MALTA EMPLOYERS' ASSOCIATION

Reaction to the Pre-Budget Document – Securing Our Future

Position Paper

SEPTEMBER 2006

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1. Introduction

The pre-budget document 2007 follows in the trend of the document issued in 2006 with a comprehensive analysis of Malta's economic performance and serves as a sound basis for consultation for the social partners to present proposals for the 2007 national budget.

Following years of stagnant growth, during which some quarters even registered negative growth, there has been a mild recovery in real GDP, and the 2.4% growth registered in 2005, followed by 3.1% and 2.2% respectively in the first two quarters of 2006 indicate a pick up of the economy in spite of the various challenges facing it. The main setbacks are partly the result of wider international events, mainly the rise in international oil prices and continued aggressive competition arising from rapid globalisation. However, other factors are internal. The dismal performance in tourism at a time when other Mediterranean countries are experiencing a significant increase in tourism activity is to some extent the result of a sense of neglect and the fact that Malta has failed to keep up with the development of other destinations that are offering better value for money.

However, Malta is managing to attract a healthy influx of foreign investment that has contributed to occupational job mobility. The increase of 8.5% in investment expenditure in 2005, which retained its momentum during 2006 (15% in 1st qtr) is encouraging. One certain sign of resilience of the economy is the fact that in spite of closures of companies in the manufacturing sector (i.e. Denim, Menrad, Lloyds), hundreds of jobs lost have been absorbed by new companies or through expansion of established enterprises in the private sector. The fact that unemployment has remained at the 5% mark (based on ETC data), coupled with a drop in public sector employees (less 1000 employees between

1st quarter 2005 and 1st quarter 2006) indicates that the economy is generating sufficient employment opportunities. Another notable employment statistic is the drop in employees in direct production in the private sector (from 32,833 in the 1st qtr 2005 to 32,254 in the 1st qtr 2006) and the increase in employees in market services, which has increased by 2,000 over the same period. This is also reflected in the fact that the contribution of services to gross value added amounted to 77% in 2005. The decline in areas of manufacturing is being compensated by an expanding financial services industry, which in 2005 accounted for almost 12% of GDP. The fact that Malta has also improved ranking of the International Competitiveness Index is a sign that improves the country's standing in the international community and can serve to attract further investment.

Public expenditure has been contained and, at as deficit-to-GDP ratio of 3.3% in 2005, managed to bring the budget deficit within targets necessary for the adoption of the Euro. MEA has always contended that this is not necessary just because of the need to satisfy the Euro convergence criteria, but more importantly because the persistent deficits and the consequential increase in national debt is unsustainable. The debt to GDP ratio remains a worrying feature, and in spite of the reduction from 76.2% in 2004 to 74.5% in 2005, it is still well above the Lisbon targets that set the maximum at 60%. The reduction in the debt to GDP is also mostly due to privatisation proceeds, which cannot continue indefinitely.

Malta's susceptibility to oil prices and the resulting inflation threatens to postpone the adoption of the Euro, as happened with Estonia and Lithuania. The worst thing is that, in the absence of alternative energy sources, and given that the country also needs energy to generate water, the outcome of inflation is beyond our policy makers ability to influence, and ultimately the major determinant of the inflation rate will be the extent of stability of oil prices, which is certainly out of our control.

Another source of concern for the economy is the deteriorating current account situation. The first quarter of 2006 saw a deficit of LM69.5m, compared to LM61.4m (+13.3%) in the previous year, reflecting a negative balance on the income account and exacerbated by a larger merchandise trade gap, in spite of the improvement in export performance.

2. Securing a more Inclusive and Participatory Society

This chapter in the document contains an important principle: *'economic resilience, continuous competitiveness and flexible markets are the only way to counter these (global, inflationary) pressures in the long run'*. MEA agrees that this should be the way forward and believes that these words should be supported by action. The Association still believes that the failure to agree on the social pact was a lost opportunity, although what was not agreed to at national level is being partially implemented at enterprise level. It is also regretful that a minor measure to increase productive days by not adding the days of public holidays falling on weekends to annual leave has met with strong opposition and, as at the time of writing this paper, there is no agreement on a suitable alternative measure to increase the number of productive days.

One glaring comparative statistic with the rest of the EU is the low participation rate of the labour force in Malta. This is adding pressure on the existing participating labour force to support ever increasing demands for welfare systems, pension schemes, education and other social expenditure. In Malta three are currently 9,000 persons boarded out, which means one person for every 16 persons who are working. It is also common knowledge that the female participation rate is the lowest in the EU and this is a limiting factor on the supply of labour. These factors, coupled with the fact that Malta also has a high proportion of the labour force employed with the public sector show that the relatively small proportion of persons employed in productive jobs in the private sector have to support the country's demanding social programmes and services, which today claim 60% of total government expenditure.

In this respect Malta faces a double challenge: that of increasing the labour supply while simultaneously generating sufficient high value-added jobs to absorb an expanding labour force. This is the way in which the economy can grow to be able to improve the standard and quality of living.

The main factors affecting the optimum labour supply, defined as '*that supply of labour that offers the quantity and mix of skills that matches current and projected labour demand and that maximises national productivity*' are:

- Measures to making work pay
- Education policy
- Increasing the female participation rate
- Managing occupational and geographical mobility
- Fiscal and Wage policy
- Managing early opt outs
- Pension reform

These factors are interrelated and the following are comments and recommendations to achieving the objective of having an optimum supply of labour.

2.1 Making Work Pay

The Association acknowledges that efforts are being made to curtail abuse of social services. However, there are a number of loopholes in the system that are being exploited by abusers. One example is couples with children that opt to live out of wedlock under separate addresses to be eligible for social assistance.

A number of unemployed consistently refuse decent offers for employment. One employer reported that he was seeking to employ 15 operators. He was given a list of a hundred eligible persons from ETC, of which only 20 were interested in attending an interview. Of these only one accepted the job offer (at a wage substantially higher than the minimum wage) and this person did not turn up on the day he was supposed to start working.

The main principle behind social cohesion is to empower those who seek employment, and to provide a safety net to those who cannot work. It should never encourage persons to stay out of employment. The pre-budget document rightly states that: *'benefits must be tailor-made to facilitate the entry of beneficiaries in the labour market',* but is this really happening?

The current changes in the labour market may also lead to wider income disparities. Because of narrow wage differentials in Malta, we have a situation whereby our labour market rates are competitive at the skilled and professional levels, but not competitive at the unskilled levels.

This means that labour market pressures will drive earnings up in those areas where there are labour shortages and where labour is more mobile (e.g. medical sector, IT qualified technicians, pharmacists) and simultaneously will not generate sufficient employment opportunities to the unskilled segment. The unskilled segment of the labour force will also be prone to falling real incomes.

2.2 Education Policy

This highlights the need to implement educational policies, many of which are mentioned in the pre-budget document, to upgrade skills and to encourage occupational mobility. The life long learning process should be a national priority and be seen as a means to avoid poverty and long-term unemployment. Our education system should be scrutinised to identify the factors that are still resulting in a number of illiterate persons leaving our secondary schools. Just as it is important to remain competitive in the market for goods and services, it is equally important to retain a competitive edge in our factor markets, of which the most important for Malta is the labour market.

Employment and educational policies should play a crucial role towards achieving a full employment in the labour market. On the demand side, the economy is doing reasonably well in generating decent job opportunities in the private sector. Major expansions like those at Lufthansa Technic, Atlas and the setting up of Smart City are generating a demand for qualified people. These initiatives at attracting investment have to be complemented with supply side policies to meet the human resources requirements of these industries. Government needs to support these efforts by creating the educational infrastructure to upgrade the labour force. The education policy at tertiary level should not simply become a matter of increasing the number of graduates just for the sake of having more graduates. The major challenge is that of having the right mix of graduates to meet the demands of expanding economic sectors. It is known that certain disciplines are oversubscribed and leads to frustration among graduates who have to settle for jobs that pay barely more than the minimum wage. On the other hand, there is the danger that the labour shortage in expanding sectors creates artificial wage inflation that can deter further investment. MEA has long advocated an educational policy that focuses on the *mix* of qualified persons, rather than the *amount*.

We should avoid the situation prevalent in many European countries have chronic graduate unemployment. Therefore MEA supports the discriminatory stipend measures to incentivise students to follow courses that are more in demand. In fact the Association suggests this should be re-enforced and to expand this principle further to also incentivise the lecturing staff at University and MCAST in disciplines that are or will be in high demand. This will ensure that there is sufficient lecturing staff and will avoid the danger that lecturers might be attracted to high paying jobs in industry that will result in a shortage of teaching staff. Such a shortage will in itself create a bottleneck in producing the supply of qualified labour needed by the economy. Agreement will have to be reached with the teachers' unions on this issue. Industry could also contribute to resolving such a situation by offering to release practitioners to become visiting lecturers and share their experience with students.

Government should also put on the fast track its stated intention regarding the accreditation of private educational institutions. There should be a proper regulatory body that establishes recognition criteria, even between the MCAST and University.

2.3 Increasing Female Participation

Malta's low female participation rate needs to be addressed by concrete measures to encourage more females to remain in the labour market. The fact that during 2005 the labour supply actually fell marginally highlights the need total into this important resource, especially given the fact that a higher number of females are following tertiary level education. Although there are definitely socio-cultural factors that contribute to this state of affairs, fiscal incentives, supported by the necessary infrastructure can incentivise a higher female participation rate.

Among these are:

- Provision of child care services for children under four years of age. Even the private sector is taking initiatives in this respect. Tax breaks should be provided for expenditure on child care.
- Utilisation of school premises to offer activities and educational programmes after official school hours.

- Reforming the social security contribution system to allow part-time employees to take up employment without having to pay a high minimum social security contribution, as is the case at present. This measure that was included in the pre-budget document should be implemented without further delay. It should encourage a higher female participation rate because a number of female employees might prefer to work part time to keep up with family commitments.
- Creating the infrastructure for the operation of temping agencies that facilitate the implementation of flexicurity measures at the workplace.
- Changes in legislation so that separated female employees receiving maintenance from their ex-spouse will not forfeit their maintenance if they work. Currently, the minimum threshold income when they stop being entitled to maintenance is too low and many opt to stop working or else pressure employers to give the undeclared income.

2.4 Pension reform

Pension reform is also a means of reducing the welfare gap and increasing national productivity through an increase in the participation rate. Clearly demographic changes, i.e. an increasing mortality age, a later entry in the labour force because of more participation in tertiary level education needs to be complemented by policies to increase the average working life. MEA has supported:

- Applying a minimum of 40 years social security contributions for pension eligibility
- Incentivising a longer working life through an enhanced pension up to an age of 65 years
- Promoting active ageing by providing incentives to encourage people to work beyond retirement age.

MEA is also calling for caution before introducing the second pillar pension on a mandatory basis, as this may result in a contraction in purchasing power of employees and hamper economic growth. The Association agrees that the second pillar pension will be discussed in five years time to allow for a better evaluation of the forms it can take and the timing of introduction of second pillar schemes.

The changing demographics do present problems, but these also coexist with business opportunities such an expanding health sector and specialised services like old people's homes which the private sector can take up.

2.5 Limiting Early Opt Outs from the Labour Force

One factor that contributes to the low rate of labour participation in Malta is the early average age of exiting the labour force, which ranks among the earliest in the EU. As explained above, this is partly the result of easy access to boarding out schemes and also early retirement schemes, both in the private and public sectors. Clearly sustained economic growth and welfare systems will be difficult to maintain with an average exit age from the labour force of 54 years. Government policy should be aimed at extending the number of years persons stay in the labour force.

2.6 Wage policies

MEA underscores that the fundamental principle behind wage policies should be to reward merit and productivity. The reasons why the Association remains opposed to across the board COLA increases is because COLA does not reflect productivity, and thus in itself may be a catalyst of inflation. The increase given for 2006, which included a forward payment of LM0.50c per week (and which will be part of the calculation of COLA for 2007) has been a burden, particularly to companies who are struggling to maintain their competitive edge to survive. The COLA system, particularly during period of relatively high cost- push inflation (mainly generated by high fuel costs) can threaten the employment of many workers, particularly in price sensitive industries such as low value added manufacturing and tourism. Statistics reveal that in these sectors, wage growth has been higher than productivity, which is clearly not sustainable.

The Association calls for the other social partners to be more receptive to a flexible wage setting system that provides for a social safety net (through the minimum wage) but also allows for relativities to reflect productivity and levels of responsibility. The provision of an energy benefit to low income earners will also be a positive step from a social aspect, provided that it does not become yet another incentive for households to under-declare their income to be eligible for such benefits.

2.7 Managing Occupational and Geographical Labour Mobility

Government can also use fiscal and wage policy to manage labour mobility. Although geographical/intra-national mobility within the EU is less than 2%, Malta can suffer from brain drain in key economic sectors if the right conditions are not provided to professions that are in high demand. We cannot afford to become a training ground for other countries. It should be noted that one of the factors that has increase labour mobility between Poland and the UK and Ireland is the operation of Ryan Air between Poland and the other destinations.

Occupational mobility is also a means to minimise frictional and structural unemployment by channelling human resources to more productive use. The Association favours the redeployment of redundant human resources in the public sector to the private sector through initiatives like private public partnerships. This exercise was mentioned in the National Reform Programme but regretfully still remains on paper.

Other means of encouraging occupational mobility include training of employees. MEA believes that initiatives such as MYWEB should be supported for employees to adapt to the demands of a changing industrial environment. Government should continue to invest funds in similar programmes to encourage occupational mobility and to encourage more persons to take up employment. The TEES project is a good example of an ESF funded scheme that has, so far, yielded desired results in finding job placements for unemployed persons over forty years of age through training.

MEA does not believe that labour mobility is a positive force per se. Although the EU is placing particular emphasis on labour mobility this year, the Association believes that mobility can only be a positive force if it is managed, and that human resources are channelled into productive employment .

The generation of productive employment, forward looking educational policies and flexible wage policies are a better means to raise national income and combat poverty than increasing expenditure on welfare benefits and taxation. The country needs policies that encourage more people to seek employment.

3. Competitiveness

MEA expects the budget to address issues that affect Malta's overall competitiveness. Amongst the priorities is the conclusion of the negotiations leading to the port reform. To date many companies are still in the dark as to what the exact effect of the reforms shall be on their bottom line.

The expectations are that, since it generally recognised that the port charges are a major factor affecting Malta's competitiveness, the mentioned figure of a 25% reduction in costs to entrepreneurs should become a reality.

The pre-budget document mentions the need to reduce the regulatory / administrative burdens to industry. It is high time to move from words to action to alleviate the burdens to all economic operators. One step that is mentioned in this regard is the integration of the inland revenue, VAT and Customs departments. This is desireable and one hopes that it will bring less bureaucracy to industry and commercial partners. The continuation of the public sector reform is a means to improve competitiveness.

3.1 Tax and N.I. Reform

Tax reform can be used to stimulate the economy. The fact that the deficit is brought down to manageable levels provides the option to revise the taxation system to increase economic activity. The pre budget document mentions that Malta's tax burden is lower than the EU average. However the tax burden has been creeping up during the last five years, and this has contributed to low GDP growth rates. The pre-budget announcement that government intends to relieve the overall tax burden by LM8m is a welcome gesture. The extent of the tax relief is however, symbolic, and taken in isolation is not expected to have any significant effect on aggregate demand. Government should immediately study the proposals of the tax reform commission and adopt tax relieving measures without restricting itself with a three year timeframe. MEA supports the following initiatives with respect to tax reform:

- The best option to review the income tax bands is to extend the onset of the maximum rate of tax, rather than reduce the maximum rate of 35% marginal tax.
- The national insurance contribution system should be revised. Rather than having a minimum N.I. payment, the contributions should reflect the number of hours worked to allow more part time employees to seek declared employment. Many employers are finding difficulty in employing part timers because of this serious deterrent. The projected loss in revenue of LM1.5m has to be weighed against the positive effects of increased labour participation and the resulting increased contributions. The net shortfall in revenue may be substantially less than LM1.5m.
- Government should continue with its policy to shift the tax burden away from direct to indirect taxes, even though the share of indirect taxes is higher than the EU average.
- The airport departure tax should be significantly reduced. Its current level is a deterrent to travel.
- Businesses should benefit from tax incentives for expenditure on training and development of employees.
- MEA supports the recognition of the married women working in family self- employed businesses. This will be a just measure and due recognition of the contribution to the economy made by these persons.
- Income from rent should be taxed at flat rate of 15%. This will be an incentive to property owners to rent unutilised property.

- Government should push ahead with the necessary legislative changes to implement rent reform. Many property owners are still suffering from the injustice of fixed rent rates that do not reflect the value of the rented property.
- MEA agrees that with the retention of the imputation system of Corporate taxation, but that the system needs careful fine tuning to generate economic growth. The Association will contribute to any discussion to reform corporate taxation.

3.2 The Need for a Level Playing Field in Business

MEA calls on government to create a business environment that ensures a level playing field between businesses, and between government and the business community:

- Although the Association does not oppose the principle behind parallel trading as such, it is against situations where local manufacturers and importers face unfair competition from parallel traders. A case in point is the eco tax. While agents and manufacturers are obliged to abide by the obligations of the eco tax - at a cost - many parallel traders are not bound to pay the eco contribution. Indeed, in some cases, manufacturers and importers can even be penalised because they face the added cost of collection of materials from goods sold by the parallel importers. This works also against the consumers' interests.
- Hundreds of jobs are likewise in jeopardy in the automotive companies. Importers of new cars are losing market share to importers of second hand vehicles who do not employ specialised personnel, do not invest in training or facilities that offer a service to the Maltese consumer.
- MEA has drawn the attention of the authorities that legitimate employers are finding it difficult to compete to win government tenders. Tender are frequently being awarded to companies who manage to

quote lower prices because they offer inferior conditions of employment to employees in sectors like security and cleaning services. At times, the rates offered do not even cover the minimum wage, which means that employers employing people legitimately cannot compete with others who may be employing persons without a workbook. Minimum standards should be set to guarantee that legitimate employers have a chance of winning such tenders.

- Government should direct ESF funds to enable the private sector to increase and upgrade its services, and not to compete with the private sector. In areas such as child care, training, old people's homes, it would be better to use funds to encourage such private initiative rather than offer such services for free through the public sector.

3.3 The Euro and Inflation

MEA agrees with the measures being taken by the NECC to minimise the inflationary impact of the introduction of the euro. It also stresses the importance of differentiating between a price freeze and safeguards to avoid inflation caused by the adoption of the euro. Therefore, the objective should not be to have zero inflation, which can be the result of numerous factors (e.g. cost of energy) but to have a minimum inflationary impact resulting from the changeover in currency. This is a point that needs to be communicated more effectively to avoid misconceptions by the public.

4. Tourism

The main question with tourism is: 'How can Malta successfully reverse the downward trend in tourism arrivals and revenue?' It is definitely a complex question that merits an analysis that goes well beyond the scope of this paper. Much depends on the value for money that Malta is offering the tourist and it is clear that one of the main reasons for the current state of affairs is that Malta is not living up to the expectations of the tourists.

This is a shared burden of both the private sector and government authorities, and both need to act in unison to improve matters. This paper will focus recommendations to government to change the situation (Gozo is treated in a separate section of this report).

- The introduction of low cost carriers is expected to attract a larger number of visitors to Malta, since it has a direct impact on the distribution and pricing components of the marketing mix. The impact of the low cost airlines should be monitored to analyse their net effect on the economy and to serve as a basis on which to build further relations with them.
- An evaluation of the Brand Malta campaign will have to consider its synergy with other aspects of the marketing campaign for Malta. However, one should point out that marketing goes beyond promotion, and that the product in general still leaves much to be desired, especially when seen in light of the developments in competing destinations. Although an increase in expenditure in advertising Malta abroad is welcome, there should also be a strategy to improve Malta's international profile through positive publicity,

which has a stronger influence on the choice of holiday destination than advertising (cheaper too!).

- Government, through MTA and the private sector should join forces to impose stricter enforcement of standards of tourist related services. It is a fact that some operators adopt a blatant 'hit and run' attitude to tourists that places their short term gains before the longer term interests of serious stakeholders. A special task force can be set up to monitor this aspect of the tourism product. Such a task force could certainly be more effective than the wardens, which are more interested in vexing citizens than anything else.
- More funds need to be directed towards upgrading heritage sites, with particular emphasis on the Neolithic monuments and Valletta. For example, the subterranean in Valletta can be turned into a unique experience for tourists if it is cleared of the tons of rubbish that have accumulated over the centuries. The removal of Valletta gate has to become a priority – it is an insult to the concept of a city built by gentlemen for gentlemen. Fort St. Elmo is also a gem that cries for restoration. In the way that Gozo is treated as a separate destination with a distinctive strategy, Valletta may also benefit from a similar approach.
- MEA has submitted various proposals to improve our tourism product. (*see reaction to the NRP and pre budget document – Sept. 2005, available from our web-site: www.maltaemployers.com*). Amongst these is a maritime pageant to boost activity in the harbour area.
- Health tourism can become a lucrative segment for the Maltese economy. *An article on the topic is attached to this paper.* **Investment incentives need to be extended to other areas of business that can also generate high value added jobs. One such area is the health sector. Malta has considerable potential in the**

health tourism sector and entrepreneurs should be offered incentives to invest in this sector.

- Government needs to review the decisions taken with respect to host families catering for students following English language courses. Although tax collection is a priority the way in which the matter was addressed leaves much to be desired and threatens an important segment of our tourists. Research by language schools reveals that the vast majority of these host families consist of widows, retired persons, and single parent families who are after supplementing their normal income to make ends meet by accepting foreign students. The result of disincentive to the host families is that these students have to seek hotel accommodation. Hotel residents have been complaining about the disruptions caused by the students (which is to be expected when a group of them are lodged in a single room), students parents felt more at rest when their children stayed with host families, and the students themselves have lost the advantage of living and interacting in an English speaking family environment. We stand to lose an important tourist segment because of lack of foresight. This is of great concern to local English language schools.
- MEA calls for better planning and management of infrastructural projects so as not to coincide with the main tourist season. A glaring example is the roadworks leading to the airport.
- Malta also has the potential to become a diplomatic centre. The historical, geographical and cultural characteristics of Malta can be promoted for it to become a centre of dialogue between the northern and southern hemispheres at a time when political tensions threaten world peace. This of course is not strictly a tourism related proposal but certainly one that would raise Malta's profile in the international scenario in the same way that happened when when the end of the

Cold War was declared in Marsaxlokk. However, this would be an ongoing process.

- As a country we also need to manage our publicity. For example, most of what people are reading about Malta abroad is that we are being inundated with illegal immigrants, giving the mistaken perception that the immigrants have overrun the country like a herd of locusts. Another aspect worth mentioning is that, unlike the situation in many other countries, our main daily papers are written in a language that the tourist understands. The regular negative self-criticism, that is often exaggerated, can influence the tourist's perception of Malta.

Although there is much to criticise about the state of affairs in our tourism sector, MEA believes that Malta has the potential to regain its lost ground, and even increase revenues to record levels.

5. Gozo

The pre-budget document dedicates a chapter to a socio-economic strategy for Gozo. MEA agrees that Gozo has its particular characteristics that distinguish it from Malta and does need a tailor-made strategy that takes this into account. The decline of low value added manufacturing has hit Gozo and it is increasingly difficult to attract manufacturing investment to Gozo. However, Gozo has considerable untapped tourist potential, provided that the fragile balance between retaining its natural charm and development is maintained. Among the negative publicity that appears in our media, most of which is generated by the Maltese, one tourist delivered a welcome piece of free marketing advice when she described Gozo as '***Europe's Best Kept Secret'***.

MEA is forwarding the following proposals to revitalise tourism in Gozo. Some of these proposals were already included in the Association's reaction to the NRP document last year:

- **Upgrade public transport through the introduction of two intersecting circular routes (electric cars may be used).** It takes tourists hours to get from one place to the other by public transport, which is ridiculous when it takes just twenty minutes to drive from one end of the island to the other. The long term interests of the industry should come before the immediate interests of some operators who also have to gain from increased volumes.
- **Introduce a regular shuttle from the airport to Cirkewwa**.
- **Promote organic farming to project Gozo as a natural haven**. It is possible to introduce a programme to shift all agriculture in Gozo to organic farming over a specified number of years, thus enhancing the island's agricultural produce and also attracting agri-tourism and health tourism. This could be one of Gozo's USP's in its marketing strategy.

- **Gozo can be a centre for health tourism**. The recent inauguration of a private rehabilitation centre can be an example for other initiatives that will establish its reputation abroad. Gozo is an ideal place for convalescence.
- **Re-habilitate the island's heritage sites**. Gozo boasts a neglected punic temple, cart-ruts and many other attractions that make the island worth visiting.
- **Develop pedestrian areas and country walks/footpaths**. Some local councils (e.g. Nadur) have already taken positive initiatives in this respect that should be emulated by others.

Gozo certainly has its particular challenges. A recent labour force survey reveals that 45% of the working population is employed with the public sector (in Malta this stands at 33%). On the other hand Gozitans are enterprising, and 18% of the working population is self-employed (compared to 11% in Malta). Gozo has a female participation rate that is even lower than that of Malta. There is also a mismatch between available jobs and the skills of job seekers, many of whom are unskilled. MEA agrees with the general thrust of the pre-budget document on the need to diversify investment in Gozo, such as promoting it as a base for back office operations and call centres.

6. Alternative Energy

Malta needs an energy policy for various reasons. Firstly there is the economic aspect. The performance of our economy has become increasingly dependent on the price of fossil fuel that in turn is dependent on numerous volatile variables. Thus far, Malta has been completely reactive to the whims of fluctuations and there have not been any notable attempts to change this situation. Energy prices have also affected our competitiveness and many companies have not been in a position to transfer the increased costs on to their customers.

The environmental aspect is also important, as it has spin offs on the general quality of life as well as the performance of the tourism industry.

The document: A Draft Renewable Energy Policy for Malta is a belated step that includes numerous constructive proposals aimed at reducing this vulnerability. However, Malta still lags conspicuously behind the target stated in the Treaty of Accession that states that 5% of the total electric energy is to be generated from renewable energy resources by 2010.

The report rightly points out that '*a new RE industry in Malta offers potential for job-creation*'. For example, MEA has for the past years been proposing to investigate whether there is scope to set up a unit to build our own photovoltaic panels and solar water heaters. Given the low but increasing diffusion of such technology in Maltese buildings, there could be sufficient economies of scale to make such investment worthwhile. Besides the current incentives to install solar water heaters, government can make it mandatory for new buildings to install them. On the other hand, this can be complemented by increasing the capital grants for photovoltaic installation in domestic households. Such financial support mechanisms contribute significantly to the spread of such technologies.

Another valid point in the report is the connection of our energy system with Sicily. This can create economies of scale and should be investigated further. Malta should also look into whether there is a common EU strategy to face the oil crisis, and to participate in formulation of any policies that can alleviate the burden of fuel price fluctuations on our economy.

The document on energy policy provides a technical and strategic insight into the potential of renewable energy in Malta that should be translated into action, not just to conform to the Lisbon targets, but because it also makes economic and social sense.

Conclusion

The pre-budget document is an extensive consultation document and is a continuation of the strategy laid down by the government in last year's document: For a Better Quality of Life. The document, and the recommendations that are being submitted by MEA are evidence of a society coming to terms with the need for rapid change. There is a need for a smooth transition for Malta to develop into a modern economy that can have better control of its own destiny. Thus far, because of its inherent characteristics, Malta is still susceptible to multiple external economic and social forces. All social partners shave a major role to play in ensuring that change does occur, and that it will be accomplished with minimum friction to avoid negative consequences on particular sectors of society or on society in general.

Employers certainly carry their share of this responsibility. We believe that pro-employer is not anti-employee. Pro-employer is pro-employment, and it is only through the generation of employment that the economy can produce wealth to sustain the population's ambitions.

Appendix

Medical Tourism – What Prospects?

In its recommendations to the National Reform Programme, the Malta Employers' Association fielded various proposals related to upgrading the tourism product and developing new ideas to penetrate new market segments to ensure the survival and growth if this crucial industry for Malta. One of the recommendations in this report was to establish Malta as a centre for health and medical tourism.

Some facts. Medical tourism is a booming industry in Asia, it is expected to generate 4.4 billion dollars a year by 2012. It is a sector that is growing by an estimated 20 – 30 per cent in countries like India, Singapore and Thailand. Singapore alone attracts more than 370,000 medical tourists per annum, and Malaysia had an influx of 100,000 medical tourists in the first half of 2005.

There are many reasons why Malta should break into this market. Firstly, Malta has a history of being an international hospital. The Mediterranean Conference Centre was originally a state of the art hospital in the times of the knights. It is no secret that our medical school has an established international reputation, and is considered as being one of the best around. Malta can provide medical services at competitive rates compared to many European Hospitals. We have excellent private hospitals and clinics and the government is in the process of completing a hospital that, in spite of the various controversies related to it, will rate among the best in Europe. Communication with clients is essential in this sector and the fact that Maltese personnel speak good to perfect English will be a vital asset. Our climate is ideal for a convalescence period and the short distances between sites are ideal for patients seeking to combine healthcare with leisure, which is what the other destinations that are targeting this sector are offering. Maltese weather during the shoulder months, when our tourist arrivals are at their lowest ebb, would be the most attractive for this segment.

Malta has also recently been ranked among the top five countries offering the best health services in the world. This factor should be advertised internationally to attract medical tourists to Malta. Our geographical location is also ideal for such a niche market, since Malta can be an attractive destination for clients from North Africa, the Middle East and also Europe. Patients from the Middle East can be drawn to Malta on the basis of a reliable service of a high quality. On the other hand, European clients may be interested in competitive prices. Health insurances could be eager to endorse treatment in Malta on this basis.

Medical tourism can generate diversified job opportunities, not just in areas directly related to hospitality and catering, but also in terms of jobs for nurses, doctors, and specialists which result in a much higher value added to the economy. The country can also benefit from economies of scale, in the sense that the fixed cost of specialised equipment will be spread over a larger number of patients, thus making such equipment more cost effective and less costly even to Maltese patients.

This sector also offers opportunities for specialisation. Changing demographics in many European countries are increasing demand for hip replacement, and heart by-pass surgery, for example. Malta can easily build a reputation of specialising in specific areas of treatment and surgery. Cosmetic surgery is another area with expanding demand, and can therefore be a substantial segment that Malta can tap into.

Globalisation is a phenomenon that is not limited only to manufacturing. The provision of health services will also transcend national barriers in time. Indeed, this process has already started and Malta cannot afford to miss out. The consequences of letting such opportunities pass us by are not limited to the foregone investment, jobs and foreign currency earnings. As other destinations develop their health tourism market, they risk luring our best human resources in this sector by offering better conditions of employment, to the detriment to the average Maltese citizen. In a sense, developing health tourism may not be a matter of choice. We need to consider whether it is time to start producing more doctors and nurses instead of chefs and receptionists as part of our tourism strategy.