



## Webinar: EU Islands' Economy and COVID-19

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### The actual situation and priorities of island economies

Good afternoon ladies and gentlemen!

It is with pleasure that I address you today as President of INSULEUR (the Insular Chambers of Commerce and Industry of the European Union). I would like to thank the 'Greening the Islands Foundation' and especially Gianni Chianetta for enabling this valuable partnership with INSULEUR in order to be able to organise this webinar. Also a word of thanks to CPMR for co-supporting this initiative.

During these times the crucial importance of digitalisation has come to the fore. Through this webinar, digitalisation is helping us bridging the divide due to the restrictions imposed on us because of the COVID-19 pandemic. As INSULEUR we have had the foresight of already seeing the importance and potential of digitalisation, when we organised the INSULEUR Forum last October on the island of Gozo focusing on digitalisation, and how this can help address the difficulties faced by islands.<sup>1</sup> Being also the president of the Gozo Business Chamber, I am based in Gozo, Malta, from where I am speaking.

I now come to the actual topic we are discussing today. As indicated in the subject title of my intervention, I am first going to focus on the problems we faced and are now facing, and then I shall focus on what should be the priorities at this stage.

In outlining the actual situation of island economies I am going to draw on a 2012 Opinion of the European Economic and Social Committee, as I believe that many of the problems outlined in this Opinion paper are still actual and being faced by island economies today. In describing the relationship between tourism and islands this Opinion Paper highlights how:

Many European islands have found tourism to be an essential factor for the survival of the local population, their identity, cultural traditions and values,

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<sup>1</sup>The Gozo Business Chamber. 2019. INSULEUR Forum. [ONLINE] Available at: <https://www.gozobusinesschamber.org/event/insuleur-forum/#more-806> [Accessed 21 May 2020].

and landscapes. It has generated economic growth, created more jobs and brought considerable diversification to their economic foundations through tourism-related services. Island economies have, however, become too dependent on tourism: diversification towards activities that are complementary to tourism is needed, facilitating the economic development of islands in the face of crises . . .<sup>2</sup>

Very few things changed since 2012. In my letter to INSULEUR members at the start of this crisis I highlighted how:

I am aware of the grave difficulties we are currently facing. Island economies more than others are dependent on certain sectors which have been deeply hit by this crisis, such as tourism. Island economies thrive on tourism. However, the future for this industry now looks bleak.<sup>3</sup>

The importance of tourism was also recognised by the European Commission in its latest communication on 'Tourism and Transport in 2020 and Beyond'. Tourism contributes 10% to the European Union's Gross Domestic Product, both directly and indirectly, with 563 million international arrivals, and 30% of global receipts in 2018. The Communication highlighted how:

For many Member States, European regions and cities, tourism is a key contributor to the economic and social fabric. More than that, it provides much needed jobs and income, often concentrated in regions with no alternative sources of employment and involving low-skilled workers. But this ecosystem has been hit hard.<sup>4</sup>

The scenario looks bleak. As pointed out by the United Nations World Tourism Organisation (UNWTO) the decline in international tourism arrivals for this year is estimated to be within 58 to 78%. This in itself depends on other factors such as the

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<sup>2</sup> European Economic and Social Committee. 2012. Opinion of the European Economic and Social Committee on 'Specific problems facing islands' (own-initiative opinion) (2012/C 181/03). [ONLINE] Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012IE0813&from=EN> [Accessed 21 May 2020].

<sup>3</sup> Joseph Borg. 2020. Letter to members of INSULEUR, 14 April 2020 [ONLINE] Available at: <https://www.gozobusinesschamber.org/wp-content/uploads/2020/04/INSULEUR-President-COVID-19.pdf> [Accessed 21 May 2020].

<sup>4</sup> European Commission. 2020. Communication from the Commission to the European Parliament, the Council, the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Tourism and Transport in 2020 and beyond, p.1. [ONLINE] Available at: [https://ec.europa.eu/info/sites/info/files/communication-commission-tourism-transport-2020-and-beyond\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-commission-tourism-transport-2020-and-beyond_en.pdf) [Accessed 21 May 2020].

speed of containment, and the durations of travel restrictions and shutdowns.<sup>5</sup> Many parameters are still unknown.

This means that the problems faced by islands are even greater because for most islands Tourism contributes above 50% of their GDP. Diversification of the economy is one of the main issues faced by island economies. The strong dependency on the tourism sector means that one of the main sources of income, or the main source of income has stopped completely. The crisis we are now facing is a global one, and some of the main markets on which tourism on islands depend, have been deeply hit by this crisis. This means that even if tourism recovers, this will take its own time. In the meantime we will be seeing many tourism-related businesses on islands face considerable hardships. This has also considerable repercussions on other areas.

Islands need services to be connected such as ferries and airlinks. These services in turn need to be economically viable in order to continue, even if they are offered under a public service obligation. Many a times these services depend on the influx of tourism on islands in order to be sustainable. Given the lack of tourism, these together with other essential services being offered on islands start to be called into question.

The European Commission has shown itself prompt to respond to this crisis through the Temporary Aid Framework adopted in March 2020.<sup>6</sup> Through the Temporary State Aid Framework Member States can provide direct grants up to € 800,000, or loans or guarantees on very favourable terms for larger amounts. Grants can also be offered as compensation to businesses. A further € 1 billion has been unlocked as a guarantee for the European Investment Fund.<sup>7</sup> The Corona Virus Response Investment Initiative has also allowed flexibility to Member States to redirect cohesion financing.<sup>8</sup> This has shown that a flexible approach has been adopted by the Commission in order to mitigate and contrast this crisis. We have seen our countries use these tools in order to mitigate the impact of this crisis on businesses.

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<sup>5</sup> United Nations World Travel Organisation. 2020. Impact Assessment of the COVID-19 Outbreak on International Tourism. Updated May 2020. [ONLINE] Available at: <https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism> [Accessed 21 May 2020].

<sup>6</sup> The Temporary Aid Framework was launched on the 19 March 2020, and amended on the 3 April 2020, and 8 May 2020.

European Commission. 2020. Communication from the Commission. Temporary Framework for State Aid Measures to support the Economy in the Current COVID-19 Outbreak (Consolidated Version) [ONLINE] Available at: [https://ec.europa.eu/competition/state\\_aid/what\\_is\\_new/TF\\_consolidated\\_version\\_as\\_amended\\_3\\_april\\_and\\_8\\_may\\_2020\\_en.pdf](https://ec.europa.eu/competition/state_aid/what_is_new/TF_consolidated_version_as_amended_3_april_and_8_may_2020_en.pdf) [Accessed 21 May 2020].

<sup>7</sup> European Investment Fund. 2020. Coronavirus: Commission and European Investment Fund (part of EIB Group) unlock € 8 billion in finance for 100,000 small and medium sized businesses. 06 April 2020 [ONLINE] Available at: [https://www.eif.org/what\\_we\\_do/guarantees/news/2020/commission-eib-group-unlock-8-billions-small-medium-businesses.htm](https://www.eif.org/what_we_do/guarantees/news/2020/commission-eib-group-unlock-8-billions-small-medium-businesses.htm) [Accessed 21 May 2020].

<sup>8</sup> European Commission. 2020. Cohesion Policy Action against Coronavirus [ONLINE] Available at: [https://ec.europa.eu/regional\\_policy/en/newsroom/coronavirus-response/](https://ec.europa.eu/regional_policy/en/newsroom/coronavirus-response/) [Accessed 21 May 2020].

As islands we are also calling for a more flexible but permanent approach to the State Aid Framework in order to consider the specific difficulties being faced by our territories. The current crisis shows that the State Aid Framework, can be a flexible tool to counteract specific difficulties and situations. The European Commission needs to adopt a more flexible approach on State Aid for islands, not only temporarily, but on a more permanent basis. This would really provide a valuable tool for the integration of European islands in Europe. Islands can be important contributors to the European economy, but this can never be attained if they are not given the necessary tools to be able to compete and progress on a level playing field.

This should be accompanied by a whole rethinking of our island economies. Changes to state aid and other types of financing should be targeted towards assisting islands in diversifying their economy. These initiatives should help them move from the traditional short-sighted economic model basis solely on the returns from the tourism sector, to other sectors which should help them in attaining a more sustainable rate of economic growth. To this end I am putting forward the following considerations, which are none other than those confirmed in the Temporary Framework itself, namely that, “The green transition and the digital transformation will play a central and priority role in ensuring a successful recovery”.<sup>9</sup>

So, our proposals start with

- **An economic model which focuses on making islands more sustainable.** This should be in line with the “Clean Energy for EU Islands initiative” that aimed to support the energy transition of EU islands from 2020 to 2030.<sup>10</sup> We need to consider net-zero emissions on islands, and a circular economic model for islands which is restorative and regenerative by design. Islands by nature are surrounded by the sea. We also need to explore further the potential of the blue economy, in order to create a sustainable maritime economy that balances economic activity with the long-term capacity of marine ecosystems to support this activity while remaining resilient and healthy, and secondly

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<sup>9</sup> European Commission, *Communication from the Commission. Amendment to the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak*, Brussels 8 May 2020, in [https://ec.europa.eu/competition/state\\_aid/what\\_is\\_new/sa\\_covid19\\_2nd\\_amendment\\_temporary\\_framework\\_en.pdf](https://ec.europa.eu/competition/state_aid/what_is_new/sa_covid19_2nd_amendment_temporary_framework_en.pdf) page 2, paragraph 9

<sup>10</sup> On 18 May 2017 the European Commission together with 14 EU Countries signed a political declaration to launch the new ‘Clean Energy for EU Islands’ initiative. Aimed at accelerating the clean energy transition on Europe’s more than 2700 islands, this initiative was targeted towards accelerating the clean energy transition on these islands, reducing islands’ dependency on energy imports, and providing assistance to islands to make better use of renewable sources of energy while embracing more modern and innovative energy systems. European Commission. 2017. ‘Clean Energy for EU Islands’ launched in Malta. [ONLINE] Available at: [https://ec.europa.eu/energy/news/clean-energy-eu-islands-launched-malta\\_en?redir=1](https://ec.europa.eu/energy/news/clean-energy-eu-islands-launched-malta_en?redir=1) [Accessed 21 May 2020].

- **The Digital Transformation of European Islands.** This was the subject of our Forum last October. Digitalisation can assist islands in bridging that long sought gap in economic development with mainland territories. However, this cannot happen on its own. This model needs to be accompanied with an investment incentive package and infrastructure in order to attract the right industries to islands. Certain actions in this area are critical. As indicated in the ‘Statement of Conclusions and Intent on Developing a Common Digitalisation Strategy for EU islands’ of the last INSULEUR Forum, we need to “develop a clear understanding of the digitalisation process so that the critical elements are in place”; “introduce changes in curricula to upskill their human resources”; “ensure equality of opportunity”; and “develop place-based strategies to take concrete actions and promote their territorial potential based on a bottom-up approach.”<sup>11</sup> And last but not least, we retain that this cannot move forward unless there is
- **Collaboration between Islands.** Islands need to collaborate together on many issues. Islands cannot fight on their own the difficult issues they are facing. As I reiterated in my concluding address during the INSULEUR Forum “small islands grow stronger in unity”.<sup>12</sup>

Let us therefore collaborate together especially during this difficult situation. This webinar that is being presented today in collaboration with the numerous partners that are participating, is already a step in the right direction. As INSULEUR we will continue to work so that the needs of islands are addressed at every level. Thank you all for being with us today.

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<sup>11</sup> INSULEUR. 2019. Statement of Conclusions and Intent on Developing a Common Digitalisation Strategy for EU Islands. INSULEUR Forum 2019. [ONLINE] Available at: <https://www.gozobusinesschamber.org/wp-content/uploads/2019/07/Statement-of-Conclusions.pdf> [Accessed 21 May 2020].

<sup>12</sup> Joseph Borg. 2019. INSULEUR Forum 2019. Grand Hotel Imġarr, Gozo 25 October 2019. Concluding Address. [ONLINE] Available at: <https://www.gozobusinesschamber.org/wp-content/uploads/2019/07/Concluding-Speech-by-Joseph-Borg.pdf> [Accessed 21 May 2020].