



European Employment Observatory Review: **Spring 2009**



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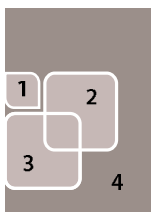
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Malta

The task force set up to deal with manufacturing companies facing difficulties

1. Introduction

The labour force survey (LFS) for Q1 2009 indicates that despite the global recession, when compared to the same quarter of the previous year, there was a marginal increase in Malta's employment rate of 0.2 percentage points (from 54.7% to 54.9%) (NSO, 2009). The effects of the international financial crisis on Malta's financial institutions were contained. According to LFS data, the manufacturing sector shrunk by 2% (to 24 255 workers) between Q1 2008 and Q1 2009. Such data are corroborated by a separate manufacturing survey carried out by the NSO which shows that sales decreased by 23% between Q1 2009 and Q1 2008, a decrease mainly occurring in the radio, TV and communication equipment and chemicals and chemical products sectors. The manufacturing sector has been hit the hardest by the international economic slow-down. Indeed, several enterprises producing parts for the automotive industry experienced considerable difficulties due to a worldwide decrease in car sales. It should also be noted that between Q1 2008 and Q1 2009, investment in the manufacturing industry dropped by a significant 68%. In February 2009, ST Microelectronics, Malta's largest private company, announced that it would be decreasing its staff complement in the country by between 400 and 450 workers. Several other companies have also announced reductions in their staff and/or the adoption of shorter working weeks. Indeed, the situation appears to have worsened during the first quarter of 2009. Statistics derived from the Employment and Training Corporation (ETC) for April 2009 (based on different methodologies from the LFS) indicate an increase of 18% in the registered unemployed compared with April 2008. A parliamentary question revealed that in February 2009, there were nine companies employing 1 208 workers, working on a four-day week in a bid to avoid redundancies. The number of workers put on reduced working hours increased to 2 088 in March 2009.

The measure being described in this article is one of the government's attempts to address the shedding of jobs in the manufacturing sector. In line with the employment guidelines at EU level, this measure seeks to maintain high employment levels by helping a number of key companies to weather the storm of the current global recession. The measure also seeks to increase the flexibility and long-term viability of companies by helping those with a potential for further development. Indeed, it is interesting to note that when, in recent years, the textile industry was dying, the government did not try to intervene, as it was obvious that Malta could not compete in this sector against countries with much lower labour costs, such as China

and Turkey. Also in line with the employment guidelines at EU level, this measure promotes lifelong learning and continuous training among the workforce, which statistics show to be low in Malta when compared to the EU average.

2. The measure and its expected impact on the policy challenge

In February 2009, the government set up the Economic Stability Task Force (normally referred to as the 'task force') to deal with specific manufacturing companies facing difficulties due to the effects of the international recession. The task force aims to develop tailor-made solutions for companies in danger.

The innovative aspect of the measure is that rather than focusing on the macro level through blanket aid programmes, as would often happen in larger countries, the government preferred to focus on the micro level and help specific companies. This approach, made possible by the small number of enterprises in Malta, was meant to reduce costs and enhance the impact of the actions.

The task force is working with a number of major companies, assisting them in identifying new investment opportunities. Financial aid, in particular in the form of training for new business lines and the conversion of tax credits into investment aid is being delivered. These actions are being carried out to secure jobs in the present circumstances and strengthen the companies' position to ensure a sustainable growth in the medium to long-term.

While, as indicated above, the task force appears to have been set up specifically to deal with problems in the manufacturing industry, it has started looking at the tourism sector as well. The Minister for Finance was reported as stating that the task force and the Parliamentary Secretariat for Tourism were 'in detailed discussions to find ways of also encouraging some hotels, particularly in the three-star category, to make an investment in this period, to prepare for the eventuality of the downturn passing and more tourists coming to Malta'.

3. Organisation, implementation and funding of the measure

As in the case of many other policies and measures in Malta, the responsibilities of this project are at national level. The task force is chaired by the Minister for Finance, Economy and Investment and has representatives of the Malta Financial Services Authority (MFSA), Malta Enterprise (ME), the

Employment and Training Corporation (ETC), the Department of Industrial and Employment Relations, and the Planning and Priorities Coordination Division (PPCD) within the Office of the Prime Minister. The MFSA is the regulator of financial services in Malta, a sector incorporating banking, investment and insurance. The ME is the public agency responsible for the promotion of foreign investment and industrial development in Malta. The ETC is Malta's public employment service. The PPCD is in charge of ensuring the efficient management of European Union and bilateral funding programmes by providing effective coordination among stakeholders. This task force is thus based on a collaborative effort among various different public sector entities, guided by the Minister for Finance, Economy and Investment, who is responsible for the government's budget. In order to achieve its goals, there must be an effective inter-ministerial collaboration, which despite the small size of the country, cannot be taken for granted.

The government did not include any representatives of social partners on the task force. As will be further elaborated below, the main social partners have praised this measure. However, the two largest unions, namely, the General Workers Union (GWU) and the Union Haddiema Maghqudin (UHM) have publicly voiced their wish to be more involved in such actions. The secretary general of the UHM reportedly spoke about the need for unions and public bodies to act in synergy to safeguard jobs. On the other hand, the GWU was more specific in protesting that it 'should participate in the process to prevent misuse of the assistance granted'.

While the government did not disclose the exact provenance of the funds, the participation of the PPCD in the task force implies that the government is using EU funds. However, the extent of such use is unknown. The government did not formally disclose the individual financial packages given to companies, stating that it was a confidential matter. However, a newspaper revealed that EUR3698766 in financial aid was given out between February and May 2009 to four manufacturing enterprises.

4. Performance and achievements

By May 2009, agreements with four relatively large companies had been reached. As will be seen in the case descriptions below, the companies were all given funds for the training of employees and capital investment in new technologies and product lines.

4.1. Trelleborg Sealing Solutions Limited

The company, which forms part of Trelleborg Group based in Sweden, produces components for the car industry and exports mainly to Germany and the USA. The company, which currently employs about 450 workers, was hard hit by the global crisis due

to a reduction in car sales and a resulting decline in orders. As a first reaction to the crisis, it stopped overtime and changed its three-shift system into two. Then, in October 2008, it switched to a four-day week and laid off several employees over the subsequent months. More recently, the company was reportedly planning to go to a three-day week or make redundant some 102 employees and relocate part of its production abroad. An intervention by the government of an undisclosed amount of funds, announced in March 2009, led the company to decide to invest EUR2 million in its Maltese plant, which will serve to prepare the plant to start creating parts for new generation gearboxes that will be brought over from competing markets. It was announced that this investment should create 85 new jobs by the end of 2010. The company also announced that it would reinstate the five-day week with the fifth day being dedicated to training employees. The training programme, financed by government, will be spread over a period of 17 weeks and aims to increase their skills to be able to work on the new lines of production. The government said that it helped Trelleborg to find new markets for its products. At least part of the government's assistance was derived from the conversion of the company's tax credits into investment aids.

4.2. Methode Electronics Malta Limited

The company, which produces switches for automotive and non-automotive sectors, has two plants in Malta employing 750 workers. While the workers in the automotive sector were reportedly put on a four-day week in November 2008, the remaining workers were put on a 3.5-day week. Due to a further lowering in the demand, the company was planning to shed about 100 jobs in 2009. In February 2009, the government agreed with the company to finance employee training and give it investment aid. Following such agreement, Methode decided to invest EUR6.5 million in new lines producing parts for the non-automotive sector. Besides, it was also announced that the company may be investing a further EUR6 million on new production lines in 2010 should the international recession abate, creating an additional 100 jobs. Automotive workers were expected to return to a five-day week in April 2009, while the other workers were expected to work on a 4.5-day week. It was reported that the stimulus package announced for Methode would likely have a spillover effect on other smaller companies (such as Hetric and Bavarian Technology Systems) which also produce specialised parts for the automotive industry.

4.3. Stainless Steel Products Limited

The 107 workers at this company, which manufactures sinks for the British market, moved to a four-day week in January 2009. The company reportedly suffered from a substantial decline in sales in November 2008, resulting in its production being reduced to about 55% of its normal capacity. The company was planning to make redundant an undisclosed number of employees. As a result of intervention by the government, the company decided to invest EUR300000 in new equipment

and tools and take over a production line from China. The Minister for Finance, Economy and Investment stated that 'since Stainless Steel products were intended for the British market, higher shipping costs could balance out whatever would have been saved in wages. Moreover, quality was still a challenge in the China region whereas Malta earned higher customer satisfaction'. The workers returned to a five-day week after the agreement with the government, which includes a plan to give a training programme to all workers intended to increase their long-term employability.

4.4. Dedicate Micros (Malta) Limited

In April 2009, it was announced that Dedicated Micros (Malta) Limited, which produces security and surveillance equipment and employs 170 workers, went on a four-day week due to the international economic downturn. The company, a subsidiary of the UK-based Dedicated Microcomputers Group Limited, announced that this action had to be taken after a drastic reduction in orders. The UK-based group also announced a 10% reduction in its global workforce. An intervention by the task force in the same month resulting in a financing agreement, led the company to return to a five-day week and to announce an investment of EUR 300 000 in the transfer of new production lines from the UK. The new lines are the result of buying out a rival company in the UK and will produce security cameras and domes. The Minister for Finance, Economy and Investment said that the fifth day of the working week will be reserved for employee training for the following four months. It was also announced that the company will be helped through ETC schemes and tax credits. The company will also transfer some back office work from the UK and may create an extra 10 jobs in Malta.

4.5. Impact of the government support

Through the four government interventions described above, the companies which were operating on a four-day week returned to a five-day week and the jobs and the standard of living of some 1 500 workers were protected. Besides, the interventions helped to leverage at least EUR 9 100 000 in new investments by the same companies and the potential to increase the employees by 200 by the end of 2010.

The government's interventions appear to have been very successful. As the Minister for Finance, Economy and Investment stated, had the jobs been lost, it would have taken two or three years to get those jobs back, especially during this period of slowdown.

The President of the Malta Chamber of Commerce, Enterprise and Industry (MCCEI) and the Director-General of the Malta Employers' Association (MEA) praised the government's interventions, viewing such measures as positive ways to assist

the Maltese economy to attenuate the effects of the international recession. Similarly, the GWU and the UHM commended the government on such initiatives. The Secretary-General of the UHM stated that the government is managing the difficult situation properly.

The government has been criticised for not revealing how much money it spent on each company. Critics viewed this as a public relations shortcoming which might be perceived as the government's unwillingness to be transparent in the use of public money. On its part, the government stated that in accordance with the Business Promotion Act, such information cannot be disclosed due to its commercial nature.

Some critics also argued that this measure may encourage companies to adopt reduced working time in order to receive government funds, rather than out of a genuine need. In a particular case in March 2009, the Dragonara Casino, employing some 220 people, which operated through a government concession, announced that it was moving to a four-day week. This action was reportedly taken 'due to the global recession and due to the uncontrolled proliferation of illegal operations in Malta'. However, the government refused the casino's request to adopt a four-day week on the basis of a number of issues, including the fact that the company did not inform the Director of the Industrial and Employment Relations, and that its motives were not related to the international crisis.

The best indicators from the Commission's compendium⁽⁸³⁾ to follow the impact of the measure are 17.M1 Employment rate and 23.M4 Lifelong learning. The measure should help maintain employment levels in the short term and increase them in the medium term. In addition, the measure should also increase the number of workers receiving continuous training.

5. Conclusions

The task force has carried out four effective interventions. The government's forward looking approach, enabling enterprises to use this period of recession to introduce new lines of production and retrain their employees is very positive. Of course, the work done is based on the assumption that the recession is not long term, otherwise, the enterprises would still be unable to sustain their new investments. In May 2009, it was reported that the government was negotiating with another eight enterprises in the manufacturing sector in a bid to help them through this economic crisis. The situation of ST Microelectronics, a manufacturer of semi-conductor products and the largest company in Malta, employing some 1 927 workers, is of particular concern. The Maltese economy would suffer a significant blow if this company were to relocate abroad. It is argued that the work being carried out by the task force, complemented by other initiatives such as the strengthening of the business regulatory framework and the avoidance of new taxes, will help maintain such important foreign investments in Malta.

(83) Available on the Internet (<http://ec.europa.eu/social/main.jsp?catId=477&langId=en>).

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