



MALTA EMPLOYERS' ASSOCIATION

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Press Release

MLP DOCUMENT: PJAN TA' AZZJONI GHAT-TIGDID TA' L-INDUSTRIJA

The MEA Presidency led by the President, Mr. Pierre Fava, accompanied by Vice President, Mr Arthur Muscat and Deputy Presidents, Dr Paul DeBattista and Mr Lawrence Mizzi together with Director General, Mr Joseph Farrugia and the Executive in EU & Legal Affairs, Dr Charlotte Camilleri met Dr Alfred Sant and other top officials at the Malta Labour Party Headquarters to discuss the MLP document entitled: "*Pjan ta' Azzjoni Ghat-Tigdid ta' l-Industrija*". The following is the MEA's reaction to the Document.

Reaction of the Malta Employers' Association to the Document:

The MEA is pleased to note that the draft document presented by the Malta Labour Party for a renewal of an industrial policy is more of a continuation of current policies than a drastic change in strategic direction. MEA agrees with the general gist of the document that there needs to be a greater effort to promote export led growth. Although the economy registered positive trends in real GDP growth during 2005, the only way such growth can be sustained, and increased to desired levels of higher than 3% per annum is if there is a reversal of current downward trends in the value of manufactured exports, together with an expansion of other foreign exchange earning economic activities, like tourism and financial services.

There are some notable omissions in the draft that one would expect to be addressed in the final report. One of these is port reform. It is a recognised fact that the outdated systems in our port present a serious competitive disadvantage to our export industry. The MLP should include details of its own proposals to remove outdated work

practices and systems in our ports. Another area which may be tackled in the final document is tangible measures that can be implemented to prevent wage inflation generated by a sudden influx of foreign investment, particularly in areas where this may result in a skills shortage.

Another factor that is burdening industry is the system of granting automatic wage increases based on the cost of living, rather than reflecting productivity. The Association has been claiming for years that this system has resulted in loss of competitiveness and jobs. Many manufacturing companies are being squeezed between increasing costs of energy, cost of living and collective agreement wage increases which is eroding competitiveness. In such an environment, industry is very vulnerable, particularly the low value added sectors that employ a considerable number of employees. MEA expects the MLP to pronounce itself clearly on this matter.

MEA recognises that there needs to be a shift from low value added sectors of industry to higher value added ones if Maltese citizens want to aspire for higher standard of living, but such a transition needs to be implemented at a pace which allows for the development of our human resources to meet such challenges. Therefore an industrial policy has to move parallel to investment in education. The MEA understands and shares the MLP's concern that *'being competitive should not mean a lowering of the standard of living of workers and their families'*. However, competitive constraints in low value added, high labour intensive sectors may imply worsening conditions of employment for the survival of enterprises and job retention. MEA agrees that low value added manufacturing can survive to a certain extent by accessing niche markets which require greater flexibility and can benefit from short runs, but even in these cases, it will be increasingly difficult to improve conditions of employment. Relative earnings and conditions between those working in IT, for example and others still in low value added sectors will widen. Various operators in the manufacturing sector point out that, as a result of narrow wage differentials, labour rates in Malta are competitive in managerial and supervisory grades, but not at machine operator level. This is why some companies are opting to cut on the purely manufacturing aspect of their operation and retaining their administrative, sales and research departments.

However, there are factors other than labour costs that hamper competitiveness. The document rightly points at the unnecessary bureaucracy that in many cases is a burden on industry. MEA hopes that the example of Smart City will become the rule for industry in Malta. As mentioned in the MLP report, there should be a strong drive for innovation. Innovation has to become part of our industrial culture.

Macro economic measures

The document calls for the introduction of the EURO only after the economy has attained a satisfactory level of growth. This is debatable on the grounds that the main argument that supports the adoption of the EURO, providing that Malta meets the criteria set by the EU, is to stimulate growth. Postponing the introduction of the euro may decelerate economic growth. This does not mean that the adoption of the Euro should be fixed to a set date at all costs.

The MEA welcomes any reduction in company taxes as mentioned in the report. One should however quantify and evaluate the fiscal impact of such tax reductions. The same applies for capping on energy prices. The increase in oil prices is having a negative impact on all of Maltese society.

The ad hoc committee proposed in the document to address issues faced by industry will only be useful if it leads to concrete actions. The problems facing industry are known, what is required is the resolve to implement the necessary changes. Otherwise, another committee will end up being just a talking shop. The functions of the proposed task force to reduce burdens on manufacturing industry are already fulfilled, with varying degrees of success, by the MCESD.

The MLP document also refers to the setting up of training schemes for the unemployed. There are currently various schemes that are organised by the ETC, some of which have direct funding from the EU. Many employers and employees find these suitable to their requirements. What needs to be underscored is that frequently there is resistance from the registered unemployed to participate in such schemes. The MEA believes that participation has to be mandatory, and this is currently the policy adopted by ETC. There is always room to explore new schemes and to improve existing ones.

There is no question that manufacturing will remain an important pillar of the Maltese economy. However, for this sector to survive and expand, the economy needs to be flexible and proactive to adapt to a changing local and global environment.