



THE MALTA CHAMBER

Annex E 6

Post-COVID19 Manufacturing Think Tank Round Table

This exercise was carried out between June and July 2020.



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Report of Committee Meetings

Meetings held: 1st June, 2020 at 1100hrs
8th June, 2020 at 0930hrs
15th June, 2020 at 1100hrs
22nd June, 2020 at 0930hrs
23rd June, 2020 at 1400hrs

Participants: Sergio Vella (Consultant); Norman Aquilina (Farsons Group); Patrick Cachia (TEVA); Chris Degiorgio (Foster Clarks); Robert Ellul (Consolidated Biscuits); Jonathan Ferrito (ST Microelectronics); Andy Gatesy (Toly); Martin Hignett (Trelleborg Ltd); Brian Muscat (Multi Packaging Ltd); Maria Micallef (GSD Co Ltd).

In Attendance: Kevin Mizzi, The Malta Chamber



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Briefing Note

The Malta Chamber launched a Horizontal Think Tank Committee to study and make recommendations on the economic adaptation of a post Covid world. This Think Tank is intended to ensure that the country and the private sector, in particular, plans accordingly and is adequately resourced to face the challenges of the immediate future. Apart from identifying and evaluating various scenarios of what the post-pandemic landscape will look like the Think Tank was tasked by the Malta Chamber Council with developing strategic recommendations which will need to be undertaken in the medium term to address and help various industries become more resilient and competitive in the emerging new normal.

With this in mind, a number of roundtables was set up, with the aim of zooming into the needs and situations of different business sectors such as retail, tourism, construction, financial services, manufacturing and others. A number of leading industry players were invited to join the Manufacturing Round Table which was chaired by Sergio Vella and coordinated by Kevin Mizzi.

Scenarios

It was agreed that a single foreseeable scenario for all manufacturing sub industry sectors was very difficult to predict, however, there was overall convergence **that Scenario 2 would be a realistic scenario with important provisos on a number of factors, key amongst which was ‘Health intervention’.**

The salient feedback provided by participants under each of the scenario factors was the following:

(a) Health intervention – We are an open economy which is heavily impacted by prevailing situations in the world around it, especially Europe. This makes it very difficult to predict the health intervention dimension in Malta over the coming months. Covid-19 is presently still spreading around many parts of the world, and this could potentially pose a risk to our country when Malta’s airport and maritime ports are opened up. A resultant reintroduction of distancing / economic measures is a likely probability with a potentially significant impact on manufacturing industry. Currently New Zealand and Australia are moving towards colder months and it would be useful to benchmark versus the experience of these countries to assess whether a surge in infections would take place in parallel with an increased incidence of flu cases. If such a scenario were to materialise, an assessment of measures adopted by these countries in preparation for the winter season would be very instructive. It is assumed that a vaccine will not be available before 2021. For this reason the Manufacturing RT has put forward a specific recommendation on a ‘stage lifting approach’ with clear criteria and protocols that would avoid industry needing to counteract shock therapies on lifting or reintroduction of control measures. This mechanism would ensure a coordinated escalation / de-escalation of obligations which would enable manufacturing industry to adjust in a coordinated, foreseeable and effective way depending on the specific national status of Covid-19 as evaluated by Public Health officials.

(b) Consumer Demand:

Pharmaceutical manufacturers: Experienced an increase in demand of 15 to 20% in post-Covid months. This brings challenges from a labour supply & operations point of view. The main issue is forecasting the next 6 – 12 months demand that needs to take into account whether the recent increase was mainly due to a market tendency to beef inventories up or was a reflection of real increased customer demand. Potential disruptions in the raw material supply chain from China and India represent another area to be carefully focused on.

Food & Beverage: The food industry experienced a slight decrease in the last weeks due to pantry loading. The food manufacturing sub-sector foresees a reduction of 20-40% over the medium term. The situation for beverage decline in demand is more pronounced due to the closure of HORECA for two months and the slow course of industry catch up due to lack of an effective short term policy response. This is evidenced by a decline in turnover which surpasses the 50% mark for the month of



April, making it more difficult to forecast what will happen in Q3 and Q4 due to consumer demand and the offset of wage supplement scheme by end of September after it was slashed in June. The beverage industry has, so far, attempted to address the significant gap between reduced demand and actual capacity (associated with a high fixed cost) through increased maintenance and training programs, two activities which were not subject to any support by the Government.

Automotive: Experienced medium impact in Q2 due to 20 – 30% decline in demand with forecast being more or less the same in Q3. Forecast for Q4 remains quite bleak, also because there is no significant new investment currently being engaged in. Rough predictions indicate that 2021 can be at least 10% down from pre-Covid levels. Recommendation for proposal:

Packaging: A distinction was made between Local and International demand. International demand for manufactured packaged goods produced in Malta may fall 20-30% over the next 12 months. Local packaging demand is likely to move in parallel with pharmaceutical sales although it is not quite expected to reach pre-Covid levels over the medium term. Much depends on the Government approach towards and people's perception of the health situation and related approach, moving towards the influenza months. It is clear that should the situation necessitate a reversion back to the one of three months ago, this would have catastrophic consequences on both the local and global economies.

Agrofood: Since local industry is very much export oriented in this area, it is rather difficult to predict foreign market performance due to varying degrees of unemployment and variations in purchasing powers between one country to another. Such trends may require shifts from one country to another for raw material provision. A medium demand decline within the range of 20-40% is, however, likely to persist in the medium term.

- (c) **Economic Policy Response** – The overall perception is that, so far, it has been largely ineffective due to lack of specificity of schemes directed towards the manufacturing sector.
- (d) **Supply chain** – Overall view is that there are no real issues in this regard, despite an early hint of such when China closed down its operations at the very start of the pandemic. The degree of international dependence is relatively high, and agility is low.
- (e) **Social distancing** – Overall view is negative, in view of the recent relaxed behaviour of people particularly on beaches and public spaces, possibly encouraged by unclear messages from local authorities, creating an incorrect perception that the pandemic has ceased to exist.
- (f) **External response** – The overall assessment is that there is no sufficient evidence to support any accurate predictions, compounded by sporadic indications that in some parts of the world the control of the virus is still far from desired levels. Concern lies around the fact that our borders are being opened with partial to no perceived protective measures.



Needs

1. Swift changes taking place are not allowing the players in the industry to plan coherently and effectively. The piecemeal approach in **lifting of measures** is not recommended for the future. The sector needs a clear, coherent direction from the Government moving forward, with clearly understood criteria defining such a process. It was pointed out that sudden changes create, more often than not, confusion and difficulty. Consistency is an absolute need, especially as regards approach in lifting measures.
2. A significant potential risk is foreseen with **foreign companies in Malta** which could take the decision of relocating their operations as a result of specific circumstances in their respective countries, including the level of support towards wage support, liquidity and productivity. The possible consequence of such a decision would be the loss or partial loss of the investment made by Malta (grants, incentives) to the FDI concerned. In this context the participants feel that Government should evaluate and mitigate these risks further in more depth.
3. The sector is likely to suffer a **loss of skilled and unskilled workforce** going forward. The degree of impact on manufacturing operations is yet to be determined but it is very likely that an impact on product supply provision could be experienced as a result.
4. The exodus of foreign workers will not only impact the workforce but also local demand. The thousands of workers leaving Malta were living with their families. It is foreseen that in the weeks and months to come there will be **less consumption** across the board, particularly in food & beverages, which could translate into a larger percentage of unemployment between July and September due to reduction in local demand. Such a situation will further impact other higher-end manufacturing clusters due to a **decline in purchasing power**.
5. **Logistics costs** already constituted a significant challenge for the sector in terms of pre-Covid competitiveness. This is particularly sensitive for local manufacturing companies particularly those producing low value products. The logistics sector costs are likely to increase after Malta failed to influence recent changes to European cabotage regulations. Local manufacturing industrialists fear a rise in their costs of cabotage and logistics by at least 10%, further aggravating Malta's manufacturing sector's ability to compete.
6. Our **Educational system needs a change in mind-set**. The industry needs sectorial skilled workforce with expertise within Industry 4.0. The sector is heading towards automation and smart manufacturing but needs skilled people to run it. The talent needs from a manufacturing perspective is felt on two fronts, firstly at a manufacturing cluster level and secondly towards making Digital Transformation work. It was felt that the education system was not nimble enough and that both University and MCAST still needed to cover much ground in aligning themselves more effectively with the needs of Malta's manufacturing industry. Preparation of children in a digitalised educational environment becomes a major need that we cannot treat casually. The mentality of getting things done right first time still needs to be better engrained from an early age during education.
7. Concerns were raised after the latest **economic measures** announced. Participants asked whether the Government realistically intends to play a decisive role in economic transformation. Participants agree that the country needs to steer away from over economic dependence on tourism & construction, as per current circumstances, and help to consolidate further the presence of a stronger manufacturing backbone which can provide a higher value add to the economy if the Government invests effectively in this sector.
8. **Unions** should support the need of flexibility on the part of workers to help take the industry out of a difficult situation and contribute to an environment where local manufacturing can strengthen over the medium term.



Recommendations

- A) A clear economic direction by the country is required with public infrastructural investment which is aligned with the manufacturing sector. A **new vision for manufacturing in Malta** should embrace new product categories and innovations for the economy to rebound. Malta Enterprise is encouraged to take a leading role in this regard, involving all key stakeholders in the process. Local industry needs to come together and lobby effectively with Government towards long term resilience. Government should similarly adopt a more granular approach and invest more time in detailed reviews with the different sub sectors within manufacturing to obtain a better understanding of the challenges and needs faced by this critical economic sector in the medium term. The Malta Chamber offers its full commitment to coordinate the process from the industry's side with Government, whereby it brings together all industry players and initiates the groundwork towards a 5 – 8 year long term plan for manufacturing in a manner that would best support Malta's vision of manufacturing industry.
- B) Government needs to drive an **Educational system which prepares an enabled workforce within various industry verticals in the digital age with incentives for industry to invest in innovative automated investments**. The manufacturing sector is heading towards automation and smart manufacturing but unfortunately the financial and talent factors are lacking. Despite several recent efforts with industry, academia is still falling short to dovetail with the needs of Malta's manufacturing industry requirements. Educational campaigns and soft skills can help the industry move in the right direction to find employees of calibre with the right mentality to take the industry forward.
- C) Local Government Departments have, during the Covid crisis, increasingly pursued digital solutions and systems for various administrative situations. It should be ensured that the digital approach should be consolidated and built upon, rather than regressing to pre-Covid situation of laborious, top heavy face to face systems. The need of **reducing bureaucracy** (e.g. it takes an unacceptably long time for a foreigner to open up a bank account in Malta) should be pursued immediately.
- D) A **stage lifting approach should be formalised** with clear protocols and criteria for industry to mitigate shock therapies on the lifting or enforcing of control measures related to Covid-19 status in the country (and outside). This mechanism will ensure a coordinated escalation / de-escalation of industry obligations which would ideally be defined at both national and international level.
- E) Due to the intrinsic dependence of the **beverage manufacturing industry** on tourism and hospitality, it is recommended that **the right level of attention be given to the immediate short-term support of this industry**, since this will determine the ability of this industry to effectively reach scenario 2 in the medium term. For this reason it is recommended that the wage supplements of specific business categories which are intrinsically dependent on tourism and hospitality would not be stopped, but rather, partially offset and improved, to cover heavily reduced demand in the hospitality industry.
- F) **Unions** need to show leadership in aligning their members' expectations with today's realities and challenges of making Maltese industry competitive within a globalised environment.
- G) **Government incentives** are necessary to support manufacturing at various levels. Typical measures include ease to recruit employees, leverage with banks to access loans, financial support to alleviate burden on fixed costs such as utility bills and MIP rents, and provision of credit to invest in Green Deal economy solutions. The sector acknowledges that all aid needs to remain within the defined parameters of state aid obligations for industry. It is also recommended that industry players which can prove that they invested 'idle months' to retrain and upskill their employees rather than laying them off, would be compensated. Specific objective assessment tools can be defined, in agreement with the industry, to determine the real investment in skills during the worst hit months of Covid.
- H) The Government, together with island states in the EU, should step up their lobbying leverage to adequately prepare for new (and potentially more challenging) economic scenarios deriving from a



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retreat from hyper-globalisation, as companies will start assessing and driving increasingly towards national solutions to help them mitigate future vulnerabilities.

Conclusion

Although Malta has, so far, dealt with the COVID-19 situation in an effective manner as evidenced by the low transmission rate factor and low number of active cases, the overall feeling on the part of this Round Table was that local manufacturing industry has not yet been exposed to the actual fallout resulting from the situation, since it will be the Q4 2020 and Q1 2021 demand patterns that will really shape our manufacturing landscape.

To address this risk, Government needs to invest more time in holding the correct level of more granular discussions with the industry stakeholders to fully appreciate the challenges that Malta's various industrial sub sectors will be facing over the next six months. A visible and transparent mechanism of stepping up or down control measures depending on the evolution of the local and international Covid-19 spread scenario will also go a long way in planning out for the future.