

A general overview of agro-industry

Mizzi L.

in

Busuttill S. (ed.), Lerin F. (ed.), Mizzi L. (ed.).
Malta: Food, agriculture, fisheries and the environment

Montpellier : CIHEAM

Options Méditerranéennes : Série B. Etudes et Recherches; n. 7

1993

pages 93-104

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=93400011>

To cite this article / Pour citer cet article

Mizzi L. **A general overview of agro-industry.** In : Busuttill S. (ed.), Lerin F. (ed.), Mizzi L. (ed.). *Malta: Food, agriculture, fisheries and the environment.* Montpellier : CIHEAM, 1993. p. 93-104 (Options Méditerranéennes : Série B. Etudes et Recherches; n. 7)



<http://www.ciheam.org/>
<http://om.ciheam.org/>

A General Overview of Agro-Industry

Leonard Mizzi

Research Student, University of Reading, UK

Abstract. *Malta's agro-industrial sector cannot in any way be contrasted to the electrical machinery and textile sectors, but nevertheless still has an important role to play in Malta's industrial development. Membership in the EC will undoubtedly have significant implications on sectoral output and employment levels. Efforts have to be made to embark on the necessary restructuring process and channel any potential pre-accession and structural aid to those sub-sectors which are prone to be mostly negatively affected by accession, namely meat and vegetable processing and grain milling. In order to survive, Maltese agro-industry should also closely monitor the evolution of eating habits amongst the Maltese population.*

Titre. *Une vue d'ensemble de l'agro-industrie.*

Résumé. Le secteur agro-industriel maltais ne peut en aucun cas être comparé aux secteurs électronique et textile; cependant, il a un rôle important à jouer dans le développement industriel de Malte. L'adhésion à la Communauté Européenne aura certainement des répercussions importantes sur la production sectorielle et les niveaux d'emploi. Des efforts doivent être faits afin de commencer le processus de restructuration nécessaire et de canaliser l'aide requise, lors de cette phase de pré-accession, vers les sous-secteurs susceptibles d'être les plus affectés par l'entrée dans la CE, en particulier ceux de la transformation des viandes et légumes et la minoterie. Afin de survivre, l'agro-industrie maltaise doit aussi prendre en compte plus précisément l'évolution des habitudes alimentaires de la population maltaise.

Keywords. Malta – Agro-industry – European Community – Cooperatives – Consumer preferences.

The industrial sector in Malta, together with tourism, is one of the pillars of the Maltese economy both with respect to employment, investment, exports and contribution to Gross Domestic Product (GDP). In 1991, the share of industry in total GDP at factor cost stood at 27%, 23% of the total gainfully occupied population while industrial exports constituted 93.5% of Malta's total export value. Within this overall context, the Maltese agro-industry has a relatively marginal role.

The analysis, though concentrating on food manufacturing, will also delve into the beverages sub-sector and, to a limited extent the tobacco sub-sector, as these are also considered "of agricultural origin".

From data obtained from the January-December 1991 Economic Survey, it can be highlighted that Maltese agro-industry contributes some 17% of total manufacturing sales, 1.7% of total manufacturing domestic exports and 50% of local sales. The food, beverages and tobacco industrial sub-sectors, as a group, remain the second most important segment of Maltese industry in terms of percentage distribution of total sales by all large manufacturing firms despite the continuous decline in its share over recent years. The decline is largely the result of the predominant role that the electrical machinery subsector has assumed in Malta's general economic development process.

Utilising the yardstick of the ratio of gross trading profits to value added, the Central Bank of Malta Annual Report for 1991 outlines that "the second most profitable sector (after machinery and equipment) was the food, beverages and tobacco sector with an estimated gross profits ratio of 0.65". This ratio was

consistently registered throughout the period 1979-89 but there is a clear sign of stagnation since 1985. A principal reason to this situation is that per unit costs have gradually increased but due to the close monitoring of prices by the Department of Trade, selling prices have not registered a similar pattern and have remained constant at 1988 levels.

Table 1 below shows the contribution of each sub-sector. Private manufacturing employment within the entire food, beverages and tobacco sector reached 14.9% of total private manufacturing employment—9.6% (food), 4% (beverages) and 1.3% (tobacco). The structure of Maltese agro-industry by number and size of establishments is shown in Table 2.

Table 1. Main Statistics of Maltese Agro-industry Jan-Dec 1991

	Food	Beverages	Tobacco
			(Lm 000)
Sales			
Total	52751	23506	13506
Domestic Exports	4513	327	1339
Local	48238	23179	12167
Net investment	1602	1111	367
Average weekly earnings/ employee (Lm)	64.04	77.75	55.7
Employment	2849	1193	393

Source: *Economic Survey, 1991.*

It is immediately discernible that all three sub-sectors are inward-oriented, the main reason being the relative protection enjoyed by local agro-industry, lack of scale economies and high input costs. Most of the enterprises within each of the three subsectors also lack highly qualified personnel and the necessary financial backup to undertake marketing plans and modernisation programmes (the main exception being the beverages subsector).

In their report on the effects of Maltese manufacturing industry after EC entry, Coopers and Lybrand (1991) outline that "eleven of Malta's 61 sub-sectors involve a substantial input of largely agricultural raw materials". The dependence is high in certain sub-sectors—wines, confectionery, animal feeds, animal and vegetable processing and bakery products.

A wide array of products is manufactured within the food, beverages and tobacco sector but Malta remains a net importer for its food requirements and for the raw materials used in the beverages and tobacco subsectors. The food subsector may be broadly subdivided into three sections—animal-related production which includes the feed industry, meat processing as well as the processing of milk and derived products, fruit and vegetable processing and other food preparations—cereals-based, confectionery and oils and fats.

In the beverages subsector there are firms which specialise in wine production but the largest enterprises are engaged in the production of beer and non-alcoholic beverages, namely soft drinks, mineral water and fruit juices. Maltese consumption of non-alcoholic beverages (as a percentage of total private consumption expenditure on food, beverages and tobacco) is the highest when compared to that in EC countries.

The tobacco subsector has a dual orientation—one which caters for the local market and the other is export-oriented though the latter branch is being confronted with severe competition from low cost Asian developing countries.

Table 2. Structure of Maltese Agro-Industry, 1989

Sector	No. of establishments		Range of employment							No. of large establishments 1992
	Total	"Large"	11-19	20-29	30-39	40-49	50-100	100-200	>200	
Slaughtering, preparing, preserving meat	9	5	0	3	0	1	1	0	0	7
Processing of fluid milk, cream and related products	9	5	0	2	1	1	0	1	0	3
Canning and preserving of fruit and vegetables	10	7	2	1	1	0	2	1	0	3
Vegetable oils and fats										3
Grain mill products	9	8	6	1	0	0	1	0	0	6
Bakery products	287	14	7	1	2	2	2	0	0	14
Confectionery	7	3	1	0	0	0	2	0	0	3
Other food	15	7	4	2	0	0	0	1	0	5
Animal feeds	12	2	0	0	0	1	1	0	0	3
Wine industries										
Malt industries	17	5	1	0	0	1	1	1	1	1
Soft drinks and carbonated waters	10	3	0	1	0	0	0	1	1	3
Tobacco	6	2	0	0	0	0	0	1	1	4

Note: "large" industries denotes firms employing ten or more persons.

Source: *Industrial Statistics (1989)*.

The source of the data for 1992 is the Department of Industry.

In the food sub-sector, three companies have complements exceeding 100 employees. These are engaged in milk processing, vegetable processing and miscellaneous processed foods. The average firm in the sector employs 24 employees. The Coopers and Lybrand report highlights that the confectionery and bakery products, cocoa/chocolate preparations subsectors benefit from a combination of tariffs, high levies or full prohibition of import competition (as is the case with bread, cakes and pastries).

Within the beverages sector, four companies have complements exceeding 100 employees, one of them reaching nearly 580. These are engaged in the production of mineral water, soft drinks, wine and beer. Coopers and Lybrand (1991) outline that in the soft drinks sub-sector "the Malta tariff against third countries is an enormous 160% and there is an additional import levy of over 50%". Similarly wines and beer "also incur substantial specific duties as well as an import levy equivalent to over 50% in the case of beer".

As has been already stated earlier, local agro-industry remains inward-oriented. In effect, only one company within the food manufacturing sub-sector is heavily engaged in export trade, namely to Near and Middle East countries. New prospects now exist with the opening of a supermarket in Libya selling Maltese products. It is estimated that 18% of exports made by Limsuk—the Maltese-Libyan joint venture—are constituted of products of agricultural origin.

There is a clear strong concentration of investment activity in the beverages subsector, particularly in beer, though in 1991 investment in food manufacturing increased at a rapid pace largely under the impetus of the restructuring process underway. Maltese agro-industry has had to step up its efforts to diversify and upgrade its final output as a result of the trade liberalisation process embarked upon by the new Administration in 1988 and face the challenges that EC entry will give rise to. Total net investment in agro-industry constituted 13.8% of total manufacturing investment in 1991 down from 15.5% in 1990.

Simonds Farsons Cisk Co.Ltd, the major privately-controlled brewery undertook a major investment in 1989-90 raising most of its capital through a public share issue. Investment in Lowenbräu, another brewery, is apportioned between Marsovin, a principal winery (48%), other Maltese interests (12%) and German interests (Lowenbräu, Munich—40%). Lowenbräu started marketing its produce in June 1992. The production capacity of this new enterprise is 100,000 hl (compared to 200,000 hl in the case of Farsons) and though the bulk of production is destined to supply S. Italy, it is expected that a portion of production (estimates put it at 25%) will be directed to the domestic market.

The Economic Survey for January-September 1991 notes that "apart from introducing a larger degree of competitiveness into the local market this investment in beer production opens up significant prospects for the creation of new export markets" (p.118). In effect according to the Italian specialized magazine *// Mondo della Birra*, Malta's beer exports to Italy increased by 92.6% over 1990 reaching 2,555 hl. This is however way below the 5,000 hl quota stipulated by the EC in the 1988 Supplementary Protocol.

It is however anticipated that this target will be reached (or nearly reached) in the course of 1992 (excluding Lowenbräu's entry into the market). Export of beer by Farsons is made in kegs and the principal market is Italy. The export strategy adopted is largely one of "niche marketing", this being largely due to the low beer consumption level of Italian consumers (*Table 3*). Moreover the Italian market is already flooded with very well-established brand names. On the domestic front, Farsons has to confront high induced costs namely freight charges. Currently sea transport is characterised by inflated freight charges due to the existence of a Mediterranean conference line monopoly.

**Table 3. Beer and Wine Consumption in EC countries
(kilos per capita/annum)**

	Bel.Lux	Den	Fra	Ger	Greece	Ire	Ita	NL	Por	Spain	UK
Beer	125.3 ^(*)	n.a.	40 ^(**)	149.6 ^(*)	n.a.	85.3 ^(**)	21.2 ^(**)	87.4 ^(**)	29.1 ^(**)	n.a.	n.a.
Wine	22.1 ^(*)	20.5 ^(*)	72 ^(*)	26.8 ^(*)	30.6 ^(*)	3.8 ^(*)	49 ^(*)	14 ^(*)	60.4 ^(*)	48.7 ^(*)	11.1 ^(*)

(*). Average 1986-1988.

(**). Average 1984-1985

Source: OECD (1991)

Table 3. Continued (litres per head) 1989-90

	Bel.Lux	Den	Fra	Ger	Greece	Ire	Ita	NL	Por	Spain	UK	EUR 12
Wine	21	20	72	26	33	4	63	16	54	41	13	40

Source: *The Agricultural Situation in the Community*, 1991 Report.

With the coming into operation of Lowenbräu, the quota of 5000 hl will not suffice. But how will an increase in the quota (for example to 20,000–25,000 hl) affect production destined to the local market? An increase in export quota will have to be translated into an extension of preferential access to European beer. This is a subtle form of trade liberalization and while injecting a degree of cost competitiveness and choice in the local market, has to be a gradual process. Furthermore all operators in the subsector have to be involved in the design of the new strategy which needs to become operative in a totally different milieu.

Since 1987, new investments by Maltese interests have also been channelled in various agricultural sub-sectors—both in animal and horticulture production—and aquaculture, though this latter industry is largely dominated by the operations of a Monaco-based firm and the National Aquaculture Centre, the latter being an experimental and training centre. Further investment by local and foreign companies in this industry is anticipated in the very near future.

The development of the fish processing sector is constrained by the amount and the kind of fish available, the majority of the fish caught being marketed locally or exported to countries such as Italy, UK and Japan. Niches can be explored in foreign markets for *lampuki* and tuna but this would necessitate a detailed feasibility study, market surveys and a commitment on the part of the fish cooperatives. With an increased demand for fish and a flourishing aquaculture industry the potential for the fish processing industry appears to be quite bright.

The option of fresh fish marketing from the aquaculture centre can also be considered though this industry has been primarily set up to complement NOT substitute traditional fishing or the livelihood of full-time fishermen. Nevertheless the participation of the latter in such a venture can help to provide a wider variety of fresh fish not only to the Maltese population but also to tourists as "many bemoan the fact that fish dishes are scarce particularly in the variety of fish on the menu" (*The Times*, June 9, 1992)

Another project in the sphere of agro-industry set up between Maltese and Italian interests in 1992 is the manufacture of vitamin preparations in liquid and powder form for veterinary use for the North African and Southern European markets. Other projects earmarked over the coming years include food processing and an ice-cream plant.

I. – Agro-Industry and EC Entry

The issue of EC entry and its implications on Maltese agro-industry have not been analysed in detail though attempts have been made by Coopers and Lybrand to provide some indicators as to the main problem-areas and suggest recommendations for negotiations with the EC in the field of industrial policy and related economic reform. Furthermore the Malta Development Corporation has commissioned the Italian Research Institute CENSIS to undertake an in-depth situation analysis of the agro-industrial subsector (besides the furniture industry, another fragile sub-sector) and present recommendations to Government for future strategies.

The processed food and beverages which are covered by the EC-Malta Association Agreement include chocolate and other food preparations containing cocoa, macaroni, spaghetti and similar products, pastry, biscuits and cakes, beer made from malt and chewing gum. For the first four product categories the exemption from the fixed component of the EC's Common External Tariff was granted in 1977 whereas the exemption for the remaining products was only conceded as a result of the Supplementary Protocol between Malta and the EC extending the agreement up to 1990. The coverage of these products is clearly rather limited and EC concessions on Maltese exports are definitely less advantageous than those granted to ACP countries or several other Mediterranean countries.

Coopers and Lybrand (1991) note that in the case of those sub-sectors which rely heavily on imported agricultural inputs such as frozen meat, grains and sugar (the only category of products remaining under the Bulk Buying Scheme is grains) there is the risk that the raw material costs of Malta's agro-industries will rise. The Bulk Buying Scheme was set up by the Socialist Administration in the seventies in order to ensure uninterrupted supplies and that no shortages develop for the main essential commodities. This policy was also used as a measure to control the general consumer price level.

This Scheme would have to be **completely** dismantled and Malta will have to gradually align its prices to the EC reference and threshold prices and current import levels, which benefit from low world market prices as well as EC export subsidies will bear the brunt of the CAP regime.

Naturally all will depend on the future of the CAP (indications of the direction of the proposed reform were announced in May 1992). EC Agriculture Commissioner Mr. Ray Macsharry had been continuously emphasising that the CAP cannot be allowed to continue swallowing up over half of the Community's budget as this will sustain existing inequalities. Progress on this reform, however, has been slow and is not anticipated to come into effect prior to 1995-96 (see paper by Mizzi on the Potential implications on the Maltese economy of adopting the Common Agricultural Policy).

When Malta joins the EC, it will certainly participate in a reformed CAP. However it is still rather difficult to determine with a certain degree of certitude the magnitude of the price reductions and the implications on agro-industry that such a reform will bring about.

With accession, the state-controlled grain importing monopoly Medigrain will have to give up its discriminatory position and allow parallel imports by flour and feed milling enterprises. Medigrain is entrusted with the task of importing all the principal grains to meet Malta's domestic requirements which include hard and soft milling wheats for the production of bread, pasta and confectionery and maize and barley for the compound feed industry. There is an on-going debate as to the viability or otherwise of such a policy when one considers the per unit costs involved in importing small quantities rather than bulk. A consortium between the feed mills on the one hand and the milling industry on the other may be one of the medium-long term solutions for the eventual dissolution of Medigrain.

A segment of the feed industry argues that it is possible that, with the dismantling of the Bulk Buying Scheme and the Price Stabilisation Fund (PSF)¹, input prices will be lower. Over the recent past, world prices for cereals have been systematically declining although the maximum price established by Government did not reflect these price movements and this has been translated into higher profits for Medigrain. The same argument can be extended to flour milling.

Grain is allocated to seven mills on the basis of a quota established on the (original) capacity of each mill. Average capacity utilisation is 50%.

Wheat consumption in Malta currently stands at 850 tonnes per week, the total amount distributed to the millers being 1,000 tonnes a week. The wheat quota has recently been increased to 1,200 tonnes a week. This increase has been granted so that millers could stock flour and allow it to settle for a week before selling it to bakers.

There are calls for a consolidation of the flour mills into one or two companies together with the introduction of new technology to replace the rather archaic current plant and machinery. It is estimated that even the local mill having the biggest output produces below the EC average of 7,000 tonnes. Pace (1991) notes that "the local milling sector seems more akin to the Spanish, French and Italian sectors".

A detailed study of the future viability of Maltese agro-industry is long overdue. It is not enough to state that this industry, together with the rest of the manufacturing industry, will benefit from a whole set of structural aid and restructuring programmes particularly the small and medium-sized enterprises' (SME) package. These will naturally serve to reconstitute an ailing industry but will not be a **durable** solution to the problems and constraints inherent within this industrial sector.

Pace (1990) also highlights that "theoretically membership of the Community should result in net welfare gains for Malta because of the opportunities it offers to accentuate export-led growth, because of the increase in direct foreign investment that membership of the Community could attract and... the various research and development programmes should buttress Malta's efforts to acquire a scientific basis for its industry and the transfer of technology".

Bonnici and Frendo (1989) infer that on the basis that the food, beverages and tobacco sector has the highest gross profits per employee for Europe as a whole, "Malta's entry into the EC should not pose a serious threat to this sector since profit levels on average are similar to those in Europe". However, it can be argued that these profits are not necessarily sustainable in the future especially with the gradual dismantling of protective trade barriers. This has been acknowledged in a Federation of Industries (FOI) report (1988) with regard to wine and pasta production: "the fact is that with the removal of tariff barriers, EC products would be relatively cheaper than locally produced products" (p. 61).

On the basis of estimates made in the January-September Economic Survey it is clear that the average weekly (adjusted) wage in the food subsector is well below the national weighted average of Lm 57.6 whereas the beverages subsector enjoys an average weekly wage of Lm 61.8 which is amongst the highest when compared to other subsectors in direct production and market services. The computed average weekly wages for September 1992 indicate a widening of the difference between the food and beverages sector. The weighted average weekly wage for the various subsectors is just under Lm 63, the average weekly wage in the food sector reaching Lm 52.2 whilst that in the beverages subsector stood at Lm 65.5. These levels are however not directly comparable with those published in the January-September 1991 survey. Whilst the close monitoring of input prices and labour costs remains of paramount importance, more emphasis should be geared towards corporate restructuring and the introduction of the appropriate technology.

II. – Future Strategies

From discussions with a FOI representative it was a recognised fact that “export penetration into the European markets should not solely depend on the reduction of present profit levels achieved in the local market but factors such as conformation to standards and the identification of the right market niches are target objectives”. In his analysis on the strategies of agribusiness firms within the Internal European market, Kuhl (1992) underlines that “a number of smaller firms can still co-exist (with larger European firms) because of the creation of **brand and buyer loyalty**. The growth of demand for these products is stable and in a stagnating market, underutilized production capacities are prevalent”.

The need for restructuring, introducing the appropriate technology and a change in the “marketing approach” is acknowledged by all operators in agribusiness but what are the guarantees that a company from an existing EC member state invests in Malta rather than the emerging eastern European countries or other “emerging” Mediterranean regions? It is very true that over the recent years Malta has set up the necessary base for future industrial development, namely through infrastructural programmes, but what has been done (is being done) to restructure locally-oriented industry as is the food and beverages industry? The trade liberalization process has induced some companies to upgrade their quality standards but Maltese consumers’ perceptions are still oriented towards imported products and well-known brand names (and will remain so in the future due to socio-cultural considerations!).

The CENSIS (1992) study² underlines that 64% of food enterprises feel the need to orientate themselves outwards by merging with a foreign partner who can provide them with the necessary knowhow and help local entrepreneurs tap new markets. The preferences of Maltese entrepreneurs are for partners from EC countries namely Denmark, Germany, Italy, Holland and the UK. The problem of fragmentation of the production structure remains one of the major issues to be tackled on the policy agenda as is the question of the gradual dismantling of the protective barriers.

This same study acknowledges that Maltese enterprises, even the relatively larger ones are of such a small size when compared to their European counterparts that it makes it impossible for them to compete due to the prohibitive costs and the presence of the great European multinational groupings. There also exists the real danger (according to CENSIS) that several of the Maltese enterprises in the food sector will soon find themselves in the impossible situation of confronting external competition and the only remaining solutions seem to be either the expulsion from the market or their transformation into simple importers of foreign-made goods.

This is a rather negative perspective but some measures have to be taken if this fragile subsector or at least the most resilient segments of it are to survive this competition. Otherwise acquisition or takeovers by European companies, not necessarily conglomerates, or the outright liquidation becomes the inevitable fate of an important portion of Maltese agribusiness.

Marketing efforts emphasizing product quality or uniqueness have to be strengthened and vacant posts for “middle management” have to be filled. Pachaki (1992) infers that on “the quality front we (Greece) are in a better position than on the price front”. Quality is the only element that justifies the particular socio-ecological conditions of Mediterranean agricultures which on the productivity front are very deficient (due to factors like climate, thin soils and land fragmentation). But promoting a quality strategy is not an “overnight endeavour” and requires an overhaul in the mechanics at every stage in the production-marketing chain.

Around 64% of the companies interviewed in the CENSIS report obtained some form of public aid, the principal instrument being the Industrial Development Act (IDA), 1988. The incentives included in the package comprise special grants for training, export promotion, tax exemption for increased exports but such incentives are not available to tourism, horticultural, agricultural and non-manufacturing projects.

In the area of meat and vegetable processing, the prices of the local raw materials are already much higher than the corresponding c.i.f. import prices. The majority of meat processing companies produce a wide range of processed meats—hams, mortadella, gammons and corned beef—but the basic problem of production fragmentation and State control on meat inputs are severe constraints on future development in this sector. Through the Beef Intervention Scheme, which is the only prevailing “active” policy measure in Maltese agriculture, Government buys the forequarter of the carcass and sells it as manufacturing beef to the meat processing industry. The Scheme is currently under review and some reform in its mechanisms will probably be announced over the coming months.

Streeter *et al.* (1991) demonstrate how the introduction of information technologies (IT) facilitate to a considerable extent the coordination of upstream and downstream activities. In the case of livestock products, particularly in highly integrated systems such as poultry, IT makes it possible to monitor day-to-day operations to assure appropriate feed consumption and optimal delivery times. The gradual introduction of such systems in Malta should not be viewed as a long-term perspective especially if the industry is to confront the competitive pressures EC entry will inevitably give rise to.

The vegetable processing industry is largely dominated by tomato processing plants which utilize around 55% of total domestic tomato production. Five companies (of which two are cooperatives) operate within this industrial subsector and their capacity ranges from 2,000 to 10,000 metric tonnes. Input costs are still rather high with the price of local raw materials “being six times that of the corresponding import” (Coopers and Lybrand, 1991, p. 36). The only option of this subsector to survive competitive pressures from low-cost and quality EC producers, particularly Italian, is the merging of local companies and the upgrading of quality standards.

There also seems to be some potential for expansion in the small fruit subsector—strawberries, peaches and plums. However a precondition for tapping such a niche is the introduction of a grading scheme for fresh fruit (and vegetables).

The monopoly currently enjoyed by Malta Dairy Products (MDP) Co. Ltd.—the milk processing plant—will also have to be given up and adjusted to comply with EC competition rules. The actual rules of competition are contained in articles 85 to 99 of the EC Treaty, with MDP directly breaching Art. 85 and Art. 86. For a more detailed overview of competition policy in the EC and in particular within the food industry, *cf.* Burns and Swinbank (1988).

But given the specific circumstances in Malta, it is not envisaged that it would be economically viable to have more than one dairy. Whereas currently MDP is obliged to take up all the milk supply, the fragmentation of milk processing will result, as has been the case with the “smaller” EC nations (*e.g.*, Ireland), in problems like “restricted product mix and plant overcapacity” (O’Connor, 1990).

The performance of the different processing industries analysed has necessarily to be linked to **demand conditions** (*cf.* *Club de Bruxelles*, 1991, Section 6.2). Martin, Westgren and van Duren (1991) use as a yardstick the average per capita share of caloric consumption. This requires a separate in-depth study but indications point towards strong demand for dairy products, poultry and fish on the Maltese Islands. Demand for beefmeat shows signs of relative stagnation while pigmeat demand is still on an upward trend albeit at a slower rate than that registered in the second half of the eighties.

Streeter *et al.* (1991) sustain that “despite its cost effectiveness the commodity-oriented agribusiness sector is undergoing change inspired by a more demanding and differentiated food consumer”. This state of affairs has also to be understood and accepted by the Maltese agro-industry and more emphasis should be placed on “the discovery of consumer preferences and adaptation of product attributes in response to consumer demands” rather than solely price considerations.

III. – Cooperatives

Finally a word on producer cooperatives. Bartlett and Pridham (1991) discuss the rapid development in the cooperative sector in Italy, Spain and Portugal since the mid-seventies, a process which however was not experienced in Malta. The principal cooperatives on the Islands are also producer cooperatives and still concentrated in the agriculture and fisheries sector (*cf. Part III, Annex*). But the local cooperatives movement was never really very organized both as a result of political factions and the severe lack of management personnel. Thus we find two fish cooperatives (though no fish processing is made by any of them), a cooperative which manages a compound feed mill and which also has a shareholding in MDP Co. Ltd. (40%) and the Farmers' Central Cooperative Society (FCCS) which is engaged in vegetable processing—canned peas, canned and peeled tomatoes and tomato paste.

In pig production, there is the Pig Breeders' Cooperative Society Ltd. while in wine production there is the Farmers' Wine Cooperative Society Ltd. which markets branded products namely *Burmarrad*, *Vitorja* and *Speranza*. Finally the Agricultural Trading Cooperative (ATC) provides an extension service to fruit and vegetable producers.

The source of problems currently confronted by these organizations is that they are not capable of developing their own support services especially in the areas of distribution-marketing and training. The tapping of the distribution-marketing network should be seriously considered as the current role of intermediaries—wholesalers and retailers—is very dominant and the price differential between the producer and the final consumer is significant. Cooperatives may contain these differentials to the benefit of both producers and consumers.

Another major difficulty which is also prevalent in other Mediterranean countries is financing. The Pig Breeders' Cooperative Society has recently suggested the setting up of a cooperatives bank to help producers raise the necessary funds for investment.

Bartlett and Pridham (1991) outline that “the main trends in the development of the cooperatives sectors... appear to point towards a more rapid rate of development in the dynamic service sector and a decline in the relative importance of cooperative firms in the traditional manufacturing industries” (p.30). This may be the case with countries having a very developed cooperative structure but in Malta the emergence of producer cooperatives in the food and wine subsectors can be still envisaged especially in the light of EC entry wherein the role of these organizations has necessarily to become more active.

A precondition to this evolution is however the determination on the part of Government to put into place the necessary basic infrastructure, the tapping of external finance and the attraction of high-quality management. Since 1992, the Ministry responsible for cooperative development is the Ministry for Education and Human Resources whereas in the past years, the Ministry for Agriculture and Fisheries was the responsible Ministry. This is a very positive step towards the strengthening of the managerial and organizational set-up of these institutions.

IV. – Conclusion

Export performance rankings published by the Economic Planning Division indicate that each of the agro-industrial subsectors is a slow-growth sector if not declining (as in the case of tobacco) and most of the growth in industrial production is attributable to the electrical machinery, paper and printing, and chemicals subsectors. Maltese agro-industry has been always protected by policy makers through various measures—import substitution policies, bulk buying schemes, the levy system (under the Local Manufactures Promotion Act of 1989 and 1990 as amended by the Local Manufactures (Promotion) Act, 1992) or the outright prohibition of imports of certain products. This trade regime has been the cause of

the emergence of a very fragile sector characterized by a low degree of cost effectiveness and productivity levels.

The reforms introduced since 1988 have been bearing fruit and notwithstanding more liberal trade, employment levels and local sales of the food sub-sector have been rising at a rather steady rate and the proportion of employment engaged in the broad agro-industrial subsector maintained a very stable share even over the past five years.

Nevertheless several regulatory policies are still out of line with EC standards and have to be gradually harmonised given the commitment of the present administration to EC membership. The grant from the EC to completely revamp the role of the Standards Laboratory is a step in the right direction but it is now high time that Food Regulation Standards are introduced.³ Even larger EC food processing industries are in the process of long-term strategic transformation and confronting new challenges (for a more detailed overview of trends in food processing in ECE countries, *cf.* ECE, 1991).

Within the context of EC entry, the recommendations of Coopers and Lybrand point towards the attraction of enhanced levels of foreign investment as well as technical and commercial know-how through joint ventures, improved efficiency, productivity and real wages and the attraction of enhanced levels of EC financial and other support to help address the structural changes needed in the sector. This may not be easily implemented and experience has shown that it is not easy to dismantle protection once it is introduced. The commitment on the part of Government is "to give reasonable protection to industries if these offer the prospect of being able to stand on their feet" and that any protection that will be available will be granted to industries which can gather strength in the temporary shelter of a tariff wall.

Maltese agro-industry needs **special** attention if it is to survive the EC membership challenge and all efforts to liberalize trade, deregulate the economy and restructure the industry have to take into account the linkages that the industry—particularly the food sub-sector—has with the **primary agricultural sector**. More emphasis should be made on increasing the level of competitiveness. Merging cooperatives and the concentration of the most viable agro-processing subsectors should also considerably help in this direction. This should contain any losses in output and employment that EC entry may potentially give rise to.

Notes

1. The PSF is a fund which, as its name implies, stabilises domestic prices from international commodity price variations. The Bulk Buying Division of the Trade Department administers this Fund.
2. The results ensuing from the study were based on a questionnaire amongst 22 enterprises operating in the food manufacturing sub-sector.
3. The regulations which have been introduced on the advice of the Food Standards Board (as per Legal Notice 65, 1992) – *Labelling and Presentation of Foodstuffs Regulations, 1992*, should, *a priori*, inject some sense of discipline within Maltese agro-industry and food importers. Nevertheless, there are two main concerns: (a) Why should such regulations be solely monitored by the Minister responsible for public health while there is no reference to the Minister responsible for food policy and consumer protection? and (b) is the **effective** enforcement of such regulations guaranteed?

References

- Bartlett, W., and G. Pridham** (1991). *Cooperative enterprises in Italy, Portugal and Spain: History, development and prospects*. School for Advanced Urban Studies and Centre for Mediterranean Studies. University of Bristol.
- Bonnici, J., and M. Frendo** (1989). *Malta in the European Community: Some Economic and Commercial perspectives*. Valletta: Malta Chamber of Commerce.
- Burns, J., and A. Swinbank** (1988). *Competition policy in the food industries*. Department of Agricultural Economics and Management. University of Reading.

- CENSIS** (1992). *Cultura e comportamenti di impresa nella industria maltese: I casi del mobile e dell'alimentare* [Culture and behaviour of firms within the Maltese industry: The case of furniture and food]. Report commissioned by the Department of Industry in collaboration with the Malta Development Corporation (MDC).
- Central Bank of Malta**. Annual Report 1991.
- Club de Bruxelles** (1991). *L'industrie agro-alimentaire dans le marché unique* [Agro-industry in the Single Market], Brussels.
- Coopers and Lybrand** (1991). *The effect of EC Membership on Industry in Malta*. A study prepared in association with the Warwick Research Institute for the Malta Federation of Industry. Floriana: Coopers & Lybrand.
- Economic Commission for Europe (ECE)** (1991). *Food Processing Machinery*. A United Nations Publication. New York.
- European Communities (EC)** (1992). *The agricultural situation in the Community*. 1991 Report. Luxembourg: European Communities.
- Federation of Industries (FOI)** (1988). *The EC: Malta at the crossroads*. Floriana: Malta Intelligence Services Company Limited (MISCO)/FOI.
- Kuhl, Rainer** (1992). The completion of the internal European market and strategies of agri-business firms: Industry note. *Agribusiness* 8(3): 261-272.
- Malta Chamber of Commerce, Valletta**. *Commercial Courier*. A monthly journal (various).
- Malta. Ministry of Finance. Economic Planning Division** (1991). *Economic Survey, January-September 1991*. Valletta: Government Printing Press.
- (1992). *Economic Survey 1991*. Government Printing Press.
- (1992). *Economic Survey, January-September 1992*. Government Printing Press.
- Martin, L., R. Westgren, and E. van Duren** (1991). Agribusiness competitiveness across national boundaries. *American Journal of Agricultural Economics* 73(5): 1456-1464.
- O'Connor, R.** (1990). The food and drink processing industry. *The Irish Banking Review*, Winter 1990.
- Organization for Economic Cooperation and Development (OECD)** (1991). *Food Consumption Statistics 1979-88*. Paris.
- Pace, R.** (1990). Malta's EC application: Some economic and political considerations. *Bank of Valletta Review* 1:1-15.
- (1991). The flour milling sector in Malta: Its problems and future. Valletta: Ministry for Economic Affairs, EC Section (unpublished report).
- Pachaki, C.** (1992). The quality strategy: A viable alternative for small Mediterranean agricultures. Paper presented at the International Conference on Business and Economic Development in Middle Eastern and Mediterranean countries, Valletta, May 25-27, 1992.
- Streeter, D. H, S. T. Sonka, and M. A. Hudson** (1991). Information technology, coordination and competitiveness in the food and agribusiness sector. *American Journal of Agricultural Economics* 73(5): 1465-1471.
- The Sunday Times of Malta*, May 10, 1992, Valletta.
- The Times*, June 9, 1992, Valletta.



The author expresses his appreciation to Paul Zahra, Dr. J.C.Grech, Mario Brincat and Prof. J. V. Bannister for their helpful comments on an earlier version of the manuscript. Responsibility for content, however, rests solely with the author.