

MEMORANDUM TO THE CABINET
BY THE HONOURABLE MINISTER OF
AGRICULTURE POWER & COMMUNICATIONS

As a result of the milk policy adopted by Government on the recommendations of the Committee of Enquiry into the Milk Policy 1959 a new contract and a new price structure based on a yearly standard quota was introduced in November, 1959. Up to this date milk purchases were regulated by the fixing of an individual quota which allowed milk producers a maximum daily supply of over 17,000 gallons or 6,085,000 per annum at the uniform price of 4s/10d per gallon in Malta and 4s/7d per gallon in Gozo. This quota proved in effect to be very liberal, so much so that the highest daily quantity ever delivered to the Undertaking, during any one year did not exceed 16,000 gallons.

In its Statement of Dairy Policy the Administration made it clear "that the only milk which is at all economic in Malta's price structure is that milk which is sold to be drunk." The statement added that "the production of milk must be more closely related to consumption than has been the case in the past. If supplies should, as has happened recently, expand, then public money should only support that part of the output of milk which is required to meet the demand of the liquid market." Government, in its statement, also accepted the Committee's recommendation that "the purchase price of milk should be related to a cost of production based on reasonably efficient methods, and that the price should only apply to a quantity of milk estimated to be required to meet the demand of liquid milk." Government accepted the principle that surplus milk should be paid for at a lower price.

As a result of this Policy a new contract and a new price and quota structure were introduced. Up to March, 1960 the price of 4s/10d per gallon was paid for all milk below a maximum yearly quota of 4,000,000. Milk in excess of this quantity was paid at 3/-. In October, 1960 the excess price was further reduced to 2s/6d per gallon. The prices obtaining at present are 4s/10d for a yearly standard quantity of 4,000,000 and 2s/6d for all milk supplied in excess of this quantity.

/The effect....

The effect of this policy on milk production may be gauged from the following figures. Whereas before 1959 production was on the increase, it took a downward trend when the new prices were introduced. According to the Department of Agriculture, the price of 4s/10d per gallon is now no longer considered adequate in view of the increased fodder prices, and as a result herdsmen are decreasing their output by slaughtering the less productive of their cows and goats in order to be able to produce milk at a more economic price.

At the same time, as a result of intensive propaganda meant to make the public more conscious of the great dietary value of milk, the demand for this commodity has steadily increased.

During October and November of last year the shortage of milk was very acute and school children had to be supplied with "toned milk" that is, milk made from powdered milk mixed with a proportion of fresh milk. Needless to say, this milk was not popular with the school population and demand for school milk decreased. This year matters are expected to be worse as the liquid milk demand will not be satisfied in full from the 1st October to the 22nd December.

Admittedly, the real shortage exists for a relatively short period that is October/December. No shortage is expected after December the intake starting gradually to increase to create a surplus of milk with a peak during April and May. However, surplus milk does no longer create the old-time problems in view of the efforts being made to utilize it economically and also because the Department is now fully geared to utilise every drop of surplus milk by turning it into cheese, rikotta, butter, cream, yoghurt, etc.

YEAR	PURCHASES	SALES	SURPLUS LESS WASTAGES
1959/60	4,412,237 gls.	2,995,689 gls.	1,340,000 gls
1960/61	4,417,099 "	3,248,594 "	1,100,000 "
1961/62	4,391,502 "	3,606,137 "	720,000 "
1962/63	4,245,215 Est.	3,798,000 Est.	380,000 "

* including 120,000 gallons reconstituted powdered milk.

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By failing to obtain the standard quota allowed by Government at the higher price during the period when the milk supply, due to natural causes, is very restricted, the Undertaking is being placed in a very awkward position when it has to adopt measures to provide for this shortage. In summer, especially during school holidays when there is a large surplus of milk the Undertaking has to resort to an extensive propaganda campaign to advertise the good qualities of fresh milk against its competitor, the condensed type imported from abroad. In October, however, the milk intake is already on the decline and restrictions on the issue of milk are introduced. When schools open the position gets worse as it is not possible to meet school milk requirements from stocks of fresh milk.

From next October up to mid-January a milk shortage of 120,000 gallons is anticipated. This has to be made good by the issue of reconstituted powder milk. The issue of reconstituted milk in flavoured form to schoolchildren does not create big problems. The milk is supplied free and although it is definitely not popular with schoolchildren (less milk is consumed) ^{they} have more or less grown accustomed to it.

What really creates an embarrassing problem is the shortage of fresh milk to the public which necessitates the imposition of restrictions on the issues of fresh milk. To make good for the expected shortage (120,000 gallons) during the next months arrangements have been made to fill a limited quantity of half pint bottles and to issue small quantities of reconstituted milk plain or flavoured. This is a situation which is bound to have adverse repercussions on the progress of the Undertaking. Most of the effects of the propaganda campaign made during the summer to sell more milk will be wasted, as the public may turn once again to evaporated milk.

This situation can be remedied by encouraging producers to produce more milk by raising the standard quota. This move will be beneficial to the herdsmen, to the public, to the Department and to local economy since it is a pity that quite a considerable sum is spent in buying quantities of milk powder from abroad. The same amount of money could very well be spent in raising the quota of milk received at 4s/10d over the present figure thus obtaining fresh milk which is most popular with schoolchildren.

At present the daily milk quota is fixed at 10,500 gallons equal to 3,832,500 gallons yearly as against the original over-all quota (conceded by Government in the year 1959) of 10,959 gallons daily or 4,000,035 gallons yearly. The quantity being purchased at the standard price of 4s/10d is not expected to exceed the liquid sales for the current year.

The reduction in the daily quota has been due to transfers of herds or the stoppage of individual producers from producing milk.

The original quota of 4,000,000 gallons was fixed when sales were in the region of 3,200,000 leaving a gap of 800,000 between the standard quota and liquid sales.

At present sales of fresh milk are anticipated to reach 3,700,000 and if the gap of 800,000 is to be retained the Standard Quota should be fixed at 4,500,000. This would mean in effect that all milk to be purchased this year, i.e. 4,245,215 gallons should be paid at the full price of 4s/10d per gallon. This, however, would involve an additional expenditure of £52,700, which the Undertaking is not in a position to meet from the funds at its disposal. Moreover, this expenditure would be recurrent.

If it is to be assumed that measures benefitting the milk producer should be introduced this year, the most the financial position of the Undertaking could permit is an increase in the Standard Quota to the extent that additional expenditure should not exceed £10,000.

One concession to milk producers might be in the shape of an increase in the Standard Quota from 3,832,500 (10,500 daily) to 4,000,035 (10,959 daily). We might feel morally bound to grant this increase and, if granted from the 1st July, 1962, it would involve an expenditure of £7,000.

This is equivalent to an increase of 4.4% on the existing quota of 10,500 gallons daily, but in order to make due allowance for seasonal fluctuations it is recommended that the quota should be raised by 10%. The new daily standard quota would be fixed at 11,550 gallons giving a maximum yearly standard quantity of 4,215,750 gallons. This would amply cover the current year's sales potential of about 3.7 million gallons allowing also a margin for wastages and seasonal fluctuations of about 500,000 gallons. The same line of reasoning prevailed

when the quota was fixed at 4 million gallons, although at that time only 3.2 million gallons were considered adequate to meet liquid sales leaving a gap of 800,000 for losses on fluctuations. The fixing of the quota at 4 million gallons produced, then, the effect of guaranteeing the Undertaking a steady minimum during the lean period. If the new Standard Quota of 11,550 gallons were to be granted with effect from 1st July, 1962, the cost of the Undertaking would be £17,000.

The basic principle of having two prices one for the Standard Quota and one for the excess quota, would not thus be disturbed. As a matter of fact, about 30,000 gallons would still be bought at the excess price of 2s/6d per gallon during the current year.

The above does not take into account any additional expenditure which might take place as a result of the increase in the milk intake following the introduction of the measures described above or the importation of more cows. It is estimated that 10% increase in milk production would cost an additional recurrent expenditure of £100,000 but such increase is not expected to materialise before the space of two years. Of course, the bulk of this expenditure would be recoverable from sales of Pasteurised Milk and Milk Products.