

TOWARDS SUSTAINED ECONOMIC GROWTH & BETTER GOVERNANCE

A MEMORANDUM TO POLITICAL PARTIES

MALTA EMPLOYERS' ASSOCIATION

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THE ASSOCIATION HAS NOTED WITH SATISFACTION
THAT THE FISCAL DEFICIT HAS SHRIVELLED AND
TURNED INTO A SURPLUS IN 2016, WITH THE
PUBLIC DEBT FALLING BELOW 60% OF GDP



INTRODUCTION

1. LIVING IN A PARADOX

The business community believes in high ethics and governance. Corruption - even if only perceived - is not good for business. Our international reputation (which is key for a number of business sectors and not only the financial sector) will only be secured if we can ensure and demonstrate that our institutions have strong values and ethics. International business and particularly those which are highly regulated such as banks will not do business in a jurisdiction which is perceived to be of high risk to their reputation. The mere presence of companies with low ethical standards in a jurisdiction is enough to spark alarm and scare off legitimate companies. Locally, businesses need to believe that there is a level playing field and strong future prospects for them to develop further and invest. Unfortunately, there have been too many incidents – undisclosed contracts, suspicious direct orders, hidden accounts by politically exposed persons, dubious appointments of persons in positions of trust – which are certainly damaging business confidence and Malta's international image.

Paradoxically, the election is also occurring at a time of positive economic performance. The main point of the memorandum presented to political parties during the run up to the last election focused on fiscal consolidation. The document stated that: *'Political parties need to assure the electorate through an unequivocal and measured commitment to reduce the public debt by an average of 2% per annum in the coming five years. All other electoral promises, including any revision in welfare, pensions and any existing and projected public sector expenditure have to be subjected to this fundamental obligation'*.

The reason behind the appeal was that in 2013, in spite of the aftermath of the international recession and the political instability in North Africa, the general macroeconomic indicators were positive and the economy was performing better than many others within the Eurozone and the EU. Unemployment, at around 6500 persons, was significantly below the EU average and employers were already experiencing a shortage of labour in many areas. Malta had also managed to avoid being dragged in the excessive deficit procedure as the fiscal deficit was retained at less than 3%. The activity rate of females in the labour force was increasing considerably, particularly among younger cohorts.

This momentum was retained, and also accelerated during this legislature. Unemployment has continued to decline to unprecedented levels and the current administration has introduced a number of active labour market policies which have contributed to a reduction in welfare dependency and to a significant increase the activity rate. Concurrently, labour market shortages have been addressed through the increase in the number of foreign employees, which currently stands at 34,000 (up from 13K in 2013), or 18% of the labour force. This phenomenon has had both a positive and a negative socio-economic impact on Maltese society, but has certainly contributed to robust economic growth over the past four years.

The Association has noted with satisfaction that the fiscal deficit has shrivelled and turned into a surplus in 2016, with the public debt falling below 60% of GDP. In a recent statement, the Association said that: *'The sustainability of a balanced or surplus budget depends*

on the governance of public funds and to economic growth generated by the private sector which can sustain the increased demands of services such as health and education which are provided by the public sector.’ **The surplus for 2016 should not be a flash in the pan, but a sustained effort by whoever is elected to continue to reduce the public debt during the coming legislature.** A sustained surplus should also not materialise at the sacrifice of capital projects that are essential in supporting economic activity in the medium to long term.

In spite of the overall very positive economic performance over the past years, the Association has warned of a number of fault lines that can change these positive trends, and which the political parties need to address in the interest of long term sustainability. These are:

- **That our economy will probably not be eligible to further EU structural funding post 2020.** This is a reality that will have to be faced in the coming years and one has to analyse the extent of the growth of the past ten years which has been attributable to this injection of EU funds.
- **The possibility that the tax incentives which have been critical in attracting our financial services and gaming sectors will be removed or toned down.** EU wide corporate tax reform is major threat facing these sectors, which have contributed to 29% of the economy’s growth, apart from the ripple effects that they have on other sectors. These also happen to be our most volatile economic sectors, as relocation to other countries can take place almost instantaneously.
- **Maintaining positive tourism figures once there is more stability in the Mediterranean region.** Tourism has had an unprecedented boom during the past four years, and our capacity has increased to accommodate these levels of occupancy.
- **Increasing Malta’s economic output capacity.** In a country with limited resources and output capacity, we will have to make choices as a society, as some activities may interfere or even disrupt others. A classic case is the threat to sea cleanliness posed by the pollution being generated by fish farms. Will we have to choose between fish farms or quality tourism, or can there be a happy coexistence between the two activities? The same can be said about Malta’s carrying capacity as a tourist destination in terms of available accommodation,

flight capacity, and environmental sustainability. The major future challenge may well be one not of utilising existing resources to full capacity, but rather of how to establish the best mix of economic activities to maximise sustainable economic performance together with environmental and quality of life considerations. In the same way that ten years ago Malta had to restructure its economy because of circumstances which were forced upon it, namely the outsourcing of our low end manufacturing sector to low cost destinations, the country will have to take important decisions which can well mean the deliberate phasing out or reduction of activities which yield a low return or which have an adverse effect on our society’s quality of life.

- **Reconciling economic growth with objectives related to environmental constraints and quality of life.** This will become an increasingly sensitive issue in the coming years. In the same way that leisure time may take precedence over additional earnings, people’s priorities will also shift towards other quality of life indicators such as less pollution and open spaces.
- **The drop in national revenue once the sale of Maltese citizenship subsides.** In November 2013, MEA had expressed its reservations about the sale of Maltese citizenship on the basis of national ethics and its impact on the country’s reputation as a destination for the financial services sector. The revenue is expected to be a one-off cash generator, and like the EU funds cannot be expected to result in a sustained injection in the economy. Political parties need to plan for contingency measures once this well dries up.
- **Ensuring that Malta’s reputation of good governance does not deteriorate further.** Our current rate of economic growth is strongly dependent on a reputation of decent and ethical good governance which has been built over decades. There is an urgent need to restore and build upon this reputation in order for this growth to be sustainable.

Government policies have to be based on an understanding that Malta has a two speed, diversified economy, whereby traditional economic sectors are experiencing lower rates of growth than those of the new economic sectors. This may be a source of

social tensions which cannot be addressed through blanket measures which may be affordable for some sectors but which may harm the competitiveness of others. The competitiveness of traditional sectors like manufacturing, which still employs 26,000 persons, depends on small profit margins. Our major manufacturers also face internal competition, meaning that even if a domestic plant is profitable, the company can still relocate to other destinations which yield a higher return.

There is a need for government and politicians to make active reforms to curtail corruption. These need to address the very structure of our government and authorities as well as political parties. Our governments need to move away from the many promises on transparency, meritocracy and governance to a framework of actual policies that address the issues at source.

More and more, we are seeing that in order to attract foreign direct investment and in particular in the financial related sectors, Malta needs to offer a strong banking system. In today's Globalised economy international companies require solid financial institutions and reputable banks which can operate effectively at international level. The strength of the international banking system is to the financial sector as perhaps the network of international airline connections is to our Tourism sector. Unless we are able to maintain our existing banks and attract more international banks to operate from Malta our attractiveness as a hub in a number of sectors will diminish considerably as will those of attracting business opportunities coming out of Brexit. The international banking system is also essential for Maltese companies wanting to trade internationally. There is a need for governments to come up with long term visions. Proposed policies and projects need to be evaluated against the true added value which is not only monetary but also takes into consideration the environmental as well as social requirements. The widely-used sustainability needs to be evaluated and defined according to a set of objectives and priorities. These priorities and objectives need to be discussed with the various social partners and business to set an economic direction and a stable economic environment.

Other challenges include the impact of an ageing population on health and welfare spending, global

competitiveness and the rising cost of the public sector wage bill.

Political parties must be open and rise above the worrying trend of populism. Politics is not about telling people what they want to hear, but to convince the electorate about the best course of action out of a number of alternatives, even if such actions might not be popular in the short term. Many electoral promises by both major parties are being thrown in the campaign with disregard to their cost and implementation.

Unfortunately, recent issues are giving rise to a return to a highly polarised society, with rising tensions that are certainly not good for business.

2. BALANCING THE SCALES

Through this memorandum, the Malta Employers' Association is sending a strong message to political parties that pre-electoral promises that affect employers in any way have to be preceded by an impact assessment on costs and competitiveness on Malta's enterprises. Also, they must be based on quid pro quo considerations – what will employers get in return for such measures to balance the scales?

They should first start by declaring whether they are interested in balancing the scales or whether they just want to impose further burdens on industry without a corresponding compensatory benefit.

Any absence from work entails not just the cost of labour, but also the value of lost production, therefore even if the full cost of such measures – paternity leave, public holidays on weekends etc. – is paid by the government, there would still be a cost incurred by employers which will have to be factored in any package that might be agreed upon by the social partners. For example, it is easy to compare family friendly measures with those of Scandinavian countries, but there also has to be a comparison of the total amount of leave days and public holidays, and the fact that some countries have an unpaid waiting day for sick leave besides systems to curb abusive practices by employees. Simply contemplating a one way discussion – or imposition – is a non-starter. Both parties should take note of this.

The Malta Employers' Association commits itself with its members to only discuss these matters on the basis of a quid pro quo.



3. GOVERNANCE

The introduction of this memorandum highlighted the importance of good governance and the need to improve governance structures in the public service and public authorities.

MEA is proposing the following actions to improve governance.

3.1 Positions of trust

Although it is understandable that any party in government needs to appoint persons in positions of trust, the number of such appointments should be subject to a ceiling. These appointments should not be perceived to be the result of political favours.

- Members of parliament should not hold positions of trust. This may be in conflict with their duties in parliament.
- There shall be full public disclosure of contracts, remuneration conditions, including bonuses and perks, of persons occupying positions of trust.
- All persons occupying a position of trust with public entities and who have not been employed through a recruitment process should be subject to a periodic audit by an independent board to justify their position. The board shall include representatives from the opposition. As with any private sector company, they will report on time spent, activities and results achieved.
- Key positions in Authorities need to be approved by a two thirds majority in parliament.

3.2 Contracts

- All contracts entered by Government with other parties will be made public within reasonable time – not exceeding three months – since the date of signing.
- The director of contracts should be given back the authority to take an active part in adjudication processes, and not to just act as a regulatory body. Tenders are not to be adjudicated by Ministries but by independent adjudicators.
- Government will not enter into binding agreements (commercial or otherwise) with entities whose ultimate owners are unknown. Such agreements will be made illegal.

3.3 Direct Orders

- Government should ensure that the parameters that regulate direct orders are respected and enforced. Any direct orders that go against these regulations should be immediately be declared illegal and null.

3.4 State Visits Abroad

- The media will be represented on all state visits abroad. It will be unacceptable to have state visits in which the media are not invited.

4. EDUCATION

Malta spends 5.5% of its GDP on education (1.5% on tertiary education), which makes it amongst the countries with the highest percentage of education expenditure to GDP in Europe. This is a positive statistic in itself but Malta still has a high number of school dropouts and a low percentage of persons who complete tertiary education. Amongst the 30 – 34 cohort, the percentage of persons having completed tertiary education is 28%, whereas the EU average is 38%.

- It is evident that the phenomenon of school drop outs is not directly linked to the quality of educational services, but to other socio-cultural factors. It is proposed to conduct an exercise to establish the true reasons for this state of affairs.
- The employability index is a useful tool to determine the career prospects of students and, given the shortage of employees in so many sectors of the economy, it is even more important to encourage students to follow disciplines which are in demand.
- There is still a need to establish pathways for students and employees to progress across the National Qualifications Framework, and to make better inroads in the accreditation of experience for study and career progression. The BICC skills card is a step in the right direction which has to start functioning and applied to other areas.
- Government should strengthen its efforts to increase the uptake of apprenticeships. There is a rising need more technicians at MQF levels 4 and 5 in the labour market.
- MEA again proposes a closer link between guidance teachers and industry with mandatory involvement of career guidance personnel, through work periods, in the private sector.

- There needs to be a stronger effort to encourage students to turn to STEM subjects. Many new job opportunities in the future will require proficiencies in science, technology and mathematics.
- Our students are generally still averse to entrepreneurship, placing employment as their primary goal rather than a career in business. Entrepreneurship needs to be promoted more forcefully in our educational institutions.
- Employers report about a deteriorating work ethic. Nurturing a positive work ethic formally through education will create a major advantage which Malta will offer as an investment destination.

4.1 Education as an Economic Activity

Malta should continue to explore the revenue generating possibilities of exporting educational services abroad. We already have a thriving industry in the teaching of foreign languages in Malta, even though the number of students coming to Malta to learn English has declined.

The efforts to attract more foreign students, which have yielded successes over the past years, to Malta should be strengthened as these increase the reputation of our educational institutions abroad and also constitute a niche market with a high value added.


Such ventures should be coordinated between Malta Enterprise, the Embassies concerned, and representatives from the Ministry for Education and tertiary education institutions.

Although the social dimension of education should remain at the forefront, it is equally wise to consider it also as an economic activity which generates revenue. Revenue from education can ensure that it remains free and sustainable in the medium and long term.

5. HEALTH

Government should increase incentives for private public partnerships in the health sector to utilise existing and future stock of hospital beds in the most efficient manner. This is important given the steady increase in the population due to foreigners living in Malta and the changing demographics of the Maltese population. The pressures of maintaining free health care may be unsustainable if fiscal targets are to be reached, especially if there is a slowdown in economic growth.

- There is still considerable room for better management and governance in the hospitals and also in government clinics.
- The provision of free medicine is wasteful. MEA retains its position that patients should be made to pay for medicine and be reimbursed by Government to raise awareness and appreciation of the value of the service they are being provided.
- Public private partnerships should be encouraged to make optimal use of existing bed capacity and facilities in private hospitals and clinics.
- Further investment in primary health care and provision of health services in the community will further reduce the pressure on Mater Dei.



MEA HAS CONSISTENTLY CONTENDED THAT THERE IS A NEED FOR A RATIONALISING EXERCISE TO DETERMINE THE EXTENT OF IDLE LABOUR IN THE PUBLIC SECTOR TO DEVISE A STRATEGY FOR A REDUCTION IN THE OVERALL COMPLEMENT OVER A NUMBER OF YEARS



6. THE PUBLIC SECTOR

The public sector should not drain resources from the private sector. Many employers complain that they are losing skilled employees who choose to take up less skilled jobs in the public sector based on the promise of a less strenuous workload. This development is particularly pronounced in Gozo. MEA has consistently contended that there is a need for a rationalising exercise to determine the extent of idle labour in the public sector to devise a strategy for a reduction in the overall complement over a number of years. This will be accompanied with a re-training and re-deployment exercise to channel excess labour to areas where they may be required, together with a general manpower plan to anticipate future requirements and contain the cost of labour in the public sector.





7. AIR MALTA

Government must take decisive action about Air Malta. The airline cannot remain a political football and must be managed in a sustainable manner. MEA believes that the country needs a national airline, and, in the absence of a foreign strategic partner, could be financed by raising domestic capital.

The airline can be made viable through a concerted effort at removing inefficiencies, and a change in its work practices and industrial relations culture. Manning levels have to be reduced to have a staff to aircraft ratio that would make the airline competitive and profitable.

8. EMPLOYMENT

The economy has been successful in generating jobs during this legislature. The labour supply has increased by more than 19k, with half of the increase being female labour. There has also been a marked increase in the number of foreign workers.

8.1 Foreign workers

MEA has worked closely with Jobs Plus, the Police department and Identity Malta to voice numerous complaints by employers in the processing of work permits for Third Country Nationals. Progress has been registered over the past six months, but there is still room for improvement, as many companies are still experiencing delays which are affecting their operations and also the welfare of foreign employees who will be constrained to work illegally until their situation is normalised.

8.2 Atypical employment

A current trend in the labour market is the increase in atypical employment. Eurostat data confirm that this is mostly voluntary. It is also necessary, as with the increased demand for family friendly measures, more employees request employment on a part-time/reduced hours basis, and employees on a fixed term contract are required to fill in for employees who are out on prolonged absence. In these circumstances, temping work will also be on the rise.

In the current circumstances, both employee demands and company exigencies require a flexible labour market, and one cannot equate atypical employment with precarious work, as long as labour legislation is respected and enforced. In its position paper issued in July 2013, MEA made a clear distinction between

atypical employment on one hand, and illegal, unethical employment practices on the other.

What should be suppressed through the enforcement of legislation is illegal employment practices and the black economy.

8.3 The Labour market- Wage Determination and Income Distribution

Unions and civil society across Europe have been expressing concern about increasing inequalities which are pushing vulnerable groups and unskilled persons towards poverty. This issue has emerged in Malta as well, and culminated in the debate about the adequacy of the minimum wage which has led to a historic agreement among the social partners in April 2017. In its proposals for the National Budget 2017, the Association had identified numerous factors which are contributing to a feeling by vulnerable segments that they are becoming marginalised:

- The disparity in gross value added between different sectors is leading to widening wage differentials between sectors.
- There are vulnerable groups that may be experiencing a decline in their purchasing power. Two main segments that fall in this category, which have been identified by the Caritas Report, are pensioners and single parent families.
- Rental costs are increasing due to higher demand by foreign workers and residents and are thus eroding the disposable income of persons and families who do not own their own homes.
- Incidences of quick cash payouts that irritate honest working people (e.g. the €80k payment to the Monti hawkers).
- Displays of ostentatious consumption by wealthy

foreigners (and some local ones) increases the feeling of relative poverty, especially within the low income segment.

- A two tier labour market: employees in the public sector (including parastatal companies) have guaranteed lifetime employment and guaranteed working conditions, as has happened at Enemalta and will probably occur at Air Malta. Employees in the private sector do not have such luxuries.
- Conspicuous examples of unqualified/incompetent persons holding positions of trust with a lucrative remuneration package who are not held accountable for any actions taken they take. A glaring example has been the recent situation concerning the chairperson of the Public Broadcasting Authority and overseas government appointees.

A fair distribution of wealth is a requisite of social cohesion, yet the Association contends that not all inequalities are undesirable. In Malta, wage differentials are low, and such differentials are necessary for labour market mobility, to allow human resources to be utilised effectively by moving to sectors with a higher value added, and consequently better remuneration.

Even the public sector suffers from low inequalities. Its wage structure attracts unskilled/semi-skilled labour from the private sector, whilst being unattractive for higher skilled professions.

Government should exercise caution in interfering with the labour market through blanket measures. Whilst guaranteeing minimum working conditions of employment through legislation and enforcement, it should be left up to the labour market and collective bargaining structures to determine relativities.



9. EQUAL PAY FOR WORK OF EQUAL VALUE - PEGGING OF WAGES

MEA has objected to pegging remuneration rates of outsourced work by private sector companies to the public sector to wage scales in the public sector collective agreement. Although the triangular working relationship between the outsourcing company, the client company and the employee creates particular issues, imposing the client's wage scales on the outsourcing company creates an anomalous situation. The concept of equal pay for work of equal value should apply to employees within an organisation, and not to employees employed with different employers, even if they are outsourced. Collective bargaining is a more effective tool to ensure that employees working for outsourcing companies are paid adequately, irrespective of where they are posted.

10. EMPLOYEE ENTITLEMENTS



10.1 Leave

Employers are faced with a situation of ‘cherry picking’ in improving working conditions – i.e. taking the best conditions in different EU countries and transposing them in Malta. For comparative purposes, it is being proposed to conduct an exercise that compares the *full* package of benefits in Malta with other countries. For example, Malta has more optional leave and public holidays than most other countries. We would be able to afford more family friendly measures if we had fewer public holidays and allocating the saved hours to other purposes such as paternal leave. In this manner the quality of life of employees collectively can be improved without harming competitiveness.

10.2 Sick Leave

Employers are being faced with various pressures that allow a greater usage of sick leave days. Among these are the utilisation of sick leave to take care of sick children and to extend sick leave to cancer patients. Employers are not averse to having employees use sick leave when they have to, and even to increase benefits, but this cannot be a one way street. It is recommended to start a debate for a better allocation of sick leave to design a fair package which will be beneficial to honest employees whilst discouraging abuse, which is currently rampant.

10.3 Family Friendly Measures

The increase in female participation can be partially attributable to the availability of family friendly measures and a working environment which is generally more flexible. Employers are responding to the demands to strike a balance between family and working life. This change in culture has been promoted by the Association, and it is an observable fact that most companies make an effort to entertain requests for family friendly measures on a negotiated case by case basis.

The Association discourages excessive, all-encompassing legislation on family friendly measures, as there cannot be a one size fits all solution to the many different circumstances, emerging both from employees’ requirements as well as company exigencies. Across the board regulations will be specifically damaging to micro-businesses. A better solution would be to work with the social partners to issue a set of guidelines to further promote the diffusion of family friendly measures.

10.4 Childcare facilities

The availability of childcare facilities may have extended hours in areas where there are many employees working on shift work, including night shifts.

11. SOCIAL POLICY, WELFARE AND PENSIONS – ENABLEMENT, NOT ENTITLEMENT

All welfare schemes should be based on the principle that Malta needs a culture of enablement, not entitlement. MEA agrees with the concept of a caring society, and supports measures that alleviate hardships to those who are in real need. However, the emphasis should always be to assist disadvantaged persons to depend less on welfare handouts and improve their situation by becoming productive citizens according to their abilities. This is a more dignified manner to address issues such as poverty.

11.1 Addressing Poverty

The Association agrees that every effort has to be made to minimise poverty in Malta. The agreement signed by the social partners in April 2017 specifies that:

- The labour market mechanism on its own cannot be expected to address poverty matters. At enterprise level, wage levels are determined on the basis of productivity and competitiveness.
- Employers and unions cannot be expected to take the burden of resolving poverty through the industrial relations and collective bargaining structures.
- Specific measures targeting poverty are more effective in addressing the problem without destabilising the labour market.

The implications are that blanket measures are wasteful and risk de-stabilising the labour market. The objective of addressing poverty will be best achieved through:

- Determining a realistic figure of persons actually at risk of poverty in Malta. For years this figure has been exaggerated which makes it more difficult to address those who are truly in need of assistance
- Segmenting those at risk of poverty to identify

specific requirements and actions to help them.

- Using targeted measures to address pockets of poverty. The MEA has made a number of proposals in this respect.
- Implementing a set of prevention strategies to prevent people from falling becoming at risk of poverty through education in life skills and enabling more families to have access to a second income through productive employment.
- The welfare of children should be a priority, and social assistance should specifically target children in certain circumstances to avoid child neglect.

11.2 Billing of Free Services

The Association retains its position that citizens need to be made conscious of the cost of services which many consider to be free by right but which cost the taxpayer billions. Government should bill families for services such as education and health for everyone to know and acknowledge the value of such services.

11.3 Rentals and government housing

Social housing should be used exclusively for the purpose to which it is intended. Unfortunately, many social housing units are occupied by persons and families who are nowhere near the poverty line, whilst many persons in genuine need of social housing end up paying commercial rates. It is recommended to have a rationalisation of the housing stock, and that such stock is allocated on a temporary basis to recipients who will be periodically assessed to determine whether they are still entitled to social housing. Those who will opt to remain in social housing even though they may not be entitled will be made to pay market rental rates.

11.4 Pensions

A segment which is experiencing a fall in purchasing power is pensioners. Due to changing demographics, this is a growing segment of the population and the country cannot afford to have so many citizens facing a risk of poverty. This will affect companies that cater for the domestic market, and thus depend on the purchasing power of the local population. It is recommended to review actuarial studies to take into account the increasing number of foreign workers in Malta, the accelerated rate of economic growth and the growing female participation in the labour force to determine whether the current pension system can be reviewed in the coming years.

The sustainability, and possible increase in pensions is another reason why government has to keep its recurrent expenditure - particularly the wage bill – under control to be in a better position to allocate finances to pensioners.

Third Pillar pensions

MEA retains its position against the introduction of second pillar pensions, as these will increase costs of employment and reduce employees' disposable incomes. The Association remains in favour of incentivising third pillar financial products, particularly among young employees.

11.5 Active ageing

Government should encourage persons to remain longer within the labour force, but the employer should still decide, as is currently the case, on whether to retain an employee after retirement age or not.

Pension supplements or increases should focus on elderly persons beyond the age of seventy years. The reason is that there is much lower likelihood that persons beyond this age will be able to supplement their income through employment.





12. EMPLOYMENT OF PERSONS WITH DISABILITY

The controversial issue about the employment of persons with disability was partially resolved with the signing of the memorandum of understanding between Government, MEA and the Malta Chamber of Commerce, Enterprise and Industry in 2016. When the issue of the contribution by companies was being debated, it was being claimed that there were 18k persons with disability who were potentially seeking employment. Clearly this is not the case, as there are about 500 persons with disability on the unemployment register and employment of disabled persons has risen by around 1000 following the agreement.

The MOU has helped to clarify a number of issues and it is proposed that if it is evident that a company would have shown a clear intention to employ persons with a disability, and no suitable candidates were available on the unemployment register, then that company should not be forced to pay the contribution to the Lino Spiteri Foundation. Companies can be asked to make the contribution voluntary against a tax incentive.

13. THE EQUALITY ACT



The Malta Employers' Association has always pronounced itself against any form of discrimination and favoured equal opportunities at the workplace. In the coming legislature, it calls on government to seriously re-consider the proposed equality legislation which is unconstitutional and impractical on many levels.

Among other objectionable features, the proposed legislation provides the Equality Commissioner with the powers to investigate, prosecute and pass judgement. This is in breach of the principle of natural justice "*nemo iudex in causa propria*".

The Association is objecting to the definitions found in the proposed Act. An example is the definition of "sex characteristics" which refers to the chromosomal, gonadal and anatomical features of a person, which include primary characteristics such as reproductive organs and genitalia and, or in chromosomal structures and hormones; and secondary characteristics such as muscle mass, hair distribution, breasts and, or stature. This is going to complicate life for employers who can be accused of having discriminated because of characteristics such as genitalia.

For a piece of legislation to be valid there has to be certainty, foreseeability and predictability. Regrettably the proposed law is so vague and fluid that none of these criteria is satisfied.

It is being proposed that the principle of reasonable accommodation, which is currently applicable only to the ground of disability, both at local and EU level, becomes applicable to all the protected characteristics. It is unclear how the employer is expected to accommodate employees with regards to the other protected characteristics and to what extent.

Another objectionable and contentious issue is the shifting of the burden of proof on employers to cover all alleged offences against protected characteristics. The presumption of innocence is one of the procedural guarantees representing an essential element of the right to a fair trial. This principle is enshrined in the European Convention for Human Rights, The EU Charter of Fundamental Human Rights and in domestic and EU judgements.

The current legislation and setup is serving both employers and employees well, and there is no need for such radical changes in the legislation.

14. SOCIAL DIALOGUE

The agreement on the Minimum Wage signed recently is a clear demonstration of the importance and effectiveness of social dialogue, and that constructive debate has managed to reconcile divergent opinions among the social partners, and perhaps more importantly, has bridged the political divide through the endorsement of both political parties.

It is essential for the next government to respect the agreement. The setting up of the Low Wage Commission is an extension of social dialogue which should lead to more harmonious industrial relations in the coming years.

Government should strengthen the MCESD by allocating adequate resources to conduct research activities for its members. This will serve for the social partners to base their arguments and proposals on factual information and thus lead to more productive discussions and a mature social dialogue.

Revisions to the EIRA

MEA calls on the future government to consider implementing so many proposed changes to the EIRA. There have been numerous recommendations by employers' organisations and unions that will improve labour legislation.

The Industrial Tribunal

The Industrial Tribunal is in urgent need of reform. In its current state, many are preferring to seek out of court settlements rather than take their chances in front of a Tribunal which is becoming increasingly inconsistent and not expeditious. The Association has made numerous recommendations to have a better structure and functioning of the Tribunal.





15. ENERGY AND GREEN ISSUES

15.1 An Apolitical Energy Strategy

Malta needs to move away from energy strategies mired in political debate towards one which focuses purely on purchasing and generating energy at the cheapest cost possible. The gas pipeline project should be given priority.

15.2 Commercial Energy rates

Malta is, besides Bulgaria, the only country in the EU where commercial rates of energy are higher than domestic rates. This effectively means that businesses have, for decades, been subsidising domestic energy rates. With the current international prices of fuel, combined with the benefits of having the interconnector and the gas power station, it is being proposed to streamline these divergent rates over a five year period to have a uniform rate of energy in Malta.

15.3 Traffic and Transport

The next legislature has to give priority to transport matters. Traffic congestion is raising business costs (e.g. distributive trades), and is becoming a cause of stress and frustration that is affecting many employees. This is, of course, related to the increase in the number of vehicles on the road but the situation can be improved through a set of short and longer-term measures.

- There should be a revision of how loading and unloading facilities are regulated to improve accessibility of distributors to their clients.
- Better incentives for car sharing and company transport.
- Staggering opening hours of government entities to spread traffic.
- Synchronising traffic lights for a smoother flow of traffic.

- Services that disrupt traffic, e.g. waste collection, should not take place at peak hours.
- Encouraging more extensive use of sea transport (e.g. Cottonera to Valletta to Sliema areas). There has been marked improvement in this area with a positive take up. Other routes may be considered.
- Improving the public transport system.
- The long term proposals involve a heavy capital expenditure and thus have to be subject to detailed and professional scrutiny. The idea of a metro should be considered within the context of feasibility, affordability and opportunity cost.

15.4 Development and the Environment

The balance between development and environmental conservation is always an uneasy one which is subject to controversy. MEA proposes the following actions:

- Strict governance. Decisions regarding development permits have to be transparent. ODZ applications will be subject to a two thirds parliamentary majority.
- Ensuring a level playing field among developers.
- A commitment to holistic development, which includes an assessment of and plans for the supporting infrastructure required for major projects (e.g. drainage requirements for high rise projects, amenities for disposal of construction waste).

15.5 Fighting Pollution

There should be a defined strategy addressed at different types of pollution: fuel emissions, noise pollution, construction activities, use of pesticides. Rising pollution affects the quality of life and is creating health hazards which, in turn, cause a strain on the budget for health services.



15.6 Water

Not enough attention is being devoted to the water issue. It is known that the water table is being depleted and contaminated, mainly due to unrecorded extraction by unlicensed boreholes and excessive use of pesticides. In the coming years, increased salinity and pollution of the water table will add on the dependence on the reverse osmosis plants, and consequently the cost of producing water.


MEA is proposing:

- Ongoing awareness campaigns about the cost and value of water among the population. Thus far water is highly subsidised and its true value is not appreciated by most people. This includes educational programmes in schools about water economy. People must be made aware of the importance of water management.
- A phasing out of pesticide use by the agricultural sector to shift to organic farming. This will add to the value of agricultural produce as well as reduce the contamination of the water table.
- An agricultural policy that prioritises the range of crops to be produced, depending on water consumption. Crops with an excessive water input would be cheaper to import than to produce locally.
- Enforcing regulations for new buildings to cater for water supply. Today, blocks of apartments invest in basements to garage cars. A similar investment should be made in water conservation.
- A strategy to improve rainwater catchment by commissioning experts to advise on diverting more rainwater to the water table or other designated storage facilities.

- Imposing heavy fines on illegal water extraction, and industrial pollution of the water table.
- Imposing taxes on ostentatious consumption (water for pools) and fines on wasteful practices (e.g. washing of cars with water from water mains).
- Incentivising water conservation in households. This could be achieved by offering audits to households in water consumption, and free testing of well water.

15.7 Green Roof Initiative

It is proposed to embark on a green roof initiative to encourage home owners to convert roofs into green sites. This could be achieved through incentives and competitions. In a country in which green areas are scarce due to over-development, green roofs will, through an expansion of the green footprint, have considerable aesthetic and environmental benefits.



**THE SETTING UP OF THE ESKILLS MALTA FOUNDATION
IS CERTAINLY A STEP IN THE RIGHT DIRECTION AND
GOVERNMENT SHOULD ALLOCATE THE REQUIRED RESOURCES
TO ENABLE THIS FOUNDATION TO FUNCTION PROPERLY**

16. RESEARCH AND INNOVATION

Article 4 of the declaration signed on the 11th May, 2017 between government, the employers' group of the European Economic and Social Affairs, and the Maltese constituted bodies defines quite adequately the importance of technology and innovation:

'More private and public investment is needed in areas such as technology and innovation. For instance, the European Fund for Strategic Investment (EFSI) should focus its interventions on sectors of the future such as Industry 4.0, keep its market-driven emphasis and aim for greater involvement of private funding. Moreover it is vital that EU instruments such as EFSI are designed in such a way as to ensure that all Member States irrespective of their size can fully capitalise on the opportunities that such an instrument brings. Public investment should be better directed to areas that support growth.'

There should be a commitment to allocate more resources to research and innovation, and to intensify efforts to create an industrial culture that incentivises, promotes and rewards these activities.

The coming years will see a continued rapid transformation of jobs due to innovation and technological development. The ILO estimates that automation is expected to affect 35% of jobs in UK, 47% in US, 49% in Japan. Inevitably there will be an element of job destruction especially in unskilled jobs. Historically, initial waves of job destruction created by technological change make way for the creation of new, different jobs. Malta must be proactive in anticipating such changes and shape its manpower and investment strategies to allow for a transition in its industries to benefit from this major challenge.

16.1 A Digital Skills Strategy

The European Union has been emphasising the need to give priority to digital skills among member states. Today, it is estimated that 45% of the EU population only has basic digital skills and 37% of the labour force have insufficient digital skills to cope with the changing nature of their jobs. Malta is no different.

The EU Digital skills and jobs coalition had identified main areas of digital skills development which are certainly relevant for Malta:

- **Digital skills for all** – developing digital skills to enable all citizens to be active in our digital society
- **Digital skills for the labour force** – developing digital skills for the digital economy, e.g. upskilling and reskilling workers, jobseekers; actions on career advice and guidance
- **Digital skills for ICT professionals** – developing high level digital skills for ICT professionals in all industry sectors
- **Digital skills in education** – transforming teaching and learning of digital skills in a lifelong learning perspective, including the training of teachers.

The setting up of the Eskills Malta Foundation is certainly a step in the right direction and government should allocate the required resources to enable this foundation to function properly. Given that it is estimated that there will be a shortage of 500,000 ICT professionals in the EU by 2020, Malta can become a competitive economy through an effort to develop more ICT personnel, and also to enable all citizens to function and live better in an increasingly digital society.

17. SECTORIAL RECOMMENDATIONS

17.1 Agriculture and Fisheries

- There is a need to develop a national strategy and plan for the development of agriculture and fisheries in Malta. Domestic pork and beef production is on the decline, partially due to unfair import practices. The local rabbit industry is also under threat from unregulated importation. This is also having a negative impact on the feeds industry.
- A sustained effort to shift agriculture to organic farming to source marketing niches with higher value added potential. The long-term and excessive use of pesticide is a threat to the survival of this industry.
- Identify indigenous products and market as exclusive items: e.g. wine from indigenous grape varieties.
- Encourage more students to enrol in MCAST Institute of Agribusiness.
- Specialisation: Malta should select the produce which is worthwhile producing to benefit from economies of scale. Some products might be wasteful and not worth producing locally (e.g. water consumed to produce water melons).
- Maximise Malta's fish farming potential to diversify marine produce without compromising the cleanliness of our seas. A balance may be struck between fish farming and environmental constraints.
- Strengthen ties with MTA to encourage agri-tourism, particularly in Gozo.
- Work with restaurants, dieticians and health authorities to promote local produce.

17.2 Manufacturing

Many EU countries are attempting to attract manufacturing investment to their economies in an effort to generate productive jobs. It is generally being accepted that the drive to shift manufacturing operations to third world countries has had negative

repercussions and manufacturing is making a comeback, albeit in a different form.

There is still ample opportunity for manufacturing in Malta, one with a focus on technology, rather than low labour costs. For example, the textile industry is evolving into an industry which relies heavily on engineering and innovation to develop fibres that are used as substrates in biomedical applications, as well as materials that aid in energy conservation and pollution control. FDI in tech textiles can offer attractive opportunities for Malta requiring the training of textile engineers.

During the past decade, completely new manufacturing segments have successfully grown within its fold in recent history. We have seen over decades that this country can support globally successful manufacturing within correctly selected segments; nonetheless, it is an industry whose resilience can never be taken for granted. This industry has recently seen the toughest cost pressures ever in the job market, particularly from service industries and from government induced employment. The cost of transportation remains unrealistically high. Real estate for expansion is limited. Government therefore needs to extend compensatory initiatives to mitigate these phenomena. We need more initiatives that increase the labour market availability of the technically skilled. We need to increase the incentives for companies within this sector to employ. We need to resume assistance for continuous training programs within companies. Manufacturing needs to benefit from investments in energy production by having access to a more competitive tariff structure. We need to reduce still existing bureaucracy and delays in



permit approval for local enterprises; this is sometimes due to under-staffing or under-skilling of the relevant authorities.

17.3 Financial services and gaming

The financial services and gaming sectors have become essential for our economy, with gaming alone accounting for 13% of GDP, with more than 800 companies that are generating 6,500 jobs.

The next legislature should focus on:

- Immediately addressing the governance crisis to get the company back on track as having a reputation of trustworthiness and credibility.
- Working on Plan B in case the tax harmonisation proposals within the EU become reality. There is a need for a strategy that will identify and develop Malta's other unique selling propositions for these critical but volatile sectors.

17.4 The Blue economy and The Maritime Economy

The Rio+20 United Nations Conference on Sustainable Development, held in Rio de Janeiro in June 2012 established the foundations of the Blue Economy, which is a concept offering a wide range of opportunities for island economies like Malta.

The maritime sector is still underdeveloped. Malta can generate considerable business in maritime services such as the servicing of super-yachts, and expand its role as a distribution hub in the Mediterranean. MCAST can attract more students to undertake maritime studies.

17.5 Tourism

Tourism performance in terms of numbers has been buoyant, with the increase in arrivals being spread even during the shoulder months. An emerging trend is the expansion in non-hotel accommodation, which is happening in other countries as well. Tourism remains one of the major pillars of the economy, contributing an estimated 12% of GDP.

The boom in arrivals raises the question of whether Malta has a maximum carrying capacity, and, if so, whether its marketing efforts should be focusing on more high value added segments.

The MEA proposes:

- To conduct a cost benefit analysis to determine the profitability or otherwise of different tourism segments. This will weigh the consumption and cost of the country's resources (marketing, water, energy others) against the benefits in terms of foreign currency earnings, employment and related multiplier effects.
- A better utilisation of the resources needed to promote Malta and grow this important sector in our economy. The key stakeholders need to work together towards achieving a common aim for the benefit of this country.
- Continuing to source alternative markets to increase diversification of nationalities.
- A better coordination between infrastructural works and tourist operators to minimise inconvenience and lost revenues. Works that are not completed as programmed should be penalised to compensate affected businesses.
- Establish a quality mark for operators in the tourism sector.
- Tackling the human resources shortages in this sector by encouraging more Maltese persons to pursue careers in tourism related fields, and by facilitating the processing of applications for foreign employees to cater for shortages especially during the peak season.
- This sector cannot be taken for granted, as the success of the past four years is the result of both good strategic planning during the past decade, and also due to instability in major competing destinations.

17.6 Construction

As explained in Chapter 15, the construction industry needs better direction and stability, and one has to differentiate between land speculators and construction companies. While our geographical limitations make the extent to which land in Malta can be developed debatable, this industry has a critical function to play in national development. If the proposed major infrastructural projects materialise – e.g. a rail/metro network, the tunnel between Malta and Gozo, extensive overhaul of drainage systems, upgrading of roads – there will certainly be enough activity to keep this industry running for ages to come. There could be a strategy to shift the emphasis of this industry from the generation of buildings which may not always be in demand to a strengthening of the national infrastructure to make Malta a better place to live in.

17.7 Wholesale and Retail

- The recent legislation about the shop opening hours needs clarification. For example, the requirement to pay a €700 fee to operate on a Sunday is still in force even though there was an understanding that it was going to be removed. It makes no sense that businesses can only be waived of such a fee if they close their establishment during a weekday for an entire year. This requirement has to be removed.
- The removal of the requirement to apply for trading licences by many establishments has been instrumental in reducing bureaucracy and licensing fees. However this needs to be supplemented with a system and a register to determine the type of businesses that are being set up. In addition, it has created an anomaly whereby some businesses are exempted from the trading licence while others are not.
- Areas with a concentration of trading activities have to be supported with the provision of adequate parking spaces for businesses, their employees and customers.



18. SMEs

SMEs, and micro-businesses in particular, form the vast majority of our businesses, and a good deal of business generated in Malta is due to the generation and growth of such businesses. The micro-businesses community is not restricted to retailing, but is in itself diversified across all economic sectors, including financial, gaming and other professional services. Therefore there should be more consideration to the needs of this particular segment.

- Introduce scale-up-incentives to SMEs which intend to expand.
- Extend financial backing to those enterprises which need to purchase initial stock to set up their business, to supplement capital loans. So far incentives are being offered exclusively for capital outlay, and it is proposed to provide assistance to facilitate and improve cash flow.
- Appoint a Commissioner, who will liaise with representatives of micro-businesses and make recommendations to government on their behalf. The Commissioner's office will also be able to assist micro-businesses to apply for EU funded projects, and have the possibility to act as Business Clinic to assist small businesses in difficulty.
- Improve maintenance of industrial zones and carry out much needed upgrade and infrastructural investment.
- Electrical substations in industrial zones need to be upgraded to generate the required electricity supply. Some companies have incurred significant costs to be supplied with an adequate electricity voltage.

- Introducing more open yard facilities for construction business equipment and means of transport, parking and storage.
- Introduction of areas, on the lines of the Kordin Incubation Centre, for start-ups. These will be micro business hubs through which start up can benefit from low-cost rent incentives for a defined time period until they reach the status of a self-supporting enterprise.
- Better management of civil amenity sites.
- Introduce fast track systems for business owners, at ARMS, Enemalta, Water Services. Currently they waste considerable time queuing with domestic users.
- SME TESTS should be carried out in line with what is stipulated in the Small Business Act. Many issues that affect SMEs are not being subjected to the SME test.
- The creation of more organised parking spaces within the commercial centres.
- Revision on the regulations how loading and unloading parking facilities are being granted.
- Unregulated importation of food items, and also other products from Sicily is creating an uneven playing field with many Maltese SMEs. There should be stricter border controls to control the regular undeclared influx of such products.

19. ROLE OF EMBASSIES

Embassies should be business driven and given more scope to act as extensions of Malta Enterprise to attract foreign direct investment and to offer opportunities for local enterprise to invest abroad. Although the scope of embassies is not exclusively the promotion of business, there should be more emphasis on this critical function which should be one of, even if not only, the main reasons why an embassy is set up.

MEA proposes that embassies and their staff are given FDI targets on an annual basis which would be required to be met. The choice of ambassadors should be transparent and preference given to qualified persons who have knowledge on international relations and contacts with industry representatives.



20. CULTURE AND THE ARTS

19.1 Valletta 2018

The election should not in any way disrupt the opportunity presented through Valletta 2018. This is an excellent showcase for Malta's artistic and cultural talent which will shape the country's perception in the eyes of the rest of the world.

There is a need to look beyond 2018, and to look at this event not as a destination, but as a springboard to boost Malta's cultural capital and attractiveness to Maltese and foreigners.

19.2 Post Valletta 18

Post 2018, it is being recommended to provide artists with more space to develop their talents. MEA proposes setting up an artists' quarter in Valletta, which could be an extension of the project being undertaken at the old abbatoir. Such an initiative will add life to the city with positive effects on commerce. There are plenty of vacant buildings in Valletta that can provide studio space to musicians, painters, sculptors, film-makers and other disciplines through subsidised rent. Thus far, Valletta's rehabilitation has focused on accommodation and catering. While this is important in itself, this effort has to be supplemented with an ongoing and sustained cultural and artistic infrastructure.

19.3 Boutique Museums

It is recommended to set up 'Boutique Museums' for Malta's prominent 20th Century visual artists. These artists' works are on a par with what many other countries have on offer in their museums. Artists like Carmelo Mangion, Emvin Cremona, Alfred Chircop, Antoine Camilleri, Esprit Barthet (to name a few), could be important attractions to Maltese and tourists alike. These artists can be used to brand Malta in a similar manner in which cities like Barcelona use Gaudi and Miro, which uses their motifs in paving stones, outdoor furniture design, cutlery and anything imaginable to establish a distinguished identity which adds to the quality of life of its citizens and also serve as an attraction to visitors. The boutique museums can be spread across Maltese villages to spread tourism in these areas.

19.4 The Film Industry

Malta's film industry has experienced growth over the past decade, and it still has the potential to expand even further. Government should invest in this sector through extensive marketing and human resources development – particularly through MCAST – to develop vocational skills required by this industry.

21. GOZO

There should be a strategy for Gozo which reduces the gap between its GDP and that of Malta by identifying high-end niches which strike a balance between specific investment and the retention of its natural splendour. Gozo still has considerable untapped economic potential which could preserve the environment, improve the quality of life of its inhabitants, and attract more people to live there.

This strategy should include:

- A second fibre optic cable to improve the infrastructure for financial, IT and gaming companies.
- Turning all agricultural production on the island to organic farming.
- Converting the island into a wi-fi hotspot.
- Providing special incentives for the diffusion of electric cars and vehicles that run on alternative fuel on the island
- Incentivising a wider diffusion of photovoltaic energy.
- Attracting cultural tourism through the establishment of an annual cultural calendar, which includes the opera season.
- Establish the feasibility of the proposed tunnel connection between Malta and Gozo. Conducting a cost benefit analysis to determine the resources required and the opportunity cost of using such resources vis a vis other national priorities.
- Increasing connectivity through direct marine linkages to Sliema and Valletta through a catamaran service, and a helicopter service.
- Marketing Gozo as a separate product to attract market niches: religious, health, sport and agri-tourism.
- Using synergies from organic farming, eco-technologies and the medical infrastructure to develop a niche in medical tourism. Gozo can be an ideal destination for cosmetic surgery and recovery for Maltese and foreign citizens.
- Releasing labour from the public sector to meet demand for labour in private sector led economic activities.



22. PARLIAMENT AND THE JUDICIARY

24.1 Parliamentary Reform

There is a need to reform the parliamentary system into a leaner one with full time members. The maximum number of members of parliament should be set at 41. This will increase the quota to become elected to around 7 thousand votes.

24.2 Ministerial salaries

The salaries of ministers should be increased to match their level of responsibilities. It is evident that the current rates of remuneration will not attract the best persons to fill in these posts, and it is anomalous that there are ministers who currently earn less than their sub-ordinates.

24.3 Use of Technocrats

It should be considered to introduce the facility to appoint two technocrats per ministry.

24.5 Financing Political Parties

The financing of political parties requires stricter regulation. Parties need to be more transparent about the provenance of their finances.

MEA recognises that political parties need substantial funding to operate effectively. We also believe that political parties should be non- profit organisations and should not enter into business transactions which can create conflicts of interest. However we also understand that having to rely on donations and private financing as their main sores of income is in itself an issue that can lead to abuse and also corruption. We thus see the need for an open discussion to giving political parties alternate financing to fund their core and regulated activities which could also be centralised through Government.

24.6 Efficiency of the Judicial System

The judicial system is still in need of reform to expedite decisions by the courts – justice delayed is justice denied. A clear case is that of libels where in many cases it takes ten years for justice to be made.

