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Media Release

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Address by Mr. Pierre Fava, President

Fellow members,

This year's annual general meeting occurs at a time when Malta, and the rest of the industrialized world, is struggling to emerge from a recession that has had a devastating impact on all society. Few would have imagined the extent to which economies like Spain, Greece and especially Ireland would experience a fall in real GDP growth, double digit unemployment figures, and soaring fiscal deficits that are threatening even the stability of the Eurozone. In spite of so-called green shoots that have sprouted in some economies which offer a ray of hope, the main projections point towards a sluggish recovery and economic activity will take years to reach pre-recession levels. The global recession has also shifted the economic landscape – China may well emerge as the world's largest economy in the coming decade. Malta has been affected by these international events, as can be seen in the drop in tourism figures and revenue in 2009, and the harsh reality of major manufacturing companies resorting to a four day week.

MEA was very proactive in recommending a set of measures to Government immediately the impact of the recession was felt. The measures to assist companies falling on a four day week were instrumental to prevent redundancies and for these companies to invest in their human and capital resources to emerge as fast as possible from the recession once their order books picked up. It is encouraging to note that many of these companies have returned to a full working week, and some of these have managed this by winning out over competing companies, or branches in the same group, in other countries. MEA also welcomes the incentives announced during the last budget to SMEs, as we believe that SME's and micro enterprises will play an important role in job generation in the coming years.

One of the major lessons to be learnt from the recession is that restructuring will be an ongoing process, both for economies and also, at micro-level, for companies. The recession has brought

with it a change in business and consumer buying behavior which will necessitate a continuous re-thinking of the way products and services are produced and sold. At European level, it is being recognized that labour markets will also change significantly in the coming years. The EU initiative: New Skills for New Jobs highlights the fact that labour markets will undergo significant transformation in the coming decade. There will be less demand for unskilled and basic clerical work, and new jobs will mostly be generated in areas with a high technological content. These projections are relevant to Malta as well. We need to reduce the number of school leavers who exit the educational system without any qualifications, as well as the unpleasant prospect of having underemployed graduates because they are following disciplines which will not be in demand. Our educational system will remain an important catalyst to the achievement of our economic and social aspirations.

A major national priority is to emerge from the recession in the shortest time possible through a set of targeted policies that will also ascertain economic stability in the longer term. MEA's annual general conference in 2009 dealt with a post crisis scenario for Malta and focused on the fact that one can take advantage of opportunities that may be generated by the recession itself, and that there are a number of areas which offer substantial opportunities for investment and employment. Amongst these one can mention Islamic finance; green jobs, the shipyards which have recently been privatised, information technology and tourism niches. These were all issues that were dealt with in the conference. Although it is important for the economy to shift from traditional manufacturing to services, Malta should still retain a strong manufacturing base. One of the EU's concerns is precisely that it does not want to lose its manufacturing activity to be transferred to China and India.

In its presentations, MEA has been consistent in its proposals for a stimulus intervention which is targeted and reversible to avoid negative repercussions on fiscal stability. For example, our recommendation to government to subsidize part of the COLA increase for 2010 would have offered a partial stimulus to employers for 2010, but would not have had deficit repercussions in the following years. It is surprising that rather than taking up this recommendation, government opted to allocate a further increase of Euros10m to energy subsidies to consumers. The energy subsidies will be difficult to reverse and will thus add further strain to recurrent expenditure beyond 2010, since it is unlikely that the unions will ever agree to their removal.

The issue of energy has become a national hot potato, and there is an urgent need to find a stable and transparent solution to the determination of tariff rates. Employers in Malta are faced with the highest utility rates in the EU, and also with the unpleasant prospects of industrial unrest resulting from an unclear policy of how the rates are determined. This is certainly an issue where social dialogue should be instrumental in establishing a mechanism which will be acceptable to all social partners. For this reason MEA has been constructive and forwarded a proposal to government for the formulation of an Energy Pact, which would involve a tripartite team of experts to establish a model for the workings of tariff rates that respects the constraints of public finances, social solidarity, competitiveness and market realities. An energy pact covering a four year period will enable businesses and consumers to plan and reduce the current tensions about the subject. However, urgent action is required for an energy plan which would also incorporate the efficient use, storage and recycling of water, to prevent chronic shortages in the near future. We believe that there is a much better chance of a solution if the social partners put their heads together in this way, rather than taking to the streets. The fact remains that a global recovery will most probably result in higher oil prices, and that Malta currently has a dependence on fossil fuel consumption, given that even the generation of our water supply depends on energy consumption.

While MEA has supported, and even suggested, the temporary waiving of fiscal targets to allow government room for fiscal intervention to dampen the brunt of the recession, the control of public

expenditure remains a priority. It is positive to note that the downward trend in employment in the public sector has continued during 2009, but the commitments of government cast doubts on its ability to reduce deficits to Eurozone criteria. The fact is that the public sector is still overmanned. If unions are not responsible and realistic, we risk a meltdown such as is happening in Greece, Spain and Ireland, where governments have been constrained to cut on public spending by reducing conditions of employment of public sector employees. In contrast, public sector employees in Malta have benefited from unprecedented wage increases in 2010.

The MEA is also concerned about the work practices adopted by some sections of the public sector. The outcome of the disciplinary procedure in the case of three teachers who preferred to go on a Christmas shopping spree in London rather than tending to their students is scandalous and sets a bad example to other employees, both in the private and the public sector. It is even worse that, to date, no actions have been taken against the doctor who certified the teachers' unjustified absence. Such flagrant abuses are unacceptable.

We are also concerned about sweeping negative statements that are being made with respect to Maltese employers. Only last week, an MEP joined the choir of accusations that many workers are being offered contracts on a self employed basis instead of full time definite period employment. While one cannot deny that such practices do occur, it is unfair to make generic statements that are not backed by figures and research. For example, if such claims are correct, then one would expect the number of self employed in Malta to increase dramatically, and the number of full timers in employment to fall. Official statistics reveal that this has clearly not been the case.

Another accusation is that many employees are being engaged in atypical employment conditions, such as part time and definite period contract employment. To date, the percentage of persons working part time and definite period in Malta is lower than the EU average. This is a fact that is conveniently being ignored by those who would rather base their arguments on gossip rather than facts. However, if we truly want to increase the labour activity rate, which is essential for economic growth, than one expects that there will be more persons in atypical employment to cater for the demand for more flexible work arrangements by both employers and employees. This is also a prerequisite for the implementation of family friendly measures. More part timers will be required to stand in for full timers on reduced hours, and more persons on a definite period contract employment will be needed to substitute others who are on career breaks or parental leave. Temporary agency and casual work will also be instrumental in having more flexibility in the workplace. MEA's position on family friendly measures has always been consistent: we are in favor such measures as long as they are cost neutral and do not impair competitiveness.

In conclusion, Malta is in dire need of political consensus on major national issues. Our political parties must place the objective of having a competitive and sustainable economy ahead of pandering to marginal votes by making unrealistic promises. It is important for Malta to remove critical issues from the partisan agenda. Free medical health care, pensions, welfare benefits, student stipends – these can only exist if Malta manages to remain competitive and achieve higher rates of economic growth. An unbalanced social dialogue, which undermines the relevance of the business community will lead to sluggish economic performance which makes the citizens' aspirations unsustainable. We should all learn from the current state of affairs in Greece to avoid experiencing a similar situation in Malta in the years to come. Although Malta is an island, it is not isolated. Indeed, because of its open economy, it is more connected to global events than many other economies