

# Budget 2010

## GRTU's Analysis and Reaction

Budget 2010 represents an important turning point. Vision 2015 clearly sets sign posts that are achievable and necessary for an economy that is rapidly evolving as an effective, integrated part of the European Union. GRTU has striven over these last years to promote an integrative non-antagonistic approach ensuring that all constituted bodies and trade unions give their share for a coherent, national, economic and social policy, while benefiting the most from EU assistance programmes. Enabling the Maltese economic infrastructure and all economic operators to fully benefit from competing effectively within the large single market, which is the European Union.

The economic downturn that has effected Malta as a result of the economic crises, which has effected most of the countries on which Malta's direct and indirect exports depend, has highlighted the urgency for Government to act to sustain employment and to encourage enterprise - small, medium and large - to restructure and meet the tougher competitive future that will result in the post recession period. GRTU has, through its numerous written proposals, presentations made to the Authorities and promotion on bodies like MEUSAC and MCESD, caused Government to sustain private initiative and enterprise.

Government's bureaucratic structure in Malta is still top heavy and too many state bureaucrats are poorly entrepreneurial educated to understand the situation of enterprise in a harsh competitive environment. During consultation stage and even prior to the publishing of the pre-budget document, GRTU has sought to consult its members and has stayed close to the authorities to ensure that Budget 2010 will not only support enterprise to meet the current problems but will also help them launch themselves more competitively to succeed and grow in the post recession period. We understood what a positive or a negative budget could signify to enterprise in these difficult times, following a year of slowdown.

GRTU presented the Minister for Finance a well thought and balanced set of proposals, highlighting the enormous difficulties small enterprises are facing everyday through the effects of the economic recession. GRTU is therefore satisfied that the philosophy behind Budget 2010, more than in any other previous Budgets, is in support of free enterprise and initiative and contains a substantial list of initiatives that promote creativity, innovation, restructuring and entrepreneurship.

We are pleased Government gave utmost consideration to most of the proposals and strategies recommended by GRTU in GRTU's pre-Budget proposals package. This Budget is also different because it has voted money in the areas our economy needed most such as creativity and innovation, education and training, alternative energy and promotion of new technologies among others.

## 1. Support to Enterprise small businesses and the self-employed

GRTU is satisfied that Government has voted a total of €80m for enterprise, and that the doors have now been opened to smaller and micro-enterprises in retail, sole-trading and crafts, to benefit also from new and extended funding schemes.

Amongst others Government has extended the 20millionforindustry scheme by allocating another 7 million euro:

International Competitiveness - €2M

Innovation - €3M

Research and Innovation - €1M

E-business - €1M

Government support is given through various assistance programmes and funding schemes for investment and renovation, funding for cash flow problems and capital investment, tax credits, support through the Government entities, the new fund for advantageous loans, and employment and training benefits.

GRTU also welcomes the 40% tax credit to those self-employed persons and enterprises who employ up to a maximum of 10 persons, and sole traders, who shall make an investment in the coming two years to:

- arrange their shop or facility
- invest in machinery, technology, apparatus or instruments
- investment in order to become compliant with health, safety, environment and physical access regulations
- create new jobs or recruit apprentices after the 10th November 2009
- increase the tax credit to 60 % for those who carry out these investments in Gozo

Government through this support is meeting many of the concerns submitted on behalf of SMEs. GRTU considers this to be an effective recognition of the important small and micro-enterprise contribution to the Maltese economy, representatives of the vast majority of the Maltese companies, employing more than 50% of the Maltese labour force.

GRTU has at European level and at national level strenuously worked for the introduction of an effective Small Business Act (SBA), and we are therefore satisfied Government is taking the plunge to integrate also in Malta the basic concepts and principles of the SBA. GRTU will be watching very closely to ensure the public sector in Malta adheres to the principles of the SBA and Government's commitment to implement the *only once* principle, which together with the *think small first* principle are so fundamental to relieve business owners from the enormous bureaucratic hurdles are of hindrance to them. GRTU also welcomes Government's plans to establish a one-stop-shop within Malta Enterprise.

## 2. COLA

GRTU understands Government's step of adjudicating to employees the weekly €5.82 cost of living allowance. Although it will obviously create an additional financial burden on employers we believe that this year's Budget has also introduced measures to balance this cost. In addition this increase will end up in the pockets of clients who can choose to spend this extra income within the small business. Indeed GRTU is satisfied that Government chose to also extend the full COLA increase to all pensioners. Malta's pensioners amount to a significant percentage of the population and form a very important part of the consuming public.

## 3. The Locality

GRTU as the national organisation with direct representation in every locality in Malta and Gozo is the leading national stakeholder promoting the economic sustainability of the economies of the localities. GRTU has consistently promoted and supported all schemes that encourage the creation and support of new employment in the localities and the promotion of economic activities that support the community in the localities. Budget 2010 takes on board a number of suggestions presented by GRTU that encourage the spread of tourism accommodation and the facilitating of back-office work in the local communities.

GRTU therefore welcomes Government's proposals to cause the diversion of work and the extension of tourism support schemes to the localities. We are also satisfied Government has taken on board GRTU's proposal to extend child care facilities within households in the localities and the creation of new job opportunities for female workers who are less willing to seek work in localities too distant from their area of residence. GRTU believes these are steps

in the right direction. In a small country like Malta it makes very little economic and environmental sense to move excessively large groups of people from one location to the other, when electronically it is today easier to move work to people rather than people to work.

#### **4. Employment and Training**

Our human resource is the only resource Malta has and which, as Government outlined, is unacceptable to waste. Government is addressing unemployment by making sure assistance goes to those who are really needy, increasing community work and introducing schemes that are not only advantageous to job-seekers, but also to employers. Training goes hand in hand with education, induction to our youths cannot stop at sixth form level. They must be trained with the skills required for the labour market, obtaining qualifications that make them suitable for a working life. This aid together with the tax credits and the micro-credit scheme will help smaller firms to renovate and increase employment.

GRTU therefore welcomes Government's initiative in Budget 2010 in support of training of workers and employment initiatives. We note with satisfaction the following schemes:

- New scheme Work Trial Scheme, which seeks to integrate unemployed persons in a workplace for a period of 12 weeks so that these persons are able to receive additional work experiences;
- Provide a trial scheme to give work experience to the unemployed and to those wanting to enter the labour market;
- Help with the payment of childcare to mothers who want to join training programs;
- Provide personal assistance to disabled persons on the workplace;
- Assist those who upgrade their workplaces in order to employ severely disabled persons;
- Extend the work scheme in the Community for those who are registered unemployed;
- Launch a campaign to explain the benefits of declared work;

- Program of full-time training for those youths who are not working or being trained or in post-secondary education;

## **5. Taxation**

GRTU welcomes also Government's fiscal initiatives in Budget 2010 and the proposal to unify the Tax Authorities: Income tax, social contribution and customs. GRTU now expects to see a visible reduction in the bureaucracy that still over-burdens the administration of taxation systems in Malta.

Small enterprise owners spend too much money, time and effort to meet all their tax obligations and it is high time that Government receives its due at a lower cost and the least possible burden to tax payers. GRTU is particularly happy that Government has accepted GRTU's proposal for a Tax-Payer's Charter since it is high time that tax-payers are treated with the respect they deserve as the major source of financing for the whole Government bureaucracy. GRTU also happily welcomes its recommendation to remove the silly levy on credit cards, resulting in the reduction of €16.31 annually for every user.

GRTU however also expects Government to finally implement the promises made in previous budgets, to eliminate the necessity for micro-firms to submit detailed audited accounts. The European Commission has now approved this recommendation and the Maltese tax authorities are now urged to give small business owners their right, now enjoyed by other small businesses in the rest of the European Union.

## **6. Competition and Price Stability**

GRTU welcomes the new initiative to reform and upgrade the Office for Fair Trading (OFT) as we have ourselves proposed that it would be totally separate from the consumer division and autonomous from Government. The role of the OFT should be to identify and resolve unfair competition and competition hindrance, and also identify the costs and structures that are unnecessary burdening enterprise, thus resulting in unacceptable additional costs to consumers. It is the role of OFT to strive to eliminate these unacceptable burdens.

Unfortunately over the last years the OFT and the Consumer protection department have turned themselves into nothing more than an excessive and unnecessary bureaucratic burden

to free enterprise, with little or no effect on the competitive structure of the Maltese market and the prices reaching the consumers. Hardly has the Maltese economy ever witnessed so much waste of Public monies for achieving so little.

Statistically there is no evidence whatsoever that the level of prices in Malta is effected in any way by trading cartels or the illicit practices of traders and retailers, yet the main efforts of the OFT and Consumer protection in Malta is in the useless accumulation of figures acquired and the extremely costly price watch and price collection exercises, which in practically all instances have led to no effect on the general level of prices in Malta.

The OFT and Consumer protection department has not effected in any way the rate of inflation in Malta except for few marginal cases. The consumers in general have not benefited at all except for the greater awareness of consumer right, promoted by the department of Consumer protection. It is therefore a waste of public money, verging on irresponsibility. It is therefore unacceptable that more money is spent on monitoring of prices at retail level. Why spend more on proposing solutions to a problem that does not exist. The problem in Malta as elsewhere is the insufficiency of consumer and retailer education, and GRTU strongly insists on Government not to waste more monies in any outdated models of consumer agencies and instead spend Government finance in practical consumer and retailer education.

GRTU strongly advises that the OFT spends its time and energy in identifying the bottle-necks that hinder the competitive structure of markets in Malta including the ports, the distribution network and the abuse of monopolies rather than the futile effort of pestering retailers and traders. GRTU objects and will resist all efforts to have the OFT or Consumer protection indulge in the re-introduction of price controls, under the euphemistic phrase used in Budget 2010 of "Mandatory Price Impositions". It is the prime role of Government to seek consensus from the social partners and avoid confrontation. GRTU will not accept any form of mandatory price impositions.

## **7. Health sector**

GRTU is satisfied Government has accepted the commercial sector pressure and voted more money to curtail to the unacceptable late payment to medicine suppliers. The vote of €1M and the decisions to limit the payment period to 120 days is therefore welcome as is Government's decision to add vote by almost another million Euro to the extension of the Pharmacy of Your Choice Scheme. Despite criticism, people who used to queue to pick up

their medicines are now going to their private pharmacy. There is no comparison in the service. GRTU will continue to strive so that the POYC is extended to the whole of Malta in the shortest possible period.

GRTU also welcomes Government's increased financing of health facilities and the increased investment in education. Total expenditure of 1.3M being invested in health, education and social services make Budget 2010 not only economically acceptable but also socially just.

## **8. Environment**

GRTU has a particular interest in the environment and has with a strong Corporate Social Responsibility (CSR) move launched Green MT, which is a corporate initiative that represents the joint corporate business community initiative, causing Maltese business owner to carry their waste management compliance responsibilities. GRTU has been the prime mover to cause Government to transfer more of its waste management responsibility to private initiative and therefore welcomes Government's long delayed decisions to introduce exemptions from the eco-contribution to all businessmen participating in waste management compliance schemes.

GRTU however regrets that Government its still dragging its proverbial feet and moving dangerously slow in bringing the necessary reform. GRTU is particularly angered at the hefty charges being imposed on members participating in schemes, promoted as not-for profit ventures, developed by the business community as is the case of Green MT. The charge being proposed by Government of €1000 every 6 months, for every enterprise participating in privately run not-for-profit waste management compliance schemes, is not only excessive but is sheer irresponsibility. The business community is accepting voluntarily to share Government's burden to carry the EU Waste Management Directives framework and it deserves support and encouragement and should not be made to pay for Government's bureaucratic structure and inefficiencies over and above the €4M annually that business and consumers are paying to Gov in the form of eco-contribution.

GRTU continues to support and welcomes Government's initiatives in support of the environment and has consistently acted enthusiastically to ensure Government's environment initiatives succeed but regrets that the state bureaucracy is not embracing the private sector CSR initiatives.

## **9. Registration Tax on Commercial Vehicles**

GRTU welcomes Government's initiative to release the importation of commercial vehicles of minimum Eur IV and Eur V standard from the car registration tax and the reduction on the road licences for Eur IV and V commercial vehicles.

GRTU however strongly objects to the imposition of the new hefty registration fees on Eur II and III vehicles in stock, for sale or already in Malta, as car dealers with these vehicles on the market will not be able to sustain their operations feasibly. GRTU also objects to the introduction of increased road licenses on the enormous fleet of trucks and other commercial vehicles that do not subscribe to Eur IV standards.

GRTU looks forward, on behalf of all the self-employed operators, to a more practical and positive way to encourage the transformation of the enormously large volume of transport gear in use in Malta today, to more acceptable low emission standards, through agreed fiscal and financial assistance programs that will not break the back of many sole-traders and small business entrepreneurs. GRTU strongly urges Government not to implement any changes in this sector without agreement with GRTU as Malta's largest representatives in the sector.

## **10. Construction and Development**

GRTU has consistently supported Government's efforts to reform MEPA and as the national representative of property developers, the largest concentration of commercial users of MEPA and owner managed enterprises in the sector. GRTU has presented comprehensive proposals to Government to enable the stream lining of MEPA operations. While GRTU is happy that Government has accepted its recommendation to extend the 5 year option period on property transfer final withholding tax of 12% to 7 years, an extra two years. GRTU is not satisfied that our full package of recommendations in support to the construction industry has been put aside by the Ministry of Finance.

GRTU strongly believes that MEPA is too big and over-powering for a country the size of Malta, and the bureaucracy too costly in relation to what MEPA does effectively achieve. It is therefore inconceivable and unacceptable to GRTU that the financial burden of running an institution as excessively large and costly as MEPA is now being thrown completely on the back of developers. GRTU is saddened at the attitude of Government towards developers. They are investors who invest heavily in Malta and collectively are responsible of the work generated for 12,000 workers in various sectors connected to the construction industry. It is

through their efforts that the community is provided steadily with new housing, commercial, leisure and other facilities that provide for a better quality of life for all.

GRTU understands that there is a community and environmental price for development and GRTU has been on the forefront to ensure that estate development balance correctly environmental requirements. This is not necessarily attained though an ever-growing MEPA and an expense to developers. The decision of Government to load MEPA permits with all the expense of the cost of running MEPA is not acceptable. There is no acceptable reason for GRTU to support Government's decision to practically double all charges on permits. We urge Government to review this hasty decisions.

### **11. Public Transport**

GRTU supports Government's initiatives to reform the public transport service, however we urge Government to widen much further the public debate on this issue so that whatever design of the reform finally emerges, it is genuinely acceptable to people's needs and requirements, and not just to the fantasy of the Ministry's experts.

As representatives of the self-employed community in Malta, GRTU urges Government to ensure a settlement is reached with private bus owners in Malta and Gozo who's livelihood is being forsaken as a result of the introduction of Government's transport reform. Bus owners in Malta and Gozo form a substantial section of the self-employed community and an early favourable settlement will go a long way to ease the pain this community is suffering as a result of the needed reform.

### **12. Tourism**

GRTU is pleased with the budget allocated to tourism, given the fact that the country is facing challenging and uncertain times. We are pleased that new routes will soon be announced which will hopefully attract a great deal of first time visitors to Malta.

While the €1M will be given to the MTA for advertising, marketing, safeguarding cultural heritage purposes and increasing facilities within sporting organisations, the funds will hopefully create a new niche in the tourism market. It is also good to see that the MTA will try to attract new visitors from the Middle East, as we have often felt that the potentiality is there.

The fact that a lot of attention was given to Gozo shows how marketable the island can be and proves that it has a lot to offer in enhancing tourism within the Maltese islands. Although the government could have perhaps allocated more funds to tourism, considering the present economic situation, its efforts are to be commended.

### **13. Utility Tariffs**

GRTU understands Government's preoccupation to find the necessary funds for the upgrading of electricity generation in Malta and for the financing of fuel purchases, given the persistent increase in the international prices for fuel. GRTU also appreciates Government's decision to allow the public regulator to counteract to Enemalta's pricing proposals. We acknowledge Government's efforts to support households in their electricity consumption costs and the search by households and businesses for alternative energy sources. All schemes in support of alternative energy usage are welcome.

GRTU however does not understand why Government fails to accept the excessively increasing burden that enterprises with a high electricity content are made to carry every time electricity tariffs are increased. These enterprises should in many instances enjoy a differentiated lower tariff especially during the silent hours. Supermarkets, food stores, medical stores and pharmacies especially suffer up to 25% of their electricity cost during the silent hours. These extra charges are most times transmitted to the consumer within the product price, thus making consumers carry a double burden of direct electricity tariff increases and also increases in cost of products and service as a result of electricity tariffs.

GRTU would have expected that this time round Government would not have imposed a new wave of electricity tariffs increases but introduces new structures that better reflect usage in Malta. GRTU recommends that before they are imposed a more reasonable structure is introduced and new support schemes and initiatives are implemented.

## **Conclusion**

It is correct for Government to use one Budget after another to further its commitment to its Vision 2015 targets and not to deviate substantially as a result of the economic slow-down. GRTU is particularly satisfied that Government is not swallowing the bait of many who had advised an extension of national debt through the widening of the national financial deficit.

GRTU strongly believes that the economy can, with the right incentives, meet the recession challenge and be able to renovate and restructure and re-invest in new creativity and projects without the need to indulge in fancy financing as represented by an expansion of Budget deficits and public debt.