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AGRICULTURE IN MALTA

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Introduction

In 2005 and 2006, Maltese agriculture continued to adjust to EU membership and to its single market, with strong emphasis on environmental awareness, food safety and animal welfare. This adjustment was not an easy one as it followed many years of protectionist policies. In fact, all sectors required either radical reorganization in the way they operate or outright restructuring.

Special Policy Program for Maltese Agriculture

Not surprisingly, there was also heavy dependency on state aid schemes for income support, as negotiated with the European Union under the Special Policy Program for Maltese Agriculture (SMPPMA). This program allowed Maltese producers of tomatoes for processing, fresh fruit and vegetables, wine, pig meat, milk, poultry and eggs to benefit from a special temporary state aid regime intended to compensate the loss of revenue of farmers resulting from the fall of local prices after accession to the EU. This assistance was adapted in each sector concerned according to the assistance existing under the current CAP. The maximum level of aid payable to producers was calculated on the basis of the price differential between the EU prices (including transport) and the Maltese ones (prices taken into consideration were producer prices). Additional amounts per sector for marketing and restructuring were also provided.

As is the norm, the transition period is limited: seven years for the animal products and eleven years for the crop from the date of accession (2004).

The degressivity of State aid for animal products is as follows:

1 st Year	100%	5 th Year	54%
2 nd Year	95%	6 th Year	36%
3 rd Year	90%	7 th Year	18%
4 th Year	72%		

For crops the degressivity in state aid is as follows:

1 st - 2 nd Year	100%	8 th Year	60%
3 rd - 4 th Year	95%	9 th Year	45%
5 th - 6 th Year	90%	10 th Year	30%
7 th Year	75%	11 th Year	15%

When calculating price differences with regard to the above-mentioned state aid scheme, EU producer prices were established by using prices from EU countries that were expected to sell their products to Malta after accession.

In order to avoid that the compensatory aid scheme stimulates production, between 2005 and 2006 the state aid was generally limited to the levels of historical production (during a three-year reference period composed of years 1998-1999-2000). However in the fruit and vegetables sector, the year 1998 was used as the reference year for the calculation of

price differences in relation to the support provided to producers. The level of aid provided was subject to ceilings based on the historical reference for each sector.

As stated above the agricultural sectors involved used to rely heavily on the state aid, which on many occasions acted as a disincentive for change and restructuring, particularly in those sectors which had traditionally relied on the state for operational support, including pig meat and crop production. The poultry sector on the other hand undertook radical restructuring but at the same time suffered losses in market share due to increased product inflows from the EU and third countries.

It should be stressed that Maltese agriculture subsists on a small scale deriving from the small territory of the country. Though multifunctional in nature, local agriculture suffers from a very limited ability to reap economies scale and problems associated with the relatively high costs of transporting cereals for fodder for its livestock sector.

Rural Development Measures

The SMPPMA provides for transitional state aid to farmers to open up entrepreneurial opportunities that can feasibly give a new impetus to the rural economy. However, by itself the program cannot address the myriad of challenges still facing Maltese agriculture. In fact, the overall policy objective is aimed at fostering a continuous shift of support detached from prices and quantities towards quality improvement and rural economic development.

In this respect, rural development measures aimed at investment in agriculture holdings and marketing and processing initiatives by the agri-food sector were launched in 2005 and 2006. As a result, while the SMPPMA sought to maintain the income level of producers through price support, the Rural Development Plan sought to assist with the development of the restructuring and modernisation process.

Additional restructuring through state aid was provided for some products, especially, dairy, eggs, poultry and to a lesser extent pig meat. Upgrading structures and improving quality control and other enhancements in the working environment were deemed necessary for higher productivity in these sectors.

In the case of tomatoes for processing as well as fresh fruit and vegetables, steps were taken to help set up producer organizations with aid being provided either through EU funded programs or state aid as envisaged under EU legislation. The set up of such organizations was considered to be an important step forward for crop farmers as they sought new avenues for marketing their produce directly.

During 2005 and 2006 the fresh fruit and vegetable sectors was affected by intense competition but the decline in factor income in 2005 of 5 per cent (compared with 2004) was mainly attributable to falling production in the poultry sector conditioned by competition and by restructuring in the slaughtering business. Subsidies on production

compensated somewhat for losses in factor incomes but increasing input costs were experienced by crop and livestock farmers alike.

However, the temporary State aid aimed at stabilizing prices of EU purchases of maize and barley (local forage was insufficient to meet demand) ensured that local milk and pig meat remained competitive despite some problems in 2005. The dairy sector, mostly as a result of vertical integration, remained one of the best performers in the Maltese agriculture sector, though there remains scope for further improving efficiency in production and increasing the yield per cow. Malta is self-sufficient in the production of fresh milk.

Malta is also self sufficient in pig meat, where production is organized on cooperative lines. In 2005 and 2006 the pig meat sector required improvements in cost along the production chain and thus in production performance. The main challenge here remains the mindset of producers with respect to the realities of an intensely competitive market.

Though contributing only about 3% to the Maltese GDP, agriculture has an important role and function in the national economy and in the social fabric of the islands. Malta's accession to the EU has meant that the Island is part and parcel of the EU Single Market. That lends relevance to a primary national economic goal, that of encouraging the sustainable use of resources and strengthening the synergies between environmental protection with its agricultural base and overall growth.

The Rural Development Plan for the Maltese Islands (2004-2006) acknowledged the importance of investments in agricultural holding and investments in processing and marketing as catalysts of change in agriculture. As a matter of fact, the Plan charted a programme of structural change in line with the overall goals of the CAP reform.

The emphasis on production output has been complemented with farmers being encouraged to specialize along product lines and to concentrate on quality rather than quantity.

Conclusion

Overall, in 2005 and 2006 many farmers and livestock breeders responded to the need for change in consumer demand for traditional and specialized products and to the need for more environmentally sensitive forms of production.

Faced with an open and highly competitive market, Maltese agriculture still requires a change in the attitudes of stakeholders. Towards this end, it is important that producer and consumer preferences continue to orientate themselves towards quality, innovation and competitiveness. Moreover, a new cultural mindset would help to attract young farmers to start up enterprise in the sector.