

The Gozo Business Chamber's Budgetary Proposals

2024

A Budget for All



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August 2023



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INTRODUCTION AND BACKGROUND

1

This Budget comes at a strategic point for the island of Gozo. While economic development is and will remain important, the need for a regional outlook is and will remain the key for Gozo's success. This means that it is of crucial importance that the regional strategy for Gozo is published, and that a regional outlook and perspective is adopted for all aspects, including planning and the environment.

Within this context the Chamber would like to make reference to a recent document published by the Gozo Regional Development Authority (GRDA) which outlines that:

Ecological, economic, and cultural resilience is key to achieving this long-term sustainable vision. Gozo's unique setting has a distinctive appeal which in itself should attract a particular kind of quality investment that deserves encouragement as much as it requires diversification. Building on these values when mapping out the following stages of Gozo's evolution will allow for the development of resilient communities which interact with the natural and built environment.[1]

The Chamber believes that these are the values which should underline any type of development in Gozo. We can only be competitive by being distinctive.

To this end it is crucial that the Regional Development Strategy for Gozo is published at the earliest. This is important as it would orientate Gozo's efforts in all areas for the years to come.

[1] Gozo Regional Development Authority (2023), GRDA Vision for Victoria Urban Upgrading. An Introduction to the Concept, p. 8 (online) : <https://grda.mt/wp-content/uploads/2023/06/GRDA-Vision-for-Victoria-Urban-Upgrade-An-Introduction-to-the-Concept.pdf> [accessed 4 August 2023].

THE GENERAL BUSINESS ECONOMIC SENTIMENT

2

In 2022 the Gozo Business Chamber (GBC) launched its 'Business sentiment survey'.^[2] The scope of this exercise was for the Chamber to have a bird's eye view of how the economy in Gozo is fairing by undertaking a mid-year and an end-of-year survey among the Gozitan business community. This exercise focused principally on the business community's personal perspective while gauging specific areas of interest such as e-commerce, and accessibility.

With respect to the current economic scenario, in August 2022, the majority (39.6%) were neutral about the current economic scenario, with 26.4% having a positive outlook, and 15.1% having a very positive outlook. In February 2023 the majority (50.6%) had a neutral perspective to the current economic scenario. This represented an increase of 11% over the survey conducted in August 2022. On the other hand, 32.5% had a positive outlook, while only 2.4% had a very positive outlook on the situation at that particular point in time. This meant an increase of 6.1%, and a decrease of 12.7% respectively.

Over the two surveys the main problems faced by businesses were: (a) 'the lack of suitable employees to man operations', followed by the (b) rise in costs of raw materials, and (c) human resources.

In both surveys, the majority highlighted that they will be retaining the current level of operations, with a significant percentage also indicating that they are thinking of expanding further.

In both surveys the majority highlighted that the tourism sector is the future of the gozitan economy. However, it is also important to note that for both surveys, following the tourism sector, respondents highlighted the digital and green economy as the future of the gozitan economy.

[2] The Gozo Business Chamber (2023), Business Sentiment Survey 2022 (online) : ^[2] The Gozo Business Chamber (2022), Accessibility is key for Gozo's development (online) : <https://www.gozobusinesschamber.org/fast-ferry-service/> [accessed 3 August 2022].
[accessed 03 August 2023].

From the qualitative input to both surveys the following should be highlighted:

- Concerns raised among the respondents included principally the issue of overdevelopment and the overreliance of the Gozitan economy on construction and the tourism industry. Nonetheless in the case of the latter many highlighted the need to move towards high-end specialised tourism;
- Other important issues that the respondents felt should be addressed included the diversification of the Gozitan economy and the need for a more intensive deployment of sustainable mobility solutions.

TARGETED FISCAL INCENTIVES

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TARGETED FISCAL INCENTIVES

This section is proposing targeted fiscal incentives which would: (1) guarantee the sustainable development of the island; (2) ensure that the current building supply is finished to predetermined standards; and (3) guarantee an equitable distribution of income among various suppliers linked to the construction industry.

Incentives to ensure and guarantee the sustainable development of the island

The Environment has and will remain a key consideration for the Gozo Business Chamber. This year has seen the formation of the Forum 'Għal Għawdex'. Three environmental NGOs 'Din l-Art Hejwa', 'Għawdix' and 'Wirt Għawdex', together with the Gozo Business Chamber, the Gozo Tourism Association, the 'Kunsill Reġjonali Għal Għawdex' (representing all local councils), and the Gozo University Group joined forces to propose an 8 point action plan. This has as its primary focus the safeguarding of the environment against the intensive development currently being experienced on the island. One of the main proposals includes the formulation of a regional plan for Gozo.[3]

Nonetheless another important point of this action plan includes the formulation of fiscal incentives which would incentivise the development and buying of certain types of property against other types of development which are detrimental for the island of Gozo.

[3] Għal Għawdex (2023), Gozitan civil society groups in unprecedented unity behind one Environmental Gozo Vision (online) : [accessed 3 August 2023]

TARGETED FISCAL INCENTIVES

The incentives proposed by the Forum 'Għal Għawdex' include the following:

- a) removing all fiscal incentives on the sale of buildings and land for development into apartments,
- b) retaining the existing incentives on sale and purchase of properties in UCA where the purchaser signs a guarantee to restore the property without subdivision,
- c) extending the incentives in (b) above to all vernacular and postwar properties outside the UCA where buyers undertake to preserve the integrity of the property, respecting and not exceeding the surrounding traditional village heights. Subdivision may be allowed only if it does not impact in any way the integrity of the property.

While the blanket 2% tax on the purchase of property in Gozo was beneficial at a point when the market was stagnant,[4] such a blanket measure as it is currently formulated is incentivising the development of small apartments concentrated into massive projects, within communities that cannot currently absorb such type of development. [5]

In its budgetary proposals for last year, the Gozo Regional Development Authority had highlighted as one of its main proposals the better targeting and alignment of the stamp duty reduction on residential property with Gozo's socio-economic and environmental needs.

In its document the GRDA clearly highlighted how the blanket 2% stamp duty has led to increased property sales, but it has generated unintended adverse consequences. In fact the GRDA highlighted how:

[4] Statistics in fact point out that property deeds increase substantially following the introduction of this measure in 2017.

[5] Gozo Regional Development Authority (2022), GRDA Outlook Note. Outlook 2022 – 2024 & Budget Proposals for 2023, pp. 6-7 (online) : <https://grda.mt/wp-content/uploads/2022/09/Outlook-Pre-Budget-Document.pdf> [accessed 3 August 2023].

the scheme could be distorting the market by subsidising and encouraging haphazard and excessive holiday or buy-to-rent property development with possible repercussions to Gozo's delicate environment and long-term economic consequences in terms of attractiveness that this may have, if not managed in a sustainable manner.[6]

In fact the GRDA had recommended that:

the scheme is transformed into targeted incentives that are aligned with the achievement of policy objectives, namely: (i) encourage more upmarket property development in Gozo; (ii) limit eligibility of the scheme to low-end, dilapidated and vacant property which is repurposed into medium- to higher-end real estate in selected development zones; (iii) at the same time, subject small units to either higher stamp duty and/or additional fees to disincentivise the construction of small, low-end units; and (iv) promote green and efficient buildings.[7]

The Gozo Business Chamber agrees with this proposal, and in line with the proposals being put forward by the 'Għal Għawdex Forum' it is important that the incentives in the property sectors are aligned to Gozo's socio-economic and environmental needs.

[6] Ibid., p. 7

[7] Ibid., p. 8.

Incentivising the Finishing of the Existing Property Supply

While the Gozo Business Chamber is concerned with the current supply of property and the type of property currently being developed in Gozo, there is a risk that a significant amount of existing property, especially if this was bought as an investment to be resold will remain in an unfinished state.

The Chamber is therefore proposing an incentive whereby people would recoup part of the VAT paid, if this is finished within a two-year time frame. A person would be able to recoup a greater amount if the property is finished in such a manner that it is rendered more sustainable. Only the customer, and not developers, would be able to benefit from this scheme.

This would have numerous beneficial effects: (a) it would guarantee that the property which has been bought is finished in a certain amount of time, and therefore avoid the risk of having a supply of property which will remain unfinished; (b) ensure that income from the development is really being distributed among other businesses involved; and (c) that fiscal receipts will be issued during all the process ensuring a higher income for the Government as all the income will be declared.

Incentivising Transfers between Property Co-Owners

In the context of sustainable property development, a positive fiscal incentive can be adopted in a situation where you have co-owners who remained in co-ownership of a property for a span of more than three years and opt to sell their undivided share from the property to another co-owner. In this situation it is being proposed that the co-owners

TARGETED FISCAL INCENTIVES

should be subject to a more advantageous tax rate. This can take the form of reduced capital gains tax or stamp duty tax.

While primarily fostering a sense of continuity and stability within property relationships, such an incentive goes beyond its tax-related implications. By enabling seamless internal property transfers among co-owners, it not only encourages the preservation of the inherent characteristics of the building but also the property's unique historical and architectural attributes. This dynamic process may also support the conservation of the property's original features and qualities, contributing to the preservation of local heritage and cultural identity.

In addition to promoting long-term co-ownership and the retention of the property's natural characteristics, this fiscal incentive serves as an incentive for co-owners to engage in mutually beneficial transactions. It encourages them to explore the option of internal property transfers, ensuring that the property remains under the stewardship of those who have invested in its preservation and who hold a genuine interest in maintaining its unique charm and value.

This arrangement not only promotes stability and continuity in property relationships but also has broader implications beyond tax considerations:

- **Continuity and Stability:** The measure promotes continuity in property relationships by incentivising co-owners to maintain their ownership for a significant period of time. This stability contributes to better community cohesion and long-term planning. When co-owners have a vested interest in the property's well-being, they are more likely to make decisions that align with sustainable development practices, ensuring that any changes to the property are well-considered and respectful of its history and character.

TARGETED FISCAL INCENTIVES

- **Preservation of Historical and Architectural Attributes:** Internal property transfers among co-owners contribute to the preservation of a property's unique historical and architectural attributes. When ownership remains within a community of individuals who share an interest in the property's heritage value, they are more likely to make decisions that respect its original features and qualities. This helps to prevent hasty alterations that could compromise the property's historical significance.
- **Conservation of Local Heritage and Identity:** By encouraging the retention of the property's original characteristics, the measure supports the conservation of local heritage and cultural identity. Historic properties are often integral to a community's sense of place and identity. By preserving these structures and their attributes, communities can maintain their connection to their history, traditions, and cultural roots.
- **Mutually Beneficial Transactions:** The fiscal incentive encourages co-owners to engage in mutually beneficial transactions, such as internal property transfers. This promotes cooperation and collaboration among co-owners, as they are incentivised to work together to preserve the property's value and charm. Such transactions also ensure that the property remains in the hands of those who genuinely care about its preservation, reducing the risk of speculative or detrimental developments.
- **Sustainable Development Mindset:** The measure encourages co-owners to adopt a sustainable development mindset that prioritises long-term considerations over short-term gains. This mindset aligns with broader sustainability goals, as co-owners are incentivised to make decisions that contribute positively to the environment, community, and local culture.

TARGETED FISCAL INCENTIVES

In conclusion, the fiscal incentive mentioned has multiple positive implications. It does not only offer fiscal benefits to co-owners but also fosters stability, encourages preservation of historical and architectural attributes, supports local heritage and identity, promotes beneficial transactions, and cultivates a sustainable development mindset. By combining financial incentives with broader goals of cultural preservation and responsible development, this measure contributes to the overall well-being of communities and their built environments.

Proposed Budgetary Measures

01

Align incentives in the property sector to Gozo's socio-economic and environmental needs.

02

Incentivise the finishing of the existing supply of property, whereby the end customer would be able to recoup part of the VAT paid, if the property is finished within a two year time frame. If the property finishings are done in such a manner that the property would be rendered more sustainable the part of the VAT to be recouped would be greater.

03

Incentivising the transfer between property co-owners. This can take the form of reduced capital gains tax or stamp duty tax. By providing a financial benefit to co-owners who engage in these transactions, the government encourages the preservation of long-term property relationships and the maintenance of a property's intrinsic qualities. This approach recognizes the value of fostering sustainable property management practices and creating incentives for owners to prioritise preservation over short-term financial gains.

COMBATING PROBLEMS RELATED TO ACCESSIBILITY

4

Accessibility will always remain an important issue for Gozitan based enterprises. During the past years the Gozo Business Chamber has encountered specific sectors, which are having difficulty to compete on a national level due to issues related to sustainability.

A Transport Scheme for Wholesalers, Importers and Retailers

In its last budgetary document[8] the Gozo Business Chamber had highlighted three contributing factors that are increasing costs for Gozitan based enterprises: (a) higher labour costs; (b) higher costs of raw materials; and (c) added transportation costs related to the increased frequency of travel to the main island of Malta. While for the first two some elements are similar to their counterparts in Malta (though there are specific cost drivers in the Gozitan economy) the last element is one of the most important cost components for Gozitan based enterprises.



Figure 1: Competitiveness of Gozitan firms

[8] The Gozo Business Chamber (2022), Resilience Sustainability and Recovery. The Gozo Business Chamber's Budgetary Proposals, pp. 5-6 (online) : <https://gozobusinesschamber.org/wp-content/uploads/2022/08/GBC-Budgetary-Proposals.pdf> [accessed 5 June 2023].

In August 2022 and February 2023 the Gozo Business Chamber conducted its business sentiment survey. 13.2%, in the first survey, and 20.5%, in the second survey, stemmed from the importing, wholesale and retail sectors. 15.1% in August 2022, and 27.7%, in February 2023, of all those who replied to the questionnaire, mentioned problems related to accessibility between the two islands as one of the main issues hindering their operations.

Apart from the cost of transport and fuel, one has to factor in the added waiting time (especially at the Ċirkewwa Terminal) that is not productive but which has to be paid. In a rapidly evolving competitive scenario whereby companies in Gozo are not operating only in Gozo but also on the main island of Malta, and which consequently are travelling on a daily basis between the two islands, costs related to transport are significant.

In the past years an evolving economic scenario could be seen whereby the figure of the Gozitan sole distributor who would be entrusted by the importer located in Malta to deliver goods in Gozo, has disappeared, as importers are choosing to distribute the goods themselves. On the other hand there has been a rise of Gozitan based enterprises who are importing directly from abroad and distributing the products on the whole of the Maltese territory. This is because they cannot sustain themselves if they remain solely based in Gozo. While this has created significant economic opportunities with Gozitan based enterprises now trying to venture on the whole of the national territory, the increased transportation costs means that their profit margin is significantly lower than their Maltese counterparts. This is because in order to remain competitive they cannot increase prices to reflect the added transportation costs. While Government is currently assisting the manufacturing, freight and agricultural sectors no form of assistance is being provided to the importing, wholesale and retail sectors based in Gozo.

The Chamber is proposing that a scheme similarly structured to that of the Malta Enterprise Scheme for the manufacturing sector should also be made available to the wholesale, import and retail sectors after due checks are carried out with the other three entities who administer

similar schemes. This would be done so that it would be ensured that the same entity would not be benefiting for the same eligible costs under a different scheme.

This proposal is being made on the grounds that the Malta Enterprise scheme acknowledges also the cost of the workforce, which is also an essential prerogative for the commercial sector.

A focus group between Chamber representatives and the Government, should be enacted to formulate this scheme and the way forward how this should be implemented.

Supporting the Artisan Sector

The artisan sector in Gozo merits specific attention. The same argument being put forward for wholesalers, importers and retailers applies also to artisans. For artisans in Gozo to be able to sustain themselves they also need to participate in the numerous artisan fairs which are being organised on the island of Malta. This would enable them to continue to grow and to further showcase their product to a larger market. Nonetheless this entails significant costs, due the time and added travel costs. The Chamber is therefore proposing a scheme which would assist and enable Gozitan artisans to participate in artisan fairs in Malta.

Discussions should therefore be held between the Government and the Malta Crafts Foundation to determine the needs of the artisan sector in order to be able to formulate such a scheme. Nonetheless it is important that only artisans registered with, and included in the Registrar of Crafts would be assisted, and that only travel costs related to the participation in activities organised by the Malta Crafts Foundation, or those that the Malta Crafts Foundation is collaborating with, would be supported.

Proposed Budgetary Measures

01

Supporting the wholesale/import and retail sector through a scheme which would assist them to cover the added transportation costs (including the cost of labour) to provide their services on the main island of Malta.

02

Assist Gozitan artisans to participate in artisan fairs being held on the main island of Malta.

INFRASTRUCTURE

5

INFRASTRUCTURE

The Chamber notes with satisfaction the launching of the public consultation process by the Gozo Regional Development Authority on the Victoria Urban Upgrade Project. Last year the Chamber had advocated the need for a multistory sustainable underground car park.

This has in fact been one of its main proposals for a number of years. The Chamber is satisfied that this will be an integral part of the proposed project which would also see the creation of an ecological green park.

In fact the project will seek to:

transform the existing parking area in Victoria (adjacent to the Villa Rundle Gardens and the Bus Terminus), including the adjacent football ground, into a green park. This entails relocating the parking spaces underground, with circa 800 car spaces being made available. [9]

As indicated in the same document, Victoria is bordered by six towns and villages, is the centre point for the island in terms of the road network and provides the only thoroughfare in order to commute between several localities in Gozo. This apart from the fact that it hosts some of the most important heritage sites on the island, and is the venue of various commercial enterprises, and government entities which are established there. The reliance of both residents and tourists on the use of private vehicles have exacerbated traffic-related issues and congestion in Victoria. The current situation leads to several vehicles circling around Victoria for a parking space.

The Chamber agrees with the GRDA that this project which is estimated to cost around Euro 35 million should be supported through the Sustainable Urban Development Fund.[10] To this end it is important that after adequate consultation this project is implemented.

[9] Gozo Regional Development Authority (2023), GRDA Vision for Victoria Urban Upgrading. An Introduction to the Concept, p. 3 (online) : <https://grda.mt/wp-content/uploads/2023/06/GRDA-Vision-for-Victoria-Urban-Upgrade-An-Introduction-to-the-Concept.pdf> [accessed 4 August 2023]

[10] Gozo Regional Development Authority (2023), V. Park Proposal. Potential Benefits, Projected Cost and Economic Impact, p. 6 (online) : <https://grda.mt/wp-content/uploads/2023/07/V.Park-Proposal-Note-for-GRDA.pdf> [accessed 4 August 2023]

Another project which was earmarked for Gozo, and which the Chamber believes is necessary for the island is a new hospital.

As indicated in its last budget document by the Chamber:

The investment made in the new campus of the Queen Mary University of London here in Gozo, while being a very good experiment, needs to be complemented with a larger hospital offering better facilities. The Queen Mary University of London campus in Gozo has shown that Gozo can be an investment destination for innovative types of investment. However, this will be stalled if the University is not complemented with a new hospital.

Moreover, a new hospital would not only benefit the island of Gozo, but the Maltese population at large, especially if it specialises in specific areas. Furthermore the community in Gozo needs a new hospital which can cater for the changing needs of the Gozitan community.[11]

Proposed Budgetary Measures

01

Implement the project for an ecological green park in Victoria with a multistory underground car park underneath.

02

Implement the project for a new hospital for Gozo.

[11] The Gozo Business Chamber (2022), *ibid.*, p. 13.

CONCLUDING REMARKS

6

CONCLUDING REMARKS

We can only be competitive by being distinctive. Nonetheless it is important that we delineate exactly where we want to achieve this distinctiveness. To this end while economic growth is important this cannot be achieved at all costs or in sectors, which will cause long-term harm to the island.

While efforts in this area have not been explicitly mentioned in this document, Gozo's drive to achieve net carbon neutrality prior to Malta should continue. In the energy sector Gozo should be the driving force for the whole nation driving also research efforts in this area. The Chamber believes that its long-term proposal of having a specialised institute on research which would test and deploy sustainable technologies on the island is a very valid one. The same applies to its proposal for the deployment of specific incentives to attract enterprises to the Gozo Innovation Hub in Xewkija. The success of specific Gozitan based enterprises in areas such as Information Technology shows that the establishment of such enterprises on the island is not impossible. While Government has invested significantly in the Hub, and the second fibre optic link between the two islands, enterprises need to be attracted to the Hub in order to reach its full potential.

The budget proposals earmarked in this document are addressing both urgent issues related to the impact of certain measures on the environment, the competitiveness of Gozitan-based enterprises, and also long-term measures which will see Gozo progressing in the right direction in a sustainable manner.



THE GOZO BUSINESS CHAMBER

www.gozobusinesschamber.org