

The island of dreams

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Business haven: Malta's strategic location in the Mediterranean provides an excellent market base for Middle East investments.

As Malta's old industries continue to close down and move to other low-cost countries, the little island is focusing most of its attention on attracting an increasing amount of foreign investment. While TECOM's Smart City is the biggest foreign investment in the island so far, it is definitely not the only one. Dubai Technology, Electronic Commerce and Media Free Zone (TECOM) has invested in more than just an internet city on the island.

"TECOM has a majority of shareholding in Maltacom," says Sonny Portelli, chairman of telecoms operator Maltacom, the first major investment in Malta from the UAE, and brainchild of Dubai Holding.

The Dubai-based company acquired a 60% stake in Malta last May, from the Maltese government. The remaining 40% of the company has been registered on the Malta Stock Exchange since 1998, and the company was already also listed in an alternative listing in London. "For all intents and purposes it was a private company. Government involvement here was practically nothing," says Portelli. After TECOM's acquisition, drastic changes took place. The company now, after privatisation is completed, is looking at all aspects of the business, and while Portelli was invited to stay as chairman, a number of people have already accepted an early retirement scheme offer.

"We are looking at changing the whole business culture, and expanding our product offering. We want to form a part of this great ICT [Information and communications technology] adventure," says Portelli, adding: "Smart City, we are hoping, is going to become our largest client."

Portelli explains that many changes are still in the pipeline, and in the planning stages. He is excited about Smart City, saying the project will greatly influence the company, taking it forward. However, achieving that will not be the easiest task. Malta, the newest and smallest newcomer to the EU has, with the rest of EU countries, been subject to the organisation's laws and regulations. Portelli still sees the country going through a transitional phase of settling down and adjusting.

"It provides a lot of challenges, and like all challenges, some are exciting, some are difficult, but now we don't have a choice; we have to succeed," says Portelli. "It is not easy; competition is here, we have a completely liberalised market; we compete in mobile, in fixed line, broadband and our latest acquisition, television. We also have competition there and will compete as hard as anybody who can compete."



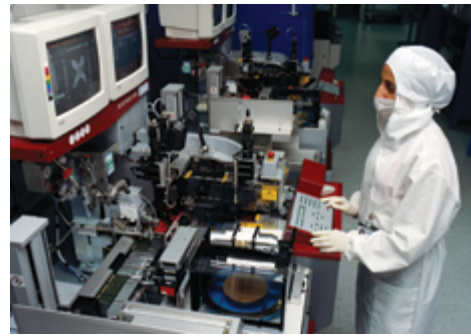
Although Portelli is adamant that Smart City will "create a lot of wealth and will put Malta on the map as a centre of excellence in Europe", the chairman is expecting it to be only the beginning of many similar future investments: "What we would like to do is urge investors all over the GCC, to open their doors to us because we want to do business with them."

At the moment, Portelli says, Malta will be opening its doors and the doors of Europe for foreign investment, adding that the opportunities are vast both for Malta and investors from the GCC. It is no secret that investment in Malta is increasing, and especially from the Gulf region. With the UAE the main business partner in the Gulf, it comes as no surprise that Emirates Airline already offers five flights a week to the island. In addition, business travellers have a wide choice of hotels including the five-star Intercontinental.

As regards to whether Maltacom has been considering the option of listing on the Dubai Financial Market, Portelli says the matter has not been discussed yet. He believes that the company's stocks at the moment are undervalued, but claims that it doesn't worry him much.

"Any market reflects the perception of the investor and sometimes it doesn't reflect that. In this case it doesn't reflect the fundamentals of this company, and those are very strong and very good and that is what will take us forward," he says.

Maltacom, Portelli believes, is sitting on substantial cash backing which gives it the confidence to plan ahead, and makes it extremely bankable and creditworthy for shareholders. Where this investment will take the company is yet to be seen, especially with a number of changes on the way, including price reductions for roaming phone calls all over Europe, as a result of a series of new EU directives. The Multi Plus acquisition, too, will provide new opportunities.



"We are working very hard on re-engineering everything within Malti Plus. We are going to increase the footprint of transmission, we are going to take it over the two islands: Malta and Gozo. We will be changing content that is not so good and we will be bringing in new content so we will be able to compete on quality," says Portelli, adding: "We will be bundling television with mobile and other services. We will give our clients a choice on all our fronts." Malta com is looking to invest in new operations including television, 3G, and access networks. The investment will amount to at least US\$27m.

"We invested in TV because it's part of the communications business, and we have to be in all areas of communication," says Portelli. "Malta will become a very exciting place in Europe."

European interest in the island seems to be growing as well, especially after it became the first country in Europe to build an internet city. Only last week on Monday, the Maltese Government signed an agreement for a US\$74.7m investment with Lufthansa Technik, one of the world's leading providers of commercial aircraft services. The agreement will entail setting up new maintenance and repair facilities for wide-body aircraft. The expansion is expected to create 550 jobs within five years, and new training and development opportunities in aircraft maintenance.



Founded in 2002, Lufthansa Technik Malta has been conducting heavy inspections, known as C-Checks, and modifications on the Boeing and Airbus narrow-body aircraft. Since it was set up, it carried out over 230 C-Checks. On the other hand, the new facilities will cater for D-Checks, more commonly referred to as overhauls on wide-body aircraft, such as the Airbus A330/A340 and the A380.

Work on the new hangar facility, which will also include a number of back shops and will be able to accommodate two wide-body aircraft and two narrow-body aircraft simultaneously, is scheduled to start soon and to be completed by October 2008. The Minister for Information Technology & Investment, Austin Gatt, says that the "investment being made by Lufthansa comes in a long line of investments that this government has attracted to Malta in 2006 - the year when we have broken all records for Foreign Direct Investment. This has not happened by chance but is the result of a concrete strategy and game plan developed by this Ministry and well run by Malta Enterprise."

Malta Enterprise, which is the government's exclusive agency supporting enterprise in Malta, is one of the key players in attracting inward foreign investment to the island. The entity provides international companies and investors interested in setting up operations in Malta with a full package of advisory services including pre-investment advice and support, start-up assistance and post investment services and aftercare facilities.

Companies are attracted to Malta for several reasons says Mario Galea, chief officer of business development at Malta Enterprise. He explains: "Malta's competitive cost structure is about half of what it is

in Western Europe and the US. We have a good history of doing business with the Mediterranean and the Middle East and North Africa region."

Over the last five years, Malta has been exporting around 12-15% of its output in different sectors to the Middle East, mostly in food products and then construction, electronics, kitchen supplies and others.

"North Africa also represents about 15% of our exports but it also represents a very big chunk of our international trading. There are a lot of European countries utilising Malta for its international trading ties with North Africa, and although most of the goods are not made in Malta, they are distributed out of Malta," adds Galea.



He also explains that Malta Enterprise has a lot of technical knowledge about how business is conducted in North Africa in addition to common linguistic ties with the region which certainly makes business even easier. While Germany is Malta's largest industrial partner in Europe, the UAE today is the biggest market for Malta within the Arab region. "We export around US\$40m and the UAE represents 50% of that. Up to eight years ago Saudi Arabia was the main market but that has shifted to the UAE due to our promotional and business activities," says Galea.

One of the main exporters to the UAE is food stuff company Foster Clarke, with a manufacturing facility in Malta, and a popular brand in the Gulf that has been around for over 20 years. Overall exports to the Gulf region have increased by over 30% in 2003 compared to 2001, while exports to the UAE have more than doubled in the space of five years. The main range of products exported from Malta to the Gulf region includes building materials, industrial products, foodstuffs and household goods. Where Europe is concerned, a number of companies like Lufthansa Technik, have found a "flexibility of the workforce" and an "ideal location" in Malta, says Nadine Cauchi, Human Resources Manager at Malta Enterprise.

"HSBC is another success story of 2006, a tender which Malta won for the HSBC call centre, mainly handling telephone calls from the UK. It is an ever-expanding business and they are already thinking of expanding the working hours and the workforce," she reveals.

Another company setting up in Malta is Actavis, one of the world's top five makers of generic pharmaceuticals. Cauchi says Actavis decided to set up in Malta because of the legal system. "In the past companies were not patenting their products in Malta because of the time and market but then they realised the competitive advantage of coming and setting up in Malta now that these products have been patented. Although Actavis is the largest company we have in this sector, in 2006 we had a number of generic pharmaceutical companies setting up from Spain and Italy."

Maltacom — the Gulf connection

Since TECOM's acquisition of a majority stake in telecoms operator Maltacom, the company has found itself leveraging fresh opportunities, and enjoyed greater access to wider resources, according to chairman Sonny Portelli.

"We have to be constantly ahead of what the market throws at us and we have to anticipate the market and not just react to it," explains Portelli.

He also notes that telecommunications companies have changed a great deal in the last few years as more and more companies strive to offer people more than just a telephone service, but are becoming more interested in content and communication.

"We have a very high order of technical and managerial skills, so alongside our commercial people we need to have excellent people who manage our human resources," he says.

"There are many strengths that TECOM are bringing onboard, and many opportunities they are putting in front of us. We are receiving great assistance, and getting vital access to the high calibre of human resources that is coming from the Gulf area now," he says.

Portelli points out that Dubai is a melting pot of people and through TECOM's involvement, Maltacom now can easily tap into all the skilled and talented people who would have normally cost the company a "great deal of money".

"We have these resources within our reach. Some of them are already here, some have contributed a great deal to the development of this company, and this is the intangible benefit that people bring from this federation of skills, resources and strengths and visions," says Portelli.

He adds that it is not just Dubai but the entire Gulf region that is being driven by a vision that makes it very intriguing for many businesses.

The development that is currently taking place in the Gulf, he believes, will make it "a very exciting place", and not just because of the underlying oil wealth, but "because the people there have the vision and will, stand up and face the challenges, and are hard working".

Portelli also acknowledges that different sectors in the Gulf region, whether real estate, financial services, aviation, or hotels, are undoubtedly booming.

"This is what excites me and this is what makes people like me, sitting in a country like this one, so happy that we have one foot in the Middle East, and those guys have one foot in here," the chairman explains.

Getting Malta's ICT sector on the right track

Claudio Grech, head of the secretariat to the Minister for information technology & investment.

What are the ministry's main areas of operation? Our ministry has three primary functions within the government. The first is the development of ICT, and the second the promotion of ICT across all levels of society. Wherever the government has some kind of investment this falls under the ministry.

At this moment we have 35 companies which range from utilities, the largest entities, up to small operations focused on laboratory services. The third pillar is the attraction of foreign direct investment. We promote all types of foreign investment, and we have specific sectors which we are aggressively promoting such as the maritime field, ICT and biotechnology. Importantly, All these areas have high-end value added embedded in them. How did the relationship with TECOM come about?

The relationship with TECOM started coincidentally. TECOM came to Malta in 2005 to look for co-location services, and they were looking at trying to use Maltacom's data centre for some sort of relocation service. Then I had met the guys and partly from discussing this relocation service, which is relatively minor, we started thinking about how to extend this idea into how to replicate what TECOM had done in Dubai Internet City and Dubai Media City.

How will Smart City change the ICT sector in Malta? The way we see it transforming the local ICT sector is where SMEs are involved. We believe that the creation of the cluster will encourage a large number of ICT SMEs, which today are establishing themselves in various places in Europe, to establish their operations in Malta. It will also encourage local players and local students coming out of university to team up and start ICT companies in Malta. That is where we definitely see the largest value.

Why invest in Malta?

- The Maltese economy has, over past decades, experienced significant restructuring. The composition of Gross Domestic Product (GDP) has moved away from a dominating reliance on manufacturing activity to highlight the increasing importance of service activities. Moreover, Malta's dependence on the tourism industry is being diversified through the growth of financial services and other knowledge-based industries.
- The ICT sector in Malta has been described as one of the fastest-growing sectors at the moment. Malta's national strategic direction for Information and Communication Technology (ICT) builds upon the concept of developing ICT into a major pillar of Maltese economic activity. Malta's ICT strategy for 2003-2006 already placed among its strategic objectives the twin goals of promoting Malta into a regional centre of excellence in ICT and of Internationalising the Maltese ICT industry to compete within the global environment.
- The Ministry for Investment, Industry and Information Technology has been supporting the emergence and growth of the local ICT economy through a number of high-profile initiatives. One such initiative is a public-private partnership (myPotential) which is providing training on internationally renowned ICT industry certifications including those from Cisco, Microsoft and Oracle to increase the number of ICT graduates and meet the high demand from industry.
- According to the National Strategic Reference Framework: Malta 2007-2013, "Malta's attractiveness as a competitive economy and a country with a high standard of living and quality of life is determined by the 'status quo'. in a number of sectors, notably transport, E-Society, the environment, energy and urban regeneration. Malta's human resource development is critical to its competitiveness given that human resources are the country's only resource. The extent to which economic progress contributes effectively to social cohesion will have a deep impact on competitiveness and sustainable growth in the long-term." Source: KPMG SCM impact assessment report from the Ministry of Information Technology & Investment in Malta.