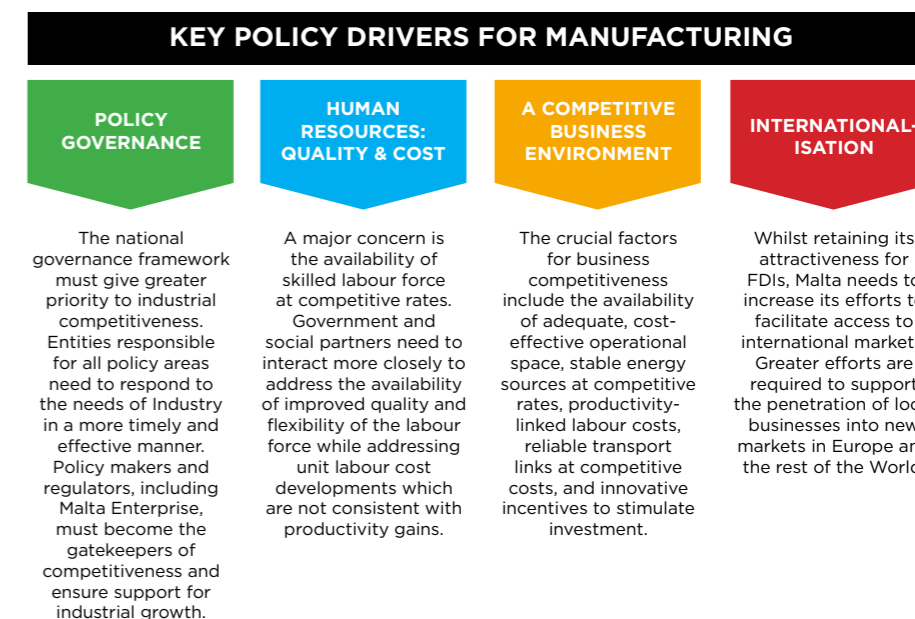


EXECUTIVE SUMMARY

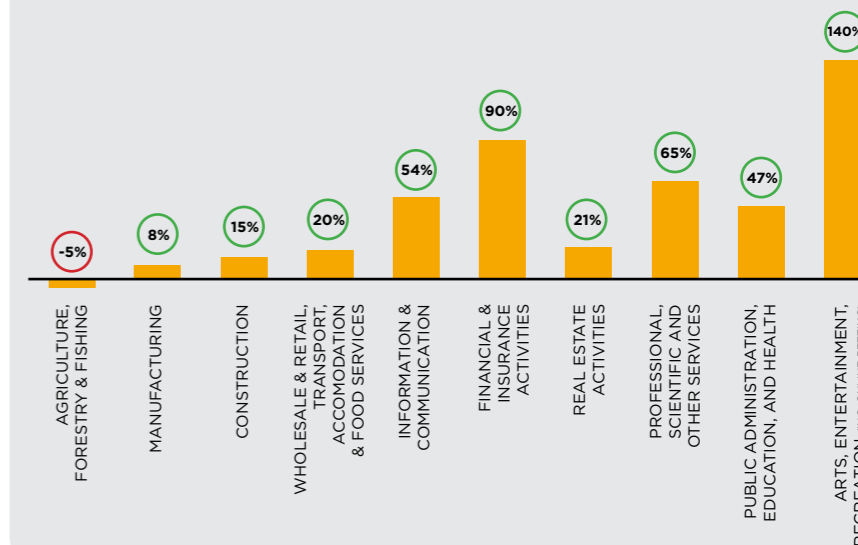
THE PRIMARY ROLE OF THE MANUFACTURING INDUSTRY IN ACHIEVING COMPETITIVENESS AND ECONOMIC GROWTH IS INCREASINGLY RECOGNIZED IN EUROPE. THIS VIEW IS SHARED BY THE MALTA CHAMBER SINCE THE MANUFACTURING INDUSTRY PROVIDES SIGNIFICANT DIRECT AND INDIRECT CONTRIBUTION TO THE MALTA'S GDP. IN THIS RESPECT, THE MANUFACTURING ECONOMIC GROUP WITHIN THE MALTA CHAMBER HAS ENSURED THAT THE MALTA CHAMBER'S FORTHCOMING OWN 7-YEAR ECONOMIC VISION FOR MALTA, PROVIDES FOR A SOLID PRODUCTIVE AND INNOVATIVE MANUFACTURING INDUSTRY. THERE IS URGENCY TO ACT, GIVEN THE NEW REALITIES WHICH MALTA NOW FACES IN THE AFTERMATH OF THE EUROZONE CRISIS.

This paper aims to raise awareness of Malta's inherent challenges which the industry base in Malta is facing to maintain its competitiveness. At the same time, it outlines the essential priorities which the Malta Chamber believes need to be tackled in the process of developing an updated meaningful national Industrial Policy. Moreover, this paper identifies major pressing concerns for the sector and gives an outlook of the main determining factors to be considered for the industry's strategic development. The Industrial Policy needs to be consistent and focused on the key fundamentals which have to be immediately in place, as well as on long-term strategies with concrete targets. The main considerations made in this paper can be condensed in 4 key policy drivers:



This paper coincides with the initiatives being taken at European Union level to reverse the declining role of industry in Europe. This development can be considered as a positive stimulus for Malta to take stock of its situation and to enable it to improve its competitiveness. In October 2012 (MEMO/12/759) the European Commission committed to reversing the declining role of industry in Europe and has set a target of 20 per cent of GDP by 2020 for Industry. In January 2013 BUSINESSEUROPE presented its proposal for an Industrial Compact to the European Commission, proposing an overarching framework to facilitate industrial growth and highlighting the need to address the shortcomings in EU policy-making. The Malta Chamber notes with satisfaction that these policy recommendations are in conformity with the proposed priorities for Industry in Malta as outlined in this document. Economic data presented in this paper indicates a disproportionate growth within the Maltese Economy in recent years, warranting careful consideration on its long-term sustainability. The growth in Gross Value Added for the period 2006 and 2013 for manufacturing stands at a mere 8 per cent as against 90 per cent of financial and insurance sectors and the 140 per cent of the i-gaming sector. In fact, the manufacturing share of value added in the economy steadily declined from 21 per cent in 2000 to 11 per cent by 2013 while full-time employment in manufacturing declined by 3,500 between 2007 and 2012.

SECTORAL GVA GROWTH RATES FROM 2006 TO 2012 (Chart 2)



The country's public administration still employs 25 per cent of full-time workers in Malta, while the wholesale and retail sector is the major contributor to our economy in terms of turnover and employment. These trends raise a number of questions about the strategic positioning of the Maltese economy:

- 1 **What would be the likely scenario when the cycle turns and the growth impetus in the current expanding sectors ends?**
- 2 **Who and what will remain in Malta if the international factors in sectors such as gaming and finance change?**
- 3 **Which are the sectors which truly have deep roots in our economy and provide socio-economic stability?**

Competitive pressures are tremendous in a post-recession economic environment, whereas different countries are scrambling to strengthen the backbone of their economy through a reinvigorated Manufacturing Industry. However, Maltese Industry faces a very challenging context. Between 2001 and 2012, the average growth rate of the nominal Unit Labour Cost for Malta was 2.9 per cent compared to 0.8 per cent for Germany and 1.3 per cent for EU27, indicating eroding international competitiveness. Malta has also become the second most expensive country in Europe for energy provision, with considerable tariff increase in recent years. The situation is aggravated by excessive transportation costs, exacerbated by an ineffective port reform which did not have the desired impact. Finally, the inadequate recognition of Malta's challenges within the EU Regional Aid regulations have serious repercussions on the country's investment incentive framework. The effect on "large" firms is of most concern with the total allowable maximum aid intensity falling from 30 to 10 per cent (+5% until end-2017). Furthermore, this 10/15 per cent is only limited to investments resulting in new products and/or new process innovation, which is not typical activity for Maltese companies with consolidated economic activity.



Further to these conditions, the country now faces an unprecedented situation, whereby countries which experienced the brunt of the financial and economic crisis (such as Spain, Italy, Greece, Portugal, Ireland...) have no option but to adjust and shape themselves out of their economic difficulties, therefore becoming much more competitive in the process. In addition, Maltese companies are also competing with Asian regions, Eastern European countries who are also gaining EU membership benefits, and North African countries which do not have the same regulation-based restrictions.

The major concern of the Malta Chamber is that an emerging trend is evident whereby local plants of FDI multinationals are losing product lines to competing plants elsewhere in Europe. This could trigger a loss of investment in the local plant by the foreign investor company leading to a gradual running down of operations to the detriment of jobs and cluster activity of several SME companies.

The Chamber therefore believes that practical solutions are needed to send an important message to FDI companies - that Malta is actively addressing its rising operating costs in line with other European countries and regions.

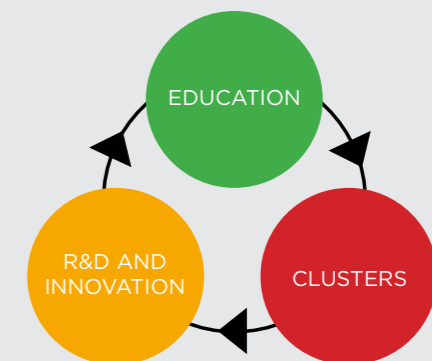
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IMMEDIATE COMPETITIVENESS FACTORS

- ✓ SKILLED LABOUR FORCE AT COMPETITIVE WAGES
- ✓ STABLE ENERGY AT COMPETITIVE RATES
- ✓ INVESTMENT SUPPORT
- ✓ EFFICIENT AND COMPETITIVE TRANSPORTATION LINKS
- ✓ INTERNATIONALISATION SUPPORT
- ✓ ACCESS TO FINANCE
- ✓ SMART REGULATION
- ✓ REASONABLE FACTORY OCCUPANCY COSTS

LONG-TERM SUSTAINABILITY FACTORS



SUMMARY RECOMMENDATIONS

A number of specific recommendations are put forward in this paper encompassing all the above factors. The entire list of recommendations is summarised hereunder.

Availability of a skilled labour force at competitive wages (<i>Section 3.1</i>)	
Recommendation 1: Skills Audits	Develop a human capital development programme based on a sectorial skills gap analysis.
Recommendation 2: Apprenticeship and placement	Promote a proactive and coordinated approach between Industry, the University of Malta, MCAST, ETC and the Ministry of Education, to synchronise academic learning with work practices.
Recommendation 3: Work-force re-training and employability	Provide opportunity and motivate employees to engage in learning and re-skilling through flexible forms of training and tuition provided by higher education institutions.
Recommendation 4: Non-bureaucratic Training Aid schemes	Provide employment and training incentive schemes with an effort to simplify the associated administrative process.
Recommendation 5: Wage negotiation processes	Ensure that the wage negotiation processes reflects prevailing economic realities, through cooperation between the social partners and other stakeholders.
Recommendation 6: Wage indexation (COLA)	Revise the COLA formula without further delay to incorporate a measure of productivity besides inflation.
Recommendation 7: Minimum Wage / Living Wage increases	Avoid increases to the minimum wage beyond the annual COLA revision.
Recommendation 8: Engagement on temporary and flexible basis	Avoid misguided restrictions on companies in regard of employment on a temporary and flexible basis.
Recommendation 9: Banking of hours scheme	Embrace and encourage time banking programmes in the Manufacturing Industry.
Recommendation 10: Labour Participation	Enhance female participation, through extension of school hours and further support for child-care services.

Stable provision of energy at competitive rates (Section 3.2)	
Recommendation 11: Production and distribution costs	Address the efficient production, transmission and distribution of energy, and distinguish between the respective costs.
Recommendation 12: Feed-in Tariffs	Continue to incentivise private enterprise to seek alternative sources of energy through adequate feed-in tariffs.
Recommendation 13: Joint purchasing / Bulk buying	Introduce a system of joint purchasing of electricity and introduce reduced tariffs for bulk buying.
Recommendation 14: Pre-fixed and variable tariffs	Allow flexibility to consumers to either fix their tariffs for a number of months ahead or opt for a variable tariff.
Recommendation 15: High-users contact point	Offer efficient services to high energy users through a dedicated unit within Enemalta/ARMS.
Recommendation 16: Privately managed distribution	Explore the possibilities for privately managed energy distribution grids and substations in Industrial parks.
Recommendation 17: Energy Vouchers	Issue energy vouchers to be set against electricity bills for companies which invest in efficient and alternative energy sources.
Recommendation 18: Green energy policy	Develop and facilitate access to infrastructure for the generation of energy from cleaner sources, through a reasonable energy policy and sensible considerations of the local natural limitations.

An adequate support framework for business investment (Section 3.3)	
Recommendation 19: Permanent solutions to address permanent disadvantages	Make the case for adequate recognition by the EU that Malta has permanent isolation disadvantages that require permanent solutions.
Recommendation 20: National action to safeguard the Economy	Undertake adequate national initiative to incentivize the investment needed to safeguard economic sustainability, in light of the economic challenges, and of the fact that Malta's realities are not currently recognised within the EU Regional Aid Framework.

Availability of efficient and reliable transport links at competitive rates (Section 3.4)	
Recommendation 21: International transportation links	Secure adequate access, flexibility (routes & frequency) and competitive rates for the transportation links to the international markets.
Recommendation 22: Invest in port infrastructure and reform port-work practices	Re-organize port-work practices and the associated cost structure, and ensure adequate infrastructure in a key connection node to the international markets.
Recommendation 23: Develop Malta as an international re-distribution hub	Enhance infrastructure at the Malta Freeport and at Malta International Airport, through the development of warehousing and logistic/distribution centres; and extend the free- zone area from the free-port to the airport and to other warehousing facilities.

Internationalisation support to access the European Single Market, and beyond (Section 3.5)	
Recommendation 24: Export Credit Insurance	Address the lack of critical mass required for the commercial viability of private export credit insurance, through support measures for adequate alternatives.
Recommendation 25: Business delegations and business councils	Provide support in the form of accessible information on new markets and logistical support to access them, through business delegations and business councils.
Recommendation 26: Trade and investment offices	Supplement Malta's Embassies with an effective trade and investment office to assist local companies/consortia to find business opportunities abroad.
Recommendation 27: Clustering	Encourage a consolidation of resources amongst local companies to build a stronger internationalisation capacity, and promote the 'brand' of Malta's manufacturing eco-system.
Recommendation 28: Core FDI activity	Entice FDIs to place core corporate activities and higher value-added processes in Malta, whilst encouraging subcontracting to local firms.
Recommendation 29: Single Market Act II	Draw the benefits arising from the EU Market Act II expected in 2014.

Adequate Access to Finance (Section 3.6)	
Recommendation 30: Advantageous loan terms	Ensure that similar schemes to the JEREMIE, whether EU or locally funded, are supported and introduced.
Recommendation 31: Collateral-free loans	Facilitate the creation of collateral-free loans under a form of credit guarantee fund trust schemes.
Recommendation 32: Private internationalisation development funds	Encourage financial institutions in Malta to undertake initiatives which are intended to assist Maltese business and industry in international trade.
Recommendation 33: Trans-border European venture capital market	Encourage local industry players to look for financing outside of the local market, by exploiting the trans-border European venture capital market which is now regulated.
Recommendation 34: High net-worth individuals	Set up a business angel network and the required legal/ fiscal infrastructure to attract the investment of high net-worth individuals in local start-ups.
Recommendation 35: Enterprise Investment Scheme	Introduce an Enterprise Investment Scheme, offering a range of tax reliefs to investors who purchase shares in new small, higher-risk, innovative companies.

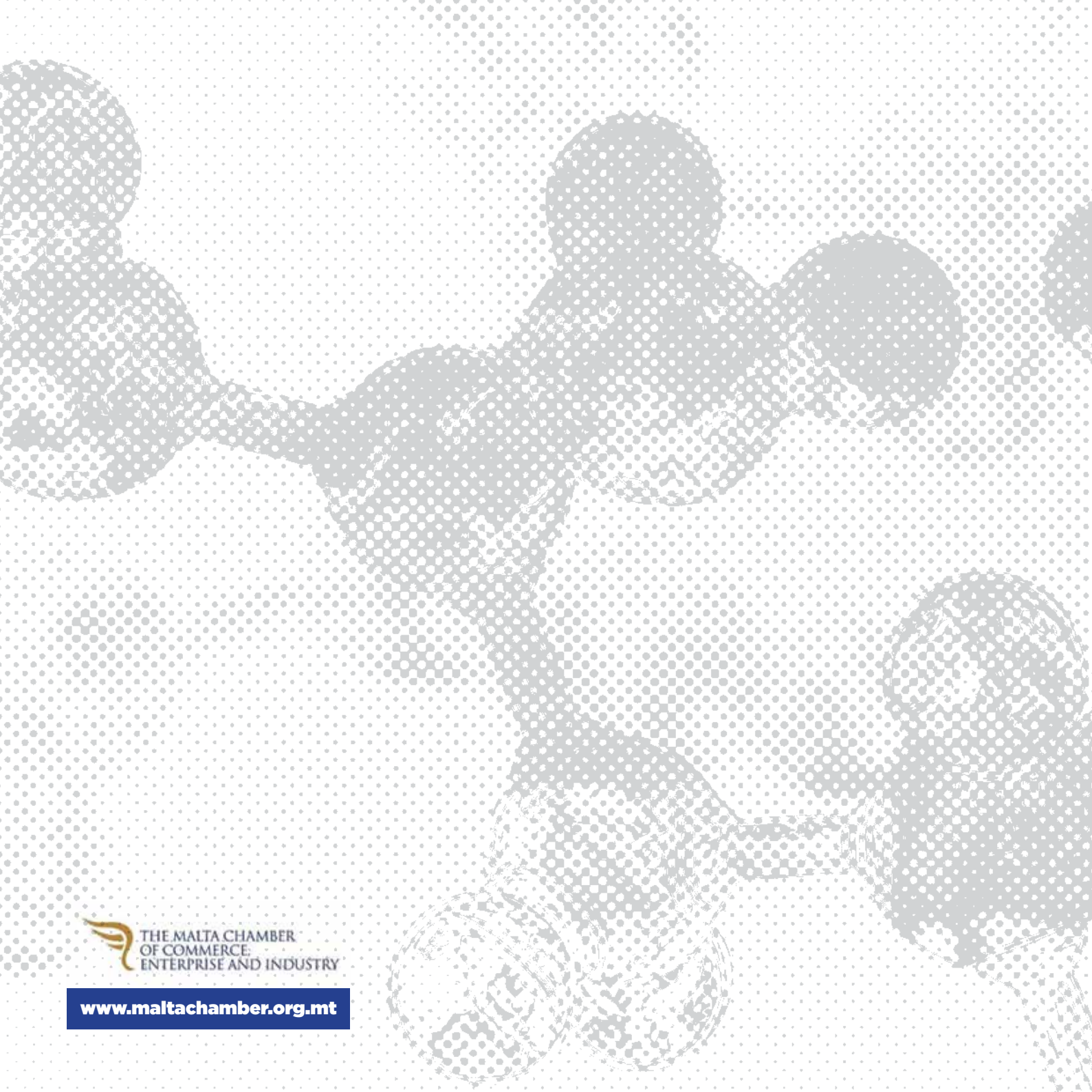
Low/Manageable Bureaucracy (Section 3.7)	
Recommendation 36: Better Regulation	Enhance the application of the better regulation principle and regulatory impact assessment methodologies, whilst simplifying complex administrative procedures.
Recommendation 37: Public Service / Regulatory Authorities	Orientate management and administration structures in the Public Service towards effective interaction with industry, backed up by regulatory instruments with formal guidelines and formal documentation.
Recommendation 38: Market and fiscal surveillance	Address Malta's public finances through market surveillance and a solid front against fiscal evasion and illegal business practices. Policies need to be backed at an operational level to effectively coordinate fiscal discipline and border surveillance.
Recommendation 39: Departmental consolidation	Consolidate the activities of the departments for Inland Revenue, VAT, Customs and Tax Compliance.
Recommendation 40: VAT bureaucracy	Simplify a number of complex administrative procedures in the VAT system, in order to minimise unnecessary administrative cost burdens.
Recommendation 41: Impact assessment of Environmental Regulation	Undertake an extensive impact assessment for proposed environmental regulations, taking into consideration the effect on Industry competitiveness, in line with the Small Business Act.
Recommendation 42: Costs of Environmental Regulations	Avoid additional costs in the re-enforcement and compliance with new regulations. A self-levelling mechanism is recommended, whereby fees are imposed only on companies breaching environmental obligations.
Recommendation 43: MEPA resources/capacities	Make accessible the necessary expertise to MEPA for implementation of the necessary procedures required by new regulations, therefore avoiding additional burden on the private sector.
Recommendation 44: National competitiveness watchdog	Create a national competitiveness watchdog to ensure that the productive portion of the economy is not unnecessarily hampered by new measures, regulations and taxes.
Recommendation 45: Second Chance Policy	Review the legal provisions relating to insolvency in order to reduce excessive barriers for honest entrepreneurs to make a fresh start.
Recommendation 46: EU funding schemes	Reduce the various levels of local control and departmental involvement in ESF Schemes. Bureaucratic requirements should also be reduced in the application process, whilst avoiding delays in the reimbursement process to the private sector. More clarity and guidance with regard to the eligibility criteria, and a timely award of funds is also required in ERDF schemes

Provision of adequate factory space at competitive occupancy costs (Section 3.8)	
Recommendation 47: Infrastructural investment in Industrial Parks	Sustain the upgrading of Malta's industrial estates in order to secure an excellent infrastructure for industrial estates, and portray an image of quality and excellence.
Recommendation 48: New/changing policies	Enact new or changing policies and regulations with sensitivity and following consultation. Rent and Service Charge policies for industrial estate cannot be disconnected from the realities of the sector and the effects on its competitiveness.
Recommendation 49: Industrial estates maintenance	Entrust maintenance of Industrial estates to the respective tenants' associations, based on costed programmes of works, and financed on a not-for-profit and full-cost-recovery basis, through a service charge payable by the tenants.
Recommendation 50: Cost-recovery of new factory development/extensions	Amortize the cost of new factory development/extensions on the basis of the building life span.

Education (Section 4.1)	
Recommendation 51: Negative stereotype	Address the negative public perception and stereotyping which is biased against the manufacturing sector.
Recommendation 52: Skills recognition	Recognize and support achievements all along the skills hierarchy, also in recognition of technical people.
Recommendation 53: Career Guidance	Create the appropriate linkage between secondary schools students/guidance teachers and industrial operators to make manufacturing a sustainable proposition for young people; equip teachers to expose students to manufacturing related careers, both at primary and secondary level.
Recommendation 54: Entrepreneurship in the Educational curriculum	Include entrepreneurship programmes in primary and secondary schools, to equip them with the required employability skills.
Recommendation 55: Incubation for Start-up creation	Encourage young people to start-up their own business ventures, providing opportunities of financing, counselling support and functioning incubators; Provide incubation services to students in higher education, providing mentors, advisory and training to start-up entrepreneurs.
Recommendation 56: Knowledge Transfer Partnerships	Set up 'Knowledge Transfer Partnerships' to facilitate the transfer of knowledge developed or improved in academic institutions towards successful commercialisation.
Recommendation 57: Multi-lingual ability	Safeguard proper use of the English language which grants advantages in attracting and doing business on an international level.

Research, Development and Innovation <i>(Section 4.2)</i>	
Recommendation 58: Innovation schemes	Target innovation by supporting ambitious and growth-led companies to create and enhance R&D&I, thus attracting high-valued added FDI and anchoring existing FDI.
Recommendation 59: The Innovation Union	Consider the EU's Innovation Union, part of the Europe 2020 Strategy, as a basis for national R&D&I initiatives.
Recommendation 60: Alignment with an RTDI Strategy	Create strong linkages and complementarity between a National Industrial Policy and National RTDI Strategy.
Recommendation 61: Defining what constitutes R&D&I	Review the definition of what constitutes R&D in Malta, as set out Maltese legislation and eligibility guidelines for incentive schemes to ensure alignment with the EU framework for State aid.
Recommendation 62: Attract skills	Attract high-skilled workers and researchers from other Member States and third country nationals through adequate incentives to enhance their mobility.

Research, Development and Innovation <i>(Section 4.3)</i>	
Recommendation 63: Clustering initiatives	Direct efforts towards an effective supporting framework to create the linkages which physically and/or virtually bring together large companies and SMEs, universities, research centres and communities of scientists and practitioners to exchange knowledge and ideas, and collaborate towards common objectives.
Recommendation 64: Industry Grouping Clusters Initiatives	Target strategic industries in our economy which show potential for clustering initiatives. Support should address the financing of administrative costs, the co-funding of the activities and projects of Clusters, and the provision of adequate human resources in their management and administration.



 THE MALTA CHAMBER
OF COMMERCE,
ENTERPRISE AND INDUSTRY

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