

End of the reign



The king's reign comes to an end... Carnival enthusiasts braved the chilly wind and intermittent drizzle yesterday for the last day of revelry. The five days of colourful celebrations will make way for a solemn mood today as the Roman Catholic island marks Ash Wednesday, the first day of Lent. Photo: Matthew Mirabelli

Talking Point

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Threat to tourism industry

I think no one will dispute that 2009 will be remembered for all the wrong reasons. After the positive results registered in 2008, no one expected 2009 to close off with such a dismal performance but, having said that, neither did anyone envisage the magnitude of the global recession, which was looming on us at the time.

Towards the end of the year, MHRA conducted a detailed study in order to evaluate and assess the results for 2009 for the sector. The bottom line results for the year, as announced, showed that during 2009 the gross operating profit for hotels dropped by a staggering 37 per cent while the hotel sector collectively registered unprecedented losses to the tune of €26 million after taking into account depreciation and finance costs.

Towards the end of last year, most of us were looking at 2009 as the year when we had scraped the bottom, happy to say good riddance to 2009.

We started to look at 2010 with some degree of optimism. All the cost-cutting efforts had been painstakingly put in place during 2009, leaving very little room for further cost-cutting measures in 2010. Most of us started to look ahead to improved revenues in the new year, encouraged by some signs of optimism from countries that represent our most important source markets. We were all bracing ourselves for a challenging but better year in 2010 and most of us were starting to feel as if the worst was over, with some sense of cautious but positive sentiment for 2010.

However, all this was cut short when the government announced a staggering 50 per cent hike in the utility rates as of January 1. That little bit of positive sentiment suddenly disappeared and it turned into disbelief, with doses of anger and, in some instances, even despair. As if this were not enough, the government subsequently announced the introduction of the 50c bed tax

The MHRA immediately called an extraordinary meeting of the Malta Council for Economic and Social Development where it presented the results of a study it carried out showing the impact of the increases of the utility rates on hotels and restaurants, estimated at €10 million, and a consequential rise of €7 million in our operating costs.

The study showed that the industry will be unable to recover any of the increases in utility rates, certainly not during this year. The presentation highlighted the risks the hotels and restaurants sector will be subjected to as a result of these hefty and sudden increases but also the substantial earnings for the government derived from tourism.

The MHRA recognises that the government has a deficit problem but our industry is having to face two main problems. First, operating costs are rising at a rate that cannot be absorbed through increases on the services we pro-

vide as the market remains very price sensitive. Second, the room nights factor has decreased to a level that is leading to the existing tourism model we operate in becoming unsustainable.

The MHRA approached the government in an effort to address these two problems and a number of meetings were held with the Minister of Finance and the Parliamentary Secretary for Tourism.

The association firstly discussed the need for the government to invest more money to increase seat capacity from new regions, supported with marketing campaigns. Secondly, it looked at the rising costs as a problem that needed to be tackled by the government because many of the "new" costs are government-induced. It also proposed a number of mitigation measures to help industry soften the impact of the increases and the "agreement" in principle reached between the government and the MHRA, as announced, all depends on agree-

ing on the finer details. Nevertheless, it has to be made clear that the proposed measures should not be interpreted as if the MHRA agrees with the increases in the utility rates, which may well cripple the entire tourism industry, but only as an opportunity that can immediately help industry cope better with the impact. The MHRA was among the very first to object to the increases.

Our members expected nothing short of a revision of the announced utility tariffs but the MHRA council has wasted no time to secure an "agreement", which should, hopefully, see an increase of nearly 10 per cent annually in arrivals and the introduction of a number of mitigation measures to help industry cope better with the impact of the rise in utility rates.

Whether or not the industry will eventually be able to sustain the hike on the utility rates remains to be seen and all depends on how the market will develop but only time will tell!