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Sustainable Organic Farming, from an Import Levy Protected Market to a Free Trade Economy of an Island State

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Abstract: Since the information on organic farming is very limited due to the small size of the archipelago of Malta, I will provide a break down of the Agricultural sector as well as a brief idea on how the market works. The purpose of this study is to establish the effect of the entry of Malta into the EU from a macro environment point of view and to determine how the policy of the Agricultural position paper affects the decision making regarding the promotion of organic produce for the purpose of conserving the local market and the culture of the rural people.

Introduction

Agriculture

Malta has around 100,000 hectares of fertile agricultural land, of which 40,000 hectares is used to grow cereals, coarse grains, pulses and clover. The land use is rotated usually on a three-year crop rotation. It is estimated that 10% is grown with organic manure and 90% with synthetic fertilizer for forage purposes.

The climate in Malta is warm sunny and humid with an average rainfall of 500mm/year. This is ideal for the growing of cereals, where no pesticide application is used to control viral diseases since they are minimal. In April and May, the crops are harvested for hay and straw bales for fodder. Part of the grains is stored for the next harvest. The main cash crops are potatoes where 6000 tons of potatoes are exported via the Government. Tomatoes take up 600 hectares which are used for local consumption and processing/canning plant. Lastly, 1000 hectares of vines are dedicated for quality premium wines, which are expected to increase to 10,000 hectares. Fruit and vegetables are an important component of Maltese Agriculture, where approximately 65% of our annual needs in value terms is produced. The total annual production is approximately 72,000 tons of vegetables and 6000 tons of fruit.

Horticulture

Horticulture consists mainly of pot plants and cut flowers for local demand. Most of the trees, except for the indigenous species, are imported from abroad. Currently an area of 18 hectares is used for the production of flowers and live plants. The main flowers grown are carnations, chrysanthemums and roses.

Dairy

To supply the dairy needs, 40% of the land area is used for cow fodder. The head capacity is of 20,000 cattle of which 50% are milked daily and the other half are heifers. Subsidized concentrates are imported from CAP as a non EU country. Total milk production is approximately 48000 tons per annum. The milk sells for 0.40 Euro per litre. The Co-op Dairy produce and processors bottle the milk but they do not use ultra heated treatment, having a shelf life of four days. The dairy company produces yogurt and cottage cheese. The cheese consumption on the island is equivalent to 139,000 tons. The small cottage industries in minor communities produce around 1600 tons of fresh sheep and goat cheeselets for the local market. Cow manure is used totally for horticulture, and is sold at around 25 Euro per metric ton including transport.

Pig Industry

The pig meat co-operative is made up of 120,000 heads of pigs upon which we depend totally for imported pellet concentrates. The industry comprises two huge companies, one of them set on a four square kilometer island having 5000 heads. The rest are made up of small litters of around 10- 50 pigs. These are unfortunately farmed intensively in enclosures, causing environmental pollution. Modern composting technology is practiced and an attempt is being made to have it marketed. All the pigs and cows are tagged individually having their life history recorded on them from birth to death. The industry is protected by Levies since our economy of scale can never come at par with the EU competition.

Egg layers and Broilers

Chickens are mainly kept in batteries in intensive three hatcheries with a hatching capacity of 9 million chicks per annum. We have 281 broiler poultry farms, 63 layer farms and 83 mixed. There are 11 approved slaughtering houses. Malta has a high self-sufficiency ratio in this sector, amounting to 85%. We produce 1.5 million broiler hatching eggs per annum and import 6.2 million eggs. All produce is used mainly for local consumption which comprises 1.2 million tourists and a local population of 380,000.

(All above figures are taken from Agricultural horizontal issues, 2001)

Market Analysis

In 1964, Malta acquired its Independence from the British Commonwealth. Thus, the country had to see how it could survive, since from a military base, it now stood on its own as a neutral country. Therefore, the economy had to, in a span of 38 years gear heavily on Industry to create wealth and work for the nation, since it had no natural primary resources and was required to import all raw materials. Today a heavy industrialized economy is not stable, and the least shrinkage in the economy creates instability affecting the labor force directly, causing closure of factories and a high unemployment. Also, the wealth is not distributed fairly among the concerned society leaving no real wealth to be reinvested in the economy to raise the standard of living of the people. Today the Agricultural sector has dwindled from years of neglect to a mere 2.5% of our Gross Domestic Product.

Central Vegetable Market

Producers of fresh produce have a Central Vegetable Market centre where Farmers sell their fresh Produce to the Central Co-operative which is made up of five individual Companies. Un-

fortunately only about 30% of the produce passes through the Market, since there is no control on quality and the main bulk of the profit goes to the Central Market co-operative and not to the farmer. Transactions are made in cash and without any serious accountability leaving openings for corrupt trade practices. The other 70% is sold directly to mobile vendors who sell vegetables in the street and to fixed outlets such as supermarkets, retailers, hotels, etc. The prices are fixed weekly according to the law of supply and demand creating a huge shifting of prices in times of drought and natural disasters. The Central Vegetable Market caters for the intensive mono-crop grower who has to dump his produce since vegetables is a highly perishable commodity. And only the handful of large farmers that can affect the price of the market, invest in personal cold storage facilities for their own benefit since they are still being considered at the Central Vegetable Market. This behavior shows a lack of interest to become professional.

Field survey

A field survey carried out by a group of university students over a two month period, showed that fruit and vegetable sellers were making huge profits on a range of products produced by local farmers, in some cases over 500% profit for what they would pay the farmer at the Central Vegetable Market. These excessive profits are fuelling inflation and the cost of living pressures which in turn have a negative effect on Malta's competitiveness. The surveyed range of fruits and vegetables in different localities around the island was then checked with the Central Co-operative Society in order to enable the comparison of money earned by farmers with what the price sellers charge the consumer. In short, the farmers get the bone while the sellers get the beef. The students' shopping visits included those of fruit and vegetable shops, hawkers at markets, mobile greengrocers and the odd one-point hawkers. Prices at fruit and vegetable shops, most of which are air-conditioned, were invariably higher than those charged by individuals. The best prices for the consumer are obtained in the large open markets where produce is being sold by the family owners and fierce shoulder to shoulder competition exists. It was also noted that one-point hawkers tend to be much less expensive than shops and are also inclined to charge regular clients less. Excessive profits also seem to be the order of the day on imported products, whether there is a levy or not. In one place, a kilo of imported peaches which has a 2.5 Euro levy was marked 7.5 Euro/kg and in other places 6.0 Euro/kg depicts some market figures (table 1).

Table 1.

PRODUCT	CENTRAL Market price/kg	PRICE /KG Street Vendor	PRICE/KG Vegetable shop	%
Imported Peaches	-	6.00 Euro	7.50Euro	125
Imported Grapes	-	3.00 Euro	3.75Euro	125
Lettuce	0.15Euro	0.25 Euro	0.45Euro	300
Tomatoes	0.25Euro	0.75Euro	0.95Euro	380

(May 2002, University of Malta Student field Survey)

Imported Grapes from the street Fruit and Vegetable seller is priced at 3.0 Euro/kg. At a shop it was priced at 3.75 Euro/kg. This shows a 25% extra net profit per kg. As for lettuce in the street, it is selling right now for 0.25 Euro and in the supermarket for 0.45 Euro despite its being half the size. Imported oranges can be found at 0.75 Euro/kg and second rate apples for the same price while fresh imports are about 1.70 Euro/kg. The survey shows that shopping around which is time consuming can provide consumers with reasonable savings, but are invariably skinned considering what the farmers get.

Organic marketing

At present, certified organic processed products are being imported and distributed in super-markets and selective health shops.

Only about one hectare of land is cultivated for fresh vegetables and ten hectares for citrus fruit. The ministry of agriculture is in the process of offering monetary compensation to farmers who enter a five year contract for the conversion of environmentally friendly land management with an emphasis on organic agriculture if the area is being intensively cultivated.

(Extension Service farmer survey analysis, May 2002)

There exists a new market opportunity to supply a percentage of the tourist industry via the five star hotel industry that imports high quality produce to satisfy its customers.

Measures for Strategic products and other traditional products

Phases and products

The Maltese agricultural products will be negatively affected by the adoption of the common Agricultural Policy (CAP), especially with reference to the dismantling of current import levies as a consequence of the participation of Malta in the single market. The main problem in this field arises from the fact that most typical products of Maltese agriculture are of a strategy aimed at the survival of agricultural production in Malta, and are thus supported by the CAP.

In order to smoothen the impact of the change in the policy framework, the implementation of a Special Market Policy Programme for Maltese Agriculture was prepared by Government Officials. This programme was initiated in July 2002, and will cover a period of thirteen years. The length of this period considers the impact of participation in the single market on a product by product basis, and is necessary to achieve the implementation of the *acquis* in agriculture. The most sensitive products of Maltese Agriculture are divided into two groups.

Three strategic products

These products enjoy climatic advantages, likely to be significantly developed in terms of quality differentiation in the future, and likely to form the basis of the Maltese agricultural economy in the long run. These products are potatoes, tomatoes for processing and wine. Organic olive oil would be included in the future. (Special Market policy Programme for Maltese Agriculture, 8 April, 2002 Page 2)

Other traditional products

These products although less likely to develop significant competitiveness in terms of quality and more limited in their relative weight on the Maltese agricultural economy, have had a long-standing presence in Maltese agriculture. These traditional products are pig meat, poultry meat and eggs, other fruits and vegetables as well as dairy products, and related sectors. A crucial element for the success of the Special market policy programme for Maltese Agriculture is an effective monitoring of the whole process, in co-operation with the European Union.

- a) The levy dismantling process outlined in the SMPPMA is formulated on historical and current trade flows. Should the process and changes to traditional trade flows, including imports from North African countries namely Egypt, Morocco and Tunisia, lead to an excessive displacement of local production, such a process would either be slowed down or

compensatory measures would be increased. Another solution is to create a niche market for high quality product differentiated or “go-organic” produce.

- b) Close monitoring of the pattern of land-use among products is necessary in order to avoid undesired outcomes and possible imbalances among products.

Fresh fruit and vegetables

- a. *Fresh fruits*: apples, apricots, table grapes, lemons, nectarines, sweet oranges, peaches, pears, strawberries, sugar melons and water melons.
- b. *Fresh vegetables*: carrots, cauliflower, lettuce, dry onions, eggplants and tomatoes for fresh consumption.

Levy dismantling from the 1st of July 2002 to 2008 will cause a lot of negative effects. To counteract this effect arising from the lower prices that will prevail once the import levies will be removed, a direct income support scheme for fresh fruit and vegetables producers is being introduced.

Table 2. Levy Dismantling Programme and Introduction of Compensatory Measures for the Fresh Fruit Sector. (SMPPMA 8 April, 2002)

Year	Average import levy (% change)	Subsidy (Euros/tonne)	Cost of the programme (000 Euros)
2002	-14	17	330
2003	-29	36	698
2004	-43	54	1,047
2005	-57	71	1,376
2006	-71	89	1,725
2007	-86	108	2,094
2008	-100	125	2,423
2009		125	2,423
2010		125	2,423
2011		94	1,822
2012		63	1,221
2013		31	601
2014		0	0
TOTAL			18,183

*Total fruit production to which the subsidy will be applied is 19,386 tonnes/year

Aid is being given exclusively on the basis of the products passing through organized markets. The objective is to improve supply management, thus increasing the average quality of local production. Still in initial stages the position paper government is reluctant to mention organic produce as there is a lot of negativity from the officials.

Given the proposed schedules seen on the following tables 3 and 4, an attempt is being made to address the restructuring of the sector in the framework of structural funds as well as rural development provisions. The objective is to further improve the logistics as well as increase quality competitiveness and product differentiation, that is to enhance and develop specific local varieties liable to become Protected Designation of Origin (PDO) or Protected Geographical In-

dication (PGI) in line with the acquis, through technical research. (SMPPMA 8 April 2002, page7-9)

Table 4. Levy Dismantling Programme and Introduction of Compensatory Measures for the other Fresh Vegetable Sectors*

Year	Average Import levy (% change)	Subsidy (Euros / tonne)	Cost of the Programme (000 Euros)
2002	-14	4	153
2003	-29	7	267
2004	-43	11	420
2005	-57	14	535
2006	-71	18	688
2007	-86	21	802
2008	-100	25	955
2009		25	955
2010		25	955
2011		18	688
2012		13	497
2013		6	229
2014		0	0
TOTAL			7,144

*This excludes potatoes and tomatoes for processing

Total Vegetable production to which the subsidy should be applied is 38,208 tonnes /year.

Socio - economic Impact

Rural development

It is important that there should be a vision for the sustainable development of rural Malta in a manner which leads to its increased economic competitiveness in a demand-driven, international market system, but in a context which takes into account its environmental, social and cultural dimensions and their importance to the Maltese way of life.

The goals being-

- to address the prioritization in implementing the accompanying measures of the CAP and advise on payments modulation, taking into account the specific circumstances of Maltese agriculture;
- to delineate and prioritize schemes of agro-environmental measures and advise on aid modulation;
- to develop, in particular, an animal farm waste management programme and advise on aid modulation;
- to study the upgrading and modernization of the processing and marketing side of Maltese agriculture and advise on an aid modulation scheme to the processing and marketing of agricultural products;

- to advise on other measures accompanied with an aid modulation scheme for the general development of rural areas. Measures which, *a priori*, are deemed of relevance include:
 - a. management of agricultural water resources,
 - b. village and hamlet renewal,
 - c. the introduction of a rural enterprise scheme,
 - d. promotion of typical traditional products and quality agricultural products, and
 - e. the promotion and establishment of agro-tourism activities integrating the support and participation of rural people.

This Multifunctional system will also provide better protection and development of the environment and preserve and develop traditional rural resources, know-how, heritage and quality of life. This will offer more differentiated, higher quality products and services to domestic consumers and foreign tourists. It will also integrate and serve the needs of the tourism and Agro-Processing sectors to maximize the growth of the GDP.

(April 2002- Directory of Information press release from Hon Ninu Zammit Minister of Agriculture and fisheries)

Conclusion

For a balanced economy, Malta should aspire to increase its meager 2.5% and create a primordial role in Agriculture to a level of 20%. This point should must be made clear despite the fact that the government is offering financial help for the next 12 years to make up for the losses on the levy protection. The organizations are being told to restructure and become more competitive. Our limited economies of scale and the liberalization of world trade with reference to North African Countries can never stand a chance to compete with them. The importation of cheaper products by the giant Agro-Industries will create a surplus of local production not being competitively priced which will kill the profitability and survival of the local activity. Only through educating the consumer and diversifying to a certified organic quality produce can the market be able to tap into niches and create further diversification through cottage industries where they will eventually grow into Strong Co-operatives on a multi-lateral level with new organizations, leading to a Neo-Humanistic economic sustainable system.