

## **The MEA Position Paper on the introduction of the Eco Tax**

The following is the official reaction and recommendations by the Malta Employers' Association to the introduction of the eco tax being proposed by Government.

### **1. The Global Compact**

Employers are in favour of safeguarding the environment – it is a part of corporate social responsibility. There is no question that political parties have generally paid only lip service to environmental issues, and it is about time that tangible measures are introduced to safeguard the natural environment.

The MEA is among hundreds of employer organisations worldwide that are signatories of The Global Compact - a United Nations initiative that sets principles for corporate social responsibility in the fields of human rights, labour standards and the environment.

With respect to the environment, the principles of the Global Compact state that businesses should support a precautionary approach to environmental challenges, that they should undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies.

The MEA fully endorses these principles.

### **2. Mandate to Tax**

The MEA also acknowledges that the Government has a mandate to introduce taxes, unpopular as these may be. Its stand is not to prevent the government from introducing taxes at all costs, but to make its views known on the possible impact on investment, employment and competitiveness of such taxes.

### **3. The Environment and Expenditure**

There is no point in stating that the environment is a priority as long as safeguarding it does not involve an expense. All environmental measures involve an expense, although one should also look into the possibilities of business and employment opportunities in terms of recycling and environmentally friendly projects. Government can seek private public partnerships to operate such projects in a profitable manner and these in themselves can generate revenue that can be spent on the environment. It is also an economic fact of life that businesses will try to shift the burden of any added costs, whether government induced or not, on the consumer, subject to market forces.

#### **4. Mechanics**

The mechanics of the tax need to be clarified and discussed with the major stakeholders for easier implementation and compliance. All efforts should be made to reduce the negative economic impact of such a measure. Many producers and importers still have no clear indication of the implications of this tax on their administration, and on their costs. An information campaign is required for employers to really understand what the eco tax is really about.

#### **5. Credibility**

Government has no coherent environmental policy. It is a fact that Malta's natural environment has been neglected for years, and the government needs to build its credibility to convince employers that the eco contribution is really about the environment, and not simply a book-keeping exercise to reduce the fiscal deficit. Both major political parties have been weak in introducing and enforcing environmental friendly policies. The hunting issue and the illegal boathouses are classic cases where the environment has been used as a partisan chess piece, rather than a fundamental principle on which national policies should be based. Even the closure of the Maghtab site has become ridiculously politicised. Employers cannot be blamed for questioning the objectives of this measure.

#### **6. Positive Eco Measures**

It should also be noted that in many countries where similar taxes are in force, there are also fiscal incentives for companies that use environmentally friendly technologies in their production and service processes. The introduction of such incentives should be actively considered.

#### **7. Guarantee**

Government should provide a detailed account as to how the figure of LM4 to be collected from the eco contribution has been arrived at. It should guarantee that any such revenue will actually be spent on improving the natural environment.

#### **8. A Procedural Approach**

The introduction of the eco tax should be part of a more holistic exercise to address the national economic situation. Employers and unions need to be informed and consulted about any measures that will affect competitiveness and standard of living. The MCESD is the proper forum where such measures may be discussed. The consultation process has been disappointing on this and other issues. Government cannot expect the support and understanding of the other social partners if the MCESD does not live up to its potential as being a dynamic forum for discussion and consultation, rather than a dumping ground for fait accompli. Definitely, a clear definition of a procedural approach is called for.

On the other hand, the MCESD cannot be a debating society that slows the administrative machinery of the country through needless procrastination, as has admittedly been the case on too many occasions.

## **9. Quid Pro Quo**

If the government is really serious when it states that the objective of the eco contribution is not as a revenue raising exercise, than it can prove this by introducing reforms that will counter any increase in costs to business arising from the tax. For example, it can commit itself to implement the necessary port charges reforms. In this manner any increase in costs because of the tax will be compensated by other measures, and thus safeguard competitiveness.

## **10. Cost Benefit Exercise**

There is a need for a cost benefit exercise to determine the full impact of such a tax – the effect of a better environment on tourism revenues, and the general quality of life as against the cost paid by the business community and the consumer.

## **11. A Holistic Approach: Give us a Sign**

MEA believes that the eco tax should not be discussed in isolation. A broader, more comprehensive approach is required. In its document: ‘Generating Productive Employment – A National Priority’, the Association made it clear that a major reason why government does not have funds to address the country’s priorities, of which the environment is certainly one, is because of an inefficient and overburdened public sector that is a drain on its resources. Government should follow on the recommendations of Gordon Brown, the British Minister of Finance and seriously plan to downsize the public sector to improve its finances and free resources to more productive uses. This would be a more effective way to allocate resources to safeguard the environment and would improve government’s credibility even if it resorts to introduce an eco contribution.

## **12. Conclusion -Give Us a Break**

Government needs to understand the position that many employers find themselves in – too much is happening at short notice. In the past two years there have been the changes in industrial legislation, introduction of occupational health and safety measures, data protection measures and a whole plethora of other regulations that make it difficult to keep up with what is happening in the business environment.

Employers are not afraid to face marketing challenges. Their worst threat is the bureaucratic impact that these measures, collectively, are having on the running of their businesses. Government, and the attitude taken by its authorities in general, is not perceived to be helping business, but to create measures that hinder it. It is also a bad time to introduce additional costs, given the state of the economy. Many producers have had to absorb the increase in VAT themselves because of weak demand. They might have to do the same with the eco contribution.

There is also the imminent reform in the pension and health systems that are also creating a sense of uncertainty.

Government must acknowledge that these measures, collectively, are acting as a deterrent to generating productive employment. Once again, the MEA stresses that it is only by generating employment in the private sector that the economy will find its feet to meet the challenges that lie ahead. Otherwise the economy will shrink, and the only way for government to raise revenue will be to cannibalise the country's resources. The trend of dismal, even negative, real GDP growth must be reversed. Only by allowing employers breathing space can this materialise.