

Proposals and Recommendations
for a
**Competitiveness-Focused
Annual Budget Document**

- 2018 -

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1. Introduction

In the run-up to Budget 2018, the Malta Chamber of Commerce, Enterprise and Industry feels duty bound to submit its proposals for a Budget that furthers the country's competitiveness and secures sustainable long-term growth built on the results of present economic success.

Following a widespread consultation process with its membership, the Chamber, as the country's foremost organisation representing the private sector in the interest of safeguarding and enhancing Malta's competitiveness, believes that the overall objectives of the government's Budget for 2018 should be:

- 1. To exploit the current positive standing of public finances to rectify structural issues that threaten long-term fiscal sustainability;**
- 2. To further enhance the factors that contribute to Malta's competitiveness with emphasis on overcoming the severe labour shortages and modernising ageing infrastructure through sustainable long-term planning.**

With these objectives in mind, the Chamber enters this year's pre-Budget consultation process with a clear call for continued improvements on the achievements of recent years with an aim to overcome structural issues that threaten future sustainability. Overcoming these ingrained issues is the key to future proof the country and successfully endure eventual periods of downturn. The sizeable mandate achieved by the present administration, coupled with the economic performances of recent years, result in an unrivalled opportunity for this legislature to seriously tackle issues that continue to pose a risk to the country's long-term sustainability.

Tackling issues such as the unsustainable public pensions system, the high rate of early school leavers, the significant number of NEETs¹, uncompetitive energy rates for industry, ageing infrastructure and lack of long-term planning will provide the much-needed breakthrough for the country to rightly deserve the status of a modern, progressive, innovative and vibrant economy.

In the run up to the Budget, the Malta Chamber expects the government not to spring any surprises by implementing new and excessive burdens on the business community. In order to avoid situations similar to previous years, the Malta Chamber expects that lessons have been learnt and prior consultation with all impacted or interested parties is carried out, proper implementation plans are drafted and tested, and policies have the necessary legislative backing.

¹People not in education, employment or training.

This year, besides its customary short-term-focused budget proposals, the Chamber also felt the need to share its vision for Malta in the long-term based on recent rapid developments in all aspects. The latter document is included under Annex 1.

1.1 - Economic Performance and Outlook

Malta's GDP was one of the highest growing in the EU during 2014 – 2015. It moderated to 4% in 2016, and is forecasted to be 4.6% in 2017 and 4.4% in 2018.

Such forecasts for 2017 and 2018 are based on assumptions that the labour market conditions will remain favourable, resulting in a continued upward trend in private consumption. Even with a gradual increase in public investment, which is strengthened by residential construction, the gross fixed capital formation is expected to remain modest. While goods exports remain subdued, the expansion of service exports will see total exports continue to grow. Service exports are boosted by the government's citizenship programme that has resulted in a current account surplus and is projected to continue to increase moderately.

The potential output growth is projected to average 4% for the period 2017 to 2021 which is above the pre-2008 financial crisis average. This will be mainly due to gains in overall total factor productivity and substantial contributions from capital accumulation, though there have been notable decreases, particularly in manufacturing elements. However, these factors are projected to offset a moderation in growth of labour market participation.

During 2016, the government balance increased to a surplus of 1% of GDP, from a deficit of 1.3% the previous year. As a result of strong revenue growth, this surplus is expected to remain. However, it is expected to decline to 0.5% of GDP in 2017.

In 2018, the budget surplus is again expected to improve further to 0.8% of GDP, assuming that there will be no policy changes. During 2016, the government debt-to-GDP ratio fell below the 60% threshold, and is forecasted to decline further, reaching 52.5% in 2018.

The Harmonised Index of Consumer Prices (HICP) in Malta has been higher than in neighbouring countries, and is projected to gradually increase in line with rising international commodity prices and growing domestic incomes.

The main cause behind the HICP inflation in 2017 is expected to be the rebound in fuel prices. A further rebound, along with an increased price growth in services, is projected to further push up inflation in 2018. The HICP inflation is forecasted to remain below 2%, rising above the euro-area average in 2018.

So far during 2017, price pressures have remained moderate, with the annual rate of inflation based on the HICP falling to 1% in June.

In August 2017, Fitch upgraded Malta's rating from an A to an A+, while the ratings of S&P and Moody's remained the same, showing stable ratings of A- and A3, respectively. Malta is believed to be in a strong position by all of the agencies, and the growth forecasts for the country of both S&P and Moody's continue to increase.

This scenario, though generally positive, does not allow any room for complacency as the slightest slip-up will have grave effects on the economy. Therefore, the proposals put forward hereunder provide government with a roadmap that tackles sensitive, structural matters that affect the bottom line. If left to persist, these matters may eventually cause a downturn in the economy's general performance and attractiveness.

2. Proposals on matters related to Public Finances

The Malta Chamber has consistently advocated for the constant need to keep the country's public finances in check. Recent performances are encouraging yet many elements need urgent improvement if the country is to put this positive period to the best use possible.

It must be a priority to rectify structural issues that significantly impact the state of public finances through continued consolidation and elimination of abuse, leakages and overspending such as in social benefits and state pensions, public sector employment, the myriad of undeclared economic activity and abuse in free movement of goods amongst others. Such issues can easily be curtailed through more effective monitoring and enforcement and through implementation of a number of proposals put forward by the Malta Chamber hereunder.

2.1 – Fair and Equitable Public Revenue Collection

The Malta Chamber urges government to conclude its well-overdue plans to merge the public revenue collecting entities namely the Inland Revenue Department, VAT Department and Customs. The Malta Chamber expects this matter to be treated with urgency for Malta to have a strong structure of fiscal enforcement that effectively mitigates abuse and situations of unlevel playing field. Any further delay of this merger will only serve to hamper Malta's competitiveness and allow the persistence of an unlevel playing field.

Cash-flow improvements for enterprises

Once the merger of public revenue collecting entities is concluded, it is proposed that payment requests are introduced in place of invoices in public supply contracts with the private sector. With the current system, companies are having to affect VAT payments before payment by the government entity has been received, thus restricting cash flow.

The Malta Chamber also proposes the introduction of a government policy that allows the offsetting of monies owed to government suppliers against amounts owed by suppliers to government departments. This will alleviate significant cash flow issues in particular economic sectors that are largely reliant on government contracts as their main source of revenue.

2.2 - State Pensions

In light of the threat that the current state pension system poses to the sustainability of public finances in the long-term, the Malta Chamber has consistently declared it is in favour of voluntary second pillar pensions. In such schemes, employees who join would pay a percentage of their gross salary through a payroll deduction and they would be eligible to any tax incentives that would need to be made available. By default, the employer contribution would be zero but employers may be allowed to contribute if they wish.

Despite mention of government's intention to explore this area of pensions during last year's Budget speech, further details and clarifications have not been forthcoming.

Employers who may want to support saving solutions for their employees might presently be discouraged to do so for two main reasons; namely, uncertainty regarding the deductibility of their contribution as a relevant tax expense and anomalies that arise out of the Fringe Benefits Regulations. To this end, it is felt that clarification should be provided that employer's contributions are deductible as a business expense and that such contributions will not be taxed as income or as fringe benefits in the hands of employees.

Examples of such voluntary occupational schemes are simple and efficient to administer and come at low cost. It is of utmost importance that the pensions sector is well regulated prior to the implementation of such a measure. Participating employees will be encouraged to save from a young age in order to benefit from compounding. Such schemes contribute to financial education through the workplace, higher saving propensities and less reliance on first pillar pension systems.

2.3 - Public Sector Employment

In recent years the Chamber has voiced significant concern regarding the growth of the public sector with an unprecedented wage bill increase of EUR 40 million per year for the second consecutive year. Besides the harmful effect on the sustainability of public finances, this phenomenon is exacerbating the recruitment difficulties being faced by the private sector. The situation was worsened by the additional spike in public sector employment during the weeks before and after June's general election.

In the last years, a number of private sector employees have shifted towards employment opportunities offered by the public sector not only because of more attractive financial packages, but also due to work-life balance and other benefits that cannot be matched in competitive environments.

Therefore, Chamber urgently calls on government to conduct a manpower survey of the whole public sector in order to ascertain the areas and departments that are still facing shortages and those with over-employment or under-utilisation of its human resources.

The forthcoming budget must also introduce fiscal incentives for public servants who shift back to the private sector so as to mitigate the serious labour shortages being faced across the board.

The Malta Chamber also notes and commends Government's efforts to raise the standards of the services offered by the public administration and public service providers through the implementation of a strategy containing clear and demanding 'quality of service' related deliverables for all public service providers. It is encouraging that the authorities have taken note of Malta's worryingly low ranks in the World Bank's 'Ease of Doing Business' classifications. It is now imperative that the initiative's intentions and aims are driven and achieved consistently and in a timely manner.

The Malta Chamber continues to hold the view that considerable extra savings are possible in the public sector through reforms in pay and pension entitlements that encourage productivity and incentivise quality and efficiency.

2.4 - Regime Changes - from Eco-Contribution to Excise Duty

The Chamber remains fundamentally opposed to the notion of replacing Eco-Contribution with Excise Duties, as was once again repeated in the last Budget despite numerous proposals against. Effectively,

this was not a replacement but an additional tax given that exemptions applied on eco-contribution in cases when businesses were signed up to a waste recovery scheme.

Besides being regressive, inflationary and socially unjust, the measure also penalizes responsible companies as they are no longer rewarded for taking measures to cover and recycle packaging waste placed on the market, as exemptions that previously existed under the eco-contribution regime no longer apply under excise duties. The measure is therefore equally taxing on waste management schemes and on the country's rapidly deteriorating local environment.

Past experiences serve to justify the Chamber's concerns as the power granted by the Excise Duty regime to the authorities was frequently used selectively on responsible companies, thereby inflicting undue administrative burdens whilst allowing those who abuse to go about their "business" unaffected. This renders abuse in free movement of goods all the more attractive and further intensifies the notable administrative burdens and costs on responsible businesses.

In the upcoming Budget, the Chamber strongly urges Government to reconsider its position on Excise Duties, particularly in view of the added red-tape it has imposed on *bona fide* businesses and the limited effect this measure has had in the fight against abuse of free movement of goods.

Excise Duty on mobile telephony services

The Malta Chamber urges government to reconsider implementation of the 4% excise duty applicable to mobile telephony services. Since the introduction of the excise duty as a means of revenue generation for government, the communications sector has experienced rapid developments with the recent widespread availability and reliance on wireless 3G and 4G internet connections. In light of these developments, the excise duty renders the local communications sector an un-level playing field as access to broadband internet over a mobile line attracts 4% excise tax, while internet access over a fixed line or WiFi does not attract excise duties.

The Excise Duty also negatively affects the competitiveness of local enterprises as mobile telephony and mobile internet connectivity have become necessary overhead costs.

Another consideration since the recent coming into force of the new roaming regulations across the European Union is the competitive disadvantage of Maltese mobile telephony service providers due to the excise tax applicable to their services.

Excise Duty on steel construction components

Similarly, the Malta Chamber urges government to shift the burden of the excise duty introduced on construction components from the importer of the raw material onto the developer. This duty was intended to tax the construction industry for its negative impact on the environment, yet all importers of construction components are already taxed under the Waste Management Regulations S.L. 549.43 and adhere to strict environmental permits that require onsite waste separation in the appropriate skips which is collected on a monthly basis by registered waste collection entities.

2.5 - Reducing obesity through means other than taxation

The Malta Chamber strongly opposes the introduction of fiscal measures with an aim to curb consumption. Taxes have not proven to achieve public health objectives but have negatively impacted jobs and economic value. Taxing food and drink will not address obesity or support public health goals and will not impact people's lifestyle and diet.

Obesity and other nutrition related non-communicable diseases have many causes – including unhealthy diet, lack of exercise, sedentary lifestyles and genetics – and require a coordinated approach. Calories come from everything so to attribute the sugar in particular foods and drinks to obesity is virtually impossible given the many sources of sugar in a typical diet.

There is no simple and constant relationship between consumption patterns and the price of a good. Discriminating against certain foods with a simplistic tool such as tax, fails to recognise the complexities of consumer purchasing patterns.

As an example, the Danish excise tax on soft drinks was one of the highest in Europe. In recently abolishing it, the Danish government acknowledged its regressive nature, its negative impact on regional jobs close to the borders and the adverse environmental consequences of border trade. The move is expected to recoup most of the five thousand jobs lost when Danish people travelled across borders to Germany or Sweden for their beverage purchases.

Based on the above, it is strongly recommended that no additional fiscal measures are introduced as a real result will only come from measures like consumer education and the promotion of physical activity.

2.6 – Pharmacy of Your Choice

The Malta Chamber has long advocated the need for an efficient, fair and sustainable healthcare system. The needed reform has been unnecessarily delayed by political factors that have led to an inadequate and unaffordable system mired by wastage, particularly in the POYC system.

To improve the cost-effectiveness of the POYC system, the Malta Chamber is proposing a reimbursement system that caters for two categories of patients, depending on their financial position. Patients unable to pay for medicines will be able to continue collecting free medicine through the community pharmacy of choice. On the other hand, those patients in a position to pay will pay for medicines upon collection and receive a full refund from the state at a later date. This will create the desired psychological effect for patients not to collect medicines which they do not need.

A reformed stocking and delivery system that relies on the efficiency and cost-effectiveness of the private sector medicine suppliers will also go a long way in improving the sustainability of the country's healthcare system in general.

3. Proposals for more Competitive Direct Cost Factors

3.1 - Labour Market matters

During the last few years, measures such as free childcare for working parents, in-work benefits for the long-term unemployed who return to the world of work, reductions in income tax for higher income earners, establishment of a maternity leave trust fund, and other incentives for people with disabilities who work, have all had a positive impact and have positively contributed to the lowest unemployment rate in history.

The Labour Gap

This state of 'full-employment' has led Malta's private sector to experience the largest difficulties to fill vacancies that arise in order to meet the demand for goods and services. This labour gap exists both in terms of quantity and quality, whereby quantity refers to the sheer number of people active in the labour market and quality refers to the skills and qualifications required to fulfil the jobs on offer. The solution to this issue is multi-faceted.

Work Permits for Foreigners

As a short-term measure, most employers are resorting to recruitment of foreigners, most of whom are third country nationals and therefore require work and residency permits. Therefore, the Malta Chamber calls for added efficiency to the complex and burdensome work-permit application process. While acknowledging the requirement to adhere to strict European regulations in this field, as well as improvements already implemented, there still exists significant room for numerous improvements to be introduced in order to reduce the duration of the work-permit application process.

Improvements can be achieved by centralising all applications under one roof and introducing a tracking system that updates applicants and prospective employers on where applications stand. As the work permit application process is underway, the Malta Chamber also recommends implementing a skills evaluation process that runs in parallel.

The Chamber has consistently proposed setting up fast-track processing schemes on the lines of the Key Employment Initiative (KEI). Such schemes would be targeted at technical employment categories where shortages are especially acute but where remuneration typically falls below the KEI threshold of EUR 30,000.

Numerous members within the Chamber have reported missed opportunities due to workforce shortages caused by unnecessary delays in the current work-permit application process. The Malta Chamber may not permit the persistence of such a situation.

Education Reform

A longer-term approach to resolving the widening labour gap is to conduct the necessary reforms to the country's archaic education system. The system is not producing the skills required by an economy that is presently experiencing rapid modernisation. This situation is evidently the result of a lack of the necessary foresight, planning and ability to react nimbly to the demands of the economy. The recent Eurostat publication on post-compulsory education exacerbates this situation as it reveals that Maltese students are the second least likely to proceed to post-compulsory education levels i.e. sixth form, higher education and university. Improvements in this regard are desperately required, particularly in the number of students enrolling in vocational education courses of a more manual nature and other fields experiencing, or expected to experience, the largest gaps.

Stipends

Stipends already play a significant role in attracting students to post-compulsory education. However, the Chamber urges government to recognise the substantial opportunity at hand to better utilise stipends as an instrument that guides students into choosing rewarding career paths in demand by the present and future economy.

Career Guidance

Effective career guidance also has a significant role to play. It is imperative that career guidance counsellors are provided with frequently updated information on the opportunities on offer and the skills and qualifications in demand. Government must urgently establish effective communication channels between industry, higher education, secondary education, guidance teachers and the national skills council.

Work-based Learning

As advocated on numerous previous occasions, the Malta Chamber is strongly in favour of all forms of work-based learning. It is a priority that students further their studies to a post-secondary level. The Chamber believes that the success of a WBL system in other advanced economies should incentivise government to introduce elements of WBL across all types and levels of post-secondary education. Students should be given the opportunity to learn in a classroom, while also applying and expanding their knowledge at the workplace.

The Chamber's members continually express their perceived effectiveness of apprenticeship and internship programmes in improving the overall skill set of young people. The overdue reform to the country's WBL system is fundamental to improve the success of newly qualified job-seekers, while also serving to narrow the skills gap by increasing the number of apprentices and interns in the job-market.

Leave Allowances & Compensation for Public Holidays falling on a Weekend

As explained above, the Chamber is wholly in favour of the principle of active labour market policies. However, the continuous extensions of leave and sick leave allowances, including the introduction of leave entitlements to care for sick children and the electoral promise to

compensate workers for public holidays falling on a weekend, are of grave concern to the Chamber. Such policies would serve to further erode Malta's competitiveness and potential for growth.

In regard to sick leave, the Chamber proposes the implementation of a policy whereby the first day of sick leave becomes a 'waiting day' that will not be remunerated by the employer.

On reimbursement of public holidays falling on a weekend, in monetary terms and by definition, when there are 4 public holidays that fall on a weekend in one year, the latter measure will represent an increase of around 2% in the total wage bill for employers. This increase will rise to 3% or higher if the lost days are compensated for by overtime at a rate of 1.5 or double rate. Moreover, this measure will be extremely cumbersome to cost and implement across sectors which operate on irregular working hours such as retail, hospitality and, to a certain extent, manufacturing.

The Malta Chamber looks forward to share its cost calculations with government during consultation discussions that seek remedial measures which are cost-neutral to businesses.

A more competitive Night and Shift Workforce

Companies that work with night and shift labour encounter additional costs in the form of premiums and bonuses to compensate their employees for the disadvantages in working these hours. Belgium has successfully developed a scheme that reduces the cost of night and shift labour through a national insurance discount mechanism for companies in all industries, except when it can be argued that a sector already benefits from other compensatory measures. The European Commission has also concluded that the scheme does not constitute state aid as long as it applied to all except non-profit and particularly non-profit health services. The Malta Chamber urges government to thoroughly consider implementation of a similar system.

3.2 - Energy Tariffs

The energy prices for Malta's medium sized industries were the highest across Europe in 2016, 16% higher than Lichtenstein and Ireland, the second and third highest respectively and 42% above the EU average, as evidenced by the latest Eurostat data. Malta also remains the only EU country in which industrial energy tariffs are higher than domestic tariffs. Moreover, medium sized companies in the manufacturing sector located in regions in direct competition with Malta, namely Bulgaria, Czech Republic, Croatia, Hungary, Poland and Romania, enjoy rates that are 44% lower than those in our country. (See Fig.1)

The Chamber empathizes with the argument that businesses want price stability. However, in the current scenario of prolonged low-levels in the international price of oil, the term "stability" needs to be redefined in the interest of Malta's export competitiveness.

Electricity prices by type of user
 EUR per kWh
 Medium size industries

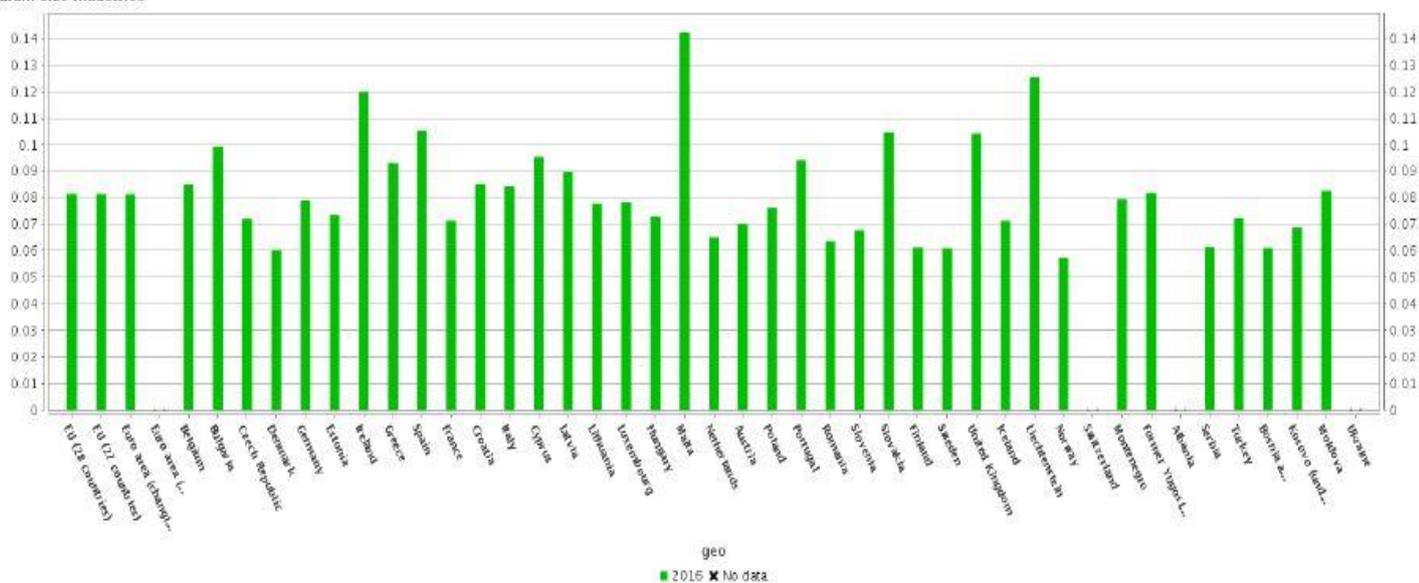


Figure 1 - <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=ten00117&plugin=1> [accessed on 16th August 2017]

Electricity rates typically represent around 4% of turnover in manufacturing or 12% of overhead costs. Moreover, energy tariffs are amongst the primary considerations that foreign direct investors consider when choosing a location to set up their business.

Without the necessary improvements, the manufacturing sector with strong roots and employing 20,000 people will be forced to reconsider the affordability of operations in Malta due to the pressures on competitiveness posed by leaner, more efficient, better connected EU member states and other neighbouring countries, while also pushing potential investors to cheaper locations.

In this vein, the Malta Chamber proposes an improved Night Tariff framework, the introduction of purchasing flexibility and privately managed energy distribution substations in industrial parks as well as incentives for further investment in alternative sources, elaborated hereunder.

Night tariffs

Lower energy bills for industrial consumers can be achieved with alterations to the parameters relative to the current night tariff regulations by 1) lowering the eligibility threshold for night tariffs and 2) by widening the timeframe window with immediate effect.

Last year, the Malta Chamber conducted an in-depth review of each and every industrial consumption band and its relative tariff and night tariff. The outcomes of this review were discussed at length with the Minister for Energy and Enemalta’s top management. One year on, the Chamber stands by the feasibility of its proposals in this regard, particularly in light of the positive developments regarding Enemalta’s financial results.

Purchasing flexibility and privately managed energy distribution substations in industrial parks

Enterprises should be allowed the flexibility to purchase their own energy (either singly or jointly) from a variety of sources not least through the interconnector when cost-effective to

do so. The Chamber is not against the involvement of Enemalta in similar transactions to cover the cost of energy distribution over the domestic grid.

Companies must also be allowed to manage their own distribution system, with being owned, maintained and operated by business users. The possibility to launch private initiatives or private-public partnerships for more cost-effective and efficient distribution to industrial users should also be explored. This could be done through investment in new infrastructure to create private distribution hubs in industrial and other clustered areas, with the possibility of acquiring energy from different sources and at the best rates.

Additional incentives for private investment in alternative sources of energy and more efficient operations

The Malta Chamber proposes the re-introduction of incentives that promote investment and use of renewable energy sources and cleaner fuels. Introduction of financial incentives for such investment will contribute towards the country achieving its 2020 energy related targets. Incentives may be tax or non-tax related and must aim towards enabling local operators to invest in renewable energy. Such incentives may be investment tax credits, allowances, preferential feed-in tariffs, equipment rebates, grants and loans, which all provide incentives to expedite investments in green technologies.

A direct and effective way to achieve higher levels of renewable energy, whilst providing a competitiveness-oriented support measure, is to create a system of 'energy vouchers' which are credited against companies' energy bills, proportionately to the investment made in projects which enable the companies to utilise alternative energy sources and to increase their efficiency in consumption.

Furthermore, the Malta Chamber suggests the setting up of a system that rewards companies demonstrating a consistent reduction in their energy consumption with correspondingly lower electricity rates. The system must ensure fair rewards to consumers that prove that they are managing to maintain constant or higher economic activity with lower energy consumption. It is hoped that such positive discrimination in favour of energy efficient firms will encourage other companies to follow suit.

3.3 - Waste Management

The collection of packaging waste has been in place since 2006. The current administration outlined that during the first 6 months of the current legislature, a new Waste Management Strategy will be put in place for the coming 10-year period. In light of the EU's Circular Economy Package, the current Directives establishing recycling targets shall be amended to include more ambitious targets to be achieved by 31st December 2020. The proposed targets are to recycle 55% of plastic, 60% of wood and 75% of ferrous metal, aluminium, glass, paper and cardboard.

For Malta to successfully reach these targets, a robust waste management programme focused on all waste fragments and aspects of household packaging waste is required, rather than a focus on individual waste fragments and packaging materials such as PET beverage bottles. PET bottles account for a small portion of the total amount of household waste generated in Malta, accounting to 5.3% of

the 90,000 tonnes collected in total. PET also accounts for 12.9% of the total market placement of all the members of the two Waste Management Schemes in operation that together manage approximately 36,000 tonnes of packaging waste.

Waste Deposit Systems

Nonetheless, Government is actively considering the introduction of a Deposit Return Scheme (DRS) as a means of reducing waste and achieving plastic recycling targets. However, the Chamber has recently questioned the effectiveness of waste deposit systems as it is felt that consumers and retailers alike have changed their habits and operational setups, making the reintroduction of a deposit system difficult to implement with success. It will also add significant cost to PET bottled products and seeing as most of these products are of low-value, the cost increase on sale price will be rather significant without actually achieving the intended result.

Evidence from a Deposit System set up in Germany showed that retailers and producers faced initial investment costs of EUR 726M to develop the deposit system and an additional annual cost of EUR 793M to operate and maintain the system. Despite this level of investment in Germany, the effective and standardised household collection system operated in Belgium boasts the same level of recovery rates.

While the deposit system in Malta is potentially being considered for implementation with an aim to reduce littering, the Chamber feels it would not serve this purpose either. By placing a deposit value on specific items and not others may in fact send the message that it is acceptable to litter everything else. The system would serve to divert recyclable containers from the currently grey-bag household collection system resulting in a parallel collection system and thereby making both systems less efficient and more expensive to operate.

Therefore, the Malta Chamber strongly recommends a careful analysis of the best-practice implemented in Belgium which is similar to Malta's present system but characterised by the major differences listed hereunder:

1. Audited and certified by an independent body;
2. Backed by strong legislation;
3. Backed by strong enforcement on both producer reporting, scheme operation performance and household sorting performance;
4. Backed by industry;
5. Compulsory membership for packaging waste producers;
6. Cooperation with municipalities;
7. Transparent data sharing;
8. Facilitated by continuous education campaigns;
9. Facilitated by effective infrastructure;
10. Active support for development of alternative packaging materials and methods that reduce the overall amount of waste generated.

3.4 - Improved sea links to mainland Europe

Malta-based businesses also suffer from a lack of permanent links to mainland Europe. The Chamber continues to request solutions to neutralise the cost disadvantages linked to this issue, which act as a discouragement to business and investment in the country. The Chamber therefore proposes:

1. In-port services (pilotage, towing, mooring and berthing services) that are no longer

regulated and supported by a monopolistic regime. Port worker and cargo clearance services are also heavily regulated and restricted. Furthermore, where port workers are concerned, the current legislation imposes rates to be paid, even in those instances where such services are no longer required.

2. Malta must become eligible for compensation from the EU for its peripherality, insularity and small size. These characteristics make it extremely difficult for exporters to compete on a level playing field with their counterparts on mainland Europe, thus creating a strong basis on which to call for additional EU regional assistance.

4. Proposals for more competitive Indirect Cost Factors

4.1 - Infrastructure & Transportation

The Chamber is becoming increasingly concerned about the acute traffic problems in Malta and the general inadequacy of the island's infrastructure to sustain such rapid growth in population and activity. The result of this inadequacy is having a significantly negative effect on everyone's daily life, the economy and the environment.

Without further delays, the country desperately needs a holistic and sustainable long-term strategy to permanently address the constant gridlock that cripples the country. The 2015 study by the Institute for Climate Change and Sustainable Development from the University of Malta found that unless nothing changes, Malta will experience a total of €89 million in costs related to traffic accidents, €15.3 million in air pollution costs, €51.2 million in climate change costs, €10.4 million in noise costs, and a massive €151 million in costs resulting purely from traffic congestion. This means that traffic in Malta is already costing the country €274 million a year increasing to well over € 300 million by 2020.

A modern multimodal transportation infrastructure has long been recommended as the most viable option for the country to cater for the increasing number of people that need to transit across all parts of the island on a daily basis. Such a system would need to be built on a number of guiding pillars, particularly:

- An economically, environmentally and socially sustainable plan;
- A long-term outlook on the country's transport needs;
- Strong involvement of the private sector to ensure a modern and competitive system.

The present, somewhat piecemeal approach to modernising certain crucial traffic junctions such as Kappara and Marsa, while positive and strongly commended, only serves to shift the inevitable traffic build up elsewhere. The same can be said for government's electoral promise to resurface all the country's roads within a 7-year timeframe. While positive, this is simply a 'quick-fix' to a problem that requires much more significant and targeted investment. Traffic congestion and the many costs it leads to may only be mitigated once people are given effective, reliable and efficient alternative modes of transportation to consider, thereby reducing the number of vehicles on the roads.

The Chamber believes that The National Development and Social Fund established through the Individual Investor Programme (IIP) would be put to the best possible use if it were to finance the crucially important and well-overdue strategy to shift towards a sustainable and effective multimodal transportation system. At this point, any other potential application of the funds accumulated in the National Development and Social Fund would be considered gravely misused. Out of the 12 possibilities laid out in LN 2/2015 on how the funds may be applied, none are as pressing as the importance of major national infrastructural projects.

Alternative modes of Transport and long-term projects

The National Transport Strategy 2050 Document and the Transport Master Plan 2025, published in June 2016, delve into great detail on a number of schemes/measures to limit the use of personal vehicles.

The Malta Chamber believes that systems such as Mass Rapid Transit (MRT) should be further studied and assessed. With the long-term nature of such a measure, the Chamber also recommends investing in the current public transport system, particularly through the implementation of 'busways'.

In relation to cycling, the Chamber agrees that a pilot project for bike sharing should be launched in Valletta, a self-contained city with limited vehicular access. Potential for other pilots could be the three cities, the University Campus, the MCAST main campus, industrial zones, the Dingli Cliffs zone, other rural zones and potentially Gozo as a whole.

With regard to electro mobility, the Chamber believes that e-vehicles have significant potential but would also require significant investment to build on the present charging-station infrastructure in order to become attractive to the general public. The current incentives and subsidies when purchasing e-vehicles also need to improve drastically if government is to seriously promote the technology. The Chamber therefore suggests an increase in subsidies of closer to 50% of the value of the car, capped at 12,000 euros per vehicle. Effective monitoring and enforcement against unauthorised parking in charging bays is also required.

Furthermore, the Chamber recognises significant potential in expanding the sea links, especially in the Grand and Marsamxett Harbours. The current service could be extended to potentially include Msida and Ta' Xbiex on one side and Marsa on the other.

4.2 - Air Malta

In light of the Minister for Tourism's recent claim that Air Malta risks closure unless urgent actions are taken, the Malta Chamber must reiterate the vital importance of the national airline to Malta's economy. Without the airline, a number of tourism and business links, and their significant multiplier, effects will be lost.

Therefore, the Minister's announcement that government has been working on a plan for the airline, part of which includes an aggressive commercial strategy by opening new routes and re-opening certain routes, is certainly welcomed by the Chamber.

In recent years, the Chamber has submitted a number of proposals to improve the company's finances and ensure it operates in a more sustainable manner. To this end, the Chamber commends government's new action plan for Air Malta which aims to grow the airline while introducing the necessary changes to the organisation structure.

While the Chamber awaits formal consultation and a presentation of government's plan for Air Malta in its entirety, the three main proposals by the Chamber are:

1. A reduction in operational costs via a streamlined workforce, modernised work practices and elimination of abuse and inefficiencies;
2. Rectification of the airline's debts as a means to increase its attractiveness to potential foreign and local investors;
3. Division of shareholding into three. A third would be retained by government, a third sold off to an international strategic partner and a third offered to the local private sector through the Malta Stock Exchange.

4.3 - Banking

The Chamber and its membership enjoy positive working relations with the country's major commercial banks, with constructive communication taking place on a regular basis. However, well attended government-led trade delegations often visit countries that do not suit the risk appetite of the local banks. Therefore, in many cases, the business opportunities explored and discussed during the trade promotion visits may not be followed-up. The Chamber believes that communication between government, the banks and the Chamber during the planning stage of such trade delegations would serve well to iron out such difficulties. In this way, the banking sector would have sufficient time to research the jurisdiction's risk profile and explore the necessary cooperation requirements within its network of correspondent banks.

4.4 - Research, Development and Innovation

The Malta Chamber reaffirms its belief that Research and Development (R&D) is one of the foremost pillars upon which the country's sustainable economic growth rests, as this can provide Malta with the much-needed competitive edge over competing neighbouring states. The availability of a proper and sustainable infrastructure in research and innovation (R&I) provides the Maltese industry with a better chance of building and retaining a more resilient and competitive position. Indeed, this is a pre-requisite for investment attractiveness in any industry or sector.

Malta's combined spending in this area remains well-below what is expected by every member state in the European Union at less than 1% of GDP.

The Malta Chamber proposes the following measures:

1. Research and Innovation deserves a dedicated Parliamentary Secretary closely linked to the industry sector instead of other unrelated areas;
2. Promotion of knowledge transfer between industry and academia through knowledge transfer partnerships (KTPs);
3. Assessment and forecasting of skills and human resources required by R&D firms and the subsequent modifications necessary to the education system;

4. Creation of inventive schemes and facilitation of visa application to allow more foreign researchers to conduct research in Malta;
5. Promotion and incentivisation of the concept of 'living labs' in Malta;
6. Establishment of appropriate funding programmes to sustain R&D and the recommended levels for an advanced economy.

4.5 - Better Regulation and reduction in administrative burdens

For the last decade, the Malta Chamber has argued in favour of implementing a long-term strategy for a reduction in administrative burdens, the implementation of better-regulation policies and the reform of archaic policies.

The Malta Chamber proposes:

1. Establishment of a new national competitiveness watchdog to ensure that the economy is not hampered by new and excessive regulations, measures and taxes that negatively impact competitiveness.
2. Prior to launching any initiatives (not least the Budget measures) that directly impact business operations, there must be a) the necessary consultation with impacted or interested parties, b) a proper and holistic implementation plan and c) the necessary legislative backing.
3. Regulatory Impact Assessments, as required by the Small Business Act, are enacted without further delay.
4. All regulations having a potential effect on business must pass a regulatory impact assessment and only be implemented on a "one in and two out" basis.
5. Government departments, agencies and ministries offering essential services to businesses must maintain a skeleton operation able to deal with urgent business during the afternoons in the summer months. The delays experienced to render public services during the summer months contribute significantly to increased costs due to inefficiencies.
6. Justice delays for commercial related cases remain one of the key issues mentioned by business operators and foreign investors when operating from Malta. It is the Chamber's belief that there needs to be an increased use of mediation and other form of alternative dispute resolutions (ADR) prior to seeking the normal legal redress procedures. The Chamber believes that there is a need for a new impetus to extend mediation further to cover other legal fields beyond civil disputes which is currently mostly used in the sphere of family law.
7. The Chamber further believes that there is a need for a media campaign and outreach programme with business operators to promote better understanding of ADR as a viable and cost-effective option in commercial disputes.
8. The Small Claims Tribunal which currently presides over money claims which do not exceed EUR 5,000. It is claimed that this tribunal is effective and that plaintiffs are satisfied with the results being achieved. One suggestion the Malta Chamber would like to make is that of increasing the

current low threshold to EUR 10,000. The Tribunal is currently underutilised and therefore increasing the threshold could engage more clients to make use of this Tribunal. The same could be applied to the Magistrates' Court, in which case the financial claims threshold could be increased even further.

Re-strengthening the Small Business Act

Reference is made to way the Small Business Act is being interpreted. There have been instances in the last years such as when the Malta Chamber resorted to filing a Prohibitory Injunction in 2016 to legally object to the manner of implementation of the Tourism Bed Tax.

The Court did not accept the Chamber's arguments on the grounds that the Small Business Act provisions apply to "Government Departments, Government Entities and Government Agencies" while the LN being contested had been issued by a Ministry. This interpretation by the Courts effectively means that the spirit of the Small Business Act is being disregarded because Ministries have been placed above the Law and can choose to consult selectively or even not to consult at all. The Chamber strongly believes that a holistic consultation process is a non-negotiable prerequisite before any regulatory proposal becomes legislation. This requirement is also part of the Administration's own Directive 6 apart from being clearly defined in the Small Business Act.

The Chamber strongly suggests that Government restores confidence in the Small Business Act and its intended safeguards. For this to take place, the provisions of the Act must be correctly and consistently applied across all levels of Government without exceptions where regulations are proposed that can affect the business environment.

Rent Law Reform

The Malta Chamber has been feeling the need to analyse the status of present rent laws concerning both landlords and tenants of commercial and residential property. The Chamber's aim is to iron out existing anomalies in the market which give rise to serious injustices. To this end, the Chamber, in collaboration with other interested parties, embarked on a comprehensive, objective and technical analysis and held numerous discussions with the main stakeholders. The process resulted in the formulation of a number of proposed measures and solutions to reform certain archaic and ill-serving rent laws. The Chamber is in a position to discuss its in-depth position with government with a view to encourage its early implementation to the benefit of all landlords and tenants.

4.6 - Access to Finance

Rapid establishment of an operational Malta Development Bank

During the Budget 2016 speech, the Malta Chamber was encouraged by the announcement to set up a Development Bank as an additional credit granting institution for enterprises that may not suit the risk appetite of commercial banks. The Malta Chamber had proposed the setting up of such an institution for a number of years, most notably during the pre-budget

consultation processes of the last five years. The Malta Chamber now notes and commends government and parliament for the passing of the Malta Development Bank Act in May 2017. It is now imperative that the Development Bank is operational within a reasonable time frame before several opportunities existing at present, as well as the current willingness to invest, are lost. The Malta Chamber also looks forward to contribute to the success of this institution through its presence on the board.

Reactivation of mechanisms to introduce Islamic Finance Instruments

The Malta Chamber firmly believes that the launch of a sovereign Sukuk, as put forward during the Budget 2015 speech, would decisively position Malta as a destination for the multi-billion-dollar Islamic Finance market. Three years on since government's latest announcement on this matter, the Malta Chamber urges government to reactivate the mechanisms and legislative amendments necessary to encourage Islamic financial institutions to set up in Malta and access the European and North African markets.

5. Conclusions & Expectations

In summary, the Malta Chamber reiterates the two main principles on which all its proposals rest.

Firstly, government must capitalise on the positive economic performances of recent years by continuing its plan for fiscal consolidation and by seizing the opportunity to rectify a number of structural issues that threaten the country's sustainable finances in the years to come.

Secondly, government must strive to further enhance the many factors that contribute, directly or indirectly to the competitiveness of every enterprise operating in Malta with particular emphasis on the severe labour shortages and the country's infrastructure which is falling increasingly under pressure due to age and capacity factors.

The government must treat the Budget in the context of a multi-annual framework and a long-term strategy to achieve sustainable growth. In this regard, The Malta Chamber commends the present economic performance and calls for investment of the proceeds generated by this prosperous economic cycle to safeguard the future wellbeing of Malta. This will ensure the sustainable growth and economic stability that Malta's people and businesses rightly deserve.

The Chamber does not expect surprises in the Budget, and other situations, as the present momentum will deteriorate, since both the private and public sectors suffer from the speculation and uncertainty surrounding surprise measures drawn up and implemented without consultation. The Chamber is hopeful that the outcomes of this year's Budget consultation period will result in a larger number of its proposals being considered for implementation.

The Malta Chamber supports the Minister of Finance in the tasks ahead in the hope that the set objectives are tackled through effective and responsible measures as required. On the contrary, it cannot support any attempt to facilitate the implementation of measures announced without prior consultation and to the detriment of the competitiveness of businesses.

Annex

The Malta Chamber of Commerce, Enterprise and Industry has in the last years called on the authorities to address the Budget from a multi-annual perspective. This would be closer to what happens at a European Union level where a seven-year multi annual financial framework is drawn. This would entail planning well ahead on what is required in the medium to long term rather than looking at the budget as purely an annual fiscal exercise.

The Chamber is of the belief that policy makers at a national level must be made aware that, despite the positive economic results achieved in the last years, there are weaknesses which need to be addressed. There exist a number of long-term threats that must be properly addressed through effective action plans. At the same time, Malta remains very strong in a number of areas while notable opportunities exist for the country's taking in order to maintain this positive momentum in the longer term.

The reflections below are by no means exhaustive and should not be construed as such. The exercise intends merely to inspire a discussion at national level of the challenges the country might be facing in the long term. That is why back in 2014, the Chamber took it upon itself to draft an extensive Economic Vision for Malta (2014-2020), a vision which is still relevant to this day. The Chamber now believes that the country requires a rolling ten-year strategic national plan. The plan should be as holistic as possible and include all the resources and stakeholders present on the island and beyond. The Chamber is willing to participate in any future discussions in this respect and is willing to contribute any resources and expertise it has at this moment.

Strengths

Malta as a full member of the EU and with its strategic location in the middle of the Mediterranean and unique cultural and historical assets remains in a strong position for economic growth, as recent results have shown. The country possesses a number of significant assets including a strong multi-lingual workforce, telecommunications infrastructure and a diverse industry base. Residents and foreign investors enjoy a quality of life within a growing and competitive business climate characterised a competitive tax regime. The country can also boast in attracting high income investors and residents by promoting its safe and low crime environment.

Since independence in 1964, Malta has been very strong in diversifying its economy first through tourism and manufacturing and then through financial intermediation, information and communication technology, real estate and other business activities. In the last decade, the country has also developed significant operations in the online gaming and aircraft maintenance industries. This leads the Chamber's members to validate the notion that new segments could be attracted to drive Malta's future economic activity.

Weaknesses

The Chamber agrees and repeats the Prime Minister's words in saying that "infrastructure is Malta's Achilles heel". One cannot but agree with this statement in that for too many years our policy makers have been planning infrastructure to cater for a population of less than half a million people. Reality however, shows that the sudden increase in foreign residents and constant tourist arrivals require an

infrastructural system able to cater for much higher numbers. Strategic infrastructure such as roads, utilities and waste all require renewed and urgent investments to counter their rapid deterioration.

The labour supply gap, both in terms of quality and quantity, remains a major hurdle especially in the short-term. As the only viable short-term solution, companies are having to turn to recruitment of foreign workers. This issue is further compounded by Malta's low birth rate, the absence of links between industry and academia to help our students take the right career path and lacking initiatives further reduce the high number of early school leavers and NEETs.

Labour force participation remains well below the EU average even though one can notice a very positive trend in the younger cohorts especially in terms of increased female participation, wherein the average employment rate is close to the top-performing EU countries.

Government and authorities in general are also perceived to be lacking in their enforcement remit. The Chamber believes that a renewed commitment in this regard is urgently required at all levels.

More needs to be done to assist small innovative businesses and start-ups to grow and connect to the marketplace. Total R&D as a percentage of GDP has seen slight increases, however Malta still lags behind most of its peers including direct competitors.

Entrepreneurship and Innovation also lack in assistance although they can increasingly become important job creators on the island. Malta is still far from developing an entrepreneurship culture especially through synergies between the various business incubators and start-up eco systems that have sprouted in the last years. The University of Malta and MCAST could be strong enablers in this respect and the Chamber believes that with the right budget and proper coordination between the various entities involved (both public and private) better results can be achieved.

Bureaucracy and ease of doing business in Malta remains another barrier with investors lamenting slow procedures in a number of critical areas such as planning and development, law courts, dealing with the utility providers, work and residence permits, access to credit etc.

Opportunities

Given the recent positive results, the country has a bright future ahead of it should policy and decision makers take heed of the long term challenges the country will face and rectify as appropriate. The Malta Chamber believes that numerous opportunities exist for the country to do even better. Malta has a unique opportunity to differentiate itself from its direct competitors by adopting strategies to ensure the development of an entrepreneurial culture.

Future economic development efforts must continue to transition to higher value-added opportunities founded on a knowledge based economy. This will require a stronger connection between industry, education and workforce development.

Strengthened research and development, talent attraction and entrepreneurial programmes will also go a long way in attracting innovative digital-based sectors such as blockchain infrastructure, cryptocurrencies, Internet of Things, Fintech and advanced logistics. There also exist numerous opportunities in diversifying the services industry through enhanced regulatory frameworks that allow budding service industries to properly compete with other major jurisdictions. Examples of this include aircraft leasing and the leasing and chartering of luxury yachts sectors. The foundations of these sectors already exist yet the one thing restricting further growth are the current fiscal incentives in the area. The Chamber also sees further opportunities in the green and blue industries which have so far remain untapped.

Linked to the above, the Chamber sees the UK's exit from the EU as an opportunity to tap especially in attracting mid-cap operators seeking passporting rights in the EU internal market. At the same time, we see opportunities in the health and education sectors with UK based specialised clinics and colleges opening branches in Malta.

With the growing inflow of foreign nationals presenting a number of challenges, the Chamber recognises foreign nationals as an opportunity for a multicultural workforce to embrace different ideas and notions from the world. Besides attracting foreign employees, the country needs to accelerate its efforts to attract start-ups and entrepreneurs. Such ventures and individuals could establish business eco-systems around them and contribute to transfer ideas, knowledge and technology between local and foreign operators.

All the opportunities above need to be coupled with a national sustainable development plan. The Chamber feels that before zooming in on specific zones, Malta requires a plan on a national level that includes strong elements of holistic urban and rural development. In the last two to three decades, most major developments and planning have been carried out in a piecemeal approach with very little consideration given to the surrounding areas and the impact on the infrastructure required for such developments to occur. One can specifically mention roads, telecommunications, utility infrastructure and waste management amongst others.

The Chamber also sees major opportunities in reforming the national healthcare system, education, ports and other infrastructure and looks forward to the constant diversification of energy supply and sources, now that a letter of intent has been signed between the region of Sicily and Malta to develop a new gas pipeline.

Threats

Over-development could in the long term become a threat to the country's ability to attract the right investment and talent mentioned under opportunities. The rapid urbanisation of the country is leading to dense over population in certain zones, rapid depletion of open spaces, significant stress on ageing infrastructure and an overall lower quality of life for residents.

It is pertinent to note that the demand for property driving said urbanisation is not everlasting. This is closely linked with the performances of many other economic sectors and reliant on a number of policies and reputational factors that may or may not be controlled. As the country is experiencing highly uncertain times, both domestically and internationally, the economy must avoid over reliance on the construction sector and property market. The slightest of changes to international taxation regulation frameworks will undoubtedly dent the local construction and property market and with it other sectors such as Financial services and other ancillary service based industries.

For this reason, the Chamber urges policy makers to focus on sustainable planning and development policies with a commitment on the long term overall quality of life of citizens based on the protection of the environment. The short-sighted Strategic Plan for Environment and Development (SPED) must be revisited to curtail present haphazard development practices with policies more conducive to a sustainable environment.

The retention of our traditional sectors will also be an important factor to keep in mind. Tourism and Manufacturing are both bulwarks of our economy which could be easily threatened through external and internal factors. Factors such as increased crime, lack of general cleanliness of tourist zones, environmental degradation, lack of investment in the general upkeep of infrastructure, proximity to regions with terrorist activity and political instability threaten the continued growth of Malta's tourism industry. Energy costs, increased labour and transport costs and changes to the taxation framework for

the latter pose significant threats to Malta’s attractiveness to manufacturing FDIs. Manufacturing in particular needs assistance in the long term and we see opportunities in this regard but the policy makers need to be cognisant of the perils that could lead to a number of industry players relocating their operations elsewhere.

With new impetus at EU level to change taxation regulatory frameworks initiated after the financial and economic crisis in the last decade, Malta faces the possibility having to rework its taxation framework within the structure of new international requirements.

In the coming years, Malta may also have to adapt to accessing less EU funding as the possibility of becoming a net contributor rather than a net beneficiary increases with every positive GDP growth figure posted by the country.

Malta in 2017 - SWOT Analysis

