

# **COVID-19 AND ITS IMPACT ON THE LOGISTICS AND TRANSPORT SECTOR**

# Executive Summary

The various Business Sections of the Chamber of Commerce, Enterprise and Industry and other Associations making up the wider transport, Logistics and Port services have set up a focus group in response to the current Covid-19 crisis.

The objectives of the focus group is to ensure a continued supply of essential transport service to Malta during the crisis:

- ↓ By addressing the operational barriers resulting from the epidemic locally and in our overseas transport networks.
- ↓ Respond to the already severe financial crisis that is directly hitting our industry, and which is expected to intensify in the coming months.
- ↓ Safeguard the survival of the industry and the position of the people that work within it.

The companies we represent, form the backbone of Malta's wider Logistics sector involved in the carriage of goods on all transport modes; sea, land and air and a multitude of essential support services to our ports and the industry. Besides the vital role in delivering goods to Malta and addressing its insular limitations, we represent in our own right one of Malta's legacy industry pillars.

Quoting some industry figures, the wider Maritime industry is said to represent:

- ↓ 7% of the National Economy
- ↓ 20,000 jobs (between direct and indirect employment)
- ↓ An added value to the economy of over Euro 2 Billion

Over the years our companies have made **substantial** investment in facilities, warehousing, vehicles, equipment, the transport network and in the modernisation of its process, **however the industry remains predominately driven by the competences of the people it employs**. Also for this reason, when the virus hit Malta, we were amongst the first to be proactive and introduce, where possible, schemes such as teleworking and flexible working conditions,

to safeguard the health of our people and support their family needs, whilst ensuring the continuity of the transport services.

We remain strongly committed towards ensuring the continued supply of Malta's vital and essential transport requirements, however we are reaching out to the Government to provide us with the necessary support which will enable our companies to continue operating during this crisis, minimising the otherwise inevitable loss on our people and the services we provide.

Today, several of the vital services we provide are already running at a loss as a result of Covid 19. This document analysis the severity of the current crises, the industries expectations and the support that is required from Government to assist us during this period, which include:

- ↓ Increased support to cover the loss in business as a direct consequence of the measures introduced by government as well as the indirect incidental decrease in business. This needs to come as direct financial assistance to reduce the burden of payroll for our companies. These measures should reduce the painfully process of letting go of our people, and even worse, very possible foreclosure of business to the detriment of maintaining the flow and carriage of staple cargo into and out of Malta.
- ↓ Increased financial support in the form of loans and other fiscal measures to assist the liquidity requirements which are believed to intensify also as a result of a slow down in the recovery of our Debtors. The support is to provide the necessary liquidity, necessary to survive the crisis.
- ↓ Measures to ensure the continued operations of our services, ports and the international transport networks.

# Executive Summary

We further believe that it is essential that this support comes in clearly defined measures to reduce the large uncertainties that today dominate our business environment. Our predictions are that the lock down will probably remain enforced until October and subsequently, there will be a slow recovery which could take up to 12 months.

We join the call being made by other bodies including the Malta Maritime Forum, for Government to show a strong commitment towards the industry and the value it brings to the wider Economy and Maltese community.

The following analysis and recommendations have also been drawn from a survey carried out amongst our members and shows the **severity** of the current situations and the future expectations of the industry. The results indicate that 71% of respondents **already registered** a drop of more **than 50%** in their sales of which 38% believe that the drop **will be** of more **than 75%** in the next 3 to 6 months. The respondents believe that there is a risk that roughly 50% of the work force will be made redundant as a result.

# Signed by:



Peter Sullivan

Shipping & Bunkering  
Business Section -  
Chairman

The Malta Chamber of  
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Signed by:



Johann Vella

President

Association of Truck and  
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# Appendix

Section A	Background to the industry and our companies
Section B	The results of the survey
Section C	Recommendations

# Section A: Background to the industry and our companies

## The Industry

1. The Industry and our organisations have grown organically over the years mainly in response to Local demand and requirements. Throughout these years we have experienced positive as well as negative trends, such as with the decrease of the manufacturing industry and the shift to lower volume high tech and pharmaceuticals manufacturing and the continued crisis in North Africa.
2. Whilst it is true that in recent years, we have experienced growth in the demand for our services driven by the strong economic growth in Malta, these have been matched by increase in wages and salaries, fuel, rent and other operating costs, increased international competition and a push from carriers and lines to decrease their cost base as a response to the Global Economic down turn of the last years.
3. It is also a general misconception that growth in international trade (value base) necessarily translates in cargo growth, which is closer correlated to a positive measure of volume. Statistics released by the NSO indicate that the trend in boxed cargo (container and trailer) grew annually up to 2018 by an average of 4% per annum in the last 10 years (5 years an average of 6%) whilst air cargo decrease annually by an average of -1% in last 10 years (5 years average annual growth of 2%).
4. Another difficulty which our industry faces is the large mismatch between our imports and exports where we are re-exporting full only 25% (average for 10 years up to 2018) of the units imported, the rest are exported empty, increasing our cost base. Whilst this has improved slightly in recent years due to the increase in international cross trade, we are anticipating that the trend will reverse substantially over the next 3 to 6 months.
5. The industry is made up of a few large players, mainly involved in the management and operations of the port facilities and many medium to small enterprises in a multitude of transport and port support services.

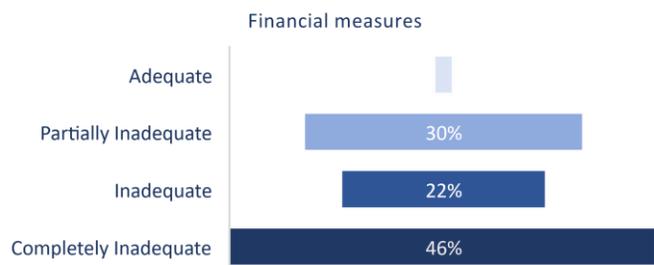
## Companies

6. Whilst there are several companies, and in particular amongst the larger port operators who have large capital investments, the smaller companies are predominately labour-intensive service organisations, where wages and salaries could comprise between 55% to 70% of the annual costs. The capital-intensive port operations and the high labour dominance implies a cost base which is relatively fixed in nature. As a result the expected reduction in volumes can not easily be matched with a decrease in costs unless people are laid off.
7. It is also important to note that in recent years our companies have had to give substantial increase in wages and salaries to keep up with the market and employee expectations. Often this has resulted in increases to the tune of 5 to 10% annually over the last 4 years. This on wages which were already higher (due to the specialised knowledge of the industry) than the wider industry averages.
8. Several companies, with no government investment or aid have made substantial investments in facilities, Warehousing, Equipment and vehicles in recent years and given the current crisis are having difficulties in funding the repayment of their financial obligations.
9. Whilst several companies are multi disciplined others are highly specialised in niche sectors. Some of the sectors such as the cruise liner sector have already been effected by a complete shut down whilst others although still operating, such as those involved in cargo, are experiencing a decrease as a result of the measures to close a number of the non essential retail operations and the complete shut down of the tourism industry. We further expect that the crisis will effect other industries in the coming weeks, where the general demand will decrease substantially.

# Section B: The results of the survey

## The Survey

- In order to get a better understanding of the crisis and how it is effecting our members, we launched a short but focused survey. The survey was open for approx. 36 hours (due to the urgency in compiling the position paper) and we received 50 replies. The replies received represent quite a strong cross-section of the industry, as can be seen from the wide variety NACE codes in point 2 below and include some micro as well as Large (500 plus employees) organisations, therefore making the response quite representative of the industry . The following is a snapshot of some of the most relevant results.
- Our first question was aimed at identifying the primary and secondary NACE codes amongst the members. The following list shows the NACE codes included in the replies:
  - ↓ H.49 - Land transport and transport via pipeline
  - ↓ H.50 - Water transport
  - ↓ H.51 - Air transport
  - ↓ H.52 - Warehousing and support activities for transportation
  - ↓ H.53 - Postal and courier activities
- In reply to the expected impact on business the respondents indicated that:
  - ↓ 10% expect loss in sales of more than 75% in the next 3 months which increases to 38% in the longer period.
  - ↓ 28% expect a loss in sales in between 51% to 75% in the next 3 months increasing to 33% in the longer period.
  - ↓ 42% expect a loss in sales in between 21% to 50% in the next 3 months and 24% think that this reduction will be sustained in the longer period whilst the rest expect the loss to increase.
- The respondents further indicated that the loss in sales will have a large impact on the company's profitability and investment.
- We asked our members how many of their employees they think will be redundant as a result of the crisis. The respondents indicated that they expect that 1,120 people will be made redundant over the next 3 to 6 months. This represented roughly **50%** of the total employees of the respondents.
- As a final question we asked our members if they thought that the financial measures announced by Government to date were adequate. 22% believed that the measures were inadequate and 46% stating that they were completely inadequate.



# Section C: Recommendations

## Covid wage supplement

1. Our Major concern is the ability to sustain our wages and salaries during the expected prolonged crisis. As indicated previously these have been increasing annually to levels which together with the expected loss of business of higher than 75% in some areas, is not sustainable over an extended period. Government has shown that it is willing to support certain sectors of the economy hit by the measures, by contributing Euro 800 monthly per employee retained. Whilst such a measure is estimated to cover between 30 to 50% of our average wages it would be a strong support for the industry and ultimately the country at large.
2. Our organisation fall within several different NACE codes, any contributions and aid given by Government should cover all sections of the relevant NACE codes between and including 49 to 53.

## Deferral of payments of taxes

3. Increase Cash flow measure such as the deferment of taxes and VAT to next year, This will considerably reduce the burden on operators.
4. A one time 'amnesty' for arrears of FSS, VAT and Corporate Tax to be converted into a 'soft loan' with CFR (government) at reasonable rates in the current situation, say 3% pa (rather than the 1% per month charged so far), and repayable over say 3 years. This will relieve the tax payer (lest in wrongfully in arrears) and perhaps fan recovery with lesser burdens.
5. The tax losses that will be sustained in FY 2020 (Base year) to be offset against profits of previous years rather than future years.
6. A one time exemption from filing of the Tax Return for YA2020 (i.e. base year 2019) with a two year tax return in YA2021 for BY2019 and BY2020 so as to offset the losses in 2020 with the profits of 2019. This way the tax payer is not expected to pay tax on profits of last year (at interest of 1% per month) and then incur losses this year which will take years to make up for.
7. A one time blanket VAT exemption on all consumables for the quarter Apr-Jun2020 to decrease cost of living to the populace of Malta by 18%.
8. Because of the reduction in revenue and operating costs not reducing proportionately, rather than only allow the deferral of VAT returns and payments for this quarter, government should assist by guaranteeing quick VAT refunds in the case companies get to the point that their vat return results in a receivable rather than a payable which is highly probable in a situation where revenues will be severely hit downwards.
9. Economists suggest that if central governments do not pump into the economy cash to the equivalent of the expected decrease in GDP, then economic recovery is seriously going to be prolonged into multiple years.

## Other measures

10. Postpone the collection of rent due on the Hal Far Bonds during the crises.
11. Setting up a response team between the private sector represented by the Chamber of Commerce Enterprise and Industry and various key bodies in Government to monitor and resolve operational matters resulting from the Covid 19 epidemic.
12. Ensure that industry is eligible for all government aid including those issued by the Malta Investment Bank.

*We need a strong commitment from Government that it will support the industry. We and our people are prepared to make sacrifices, but these alone will not be sufficient to navigate us through this extremely turbulent time.*