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Address by Mr. Pierre Fava, President, Malta Employers' Association

Fellow IOE members,

It is indeed a great pleasure, as president of the Malta Employers' Association, to be addressing such an august gathering of delegates from European countries on the occasion of the meeting of the IOE European members. A glance at the agenda for this meeting promises an intensive exchange of views and experiences during these sessions, which are really a reflection of the challenging times that we, as employers, are all passing through in our respective countries.

I welcome you all and hope that you will find your stay in Malta both useful and pleasurable. The building in which we are having this meeting - the Mediterranean Conference Centre - was originally built by the Order of the Knights of St. John in the 16th Century as a place of healing, and is one of the world's oldest hospitals. Just as the enterprising Knights of St. John came from all over Europe, it is fitting that a gathering of delegates, also representing enterprise, should meet in this 'sacra infermeria' at this point in time to discuss topics related to the healing of ailing economies and a recovery from the economic crisis that has affected us all.

Since its inception 45 years ago, the Malta Employers' Association has always participated and benefited from membership in the IOE. Our late founder, Mr. Anthony Miceli Farrugia, was a firm believer in IOE, and throughout these years, during which he has attended numerous IOE and ILO meetings, MEA has always been inspired by the expertise which IOE offers its members, and guided by the positions that IOE has taken on various issues related to employment.

Although one can justly say that the crisis emerged primarily through a meltdown of the financial sector which spilled over to the real economy with devastating results for enterprises and jobs, the predicament which many economies had to face in the past two years was also caused – I would hazard to say equally caused - because many governments also threw caution to the wind and for years on end accumulated chronic deficits and debts to finance unsustainable spending. This has

left many countries in a situation where fiscal intervention was neutralised, as governments lacked the fiscal space to channel much needed resources to buffer the economy from the full impact of the recession.

The experience of the past years brought to light the need to make fiscal consolidation a national priority in many countries. Indeed, the loss of jobs in the private sector was followed by redundancies and pay cuts in the public sector in many economies, a sector which governments and unions had long considered to be recession proof. Consequently, the actions required to avoid a repetition of the recession must involve a two pronged approach which recognises the need for a regulatory framework which safeguards the economy from the improper practices of financial institutions, combined with concrete measures - painful though they may be – to bring public finances in order.

The role of social dialogue is essential in realising these ambitions, and we fully endorse the statement in the Global Jobs Pact that : ‘*social dialogue is an invaluable mechanism for the design of policies to fit national priorities*’. As we have seen, attempts at fiscal consolidation have been strongly resisted by trade unions, while governments are reluctant to face the political cost of steering welfare systems and public spending towards sustainability. This raises all sorts of threats to sustainable long term economic growth, as the safeguarding of jobs and wages in the public sector may take priority over more essential items for investment, such as education. We agree that, at this stage, fiscal consolidation should be based more on cutting expenditure than revenue tightening, but reductions in expenditure should be achieved through efficiency gains and budgetary discipline.

The Malta Employers’ Association has been at the forefront in policy engagement to minimise the negative social and economic impact of the recession, and I must mention that the policy papers issued by the IOE have been very useful in this regard. Social dialogue has been a key element in building on the solid reputation of trust and credibility to agree on constructive and realistic courses of action – both at national and enterprise level – with the other social partners. The result is that this year the economy is expected to grow by 1.5 to 2%. Unemployment - based on the number of persons actually registering for work - is currently around 5.2%, and is expected to fall further by the end of the year. This is not to say that social dialogue is the exclusive element that has led to these mildly optimistic figures, but it has certainly played a leading role and contributed in no small way.

In Malta, the main focus of combating the recession has been on job protection. There was consensus between the social partners about the need for a shared effort to keep as many people in employment as possible at a time when order books for manufacturing companies dried up and tourism arrivals were on the decline. Many employers opted to reduce the working hours in lieu of redundancies, and unions accepted wage freezes or reductions (with the exception of the public sector, which ironically awarded record wage increases because of a pre-agreed collective agreement). On its part, government offered financial incentives to those companies who retained people in employment on a reduced working week. This assistance was conditional to a commitment to train employees during idle time, combined with capital investment. This strategy has been successful, as many companies who, up till a year ago, were contemplating closure, were prepared to hit the ground running once global recovery picked up. Throughout this process, MEA has been at the side of employers – advising members about the best avenues available to restructure their human resources, at the negotiating table with unions, through its lobbying with government, also through training their HR people.

This experience is proof that the Association has fully embraced the principles embedded in the Global Jobs Pact which was adopted by the ILO in June 2009 as a means of exiting the crisis. In

particular, we have focused on section 9, point 8 which states that: *'engaging in social dialogue, such as tripartism and collective bargaining between employers and workers as constructive processes to maximise the impact of crisis responses to the needs of the real economy'*.

Another section of the Global Jobs Pact which we are focusing upon is the reference to: *'the contribution of SMEs and micro-enterprises to job creation, and promoting measures...that would ensure a favourable environment in their development'*. As the Director General will explain in his presentation, the MEA has embarked on an ambitious outreach programme to assist SMEs and Microenterprises to function better as employers through the services which are offered by our Association.

The economic recovery presents challenges of its own. Union members equate an improvement in the order books with profitability, which is not always the case. As we know, many companies are still recuperating from accumulated losses and fresh orders are frequently the result of more stringent bargaining, possibly price reductions. The recovery does not translate automatically into wage increases. Indeed, in many countries, mild economic growth has not even resulted in job creation, and many economists forecasted a significant lag between output and job recovery.

Another aspect of the local employment situation, which is concerning unions, is the increase in atypical work – mainly part time and definite period contract employment. However, Eurostat figures reveal that, at 10%, Malta has a lower percentage of part time employment than most EU countries, where the average is 18%. The same applies for definite period contract work, which stands at less than 5% compared to an EU average of 14%. The marginal increase in atypical employment is due to a number of socio-economic factors. Fears of a double dip recession make employers more cautious in committing themselves to indefinite period contracts. There is also an increased demand for part time /reduced hours work arrangements by employees, mostly to strike a balance between work and family life, and also by an increasing number of retired persons who desire to remain in employment. It should be clear that if Malta wants the activity rate to increase, one should expect more people to be engaged in atypical employment. Unfortunately, unions and the media often fail to distinguish between precarious and atypical employment.

Malta's labour market does face numerous challenges, and the fact that we are a country that depends exclusively on its human resource amplifies the implications of such challenges. The transformation of the economy towards one that offers higher value added employment depends on the upgrading of skills and flexibility of our workers. The past five years have been marked by rapid and continuous structural changes in our economy. Most of our low value added manufacturing companies have been outsourced, as Malta could not compete with other low cost countries in various part of the world. Thousands of jobs have been lost as a result and it has taken tremendous effort to attract alternative investment. These job losses have been balanced with the creation of others both in manufacturing and an expansion in the service industries, particularly in financial services and information technology.

Between 2004 and 2009, the share of full time equivalent jobs in manufacturing declined from 17% to 13.5%, whereas that of services increased from 16.5% to 21%. The projections for 2014 are that the share of jobs in manufacturing will further decline to 11% of total employment, and that of services will increase further to 23% from the current 16.5% level. Restructuring is also occurring within each sector, For example, within the manufacturing sector there has been a steady decline in textiles and an expansion in the pharmaceuticals and electronics industries. There are also opportunities in the generation of green jobs which could also reduce Malta's dependence on fossil fuels.

During this time, the Maltese economy also had to make reforms to benefit from EU membership, and to satisfy the Maastricht criteria necessary for the adoption of the euro as our currency. Had we failed to satisfy these criteria, the negative impact of the international recession on our economy would have been amplified.

Our economy can expand in two ways, firstly by increasing the value added per employee and secondly by having more people working. The first objective underscores the role of education as a policy priority for Malta. We would like more young people to follow education at tertiary level and a fall in the number of school drop outs. There are already fiscal incentives in place to entice students to follow those courses which are more in demand by industry, in particular those disciplines which are science orientated. At the same time promoting the concept of life-long education makes employees more flexible and improves occupational mobility to complement the restructuring process. In the absence of such flexibility and mobility, our economy would have suffered from chronic structural unemployment.

Malta also needs to have more people in employment. Our activity rate ranks among the lowest in the European Union, due to a low female participation rate, coupled with a low exit age from the labour force. The remedies here lie in increasing the female participation rate, encouraging people to stay longer in the labour force and immigration. Like many other European states, Malta faces a severe demographic challenge. It is estimated that, even if the percentage of young people following tertiary education were to reach the EU 2020 targets, the total graduate population in Malta will still decline, as the younger cohort will not replace the number of persons who will have retired. MEA has proposed incentivising retired persons to remain in employment beyond retiring age, which is currently being increased gradually to 65 years. The incentives that were introduced are bearing positive results as more pensioners are opting to work after they are entitled to retirement.

Female participation is a more complex issue that needs to be approached with caution as it is dependent on various socio-economic variables. However, the challenge for social partners and civil society is to find a package of measures which can incentivise more women to stay in the labour force without harming competitiveness. Research has revealed that many Maltese employers are open to introducing flexible work practices but are uneasy about having an over-regulated labour market which would entitle anyone to such arrangements irrespective of type of work performed and the situation of the organisation. Our members would prefer to treat any requests for flexibility on a case by case basis, and we believe that this approach makes the most sense, particularly for micro enterprises. Rather than legislation, the introduction and implementation of family friendly measures should be left to collective bargaining at enterprise level, as unions have a better understanding of the needs of their members and also of companies' specific requirements. Governments should not shy away from their share of responsibility in resolving this issue. Fiscal incentives, provision of affordable child care centres, extension of school opening hours, and paid maternity leave (Malta is one of the few countries where maternity leave is paid by the employer at full pay) will contribute towards encouraging more women to work.

The issue of participation is directly linked to the demographic challenges facing Malta, as more people working allows for more affordable social security systems and pension schemes. MEA has been very active in its participation in pension reform, which is an ongoing debate in Malta. It is evident that active labour market measures are conducive towards the sustainability of pension systems.

The labour market in Malta is becoming more cosmopolitan in nature, as Malta is becoming a host to an increasing number of foreign workers, both from the EU and beyond. EU membership has also opened the doors for many Maltese to seek work experience in Europe from which the

economy benefits through a transfer of knowledge and experience. Labour migration could be part of the solution of the demographic deficit. Although Malta is an island, it is far from isolated, and has one of the most diversified and open economies one can imagine.

In conclusion, MEA is honoured to host this meeting. We are a small nation, a fringe country in Europe situated between tectonic plates of economic and political friction. Just 400 kilometres south from where we sit, millions of people have crossed the desert in the hope of escaping poverty, and to have access to a decent work in Europe. To the East, we have the greatest source of political tension in modern history. Of course, we are not meeting here to solve the world's problems, but, in its own way, our agenda is ambitious nonetheless. Through its beliefs and global vision, the IOE has a privileged role in promoting enterprise worldwide. As employers, we are the creators of jobs and wealth, which is the path towards better prosperity for all. Thank you.