



# **MALTA EMPLOYERS' ASSOCIATION**

**Malta and Libya**

**Establishing Political, Economic and Social Links with a Young Democracy**

**Position Paper by the Malta Employers' Association**

**September 2011**

## **Executive Summary**

The recent developments in Libya call for a coordinated strategy for Malta to establish bilateral relations based on economic and social initiatives that work to the mutual benefit of both countries.

The Malta Employers' Association has called for an MCESD meeting to discuss the situation, as it affects all social partners. This document establishes the need to prioritise and facilitate the continuation of business which had already existed in Libya before the uprising and to protect the interests of the companies and the workers involved. In addition, it proposes a number of initiatives which would promote Maltese business interests, and which would also help in the physical and institutional re-building of Libya. The document stresses the need to act fast and involve persons who are familiar with doing business in Libya together with a proactive and business driven embassy.

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### **Establishing Political, Economic and Social Links with a Young Democracy**

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##### **Introduction**

The beginning of the conflict in Libya marked the start of incredible changes to one of our closest trading partners in the World. The Malta Employers Association was the first to request that this matter is discussed at the MCESD rightly pointing out that this is a matter of national importance in which the social partners should play a significant role. The Association immediately recognised that the upheaval in Libya was not going to end overnight and the repercussions for Malta in general and a number of companies in particular will be significant. In fact, the war taking place on our doorstep has affected all social partners, as businesses had their operations suspended; the livelihood of many workers was, and still is, at risk and government had to strike a precarious balance between non-involvement, and lending humanitarian support for civilians in crisis. One can be safe in describing this scenario as one of the most dramatic in recent years.

As has happened throughout its history, Malta's geographic position has made it both a witness and a participant in the events that unfolded a few hundred kilometres away from our shores. We have had the unique position of being close to the action without being involved in military operations yet still play an important role in the events that transpired.

The current situation in Libya has particular characteristics. Usually, countries divided by warfare are financially impoverished, and rebuilding implies heavy loans and financing from other countries. However, in spite of the destruction, Libya remains a rich country which has its own funds to rebuild itself. The oil is still there, and there are vast financial reserves spread throughout the world which, if accessed, will give the economy sufficient liquidity to

move it towards a productive path. Also, in the short term, besides military backing, the rebellion has to be sustained by food, water, medical and other essential products and services. This is essential for the new government to maintain its support from the general population. This aspect of the rebellion cannot be supported just by appeals for charity (although they should not be excluded) but by something which is more structured and sustained. People must experience tangible signs of improvement and relief from the humanitarian crisis that is resulting from the war.

As things stand today, many countries and big businesses are revving their engines to exploit commercial opportunities that will be part of the fall-out of the revolution once the new government asserts itself. The buzz word is 'Big Contracts', as NATO countries are expecting a return for their involvement in liberating the Libyan people from the Gaddafi regime.

Malta can position itself differently. Rather than attempting to rush in to grab a piece of the cake, it can build on its conduct throughout the crisis, and also on its relationship with Libya, to help in its development. Dr. Mohammed Jibril, who is Chairman of the Executive Board of the National Transitional Council and since March this year recognized as the Prime Minister of Libya knows Malta well. He was here last year and extended his scheduled stay of a few days to weeks, during which he visited our main educational institutions.

Our proposal is that Malta should prepare itself to run the marathon with Libya, not just the sprint. Malta can capitalise on the following characteristics to help Libya:

- The reputation of its financial institutions, which were relatively unaffected during the international crisis
- Its proximity to Libya and accessibility by means of aerial and marine transport – it is the first port of call to the European Union
- The fact that Malta cannot be a military threat to anybody – it is one of the most peaceful countries in the world
- A well developed logistics centre – Malta Freeport
- A long standing relationship with Libya
- Well-established health and educational systems

- The existing commercial ties with Libya. There is no other country with which the Maltese have such a diversified involvement, both in terms of size of business and also in terms of activity. Libya is also unique in that a number of Maltese micro-businesses have managed to establish a base of operations there.

It is within this context that the Malta Employers' Association has once again called for an extraordinary meeting of the MCESD to discuss the situation in Libya. The Association is looking forward for a positive outcome from this meeting in which the :

1. Government provides a clear analysis of the situation in Libya and although we understand that the situation is very fluid and difficult to predict, we would like to understand what different scenarios the Government may be looking at going forward;
2. Based on its scenarios we would like Government to outline, in a concrete manner, its roadmap to ensure that Malta is amongst the first nations contributing to the emergence of a post-Gaddafi Libya and the ties which we have with Libya continue to be strengthened;
3. Going forward, the actions which the Government will take to ensure that Maltese businesses benefit from the reconstruction effort that will be taking place in Libya.

The MEA sees the MCESD as a platform through which the social partners are part of the process of consultation of how the dramatic situation in Libya can be a basis of continued relationship between neighbouring countries. We see the social partners as active partners in the efforts to bring the two countries closer together to the mutual benefit of all.

## **Way Forward**

In view of all this the Association is recommending the design of a national strategy based on a two pronged approach – economic and social - which will work in the mutual interest of both Malta and Libya through the following actions:

### **1. Establishing Business Continuity**

The issue of business continuity in Libya is multi-faceted. One major worry of local businesses is that the business they had before the outbreak of the war will be lost and taken over by other companies. Local companies affected by the war need to re-establish themselves in the new Libya as quickly as possible and they need every assistance they could get in order to do this. It is pertinent to point out that, as had happened during the worst of the financial crisis, many employers opted to make workers redundant only as a last resort. In spite of the fact that hundreds, if not thousands of jobs were endangered, the impact on the local economy in terms of unemployment was minimised. The Government, either through Malta Enterprise or through some other vehicle, needs to provide tangible assistance to get these companies back in operation and should set this objective as a major priority.

The Association is urging Government to take stock of those businesses that already had contracts and commitments in Libya which were discontinued as a result of the war, and to use its diplomatic links to seek continuity of these contacts. There are companies who have millions of Euros in stock, either awaiting export or already in Libya, and are bearing the weight of storage costs and liquidity problems which could cripple their business.

We understand that in such situations it is not possible to come up with a one-size-fits-all solution, this is especially so since Maltese companies operate in different sectors and the circumstances may differ significantly between companies. However it is possible to categorise affected companies on the basis of basic criteria and design interventions based on these criteria. A proposed model would be to classify companies on the basis of the value of business in Libya and the percentage of their business that depends on Libya. This can be summarised in the following model:

		Percentage of Company's Business based in Libya		
		High	Medium	Low
Amount of Business in Euros	High			
	Medium			
	Low			

This will classify companies in different segments and will facilitate designing customised packages for them. For example, a company falling in the top left bracket (high value, high percentage of business in Libya) will qualify for and require a different type of intervention than one in the low right segment (low value, low percentage of business). The segmentation exercise and the details of different packages can be fine tuned by a technical working group within Malta Enterprise.

A second aspect of business continuity is related to cash deposited in Libyan banks. Maltese businesses are facing two main issues in this regard. The first is that of the exchange rate and the second is the extent to which the funds in the Libyan banks are guaranteed. Whereas we understand that there is very little one can do about the first issue, the second issue remains significantly important and one on which we can act. As MEA we are encouraging the Government to use its diplomatic and political channels to obtain guarantees in this regard.

A third aspect of continuity is mobility both by Maltese nationals to enter Libya and by Libyan nationals to enter Malta. Given that for this to happen visas are required, the process to obtain such a visa needs to be as user-friendly and efficient as possible. To most people this might appear obvious but it was a recurring point of worry mentioned during the meetings we had with a number of businesses. Most of those present complained that the process was too bureaucratic and time consuming.

## **2. Malta as a hub to facilitate the shipment of goods into Libya and related financial transactions**

The close proximity of the Island to Libya as well as the well developed infrastructure we have can place Malta in a unique position to act as an agent for Libya in the purchasing, shipment and distribution of goods required for the stability of the country and in the rebuilding process. Additionally through our well developed financial services sector Malta can further act as a hub for all financial transactions related to the above.

It is being recommended that Malta, through its financial institutions, acts as a broker to transform Libyan funds into supplies. The financial services sector can work to liberate Libyan funds and coordinate with the Libyan authorities and the local business community to set up a purchasing unit to provide supplies to Libya (for example – sourcing water from Montenegro). The Freeport can serve as a logistical hub for this purpose.

## **3. Transport Links**

Malta can assist Libya in establishing important commercial air links with Europe and other North African States through Air Malta. This could be a source of new business for our airline.



#### **4. Role of Maltese Embassy in Libya**

The Maltese embassy in Libya plays a crucial role for the participation of Maltese businesses in the reconstruction exercise which needs to be undertaken and for the development of strong relationships with the Libyan Government. The MEA has been informed that up to now the role of the Libyan Embassy has focused mostly on maintaining diplomatic relations and that not much has been done on the business promotion front. The Association is recommending that the Government invests in a proactive and business driven embassy in Libya. The embassy needs to be well resourced with personnel familiar with the territory, accessible to business and who are competent to implement the strategy for Libya. Once again we are encouraging Government to ensure that Malta Enterprise works closely with the embassy and provides tangible results in this area.

We are also recommending that Malta has proper and professional representation in both Benghazi and Tripoli.

#### **5. Setting up an Entrepreneurship Fund**

Opportunities are there to be taken and the Maltese have always been entrepreneurial when the right conditions existed. The opening up of North Africa and especially Libya provides immense opportunities for our Country. As an Association we are recommending the setting up of an Entrepreneurial Fund aimed at assisting business in setting up or expanding operations in Libya.

In addition we are also floating the idea for Government to incentivise the creation of consortia by Maltese companies to enable them to participate in large or turnkey projects.

We understand that the achievement of the above should be spearheaded by Malta Enterprise with the involvement of banks and other financial institutions.

## **6. Small Businesses in Libya**

One unique characteristic of Maltese business in Libya, compared to that with other countries, is the presence of numerous small businesses from a diversity of business sectors ranging from retailing to professional services. Government should offer special services to new micro-businesses to operate in Libya. It could help them - through Malta Enterprise - to deal with the Libyan bureaucracy, to network with other businesses and in marketing. An actual and virtual 'shop window' can be set up for these businesses to promote their products and services, and training seminars can be organised locally to train them how to go about doing business in Libya.

Existing micro businesses can be an indispensable source of information as many of them are street wise and, in some respects, would know the territory better than larger businesses who might have a more 'birds eye view' perspective.

## **7. Tax Incentives**

Government should re-introduce the tax incentives previously available to employees working in Libya, who were entitled for an income tax rebate for the duration of their stay in Libya. This incentive was withdrawn before the crisis erupted, but in the current circumstances, it will be an attractive incentive to incentivise people to take up work in Libya again.

## **8. Contacts with Big Business**

Malta must not lose sight of the fact that many Maltese companies' access to business in Libya was through sub-contracting agreements with larger European and American firms. Therefore, relations with these companies must be strengthened in

parallel with the direct efforts to establish a business base in Libya. In this regard we are recommending that Government, through the Embassies of France, UK, US and others facilitates such contacts by organising a series of networking events between the Maltese business community and representatives of large companies from the mentioned countries.

## **9. A Business Intelligence System**

In order for business to be able to operate and compete it requires current and accurate information. Malta Enterprise has to be vigilant to ensure that, as already mentioned elsewhere in this paper, business previously conducted by Maltese companies is not taken over by foreign ones from countries who have a faster response time than we do. Additionally Malta Enterprise (through the embassy) has to establish a Business Intelligence System to inform businesses about any developments which can affect them. Such information should not only be limited to commercial activities but should also provide details about for example security considerations that need to be taken from time to time.

## **10. Education**

In the medium term, Malta should work to establish contacts to help Libya set up a functional education system. This can include both welcoming Libyan students to study in Malta and also by exporting our educational expertise to Libya, including the services of the Foundation for Tomorrow's Schools in addition to the expertise of the private educational sector. Malta could be uniquely positioned to set up base in Libya for this purpose, particularly in the areas of teaching English language and vocational education. Additionally MCAST and the University of Malta should also explore the establishment of a Campus in Libya.

## **11. Health Services**

Another area where Malta can be of immediate service to Libya is in the provision of health services. There have already been a number of successful private initiatives in this direction. In the short term Malta can be a logistical centre for the provision of medical supplies, but this can be extended to use spare capacity in our private hospitals to cater for specialised treatment. Malta should build on its reputation as being the 'Nurse of the Mediterranean'.

## **12. Social Dialogue in Libya**

An important element for the survival of a democracy is social dialogue and the establishment of Institutions. Malta can be instrumental in helping Libya establishing itself as a young democracy, one of its kind in the Arab world and an example to its neighbours in North Africa. Malta has excellent credentials to fulfil this role, as it has a well established institutional framework, and can assist the Libyan authorities without being paternalistic or without being perceived as having imperialist ambitions. This could be a role for MCESD in the near future - a clear niche for Malta which can increase its stature as a bridge in the Mediterranean Sea as well as an important and respected point of contact between Europe and North Africa. This reputation will be conducive to investment opportunities in the medium term.

## **13. Oil Exploration**

Perhaps oil exploration is the first thing that comes to mind in thinking about collaboration with Libya. However, important as this may indeed be, the above activities may provide in themselves tremendous economic and social opportunities for both nations. Moreover, the chances of joint exploration will be much enhanced if Malta proves to Libya that it is a nation and an ally to be trusted, and is not out simply to profit from purely economic interests. This applies also to other ventures – manufacturing, tourism, exporting - that are of a purely commercial nature.

#### **14. Securing payments of amounts due**

Maltese businesses operating in Libya are owed substantial amounts of money from the Libyan government which following the collapse of the Gaddafi regime were all frozen. This is a matter of concern to most of the businesses we spoke to and we are urging Government to use its diplomatic and political channels to obtain commitments and secure the payment of such funds as quickly as possible.

## Conclusion

The Malta Employers' Association believes that this strategy will be actionable and will work in the country's interest if all the social and political forces in the country work in unison. More than ever in its recent history, Malta can play a unique role in bridging the economic, political and social divide that is a threat to peace anywhere in the world. Just a few months before the protests in Northern African countries erupted, the MEA hosted a meeting of the International Organisation of Employers in Malta. In our address to our European colleagues last September, we described Malta as: *'a fringe country in Europe situated between tectonic plates of economic and political friction. Just 400 kilometres south from where we sit, millions of people have crossed the desert in the hope of escaping poverty, and to have access to decent work in Europe. To the East, we have the greatest source of political tension in modern history.'* The MEA believes that, as a small nation, we can make a big difference, and that by helping others, we can improve our economic and political standing. The Libyan people are attempting to establish a democracy in North Africa, and the seeds of this democracy have been paid for by more than fifty thousand lives thus far, which is a high price indeed, and testimony to their commitment and sacrifice. As a neighbouring country we cannot remain passive in front of this crisis, and this is the time when our actions at political level, which have been appreciated by the Libyan people, are extended to a responsible and ethical business relationship to the mutual benefit of both nations.

The Association reiterates its commitment to the implementation of the above initiatives and offers its assistance to Government in the establishment of a working group to execute the proposed strategy.