



MALTA EMPLOYERS' ASSOCIATION

Living with increases in Energy Prices

**Discussion Document submitted by the Malta
Employers' Association to the MCESD**

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The purpose of this document is to provoke discussion among the social partners about the rising cost of fuel and its impact on Maltese society. The contents of the document also revolve around the recent increase in fuel surcharge and contains a series of proposals which the Malta Employers Association is putting on the table for constructive debate.

The objectives of these proposals are to analyse and revise the current system of tariffs and surcharge with a view to:

- minimize the potential inflationary effects of the increase in energy prices
- promote sensible consumption of energy
- have the least effect on aggregate demand and employment levels
- contain pressures to increase labour costs beyond productivity levels
- encourage the diffusion of photovoltaic technology and other alternative energy sources
- distribute the burden of increased costs or energy based on the principle of social justice

The above objectives call for a strategy that looks not just into the nature and composition of the pricing system of energy, but one that must be synchronized with other aspects of economic management.

1. Income Tax Rates

In its pre-electoral manifesto, the government included a proposal to revise the current income tax rates, by setting the maximum tax rate at 25% for income less than €60k. This measure should be implemented in the next budget as it would balance out any reduction in purchasing power resulting from increased electricity rates. Although there are a number of families who may not gain from this measure, there are 30,000 low income households that are already exempt from the surcharge.

The decrease in income tax rates must be fine tuned to ensure that the benefits also reach those whose income may not exempt them from the surcharge, but is still not high enough to benefit sufficiently from the reduced tax rates.

There is always the danger that the reduced income tax rates will result in lower revenues, and increase the fiscal deficit. However, one must take into consideration that:

- The tax reductions were a pre-electoral proposal which was costed and said to be affordable
- The probable scenario of suffering lower tax revenues due to the effect of lower aggregate demand is a worse alternative, since it also carries with it the threat of rising unemployment.

2. Exemptions from Surcharge

The number of exempted families from the surcharge should not be increased. Exemptions encourage wasteful consumption, tax evasion and also disincentivise a large number of families from installing energy saving appliances.

3. Retain Capping Mechanism to large Enterprises

The current system of capping utility charges to large enterprises should be maintained. The capping safeguards thousands of jobs both in large enterprises and also indirectly in smaller enterprises whose business may depend, directly and indirectly on the survival and growth of the larger enterprises.

However, consideration should be given to introducing a proviso whereby a stated percentage of savings from the capped tariffs should be invested in alternative energy sources, from which the companies themselves will benefit.

4. Green Jobs

Government should set up a task force to redeploy redundant employees from the shipyards into manufacture, assembly and installation of photovoltaic units. This can be an ideal opportunity for a private public partnership project, and will be instrumental in disseminating energy saving devices – i.e. solar water heaters and photovoltaic units - across Malta. The cost benefit analysis of this exercise should consider the savings made on energy consumption and the opportunity cost of having these employees either retiring or live off welfare benefits.

Government should also give special incentives for entrepreneurs seeking to invest in research, marketing and production of photovoltaic technology. This is an area that can generate hundreds of productive jobs on the island.

5. Wage Moderation

Social partners should not give in to the pressure to impose additional labour costs to make up for the erosion in disposable income because of higher water and electricity bills. This could result in a devastating stagflationary effect as employers will be squeezed between higher energy costs, higher labour costs and a potential fall in aggregate demand.

The COLA mechanism should be respected (even though employers maintain that, in principle, it is a flawed means of increasing wages) and government should, at all cost, avoid a repetition of enhancing the COLA with an additional expense to employers. As things stand, some enterprises will still find it difficult to absorb the COLA increase.

6. Revision of surcharge system

The initial idea behind the surcharge system was based on the hope that the sudden increase in fuel cost was a temporary phenomenon. This perception has now changed and the reality is that we have to live with high fuel prices in the foreseeable future.

It is proposed to revise the surcharge system in a manner that reflects the new reality. It is being proposed to:

- i. Translate part of the surcharge into the tariff system, subject to the exemptions to large enterprises and families on low income.
- ii. The remaining equivalent should be turned into a charge on the electricity metre. This charge will, however, be waived – either permanently or for a specified number of years - if the household has or installs a solar water and/or photovoltaic system. This measure will incentivise consumers to switch to energy saving technology and will reduce the payback period of the expense incurred. Lower income families may still benefit from this policy because of lower electricity bills.

7. Enhance existing incentives for the diffusion for photovoltaic technology

Besides the electricity meter incentive mentioned in point 6, the rebate on excess energy that is generated by photovoltaic units into the main grid should be increased to reduce the payback period, which currently stands at around 15 years. The subsidies on such units should be increased – it is better to subsidise energy saving equipment than fuel consumption.

8. The Distribution Sector

One of the sectors which is the worst hit by the increase in the price of fuels, and which can be inflationary, is the distributive sector. Government should introduce heavy incentives for the introduction of electric vehicles in this sector.

Government had proposed to install stations in various localities in Malta and Gozo where electric cars could be charged, these where to be supplied by solar energy. Given the present day scenario we strongly believe that these should be installed, helping to lower Carbon Dioxide emissions by promoting the use of electric vehicles.

9. Public Transport

Government must organize the public transport system to ensure that this meets the demands of present day users. A study should be undertaken with the intension of increasing the efficiency of the system and also to look into the possibility of an underground network thereby reducing the use of private vehicles for day to day transport. This would not only reduce the country's fuel consumption but also help in addressing the problem of Carbon Dioxide emissions.

10. Cheaper Energy

The study of tapping cheaper energy sources from neighbouring countries such as Libya for gas and nuclear power energy (Libya has just signed an agreement with France to install a nuclear power station) should be undertaken with the scope of providing cheaper energy for our citizens.

Moreover one should also consider a collaboration with Sicily, in a joint partnership with Italy, to invest in a nuclear power station in Sicily to provide electricity for Sicily and Malta. Having a nuclear power station in Malta does not make sense but it will be more feasible to have one in Sicily.

11. Conclusion

The points included in this document are forwarded for further study, and to be given more flesh by the necessary quantifications. One thing that needs no quantification, however, is that there is no point in raising people's expectations. The global reality is that high energy prices are here to stay in the foreseeable future – they will probably get worse, and everyone will have to live with this state of affairs. In this respect, Malta is no different than other non-oil producing countries. Although switching to cleaner energy may incur a cost, it also enhances product Malta, since a cleaner environment can become one of our selling points.