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Lengthy talks on Malta's Agriculture draw to a close

SIMON BUSUTTIL and EDWARD DEMICOLI explain the outcome of negotiations on agriculture which were officially closed on December, 13, 2002.

Outcome of negotiations at a glance		
All sectors	•	Direct income support for farmers (SMPPMA) will replace levies
	•	Financial support for restructuring of processing industry
	•	Five-year safeguard to protect sector in case of difficulties
	•	Rural Development Plan to provide support apart from SMPPMA
	<	Malta's status as Less-Favoured Area for the purposes of EU funding

Financial package for agriculture at a glance	
<	€ 184 million (approx.: Lm77 million) until 2014.
<	To be paid in part by Malta and in part by the EU.
<	Additional EU funding (2004-6) for implementation of Rural Development Plan

Outcome of negotiations in specific sectors

Sector	Who is affected	Outcome of negotiations
Fruit & Vegetables	Farmers	• Today, protected through levies on imported fruit and vegetables. Levies to be removed by membership and prices will go down • Farmers to be given direct financial support so that price of local products will also go down • Sector will get €28.39 million in financial support until 2014
Potatoes	Farmers	• From membership farmers will get free access to EU market to export potatoes without quotas and at any time of year • Farmers will get €27.08 million in direct financial support until 2014
Tomatoes	Tomatoes Growers and Processors	• Today, protected through levies on imported tomato products. Levies to be removed by membership and prices of tomato products will go down • Farmers and processing industry to be given direct financial support so that price of local products will also go down • Farmers will get €31.16 million in financial support until 2014 • National threshold for production of tomatoes set at 27,000 tonnes • Tomatoes used for Kunserva eligible for EU aid
Olive Oil	Producers	• National Guaranteed Quantity (NGQ) of olive oil for Malta set provisionally at 150 tonnes. • EU aid of €132.25 per 100 kilos of olive oil produced
Wine	Vintners and Grape Growers	• Today, wine producers protected through levies on imported wine. Levies to be removed by membership and prices will go down • Vintners and farmers to be given direct financial support to restructure and compete • Sector will get €18.29 million in financial support until 2014, including aid for planting and additional aid per hectare • New planting rights for a total planted wine area in Malta of 1,000 hectares • Transitional period until 2008 for the enrichment of wine from indigenous varieties
Pigmeat	Breeders and Processors	• Today, protected through levies on imported pigmeat products. Levies to be removed by membership and prices of pigmeat products will go down • Breeders and processors to be given direct financial support to restructure and compete and so that price of local products will go down • Sector will get €34.08 million in financial support until 2010 • National quota of 135,200 slaughtered pigs every year
Dairy	Producers, processing industry	• Today, protected through levies on imported products. Levies to be removed by membership and prices of dairy products will go down • Sector to be given direct financial support to restructure and compete • Support of €19.72 million to be given until 2010 • Milk quota: 48,698 tonnes • Five-year transition period on stocking density of animals in farms • Five-year transition period to maintain current minimum of 2.5% milk fat content • Transition period until end 2009 on EU hygiene and quality requirements for dairy farms. • Additional EU premia for suckler cows, slaughtering and for beef
Eggs and Poultry	Producers, processing industry	• Today, protected through levies on imported poultry products. Levies to be removed by membership and prices of poultry products will go down • Producers and processing industry to be given direct financial support to restructure and compete and so that price of local products will also go down • Eggs sector to get €14.46 million in financial support until 2010 • Poultry sector to get €10.91 million in financial support until 2010 • Transitional period until end 2006 on EU rules on the welfare of laying hens
Sugar and certain other products	Importers, industry and consumers of sugar, cere-als, rice	• Today, Malta buys at world market prices which are cheaper than EU prices • Upon membership, prices will go up, but price difference will be subsidised until 2010 • Affected products are sugar, cereals (wheat, barley, maize), rice, semi-processed tomato products and some beef and dairy products (concentrated milk powder, butter and cheese) • Subsidies must benefit consumers and will be paid to industry and recognised retailers on price difference • World market and EU prices expected to converge by 2010 • Consumer prices not affected

Malta's agricultural sector is conditioned by a number of factors that are specific to itself (see box). These factors make it very difficult for Malta's agricultural sector to compete effectively within the EU, unless specific action is taken to address them.

So far, Malta had protected its agricultural sector through a policy based on keeping out competition, particularly in the form of border levies on imported goods. This protected local agriculture by making it difficult for imported products to compete and at times, even to penetrate the market. In practice, however, the sector has still been facing decline even in the farming population. Yet, Malta cannot afford to lose its agricultural sector. Not just because of the welfare of the farming community, but also because agriculture has other roles in Malta, including the maintenance and enhancement of Malta's fragile rural landscape. This is often referred to as the "multi-functional role" of agriculture.

So Malta's negotiating position was based on the need to secure an acceptable level of income for farmers and at the same time, to continue promoting agriculture's multi-functional role.

Helping the sector survive in the EU market
During negotiations, Malta agreed to change this system, which is costly for consumers. However, Malta argued that "the adoption of the agricultural acquis will put considerable pressure on Malta's agri-food sector. The application of the rules of the common organisation of the markets of the Common Agricultural Policy (CAP) would negatively affect farmers who need to adopt medium-term strategies to be able to adapt their production. In order to enable farmers and food processors to integrate themselves gradually with the workings of the CAP measures, Malta requests the adoption of a Special Market Policy Programme for Maltese Agriculture." This programme, known as SMPPMA, provides for the removal of levies and their replacement with direct income support for farmers and restructuring assistance for the processing industry. This financial assistance, which is co-funded by the EU, will allow local production to compete in the single market. Originally, the programme proposed a gradual dismantling over a number of years. Subsequently, during the course of negotiations, Malta agreed to phase out levies completely by membership and streamline assistance starting with a maximum level of assistance upon membership followed by a gradual phasing out by 2014 at the latest.

Why SMPPMA compensation?
The subsidy for all sectors included in the SMPPMA were calculated on the basis of the price differential between local prices and those of EU Member States (including transport costs), which have traditionally exported agricultural products to Malta. The reference period used was 1998-2000. However for a number of SMPPMA products the reference period used was 1998 as this was considered to be most appropriate. SMPPMA payments will enable the price of local produce to go down by the level of subsidy and therefore to a level which would make it competitive with the imported product.

Financial package for agriculture
In total, the financial package amounts to €184 million (approx.: Lm77 million) until 2014. This will be paid in part by Malta and in part by the EU. During the first three years of membership, this package is expected to cost €67 million, out of which the EU will pay the following, totalling €20.1 million:

< €11 million for direct income support under the SMPPMA
< €6.6 million additional assistance for Malta and Gozo as a less-favoured area
< €1.83 million to support tomato growers (CMO subsidy)
< €0.67 million to support dairy sector (dairy premium)

In addition to this, during the first three years of membership, additional EU funding will support the implementation of Malta's Rural Development Programme (e.g. technical assistance and agri-environment measures such as rubble wall maintenance).

Maltese agriculture: Constraints

- Declining farming population (1.8% of employment)
- Sector is not yet sufficiently organised
- Local produce less than a third of our food requirements
- Small fields, small farms
- Intensive farming
- Potatoes only significant export
- Hot climate
- Water shortage & water salinity

Maltese agriculture: Action to address the constraints

Main objectives:
1. Acceptable level of income for farmers
2. Agriculture's multi-functional role

Measures to achieve the objectives:
- Direct income support for farmers (SMPPMA) so that price of local products can also go down after levies are removed
- Restructuring support for the processing industry
- Five-year safeguard to protect sector in case of difficulties
- Rural Development Plan to provide support other than SMPPMA
- Malta's status as Less-Favoured Area for the purposes of EU's Common Agricultural Policy
- Negotiated measures on specific sectors
- Compensation mechanism for certain imported agricultural products (supply measures)

After the first three years of membership a new EU budget will be drawn up, on the basis of a unanimous agreement among all EU countries, including Malta. The share of the EU's contribution to this financial package for agriculture (post-2006) will be decided in this budget.

Safeguard clause
Despite the SMPPMA income support programme, Malta nevertheless negotiated with the EU a specific safeguard clause that would apply for a period of five years after membership. This clause would enable the Maltese authorities to take action to assist the agricultural sector, including specific sectors, in case of difficulty. The clause may be triggered when in specific agricultural sectors difficulties arise which are serious and liable to persist, or which could bring about a serious deterioration in the economic situation of a given area.

Rural development and EU funding
As part of Malta's overall agricultural strategy, a rural development programme was also adopted. This programme provides a framework to build, over the medium to long-term, a new agricultural sector that is integrated with the rest of the economy. Malta's rural development plan will be part-financed by the EU.

Malta and Gozo to benefit from status of "Less-Favoured Area"
For the purposes of EU funding, during negotiations, Malta also requested that the entire territory of the Maltese islands would be considered as a "less-favoured area" (LFA). This means that all the agricultural sector in Malta would automatically qualify for higher levels of EU assistance and other benefits. This request was accepted by the EU because of the specific handicaps facing Maltese agriculture and the importance of maintaining agricultural activity in order to conserve the environment, to maintain the countryside and to preserve its tourist potential. The EU also took account of the small size and homogeneous character of the country. Malta is the only country that has been granted this status as an entire country. This status is usually only granted to mountainous regions. The LFA status also entitles Malta for higher levels of assistance from EU funds.

As a result of this status, the EU will pay a compensatory payment of €200 per hectare of agricultural land in Malta and Gozo. This payment, which will apply on a permanent basis, works out at around Lm10 per tumolo of land.

Producers' Organisations
The EU also agreed that Malta should be given the possibility to give start-up assistance for the first five years from membership to help farmers and other interested parties set up Producers' Organisations. The assistance will be based on the turnover and the number of producers of each PO.

The following is a brief round-up of the outcome of negotiations in specific sub-sectors:

Fresh fruit and vegetables including potatoes

The fruit and vegetable sector is one of the most important agricultural sectors, but at the same time it is also one of the most vulnerable to competition from the EU. The compensation package agreed for this sector, including for potato growers, is by far the largest and will continue uninterrupted until 2014. The fresh fruit sector will get compensation amounting to €20.35 million whereas the vegetable sector will get €8.04 million. The compensation is partly funded by the EU.

Potatoes
Potatoes are Malta's main agricultural export. So far exports to the EU have been hindered by quotas and limitations on when potatoes can be exported during the year. All these restrictions will automatically be removed upon membership and Malta will be able to export unlimited quantities to the EU at any time of the year.

The compensation for the potatoes industry totals €22.18 million over a period of years until 2014. This includes a direct subsidy as well as a marketing aid. Furthermore, the potato industry will get €4.90 million in additional aid because it is a major crop.

Arable crops
The EU agreed that the base area applicable to Malta for arable crops will be set at 4,565 hectares based on the production data for 1998-2000. The reference yield that is to be used for arable crop payment will be set at 2.02 tonnes per hectare. Crops that are eligible for EU assistance are wheat, barley, maize, sweet corn, sorghum, alfalfa and mixed vetches. The level of assistance is currently set at €63 per ton or approximately Lm6 per tumolo of land.

Malta requested further additional aid over and above what would be normally allowable under EU rules to compensate for the adverse climatic conditions in our country. But this request was subsequently withdrawn because the EU had separately accepted that the whole territory of Malta and Gozo should be considered as a less-favoured area (see above). Farmers applying for this land area payment cannot be eligible for beef and veal premiums for the same land. However, arable crop farmers who cultivate land on a contractual basis with beef producers or who are beef producers themselves can either opt for the land area payment or for the beef and veal payments according to the stocking density requirements.

The tables below illustrate the details of the financial package in this sector:

Levy Dismantling Programme and Introduction of Compensatory Measures for the Fresh Fruit Sector		
Year	SMPPMA Subsidy Rate (Euros / tonne)	Total SMPPMA Programme (million Euros)
2002	17.0	0.33
2003	36.0	0.70
2004	125.0	2.43
2005	125.0	2.43
2006	118.8	2.31
2007	118.8	2.31
2008	112.5	2.18
2009	112.5	2.18
2010	93.8	1.82
2011	75.0	1.46
2012	56.3	1.10
2013	37.5	0.73
2014	18.8	0.37
TOTAL		20.35

Levy Dismantling Programme and Introduction of Compensatory Measures for the 'Other' Fresh Vegetables Sector		
Year	SMPPMA Subsidy Rate (Euros / tonne)	Total SMPPMA Programme (million Euros)
2002	4.0	0.15
2003	7.0	0.27
2004	25.0	0.96
2005	25.0	0.96
2006	23.8	0.91
2007	23.8	0.91
2008	22.5	0.86
2009	22.5	0.86
2010	18.8	0.72
2011	15.0	0.57
2012	11.3	0.43
2013	7.5	0.29
2014	3.8	0.15
TOTAL		8.04

Levy Dismantling Programme and Introduction of Compensatory Measures for the Potatoes Industry				
Year	SMPPMA Subsidy Rate (Euros / tonne)	SMPPMA Subsidy (million Euros)	SMPPMA Marketing Aid (million Euros)	Total SMPPMA Programme (million Euros)
2002	16.0	0.37	0.06	0.43
2003	32.0	0.74	0.06	0.80
2004	112.0	2.58	0.06	2.64
2005	112.0	2.58	0.06	2.64
2006	106.4	2.45	0.06	2.51
2007	106.4	2.45	0.06	2.51
2008	99.6	2.29	0.06	2.35
2009	99.6	2.29	0.03	2.35
2010	83.9	1.93	0.03	1.96
2011	67.4	1.55	0.03	1.58
2012	50.4	1.16	0.03	1.19
2013	33.5	0.77	0.03	0.80
2014	17.0	0.39	0.03	0.42
TOTAL		21.55	0.63	22.18

Cost of Additional Aid for the Potatoes Industry		
Year	(Area: 1,800 hectares)	
	SMPPMA Additional Aid Rate (Euros/hectare)	SMPPMA Additional Aid for Potatoes for Human Consumption (million Euros)
2002	220	0.40
2003	220	0.40
2004	220	0.40
2005	220	0.40
2006	220	0.40
2007	220	0.40
2008	220	0.40
2009	220	0.40
2010	220	0.40
2011	220	0.40
2012	220	0.40
2013	220	0.40
2014	220	0.10
TOTAL		4.90

Tomatoes for Processing Sector

One of the most important crops in Malta is tomatoes, largely owing to the presence of the processing industry that produces tomato products. In this sector, negotiations focused both on the tomato-growing farmers as well as on the processing industry itself. During negotiations, Malta agreed to remove all levies by membership and introduce instead compensatory measures for the tomatoes (for processing) sector. The compensation will total €31.16 million over a period stretching until 2014. The compensation consists of SMPPMA payment, additional aid and of an additional EU payment. The table below illustrates the details of payments.

Production quota

As far as tomato growers are concerned, Malta requested a national processing threshold of 50,000 tonnes of fresh tomatoes intended for processing to be added to the current single EU threshold. This would allow the sector to benefit from financial assistance up to the level of this quota of production. Following negotiations on this point, it was agreed that Malta's national threshold for processed tomatoes should be set at 27,000 tonnes, which in practice exceeds the traditional level of production.

Malta also requested a transitional period of five years on EU rules relating to production aid for individual producers to enable them to benefit from financial assistance despite not being in strict compliance with EU rules for eligibility. The EU accepted this request and agreed to a five-year temporary and digressive regime. During this transitional period, Maltese processors of tomatoes may sign a share of their contracts with individual producers who would not be participants of a producers' organisation. This share would account for a maximum of 75% during the 2004/2005 processing campaign, 65% during the 2005/2006 processing campaign, 55% during the 2006/2007 processing campaign, 40% during the 2007/2008 processing campaign and 25% during the 2008/2009 processing campaign of the total quantity of fresh tomatoes contracted for by any processors. The existing Maltese co-operatives which will not have been yet recognised as producers organisations will be considered as "individual producers".

Malta also requested a specific aid of 10% of the CIF (cost, insurance and freight) price to market processed tomato products outside the Maltese islands. However, the EU insisted that this request could not be accepted because it contravenes EU rules on the common market organisation for fruit and vegetables. It added that such aid would furthermore require negotiations at WTO level. Given that the tomatoes for processing sector can benefit from marketing aid already allocated under the SMPPMA, Malta decided to withdraw this request.

Kunserva

On tomato processing, Malta requested a derogation from EU rules on the content of tomato products, particularly with respect to Malta's traditional tomato paste, known as kunserva. The EU accepted this request and kunserva will be included in the EU regime. This means that tomato growers will still qualify for financial assistance when they produce tomatoes for the production of kunserva.

Levy Dismantling Programme and Introduction of Compensatory Measures in the Tomatoes for Processing Industry

Year	SMPPMA Subsidy Rate (Euros / tonne)	Production (tonnes)	SMPMMA Subsidy (million Euros)	SMPPMA Marketing Aid (million Euros)	Total SMPPMA Programme (million Euros)	CMO Subsidy (million Euros)	Total Aid including CMO Subsidy (million Euros)
2002	70.0	15,000	1.05	0.30	1.35	-	1.35
2003	70.0	15,825	1.10	0.30	1.40	-	1.40
2004	35.5	16,695	0.59	0.30	0.89	0.58	1.47
2005	35.5	17,614	0.63	0.26	0.89	0.61	1.50
2006	32.3	18,582	0.60	0.25	0.85	0.64	1.49
2007	30.6	19,604	0.60	0.25	0.85	0.68	1.53
2008	29.0	20,683	0.60	0.20	0.80	0.71	1.51
2009	27.5	21,820	0.60	0.20	0.80	0.75	1.55
2010	22.6	23,020	0.52	0.15	0.67	0.79	1.46
2011	18.1	24,286	0.44	0.10	0.54	0.84	1.38
2012	11.7	25,622	0.30	0.10	0.40	0.88	1.28
2013	8.1	27,031	0.22	0.05	0.27	0.93	1.20
2014	3.0	27,031	0.08	0.05	0.13	0.93	1.06
TOTAL			**7.33**	**2.51**	**9.84**	**8.34**	**18.18**

The following table illustrates the details of the additional aid that will be granted to tomato growers:

Cost of Additional Aid for the Tomatoes for Processing Industry

Year	Production (tonnes)	SMPPMA Additional Aid Rate (Euros / tonne)	SMPPMA Additional Aid for Tomatoes for Processing (million Euros)
2002	15,000	50.0	0.75
2003	15,825	50.0	0.79
2004	16,695	28.8	0.48
2005	17,614	33.5	0.59
2006	18,582	99.0	1.83
2007	19,604	93.4	1.83
2008	20,683	88.5	1.83
2009	21,820	83.9	1.83
2010	23,020	64.3	1.48
2011	24,286	37.9	0.92
2012	25,622	17.6	0.45
2013	27,031	5.6	0.15
2014	27,031	1.9	0.05
TOTAL			**12.98**

The following table illustrates the details of the subsidies that will be give to processors and to recognised retailers of imported tomatoes for processing:

Year	Temporary State Aid for Other Products (million Euros)
2004	0.80
2005	0.76
2006	0.72
2007	0.58
2008	0.43
2009	0.29
2010	0.14
2011	0
TOTAL	3.72

Olive Oil

Originally, Malta did not make any specific negotiating requests on this sector. However, in view of the positive recent developments in the local olive oil sector, Malta sought to safeguard this new and emerging industry by submitting specific quota requests for the production of olive oil. This means that, within the limits of this quota, olive oil producers in Malta would be able to benefit from EU direct payments by way of assistance. This aid will amount to €132.25 per 100 kilos of olive oil produced.

As a result of negotiations, the national guaranteed quantity (NGQ) of olive oil for Malta was set provisionally at 150 tonnes. This figure will be revised in 2005 after the introduction of the Geographical Information System (GIS).

Wine

Malta has a long-standing wine industry and is considered to be in a favourable climatic condition for the growing of grapes. However, Malta is not self-sufficient in grape growing and therefore imports most (70%) of the grapes that are used by vintners. At the same time, the local industry was protected through levies which will now be removed by membership. Malta therefore sought to help the industry adapt to competition while at the same time, improve the quality of its product. This objective will be sought by encouraging the plantation of new vines until Malta becomes self-sufficient.

Self-sufficiency in growing grapes

To achieve self-sufficiency, the total vineyard land area needed to be increased from around 300 hectares to 1,000 hectares. However, this posed a conflict with EU law which imposes limits on new plantations in order to control over-production of wine. This was, therefore, a key negotiating point. Malta requested to increase the present area to a total area under vine of 1,000 hectares for the production of quality wine "produced in specific regions" (psr) and/or table wines described by a geographical indication.

Following long negotiations on this point, the EU accepted that Malta should be granted new planting rights for the production of quality wines (psr) up to a total planted wine area in Malta of 1,000 hectares. These planting rights will have to be used at the latest by the 2005/2006 wine year.

This agreement is also of interest to farmers because it will enable Maltese farmers to plant new vineyards for the production of quality wine-grapes. On their part, local vintners will be able to produce quality wines "psr" from the wine grapes grown in Malta. This system will be operational by membership.

Enrichment of Wine from Indigenous Varieties

Malta also requested to keep its current minimum natural alcoholic strength of wine produced from the indigenous varieties, Ghirgentina and Gellewza, at 8% with an allowable increase in the natural alcoholic strength (enrichment) not exceeding 3% by volume for a transition period up to 2010. This relates to the issue of adding sugar (chaptalisation) in order to achieve the desired alcohol content. On this point, the EU accepted a transitional period until 2008. The EU stressed that Malta should ensure effective adaptation of the viticultural techniques within the time limit set in order to produce high quality wine grapes of indigenous character at the end of the transition period. This agreement will allow local vintners to continue the production of white and red or rosé wines from the indigenous varieties Ghirgentina and Gellewza. It will also encourage local farmers to retain the cultivation of the traditional varieties alongside with international varieties like Cabernet Sauvignon and Chardonnay. The agreement will also allow for viticultural improvements and reconversions that are necessary in the vineyards to ensure that the grapes are grown using modern vineyard management techniques. This will guarantee that the grapes being grown are of high quality and with a distinctive indigenous character.

Compensation

With respect to the compensation package, it was agreed that wineries would benefit from an SMPPMA subsidy of €2.47 million. Furthermore, grape growers will benefit from an additional aid of €10.72 million until 2014. They will also receive a further €5.1 million in assistance linked to plantings until 2005. The compensation consists of SMPPMA payment, which is partly funded by the EU, as well as an additional EU payment on account of Malta's status as a less-favoured area (LFA). The following tables illustrate the details of compensation for the wine sector:

Levy Dismantling Programme and Introduction of Compensatory Measures for the Wine Sector

Year	SMPPMA Subsidy Rate to Wineries (Euros / tonne)	Grapes imported and quality grapes produced locally (tonnes)	Total SMPPMA Programme (million Euros)
2002	4.0	5,900	0.02
2003	9.0	5,900	0.05
2004	110.0	5,540	0.61
2005	110.0	5,265	0.58
2006	105.3	4,083	0.43
2007	103.4	2,900	0.30
2008	100.0	2,400	0.24
2009	100.0	1,400	0.14
2010	75.0	400	0.03
2011	75.0	400	0.03
2012	50.0	400	0.02
2013	25.0	400	0.01
2014	25.0	400	0.01
TOTAL			**2.47**

Cost of Additional Aid per hectare for the Wine Sector

Year	Area (hectares)	SMPPMA Additional Aid Rate (Euros / hectare)	SMPPMA Additional Aid for Wine (million Euros)
2002	470	1,000	0.47
2003	570	1,000	0.57
2004	685	800	0.55
2005	800	800	0.64
2006	1,000	800	0.80
2007	1,000	800	0.80
2008	1,000	800	0.80
2009	1,000	800	0.80
2010	1,000	800	0.80
2011	1,000	800	0.80
2012	1,000	740	0.74
2013	1,000	500	0.50
2014	1,000	350	0.35
TOTAL			**8.62**
TOTAL AID INCLUDING LFA ESTIMATE			**10.72**

Cost of Aid for Plantings for the Wine Sector

Year	Area increases (hectares)	SMPPMA Aid Rate for New Plantings (Euros / hectare)	SMPPMA Aid for New Plantings (million Euros)
2002	100	10,000	1.0
2003	115	10,000	1.1
2004	115	14,000	1.6
2005	200	7,000	1.4
2006	0	0	0.0
2007	0	0	0.0
2008	0	0	0.0
2009	0	0	0.0
2010	0	0	0.0
2011	0	0	0.0
2012	0	0	0.0
2013	0	0	0.0
2014	0	0	0.0
TOTAL			**5.1**

Pigmeat

Apart from the compensation measures that would be introduced instead of the removal of levies, the main negotiating issue in this area related to the quota of pigs that are slaughtered in Malta every year. On this point, the EU position was that pig quotas are not covered by an EU Common Market Organisation (CMO). However, the EU accepted that Malta can apply the EU environmental rules to introduce measures limiting the number of heads to be kept on individual farms. In Malta's case this would work out at a national quota of 135,200 slaughtered pigs per annum, which is higher than the 125,200 that are currently slaughtered. Similar arrangements already apply in current EU countries.

Compensation

With respect to the compensation package, it was agreed that the pigmeat industry will benefit from assistance amounting to €34.08 million until 2010. The compensation consists of direct subsidies to reduce the price of local products and also additional restructuring aid. It will be paid in part from EU funds.

Levy Dismantling Programme and Introduction of Compensatory Measures for the Pigmeat Industry

Year	SMPPMA Subsidy Rate (Euros / head)	SMPPMA Subsidy (million Euros)	SMPPMA Restructuring Aid (million Euros)	Total SMPPMA Programme (million Euros)
2002	19.0	2.38	0	2.38
2003	37.1	4.65	0	4.65
2004	36.7	4.60	0.80	5.40
2005	34.9	4.37	0.80	5.17
2006	33.1	4.14	0.80	4.94
2007	26.8	3.35	0.80	4.15
2008	19.8	2.48	0.80	3.28
2009	13.3	1.66	0.80	2.46
2010	6.8	0.85	0.80	1.65
TOTAL		**28.48**	**5.60**	**34.08**

Dairy Sector and Related Products

The most sensitive issue in this sector focused on negotiations on Malta's "national milk quota". Malta requested a national quota of 60,000 tonnes of milk to be added to the current EU quota levels. Malta's request covered 52,000 tonnes for cow milk and 8,000 tonnes for sheep/goats milk. However, the production of milk from sheep and goats is not covered by any EU quota limits and therefore Malta's request with regards to sheep/goat milk could be withdrawn as it was no longer necessary. On the (cow) milk quota, the EU agreed that Malta's quota should be 48,698 tonnes for deliveries, which is higher than the 45,000 tonnes in the reference period 1997–1999.

Fat content of drinking milk

Malta requested to maintain its current minimum of 2.5% milk fat content by way of exception from EU rules. Malta requested this for a period of six years after accession. Agreement was finally reached on a maximum period of five years after accession. The drinking milk covered by the transitional arrangement may only be marketed in Malta or exported to third countries.

Stocking Density

On the stocking density of animals in farms, Malta requested a derogation from EU rules to allow a higher density. The EU accepted this request and agreed to a transitional period of five years. The requirements relating to stocking density in Malta shall be phased in from 4.5 livestock unit per hectare (LU/hs) for the first year after accession to 1.8 LU/ha for the fifth year after accession. Moreover, for the purposes of determining the stocking density, no account shall be taken of dairy cows needed to produce the total reference quantity of milk allocated to the producer. Malta also agreed to submit a report on the implementation of this measure to the Commission before the 31 December 2007.

Public Health protection in milk and milk products

Malta requested a transitional period of six years for the implementation of EU health rules for the production and placing on the market of raw milk, heat treated milk and milk based products, including for veterinary inspection and other control performances in the milk sector. The EU agreed to a six year transition period until the end of 2009 to allow the upgrading and restructuring of farms and to allow for the control of mastitis in the herds in order to meet the EU hygiene and quality requirements. The EU emphasised, however, the crucial importance that dairy farms and milk processing establishments (as against farms) comply with EU rules to guarantee food safety. The EU also accepted that milk establishments in Malta can accept milk for further processing which does not comply with EU rules and that comes from farms which do not comply with EU rules.

Compensation

With respect to the compensation package, it was agreed that the dairy sector will benefit from assistance amounting to €19.72 million until 2010. This compensation consists of direct subsidies, restructuring aid and quality enhancement aid, paid in part through EU funds, as well as additional aid funded by the EU under its policy for the dairy sector.

Levy Dismantling Programme and Introduction of Compensatory Measures for the Dairy Sector

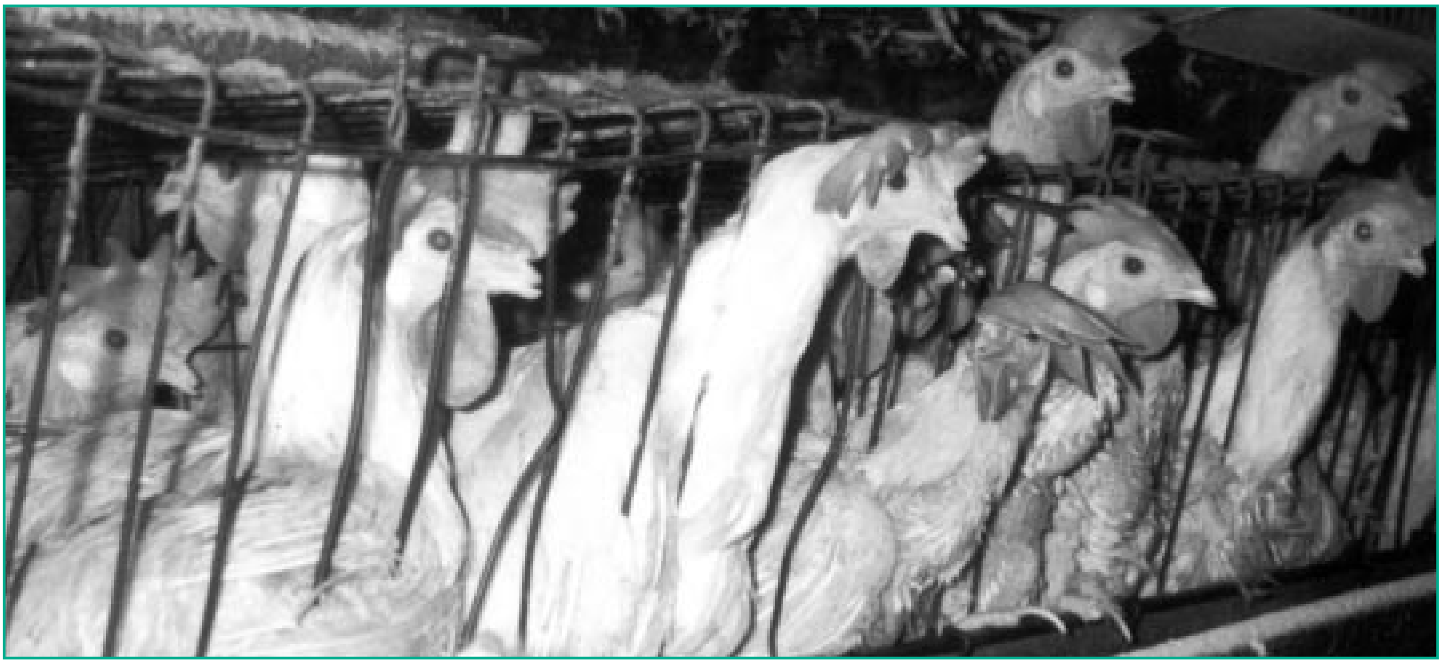
Year	SMPPMA Subsidy Rate (Euros / tonne)	SMPPMA Subsidy (million Euros)	SMPPMA Restructuring Aid (million Euros)	SMPPMA Quality Enhancement Scheme (million Euros)	Total SMPPMA Programme (million Euros)	CMO Dairy Premium Rate (Euros / tonne)	CMO Dairy Premium (million Euros)	Total Aid including Restructuring Aid and CMO Dairy Premium (million Euros)
2002	1.6	0.07	0.30	0.25	0.62	- -		0.62
2003	3.2	0.14	0.30	0.35	0.79	-	-	0.79
2004	35.5	1.60	0.90	0	2.50	-	-	2.50
2005	35.5	1.60	0.85	0	2.45	4.2	0.20	2.65
2006	34.4	1.55	0.85	0	2.40	9.7	0.47	2.87
2007	30.4	1.37	0.60	0	1.97	16.7	0.81	2.78
2008	22.9	1.03	0.60	0	1.63	20.9	1.02	2.65
2009	15.1	0.68	0.60	0	1.28	25.0	1.22	2.50
2010	7.6	0.34	0.60	0	0.94	29.2	1.42	2.36
TOTAL		**8.38**	**5.60**	**0.60**	**14.58**		**5.14**	**19.72**

EU premia for beef

Malta also requested to benefit from a suckler cow premium. The EU accepted Malta's request and will grant a payment of up to a maximum of €200 per cow. This will apply up to a quota of 454 animals per year. Malta also obtained a slaughtering premium of up to a maximum of €80 per animal up to 6,002 animals. Moreover, Malta obtained a special beef premium of up to €210 per animal up to 3,201 animals.

Sheep Meat and Goat Meat

Malta requested that the ewe premium provided for in EU rules (common organisation of the market in sheepmeat and goatmeat) be also granted to Maltese producers rearing goats. Meat production in Malta is only an adjacent activity and goat rearing is primarily practised to produce milk. The EU did not accept this request because Malta does not fulfil the criteria laid down in EU rules to qualify for this premium. On this basis, Malta withdrew its request. However, Malta still qualifies for additional assistance since, as explained above, the whole country will be classified as a less-favoured area (LFA). This amounts to €9,000 per year for the whole herd in Malta.



Poultry and Eggs

In order to assist the restructuring of this sector and enable it to compete effectively, a compensation package was agreed both for the eggs sector as well as the poultry sector. The eggs sector will benefit from compensation amounting to €14.46 million until 2010. This covers direct subsidies intended to reduce the price of local products as well as restructuring aid. It will be financed in part by the EU. The poultry sector will benefit from compensation amounting to €10.91 million until 2010. Again, this consists of direct subsidies intended to reduce the price of local products as well as restructuring aid. It will also be partly financed by the EU. The tables below illustrate the details of compensation for the eggs and poultry sector.

Welfare requirements for laying hens

Malta requested a transitional period of three years for the implementation of EU rules on the welfare of laying hens. The EU accepted this request and agreed to a transitional period until the end of 2006 for minor construction elements (height and floor slope only) covering only those existing cages in 12 of the lists of establishments which have a minimum height of 36cm over 65% of the cage area and elsewhere at least 33cm and floor slope not greater than 16%.

Levy Dismantling Programme and Introduction of Compensatory Measures for the Eggs Sector

Year	SMPPMA Subsidy Rate (Euros / tonne)	SMPPMA Subsidy (million Euros)	SMPPMA Restructuring Aid (million Euros)	Total SMPPMA Programme (million Euros)
2002	223.0	1.11	0	1.11
2003	445.0	2.22	0	2.22
2004	414.0	2.07	0.23	2.30
2005	390.4	1.95	0.23	2.18
2006	360.4	1.80	0.23	2.03
2007	294.3	1.47	0.23	1.70
2008	222.2	1.11	0.23	1.34
2009	152.2	0.76	0.23	0.99
2010	72.1	0.36	0.23	0.59
TOTAL		**12.85**	**1.61**	**14.46**

Levy Dismantling Programme and Introduction of Compensatory Measures for the Poultry Meat Sector

Year	SMPPMA Subsidy Rate (Euros / tonne)	SMPPMA Subsidy (million Euros)	SMPPMA Restructuring Aid (million Euros)	Total SMPPMA Programme (million Euros)
2002	0.75	0.53	0	0.53
2003	0.175	1.23	0	1.23
2004	204.3	1.43	0.37	1.80
2005	190.0	1.33	0.37	1.70
2006	180.0	1.26	0.37	1.63
2007	144.3	1.01	0.37	1.38
2008	111.4	0.78	0.37	1.15
2009	71.4	0.50	0.37	0.87
2010	35.7	0.25	0.37	0.62
TOTAL		**8.32**	**2.59**	**10.91**

Supply measures on certain imported products

Another key issue that was discussed during negotiations related to certain agricultural and food products that are not produced in Malta. This concerns sugar, cereals (wheat, barley, maize), rice, semi-processed tomato products and some beef and dairy products (concentrated milk powder, butter and cheese). As a non-EU country, Malta buys these products at international market prices which are cheaper than EU prices. But upon membership, Malta would have to apply EU prices, which are higher. The difference between these two prices normally consists of EU agricultural levies in the case of products imported from outside the EU or the loss of the EU export-refunds (subsidies) in the case of products imported from the EU. Although the EU is working towards a gradual alignment of EU prices with world market prices, at times, price differentials are still substantial. Increased prices would have negatively affected the agricultural community but also industry and of course, consumers.

During negotiations, Malta therefore argued that it wanted to keep buying these products at world prices in order to avoid price hikes that would occur if the EU internal prices prevailed. As a result of negotiations, it was agreed that a state aid mechanism would be introduced, which would be partly compensated by the EU, to compensate local industry and recognised retailers for the price difference between the world market prices and EU prices. The mechanism would start at a level of full compensation and be gradually phased out by 2010, by which time, EU prices are expected to converge with world market prices. The impact of membership on the price of these products will therefore be negligible.

The mechanism will work as follows: A special temporary state aid scheme shall support the purchase of these products on the basis of established traditional trade and consumption habits. The subsidy will be paid to processors and recognised retailers but the mechanism must guarantee that the support is effectively passed on to consumers. The maximum level of aids shall be calculated on the basis of the price differential between the EU prices (including transport) and the world market prices. It shall also take into account the level of the export refunds. The aid will only be given as long as a price difference exists. The aid shall be digressive as follows: 1st year 100%, 2nd year 95%, 3rd year 90%, 4th - 7th year 18% reduction pr. year. The aid shall be partly compensated by the EU. The following tables illustrate how this aid shall be paid:

The full list where supply measures shall apply, broken down in sub-sectors is the following:

- Sugar
- Cereals, including, common wheat and meslin seed, barley, excluding barley seeds, maize (corn), excluding seeds, rice, malt of other cereals excluding wheat flour and semolina (groats and meal of durum wheat)
- Dairy Products including milk cream in powder or other solid form, fat content < 1.5%, natural butter fat content =85% immediate pack, other butter, fat content =85% immediate pack, Cheddar cheese, Edam cheese and other processed cheese (Kefalo-tyri, etc.)
- Meat products including hindquarters of bovine with bone frozen, boneless crop chuck and blade and brisket cut bovine frozen, other prepared processed domestic swine products and corned beef in airtight.
- Other Products including, prepared tomatoes dry matter content (>30% in packs >3kg) and tomatoes preserved whole or in pieces in containers > 3kg

Supply measures

Mio

Products	2004	2005	2006	2007	2008	2009	2010	Total
Cereals	3,0	2,9	2,7	2,2	1,6	1,1	0,5	14,0
Sugar	11,0	10,5	9,9	7,9	5,9	4,0	2,0	51,2
Meat products	0,8	0,8	0,8	0,6	0,5	0,3	0,2	3,9
Dairy products	1,0	1,0	0,9	0,7	0,5	0,4	0,2	4,7
Semi-proc.tomato pr.	0,8	0,8	0,7	0,6	0,4	0,3	0,1	3,7
								77,4