



cutting through complexity

Logistics and Value Chain Management

August 2013



What is Value Chain Management

“A multi-disciplinary analysis of the group’s supply chain with a view to optimising the business processes, supplier relationships and business culture with a view to streamlining, simplifying and energising the business model as a result of which there may be opportunities to significantly optimize the group’s direct tax, indirect tax and Customs & trade position”



Key Considerations for 'Value Chain Management' (VCM)

- **Going global** – VCM enhances the company's operations by analysing market forces, increasing production efficiencies as well as improving distribution networks.
- **Market entrance** – companies looking for a foothold in a new market or region should consider such structures.
- **Post merger integration** is a good context for tax-efficient centralisation strategies. Tax saving can help to pay for wider restructuring.
- **Emphasis on centralisation** of functions and risks of all or a part of the business.
- **Cost efficiencies in the industry** – VCM planning focusing on VAT and customs duty can help deliver short-term cash savings for international groups.
- **Tax and legal structure** is aligned with the business needs.
- **Supply and value chain** is the main focus.
- Limited risk entities **focusing on their core activities**.
- Potential **concentration of the group profits in the principal risk taking** entity of the business.

Allocation of profits follows the (re)location of functions, assets and risks

From a tax perspective, (re)location of...

Functions

Value adding functions (e.g. pricing, sales, operations, planning) that manage the group's 'value drivers', including critical success factors and risks

and

Assets

Valuable assets (usually intangible) that drive value and, therefore, profitability (e.g. knowhow)

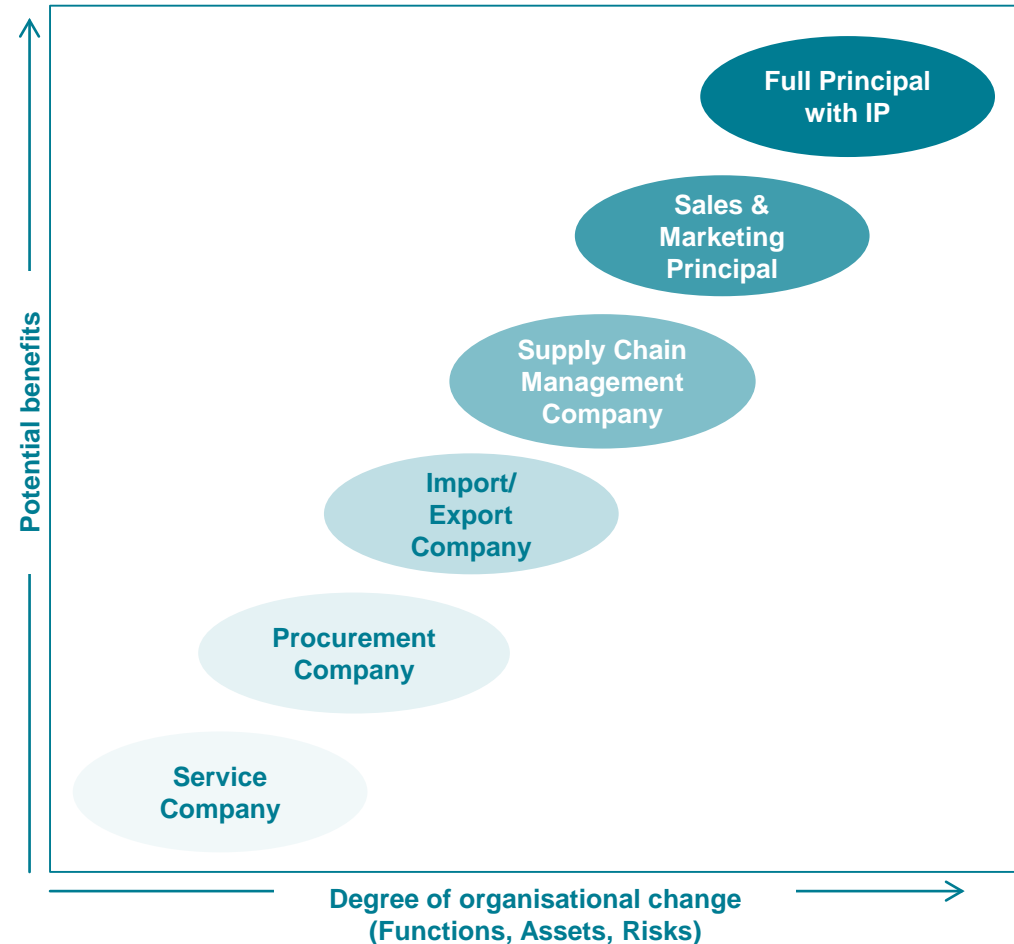
and

Risks

'Entrepreneurial risks' that drive expected profits

... will enable tax optimization

Different models for tax efficient profit allocation to achieve lower effective tax rates



Various VCM legal and operating models are possible

Manufacturing company

Consignment or Toll Manufacturer

- No ownership
- Purchase order in name of principal
- Risk of purchase & manufacturing price variance
- Manufacturing fee & overhead in P&L

Contract Manufacturer

- Ownership components during production
- Purchase order in name of manufacturing company
- Risk on raw materials and work in progress
- Sales (to Principal) and COGS in P&L

Full fledged (buy-sell) Manufacturer

- Full ownership of raw materials & finished goods
- Purchase order and invoice (to customer) in name of manufacturing company
- Full risks
- Full P&L

No
Principal
Company

Functions, risks, assets and
associated profits

Full
Principal
Company

Sales company

Agent/Sales Representative

- No inventory ownership
- Invoice in name of principal
- No receivable / inventory / market risk
- Commission in P&L

Commissionaire

- No inventory ownership
- Invoice in name of sales company
- Low risks
- Commission in P&L

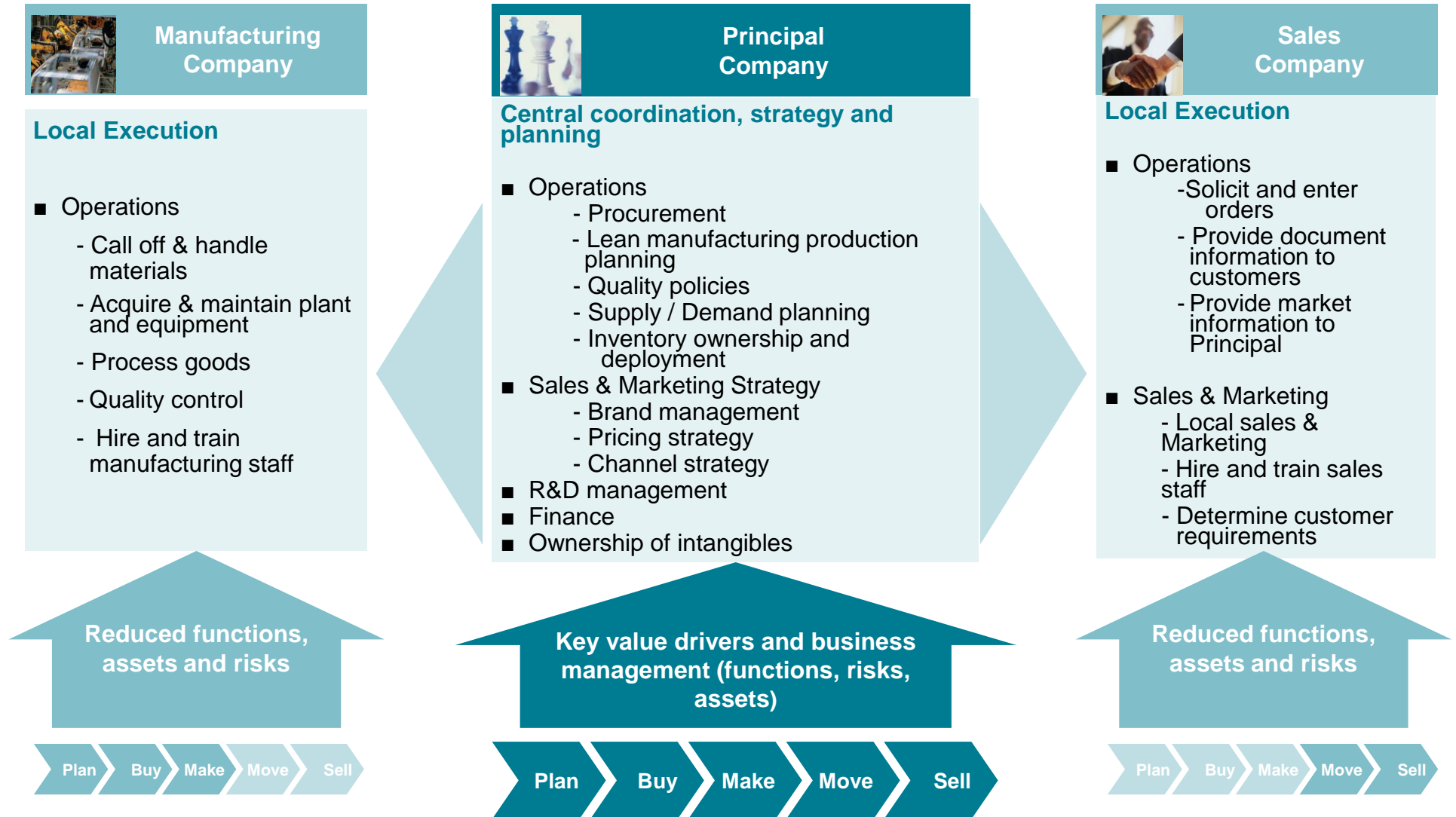
Limited Risk Distributor

- Flash inventory ownership
- Invoice in name of sales company
- Limited risks
- Sales, COGS, manufacturing, overhead in P&L

Full fledged Distributor

- Inventory ownership
- Invoice in name of sales company
- Full risks
- Full P&L

The Principal Trading Company Model



Why Malta?

Key Factors

Over recent years Malta has achieved rapid and continuous growth specifically as a manufacturing base, a European Distribution Centre and a financial services hub. The various ingredients to which this success can be attributed are:

- Malta's Strategic Location - Right on the major global trade route bridging two markets with convenient, established, cost-effective feedering networks
- Extensive shipping connections
- Customs suspension procedures / Free-zones
- Efficient customs clearance into the EU
- A favourable business environment
- Highly-qualified workforce
- Flexible, international legal and accounting traditions
- Attractive specialist fiscal and non-fiscal incentive packages



Why Malta?

What is Malta Today

Malta's rapid growth spurred by the key factors outlined previously and nurtured through a series of industrial policies throughout the years specifically designed to support foreign export-oriented industries has seen Malta become a solid industrial base in a crucial geographical position, which is further complimented by an exploding financial services sector. Today, Malta is home to a myriad of first-rate companies predominantly in sectors such as:

- Manufacturing
- Logistics-based services
- Engineering
- Healthcare, pharmaceuticals and medical devices
- ICT and electronics
- Front and back-office operations
- On-line gaming

This modern, high-tech, diversified economy, a business hub in the cross-roads between Europe, the Middle East and North Africa is one of the most exciting jurisdictions through which to do business today.



Why Malta?

A bridge between markets

Malta is located at the very centre of the Mediterranean with direct access to the European, North African and Middle Eastern markets which conveys a significant logistical advantage to companies operating in a single central distribution hub from which to service these major markets in Malta especially as regards the time to market.

Malta is in the Central European Time zone, a distinct advantage to companies serving European clients.



Why Malta?

Business environment

The legal, regulatory and fiscal framework in Malta, has followed a unique evolution resulting in a system which can claim familiarity with both civil and common law concepts, this combined with English being the official business language of Malta. All laws, official forms and related correspondence are promulgated, published and applied in the English language. Eliminating any language burden on multinational operations is one of the ingredients that has contributed to Malta's continuing success as a manufacturing base, a European Distribution Centre and a financial services hub.

The focused regulatory regime is complimented by the fiscal environment which provides taxpayers with certainty through rulings and confirmations of the tax treatment of complex transactions mainly based on the International Financial Reporting Standards ("IFRS") accounting treatment.



Why Malta?

Business environment

- A favourable business environment
- English is the Business Language
- Relatively low cost environment (typically some 50% cheaper than doing business in Northern Europe)
- An EU regulatory environment ensuring a fair and level playing field for all players in the intra-EU market
- Specialist incentive packages yielding attractive benefits for Malta-based enterprises
- A well developed infrastructure, including an advanced telecommunications infrastructure with plenty of available bandwidth and great sea and air links



Malta enjoys a stable economic, industrial and political climate which coupled with a competitive and productive labour force and attractive incentive packages, offers companies an ideal scenario to which to locate their operations in Malta.

Why Malta?

The Workforce

- A highly qualified and competitive labour force.
- The established manufacturing industries in Malta guarantee the existence of specialist logistics, procurement and trading personnel who are well versed in the challenges of such international trade.
- Almost 3,000 graduates per annum with degrees geared towards the infrastructural and industrial needs of the country providing expertise in crucial fields ranging from Commerce, ICT to Science and Engineering.
- Low salary/wage inflation providing a competitive advantage over other overseas competitors. In 2010 monthly labour costs were at around 45% of the EU 27 average. Furthermore, when productivity and working hours are factored into the equation, Malta's workforce becomes cheaper than all established EU members.
- Mastery of dual linguistic capabilities. English is also an official language of Malta.



Why Malta? Tax System

Maltese tax law finds its origins in the UK tax system and is based on UK tax principles. The Income Tax Act levies a tax on income and certain capital gains; the distinction between items of income and capital is fundamental in Maltese tax law and unless specifically taxable, capital receipts are not subject to income tax.

Malta has a full imputation tax system which completely eliminates the economic double taxation of company profits. Shareholders in receipt of dividends are entitled to a tax credit equal to the tax borne on the profits out of which the dividends are paid.

In support of Malta's drive to eliminate economic double taxation, ever since 1994 Malta has adopted a system of tax refunds to non-resident shareholders upon a distribution of dividends, pursuant to which, various refunds are available which reduces the effective tax rate to a maximum of 6.25%.

Effective tax rate between 0% and 6.25%



Why Malta?

Tax System

Also further to the provisions of the EU Parent – Subsidiary Directive, Malta offers a full participation exemption upon qualifying inbound dividends and gains, in terms of which such dividends are fully exempt from Maltese taxation.

- A wide treaty network of more than 60 Treaties and growing
- No withholding tax on dividends
- No withholding tax on interest
- No withholding tax on royalties
- No withholding tax on liquidation proceeds
- No Transfer Pricing Rules
- No Thin Capitalisation Rules
- No CFC Rules
- No Capital or Wealth Taxes
- No Transfer Taxes
- No Exit Taxes



Why Malta?

Fiscal Incentives

In addition to having the lowest effective tax rate in Europe, various incentives of a fiscal and non fiscal nature may be granted to companies operating in Malta. Such incentives include *inter alia* interest rate subsidy, loan guarantees or soft loans.

Companies established in Malta which hold a license to carry out certain qualifying activities may also be entitled to investment tax credits which are calculated as a percentage (30%, 40% or 50% in case of large, medium-sized or small companies respectively) of:

- ☐ the amount invested in qualifying tangible and intangible expenditure; or
- ☐ the wage cost for jobs created

which are deducted from the tax charge. Unutilised tax credits are carried forward to be deducted from the tax payable in future years.

The cost of an initial set-up in Malta need not be prohibitive, much of the infrastructure required can be obtained from third party suppliers which when combined with the aforementioned fiscal and logistical benefits, allows even relatively small operations to benefit from carrying on various activities through Malta with very little capital outlay.



Why Malta?

Malta in VCM

All sorts of multi-nationals already have a presence in Malta, where due to one combination or another of the advantages of doing business in / through Malta, they carry out all sorts of activities, mainly:

- group finance and treasury
- holding and developing intellectual property
- general grading
- back office
- call centre
- research and development
- development and design
- manufacturing
- logistics and transhipment



All of which come together neatly in any VCM project, as the operational efficiency gains realised through a supply chain optimisation are amplified when they are realised through a reorganisation and reallocation of functions to a jurisdiction which also offers logistical, fiscal and cost saving optimisations in its own right.

Why Malta?

Malta as a Logistics Hub – The natural place to be!

Intra-Med / European Logistics Hub

Malta is uniquely placed right on the main Asia – Europe / US shipping routes. This unique geographic location also places Malta in the perfect place to act as a distribution centre to the rest of Europe, North Africa and the Middle East, a role which has helped it grow to the third largest trans-shipment and logistics centre in the Mediterranean region.



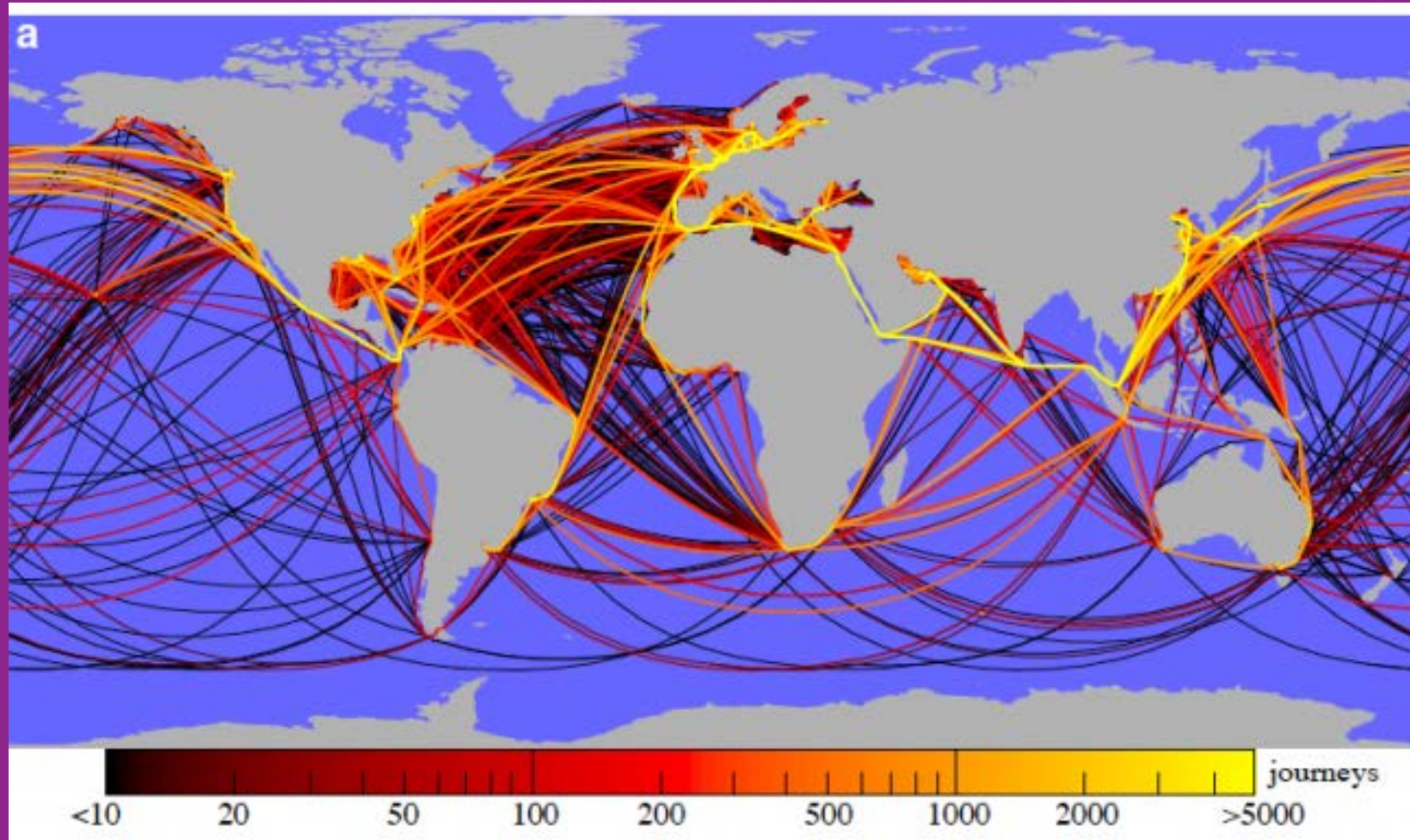
This unique position has ideally sited Malta for the establishment of a logistics hub where mother vessels heading from or to Asia can deposit the full load of goods destined for the European, North African and Middle Eastern markets and collect any cargo from these markets heading onwards to Asia, which would represent a significant time cost saving over the alternatives.

This incoming cargo could then either be cleared into the customs territory of the Union in Malta or be kept in a customs suspension regime prior to being transferred onto smaller feeder vessels for onward distribution to the destination markets.

Building on the island's rich maritime history and advanced infrastructure Malta remains not just relevant but the partner of choice in the global logistic chain.

Why Malta?

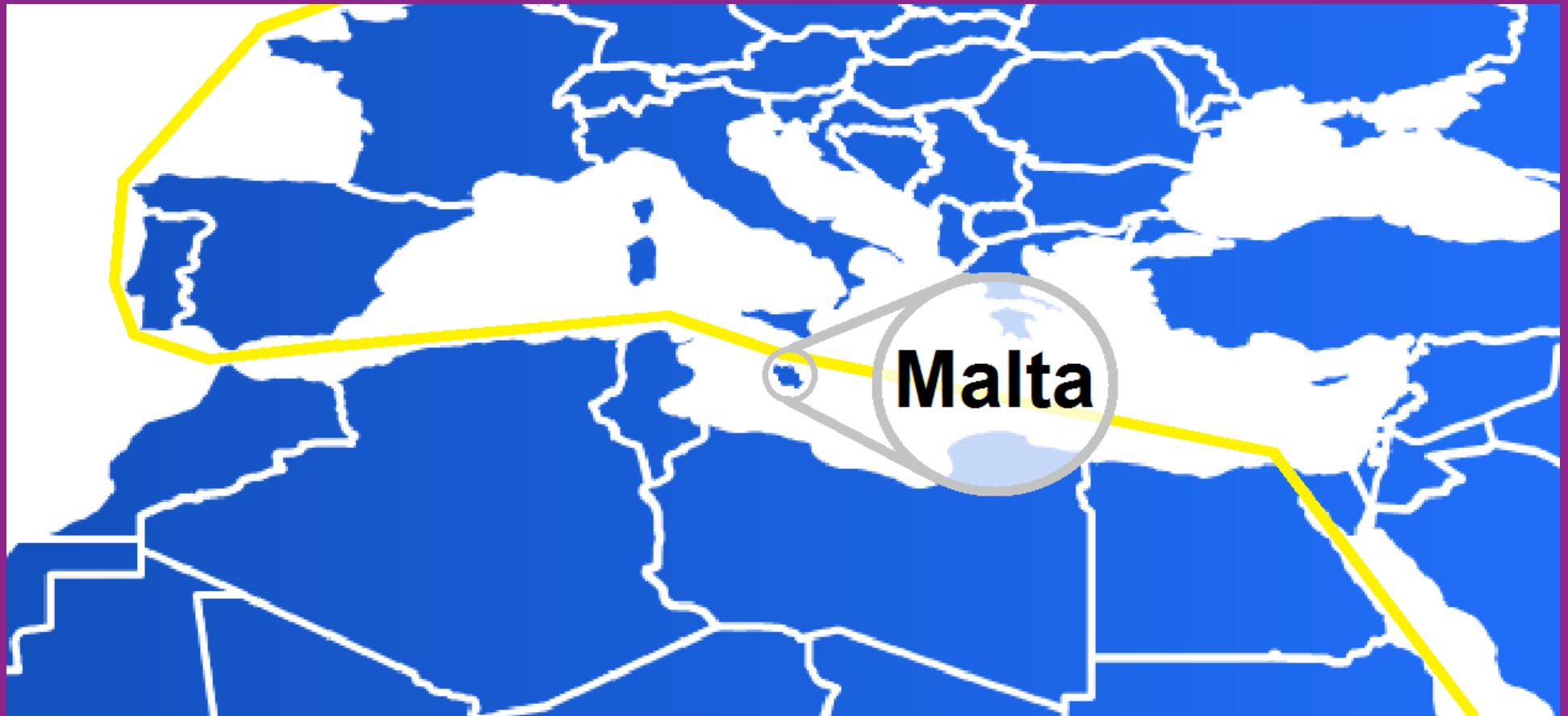
Location, Location, Location



*graphic compiled by the Carl von Ossietzky Universität in collaboration with the Lloyd's Register Fairplay

Why Malta?

The Natural Place to be!



Why Malta?

Location, Location, Location

Motorways of the Sea – Malta at the crossroads

Fitting in neatly with Malta's ambitions to expand its established business as the Mediterranean shipping hub, is the EU-proposed Motorways of the Sea concept.

The routes as proposed would place Malta between two of the proposed major European motorways, as well as bang on the busiest shipping route from Asia to Europe. Indeed it is a mere 6 nautical miles off the main Mediterranean sea-route between Gibraltar and the Suez Canal.



This unique geographic position coupled with Malta's long-standing maritime tradition of excellence, a tradition firmly embedded as Malta has the largest shipping registry in Europe, a flag of choice and quality, and the 10th busiest container terminal in Europe (in terms of TEU container traffic), positions Malta ideally as your company's gateway into Europe.

Why Malta?

Active Shipping Lines

ANL	Hanjin
APL	Hapag-Lloyd
Brintermed	Hatsu Marine
China Shipping Container Lines	HDS Line
CMA CGM Group	Hyundai Merchant Marine
CON	K Line
COSCO Container Lines	APM-Maersk
CSAV Norasia	Maruba Lines
Delmas	MCL
Deutsche-Afrika Linien (DAL)	Medex Container Services
EMES Line	Mediterranean Shipping Company
EuroMed	UFS
Evergreen	X-Press Container Line
Express Container Lines	Yang Ming
Hamburg Sud	ZIM

Why Malta?

Inbound Ports

Australia	Adelaide
	Fremantle
	Melbourne
	Sydney
China	Chiwan
	Dalian
	Hong Kong
	Nansha
	Ningbo
	Qingdao
	Shanghai
	Tianjin
	Xiamen
	Yantian
Djibouti	Djibouti
Egypt	Alexandria
	Damietta
	Port Said East
India	Madras
	Mundra
	Nhava Sheva

Iran	Bandar Abbas
Israel	Ashdod
Japan	Kobe
	Yokohama
Libya	Benghazi
	El Khoms
	Misurata
	Tripoli
Malaysia	Port Kelang
	Tanjung Pelepas
Morocco	Casablanca
	Tanger Med
Pakistan	Karachi
	Port Qasim
Romania	Costanza
Russia	Novorossyisk, Poti
Singapore	Singapore
South Korea	Kwangyang
	Pusan
Sri Lanka	Colombo
Syria	Lattakia

Thailand	Laem Chabang
Tunisia	Sfax
	Tunis
Turkey	Aliaga
	Ambarli
	Armaport
	Avcilar
	Gebze
	Gemlik
	Haydarpasa
	Istanbul
	Izmir
	Izmir Korfezi
USA	Mardas
	Mersin
	Trabzon
	New York
Vietnam	Norfolk
	Savannah
	Ho Chi Minh
	Vung Tau

Why Malta?

Outbound Ports

Albania	Durres
Algeria	Algiers
	Annaba
	Bejaia
	Ghazaouet
	Oran
	Skikda
Belgium	Antwerp
	Zeebrugge
Bulgaria	Varna
Croatia	Split
	Rijeka
	Ploce
Cyprus	Limassol
Egypt	Port Said East
	Damietta
	Alexandria,
France	Marseilles
	Fos
	Le Havre
	Dunkirk
Germany	Hamburg
Greece	Thessaloniki
	Piraeus
Holland	Rotterdam
Isreal	Ashdod

Italy	Ancona
	Cagliari
	Catania
	Civitavecchia
	Genoa
	Gioia Tauro
	La Spezia
	Leghorn
	Naples
	Palermo
	Pozzallo
	Ravenna
	Salerno
	Taranto
	Trieste
	Venice
Lebanon	Beirut
Libya	Tripoli
	Misurata
	El Khoms
	Benghazi
Morocco	Casablanca
	Tanger Med
Portugal	Lisbon
Romania	Costanza
Russia	Novorossyisk,
	Poti

Saudi Arabia	Jeddah
Slovenia	Koper
Spain	Valencia
	Barcelona
	Algeciras
Syria	Lattakia
Tunisia	Sfax
	Tunis
Turkey	Aliaga
	Ambarli
	Armaport
	Avcilar
	Gebze
	Gemlik
	Haydarpasa
	Istanbul
	Izmir
	Izmir Korfezi
	Mardas
	Mersin
	Trabzon
UAE	Jebel Ali
	Khor Fakkan
United Kingdom	Southampton
	Tilbury
Ukraine	Odessa
Yugoslavia	Bar

Why Malta?

Distribution / Trans-shipment Centre

The setting up of a distribution / trans-shipment centre in Malta would convey various benefits to the supply chain, regardless of whether such establishment is used to break bulk or carry out any further processing, clearing the goods into the EU or keeping them under a suspended customs regime, prior to being shipped via Malta's extensive feeder network throughout the Euro-Med region.

Rather than keeping the goods in a suspended customs regime which would necessitate customs clearance upon arrival in the feedered port of arrival, one could opt to clear the bulk cargo received in Malta through Maltese customs. Given that the major ports in Europe are operating at capacity and customs is typically a bottleneck, using Malta's ports and taking advantage of a speedy customs clearance regime (with no further customs clearance needed upon arrival in the trans-shipment port of arrival) presents an additional benefit to EU bound shipments.

EU origin may be obtained if sufficient processing / repackaging is performed in Malta, prior to onward trans-shipment.



It should be noted that if, in addition to the above, certain functions of the group were to be relocated to Malta, the group could then be able to benefit from the lowest effective tax rate in Europe on the profits allocated to this establishment up to a maximum of 6.25%.

Why Malta?

The Malta Freeport

Having been established in 1988, Malta Freeport was the first trans-shipment hub in the Mediterranean region. The Malta Freeport has experienced remarkable growth over the years and currently ranks twelfth among the top European ports and is the third largest trans-shipment and logistics centre in the Mediterranean region. Over 95% of the Freeport's container traffic is trans-shipment business and it was instrumental in initialising the great opportunities that the trans-shipment trade offers. Its success triggered a round of investments that have significantly added to the Mediterranean trans-shipment capacity.

Malta Freeport Terminals amalgamates the activities of container handling and industrial storage and is renowned for its business culture, the relative absence of red tape and its ability to adapt quickly to changing trade patterns.



*Information obtained from www.maltafreeport.com.mt



Medserv operates dedicated 24/7 logistical support bases for the oil and gas industry in the Mediterranean, offering end-to-end solutions expediently and safely. Medserv owns and operates a dedicated logistical support base from the Malta Freeport.

Services include:

- berthing and quay facilities
- bulk storage and handling
- provision of heavy lifts, plant and equipment
- purchasing and ship chandelling
- office space
- indoor and outdoor warehousing
- yard storage areas
- clearance and agency services
- bunkering and potable water

Medserv plc is listed on the Malta Stock Exchange.



Why Malta?

Who's here?

Volvo	Tamoil	Siegfried	Amino Chemicals	Arrow Generics
ST Microelectronics	BASF – The Chemical Company	BORTEX	Cardinal Health	AUROBINDO
Combino Pharm	Starpharma	Solea Pharma	LASSELBERGER	Crimsonwing
PSA Peugeot Citroen	Lufthansa Technik	Medichem	Van Marcke	Nissan

Why KPMG?

KPMG in Malta is a full-service firm providing audit, tax and advisory services. Established in 1969, we are one of the largest professional services firms in Malta today. With a balanced mix of international and local clients, our goal is to turn knowledge into value for the benefit of our clients, our people and the capital markets.

- KPMG has professional **resources across tax and advisory** with experience in design and implementing VCM projects for clients.
- We can improve the process of **identifying opportunities early** and deploying the best overall team to respond to the opportunity.
- KPMG has **prior experience** and specialists in VCM – including by industry.
- **Speed of Implementation** - KPMG has a methodology in place to help you achieve your specific business and tax objectives. We can leverage processes through our experience with these types of engagements.
- **Global Network** - KPMG has access to a well developed global network that helps our local teams provide fast turnaround when seeking local country views on tax and transfer pricing matters.



Mission Statement

We turn knowledge into value for the benefit of our clients, our people and the capital markets.

KPMG Malta

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