



THE MALTA CHAMBER

Annex E 8

Post-COVID19 Retail Think Tank Round Table

This exercise was carried out between June and July 2020.



Report of Round Table Meetings

Meetings held: 2nd June, 2020 at 1600hrs (Zoom Meeting)
10th June, 2020 at 1400hrs (Zoom Meeting)
16th June, 2020 at 1400hrs (Zoom Meeting)
23rd June, 2020 at 1400hrs (Zoom Meeting)

Participants: George Gregory (GG) Chair, Christine Pace (CP), Alfie Borg (AB), Mariella Scerri (MS), Karl Micallef (KM), Charles Borg (CB), Gilbert Schembri (GS), Mario Camilleri (MC), Simon Gatt Baldacchino (SGB), Sam Borg (SB), Roberta Caruana Stivala (RCS), Theresa Bartolo Parnis (TBP).

In Attendance: Diana Miceli (DM), The Malta Chamber



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A. Briefing Note

The Retail Round Table took off by raising key concerns as a result of the political instability before Covid-19 and as a result of the Covid-19 pandemic. To put things into perspective, the closure of the Valletta cruise port alone, resulted in a 70% reduction in commerce for the Valletta business community alone¹.

The participants of this hard-hit sector sought to populate the excel sheet to carry out a thorough analysis of the impact and listed the different categories of retail they represented. The categories represented in the Round Table include groceries and essentials, including fruit & vegetables, fashion/formal wear, sportswear, luxury goods, furniture and home furnishings, information technology, health & beauty and e-commerce. It is worth noting that there was no representation of white goods.

A.1 Main Concerns

The main concerns include:

- High rent of shop outlets.
- Instability of Malta due to political issues is having a major negative effect on fashion as experienced last December and with new revelations it is expected to happen again this Christmas, coupled with the possibility of a second wave of COVID. Valletta suffers the most due to protests which are usually planned on busy days for impact – this affects sales and access to shops.
- Lack of business once shops started to open again due to the closure of the airport and port.
- Difficulty in Accessing Finance.
- Lack of disposable income.
- Malta's reputation is of concern.
- Unfair competition with companies that invested locally, given the difference in tax rates (5% to 35%) making the local market difficult to compete.
- Inability to access shopping areas due to roadworks.
- Issues concerning TCN employment.
- Unfair competition with non-EU E-commerce sites, where VAT and other duties are not always paid.
- Most consumers still fear the virus, they need to be reassured of the measures being undertaken by shop owners to ensure cleanliness and safety, perhaps through a PR Campaign.
- The possible decline of population is also a fear.

¹ Be Informed - COVID-19 (Coronavirus) Bulletin of 19th June 2020 by the Malta Chamber and CiConsulta.



B. Scenario & Recommendations:

B.1: Scenario/s:

The RT participants agree that Scenario 2 is the most likely scenario for their category within the Retail industry in the Medium term.

It is worth noting that the resilience of **retail** remains dependent on population growth or decline, and there is a fear that it may decline. The sustainability of existing employment may be a challenge, and employers may opt to retain the best employees and those most ready to adapt.

As for the **fashion** category, even if scenario 2 materialises, it is likely that some businesses will not make it, as the fashion retail industry will still struggle under such circumstances. Some participants estimated that 10% to 15% are in difficulty and may become insolvent, especially in view of the difficult months leading up to covid, with Christmas being ruined by political instability and protests. This led such businesses to attempt to plan and adapt pre-covid, the challenge lies in ensuring that the businesses are profitable in the coming months. Moreover, major fashion brands that were struggling pre-covid are finding it harder to get back to normal quickly enough to supply their franchisees, this may lead global brands to exit least performing doors, especially since some of them are already in default overseas.

For **luxury** goods, the most relevant scenario is Scenario 4 as this segment of retail is highly dependent on Tourism. Given the fact that tourism was halted with the closure of the sea port and airport, this category of business has also seen a low demand, which is expected to continue until tourism picks up again which may take time.

With regard to the **furniture and furnishings** retail business, the risk is liquidity, however, the risk of bankruptcy remains low, since homeowners have looked within their natural environment and tried to embellish it during the Covid months.

It is worth noting that some participants remarked that sales across stores are slowly increasing as customer confidence increases. The latest government budget of 8 June 2020 continued to elevate this confidence. However, participants are fearful of a second wave both medically and economically. It is also worth noting that the 'external response' factor reaction is still to be seen as we open our country to tourism in the coming days.



B.2: Recommendations

- 1) *Retail Rent:* Retailers (especially the smaller ones) have no option but to lease property and they have invested considerable amounts to make their outlets attractive enough and bring them up to the standards of international brand names, and some landlords have not been sensitive enough to the reality of this situation.

This is a challenge not only for the retail sector, however, the retail sector involves relatively small players. Moreover, given that in the last few years the economy was doing well, the price of property went up significantly. However, given that the economic situation is heading for a recessionary situation, it is recommended that the Government increases assistance to **all commercial tenants**, to prevailing market conditions for each property in terms of rents and utilities in the short term.

- 2) *Access to Finance:*

- a) *Accessibility to Bank Financing:* access financing has become a challenge in a good economic climate, but in a crisis situation is when support is required most, and this is proving to be even more challenging. Retailers are tight with cash flows as they have to pay their stock, retain their employees and pay their rent, without generating any revenue. At the moment banks are under very strict and tight regulations, however, the European Central Bank (ECB) has asked local Banks to relax their regulations in order to support their respective economies. In Malta, however, this is not yet the case. The banks are highly liquid and they have access to very cheap funding from the ECB (minus 1% for three year paper). Notwithstanding this however, they are still very reluctant to pass on this extra liquidity (or part of it) to the real economy. It is recommended that the Government, the CBM and the MFSA try to use moral suasion to encourage banks to lend more at the moment at low and affordable rates.

- b) *Malta Development Bank (MDB) Loan:* the MDB Loan provides '90% collateral' by the government needs to improve and ensure that collateral put forward by applicants does not exceed 10% of the loan amount.

- 3) *Tourism:* Measures should be kept in place to ensure that once the borders are open, the country remains safeguarded from re-importing covid. It is recommended that swab tests are carried out upon arrival and quarantine until results are made available. The public needs reassurance that it is safe to venture out and that their health is being safeguarded, therefore, enforcement is required within limits. Moreover, the government should also incentivise foreigners to come to Malta through rebate flight tickets, other discounts or direct financial incentives as a more effective way of attracting tourists to Malta.

Moreover, tourists visiting our island are looking for a holistic experience and it is therefore recommended that the government continues to invest in infrastructures for improved environmental, mobility and hospitality, but also providing the right infrastructure for retail, that remains vital for delivering the 360-degree experience of Malta.

- 4) *Reputation:* Malta's reputation is of concern. Malta is at risk of losing foreign companies that operate locally bringing about debilitating repercussions. Malta requires a high level of integrity and honesty in all decisions taken on its front. Participants have confirmed that foreigners considering investing in



Malta give this consideration a lot of importance and would be high on their agenda before they decide to invest locally. It is therefore recommended that the Government prioritises and addresses this matter to ensure that Malta's reputation worldwide is rebuilt as soon as possible.

- 5) *Retail Outlets in Valletta: Valletta:* The retail scene in Valletta today does not resemble any major historic shopping street in Europe as it deserves as it fails to attract buyers and brand names - it relies totally on passersby predominantly the tourist. It is vital for the Valletta retail scene to be rethought and possibly managed like a proper destination similar to that of large shopping malls. The plan should include:
 - a) Target positioning
 - b) Category and Brand mix
 - c) Store front look and feel
 - d) Possibility of having designated street/area for more premium segment
 - e) Entertainment activities and attractions need to be held more often to attract more locals to the city.
- 6) *Expansion of Retail:* A Masterplan with a thorough economic study is required to know the right balance and mix of retail expansion. Through this analysis one should understand whether to encourage and attract brands of an international standing.
- 7) *National Campaigns with Effective Communication:* It is recommended for the Government to carry out three campaigns:
 - A campaign of reassurance for consumers to shop, yet ensuring they take all necessary precautions when shopping, at the same time showing the safety measures taking place by retailers.
 - The continuous campaign to encourage consumers to buy local shows that the country is working together.
 - A Campaign to promote careers in retail.
- 8) *Enforcement of Existing Regulation:*
 - a) *Better borders between Sicily and Malta Transshipments:* better enforcement of VAT paid in Italy should be vetted for goods brought in from Sicily, thereby ensuring that bringing in goods into Malta is fair and not conducive to unfair competition.
 - b) *Online Shopping:* Better enforcement to ensure that Duties such as Excise and VAT is paid from non-EU countries is also required for parcels ordered online using the services of Maltapost. Retailers cannot be competitive unless freight to ship out of Malta is also competitive, therefore ensuring that containers are both coming and going back full. Following Brexit, all e-commerce from the UK should be taxed (including kids shoes and clothing – this has been a law since 1973²).
- 9) *Sunday Trading:* Retail employs as much as the hospitality industry, therefore, it is important to consider removing the double costs incurred on Sundays and Public Holidays just like the hospitality

² Source: Reality Check: Why is VAT charged on school uniform? - <https://www.bbc.com/news/education-41202356>



sector. It is worth noting that good employees will consider this in the current situation and will probably accept it, as commission will still be provided upon sales.

- 10) *Human Resources incl. Third Country Nationals (TCNs)*: Employing third country nationals is becoming a problem, as they are mostly being expatriated, as they are not being allowed to shift from one company to another. It is understood that regulations stipulate that companies affecting redundancies will not be allowed to employ third country nationals anymore (this is making one consider making a maltese person redundant instead of a TCN). Maltese people are mostly working in other sectors, having a labour pool deficiency in Spring 2021. Therefore, if the Maltese Government still intends on attracting foreign investment, it is important to ensure that the government is practical and ensure flexibility with the renewal of trained foreign staff and the possible importation of new foreign human resources - where maltese workers are not showing any initiative to fill up.
- 11) *Specialised Courses in Retail Management*: The participants of the Retail Round Table recommended that there needs to be an educational element with more specialised courses for people in Retail Management. Such courses should be offered through an institute similar to ITS, it is a known fact that persons that have been trained or have experience in the sector acquire skills and competencies to deliver a better service to make a career in retail. This would further elevate the image of personnel working in this sector. Alternatively, A Public Private Partnership should be set up between the businesses in the Retail Sector and Government to have an Educational Institution for Retail Management. This would save the Private Sector on training costs and retailers would also be contributors / lecturers. This initiative should be strengthened by means of a PR Campaign, to promote careers in retail.
- 12) *Level Playing Field in Taxation*: The participants recommend that taxation needs to be balanced as foreign companies are currently paying 5% tax making it difficult for maltese companies to remain competitive while having to pay 35% in tax. Either tax deductions or specific aid that would enable retailers to counter this burden is required. This could also be done by re-aligning local tax rates or by going for a Common Tax rate for all.
- 13) *Funding Support for E-Commerce and Technological Development for Retail*: The participants recommend that the Government gives material incentives in the development of technology for the retail sector that will change the retail experience using Artificial Intelligence to enable a consumer to try on dresses and outfits virtually. Moreover, further support for improved online techniques, automation of processes, use of Internet of Things (IoT), e-commerce and social media platforms is required to increase online business penetration for the sector to go forward.
- 14) *Strategic / Economic Vision*: The strategic economic vision should be to encourage more people with a high standard of living, to work from Malta. This will in turn positively impact the retail sector.
- 15) *Covid 19 Neutral?:* The participants have noted that no company will remain with the same business-model as pre-covid 19. Companies need to change and adapt, otherwise they will suffer and become insolvent. In this context, the participants welcomed the budget allocation of 8 June 2020 to enable



businesses to re-invent and re-engineer their business operations going forward, and require stronger support for local retailers to enable them to survive and evolve into strengthening their e-commerce business.

16) *E-Commerce & Local Export*: The participants recommended that the Government creates a permanent warehousing duty free zone, this would enable retailers to re-package and send goods to other countries. At the moment containers are coming in full and leaving empty, bearing an additional cost to retailers. This would be a positive incentive to encourage export and e-commerce. Thus creating a competitive environment for e-commerce and export from Malta to thrive internationally. With the right support, Maltese businesses can become one of the biggest e-commerce logistics hubs exporting goods in Europe and beyond.

17) *Accessibility to Retail Destinations (Parking, Construction etc.)*:

- a. *Road Infrastructure*: The state of the island's infrastructure especially in key tourist zones needs to be accessible and not under construction every so often. Roadworks need to be better regulated, on June 4th, 2020 when most heavy restrictions were lifted, there were major roadworks on the strand in Sliema with jiggers and trucks parked on one lane at the ferries, reducing all traffic to one lane and countless diversions.
- b. *Cleanliness and Upkeep of Areas surrounding Retail Outlets*: regular upkeep, cleanliness and sanitisation of areas surrounding retail outlets, streets and public spaces continue to be a priority, they need to be kept to standard, washed and sanitised regularly.
- c. *Embellishment of Areas*: the embellishment of town centres will go a long way to create a pleasant environment for people shopping, this will further encourage people to go to such areas. The Round Table also recommends that the Government incentivises the Construction industry to focus on embellishing the country as a whole.
- d. *Street Performers & Entertainment*: Street performers and other entertainment should be encouraged as they will also attract people to key shopping areas.

18) *Local Brands*: Having local brands is a niche that is growing globally and can be an asset to develop a retail reality that is modern and different. Consumers today are getting tired of seeing the same brands in every high street around the world and the participants propose that the Government incentivizes entrepreneurs to collaborate in building brands that venture directly to consumers (Charles & Ron and Gagliardi are examples).