

SPEECH

30th November 2015

“EU Industrial Policy – Does a one-size-fits-all approach work?”

Speech by Mr Anton Borg, President
of the Malta Chamber of Commerce, Enterprise and Industry
on the occasion of a Conference entitled
“EU Industrial Policy – Does a one-size-fits-all approach work?”
held at the Farsons Brewery, Mriehel.

Deputy Prime Minister, Parliamentary Secretary, Excellencies, Distinguished Guests, Ladies and Gentlemen,

It is my pleasure to open today’s proceedings in this magnificent brewery – a fine example of deco’ architecture and a monument to Malta’s manufacturing industry. The fact that we are here today represents the strong bond that there has always existed between our Chamber and Simonds Farsons Cisk. Our internal courtyard at the Exchange Buildings is named after Lewis V Farrugia – who held the Presidency of our Chamber during our Centenary Year in 1948. His son, Louis A. Farrugia, the current Chairman of the Board served as Chamber President during our 150th Anniversary in 1998. In the interim, Mr Anthony Miceli-Farrugia served as President on three separate occasions in the 70s and the 80s. For the benefit of our foreign guests, Mr Miceli-Farrugia (Is-Sur Nini’) is synonymous with “Kinnie”, Malta’s very own soft-drink made with orange flavourings and aromatic herbs. Kinnie together with Cisk - another flagship product of this company - are strongholds in Malta’s cultural and social milieu. Indeed, Kinnie and Cisk, immediately come to mind when we Maltese are asked to mention a national symbol of everyday pride. Surely an inspiring goal for any venture. This achievement further underlines the strong links industry can develop with the society it operates in.

Turning to this afternoon’s conference, I can safely say that it is the direct result of a fruitful discussion we had in Brussels late last year with our friend Jacek Krawczyk. I was then, leading a delegation from our Chamber to the Employers’ Group of the European Economic and Social Committee (EESC) as well as to the European Parliament for Enterprises event. True to his word, after the small complication of standing for re-election, Jacek remained in contact with us to jointly organise a conference where we would address some pertinent issues for the Manufacturing Industry in Malta from which I hail.

Manufacturing is generally recognised as one of the main pillars of Malta’s economy but for various reasons the share of industry in the total value added has followed a declining trend for a number of years. In fact, its share has declined steadily from 21 per cent in 2000 to 11 per cent of gross value added last year. Moreover, our members report that the conditions for investment in manufacturing are much less favourable now than they were 5 years ago and even less favourable than they were 10 and 20 years ago. As a result, the balance of the Maltese economy continues to shift consistently from manufacturing to services. This shift, within the context of the present good economic progress, is being institutionally endorsed on the basis that other sectors may offer higher value added whilst requiring less energy and land to operate from. Recent growth registered in Malta was, in fact, underpinned by activity generated by new sectors which are both volatile and highly mobile. We are concerned that this economic imbalance does not guarantee satisfactory future prospects in terms of growth

and employment generation as it would do if manufacturing assumed a stronger share in the total economy. Of course, we feel it is in the nation's long-term interest to urgently address these needs if Malta is to achieve a sustainably balanced economy. And to urgently address these needs we must ensure that the fundamental needs of manufacturing are placed high up on the policy making agenda.

Not that it is of any consolation, but we are, of course, aware that our trends in manufacturing are not too dissimilar to those experienced in many European countries. The EU has responded with its policy and measures aimed at an Industrial Renaissance which aims to ensure a modernised industrial base to support industrial competitiveness and growth whilst achieving a balanced economy across Europe.

As the national champion for competitiveness, our Chamber worked in parallel with our European counterparts. In 2014, we took a proactive step in delivering a business agenda to Government in the form of an 'Economic Vision for 2014 to 2020', of which an integral part was our 'Industrial Policy for Malta'. This was published separately as a document in its own right to outline the fundamental requirements necessary to secure a modernised industrial base to support industrial competitiveness and growth for our manufacturing industry – now and in the future.

At the same, through BusinessEurope, our Chamber participated actively in the consultation process which led to the formulation of Europe's Industrial Policy. For this purpose, BusinessEurope drew up a policy document which converged with our own Industrial Policy - listing a number of fundamental priorities for manufacturing which resulted to be much in line with the key policy drivers we had ourselves proposed for Malta.

Whilst our document proposes a policy direction that is conducive towards a more balanced economy with a more sustainable and prominent role for manufacturing, Europe's Industrial Renaissance plan specifically targets for manufacturing to directly contribute twenty per cent of GDP across Europe by the year 2020. A study commissioned by our counterparts in Germany shows that this 20% direct contribution will indirectly create a further 10% contribution to GDP in terms of the services the manufacturing sector requires.

From where we stand, given Malta's consistent declining trend in the share of manufacturing, it seems we have a mountain to climb in order to gain lost ground and raise the share of manufacturing to GDP to the prescribed twenty per cent. The Chairman of our Manufacturing Economic Group – Norman Aquilina – and members of the Group, Sergio Vella and Matthias Fauser will, I am sure, elaborate much further on this later on during the proceedings.

In fact, it is our intention, during today's event, to examine closely the challenges faced by manufacturing companies that operate on islands and in peripheral regions of Europe and we shall be asking some pertinent questions to the relevant authorities. We shall be asking whether Europe's One-Size-Fits-All regulatory approach is the best answer to overcoming these regional challenges we face in local manufacturing. At the same time, we shall also be asking if we are getting it right in terms of Industrial Policies – both in Malta and in Europe. Are we reaching our objective to influence the decision takers towards a focused and unwavering effort to implement the competitive enhancing measures listed in our Industrial Policy document?

Our challenge is to enhance Malta's export competitiveness because our country's sustainable economic prosperity depends on export-led activity. On a micro level, companies in small peripheral states have no other option but to sell products outside their national confines and in doing so, operators are hampered by economies of scale restrictions which are further compounded by additional burdens like transport costs to ship raw materials in and the

finished product back out to its intended market. Operators on the mainland are spared from similar disadvantages. Besides, such difficulties which are directly related to production and logistics, economies of scale also come into play to increase the cost-base in an indirect manner via the relative limitation in the availability of skills as well as in the cost of water and energy to take a few examples.

We fear that further erosion of Malta's limited cost advantages together with the recent development that bars us from using State Aid compensatory measures such as investment tax credits could lead to further investment loss, leading in turn to further deterioration in competitiveness. Manufacturing decisions today are made on the basis of reason not emotion. Investment decisions are taken by people sitting in front of dashboards showing comparisons of cost-benchmarks in various regions. No-one owes Malta a living and decisions will be made in favour of regions that yield the highest returns. Due to our relative declining competitiveness, new product lines are being lost to other more competitive regions. If product lines go elsewhere, investment goes elsewhere and the competitiveness of local factories declines even further.

The issues I have just brushed upon clearly point to the fact that there are some serious matters that must be put right by the Maltese and European Authorities. A number of important decisions are therefore required and these must be followed up by timely and effective implementation. My colleagues will elaborate with some concrete solutions which will serve to ensure a continued positive contribution of Manufacturing to output, value added, exports, employment, and investment. They will also continue to ensure a healthy balanced economy for Malta.

Ladies and Gentlemen, I would like to conclude on this point. If we find the full co-operation of the authorities and stakeholders to support industry through the necessary policies and actions, we are confident that we can overcome the island's inherent geographical challenges. This will bring us back on the same level playing field and we will recover the ground that we have lost. The future can be secured by working together towards our ultimate coherent Economic Vision for Malta that places at its core a well-diversified economic portfolio yet also giving due focus to a vibrant manufacturing industry.

Finally, I would like to thank all those who made this event possible today, starting with the Board and CEO of Simonds Farsons Cisk for hosting us today. I must also express our sincere appreciation to the Employers Group of the European Economic and Social Committee, particularly Mr Jacek Krawczyk who holds our Chamber in such high regard. I would also like to thank Mr Stefano Mallia – Vice President of the EESC Employers Group for his unrelenting support, and whose participation on the EESC keeps the priorities of Maltese employers firmly on the agenda of this prominent forum. Finally I would like to thank you for attending this afternoon's event.

Thank You

END