

Joint Project of the European Social Partner  
Organisations

***Study on restructuring in new Member States***

**MALTA – COUNTRY DOSSIER**



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**The present report represents an expert view and does not necessarily reflect the view of the European Social Partners**

## I. INTRODUCTION: THE DOSSIER – WHAT FOR?

The following dossier introduces the main challenges faced by the Maltese economy from the point of view of restructuring, both at company and at macroeconomic levels.

It was discussed by the Maltese Social Partners in the presence of the European Social Partners at a common Seminar which took place on 12 and 13 of April 2005.

The dossier does not aspire to build innovative insight about Malta's economic or social situation, and this neither on political, nor on academic ground. It seeks to present the existing facts and data from the point of view of restructuring treated as a phenomenon, process and object of the public debate.

It presents different points of view. It seeks to stimulate the debate about the future of the Maltese economy, raise issues which can be treated in a constructive way, contribute to build trust and confidence among the stakeholders in view of mobilizing them for the future of Malta and Maltese social dialogue within the European Union.

In the first part, the dossier highlights the main economic drivers and trends, and the main concerns expressed by the stakeholders in terms of growth, employment and competitiveness. Then it focuses on restructuring as a process and object of the public debate nourished by concrete cases of restructuring on the islands. It ends up presenting an overview of the social dialogue challenges and questions actually being discussed or possibly influencing the consideration on restructuring.

It is based upon interviews and data and document analysis. The list of persons interviewed as well as sources is presented at Annex.

## II. ECONOMIC TRENDS AND CHALLENGES

### This section:

-  presents drivers of growth which contribute to push forward the Maltese economy,
-  enumerates economic challenges and macroeconomic issues which will have to be tackled in order to preserve Malta's competitiveness, and
-  specifies employment and labour market challenges.

### 1. DRIVERS OF GROWTH

Even if the rate of economic growth from the beginning of the 2000 is a concern, it is important to recall the main drivers of growth, which continue to nourish the Maltese economy. The traditional source of Maltese wealth is its manufacturing sector, which accounted for 23% of the total GDP in 2003, and the services sector (74%), while agriculture and fisheries are marginal (3%).

#### a) Export oriented manufacturing sector

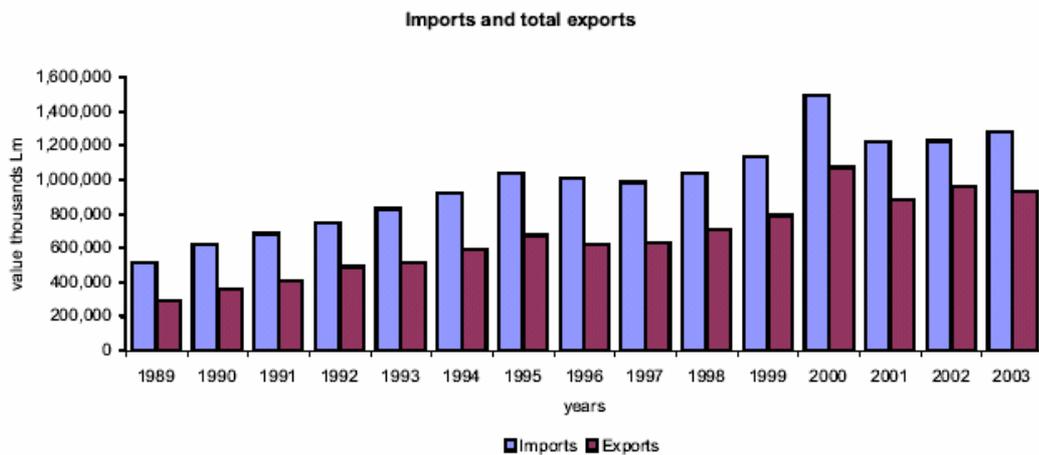
Malta is a small economy, naturally confined within the geographical limits of its two main islands: Malta and Gozo. It has no natural resources, but it has succeeded in attracting and maintaining strong manufacturing firms, mainly owned by big international companies. "Malta joins Mauritius and Singapore as the world's only small states which have managed to set up a significant manufacturing base, in spite of the constraints associated with smallness, peripherality and insularity. Out of the grand total of 17 firms based in Malta employing more than 250 employees, 16 are foreign owned and catering for foreign markets" (Baldacchino, 2003a). There are 14 manufacturing firms with more than 300 employees, and they are responsible for 90% of total export output by value (Baldacchino, 2003b), which illustrates the high dependence of the economy on foreign investment and markets.

It has to be highlighted that the Maltese manufacturing sector contributes to approximately 25% of GDP and directly creates about 21% of work places and there are

thousands of other jobs in the supporting services that have never been counted. “Productivity is extremely high in the manufacturing sector. (...) over the past five years added value per employee increased by 33%, after correction for inflation. This translates into a compounded annual rate of 5.8% when for the rest of the economy the rate was 3.1% per annum” (MGE, 2003. p.7).

Moreover, the export base of the economy is concentrated in a few sectors, mainly in electronics, machinery and transport equipment, which generated about 75% of total exports in the first half of 2001. The shares of imports and exports in GDP are increasing significantly:

## TRADE



Source : <http://www.nso.gov.mt/Indicators/econindic.pdf>, pg. 8 (4.01.2004)

At present Malta is well integrated in terms of trade with the European Union. The latter accounted for around 33% of Malta's exports and 60% of its imports in 2000.

#### Export

Following a slump in 2001 domestic exports started picking up again in 2002 and continued the upward trend in 2003. During 2003, total exports stood at € 2.18 billion. Malta has one of the highest domestic exports per capita ratios in the world, standing at € 5,621 for 2003. During 2003, Malta's top five export markets were Singapore, the USA, France, the UK and Germany. Also in 2003 Malta's top five import sources were Italy, France, the UK, the USA and Germany. In 2004 export was estimated at \$2.175 billion f.o.b. Export commodities are machinery and transport equipment. Export accounts for 55% of GDP.

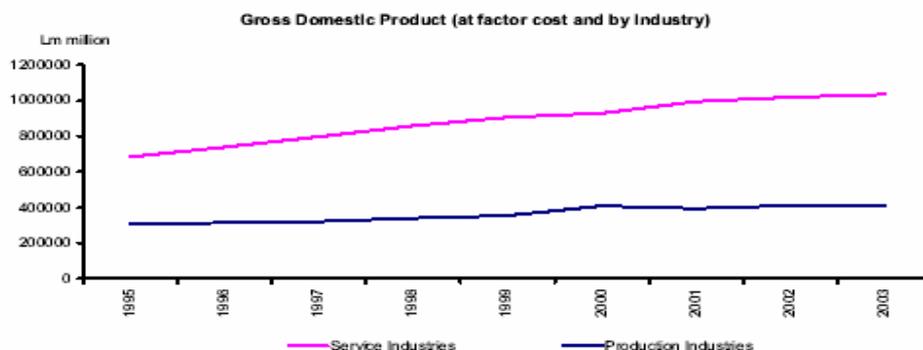
#### Import

Malta is highly dependent on importing the necessary raw materials and natural resources, its imports total at € 3billion. In 2003 import was estimated at \$ 2.761 billion f.o.b. Import commodities are machinery and transport equipment, manufactured and semi-manufactured goods; food, drink, and tobacco. Import accounts for 73% of GDP.

### **b) Services are growing fast ...**

The Maltese economy is very service oriented. In 2004 services industries accounted for 74% of total GDP. In terms of growth rates, the past decade was marked by the rise of nearly all services, particularly of the financial services and private services sectors. "Since 1990 these [two] sectors have grown by over two and a half times in terms of their contribution to GDP" (UHM, 2004, p.41). This trend is likely to continue as the manufacturing sector is no longer experiencing such high growth rates as before.

GROSS DOMESTIC PRODUCT BY INDUSTRY



**Gross Domestic Product**  
% changes on year at factor cost

		Total	Production Industries	Services	Agriculture	Construction
			Manufacturing		Fishing	
1995		7.6	8.0	7.4	10.4	4.8
1996		6.5	3.0	7.9	8.3	1.1
1997		6.1	1.1	7.9	6.0	3.8
1998		7.2	8.1	7.7	0.2	2.7
1999		5.2	7.0	5.5	-4.1	-8.9
2000		6.1	18.2	2.6	-11.4	12.9
2001		3.8	-6.6	7.0	14.1	13.2
2002		3.0	1.9	2.5	14.2	15.3
2003		1.4	1.7	1.5	-1.2	-0.7
2002	Q1	1.4	-8.1	4.3	-0.2	16.0
	Q2	2.8	-1.1	3.4	-2.1	22.3
	Q3	3.5	10.2	1.2	3.2	12.3
	Q4	4.3	8.2	1.1	54.1	11.3
2003	Q1	0.2	-0.8	-0.1	17.1	1.2
	Q2	2.7	-0.8	3.6	15.7	-2.2
	Q3	3.0	8.3	1.5	7.3	-1.1
	Q4	-0.4	-0.1	0.9	-28.0	-0.4

Source : <http://www.nso.gov.mt/Indicators/econindic.pdf>, pg. 5 (4.01.2004)

**c) ... and tourism leads the way**

Apart from its people, probably the most important natural resources of the island are its beauty and geographical location. Attractiveness of the island – despite heavy competition from other Mediterranean countries – is not likely to disappear quickly.

Packaged as a “Sun & See” experience, the Malta product is responsible for 10,5% of the GDP directly and 24,3% of the GDP indirectly – as stated in a study conducted by the Malta Tourism Authority in 2000 (UHM, 2004, p.42). Not surprisingly, it is a sector which is a source of constant concern for the Authorities and the Maltese people, many of which are dependent on tourist arrivals through full-time, or even more frequently part-time jobs. As the last Employment Barometer published by the Employment & Training

Corporation shows, its performance is also sometimes underestimated in terms of jobs and wealth creation (ETC, 2005).

**d) With the quality of its human resources Malta continues to attract investment**

There are many important reasons why it is worthwhile to invest in Malta. Malta has excellent political relations with all countries in Europe, North Africa and the Middle East. Therefore it may play an intermediary role as the closest EU member state to North Africa: Malta has a strategic location between the southern and northern shores of the Mediterranean and, as a result is able to offer good potential to serve as a hub. Traditionally good relations are maintained with Libya. The Malta-Libya Business Club is supporting the exchanges: The Malta Enterprise Tripoli office is offering assistance to Maltese firms, a newsletter is published regularly (Malta Enterprise, 2005a). This can be particularly important in anticipating further opening up of the Libyan economy and the coming of new investors attracted by rich reserves of gas and oil.

Moreover, Malta can serve as a cost-effective platform to penetrate North African markets. These advantages are reinforced by Malta's location in the Central European time zone, which makes business contacts with international partners effective.

To its investors Malta offers a stable environment for investment. There are favourable tax incentives for the investing enterprises<sup>1</sup>, lower rates of tax and investment tax credits as well as financing incentives and training grants. Investors in Malta may enjoy the outcome of a number of bilateral and multilateral tax treaties and agreements, which ensure favourable export conditions to Europe, the United States, Japan, North Africa and the Middle East. Moreover, there are no legal provisions against foreign ownership of the total capital of a Maltese corporation, such companies are fully owned subsidiaries of non-resident companies. Additionally, there are no Maltese-residency requirements for the appointment of directors (Malta Enterprise, 2005b).

However, as stated above, the majority of manufacturing firms on the islands are foreign owned, and produce goods for exportations. Moreover, in the absence of any natural resources, all the raw materials are imported. Thus, the non-exhaustive list of the above mentioned strengths of the Maltese economy omits the most important one. Indeed, one

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<sup>1</sup> Applicable up to December, 31, 2008: 5% for the first 7 years of operation, 10% for the following 6 years, 15% for the following 5 years

can say that Malta's main economic resource is its human capital, and – by maintaining all the foreign owned manufacturing firms – Malta's inhabitants visibly demonstrate every day the high quality of their work.

This capital – flexible, multi-skilled and multi-lingual labour force – continues to attract new investments and new industries.

The main sectors being targeted for FDI are bio-pharmaceuticals, information and communications technology (ICTs), maritime, automotive components, light engineering. There has also been a significant investment in medical equipment, pharmaceuticals, plastics, aviation-related services and maintenance, as well as furniture and food sectors. Officials of Malta Enterprise also foresee new opportunities in plastics moulding, the health care industry, and outsourcing centres.

In 2004 the share of FDI was estimated at 23.1% of GDP. Until October 2004 Malta Enterprise approved 56 investment projects of which the total value was Lm 34 million over 3 years. As a result of this investment 1400 prospected jobs were to be created. Among these 56 projects, 11 were to be realised in the printing sector and their total investment was estimated at Lm 7 million. As a result of this investment 127 prospected jobs were to be created by 2007. Another 7 projects were to be realised in the pharmaceutical sector, for which a total investment of Lm 15 million was foreseen and 180 prospected jobs were to be created by 2007. The lion's share of FDI is in the manufacturing sector, followed by retail and wholesales trade sectors.

The Employment Barometer quotes social partners who are aware of prospective investment in the following months, and "the Pharmaceuticals sector was mentioned" (ETC, 2005, p.5).

Malta also has a potential in serving as a base for storage and distribution of merchandise to the whole Mediterranean. The process of identification of "Free Zones" (as stipulated in the EU customs rules) is underway. There are also plans to introduce some fiscal incentives necessary for setting up warehouses as well as for recruitment and training of their staff.

## **2. MACROECONOMIC CHALLENGES**

According to all main stakeholders – employers, employees and government – the crucial economic challenge faced by Malta is to maintain and enhance its competitiveness.

Among the stakeholders, there is widespread concern about the future of Malta's economic growth, taking into account evolutions of the economy and strengthening of the global and regional competition. According to the 2003 World Economic Forum report Malta ranked 19<sup>th</sup> in potential growth competitiveness while in business competitiveness it ranked 42<sup>nd</sup> (for more details see also UHM, 2004, p.3). It means that with enough determination and mobilization Malta can strongly improve its competitive position.

Many documents and analyses have been written during the last year, which tackle this complicated issue, and contribute to analyse the problems and push forward possible solutions. Some of them presented Social Partners' positions and opinions in anticipation of the Social Pact negotiations. All share the same preoccupation of preserving Malta's competitiveness and reinvigorating growth, and we quote only a few of them:

- "Malta needs to become more competitive in order to attract new direct investment that creates opportunities for workers and young people" (MLP, 2004, p.5)
- "The success or otherwise of the economy will depend on the extent to which productive jobs can be created, to restructure the economy, to absorb surplus labour from the public sector, and to provide opportunities to new entrants in the market" (MEA, 2004, conclusions)
- "Malta has to become more competitive." (UHM, 2004, p.3)
- "Malta is losing competitiveness. The economy has not grown for three years except for the higher contribution to GDP brought about by higher Government expenditure" (FOI, 2004, p.5)

The above mentioned documents, as well as a number of others, contain elaborated analysis about competitiveness and present detailed propositions as far as solutions are concerned. The following sections borrow largely from them and propose to overview the main economic challenges and trends.

### **a) Stagnant GDP growth**

While during the most of the 1990's Malta experienced high rates of economic growth, since 2001 these have not been sustained.



Source : <http://www.nso.gov.mt/Indicators/econindic.pdf>, pg. 2 (4.01.2004)

In large part this can be attributed to the overall economic slowdown, started in the first half of 2001 and further deepened with the adverse impact of September 11<sup>th</sup>. This especially had an adverse impact on Malta's strong sectors – tourism and export oriented manufacturing – that have been badly hit by international developments. As a result, since 2001 growth rates have been stagnating at around 1%.

However, compared with other EU New Member States, Malta is doing well as it reaches almost 70% of the average "Old" (15 Member States) EU GDP per capita (in PPS, 2002) and ranks third (out of 10 new Member States) after Cyprus and Slovenia (source: Eurostat).

Purchasing power parity was estimated at \$ 7.082 in 2004. GDP growth rate was estimated at 0.8% in 2004.

### **b) Foreign Direct Investment is fading**

Even if foreign investments continue to nourish the Maltese economy, the new investments are being slowed down. The lack of "Greenfield" investments is especially worrying: "Although there have been expansions from the firms already operating in Malta, the country has suffered from a fall in FDI in recent years" (MEA, 2004).

### **c) Public debt is becoming unsustainable**

Malta's budget deficit rose from 4% of GDP in 1995 to over 11% in 1998 due to structural imbalances. Public debt has increased in recent years.

It is also a subject of concern for Social Partners: "The current situation whereby public debt stands at more than 70% of GDP, and deficit/GDP ratio at more than 9% definitely

needs to be tackled” (MEA, 2004, point 2.5). “Despite the numerous increases in taxes since 1999, the state of public finances continued to be unhealthy with the deficit remaining at 6.5% of GDP between the year 2000 and 2003. As a result the government debt continued to grow, rising to 72% of GDP by 2003.” (MLP, 2004, p.15).

The unsustainability of this situation is one of the primarily concerns of all the interviewees, particularly in the light of Maastricht criteria and as a prerequisite for Malta to join the Euro zone.

#### **d) Public sector needs to be reformed**

There seem to be a widespread agreement about the necessity of diminishing the weight of the public sector:

- “Today we are in a situation where government’s fiscal deficit cannot be reduced by simply increasing taxation. (...) Government’s financial crisis must therefore now be solved by attacking government expenditure”. (MLP, 2004, p.15).
- “There has to be a clear strategy to reduce public expenditure” (MEA, 2004, point 3.4).
- “Government should put an immediate stop to all recruitment, except for specialised technical personnel, and it should institute a plan to reduce the public sector workforce by a definite number of people over a number of years, say 1000 persons a year for the next ten years” (FOI, 2004, p.10).

While these statements are shared by almost all the Social Partners, they diverge as far as the ways of reducing this burden is concerned. MLP and GWU see the solution in better scrutinising “the operations of authorities and public entities”, reviewing some expenses such as: embassies, unjustified travel costs, excessive allowances with value not congruent with the cost (MLP, 2004, p.14).

The UHM also calls for “greater accountability” of the public sector and denounces “various shortcomings that clearly lead to wastage” (UHM, 2004, p.39).

Through the editorial of “Industry Today” from December 2004, the FOI President sets up an ambitious agenda of reforms: “Social spending of an unsustainable nature, the deficit and national debt, pension reform, public sector over-employment and wasteful expenditure, inefficiencies in the economy, high taxation that discourages people from investing and working more” (FOI, 2004, p.5).

Social Partners also share concerns about the inefficiency of public administration. They point out the necessity to deal with bureaucracy which hampers the growth of companies. It is underlined that increasing the efficiency of the public sector would increase the overall productivity of the Maltese economy by diminishing the hidden burden being borne by the private sector.

Thus, public sector improvement is seen as a key challenge for the improvement of Malta's competitiveness.

### **e) Health, pensions and welfare state**

All the above mentioned issues are of enormous importance for the future well-being of the Maltese and macroeconomic equilibrium of the economy. The main concern underlying these issues is linked with the demographic evolution of society.

Demographic trends of working population according to sex and successive age brackets are presented at Annex 1.

👉 It may be stated that the largest age group is in the bracket of employees aged 45-54 years. It is worth noticing that the number of working women gradually decreases moving up the age brackets: the biggest number of working women is in the age group 15-24 while the share for those aged 55-64 is very limited.

👉 The proportion of the working population aged 55 and over is very limited and should be improved.

👉 The average retirement age is very low compared to European standards: "There is no question that the country cannot sustain an average retirement age of 52 years, which is the case at present" (MEA, 2004, point 4.3.2).

As a result there is a high proportion of the population that is approaching retirement age and a small number of young people entering into the productive age group.

These evolutions undermine the future of the Maltese health and pensions systems:

- The pensions system is based upon the "pay as you go" rule, which will not be supported by demographic trends, threatening the sustainability of the system.

- With the increase of the non-working, ageing population, health expenditures are likely to explode.

The questions which require answers are very sensitive:

- Is it necessary to change the current pension age?
- Should any health services become payable?

And both issues require careful attention of the policy makers, and a high degree of consensus among the Social Partners<sup>2</sup>.

#### **f) Tax evasion**

Another issue which attracts Social Partners' attention is tax evasion. "The tax burden is not carried equally by various members of society" (UHM, 2004, p.39). Tax avoidance (social security, VAT and Income Tax costs) not only has negative effects on national revenue, but is also damages enterprises in the formal economy which are thus faced with unfair competition (FOI, 2004).

An interviewee contrasts tax avoidance (using all legal measures in order to decrease the tax bill paid to the State) with tax evasion (illegal), and stresses that it is necessary to combat tax evasion which is common.

#### **g) Compliance with EU regulations**

Nearly 1 year after joining the EU, the question of compliance with EU regulations is still an issue. In the context of low economic growth, new burdens are now more than ever regarded with suspicion, as potentially hampering competitiveness. Such matters as eco-taxes, energy saving measures, health & safety equipments are thus sensitive.

#### **h) Better tourism service and upgrading of the "Malta" product**

There are calls to increase the efficiency of the tourism administration, also from the Social Partners' side: "Tourism must be revived. Government must give more attention to the environment, so as to attract quality tourist to these islands. The Malta Tourism Authority needs to be more effective in its operational model" (MLP, 2004). A potentially worrying drop in the number of cruise liners is also mentioned as a threat.

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<sup>2</sup> More on this subject as well as other issues closely related to social affairs can be found in *Twemmin The General's Workers Union Belief*, GWU, Malta 2004, p.10-11

Interviewees also stated that Malta will gain in attractiveness when its rich historical and cultural heritage will be better exploited. Thus the “Malta” product could be “upgraded” from the simple “Sun & See” experience to a richer cultural experience, taking advantage of all the historical legacy of the island.

### **3. LABOUR MARKET & EMPLOYMENT CHALLENGES**

The biggest challenge ahead for the Labour Market in Malta is to favour better use of the existing human resources. However, today the biggest “bone of contention” among Social Partners remains the issue of wages and cost of labour.

#### **a) Increase added value produced per employee by moving from low value added sectors to high value added sectors**

In a continuously evolving world there are no more stable enclaves and no sector is definitively immune against rivalry from other countries. Malta’s experience in the rise and decline of the textile industry, which nearly disappeared from the island (still about 2000-2500 employees remain in this sector mainly in some niche and highly specialised markets), is very instructive in this perspective. It has been replaced by other manufacturing sectors, some of them potentially more attractive in terms of value added per employee.

That said, the real challenge ahead for the Maltese is to continuously “upgrade” the sectoral pattern and move from lower to higher value added sectors. These are expanding sectors in the Maltese economy as well as some sectors that are most likely to develop in the nearest future:

- tourism by upgrading existing hotels or building new ones (ex. five star hotels);
- hi-tech and high-medium production and services, including the ICT sector, which is already booming and is expected to develop further;
- pharmaceutical manufacturing sector: investment for new projects in this sector approved during 2004 represent an investment per capita of € 119,331 and an estimated projected € 173,333 by 2007.

Higher value added per employee enables better remuneration perspectives for the employee and more investment opportunity for the employer. Usually, capital expenditures per employee are also higher (ex. pharmaceuticals compared with textiles) which boosts overall economic growth.

Job creation within these new sectors requires an effort in education (qualifications) and skills (on the job training, life long learning). This could be accelerated through fostering innovation and promoting knowledge based economy (but still in-house innovation is at the level of 16,6%, while the EU average is 44%).

Another challenge consists in supporting the SMEs in high-tech production and services. Today the Maltese SMEs sector accounts for only 0,12% of manufacturing and services industries<sup>3</sup>, while in the EU the average SMEs share accounts for 1,28% (Micellef, 2000).

**b) Malta's human potential should be used more productively...**

After Poland, Malta has the second lowest employment rate in the EU25. The 55% employment rate is a worrying symptom showing inefficient use of existing human potential.

In 2003 the Maltese labour supply totalled 144,544 of which 136,602 were gainfully employed (96,668 males and 39,934 females). The public sector accounts for 35% of employment, manufacturing production accounts for 27% and services account for 38%.

Table 1. Full-time employment in 2002:

Full-time gainfully occupied at end of year	136,863 persons
Full-time self-employed at end of year	15,340 persons
Full-time employees at end of year	121,523 persons

<sup>3</sup> J. Micellef, the *Malta Innovation Scoreboard Report*

Table 2. Employment growth by different groups in 2001

Female employment growth <sup>4</sup>	0,5%
Male employment growth <sup>5</sup>	0,2%
Older workers employment rate <sup>6</sup>	31,0% (EU15 average: 38,6%)
female older workers:	11,3% (EU15 average: 28,9%)
male older workers:	52,5% (EU15 average: 48,7%)

Source: <http://www.nso.gov.mt/labourforcesurvey/LFS2002.pdf> (4.01.2005)

Moreover, some of the existing jobs are not productive enough:

- There are about 16.000 employees that have a second part-time job. Thus underemployment is also a huge issue to be tackled.
- Employers also criticize low productivity levels in the public sector, and call official statistics about unemployment “misleading figures” (MEA, 2004, point 2.4), as the State has sometimes acted as the employer of the last resort. This “privileged unemployment” becomes an issue of the public debate.

### c) ... while unemployment need to be contained

Even if unemployment remains low when compared with EU standards its increase is a source of preoccupation for the Social Partners. The most worrying indicator remains long term unemployment.

In 2003 the total unemployment rate was estimated at 7%. The table below presents the data concerning unemployment figures. The definitions of the chosen groups were adopted from Labour Force Survey, NSO Eurostat and are included in the footnotes.

Table 3. Unemployment figures in 2001

Male unemployment rate <sup>7</sup>	6,4% (EU15 average 6,4%)
Women unemployment rate <sup>8</sup>	7,6% (EU15 average 8,6%)
Long duration <sup>9</sup>	3,4% (EU15 average: 3,2%)

Source: <http://www.nso.gov.mt/NSO%20indicators/NSO%20Structural%20Indicators.pdf>, (4.01.2005)

<sup>4</sup> Annual percentage change in the total female employed population in 2001 with respect to the number of female employees in 2000.

<sup>5</sup> As above, but the given data concerns the male employment figures.

<sup>6</sup> Number of employees aged 55-64 as a percentage of the total population aged 55-64.

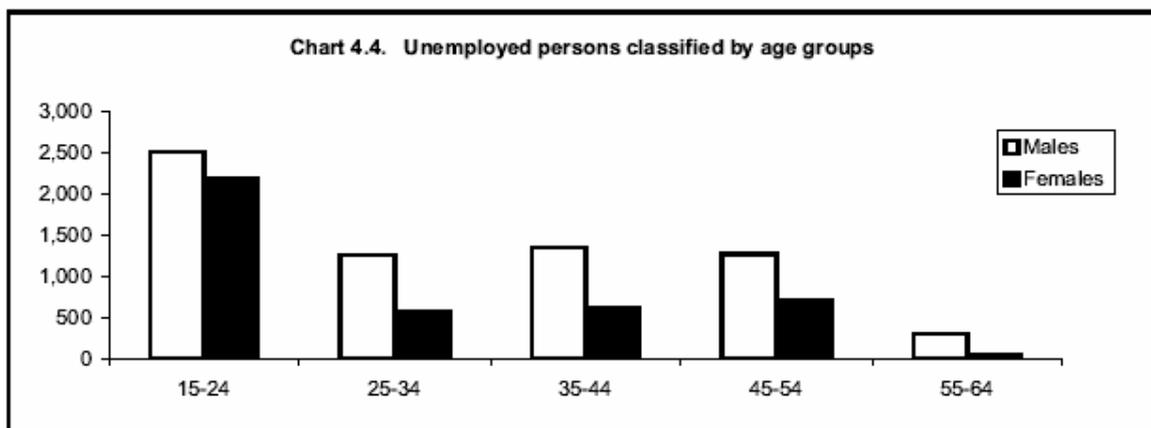
<sup>7</sup> Number of unemployed males as a percentage of the total male active population.

<sup>8</sup> As above, but the figures concern female population.

<sup>9</sup> Total long-term unemployment (at least 12 months) unemployed population is a percentage of the total active population.

The level of unemployment benefits is subject to controversies. For example, the MEA deplore the fact that “the gap between unemployment benefits and the minimum wage is too narrow” (MEA, 2004, point 2.4).

The graph below presents available data concerning the unemployment rate distribution by age groups in 2002.



Source: <http://www.nso.gov.mt/labourforcesurvey/LFS2002.pdf>, pg. 70 (4.01.2005)

As it can be observed there is a bigger number of unemployed men than unemployed women in all researched age groups.

Taking into consideration previously presented employment trends it has to be noted that unemployment among women creates a significant problem, especially in the age bracket of 45-54 years where the number of women unemployed is almost equal to the number of employed women.

Some measures aiming at dealing with the unemployment and creating jobs are presented in Annex 4.

#### **d) Increase efficiency of the education system and promote high-tech specialisations**

Even if the Maltese education system has been systematically increasing its potential, two issues remain of special interest: early school leavers and tertiary education in high-tech specialisations.

The Maltese record of early school-leavers in the age bracket of 18-24 years stands at 48,2%. In comparison with the EU25 average amounting to 16% this figure is

catastrophic. There should be some measures taken to limit the drop outs from the education system at such an early age as this undermines the overall skills resource of the country.

According to Eurostat Yearbook 2004 the population with tertiary education was estimated at 7% (EU average 22,11%). The intake at tertiary level education has grown over the past few years. However, only 4.1% (2004) and 5.1% (2003) of graduates are graduates from Science and Technology and Engineering, Manufacturing and Construction. "Besides having the lowest European figures in adult education and training participation rates, Malta falls significantly short of the needs of the local labour market". (FOI, 2004, p.6)

It is worth noticing that these specializations underlie the competitiveness of the hi-tech manufacturing and service activities and are to become the mainstay of the economy.

The hi-tech and medium-high manufacturing sectors account for 6,96% of employment in Malta (EU average 7,65%). These are such sectors as chemicals, machinery, office equipment, electrical radio, telecom and electronic equipment, medical and precision instruments, automobiles and aerospace and other transport. Employment in the high-tech services sector accounts for 2,98% (EU average 3,39%, EU low is 1,2%). As a conclusion it may be stated that there are good chances for employment in these sectors.

The shortage of graduates in science and technology disciplines can hinder development of the high-tech sector. There is an urgent need for graduates from science and engineering studies at the post-secondary levels; it is even more important in the short term than in the long term. The Maltese government introduced a special system of stipendia and grants for those who are currently studying for a master or Ph.D. degree in these areas. This initiative can be regarded as a good incentive to make up for the skills shortage in the science and technology fields. Some national social partners' organisations are convinced that the stipend and grant policy can become an effective tool in assuring that the skill structure of the Maltese human resources is adequate for the effective development of the high-tech sector. According to FOI, "Government's policy should be changed to encourage students to go into these areas of studies by awarding higher levels of stipends for those who choose science and technology courses". (Calleja, 2004).

**e) Strengthen continuing vocational training: align skill development schemes with the expansion of new sectors**

In Malta there are very few people over 25 years old who participate in education and training activities. Malta has the 5<sup>th</sup> position from the bottom among EU member states with a CVT participation rate of 4,2%. The respective EU25 average is 9,5% while the countries with the highest rates in this category are Denmark (18,9%) and the UK (21,3%). In Malta, the Employment and Training Corporation (ETC) operates with a budget of Lm 2,7 million. Its aim is to provide training and retraining for the labour market.

In connection with the dynamic expansion of high-tech and medium-tech sectors there is a clear need in developing more technical skills and advanced technical skills. At the same time the pharmaceutical sector calls upon the introduction of an apprenticeship scheme focused on Laboratory and Industrial Science. Such a scheme could be established in cooperation with Malta's College of Art, Science and Technology (MCAST), the Federation of Industry (FOI) and Malta Enterprise.

**f) Adapting to EU regulations and "spirit"**

During its rich history Malta has been influenced by two main models of industrial relations: German and British. However "Europeanisation is here to stay"<sup>10</sup> and the EU's social acquis brings along at least six cultural challenges:

1. Better combination of work and (re-)training (lifelong learning),
2. More involvement of workers into consultation and information procedures,
3. Acceptance of introducing minimum standards at work (occupational health, noise-reducing equipment, Working Time Directive (Borg,2004),...),
4. Healthier balance between work and leisure,
5. Forget the security of tenure, especially in the public sector,
6. Acceptance of "atypical" work contracts and types.

**g) Anticipate a possible brain drain**

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<sup>10</sup> This fragment is based on (Baldacchino, 2003c)

Some of the interviewees mentioned the brain drain as a potential challenge, especially after joining the EU. However, no solid data exist yet on the subject and it is difficult to assess the phenomenon today.

**h) Wage increases, cost of labour and income policy continue to be the most important subject of social negotiations**

Last but not least, the issues of wage increases, the balance between preserving the competitiveness of the Maltese economy and costs of living (including “take home” salary), continue to remain an extremely important subject of discussion among Social Partners.

Industrial relations in Malta during the 1990s were widely structured around the matter of wages and household income. Issues such as the Hotel Phoenicia dispute, the confrontation around the Lm 3 wage increase in 1990, the introduction of VAT (1995), negotiations over electricity tariffs in 1997 and 1998; were highly commented in the media and affected all stakeholders involved in the conflicts (Rizzo, 2003).

These were also controversial questions during Social Pact negotiations.

## II. RESTRUCTURING CHALLENGES

### This section:

-  presents restructuring from the point of view of the private sector,
-  states that the legal framework for redundancies is not contested,
-  affirms that the biggest challenge in terms of restructuring lies within the public sector, and
-  shows case studies on restructuring.

In order to understand the reality of social dialogue and restructuring management in Maltese economy, it can be useful to remind the “Malta’s contemporary economic and industrial relations structure” represented schematically by three groups (Baldacchino, 2003a, page 13):

1. Small and medium size enterprises, with paternalist management and lack of industrial relations;
2. Public and quasi public sector which is strongly unionised and characterized by adversarial industrial relations
3. Medium-sized export-oriented firms which is also strongly unionised but with harmonious industrial relations.

### 1. RESTRUCTURING IN THE PRIVATE SECTOR IS EVERYDAY REALITY

As far as the groups 1 and 3 of the above presented classification are concerned, “restructuring” is considered neither as an unknown or an unaccepted issue.

On the contrary, the majority of the Social Partner representatives interviewed agree that restructuring is a continuous process and that “it is here to stay”. Being a “necessary evil”, it is never denied and is treated as an important element of industrial evolutions. Interlocutors also highlight the evolution of the perception among public opinion: being widely accepted, “it happens better quickly, rather than taking too much time”, even if the word in itself is considered as a euphemism for “redundancies”. Private employers “are not waiting for problems” and anticipate necessary restructuring, thus minimizing their negative impact on employees and on the company.

Social partners negotiate on a number of subjects related to the process of restructuring, in particular the rationale behind the process and possible alternatives. Social Partners emphasize the fact that, in the private sector, restructuring is quite well managed, and social partners usually reach an agreement which is satisfactory for both sides.

In the cases of divergent positions, the State administration represented by the Department of Industrial and Employment Relations serves efficiently as mediator. This is a centralized procedure, which, albeit effective, may be lengthy because of its limited human resources. One permanent employee is serving as a mediator (DIER Director) and is occasionally supported by some extra staff. The overall evaluation of this level of negotiations between Social Partners and of the mediation tool is very positive:

Social Partners underline cultural flexibility and ability to change among Maltese workers.

The biggest sectoral experience of restructuring concerned the textile industry, which has now virtually disappeared from Malta.

The private sector does not usually benefit from public funds or subsidies during painful transitions and restructurings.

Representatives of management and HR professionals stress, however, the necessity of paying more attention to the way the whole process is dealt with, in particular in terms of psychological preparation and assistance.

Outplacement is not referred to as an essential tool for restructuring. The relatively small size of the economy (private networks are well developed), flexibility and ability to change of the Maltese, all influence more directly the capacity of finding a new job after redundancy.

This good situation within the private sector is also frequently opposed to the one prevailing at the national level, where the traditional duality of the Maltese society is an obstacle to reach compromise.

## **2. LEGAL FRAMEWORK DOES NOT RAISE CONTROVERSIES**

Legal provisions are not contested and are not spontaneously mentioned as an important matter when the question of “restructuring” is discussed.

The most important legal act related to the restructuring modalities is the Employment & Industrial Relations Act, where Part V entitled “Termination of Contracts of Services” contains in particular articles 36 and 37. Key elements of these provisions are:

- Notice of termination varies from one week’s notice (probationary employment, less than six months of employment) to a maximum of 12 weeks’ notice (more than eleven years) if the employee has been in the employment of the same employer continuously. Longer periods may apply in the case of technical, administrative, executive or managerial posts.
- The “Last in first out” rule applies (with the exception of persons related to the employer up to the third degree).
- The employee whose employment is terminated on grounds of redundancy is entitled to re-employment if the post formerly occupied by him / her is available again within a period of one year from the date of termination of employment, at conditions not less favourable than those to which (s)he would have been entitled if the contract of service relating to him / her had not been terminated.

This last point is sometimes “by-passed”. The employee is offered some additional lump sum and both sides agree on the termination of employment contract on the basis of mutual consent. It allows the employer to gain some flexibility in the case (s)he would be forced to employ a person within a year’s time for the same post.

Some special laws exist on restructuring, such as Dockyard and Shipbuilding Yard (Restructuring) Cap. 466, which makes provisions for the restructuring of Malta Drydocks and the Malta Shipbuilding Yard.

### **3. PUBLIC SECTOR RESTRUCTURING REMAINS THE BIGGEST CHALLENGE**

#### **a. High stake issue for public finances, extremely “touchy” for politicians and Social Partners**

Taking into account the fact that today Malta faces enormous challenges in terms of competitiveness, particular attention from the Social Partners is being paid to the public sector, especially with regard to employment. And here the stakes are high: “Put together with what is recognized as a still over-manned public service, the level of direct, public sector employment remains a high 40%” (Baldacchino, 2003a, page 13).

The representatives of employers envisage ways of increasing the productivity of public jobs, and recommend to gradually decrease the number of persons employed in the public service. MEA proposes to “target to reduce the number of persons employed with the public sector by a targeted amount (proposed 12,000) by the end of 2008” (MEA, 2004, point 4.1).

The public sector, and especially parastatal companies with the most visible example being Malta ports, is seen as inefficient also from the point of view of FOI. The Federation’s President urges the government to accelerate the reforms of the ports.

The issue of reducing employment in public services is of a delicate nature:

- it represents an enormous electorate, which makes the subject sensitive for politicians,
- some of the parastatal companies and generally speaking the public sector are a traditional basis of the trade unions (Zammit, 2003, p.65-128).

Taking into considerations the above objective constrains, any debate about increasing productivity of the public sector is likely to raise doubts and suspicion not linked with the economic rationale but more with power distribution among main stakeholders.

#### **b. Early retirement schemes: a remedy?**

As can be observed from cases studies, no measures of redundancies are being used. The Authorities propose to the employees various non-obligatory schemes founded on early retirement programs and voluntary departures (golden handshakes). Even if one can deplore the enormous cost of such measures and their adverse effect on the perception of the public sector among the private employees, these measures have worked and have proved their efficiency.

However, taking into account the present scale of proposed reductions within the public sector (10.000-15.000 employees) these measures should be re-examined:

- from the financial point of view the cost would be unbearable;
- such measures do not incite former employees to quickly find a new job – some of them will be stuck within the inactive or unemployed population.

As a consequence, both direct costs (high direct payments to the employees) and indirect costs (inactive and/or unemployed persons) would induce extraordinary costs to the economy as a whole and could hinder its competitiveness. It is thus essential to

organize the conversion in a way which would increase this population's productive capacity.

In this sense, MEA proposes a number of measures aimed at softening the transition from the public to the private sector. This Association proposes also that "this reduction will take place over a number of years to avoid unnecessary shocks and give sufficient time for the private sector to be able to absorb the increase in supply of labour" (MEA, 2004, point 4.1).

#### **4. RESTRUCTURING CASES**

Competitiveness has been one of the most recurrent topics in Maltese public debate. In order to enhance Malta's competitive edge, successive governments since the early 1990s have embarked on restructuring exercises of state-owned or state-run enterprises, such as the national airline Air Malta, the Public Broadcasting Service, Malta Drydocks and the Malta Freeport.

The main reason for restructuring is improving the competitiveness and efficiency of services as well as rationalizing employment. Moreover, the measures undertaken were to improve the competitiveness of certain sectors that were geared mainly to the domestic market.

##### **a. Restructuring in the public sector**

It maybe be noted that, in the majority of the described restructuring process, the ambition was to avoid collective redundancies.

The proposed solutions included: establishing new companies and stimulating job creation, early retirement schemes and transferring the employees to the public sector.

In the majority of cases, the restructuring process at the company level is accompanied with subsidies aiming at technical upgrading, structural adjustment, etc. in order to improve the enterprise's effectiveness.

*Air Malta- national airlines*

The restructuring process started in 2003. On May, 26, 2004 the Air Malta *rescue plan agreement* was concluded with 4 trade unions<sup>11</sup>. The ambition of the agreement was to guarantee that there would be no job loses as a result of restructuring process,

This agreement is Malta's first *social pact* at company level. Planned savings are approx. Lm 1,5 million and are to be achieved as a result of cost-cutting measures and more effective working practices. Further operational and administrative costs reduction is estimated at the level of Lm 3,75 million.

The agreement concluded concerns: conditions of pay increments, ensuring flexibility of the labour force, and setting up works councils in order to enhance social dialogue at the company level<sup>12</sup>. Further discussion will concern early retirement schemes. Air Malta does not plan to recruit new employees except to fill vacancies that may arise<sup>13</sup>.

#### *Malta Drydocks and Shipbuilding*

Negotiations between high-level government representatives and officials of the GWU were finalized on November, 5, 2003 and, as a result, Malta Drydocks and Malta Shipbuilding were dissolved and their assets and liabilities transferred to the government. Its debt amounted to Lm 300 million (€ 644 million). A new company called *Malta Shipyards* has been created and is to absorb 1,700 workers from the current workforce of 2,600. This will be done under new conditions, including the introduction of a shift system that will substantially reduce overtime. No compulsory redundancies among the 2600 employed were foreseen as a result of restructuring. The remaining employees accepted early retirement schemes (418 out of 900) or were employed by a new company called Industrial Projects and Services Ltd.

It is worth underlining that these negotiations were foreseen as very controversial as the restructuring process undermined revenue sources for the GWU, so the union was very persistent in negotiations, despite the fact that GWU was satisfied with the results achieved<sup>14</sup>.

An interesting description of this case can be found in (Rizzo, 2003).

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<sup>11</sup> The Airline Pilots Association (ALPA), the Union of Cabin Crew, the General Workers' Union (GWU) and the Association of Airline Engineers.

<sup>12</sup> An important development in the process of social dialogue at corporate level as until now the works council-type bodies are largely absent from the Maltese industrial relations system.

<sup>13</sup> More on the Air Malta restructuring see <http://www.eiro.eurowfund.eu.int/2004/11/feature/mt0411102f.html>, MT0407101N, (4.01.2005)

<sup>14</sup> More on the Drydocks and Shipbuilding Air Malta restructuring see <http://www.eiro.eurowfund.eu.int/2003/12/inbrief/mt0312102n.html>, MT0312102N, (5.01.2005)

### *Public Broadcasting Services (PBS)*

Negotiations between the government, company management and GWU were concluded on April, 24, 2004. The reduction of the work force was the main element of the restructuring process. As a result the labour force was to be reduced by 2/3 through early retirement and the redeployment of surplus staff<sup>15</sup>. Another important issue of the restructuring process was rationalizing of human resources as the list of reported problems included inadequate shift patterns and work practices as well as excessive overtime.

A new collective agreement was agreed upon and it is to cover a 5 year period from 1 April 2004 to 31 March 2009. The plan provides for the creation of several new posts (especially managerial posts) and the elimination of others. There are specific retirement schemes proposed to the employees from different age brackets. If the employment reduction originating from the early retirement schemes is not sufficient, the remaining employees will be transferred to public sector jobs<sup>16</sup>.

### *Malta Freeport*

The privatisation of the Malta Freeport was to be concluded by October 2004. There were two trade unions that took part in negotiations of new, separate collective agreements on behalf of their members (GWU representing 186 workers and UHM representing 500 members). Main issues of negotiations: improving flexibility of pay and benefits system and tailor it to productivity as well as ensuring efficient shift systems while enabling the workers to enhance their work-life balance through stable work organization patterns (the relation between flexible work shifts and the fixed ones was discussed).

### *Enemalta Corporation*

Established in 1977, it offers a broad range of services to industrial, commercial and domestic sectors in the energy field. Since April 2003 the process of re-organization of its entire structure has been implemented. Restructuring was undertaken with a view to privatisation of the company. There is a transitional period as the liberalization of fuel

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<sup>15</sup> The total number of employees was 178 persons; this will be reduced to 64 persons.

<sup>16</sup> The case of PBS restructuring is controversial as some believe that with the liberalization of the broadcasting sector the PBS is no longer needed, and the government and GWU decided to keep it operating, therefore some claim that that a new monopoly was created in the place of the old one. More on PBS restructuring see <http://www.eiro.eurofound.eu.int/2004/05/inbrief/mt0405101n.html>, MT0405101N, 5.01.2005

imports was postponed until the end of 2005 in order to enable Enemalta to prepare for functioning on the free market.

*The Malta Tourism Authority (MTA)*

Set up in 1999. The basic aim of the restructuring process is to streamline organization consisting of six groups of stakeholders. As a result the company is to be structured more flexibly in order to broaden the tourists market (especially the tourists from the UK).

Among other cases could be mentioned: Water Services Corporation, Malta Telecommunications Operator.

## **b. Restructuring in the private sector**

*Trelleborg Dowty Malta*

This restructuring process is connected with the structural change taking place in the company. The goal of the restructuring process is to transform the operation from one very large department- based factory into 5 smaller, autonomous, processes based Business Units. Each of these new smaller Business Units will be market focused and is to serve different market sectors. The Maltese Government, that is investing Lm 3.75 million over the three-year period of 2001 to 2004 mainly for buildings, supports the restructuring program. Over the same three-year period, Trelleborg Dowty Malta will invest about Lm 2 million in new equipment and infrastructure.

## **c. Planned restructuring**

*Sea Malta*

The national shipping company established in 1973 is to undergo major redundancies: a planned reduction of on-land workers from 73 to 13 persons.

*Malta Tourism Authority*

Following a report prepared by Deloitte & Touch the Malta Tourism Authority is about to undertake its first restructuring process since its creation 5 years ago. "We pertain to an industry where action and substance need to be of essence" stated the Minister for Tourism and Culture on the 13<sup>th</sup> October 2004 when he announced this news.

## IV. SOCIAL DIALOGUE

**This section:**



**affirms that Malta is a dual political and social system,**



**recalls the negotiations of the Social Pact.**

### 1. MALTA IS A DUAL POLITICAL AND SOCIAL SYSTEM

When presenting specificities of Malta's social dialogue and industrial relations one cannot forget that in Malta everything is a dual system: "if somebody says yes, someone else feels obliged to say no". The two main political parties, Labour and Nationalist, are traditionally linked with two trade unions, respectively: GWU and UHM. Even if the historical link between GWU and Labour is officially ended, the two are following broadly the same policy lines. While UHM stands for its independence, public opinion perceives its relations with the Nationalist government as stable and good.

Consequently, when one party is in the government, the other – together with the other trade union – will be in opposition. Common national consensus is not easily reached.

An exemplification of this duality is the EU integration: "when one party decides to become pro-EU, the other feels obliged to be against". Strangely, as it was the Nationalist party which declared itself pro-EU, the Labour party felt obliged to become anti-EU, making of it an exception in the EU (in the vast majority of cases socialist, or left-wing parties, are pro-Europeans).

### 2. FAILURE OF THE SOCIAL PACT

With slowing GDP growth, worrying international perspectives, decreasing flow of FDI and worrying employment and demographic predictions, Maltese social partners begin to realize that only a common mobilization of all of the stakeholders can reinforce Malta's competitiveness. From the beginning of 2004 a number of analyses and studies were published by Social Partners in view of preparing a national Social Pact. A visit of John Monks, General Secretary of ETUC helped putting around the same table all the trade unions, and a joint statement "Towards an New Unity" was signed.

The year 2004 was then marked by two historical events: for the first time in their history Maltese trade unions reached a common position and decided to stand common positions together, and a negotiating table, including all of the Maltese social partners, was set up.

The negotiations were extremely intense. Starting from such issues as competitiveness, the role of public services, decreasing of the public burden or reinvigorating growth, the beginning of the negotiations was extremely ambitious. However, after several long meetings – as stated one of the participants of this negotiations – “the key questions were finally diluted, and we have separated over secondary issues”. The main “bones of contention” concerned two subjects:

- inclusion (or not) of the weekend days of public holidays within normal holidays,
- payment of a lump sum in terms of salary increase, incorporated into the basic salary at the end of the Social Pact weighted with regard to the GDP growth.

The duration of the Social Pact was also subject to controversies: 3 or 4 years.

Another participant to this negotiation regretted short deadlines, believing that with some more days it could have been possible to reach a compromise.

Such an unlucky end to negotiations inflamed a media war among the main stakeholders. Main “dramatis personae” were personally attacked and accused (mutually) of treachery. The Maltese government pronounced itself unliterary over one of these controversial issues (public holidays) and issued a law, which provoked protestation.

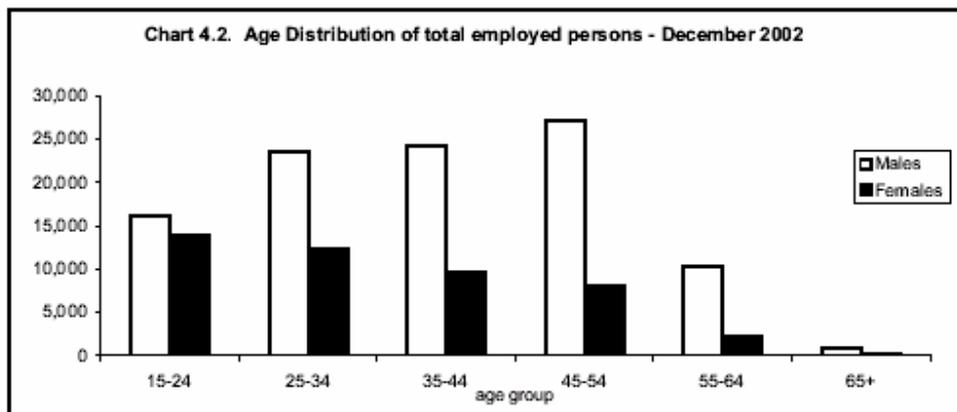
In the end (March 2005) however, a vast majority of the Social Partner representatives declared their openness for common discussion. Some of them suggested pragmatically to rebuild confidence and trust step by step, starting with “easy” subjects. But all are ready to discuss.

## ANNEX 1

### Statistics

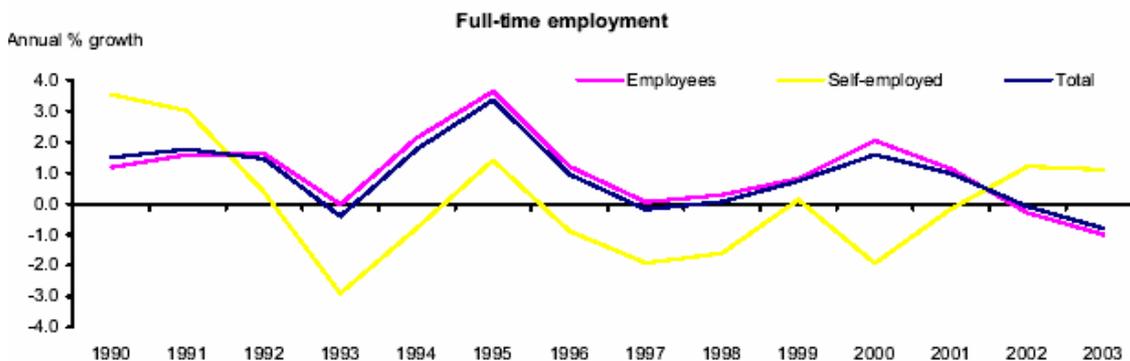
Table 4.12. Age distribution of total employed persons in December 2002 (main occupation)

Age group	Sex				Total	
	Males		Females			
	No	%	No	%	No	%
15-24	16,069	15.7	13,955	30.1	30,024	20.2
25-34	23,488	23.0	12,325	26.6	35,813	24.1
35-44	24,142	23.7	9,566	20.7	33,708	22.7
45-54	27,103	26.5	8,039	17.4	35,142	23.7
55-64	10,338	10.1	2,222	4.8	12,560	8.5
65+	980	1.0	176	0.4	1,156	0.8
<b>Total</b>	<b>102,120</b>	<b>100.0</b>	<b>46,283</b>	<b>100.0</b>	<b>148,403</b>	<b>100.0</b>



Source: <http://www.nso.gov.mt/labourforcesurvey/LFS2002.pdf>, pg. 63. (4.01.2005)

The graph presents trends in full-time employment in the years 1990-2003.



Source : <http://www.nso.gov.mt/Indicators/econindic.pdf>, pg. 21 (4.01.2004)

## ANNEX 2

### List of interviewed persons

Organization	Name	Affiliation
Confederation of Malta Trade Unions (CMTU)	Mr Anthony Micaluff Debono Mr John Bencini	ETUC
General Workers Union	Mr Michel Parnis	ETUC
Malta Employers' Association	Mr Joseph Farrugia	CEEP
Malta Federation Industry	Mr Wilfred Kenely Mr Ingrid Buhagiar	UNICE
The University of Malta	Prof. Edward L. Zammit	
Malta Enterprise	Mr Joseph Zammit Tabona	
Malta Enterprise	Mr Robert Falzon	
UHM	Mr Gejtu Vella	
Fundation for the Human Resources Development	Ms Maria Pia Chircop	
Freelance consultants	Ms Christine Copperstone Mr Patrick Meli	

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5. <http://www.nso.gov.mt/NSO%20indicators/NSO%20Structural%20Indicators.pdf>
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## ANNEX 4

### Some measures aiming at dealing with the unemployment and creating jobs

The Employment & Training Corporation has solid experience in dealing with professional reconverting through complex, tailor made training programs (ex. for employees of 40 years and more). It is well equipped in terms of statistics (such as Employment Barometer).

In Malta the *Training and Employment Exposure Scheme* was established. This scheme aims at training of the 400 registered persons who are over 40 years old in order to reintegrate them in the labour market. A corresponding measure addressed to the registered unemployed persons is *Supported Employment Scheme*.

In order to stimulate firm creation Malta has developed a wide range of measures aimed at fostering private entrepreneurship and attracting new investment.

#### Business creation measures

Business creation is very intensive in such sectors as tourism, ICT, pharmaceuticals, and automotive supplies. At the end of 2004 the Business Incubation Centre at Corradino offered assistance to 25 new businesses. Special assistance programs are addressed to SMEs. 110 small and medium size enterprises have already benefited from two support schemes, another 100 were supposed to benefit by the end of 2004.

There are some financial instruments being created in order to support business creation. Among them are:

- agreement with the European Investment Fund for access to a financial guarantee facility is being finalised;
- government investment of Lm 900,000 over 3 years activated in order to create Venture Capital Fund;
- plan to create Special Purpose Vehicles based on investments from banks and private institutions;
- Malta Industrial Park Limited worth Lm 3,2 million is to be created in order to finance new factories.

There are also some fiscal incentives aiming at attracting TV and film producers to Malta in order to profit from its natural resources. These measures include: fiscal incentives such as tax reduction of 150% for capital, a refund of VAT and NIP contributions paid in Malta as well as a reduction of 20% from tax on certain expenses which have more than 50% added value.

### *State aid measures*

Under *the Business Promotion Act* a State Aid Monitoring Board was set up. This body executes control over aid state measures<sup>17</sup>. Malta may grant state aid of up to 50% of the costs of investments in the case of large companies. In the case of small enterprises, state aid can go up to 65%.

Subsidies are foreseen for such sectors as ship- building and ship-repair, industrial sector, tourism and for the SMEs.

#### *Ship-building and ship-repair sector*

These two sectors were granted Lm 420 million until the end of 2008 with a view to restructure; the subsidies were offered mainly in the form of operating aid covering recurrent costs (i.e. wages, loans). This subsidy includes payment of the yards' accumulated debt of Lm 300 million, the remaining Lm 120 million will cover costs of investment, training, compensation for social costs and working capital. Some state aid (investment incentives) was also guaranteed under the Industrial Development Act (IDA) and under the Malta Freeport Act (MFA).

#### *Industrial sector*

The subsidies available in this sector are export-related incentives. The legal basis for guaranteeing the subsidies in this sector is the Old Industrial Development Act and the Malta Freeport Act. They are to be phased out naturally as they violate both EU and WTO free trade rules.

#### *Tourism*

The subsidies allocated for this sector aim at attracting tourists from Britain. They were available until June 2004. As a transitional solution, British tourists will pay less departure tax to come to Malta and the Tour Operator Support Scheme (TOSS) is to be phased out.

#### *SMEs*

The benefits in favour of the SMEs sector will be continued till 2011.

It is interesting to note that under the Business Promotion Act new incentives schemes were introduced to support Malta's economic developments as a counterweight to its island status, remote location from mainland Europe and higher transport costs resulting from this location. Some of them were to replace export-related incentives that are not accepted by EU and WTO.

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<sup>17</sup> The Malta's level of economic development is around 55% of the EU average; as a consequence Malta may continue to grant aid to support certain objectives, i.e. investment