IN MALTA

The U.S. has an interest in:

--Denying the use of Malta for military purposes by the Soviets or other potential adversaries;

--Preventing Malta from serving as a base for international terrorism;

--Maintaining Malta's essentially Western orientation and democratic political system; and

--Seeking Maltese support in international forums on issues important to us.

The United States has had only limited involvement with Malta since closure of the NATO base in 1979. We have depended on our allies (e.g. the UK and Italy), who have significant interests, to take the lead. When Malta declared a policy of neutrality and nonalignment, Mintoff urged the U.S. to sign a neutrality and economic assistance treaty along the lines of the 1980 Italy-Malta accord. Malta would still like a bilateral pact--provided that it features substantial economic assistance. The Maltese resurrected this request as recently as December 1984. We have declined to endorse formally Maltese neutrality. We have, however, assured Malta that we respect its choice of neutrality and nonalignment, and that this decision poses no obstacle to fruitful and friendly relations. Except for Export-Import Bank loans, little U.S. economic or security assistance has been provided.

There is little hope of enticing Malta back into the Western alliance. A return to NATO military presence is not in the cards, even should the relatively pro-Western Nationalists regain power. Leaders of both parties state that the islands should not again serve as a military platform for any foreign power.

This avowed Maltese goal meshes with our own bedrock objective of denying the islands to our adversaries. Malta's new emphasis on nonalignment will, however, entail its strengthening ties to states opposed to U.S. interests. We should seek to ensure that Malta remains true to its own declared principle and that it retains the political and economic capability to do so. The Maltese claim to seek equidistance between the superpowers; we should insist that they do so.

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We should also ensure that Malta does not allow itself to serve as a transit point or staging area for Libyan or other terrorist activity. To date, Malta seems to have a de facto arrangement with Libya and the PLO: no terrorist acts in Malta in return for unobstructed transit of Libyans and PLO operatives. We must not let the Maltese believe this arrangement is acceptable, let alone permit the situation to escalate into one in which terrorists sally forth from Malta for operations, then retire to the islands for sanctuary.

We have an interest in supporting democratic institutions in a country which at least partially belongs to Western Europe. Democracy in Malta, while under attack, has not collapsed. In keeping with the Administration's Project Democracy initiative, we should seek to ensure that Malta does not disappear from the ranks of the democratic West.

Malta has become famous as a gadfly in international forums; especially the CSCE and CDE, for insisting that Mediterranean issues be treated. Our interests would profit from Maltese agreement not to hold these forums hostage to irrelevant Maltese concerns. At the same time, Maltese support for us on some issues has proved useful, such as Malta's pivotal UN Security Council vote on the KAL shutdown.

III. SOVIET INTERESTSA. Objectives

The Soviets have been gradually pushing since the early 1970s to establish closer ties with Malta because of its strategic location. The wooing of Malta also is part of the general Soviet effort to gain influence among non-aligned nations. The Soviets hope to counter the substantial Western and Chinese presence there. They would gain obvious political benefit by securing the support of a semi-Western European nation. In the longer term, the Soviets would welcome military access to Malta.

In recent years these efforts have begun to produce results, although the Soviets have experienced many of the same frustrations with Mintoff's diplomacy by blackmail as the West. The Soviets at present do not appear willing to spend significantly more effort and money to court Malta. However, if the local situation--say an unstable new government--presented clearer opportunities, they would find it

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useful and convenient to exploit Malta's air and maritime facilities for intelligence collection, transit, and logistic support.

B. Political Relations

The USSR and Malta established diplomatic relations in 1974. Following the opening of a resident Soviet Embassy in 1981, previously limited contacts have gradually increased, and within the past year the tempo of official visits has risen sharply. Diplomatic dialogue reached a high point in December 1984 with Mintoff's trip to Moscow, where he was given a high-level reception, meeting separately with General Secretary Chernenko, Premier Tikhonov, and Foreign Minister Gromyko.

Tikhonov's remarks during a dinner for the Prime Minister and official Soviet reports of his other meetings stressed Moscow's support for Malta's independent stand on Mediterranean security issues at the Stockholm disarmament conference--although Soviet press accounts omitted some of Mintoff's more harebrained ideas. The Soviets view his calls for a nuclear-free Mediterranean and for limits on naval activity and bases in the region as a useful propaganda tool and a thorn in the side of the West. They presumably are aware, however, that most non-Warsaw Pact delegates consider these positions nonstarters that fall largely outside the CDE mandate. If the CDE were ever to move toward consensus, the Soviets would not encourage the sort of behavior demonstrated by the Maltese at CDE's parent conference in Madrid, where--to Moscow's evident dissatisfaction--Maltese obstructionism delayed agreement on a concluding document by several months.

C. Economic Ties

The significance of Soviet trade ties is not their present size but the potential for growth if existing promises are realized. The Soviets accounted for less than one percent of Malta's total trade in 1983. According to Soviet trade data, Soviet exports increased from \$2 million in 1982 to \$32 million (96 percent oil) in 1983. Imports from Malta rose from \$1.5 million to \$10 million and consist of mainly clothing and ship repair services. In the January-September 1984 period Soviet imports were up 60 percent from the same period in 1983 and exports were down 75 percent--mainly due to lower demand for oil.

A large share of Soviet-Maltese trade will continue to be in the commercial maritime area. Bunkering facilities are still limited to fishing and merchant vessels, and Malta

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dismisses out of hand Soviet requests to repair warships and naval auxiliaries. The Soviets have made little use of the bunkering agreement, and Soviet ship visits actually declined in 1984 compared with 1983.

Soviet-Maltese trade could expand substantially, mainly in traditional sectors, as a result of the March 1984 trade protocol. The Maltese have also signed a \$140 million agreement with the Soviets to build eight Soviet timber ships. The contract, if fulfilled, would provide a much-needed boost to Malta's financially troubled shipbuilding industry. Malta also hopes that it can parlay the Soviet contract into orders from the Libyan and Algerian minority owners of the Malta Shipbuilding Company as well as from other Arab and Eastern Bloc countries. The Maltese may have difficulty, however, in fulfilling the contract, since the timber ships are still in the experimental design stage, and the shipyard has yet to build a ship since its inception in 1976.

These important contracts, if implemented, would boost Moscow's influence in Malta's maritime sector--the political base for many Labor Party leaders, including Mintoff, Lorry Sant, and Mifsud Bonnici--but they would not necessarily lead to Soviet naval use of Maltese ports. The Soviets might offer even more substantial assistance if they believed some agreement on Soviet military access were possible. The Soviets know from bitter experience, however, that unless a Mintoff successor deviates sharply from his policies, Malta will not provide access to Soviet naval vessels.

Overall, Soviet-Maltese trade is likely to remain relatively small and unstable, at least for the next several years, despite these efforts. The Soviets have frequently voiced frustration with Maltese pricing, quality, and delivery in the past, and these failings are likely to continue to inhibit any significant trade expansion.

D. Soviet Presence

The Soviets have increased their overall presence over the past several years, but so far the number of Soviets on Malta does not appear unusual for a country of its size. Soviets resident in Malta now number between 40 and 50. The Soviet Embassy in Valletta now has a diplomatic staff of 10. Two

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The Soviets, along with the Czechoslovaks and Bulgarians, have initiated direct air service to Malta on their national airlines. The three countries also have established "friendship societies" that sponsor delegations, student exchanges, and exhibitions lauding bilateral cooperation. A Cuban-Maltese friendship society apparently is run by the Soviet Embassy in Malta.

The Soviets have also worked to cultivate a number of individuals who may be in a position to push pro-Soviet policies or influence the attitudes of the Maltese government and people.

E. Soviet Propaganda

One of the more worrisome developments in recent Maltese political life has been an increase in pro-Soviet and anti-Western rhetoric and propaganda from Maltese politicians and media. In particular, slogans of MLP leaders have taken on a specifically anti-American flavor. One message displayed at the Labor Party club in the center of Valletta in June 1984 stated "From the Soviets and the Libyans, we have seen bounty; from the Americans, only festering lice."

The Soviets and their allies have found willing recipients for their propaganda in the government-controlled media during the past two years. This is primarily the result of Mintoff's exasperation over the limits of Western economic assistance. It is also the result, however, of efforts by well-placed pro-Soviet Maltese to give pro-Soviet "information" services ready access to Maltese outlets. The Soviets also use semi-official exchanges and delegations effectively to increase their role in the Maltese media. For example, news of President Reagan's reelection was eclipsed in Valletta by the visit of a "friendship" delegation led by a Soviet cosmonaut. Heavy media coverage was afforded the cosmonaut's allegation that the President's reelection was ensured by the U.S. military-industrial complex.

IV. LIBYAN-MALTESE RELATIONS

Libyan-Maltese ties have been steadily improving since 1983 after three years of bilateral disputes. Relations were quite good in the 1970s when Valletta allowed Libya to maintain a radio transmitter on the island in return for economic and military assistance. Relations began to sour in 1980, however, when Mintoff rejected Qadhafi's efforts to secure military facilities in Malta and closed the radio station. In July 1980

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the Libyan navy prevented a Maltese oil exploration rig from drilling in the Libyan-claimed continental shelf, and Mintoff put a freeze on any further dealings with Qadhafi. The first thaw came in 1982 when Mintoff helped foil a hijacking by Libyan dissidents, and in 1983 Libya signed a trade agreement with Malta that doubled the volume of trade between the two countries.

Qadhafi wants to improve relations with Malta to counter what he sees as "imperialist" influence in the Mediterranean. Mintoff's nonaligned and socialist views bear some resemblance to Qadhafi's, and both men denounce superpower influence in the region. Moreover, Malta provides a European platform from which Qadhafi broadcasts propaganda, and he has used Malta as a site for international conferences of leftists. On at least one occasion he has conducted subversive operations there in an attempt to conceal the Libyan source; the failed Libyan plot to assassinate former Libyan Prime Minister Bakkoush in Egypt was mounted from the Libyan People's Bureau in Valletta. Libyan media and propaganda assets in Malta are extensive, including three newspapers and two publishing houses. Libyan commercial establishments may also provide cover for subversive activities.

Malta's interest in closer ties with Tripoli clearly is driven by economic needs. Libya has \$140 million in investments in Malta, is the country's fourth largest export market, and supplies 10 percent of Malta's oil needs. Malta also sees access to Libya's labor market as a means of easing its own chronic unemployment. In addition, the Libyan bogeyman can act as a lever on other potential aid donors. Past experience indicates that the Maltese government will seek to use closer ties with Libya to exert pressure on Italy and on the Arab Gulf States, which have reduced their support for Malta because of financial difficulties.

At a minimum, it appears now that Qadhafi would like to return to the pre-1980 relationship. The November 1984 security agreement, for example, not only promises Libyan support against any external threat to Malta and training for the island's small military force, but also stipulates that Malta will not be used militarily against Libya. Qadhafi probably hopes that Malta will again accept Libyan military students as it did before 1980, when 1,400 Libyans were sent to Malta for technical training. Since January 1984 Malta has provided harbor and maintenance services for Libyan naval vessels and has increasingly become a regular port of call for Libyan ships. Moreover, a Libyan contingent may replace the Italian military mission which has provided aid and training for Maltese air traffic controllers, maritime patrols, and

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helicopter units, as well as instructing the Maltese Armed Forces in use of Bofors guns. This mission had originally been run by the Libyans prior to 1980.

Although a Libyan presence in Malta would not significantly improve Libyan military capabilities, it would be of strategic and psychological value. Qadhafi probably would like to gain access to Maltese airfields primarily in order to frustrate the U.S. by increasing Libya's presence in the vicinity of American installations in Sicily. Qadhafi probably expects that even a small Libyan contingent on Malta would burnish Libya's image as a regional power and increase pressure on Italy to expand trade relations and intelligence exchanges. He might also view an advisory group there as the thin edge of a larger military presence.

We expect Qadhafi will use his economic leverage over Valletta to advance Libyan political influence in Malta. So long as closer relations result in greater trade and economic assistance, Mintoff and his successors will cooperate with Qadhafi--but they will draw the line at compromising Maltese autonomy. In particular, we do not think the Maltese will cave in to Libyan pressure for significant military presence on Malta or for control of military facilities.

Prospects for Soviet-Libyan Cooperation on Malta

The Soviet Union and Libya have a mutual interest in blocking a stronger Western presence in Malta and exploiting the country's nonaligned status. Moscow therefore probably would support a larger Libyan contingent there. We doubt, however, that the Soviets have directed Libya's activities on the island. They are wary of Qadhafi's unpredictability and would be skeptical of his ability to further their long-term interests. The Libyans, for their part, have their own agenda on Malta. They probably would cooperate with Moscow if it seemed in their interest, but only if there were no strings attached.

V. POTENTIAL MILITARY THREAT TO THE U.S. AND NATOA. Evolution of Strategic Importance

Malta's strategic importance derived from its geographical position in the midst of cross-Mediterranean traffic: north-south and east-west. In World War II, Malta provided the key to holding North Africa and territory further east. Royal Air Force air power operating from Malta interdicted the logistic flow from Italy and Sicily to North Africa. German

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and Italian air and naval power came close to counterinterdicting Malta, but critical supplies got through to Malta, preventing surrender of the island and allowing continued interruption of the Axis north-south lines of communication.

While Mintoff apparently assumes that Malta retains crucial strategic significance, and Mifsud Bonnici will most likely keep that assumption, it is no longer valid. Technological advances in the range, speed, and capacities of weapons and platforms have lessened Malta's present strategic importance as a land base. The island represents a useful potential base from which to interdict maritime and aerial transit, but the same can be accomplished in other ways. Within the confines of the Mediterranean, shipping can be controlled by surface, submarine or air power. Moreover, other land base areas are likely to be available to one side or the other in a future conflict--Sicily for NATO, and Libya for our adversaries. If Libya is available to hostile forces, Malta is of limited tactical or strategic value in a war involving U.S. or NATO participation.

Thus, Malta's likely role is that of a spoiler rather than a principal variable. Given the characteristics of modern weapons, it is likely that military forces attempting to operate from an isolated Malta can be reduced with less cost than they could extract, except perhaps in a situation of surprise attack. However, neutralizing hostile forces on Malta would require commitment of already limited resources.

B. Impact of Eventual Soviet Military Presence

1. Major Military Presence

Establishment of a Soviet military presence in Malta (in conjunction with Soviet presence in Libya) would confer no significant increase in military operational threat to NATO's southern flank. If, however, the Soviets did not have access to Libya or to other nearby bases, a Soviet base in Malta would increase the threat to NATO's southern region during the initiation stages of a conflict, to pro-Western countries along the Mediterranean littoral in North Africa, and in particular, to the air (potentially) and sea lines of communication to Greece and Turkey during reinforcement and continuing operations.

In the event of East-West hostilities, Soviet naval and air elements in Malta, operating in conjunction with Soviet forces based in Libya, would enjoy increased flexibility demanding a commensurate increase in friendly resource requirements to

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defend against and eliminate the total threat. The GLCM base in Sicily is located only about 100 kilometers from Malta. Because of the limestone nature of Malta's subsoil, surface to surface missile storage could be made almost impervious to all but nuclear attack and physical occupation.

Should the Soviets gain permanent access to a Maltese airfield, they would probably station an air defense squadron of fighter aircraft, up to a regiment of strike bombers, an anti-ship missile support unit, coastal defense cruise missiles, and a squadron of ASW aircraft. Anti-ship missile aircraft could threaten the entire Mediterranean, its western approaches, and the eastern straits. The Soviets could also provide several Mainstay AWAC aircraft for air defense. But air operations from Malta would be difficult to sustain in the absence of substantial pre-stockage of POL. Furthermore, Western ability to concentrate force, overwhelm the air defenses and render runways inoperable seems highly probable. Moreover, Soviet military establishment would require time between initial presence--expanded to occupation--expanded to useable, significant military force--all (again, in the absence of pre-stockage in Libya) at considerable distance from source of supply. During a major conflict Moscow would not count on such distant shore facilities to support combat operations. Aside from operational military benefits, however, a substantial Soviet military presence on Malta could have a damaging psychological impact on Western public perception of Mediterranean security interests.

2. Limited Military Access

While Maltese facilities would not be vital for Soviet naval operations in the Mediterranean, even limited access to the islands' harbors and airfields would be of nuisance value and would accord some desired redundancy in Soviet assets. Maltese ports and airfields could give the Soviets a platform for supporting their own naval operations and monitoring the U.S. Sixth Fleet. The USSR currently maintains some 45 ships and submarines in the Mediterranean. A Soviet naval facility would provide support such as maintenance, ordnance, and personnel facilities. Their squadron already receives maintenance and logistics support from Soviet ships using ports in Syria and Libya and limited repairs from certain Yugoslavian and Tunisian shipyards. The Soviets also have the restricted use of an airfield in Syria and one in Libya to support increasing deployments of Soviet naval ASW/reconnaissance aircraft to the area. Nonetheless, the USSR continually tries to expand its access to facilities throughout the Mediterranean to avoid relying on only a few countries. Libyan ports and the

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airfield at Umm Aitiquh provide Soviet naval forces capabilities similar to prospective facilities in Malta, but the Soviets may feel they cannot rely only on Libyan facilities.

C. Impact of Eventual Libyan Military Presence

Malta has relatively little to offer Libyan military planners, except to improve the reach and reaction time of Libyan missile-equipped ships and aircraft. Libyan-based aircraft can reach western Turkey, all of Greece, half of Italy, and the Mediterranean islands from Corsica to Cyprus. Assuming that Libya would respect Tunisian neutrality, the use of Malta would marginally increase the threat radius, covering a greater part of Italy and bringing within range Spain's Balearic Islands.

(CIA prefers the following language to the preceding paragraph: Malta can offer Libya improved reach and reaction time of Libyan missile-equipped ships and interceptors. Libyan-based aircraft in theory can reach western Turkey, all of Greece, half of Italy, and the Mediterranean islands from Corsica to Cyprus. But possession of Malta would increase the interceptors' actual operational radius, covering southern Italy and almost reaching to Sardinia. End of CIA dissent.)

The periodic presence of Libyan missile-equipped naval craft at Valletta suggests that Malta may be providing some maintenance, a critical shortfall within the Libyan navy. The stationing of such craft in Malta would improve the Libyan naval reach and reaction time in the strategic Strait of Sicily. However, current and projected Libyan capabilities will remain constrained by manning levels, training deficiencies, and infrequent exercises.

D. The Terrorist Threat

Libya already has used Malta once as a staging area for state-sponsored terrorist activities; the Libyan Peoples Bureau was involved in the attempt on former Libyan Prime Minister Bakkoush. Otherwise, Libyan activists have used Malta only for transit, not as a safe haven. While terrorists could in the future make heavier use of Malta, they already have use of nearby Libya itself, and the addition of Malta might offer little advantage. The Maltese government would, in any case, have difficulty in concealing its own newly cooperative role, and would face criticism from a number of concerned governments.

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E. U.S. Ability to Counter Potential Threats

A crisis in Malta requiring a U.S. military response would be governed by a USCINCEUR CONPLAN. The CONPLAN provides for the deployment of forces to execute a wide range of contingency operations within the USEUCOM area of responsibility which includes Malta. These forces would be deployed, after National Command Authority approval, to protect U.S. citizens, their property and interests, U.S. property, and designated foreign nationals.

Substantial Soviet presence, or Libyan presence involving more advanced varieties of Soviet supplied aircraft and ships, would necessitate relocation of critically short NATO and U.S. counterair capabilities as well as increase the political pressure upon the U.S. for aid and assistance in provision of early warning and air defense capabilities. This would be so particularly in the case of Spain, Italy, and conceivably, Greece. However, a similar Soviet presence in Libya or elsewhere along the North African littoral carries the same imperatives. Malta is no longer the unique strategic site that Mintoff and Mifsud Bonnici recall from the past.

VI. CONSTRAINTS ON SOVIET OR LIBYAN INFLUENCE

The Soviet role in Malta may appear more significant than it is in fact. The Soviets started from zero, so that movement has occurred basically in one direction. Yet, although we have not had a productive relationship with the Mintoff-Mifsud Bonnici regime, the fact remains that Malta is by nature and long tradition a country which looks to the West. With a unique language and history, the Maltese, like many other island peoples, have a relatively self-centered worldview. But Malta's roots in the West long predate Dom Mintoff and should outlast him as well.

A. Western Cultural and Political Influences

The long British relationship has left deep marks. Malta derives its political institutions, including the administrative and legal systems, from British models. Nearly all Maltese are fluent in English, in addition to their native language. They look to London for cultural experience, and the leading newspaper, the Times, is replete with British cultural references. Contact is maintained through extensive travel in both directions, and British visitors represent the bulk of Malta's tourist trade.

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The only serious competitor to the UK for cultural influence is Italy. Increasingly, Maltese are learning Italian as a third language, if for no other reason than to gain access to that most powerful of all influences, Western television. Malta is well within range of Italian TV transmitters, and although Malta has its own television network, the Maltese universally prefer Italian TV to the strictly controlled diet they get from TV Malta.

The Maltese press reflects the essentially Western orientation of the country. The government-controlled organs do frequently criticize the U.S., yet in general, USIS placements and pro-U.S. comments greatly exceed pro-Soviet coverage. This was true even during December 1984, despite Mintoff's visit to Moscow and announcement of the contract to build Soviet ships. Although pro-Soviet articles have increased, so have anti-Soviet articles in the opposition press, which enjoys greater readership and credibility.

B. Catholicism

Malta is arguably the most devoutly Roman Catholic country in the world. In a nation of approximately 330,000, there are some 300 Roman Catholic churches. And, unlike many other nominally Catholic countries, such as nearby Italy, the Maltese are churchgoers, with more than two-thirds of the people regularly attending mass (one recent Gallup poll placed weekly church attendance at 90 percent). The Church wields incalculable influence in Malta, and it is well-placed to caution the public against the blandishments of the Soviet bloc. It is probably even more inclined to do so under the present pope, who has taken a stern line against Marxist ideology and has rejected efforts of "liberation theologians" to unify the two worldviews.

C. Economic Links with the West

The Maltese government trumpets its new economic ties with the East, obscuring the fact that Malta's economic well-being is bound up with the West. Three-fourths of Malta's trade is with Western Europe. The Maltese have long participated in the Western economic system and have enjoyed its high-quality products. It would be a shift of the first order for a Maltese leader to convert the Maltese to using the inferior products of the Soviet bloc.

Italy alone purchased 10 percent of Malta's exports and furnished 26.8 percent of Malta's imports in 1983. In

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addition, Italy has an aid relationship with Malta, providing \$81 million since 1980. Malta is presently quarreling with Italy over the terms of aid and trade. Still, Italy's proximity, economic strength, and interest in Malta ensure that the lines remain open. Mifsud Bonnici has expressed a desire to resolve differences with Italy, although little measurable action has yet taken place.

The European Community. Malta enjoys an important association with the EC, permitting Maltese goods to enter EC countries duty-free. This access to a major nearby market lends crucial support to Malta's export trade. The EC has also been an aid donor, although here too, Malta is feuding with its benefactor.

The United Kingdom is probably the leading foreign investor in Malta. The British also furnish the bulk of Malta's tourist trade, an asset of tremendous importance to Malta's balance of payments. The UK is a major trading partner, furnishing 16.8 percent of imports and purchasing 16.9 percent of Malta's exports in 1983.

The FRG plays a key economic role in Malta and even maintains an approximate trade balance. West Germany is Malta's leading export market, purchasing 32.1 percent of Malta's exports in 1983, and it furnished 16 percent of Malta's imports. German firms came to Malta in the 1970s as part of a boom in textile production. This sector is declining and appears to offer little room for growth. It is nevertheless a vital buttress of the economy and could not easily be replaced.

D. The Role of China

The leading economic supplier among communist countries is the PRC, whose influence serves Western interests by discouraging Maltese ties with the Soviet bloc. China has quietly established itself as a major source of assistance to important development projects, for example, providing technology and manpower for construction of a new deepwater port at Marsaxlokk. The PRC has extended \$45 million in economic assistance since 1972. The China connection is of obvious importance to the Maltese, and it would be jeopardized by a significant Maltese turn toward the Soviets.

VII. U.S. RESPONSE

U.S. interests require that we and our allies nurture Malta's existing ties with the West. We cannot predict with certainty what sort of regime will succeed the present

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leadership. If it turns out to be the Nationalists, then Malta, while retaining its nonaligned status will be more open to cooperation with the West. If Prime Minister Mifsud Bonnici or some other new Labor Party leader assumes control, he will probably cause us more frustration. In any case, we should ensure that the Maltese, under any regime, continue to recognize the value of continued ties to the West.

A. Levers and Limitations in Influencing Maltese Policy

In the short term, we unfortunately have few carrots and fewer sticks with which to influence Maltese policy. Politics for Malta boils down to dollars and cents. The Maltese government makes little or no distinction between political and economic issues beyond its own bedrock objective of preserving Maltese independence and neutrality. Malta wants money and jobs. Unfortunately, the Maltese government does not seem committed to creating the business climate that will draw new foreign investment to the islands. Maltese leaders believe they can haggle and threaten and achieve the same result. They are wrong, but no one has yet convinced them to change their way of doing business.

1. Political Ties. We have worked hard and effectively to impress upon the Maltese that we take them seriously. The Embassy in Valletta has good access to Maltese officials, and Ambassador Rentschler has had frequent meetings with Mintoff, Mifsud Bonnici, and other leaders. We have bent over backward to demonstrate serious consideration of even Mintoff's most outlandish schemes, such as his desire to mediate between North and South Korea, or his wish that Malta supplant Switzerland as an international financial center. We have, however, avoided the formal neutrality treaty that Malta seeks. Mintoff has written to the President, asking that he invite Mifsud Bonnici for an official visit to Washington. Thus, we must consider a response to this request.

2. Trade and Investment. The Maltese seek new export-oriented industry to fuel economic growth. Malta, while lacking in natural resources, holds assets as a potential manufacturing site. It is centrally located, and it has excellent harbors and a well-regarded, educated, trainable, English-speaking populace. The government has a declared policy of attracting new foreign investment. Unfortunately, the same government has fostered an investment climate that discourages newcomers and encourages existing firms to consider moving elsewhere.

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a. U.S. Investment. We have a limited history of trade and investment in Malta, as the market is too small and too distant to interest U.S. companies. The U.S. purchased 3.2 percent of Malta's exports and supplied 11.4 percent of Malta's imports in 1983. Eight U.S. firms, including a Hilton hotel and a Bluebell (Wrangler) bluejeans factory, operate in Malta and employ about 2,000 workers. U.S. investment has a total book value of about \$80 million.

We have been urging U.S. firms to consider investing in Malta, and we have sponsored an impressive number of visits and other contacts designed ultimately to bring new U.S. firms to Malta:

--The Department of Energy sent a team to Malta in April 1983 to examine Malta as a coal transshipment point.

--DOE completed a feasibility study in November 1983 of the Marsaxlokk Port Project (designed to serve as a transshipment site).

--The Trade and Development Program sent missions in late 1983 and produced feasibility studies on transshipment of feedgrain and on investment opportunities in electronics, software, and steel castings.

--Overseas Private Investment Corporation President Craig Nalen visited Malta in April 1983.

--In 1984 OPIC commissioned an International Executive Service Corps study on trade and investment in Malta.

--In October 1983 our two governments formed the Maltese American Business Council to encourage commercial and investment links. A Maltese contingent of this organization visited the U.S. in May 1984 to meet with investment-oriented U.S. officials and industry leaders.

--Malta Development Corporation Chairman Paul Xuereb came to the U.S. in August 1984 to explore investment possibilities.

--NSC Senior Staff Officer Roger Robinson visited Malta in October 1984 to discuss Malta's plan to become an international financial and trading center.

--OPIC sponsored an investment mission to Malta in June 1984.

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These efforts, while demonstrating U.S. responsiveness, have generated no significant new U.S. investment. The Maltese have even expressed some irritation in the wake of these contacts, complaining that they have not "produced results." This Maltese attitude rests on the assumption that we can simply direct U.S. business to invest in Malta. We have duly publicized the contacts and potential opportunities, but the hard fact is that U.S. firms are not interested, and a major reason for their reluctance is the stance of the Maltese government. Corruption, a slow-moving bureaucracy, an overvalued currency, difficult operating conditions, and a government that suddenly renegotiates contracts, does not honor others, spouts socialist rhetoric, and suspects Malta's own business class of disloyalty to the regime--these are the problems that lie in the path of any potential investor. Mintoff has not helped matters by engaging in disputes with Wrangler bluejeans and with Texaco.

b. Other Western Countries. Western European countries have been more heavily engaged than we in Malta. They constitute a key element in preserving Western influence.

Italy remains a major investor and trading partner. Rome sees a strategic interest in Malta and is inclined to endure Mintoff's antics in order to retain influence and safeguard its southern flank.

The UK is probably the largest source of foreign investment, with about 47 firms operating in Malta. The UK is also the bellwether of foreign tourism, and it is vital for Malta to rebuild the tourist trade. Malta unfortunately accepts no blame for the decline. When the British offered to discuss ways to improve tourism, Mintoff replied that the UK needs Malta as a tourist destination and that London should therefore provide a L50 million soft loan.

The FRG is a major investor and trading partner. About 40 firms operate in Malta, employing 4,500 workers. The trend, however, is for the FRG to cut back.

2. Economic and Security Assistance

The Maltese demand economic assistance as well as trade and investment from every nation with which they deal. They are open in depicting this aid as Malta's just "reward" for neutrality. It is an essential part of the neutrality agreements that Mintoff has sought since declaring Malta's neutral, nonaligned status. A limited but significant amount

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of aid has been forthcoming from Western Europe, and Malta is eager for more. Maltese leaders have acted, however, in such a way as to dry up his source.

a. U.S. Assistance. We have no economic aid program in Malta, because Malta is ineligible for Development Assistance and is not a priority for Economic Support Funds. Malta has a consistently positive balance of payments and substantial reserves, and the population lives comfortably. Per capita GNP is over \$3,000, placing Malta in the middle-income range.

The one AID-related program we have permits Malta to obtain excess USG property, paying only for original acquisition cost, reconditioning, and freight. Malta attaches great importance to this program. In February 1983 Malta requested and received Secretary Shultz's agreement for the U.S. to transport this merchandise gratis in naval ships from the U.S. to Naples. This "lift of opportunity" has yet to occur, because the Maltese dawdled at designating their final shopping list and are still delaying in completing the purchase agreement. We nevertheless expect them to do so, at which time AID will transport the items to an East coast port and the Navy will ship them to Naples.

We also provided Malta with a small computer in September 1984 for their project to construct a new deepwater port at Marsaxlokk. The Department of Energy provided the computer and funded installation under the rubric of boosting U.S. coal exports, gaining us some credit with the Maltese.

We have had minimal security assistance with Malta, although Malta is an eligible country. The Maltese have little interest in upgrading their modest security forces, and the items they would probably desire would likely be for crowd-control. Malta is interested in excess MAP property, just as it has sought other excess USG equipment. Malta has not sought International Military Education and Training (IMET), a possible new source of assistance. Whereas Malta would not accept combat training, it probably would desire training programs in technical fields.

b. Allies' Economic and Security Assistance. The Italians perceive their own interest in increasing their presence and thereby preempting any unfriendly nation from establishing itself so close to Italian territory. Thus, Italy has been willing to walk the extra mile. Italy signed a treaty in 1980 supporting Maltese neutrality and pledging a five-year program of \$95 million in grant and loan assistance, retroactive to 1979. Italy has also provided military training for Maltese

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security forces; an Italian training team remains in Malta, awaiting bilateral agreement to resume its functions. Italy sees economic opportunity as well as political necessity in nurturing relations with Malta. Trade has been substantially in Italy's favor, more than compensating for the amount of aid that Italy donates.

Maltese-Italian relations have soured, however, due to typical Maltese tactics. When the aid protocol expired at the end of 1983, development loan funds of \$14 million had not been dispersed, because Malta refused to designate suitable projects and instead insisted on cash payment. This, Italy would not do. The Italians are willing to discuss a new aid protocol, but Malta refuses to begin talking until this money that is "owed" to them is paid first. The Maltese then aggravated the situation by announcing that they will cease importing nonessential Italian goods unless Italy takes steps to eliminate the trade imbalance (\$196.1 million to \$36.1 million in 1983). The Maltese government began to harass the Italian military training mission, and even declared the 1980 neutrality treaty void. The Italian foreign ministry nevertheless views this downturn as an aberration resulting from Mintoff's desire to leave office with a flourish, and the Italians will probably eventually renew their aid program.

The EC has been the other principal aid donor, but unfortunately, Mintoff has also bit this hand that feeds. In 1983 the EC proposed to renew its aid program with an offer of 28 MECU (roughly \$21 million) dispensed over five years. It was a reasonable offer, in view of the fact that Malta has a running battle with the European Parliament over the status of human rights in Malta. Mintoff, however, angrily rejected the EC's offer, calling it insulting, and demanded that the whole sum be transferred before the end of 1984. The EC recently raised their offer to 29.5 MECU but are unlikely to go higher; Malta has not yet accepted the new proposal. Mifsud Bonnici June 17 announced "a new chapter" in relations with Western Europe. It remains to be seen what this means in concrete terms.

B. Looking to the 1987 Election

The next parliamentary election, due by 1987, will affect Maltese foreign and domestic policies for years to come. This is true because:

--the Nationalist Party has a much more free enterprise, pro-Western outlook than the Labor Party; and

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--the Nationalists would probably win a fair election if one were held today.

The second is true even if the Nationalist run head-to-head against Dom Mintoff, let alone a situation in which his charisma were not present. The 1981 election was gerrymandered, not actually rigged. As things stand now, either a major positive change in Maltese policy is likely, or else the Labor Party regime must take the extreme measure of postponing the election on some pretext, or blatantly rigging the outcome. This step is certainly possible. Prime Minister Mifsud Bonnici has threatened that the election might be postponed due to "foreign interference." Actually going through with it, however, is a bridge that the regime has not yet crossed.

This is a case in which human rights considerations and U.S. national security interests coincide. We should do all we can to ensure that the election takes place, that it is conducted fairly, and that the Nationalists perceive a fair chance to compete at the polls. If the Nationalists do not envision a fair shot at victory, there are the twin dangers that they may give up the game and resort to emigration, or that some elements will turn to violence. Neither activity suits our interests, and terrorism would give the MLP the pretext it seeks to eliminate democratic forms in Malta.

C. Consultation with Allies

Given the proximity and greater historic involvement in Malta of some of our allies, they are better placed than we to influence events in the country. As part of our increased attention on Malta, we have already enhanced contact with our allies, particularly Italy and the UK. We have raised it with our key NATO allies, and Ambassador Rentschler sparked a series of luncheon discussions with the five resident missions in Malta from NATO countries.

The view of our allies is generally less concerned than ours. The UK has grown impatient with Mintoff's antics, and in any event London does not see an acute security problem. The British believe that Mintoff is being as obdurate with the Soviets as he is with the West, that the Soviets have at least as great a difficulty in dealing with Malta, and that the Soviets have gained little for their efforts.

Italy is calm but watchful. The Italians see primarily a crude financial realpolitik at work in Malta. In Rome's view, Mintoff--and also his lieutenants--are shrewd nationalists,

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playing both ends against the middle. Mintoff's recent flirtation with Libya, for example, represents an effort to apply pressure on Italy in light of the expired aid protocol. The Italian foreign ministry views the Maltese-Libyan treaty as essentially an empty document, and the MFA also considers Mintoff's visit to Moscow to have been a failure. The Italians will nevertheless continue to devote attention to their southern neighbor, probably including new economic assistance.

VIII. OUTLOOKA. The Near Term

At least until 1987, Malta will most likely continue to be dominated by Dom Mintoff. He may keep control for a much longer period. With his large personal following, Mintoff might even lead his party to another victory in a free election. It is more likely, however, that he could retain power only by obstructing the electoral process.

B. The Post-Mintoff Leadership

After Mintoff departs the scene, the polarized Maltese political society offers two basic contenders for power: the opposition Nationalist Party and Mintoff's own, probably fragmented Malta Labor Party:

--The Nationalist Party, profiting from MLP disunity, may return to power after a long absence.

--The MLP has no clear successor, no matter whom Mintoff tries to designate. The party will probably divide into warring factions led by second-rank leaders Mifsud Bonnici, Lorry Sant, Sceberras Trigona, and perhaps others. The party's interest would dictate that the MLP eventually coalesce around a new leader, but there is no guarantee that the candidates for power will heed that interest.

The MLP or its contending factions will be tempted to disregard democratic norms even more than Mintoff has done. In that event, the staying power of the Nationalists is questionable. They outnumber the MLP, but they are comparative gentlemen who have not thus far demonstrated willingness to engage the MLP in the streets. If the political contest escalates into sheer violence, the MLP is the more experienced and adept contestant.

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C. Foreign Policy - Soviet and Libyan Influence

1. Continued Rule by Mintoff

As long as Mintoff continues to dominate, Malta is likely to remain nettlesome but not threaten important U.S. interests. Mintoff's maneuvering between East and West is an old game at which he is remarkably skilled.

2. Nationalist Party Government

A Nationalist regime would reorient Malta more toward the West. All would not be perfect; the Nationalists are still Maltese, and the habit of bargaining to the bitter end of a negotiation would be their style as well. Malta would also refrain from turning politically toward NATO; the Nationalists support Malta's nonaligned stance. Still, the NP strongly criticizes Mintoff for seeking closer ties with the Soviets and with Libya, and an NP government would display a more skeptical attitude toward those two relationships.

3. A Post-Mintoff MLP Government

The possibility less easy to characterize is that of a post-Mintoff MLP regime. Here the Soviets and Libyans would work to increase links to the regime, whose leader may not even be one of Mintoff's present second-level triumvirate.

a. Mifsud Bonnici in Charge

The present prime minister may eventually come into his own. He reportedly has begun a concerted effort to win support through Sunday tours of Labor Party clubs. He also seems to be trying to improve his image with more conservative voters as well. He has adopted more conciliatory tones since becoming prime minister and has begun to draw on his old union ties to reach out to "working class" Nationalists. He seems less committed than his predecessor, however, in maintaining a venter of democratic pluralism.

Mifsud Bonnici probably shares Mintoff's prickly approach to the Soviets and Libyans as well as toward the West. He has, however, already sent positive signals to Italy and the EC. Whether or not he adheres to the Mintoff line in foreign policy will probably turn on how large a personal base he has managed to build. Even if his position is relatively secure after Mintoff, Mifsud Bonnici might be tempted eventually to look beyond Malta for support, offering new opportunities for the

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U.S. as well as the Soviets and Libyans to increase their influence.

b. Scramble for Power

If Mifsud Bonnici cannot consolidate his control, then he, his two chief rivals, and perhaps others will cast about for allies. The contenders would welcome support from any quarter, including from abroad. Of the three chief rivals, Lorry Sant would be the most unwelcome victor from our standpoint, given his purported affinity for the Libyans.

c. The Worst Case

In this situation, we can imagine a scenario that could lead to a significant foreign military presence on the island. None of Mintoff's likely MLP successors has his sophistication and his ability to play countries off against each other successfully, nor do these men have the charisma and leadership qualities that have allowed Mintoff to dominate Malta so thoroughly. Public protests against a government that is already seen to be representing a minority would probably become even more widespread. In particular, an MLP decision to postpone elections it could not hope to win would be likely to spark demonstrations on a major scale. Under such circumstances, Mintoff's successor might turn to Libya (or, much less likely, to the Soviet Union) to supplement Malta's meagre crowd control capabilities. Qadhafi would probably be quick to supply assistance, but he might insist on Maltese favors in return. Permission to set up early warning radar on Malta ("to guard against our common foes") could lead incrementally to more troops, more frequent port calls, and even Libyan fighter aircraft stationed on Malta.

d. Constraints Likely To Prevail

This last scenario is, however, unlikely. Many constraints will apply, no matter who is at the Maltese helm. On balance, we do not see the Maltese intentionally compromising their sovereignty, their cherished nonaligned status, or their own economic welfare by reorienting toward Moscow. Barring a major falling out with the West, Malta's economy will continue to depend much more heavily on the West than the East. Sheer self-interest should prevent the Maltese from cutting their Western ties. Moreover, the ardent Catholicism of the Maltese, prevailing Maltese affinity for the West, and the valuable relationship with the PRC, probably would restrain Labor Party leaders from any abrupt move toward deep entanglements with the USSR.

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The same factors hold for excessive Maltese involvement with Libya. Although it is possible that one of Mintoff's successors could be bought out by Libya, he would have his work cut out to convince the Maltese--who, by all accounts, dislike and suspect the Libyans--that a close alliance would be in Malta's interest. It is much more likely that Qadhafi will eventually overplay his hand or that the Maltese will find a more generous patron whose designs are not quite so blatant, and Libyan-Maltese cooperation will languish once more.

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U.S. POLICY TOWARD MALTA

This directive defines U.S. policy toward Malta in light of Malta's move to enhance ties to Libya and the Soviet bloc, accompanied by an increasingly authoritarian style of government. For now, the situation warrants close U.S. monitoring, consultation with our allies, and a modest expansion of U.S. resources designed to help keep Malta nonaligned and free from foreign exploitation or domination. The United States will maintain businesslike relations with the present regime, but will not extend extraordinary support (e.g., economic assistance or high-level visits) as long as there remains some prospect of the Nationalist Party returning to power via elections in 1987.

OBJECTIVES

- o Deny the use of Malta for military purposes by the Soviets or Libyans.
 - Persuade Malta to fulfill its declared policy of neutrality and nonalignment.
- o Prevent Malta from serving as a base for international terrorism.
- o Maintain Malta's essentially Western orientation and democratic system.
 - Nurture Malta's economic links to the West.
 - Encourage the government to permit free elections, due by 1987.
 - Discourage the government's assault on democratic institutions.
 - Encourage the Nationalist Party and any democratically-inclined members of the MLP.

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ACTION

As a way of seeking to achieve the objectives above, the United States will take the following actions:

Note. Those steps which enhance cooperation with Malta will be taken incrementally, in accordance with the response of the Maltese government.

o Political/Diplomatic

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- Increase consultations with the PRC (which has a substantial presence in Malta), the Vatican, and our NATO allies (especially Italy, the FRG, and the UK, whose interests are most directly affected) by conducting periodic reviews.
- Instruct our ambassador to Malta to take every opportunity to:
 - a) express publicly and privately our support and sympathy for the democratic process in Malta and the maintenance of human rights;
 - b) reiterate our expectation that Malta will remain true to its avowed policy of neutrality and nonalignment;
 - c) ensure that the Government of Malta and its leaders understand that their relations with the U.S. and the West would be adversely affected if Malta grants military access to Libya or to the Soviet Union and its allies (e.g., politically: reduce diplomatic contacts, and no longer characterize Malta as nonaligned; economically: encourage our friends and allies to reduce commercial ties to Malta).
- Withhold extraordinary support from the present Labor Party regime while the Nationalist Party retains some chance of returning to power in 1987.
- Maintain frequent contact with Maltese officials, demonstrating that we do take them seriously and will consider any reasonable proposal for political or economic cooperation.

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- Turn aside Maltese requests for meetings with the President or other senior officials above the Under Secretary level, but consider more frequent visits by officials at an appropriate level.
 - Enhance contact with Nationalist Party leaders and with any MLP leaders who show willingness to preserve democratic norms.
 - Promote contact with the NP through the international Christian Democratic movement.
 - Utilize Project Democracy to encourage the democratic process through contacts with nonpolitical, democratically-inclined organizations such as the Chamber of Commerce.
- o Public Diplomacy Efforts.
- Boost the USIS information effort and staff in order to:
 - a) give the Maltese a clearer picture of U.S. policies; and
 - b) better expose and counter Soviet propaganda and disinformation.
 - Increase leader grants and other exchanges.

(USIA notes that staff increases are dependent on Congressional approval.)


o Trade and Investment

- Continue the AID Excess Property program, including the promised one-time "lift of opportunity" by U.S. naval vessels to Naples.
- Call attention of U.S. firms to trade and investment opportunities in Malta.
- Impress upon the Maltese that it is up to them to establish an attractive investment climate.
- Cease responding to requests for assistance on items that do not warrant action (e.g., Malta's request to become an East-West financial center)
- Have OPIC and Commerce sponsor a series of trade and investment missions to Malta.

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- Have DOE and Commerce organize a visit of U.S. coal exporters and transporters to examine Malta as a site for transshipment of coal destined for Mediterranean ports.
- Encourage U.S. firms to consider Malta as a transshipment point for grain.
- o Economic or Military/Security Programs.
 - Offer \$25,000 to \$50,000 in FY 1985 or FY 1986 for International Military Education and Training (IMET).
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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

SIG on Malta/NSDD

FROM:

A/NIO for EUROPE

EXTENSION

NO.

NIC No. 03823-85

DATE

31 July 1985

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TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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FORWARDED

NO.	TO:	DATE		OFFICER'S INITIALS
		RECEIVED	FORWARDED	
1.	NIO/EUR	31 Jul		<i>[Signature]</i>
2.	DDI Reg.			
3.				
4.	C/NIC			<i>[Signature]</i>
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