



## **MALTA EMPLOYERS' ASSOCIATION**

### **Proposal – An Energy Pact for Malta**

#### **1. Situation Analysis**

One of the items that is occupying a central point in social dialogue in recent years is energy. The fluctuations in the price of oil and its impact on energy prices are a cause of concern among the social partners. Unions argue about the effect of higher utility rates on consumer purchasing power, and the business community has been stressing that higher energy costs are eroding competitiveness and threatening economic growth and employment. The inflationary impact of these costs can also lead to a prolonged recession as employers are being affected both by the increase in cost of water and electricity as well as the additional COLA increases resulting from movements in the RPI.

Another issue is the distribution of the burden of higher energy prices. Statistics reveal that consumer tariffs rank 17<sup>th</sup> place in the EU, whereas commercial tariffs in Malta are among the highest in the EU and Asia. This reveals a dangerous imbalance whereby the country's major political forces, the unions and most of civil society are shifting the burden of energy cost on business to preserve consumer purchasing power. In the last budgets, Government has bowed to political and union pressure to subsidise tariffs to consumers with funds that could have been used to soften the impact of the COLA increase for 2010 on employers, or other measures to stimulate the economy. There is a clear one-sidedness in the social dialogue process which

is making the business community feel marginalised as short-term political considerations are taking precedence on fundamental economic priorities at the risk of higher unemployment, slow economic growth and an unsustainable fiscal situation.

The current situation is such that, in the absence of a set system of price determination, MCESD is having to meet every year to tackle this thorny issue. The resulting tug of war between the social partners is having an adverse affect on social dialogue in general, creating mistrust among the social partners and also within their respective camps.

The uncertainty and tension which is created by the energy issue is also over spilling into other areas of social dialogue. For example, many companies are finding it impossible to commit themselves to collective bargaining during times when the ground beneath their feet keeps shifting. This is definitely a situation which MCESD should address.

## **2. Objectives**

Regretfully, MCESD is being drawn into fruitless debates about the computations of the tariffs, purchasing of oil and other technical matters that are not within its remit to discuss. This is creating pressure on its members who clearly do not – nor are they expected to have – the necessary expertise to give a knowledgeable input on such highly specialised matters which are best left to professionals. It is unfair to expect MCESD to dictate to government when or whether to hedge, or at which price to lock the purchasing of oil for the coming year. On the other hand, it is also presumptuous of its members if they imagine that they are in a position to impose on Government to take such advice, particularly if no consensus is reached by the social partners.

The MCESD has to shift its involvement in the matter of energy prices away from technical aspects towards suggesting a way forward based on the following principles:

- Price stability
- Transparency
- Optimal distribution of burden
- Competitiveness
- Social justice
- Strategy

### **3. An Energy Pact**

On the basis of these principles, MEA is proposing the setting up of a tripartite committee of technical experts – two from Government, two from Unions and two from Employer organisations to draw up an Energy Pact for the years 2011 – 2015. A chairperson will be also appointed to organise and supervise the meetings. The committee shall have access to the MRA (or, alternatively, MRA can be represented in the group) for advise on technical matters.

The first task of the committee will be the design and establishment of short term measures to cushion adverse effects of the current tariffs.

The scope of the Energy Pact will be to design a model that will determine how energy prices will be determined for the duration of the pact. The model will be designed to take into account the following factors:

1. Price of oil
2. Level of Consumption
3. Inefficiencies at Enemalta
4. The link to the European Grid
5. Alternative energy
6. Benchmarking of rates with those of major competitors

### **4. The Model**

#### **4.1 The Price of Oil**

The most essential variable in the model will be the price of oil, which is an exogenous variable and has to be factored in the equation. The model will therefore establish how different bands in the purchase price of oil (not market rates) will translate into utility tariffs.

#### **4.2 Level of Consumption**

The model will also factor in a relationship between consumption and prices. For example: Will a further increase of 5% in consumption have an effect on tariffs? If yes, by how much? Is the relationship, if there is one, linear or not?

#### **4.3 Inefficiencies at Enemalta**

The report should also establish the magnitude of inefficiencies at Enemalta, and the effect on tariffs of such inefficiencies needs to be quantified. There should be proposals for the reduction of inefficiencies with realistic targets and the impact of efficiency improvements, if any, on tariff calculation.

The committee should be privy to the working of the working used by Enemalta to determine the tariffs, including the inclusion of capital expenditure on both the existing and projected power station. Ideally one of the government nominees on the committee should be a technical person from Enemalta.

#### **4.4 Link to the European Grid**

Regretfully, the politicisation of the tariffs has delayed a decision about the link to the European Grid which has resulted in missed opportunities. Now that the decision has been taken to link to the grid in 2012, the model should provide projections on the impact of this link at different world oil price levels.

Tender issues that may delay the link to the grid need to be solved immediately to reach the 2012 target.

#### **4.5 Alternative Energy**

The model should also establish the relationship between the introduction/further adoption of alternative energy measures and utility rates.

For example:

- the relationship between a marginal square kilometre of photovoltaic panelling, consumption and electricity rates.
- The impact on consumption and rates of further diffusion of solar water heaters.
- Establishing adequate feed in tariffs to incentivise photovoltaic panels.

It will be incorporated in a more holistic and long term energy strategy for Malta.

#### **4.6 Benchmarking**

The Energy Pact should also include a benchmarking exercise with fiscal provisions that ensure that commercial rates in Malta are not higher than those in its major competing countries. Such safeguards will protect competitiveness and employment.

### **5. Time scale**

If this course of action is agreed to, the committee could be set up by the middle of February. The social partners should ensure that people on this committee are technically qualified to measure up to the tasks involved, and to give an objective input.

It will be commissioned to prepare a report by September 2010. Once the report is approved by MCESD, it will be and submitted to Government for consideration and implementation.

The committee will also be commissioned to deliver recommendations for short term intervention to address the immediate impact of the tariffs by May 2010.

Throughout the period during which the report is being prepared, committee members would be in a position to report to their respective camps on progress made and to refer to them on any issues that arise.

## **6. Conclusion**

The Energy Pact is a real challenge to social dialogue in Malta, and, if finalised, will be proof that social partners can face national challenges together, and that MCESD is indeed a forum of constructive debate that offers national solutions. It will also serve as a basis of more mature and informed sessions at MCESD when the topic is discussed. The Pact will enable the social partners have a better understanding of the workings of the tariffs. The model can also offer safeguards to maintain competitiveness and the resulting stability will benefit both businesses and consumers.