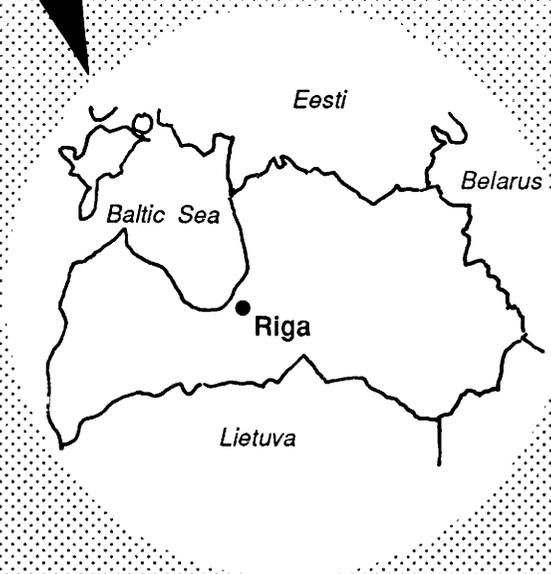


Agricultural Situation and Prospects in the Central and Eastern European Countries



Latvia



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in the Central and Eastern European Countries**

LATVIA

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Foreword

The European Union has expressed its intention to offer membership to those countries in central and eastern Europe with which it has an association agreement (see box below). Agriculture has been identified as an important issue for future accession, due to its relative size in some of the Central and Eastern European Countries (CEECs) and to the difficulties there might be in extending the Common Agricultural Policy in its current form to these countries.

A series of ten country reports on the agricultural situation and prospects in the CEECs has been prepared by the services of the European Commission in collaboration with national experts and with the help of scientific advisers. The ten countries covered are Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia, which are associated to the European Union through the Europe Agreements, and Estonia, Latvia, Lithuania and Slovenia, which are in the process of being associated.

The country reports attempt to provide an objective analysis of the current situation in agriculture and the agro-food sector in the CEECs and an assessment of the developments to be expected in the medium term.

Extract conclusions Copenhagen summit of 22-23 June 1993

"The European Council today agreed that the associated countries in Central and Eastern Europe that so desire shall become members of the European Union. Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required.

Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."

About the data....

The data used in this country report are derived from a CEEC dataset established by DG VI in cooperation with other services of the European Commission and with external experts. Data have been selected after a number of analyses carried out by both external research institutes¹ and DG VI services. They originate from various sources: FAO, OECD, World Bank, United Nations, USDA, national statistics, economic institutes and the European Commission (DG II, Eurostat).

The main objective was to obtain a dataset which was as coherent as possible, offering a good comparability of data.

For the agricultural data, the starting point of the analysis was the work carried out by Prof. Jackson (Institute for Central and East European Studies, Katholieke Universiteit Leuven, Belgium), who compared figures from OECD, FAO and the national statistics of Poland, Hungary, the Czech Republic, Slovakia, Bulgaria and Romania. The conclusion of this study was that the FAO was the most reliable source because these data were standardized, which was not the case for the two other sources.

Moreover, DG VI services compared FAO and USDA data and although for the crop sector there were no important differences, this was not the case for the animal sector where big discrepancies were apparent. This is due to different methodological approaches and also to different coefficients used to transform live animal weight in carcass weight.

In general the FAO data for agriculture were used, but for certain countries and/or for certain products, and in particular for the most recent years, the figures were adjusted or replaced by data from other sources, after discussion with country specialists and with FAO statisticians. In such cases, FAO coefficients and standards were used to avoid a break in the time series.

Despite all efforts to create a coherent, reliable and up to date dataset, all figures presented in this report should be interpreted with care. Significant changes in data collection and processing methods have sometimes led to major breaks in historical series as the countries concerned have moved from centrally planned to market economies. One general impression is, according to some experts^{1,2}, that these problems may have led to overestimate the decline in economic activity in general and of agricultural production in particular in the first years of transition, data from 1989 and before being somewhat inflated and data after 1989 underrecording the increase in private sector activity.

¹ - M. JACKSON and J. SWNNEN (1995) : A statistical analysis and survey of the current situation of agriculture in the Central and Eastern European Countries, report to DG I, European Commission.

- W.J. STEINLE (1994) : First Study on Data Collection on "Visegrad" Countries and ECO Countries, Empirica Delasasse, Eurostat.

² S. TANGERMANN and T. JOSLING (1994) : Pre-accession agricultural policies for central Europe and the European Union, study commissioned by DG I, European Commission.

Executive Summary

General Overview

The total area of Latvia comprises 64600 km² of which 44% is forest, 39% is agricultural land, most of it arable.

The total population reached 2.58 million in 1994. Due to emigration of ethnic minorities and a shrinking birth rate, the population has dropped since 1989. One third live in rural areas. The average density of population is some 40 inhabitants per km². Ethnic minorities, and in particular Russians account for 45% of the total population. In the larger cities, Russians account for nearly two thirds of the population.

Latvia has a good network of roads and railways most of them however in a bad condition. Latvia has practically no energy resources of its own. Electricity was imported from Estonia and Lithuania, petrol mainly from Russia, although demand for both dropped significantly due to declining economical activity.

In August 1991 Latvia declared its independence. The "Seim", an unicameral assembly is the legislative body. At present Latvia is governed by a Coalition between the left of centre party "National Union Economists" (NUE) and the "Latvian way", with Maris Gailis as Prime Minister. In autumn 1995 general elections will be held and political changes may result.

In January 1995 Latvia became a member of the Council of Europe and in June, an association agreement with the EU was signed, which contains the option of later EU membership.

Economic development in the last years has been characterized by a drop in industrial and agricultural production and in the service sector. Deteriorating trade flows, and high rates of inflation added to the problem. In 1994 the economy began to stabilize and for 1995 a slight growth can be expected.

At present Latvia runs a rather moderate budget deficit of around 2%.

The official rate of **unemployment** reached 6.5% in 1994 and is the highest of all the three Baltic republics. Hidden unemployment however is an important factor and real unemployment may lie well above 10%. Continuing restructuring of the industrial sector will also lead to increasing unemployment. The share of agriculture in employment remains important reaching 18.4% in 1993.

The **industrial sector** was established mainly in the Soviet era and the whole system of production was designed in a way that increased the interdependence between the different Soviet republics. Mechanical engineering, the metal industry and food processing used to be the dominating sectors. The privatisation process started at a rather slow pace but accelerated in 1994.

For the time being the **banking sector** plays an important role in the economy. The Russian influence in the sector remains strong, with the majority of the capital coming from Russia. Latvia left the Rouble zone in 1992 and established its own national currency. The national bank follows a tight monetary policy, which has led to an overvalued currency with negative impact on the competitiveness of exports.

Trade is an important element of the Latvian economy. Machinery, food (particularly fish) and agricultural products used to be the main export commodities. Before the liberalisation, trade flows were mainly within the FSU and at present more than 50% of exports go to the Russian market. On the import side energy and again machinery are the most important commodities, for which the FSU remains the most important trade partner. The trade balance has become negative since 1992 but trade figures are incomplete and vary considerably between sources. In addition there is a lot of unregistered trade which is outside the official statistics. The average import tariffs is 20%. Export tariffs are applied mainly on timber and leather.

Situation of Agriculture

Agriculture is still an important factor in the economy, its share of GDP was 7.8% in 1994, which continues the process of decline in recent years. However, employment in agriculture and in particular on small household plots, is increasing due to a lack of employment opportunities in other sectors.

Agricultural land has diminished significantly over the last decades with a tendency for the less productive land to be afforested or abandoned. At present the total agricultural area comprises 2.35 million ha, two-thirds of which is arable land.

Food consumption for meat and dairy products used to be fairly high in comparison with average incomes but has declined during recent years, while consumption of grains and potatoes has increased.

Structure and Privatisation

After liberalisation, the **structure of landownership** changed dramatically. The large state farms and collective farms, the so-called "sowkhoses" and "kolkhoses" were reorganized and many of them were later broken up. The land is now being restituted to its former owners. At present, three types of farms prevail: Cooperative farms, manage around 17 % of agricultural land, household plots with an average size between 2 and 4 ha, account for 32% and thirdly, the peasant farms with an average size around 19 ha, farm 46%. The privatisation process however is not yet finished and legal titles to the land are still largely missing.

Farm assets were valued and allocated to the farm workers depending on their salary, their length of employment and the value of those assets brought into the collectivized farms during the period of socialisation.

Farm Production

The area planted to cereals stayed relatively stable around 660.000 ha until 1994, when it contracted to less than 500.000 ha. Yields lie around 2,0 t/ha but show much variation due to climatic reasons. Barley accounts for roughly two thirds of cereal production, which reflects the dominating role of animal feed production in this sector. In the Soviet era large amounts of feed grain had to be imported mainly from Russia. However, as a consequence of the massive destocking process in the livestock sector, grain imports contracted whereas production of wheat and rye for human consumption has been increasing.

More than half of the arable land used to be planted to fodder crops, mainly perennial grasses but production has dropped in line with falling livestock numbers.

Potatoes are planted on 80.000 ha but yields are fairly low and the annual production lies between 1 and 1.2 Mio t. Roughly one third of the production, which is to a large extent from household plots is used for feed purposes.

Sugar beet production is mainly an activity of large scale farms. On average, the area planted to **sugar beet** is between 12-14.000 ha, which is insufficient to cover domestic supply, so that most of the domestically consumed sugar was produced from imported raw sugar and some of which was even reexported. The sugar processing industry is still largely monopolized.

The production of rape seed and other oil seeds plays practically no role in Latvian agriculture.

Production of **fruit and vegetables** is mainly an activity of small household plots and plays an important role for the nutrition of families. Production may well have increased over recent years, but statistical evidence for this is weak.

The **livestock sector** used to be the most important sector of Latvian agriculture. Production by far exceeded consumption and large amounts of meat and dairy products were exported mainly to Moscow and St.Petersburgh. On the other hand livestock production was dependent on imports of feed grain from other Soviet Republics. During the transition process livestock numbers and production figures dropped dramatically with the decline seeming to have bottomed out only in 1994. Consumption and exports dropped by equal amounts. The whole livestock sector suffers from relatively high prices for cereals as well as from the strong currency, which reduces its ability to compete on foreign markets.

Milk Production contracted to less than 1 Mio t in 1994, which is about half the level of 1990. Internal consumption and exports contracted equally. The quality of dairy products currently does not meet Western European quality standards. Traditional export markets in Russia remain of importance. As a result of low producer prices for milk, profitability of milk production is very low and even negative. In 1994 an improvement in prices occurred, leading to an improvement of the economic situation of the sector.

Beef meat can be considered to be mainly a by product of milk production and the meat produced is generally of low quality. The cattle inventory dropped to 551.000 heads in 1994, which is less than 40% of the 1990 level. Prices for beef meat are below those for pig meat and reflect the low consumer preference as well as the low quality of the meat.

Pig meat production has experienced a dramatic decline in production, which to some extent is due to high cereal prices, since 1993 Latvia has been a net importer of pig meat. The protein content of animal feed is also low which affects the feed conversion rates.

The upstream and downstream industry

Latvia has little production of **fertilizers and agricultural machinery** having to import most inputs mainly from the FSU. Utilisation of fertilizers has dropped due to increasing prices. The Agro service sector has been privatized, mainly to its former staff and split into smaller entities.

Except for the grain sector, the **processing industry** has been largely privatized but due to the drop in primary production suffers from overcapacity. Outworn, oversized and high energy consuming machinery are adding to the problem, so that quality standards and efficiency of production remain low by West European standards. At present there are no slaughterhouses which fulfil the EU hygiene standards, this inhibits exports to that market.

Agricultural Policy

Apart from **border protection** measures, which have recently been increased, support to the agricultural sector is very limited. State procurement of cereals covers less than 20% of production. In 1994 export subsidies for dairy products were introduced. Within the 1995 budget a total amount of 13.2 Mio Lats (19.7 Mio ECU) have been earmarked for agricultural subsidies. In spite of a prospering banking sector, there is still a shortage of soft credits for the farm sector.

In the Soviet era **trade flows** were nearly exclusively within the FSU. Dairy and meat products were exported to the Russian market whereas feed grain had to be imported from other soviet Republics. After independence, trade flows deteriorated in general and part of it was reoriented to the EU and EFTA countries. Russia still remains the main single trading partner.

Free trade agreements exist with Switzerland, Norway and the Baltic neighbours but agricultural commodities play a very limited or nonexistant role. A trade agreement with the EU entered into force in January 1995 providing more preferential access particularly for pig meat (1000 t), chicken meat (500 t), SMP (2500 t), butter (900 t) and cheese (1200 t). In addition a common quota of 3500 heads for live bovine animals has been opened for the three Baltic countries.

Outlook

Since the contraction of the economy appears to have bottomed out in 1994, moderate growth can be expected for the coming five years. Agriculture will remain an important sector of the economy, especially for the labour market. In rural areas, at least in the short run, household plots will continue to provide livelihood for many families.

There are still a series of blocking factors, which will hamper a quick recovery of the agricultural sector : The process of restitution is proceeding but slowly, the performance of the processing industry is rather poor and investment capital is inadequate. The relationship between prices for inputs and outputs is improving but still not satisfactory.

It can therefore be expected, that agricultural production for the main products will increase but at a rather slow pace. In the cereal sector, Latvia will probably remain a net importing country. For dairy products the exportable surplus will be rather small compared to the production. For beef and pig meat it is probable that production will be at or near to self sufficiency.

Table 0.1
Projections for main commodities, production (000t)

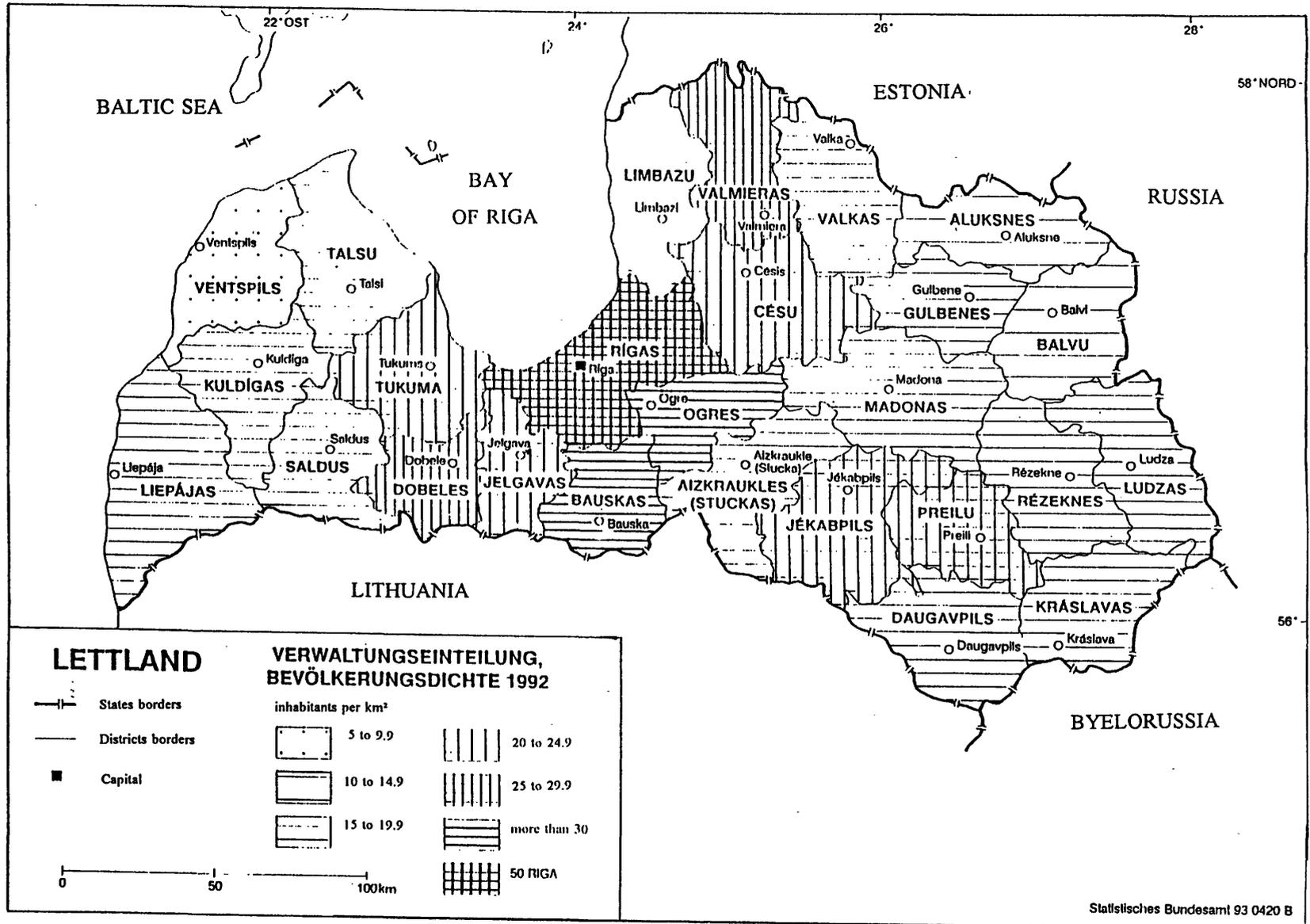
	1993	1994	2000
Cereals	1235	901	1182
Milk	1157	937	1187
beef	107	68	74
pork	68	54	77

TABLE 1 : Latvia in comparison with other CEECs and EU-15

	Population	GDP	GDP pc	Total area	Agricultural area		Arable area		Agricultural production		Agricultural employment		Rainfall
	(mio)	(bio ECU)	(ECU)	(mio ha)	(mio ha)	(% total)	(mio ha)	(ha pc)	(bio ECU)	(% GDP)	(000)	(% tot. empl.)	(mm/year)
Bulgaria	8.5	9.4	1110	11.1	6.2	55.9	4.0	0.47	1.131	12.0	694	21.2	550
Czech. Rep.	10.3	26.7	2586	7.9	4.3	54.3	3.2	0.31	0.871	3.3	271	5.6	491
Estonia	1.6	1.5	938	4.5	1.4	30.6	1.0	0.63	0.266	10.4	89	8.2	600
Hungary	10.3	32.5	3150	9.3	6.1	65.8	4.7	0.46	2.068	6.4	392	10.1	600
Latvia	2.6	2.2	850	6.5	2.5	39.2	1.7	0.65	0.232	10.6	229	18.4	680
Lithuania	3.8	2.3	627	6.5	3.5	54.0	2.3	0.62	0.259	11.0	399	22.4	625
Poland	38.5	73.4	1907	31.3	18.6	59.5	14.3	0.37	4.648	6.3	3661	25.5	550
Romania	22.7	21.8	961	23.8	14.7	61.9	9.3	0.41	4.500	20.2	3537	35.2	635
Slovakia	5.3	8.7	1643	4.9	2.4	49.0	1.5	0.28	0.512	5.8	178	8.4	611
Slovenia	1.9	9.8	5018	2.0	0.9	42.7	0.2	0.13	0.250	4.9	90	10.7	1350
CEEC-10	105.4	188.3	1786	107.7	60.6	56.2	42.3	0.40	14.7	7.8	9540	26.7	
EU-15	369.7	5905.1	15972	323.4	138.1	42.7	77.1	0.21	208.8	2.5	8190	5.7	

All figures are for 1993. Rainfall long term average.

Source : DGVI CEEC dataset.



1 General overview

1.1 Climate and geography

Latvia has a total land surface of 64.600 km², which is comparable to that of Ireland. It is dominated by large forests and a multitude of lakes and rivers. Four natural regions can be distinguished:

- the coastal region adjoining the baltic sea;
- western Latvia which is characterised by lowland plains;
- central Latvia which is more mountainous; and
- eastern Latvia which has an average altitude of 170 m

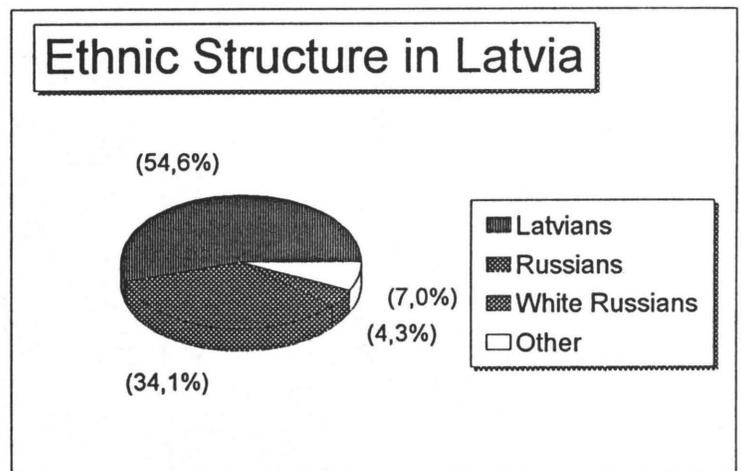
Average temperatures in Latvia reach 17°C in summer and -5°C in winter. Average annual rainfall is 680 mm.

1.2 Population

The official language is Latvian, but due to the existence of large minorities, Russian is also widely spoken.

The census of 1993 recorded an official population of 2.58 million; 90.000 less than in 1989. This represents an annual population decrease of 0.57%, reflecting not only a reduced birth rate but also to a large extent the emigration of ethnic minorities particularly Russian. The age structure is characterized by a relatively high proportion of elderly and retired people and a low birth rate.

The population density ranges from 6 to 50 inhabitants per km², depending on the region, but the average is 40.3 inhabitants per km² (Eur average being 15.89 inhabitants/km²). One third of the population lives in the capital Riga. As a consequence of the industrialisation process that started under Soviet rule in the late 1940's a continuous population shift to urban areas occurred. Today more than two thirds of the population live in towns. Another result has been a particularly high age structure in the rural areas.



Only 54% of the population are of Latvian origin. The Russian minority increased rapidly during the Soviet period due to the policy of industrialisation and migration. Since independence however, a remigration to Russia has occurred, which has led to a remarkable decline of the Russian population. The Slavonic influence is particularly strong in the eastern part of the country which is also reflected in in the type of settlement, which is dominated by villages, whereas the rural areas to the west are dominated by individual farms spread evenly throughout the countryside. As a result, Russian and other minorities are concentrated

in the urban areas. In some cities such as Riga, Russians account for nearly two thirds of the population. In rural areas however, Latvians have always been clearly dominant.

1.3 Education

Latvia has a nine year compulsory school education for all children with the possibility of higher education and specialist training. There are 14 high schools in Latvia and the Latvian University of Agriculture has some 5000 students. A total of about 30 technical schools ensure a professional education.

1.4 Infrastructure

Transport

Latvia has a network of about 2.500 km of railways and 20.500 km of public roads. Latvia was considered to have the best road system of the former Soviet Union but investment in most of the road and railway network is now required. Sea transport plays an important role. Ventspils is the main trading port from where the majority of petrol imports from Russia are unloaded. Other important harbours are Riga and Lipaja.

Energy

Other than hydro-electric power and small amounts of peat, Latvia has no domestic energy resources. During the Soviet era most of the primary energy (petrol and gas) was imported, mainly from Russia, at prices far below the world market level. Estonia and Lithuania were important suppliers of electricity. Following Latvian independence, Russia began to charge world market prices for its energy exports which led to a significant increase in prices, while energy exports from Estonia and Lithuania contracted. Electricity was traditionally widely used in Latvian agriculture but due to the high energy inflation and a drop in production following independence, this has contracted substantially.

Telecommunications

The number of telephone connections has increased remarkably over the last ten years. With 279 telephone connections per 1000 inhabitants, Latvia is well above the level of the former Soviet Union.

1.5 Political situation

Before being annexed by the Soviet Union in 1940 Latvia had seen only a short period of independence starting in 1922. Before that time Latvia had been under Swedish, Polish and later under Russian rule. During the Soviet period Latvia suffered from a harsh Sovietisation policy, which included collectivization of agriculture and rapid industrialization combined with the intensive immigration of Russians. Encouraged by the glasnost policy of Michael Gorbachev, Latvia began its struggle for independence which was finally obtained after a referendum in 1991. It is an important fact that even the large minority of Russians supported Latvian independence at that time because it promised growing prosperity for the country.

Latvia declared its independence on August 21, 1991. The national legislature which followed comprised a 100-seat Parliament, called the "Saeima". General elections were last held in June 1993 returning a minority coalition under Valdis Birkavs as Prime Minister. The larger coalition partner is the right of centre "Latvian Way" with 36 seats, which favours economic reforms and is free market orientated. The smaller coalition partner was originally the peasants party, "Latvians Farmers Union", with a strongly protectionist policy. However a new government was formed in September 1994 after the Farmers Union deserted the coalition following intensive debate about the introduction of border protection measures. The new ruling coalition under Maris Gaillis, which has now been formed is again a minority coalition between "Latvian way" and a left of centre party the "National Union of Economists" (NUE), which demands stronger state influence on the economy. The opposition is divided between various factions, the most important being the "Latvian National Independence Movement" (15 seats) and "Harmony" (13 seats), which recently split into two factions, one being the NUE. In autumn 1995 general elections will be held and changes in the political constelations are expected.

1.6 Economic Situation

Occupational activities

The working population, like in other former Soviet republics, has been rather high compared to the total number of citizens. Unemployment has therefore been growing as a consequence of the restructuring process but the official rate of unemployment is still rather moderate at around 6.5%. Hidden unemployment, unpaid leave and part time work, however play an important role and it is estimated that the real rate of unemployment lies in fact far above 10%.

Another result of the restructuring process is that employment in state enterprises has been declining constantly whereas employment in the private sector has been growing.

Agriculture has a share of 18.4% of total employment (EUR 12; 5.8%) and will, at least in the short term, continue to play a key role in employment policy and provide compensation possibilities for employment lost in other sectors, especially in rural areas.

Table 1.1 Macroeconomic Indicators for Latvia

		1990	1991	1992	1993	1994
Population		2,671	2,662	2,632	2,582	2,548
GDP	Nominal GDP (million Lats)	62,4	143	1005	1467	1696
	GDP per Capita	23,4	53,8	381,7	567,3	665,5
	Real GDP ² (percentage change)		-10,4	-34,9	-14,9	-2,2
	share of : - Agriculture	9,4	10,3	11,2	10,6	7,8
	- Industry	30,1	33,7	26,6	21,1	19,9
	Services	30,1	29,6	38,6	48,3	51,9
Monetary	Rate of Inflation ²		162	858	34,8	24,9
	Exchange Rate/ECU			1,027	0,668	0,665
Labour Indicators	Official Unemployment			2,3	5,8	6,5
	Average Wages/Lats/month		3	21,5	47,2	74
	Real Index 1990=100	100	83,7	70,6	71	
	Labour share of : - Agriculture	15	16	18,5	18,4	
	- Industry		37			
	- Services					
Government Finance	Total revenue (Mio LVL)				410,1	561,3
	(Percent of GDP)				27,9	33,1
	Total Expenditure (Mio LVL)				412,6	599,2
	(Percent of GDP)				28,1	35,3
	Balance (Mio LVL)				-2,42	-37,93
	(percent of GDP)				0,2	2,2
Trade	Total Exports (Mio LVL)			577	676	553
	Total Imports(Mio LVL))			543	639	695
	Trade Balance			34	37	-142

sources: Central statistical Bureau; ² prices of 1993

Industrial production

Industrial capacity was largely built up during the Soviet period and the industry has been very much dependent on imports of energy from Russia, while significant parts of production were exported mainly to the Republics of the FSU. The most important industrial sectors used to be mechanical engineering, metal processing, food processing and textiles. For some important products such as transport vehicles (buses), diesel engines, radios and some kind of very simple agricultural machinery, Latvia enjoyed a near monopolistic position on the Soviet market. As a consequence of the restructuring process which is still continuing, the close trading relationship which had been built up with the Republics of the FSU have become more difficult, hindered further because of the enormous inflation rates experienced in the FSU and the inherent trade risks this entails. Resulting from the privatisation process the Latvian agricultural machinery industry is now trying to establish Western markets with its rather solid and simple machinery and some success has been evident. Nevertheless the total value of industrial sector output contracted by nearly 50% between 1990 and 1994 and its share of GDP in the same period shrunk from 30% to 19.9 %. The pace of privatisation was initially rather slow but accelerated during 1994, by which time the private sector accounted for approximately 55% of GDP.

Trade

Since the domestic market is rather small compared to total national production, exports have traditionally been a very important factor in the Latvian economy. Before independence trade was almost exclusively with the Soviet Union. Until 1993 Russia still accounted for more than 50% of both exports and imports, and remains the most important single trading partner for Latvia, even though trade flows to the EU have increased over the last few years. Within the EU, the Netherlands and Germany are the most important export markets. In 1994 trade with the EU has further increased, while trade with the FSU and especially imports have dropped.

Table 1.2
Main trading partners in 1994

	Exports		Imports	
	Mio LVL	%	Mio LVL	%
FSU	236	43	212	31
EU	154	28	178	26
EFTA	75	14	116	17
Others	88	15	188	26
TOTAL	553	100	694	100

source: Central statistical Office

The main products for export used to be machinery and foodstuffs, but due to the drop in industrial and agricultural output, products like unprocessed wood have gained a larger share of exports. Fish remain one of the most important export commodities with over 70% of production is still exported to Lithuania and the FSU.¹ On the import side energy, machinery, textiles and chemical products are the dominating commodities, with the Republics of the FSU, mainly Russia, being by far the most important trading partners.

Trade figures vary between different sources and have to be viewed with great caution. The official trade statistics are based on the trade volumes and values registered by the customs authorities. For a number of reasons, including a substantial share of black market transactions across the Russian border, technical problems within the customs administration, and barter trade which is usually not included in official statistics, it is difficult to determine the real value of traded commodities. Official trade figures are therefore not yet complete and need to be improved. From 1994 progress in that direction can already be observed which should lead to more consistent trade data in the future.

Due to the internal price structure within Russia, which lies below world market levels, many products, but mainly crude oil and metals, are exported illegally to the Baltics and to some extent may be reexported again to other destinations. Some statistical sources try to include this as an estimation of the volume of black market trade, while other sources refer only to officially registered trade. The true value of these illegal trade flows is difficult to estimate but might reach between 20 and 50% of officially registered trade.

Since 1992 trade volumes have declined significantly and the trade balance has become negative. This however is counteracted by a surplus in the service sector, firstly in the banking sector but also the transport sector [and the transfer-trade contributed to this surplus.]

A standard tariff of 1% is applied to most imports. In order to support domestic production tariffs of up to 45% are applied on goods that can be produced locally. The average protection is around 20%. Agricultural products from Russia and the Ukraine are subject to these higher tariffs. Export taxes are applied to metal products, timber and leather.

Currency and monetary questions

Latvia left the Rouble zone in 1992 and established an intermediate national currency, the LVR, which was replaced by the Lat in June 1993. Due to a strict monetary policy, the Latvian currency has remained stable. Unlike the two other Baltic Republics, Latvia has not pegged its currency officially to another hard currency such as the deutch mark but since its introduction in 1993 the Lat has been kept stable against the SDR, the money basket used by the World Bank.

¹VWD Osteuropa 25.11.94

The stability of the currency has however contributed to increasing imports, shrinking exports and consequently the recent negative trade balance.

The rate of inflation increased sharply in 1991 and 1992 reaching 162% and 858% respectively, but decreased to 34.8% in 1993 and is expected to be confirmed at around 25% for 1994 ².

Wages and prices

During the Soviet era and until 1992 Latvia applied a system of wage indexation, leading to automatic wage rises. Due to high inflation however, real wages dropped and only 1993 witnessed the first real wages rise since independence. In the state sector the average salary per month as at April 1994 was LAT 78. Similar data is not available for the private sector. It can however be assumed, that especially in the banking sector, average wages are about three times as high as in the state sector. Wages in all three Baltic states are considerably lower than in Poland and the Czech Republic but are higher than in neighbouring Russia, the Ukraine and Belarus. Due to the low level of income expenditure, food accounts for at least 45% to 50% of an average Latvian salary.

Retail prices for agricultural products are the highest of the three Baltic Republics. In 1994 the following retail prices were given: most expensive was pork meat at with ECU 2.4/kg followed by beef meat and chicken meat which have been sold at a price of ECU 2.38 and 2.35 respectively. Milk prices reached ECU 0.34 per litre and bread was sold at a price of ECU 0.44 per kg.

2 Agricultural Economy

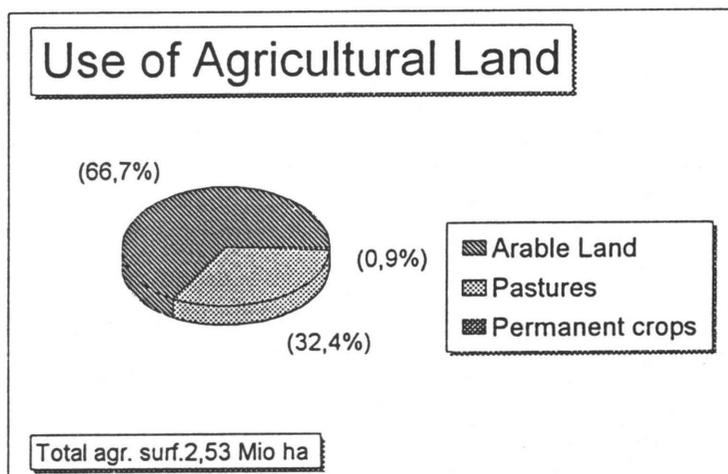
2.1 Importance in the economy

Agricultural production plays an important role in the national economy. Its share of GDP was 10.3% in 1991. Following the establishment of national statistics, this figure remained relatively stable until 1993; estimations for 1994 lie at around 7.8%. Agriculture employs an important part of the labour force, most of it in the livestock sector. The World Bank report of 1993 suggested that 250 000 people were employed in the agricultural sector. This figure includes the owners of restituted land, who are not necessarily engaged in farming as well as people working on household plots. The real number of people employed in agriculture might therefore be closer to 170 000. As a consequence of the bad situation in other sectors, employment in agriculture increased in recent years, reaching 18.4% in 1993. Labour productivity is however considerably lower than Western European standards.

²OECD 1994

At least in the short term the agriculture sector will remain an important employer since it continues to provide a basis of living for a large number of families at least as long as opportunities in the industrial and service sectors are not sufficiently developed.

2.2 Land Use



Only 39% of Latvia is utilised for agriculture, most of which is arable. The agricultural surface has however declined sharply in the last 40 years with more than 1 million ha of agricultural land being abandoned and subsequently afforested, a tendency which may continue in the future.

The most fertile soils can be found in the plains to the south of Riga, where most of the sugar beet production and also fruit and vegetable production is concentrated.

The central and eastern parts are hilly

areas which are less favourable for crop production and which are therefore dominated by cattle breeding. Flax production is also concentrated mostly in these districts.

Latvian agriculture has been a traditional producer of livestock and dairy products with considerable export capacities.

Soil quality is variable but typically fairly poor with 54% being podsolize soils. The climate is favourable for agricultural production, severe droughts such as experienced in 1992 are rare.

1.7 million ha of agricultural land is drained but drainage systems have often been left to deteriorate and need repair. Agricultural output has been affected by this as well as by soil compaction. Soil maps are available for most of the country.

2.3 Food Consumption

Both FAO calculations and national statistics show that per capita consumption for the most important commodities used to be fairly high before independence but diminished remarkably as a consequence of the transition process. The drop in consumption was especially sharp in the case of meat, eggs and dairy products. Production and consumption of fruit and vegetables on the other hand has remained relatively stable, aided by the production from small household plots. Bread consumption (and especially the traditional ryebread) has remained quite stable and perhaps increased, replacing to some extent consumption of more expensive meat and dairy products. It should be noted however that until recently some 200 000 soldiers of the Russian army were stationed in Latvia. The tables showing per capita consumption take account of this fact.

Per capita consumption of sugar has been particularly high but is explained mainly by the fact that much of the sugar was processed into alcohol.

Table 2.1
Annual per capita consumption of food (kg)

	1990	1991	1992	1993	1994	EU
Milk and dairy 1	454	420	370	355	345	
Butter	7.3	7.3	5.5	5.3		
Cheese	4.4	4.6	3.8	3.5		
Meat and Meat products ²	83	74	63	61	58	87
pork ³	24.7	21.2	19.6	17.6		
poultry ³	10.5	11.4	7.1	2.8		
beef ³	12.4	7.7	6.9	10.9		
Eggs , pieces	259	232	213	210	206	
fish and fish products	22.5	18	13	12	13	
sugar	48.1	40.5	32.8	36	36	34
potatoes	125	115	116	119	120	79
vegetables	69	69	75	71	73	116
fruit and berries	33	37	34	50	52	60
bread*	107	105	110	111	112	81
Wheat	86	87	79	78		70
Rye	30	30	31	31		4

Source: Central Statistical Bureau

² processed meat and edible offal included; ³ processed meat not included

* converted into flour

2.4 Structure and Privatisation

During the Soviet era, land property was nationalized and agricultural production was performed in large scale sowkhoses (state farms) and kolkhoses (collective farms) each with more than 3000 ha land and with a high level of vertical integration. Members of the collective farms were allowed to farm small personal plots of around 0.5 ha. Production from these small plots was important especially for potatoes and vegetables, but economically the

household plots remained dependent on the large scale farms. For the bulk of their production they used the marketing channels of the state farms, which was also true for machinery and the supply of other inputs.

The privatization process is legally based on different laws, which distinguish between the privatization of land and the restitution of other agricultural assets, such as buildings, stables etc. Such a distinction was made necessary because of different titles of ownership for the land, which was state owned and for the other assets which were the property of the kolkhoses and sowkhoses.

The process of land restitution in Latvia is very complicated, due to the fact that the first privatisation laws pursued the aim of returning land primarily to those who used the land. Over time this attitude was changed and historic **ownership rights** from the pre-Soviet period were taken as the major criterion for land restitution. This change led to a number of problems and competing claims for restitution, making arrangements for compensation necessary.

The first law, leading only to a partial restructuring of agriculture was the "Law on Peasant Farming" of May 1989. This gave the right to use parcels of land to create private family farms, but without stating ownership to the land. This marked the first time in the Soviet era that private farming was allowed and given the same rights as the large scale production units. The next stage was the "Law on Land reform", adopted on November 21, 1990, which set up the legal conditions and administrative framework to restore rightful ownership to the land nationalized during the Soviet period. This law was based on a decision of the Supreme Soviet of Latvia, which made the way free for land reform and restructuring of the state- and collective farms. Claims for land restitution had to be submitted before June 20 1991 with land users being given preferential status for restitution.

Actual property rights were not stated until the "Law on Land Privatization in Rural Areas" was adopted on July 9, 1992. Former owners who did not claim for restitution under the previous law could now claim for compensation in land or in vouchers. The possibility to provide compensation in cash is now under discussion.

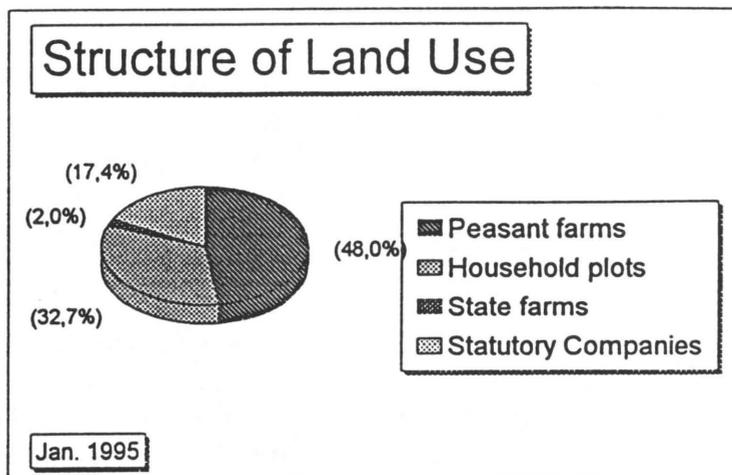
After being transformed into legal enterprises, an evaluation of the assets of the former kolkhoses and sowkhoses was carried out under the auspices of a privatisation commission, which consisted basically of members/employees of the farms to be privatized. The assets were then divided into several production units, allowing them to commence commercial farming. These production units could then be purchased with "shares" which were distributed among farm workers, taking into account salary, the time worked, and the value of assets brought in when collectivisation took place. Members of the state farms could claim for one or several of the production units. Auctions were carried out if several claims were registered for the same production unit. The balance sheet values were taken as starting prices but especially for machinery and livestock, auction prices far exceeded these levels.

During the privatization process several problems were experienced: firstly there were conflicts between the demands for restitution of former land owners and new users who got hold of the land under the "Law on Peasant Farming" of 1989 or under the "Law on Land Reform" of 1990. Secondly the privatization of land did not take place in parallel with the

privatization of other assets. Consequently production units were often left without land and could not be operated properly.

Finally the pace in which the legal titles to the land were stipulated was very slow, due to both administrative difficulties and missing land boundaries and land registration. In January 1995 ownership rights had been issued for some 7000 family farms and about 6000 household plots, accounting altogether for 222.000 ha, i.e. less than 10% of agricultural land.

The structure of Latvian agriculture is now characterized by four different types of farms. Firstly there is a growing number of private family farms with an average size of around 20 ha of land, part of which is forests. Indeed many have significant forest areas, which provide additional income. The area managed by family farms has increased significantly in the last year and reached nearly 47% of total agricultural land by the beginning of 1995. Small scale farms have had a low degree of specialisation, but especially in the dairy sector a tendency towards increasing specialisation can now be observed.



The second type of farm are the household plots and subsidiary farms with an average size of 5.2 ha and 2 ha respectively, which started to be established in the Soviet era but have recently increased in size. As far as the farm size is concerned, there is a certain overlapping between family farms and household plots, since about 40% of household plots are now larger than 5 ha. Household plots and subsidiary plots account for 32% of agricultural land. For the time being they primarily play a social role but a proportion will continue to grow and start professional farming. At present small land users tend to keep their land to produce food for their own use and for some additional income. Low land prices and difficulties with legal titles are further obstacles which have hampered further restructuring. A land market is practically non-existent.

The third type of farm are the so-called "statutory companies". They are the "heirs" of the "sowkhoses" and "kolkhoses", which have been transformed into limited liability companies, stock companies or share holding companies. Since some of these enterprises did not perform very well their share of total land use dropped from 31% at the beginning of 1994 to only 17% by the beginning of 1995. In the same period their number fell from 812 to 656. The future of many of these farms is still rather uncertain. Some have been split further and some of them have been transformed into individual farms. Within the statutory companies, a certain concentration of shares has occurred. It can be expected however, that in the longer run this type of farm will represent some 15% of the agricultural area.

The final category are the State farms which retain some 52 000 ha of agricultural land, mainly for scientific purposes or as school farms.

Table 2.2
Structure of land use 1 January 1995

	Number	Total area (000 ha) ²	average size (ha)	% of total area
Peasant farms	64364	1278.7	19.9	46.7
Household plots	118749	620.5	5.2	22.7
Private subsidiary farms	124736	251.6	2.0	9.2
Private orchards	65037	6.95	0.1	0.3
State farms	95	52.0	547	1.9
Statutory companies	656	463.0	706	16.9
others	4149	82.6	15.1	2.3
TOTAL	377686	2735.3	7.2	100

Source: Latvian State Institute for Agrarian Economics; ² about 200.000 ha of afforested land included, which is no longer used for agricultural purposes.

2.5. Arable crops

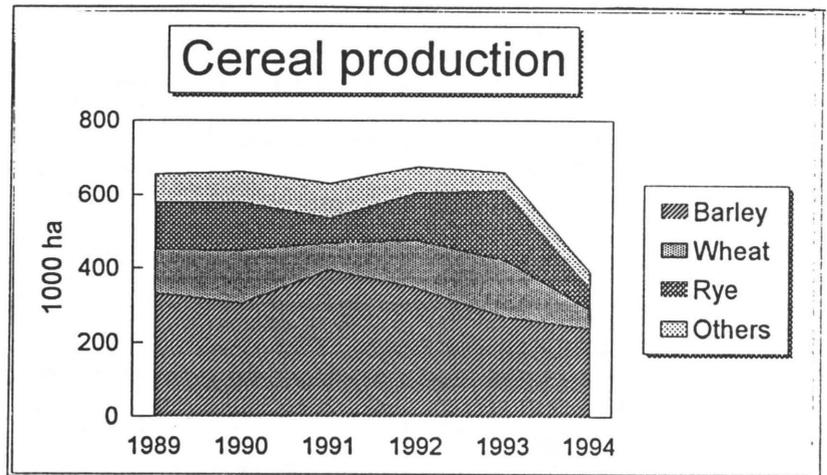
Before independence the arable sector's primary function was to supply the livestock sector with feed grains and compound feed. More than half of the arable land was put to fodder crops. Despite this, domestic production of cereals was far below the level of consumption and large amounts of feed grains had to be imported, mainly from the FSU, to supply the livestock sector. The economical and political changes which followed liberalisation also affected arable production. In 1994 there was a significant drop in the cultivated area and approximately 20% of the agricultural area was left idle; a process that might not yet have found its end in 1995.

2.5.1 Cereals

The total area sown with cereals did not contract very much until 1993, which was to some extent due to high cereal prices. In 1994 however and in 1995, the area planted to cereals dropped significantly. On the one hand this reflected declining demand and on the other hand,

the drop in cereal prices, following the 1993 harvest. This made cereal production less attractive and even unprofitable, so that a large percentage of arable land was taken out of production. In 1994 the total area planted to cereals reached only 489 000 ha, 30% less than in 1990.

Within the cereals sector a shift in production can now be observed. The barley area which used to account for more than 50% of total cereals has declined to less than two thirds of its former level whereas, the area of higher yielding wheat and rye (for human consumption) is increasing.



Yields and overall

production are nevertheless declining due to a reduction in the use of fertilizers, pesticides and other inputs. The average grain yield contracted from an average of 2.4 t/ha to 1.8 t/ha in 1994. Total grain production similarly contracted to less than two thirds of its former level.

Latvia still remains a net importer of cereals but due to massive destocking in the livestock sector the downwards trend in cereals consumption has been even more pronounced than for production. Feed grain consumption contracted tremendously. In 1994 it reached only 50% of the level in 1990. Grain imports contracted accordingly, whilst per capita consumption of grain and grain products showed some increase, so that despite a declining population, human consumption of cereals stayed relatively stable,

Until 1991 grain prices were officially regulated. Despite the price deregulation which then followed, the National Grain Monopoly "Latvia Labiba" has used its dominant market position to enforce a certain price level. As a consequence, in 1992 and early 1993, grain prices in Latvia were far above the level of the two other Baltic Republics and attracted (black market) imports. This together with reduced demand lead to high stocks, increasing import pressure and to protectionist measures. Otherwise the high price levels for cereals aggravated the difficulties of the livestock sector. From 1993 however, prices for cereals contracted, leading to large unsaleable stocks and indebtedness in the processing industry. Average prices for wheat ranged from Lats 54-66 (ECU80-98) per ton for the 1994 harvest.

The **Latvian Grain Board** as it currently exists was established in 1993. Its main purpose is to assure a certain control over the sector and especially to prevent black market activities. Enterprises engaged in the trade and marketing of grain have to be registered and imports and exports have to be licensed. In addition, the grain board organises the procurement for the national grain reserve and is responsible for guaranteed minimum prices. At present these are below the market price level.

Due to the fact that data on trade and consumption are rather weak, the supply balance for cereals (see Annex) should be considered as only a rough estimate.

Table 2.3
Summary table cereal production Latvia

	1990	1991	1992	1993	1994
area (000 ha)	666	657	703	696	489
production (000 t)	1622	1335	1152	1235	901
yield/ha	2.4	2.0	1.6	1.8	1.8
total utilisation		2267	1948	1329	1082 ²
imports		857	718	12	181 ²
ending stocks					

Source: Latvian State Institute of Agrarian Economics, based on data from the Central Statistical Bureau ;² own calculations

2.5.2 Fodder crops

Fodder crops account for the largest proportion of arable land use but the area planted contracted from 820 000 ha in 1990 to 607 000 ha in 1993. 80% of the fodder crop area is sown with perennial grasses; the remainder is divided between fodder roots, cereals, maize and pulses for silage.

2.5.3 Potatoes

The total area planted with potato varied around 80.000 ha, the annual harvest being around one million tons. In 1994 both the potato area and harvest declined due to bad weather conditions. Potato yields vary between 12 and 14 t/ha. Around one third of potato production is used for feed purposes.

After liberalisation the production of potatoes increasingly switched to small scale farms. National statistics indicate that in 1993 household plots accounted for 64% of the total potato harvest, while a further 28% was produced by small scale peasant farms.. Under present conditions these farms can operate with nearly no visible labour costs, meaning that despite being labour intensive crop, they can not only produce for their own needs, but also to provide some additional income. The statutory companies have consistently reduced their potato production.

Seed potatoes have traditionally been an important export commodity and it is possible that exports of seed potatoes to the FSU will be resumed.

Table 2.4
Potato production

	1990	1991	1992	1993	1994
area (000 ha)	80	82	97	88	70
production (000 t)	1016	944	1167	1272	994
yield t/ ha	12.7	11.5	12.0	14.5	14.2
consumption	1189	1039	1120	1400	
of which feed	444	318	344	351	
of which human	309	309	305	308	

Source: Latvian State Institute of Agrarian Economics, based on data from the Central Statistical Bureau

2.5.4 Sugar beet

Production of sugar beet is concentrated in the southern districts with greater soil fertility. The area planted with sugar beet has been relatively constant at between 12 and 15.000 ha. Sugar yields and sugar content are relatively low. The exceptional high sugar production of 1992 following a 70% increase in the area planted can be seen as an effect of a special promotion scheme which was offered in 1991 and made sugar production very profitable. This support scheme however has now been phased out and sugar beet production has consequently

contracted to its former level. In the last few years production of refined sugar from domestically grown sugar beet accounted for only one third of internal consumption, so that imports remain relatively high and are expected to continue to be so.

Table 2.5
Sugar beet Production

	1990	1991	1992	1993	1994
area (000 ha)	15	15	25	12	12
production (000 t)	439	378	463	298	228
yield t/ha	29.3	25.2	18.5	24.8	24.9
sugar production	31	35	36	26	16
consumption	128	128	107	93	92

Source: States Committee for Statistics

The sugar market in Latvia is still monopolized. There is an annual tender issued giving rights to the whole domestic sugar production and to assure the total supply of the Latvian market. In return the enterprise winning the tender must guarantee a fixed price for Latvian sugar beet. The British company "Man" has for the past two years held the production rights in Latvia.

Sugar beet is processed in three outdated factories, one of which will probably be liquidated in 1995. The majority of sugar produced comes from imported raw sugar. Part of this sugar production was even exported. Like in the other Baltic countries sugar consumption used to be rather high, reaching over 40 kg per capita in 1990 (EUR 12, 34 kg). Nevertheless in recent years sugar consumption has dropped slightly to 36 kg per head. As previously mentioned, a significant share of this sugar was processed into alcohol.

2.5.5 Fresh vegetables

The cultivation of vegetables increased mainly on household plots and has helped to improve the nutrition of many families, whereas professional production in large scale farms has dropped in recent years.

Table 2.6
Fresh vegetables

	1990	1991	1992	1993	1994
area (000 ha)	11	13	19	19	18
production (000 t)	169	209	251	285	223
human consumption		184	197	184	
Yield t/ha*	14.2	15.1	17.4	147.8	12.8

Source: Latvian State Institute of Agrarian Economics, based on data of Central Statistical Bureau.; yields based on open air production

2.5.6 Flax Fibre and Linen Oil

Production of flax fibre has a long tradition in the Baltic States but for the time being the planted area is rather low and neither the yields nor the quality appear to have been maintained. Flax production might have some potential in the Eastern parts of Latvia with poorer soils. However it is questionable whether production of linen and linen oil can become more than a niche product.

2.5.7 Permanent Crops

Fruit and Berries

The main fruit grown in Latvia are apples, and other tree fruits which account for roughly 90% of the total fruit production. Strawberries, raspberries and black- and red currants are also important products. The area of fruit trees has declined in recent years, whereas the area planted to berries has increased, mainly due to the increased activity of the small household plots. Yields show much annual fluctuation which is firstly due to the high percentage of fruit trees. The few commercial farms have in particular faced serious problems resulting in the production from this type of farm to contract. Household plots again play a major role in production but for growth in this particular sector it would be necessary to have an efficient marketing chain, which for the moment is totally missing. Otherwise climatic conditions, low labour costs and other commercial factors, would favour the production of fruit and berries.

Table 2.7
Fruit and berries

	1990	1991	1992	1993	1994
area (000 ha)	25	22.9	18	18	18
production (000 t)	23	100	66	118	34
consumption		114	112	161	
Yield t/ha	1	4.4	3.7	6.6	1.9

Source: Latvian State Institute of Agrarian Economics, based on data of Central Statistical Bureau.

2.6 Livestock

The livestock sector used to be the most important sector of Latvian agriculture and was closely linked to the markets of former Soviet Republics. In the years before independence, the livestock sector accounted for roughly 55% of total agricultural output; 28% being meat production, 23% being dairy production and 4% egg production³. Due to destocking in recent years, the importance of the livestock sector production may however have declined.

During the Soviet era, a large proportion of animal feed was imported at very low prices from other republics of the FSU. In contrast an important part of the meat production was exported, mainly to Russia. Approximately 25% of total beef and pork production, 20% of poultry production and more than 40% of butter production were exported. After independence and the deterioration of commercial links with Russia, imported cereals became more expensive, leading to higher costs of production. Exports of meat and dairy products to Russia consequently dropped.

2.6.1 Milk and Milk Products

Dairy production now accounts for roughly one fifth of total agricultural output. **Production** in 1994 dropped below 1 million tonnes which is only 55% of the level of 1990. Cow numbers dropped by nearly 40%, although the yield per cow remained relatively stable (2900 kg in 1994).

As a result of the liquidization of many of the large scale farming units, the whole dairy sector was subject to major disorganisation and many of the large cow herds were dissolved. The difficult economic situation, resulting from very low milk prices and delayed payments (up to six months) by the processing industry added to the problem. As a result, milk production was no longer profitable for commercial farming. Between 1990 and 1994, the percentage of milking cows kept in individual farms (typically with only one or two animals),

³World Bank 1994

increased from 30% to 75%. As cow herds thus contracted, milk quality deteriorated due to the unavailability of cooling equipment on the individual farms. The percentage of milk collected consequently declined. The on-farm use of milk on the other hand gained importance. In 1994, the decline in cow numbers appeared to have bottomed out and a certain tendency towards larger cow herds and more specialisation in the individual farms can be observed. In the medium term, herds are expected to reach between 20 and 30 cows per farm. This would also provide scope for the necessary investments to be made and to increase milk yields.

Before independence more than 90% of milk production was collected and processed. Since production far exceeded domestic demand, an important share of dairy products, especially butter, were exported mainly to Russia. In 1990 about 25.000 t of butter were exported mainly to Russia. Trade volumes deteriorated significantly after independence and in 1993 exports might have been no more than 5000 t. Product quality does not generally meet Western standards, so that the opportunities for new markets, except for milk powder, cannot at present be easily found. In addition, internal consumption of butter decreased due to strong competition from cheaper margarine.

Farm gate prices for raw milk in 1993 ranged between LVL 0.08 (ECU 0.053) per litre for extra class and LVL 0.05 (ECU 0.033) for third class milk, i.e. less than 20% of the equivalent EU farm gate price. These prices did not cover production costs, at least for commercial farmers. In 1994 prices increased and ranged between LVL 0.066 (ECU 0.09) and LVL 0.09 (ECU 0.13), leading to better profitability for the milk sector.

Table 2.8
Production of milk and dairy products

	1990	1991	1992	1993	1994e
Milk production (000 t)	1893	1741	1478	1157	937
dairy cows (000 heads) ²	535	531	482	351	312
yield per cow (kg/head)	3400	3205	2793	2741	2923
butter production (000 t)	43.6	38.3	31.8	18.8	8.8
SMP production (000 t)	5.6	7.1	5.4	2.7	0.8
cheese production (000 t)	24	21	15	14	9

Source: Latvian State Institute of Agrarian Economics, based on data of Central Statistical Bureau.; ² 1 January

2.6.2 Beef

Beef meat production is also an important sector of Latvian agriculture in terms of both domestic consumption and export and is closely connected with the dairy sector. Until now beef meat was mainly a by-product of milk production and special breeds for meat production were rarely used.

Total production of beef and veal amounted to 125.000 t in 1990 of which one quarter was exported, mainly to Russia. In 1994 production fell to only 68.000 t, and exports contracted equally. The cattle inventory showed a decline from 1.4 million animals in 1990 to 551.000 animals in 1994. The problems which have been evident in the dairy sector have also led to reduced production and exports of beef meat. New market outlets are difficult to establish and due to the poor sanitary conditions of slaughterhouses, exports to the EU do not appear possible for the moment.

Prices for beef meat are below those of world market and still far below the price of pork meat. This is at least partly due to the low quality of meat resulting from the slaughtering of older cows during the destocking process, but the low price level also reflects consumer preference for pig meat.

Table 2.9
Beef meat production

	1990	1991	1992	1993	1994e
cattle (000 head) ²	1439	1383	1144	678	551
meat production (000 t)	125	132	120	107	68
consumption (000 t)	68	94	74	79	68 ³
exports ² (000 t)	57	58	64	37	29
imports (000 t)					4
ending stocks					

Sources: State Committee for Statistics and own calculations

² exports have been calculated as exportable surplus. They do not refer to official trade figures!; ³ own assumption

2.6.3 Pork

Before independence pigmeat production was concentrated on large scale farms. With an annual production of about 138.000 t in 1990 pig meat production even exceeded the level of beef meat production. But 1993 and 1994 witnessed a sharp decline in production to only 54.000 t.

Apart from the difficulties presented by the transition process, the pig sector has also had to face the handicap of high cereal prices, which however have not led to correspondingly high pigmeat prices. Hence the profitability of the sector has deteriorated. The inadequacies of the processing industry added to the problem and indeed remains a major obstacle for improvement. At present the bulk of commercial pig meat production is concentrated in three large scale production units, which have around 100 000 pigs each. Individual farmers with around 100 pigs per farm account for the remaining commercial production. Otherwise an important number of pigs are kept in household plots but mainly for on farm consumption or for direct marketing. Official statistics may not completely take account of this situation. Partly due to increasing prices for pig meat and lower prices for cereals, the situation in the pig sector began to improve in 1994 and pig numbers stabilized.

The drop in production has been followed by a drop in exports. Exports nearly ceased in 1993 while in 1994 Latvia became a net importer of pork, mainly from Denmark and Germany. The overvalued currency may also have played a role in this development.

The average farm gate price for live weight pig meat increased in 1994, reaching about Lat 706/t (ECU 1061) compared to Lat 518 (ECU 726) in 1993. An increase in the profitability of pig meat production is therefore expected.

Table 2.10
Pork production

	1990	1991	1992	1993	1994
pig numbers (000 head)	1401	1246	867	482	501
meat production (000 t)	138	126	101	68	54
consumption (000 t)	93	83	69	64	63
exports ² (000 t)	9	10	13	0	0
imports (000 t)				4	12
ending stocks					

Sources: source: Latvian State Institute of Agrarian Economics, based on data of Central Statistical Bureau. ² own calculations

2.6.4 Poultry

The poultry sector has witnessed the sharpest decline in production in recent years. Between 1990 and 1994 production and exports of poultry meat fell to one-fourth of its former level, while the production of eggs halved to around 20.000 t by 1994. Poultry meat production is concentrated in a very few large scale enterprises, whereas there is only one big commercial egg producer accounting for approximately 80% of total production volume. Apart from production for on farm use, small scale farms do not play a major role in poultry production, partly due to problems with salmonella. It seems to be unlikely, that poultry production will recover very rapidly in the coming years.

Table 2.11
Poultry production

	1990	1991	1992	1993	1994
number of animals (0000)	10321	10395	5438	4124	3662
meat production (000 t)	40	33	21	13	11
egg production (000 t) ²	46	43	33	21.8	20.2

Source: Latvian State Institute of Agrarian Economics based on data from Central Statistical Bureau; ² 1 egg = 56g

Sheep

Sheep meat and wool production is of minor importance. Total production does not exceed 4000 t per year. The sheep inventory declined from 160.000 heads in 1990 to 86.000 in 1994.

2.7 Forestry

Forests cover 44% (2.81 million ha) of Latvia, two thirds of which are conifer, mainly pine. The forest area increased largely in recent decades as the agricultural area reduced. The timber is mainly used for paper production and for construction purposes but domestic manufacturing capacities, such as paper-mills and saw-mills are missing. 30% of the forest area remains state property.

Many of the newly established individual farms have an important share of forest land, which provides them with both, heating material and the possibility of receiving some additional income.

The forest sector still has a rather high unused potential that could be mobilized relatively easily. In the last few years the timber harvest has markedly increased. In 1994 more than 5

million m³ (about 1.8 m³/ha) were cut compared to only 3.4 million m³ in 1991. It can be assumed that an average harvest of 1.8m³/ha will still be beneath the growing potential. For the future economic development of Latvia, the forestry sector and its related industries would seem to be rather promising.

Table 2.12
Harvest (000 m³)

	1980	1985	1990	1991	1994
Total	3711	4074	3760	3419	5203
Timber	2110	2387	2172	1998	3217
other	1601	1687	1588	1421	1986

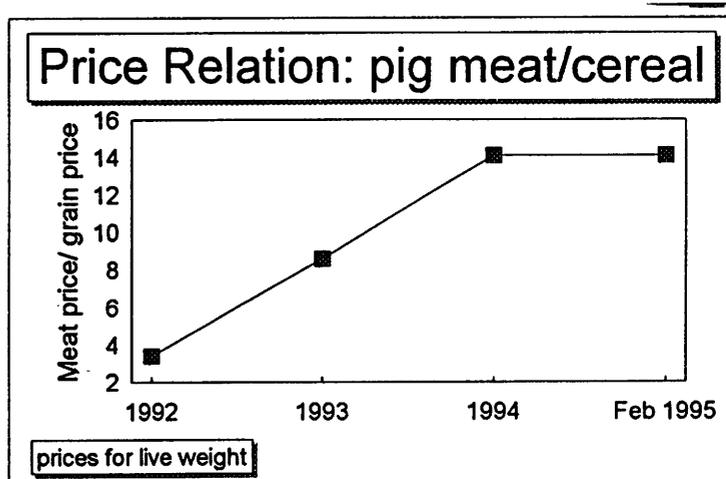
source:source: Latvian State Institute of Agrarian Economics, based on data of Central Statistical Bureau.

2.8 Production costs

A comprehensive analysis of production costs would require complete information on production methods, investments, land prices and depreciation in different types of farms. Since this information is not available, calculations must be primarily based on the structure of variable costs and the costs of different inputs.

Since independence both the price structure and the costs of production have changed completely. All prices for inputs, such as fertilizers, seeds, pesticides and energy have increased enormously, whereas farmgate prices have shown much smaller changes. Compared to EU levels the prices for diesel fuel, for labour and particularly machinery are far below EU levels, leading of lower unit costs. It has to be mentioned that the cost structure differs between different types of farms. Even taking into account the fact that labour costs in general are low, small farms often do not calculate any labour costs, due to the fact that other possibilities of occupation are missing. Indeed accounting practices are generally not known. Labour intensive production therefore is concentrated in these farms.

For cereals, the bulk of production costs is determined by prices for purchased inputs and mechanisation. Russian machinery is still far cheaper than Western European products, whereas prices for fertilisers, plant protection and seeds do not differ greatly from world market levels. Assuming a production level of 3.5 t/ha, production costs for cereals would amount to around



ECU 60/t. Producer prices which used to be fairly high in 1992 dropped in 1993 and at current levels would little more than cover these costs.

Milk production: Production costs for milk depend to a large extent on the cost of feedstuffs and labour. Commercial production in large scale farms has therefore been very much affected by high feed prices and low milk prices, so that the bulk of milk production has transferred to household plots, with grassland as the major basis for feeding. The recent improvement in milk prices means that attempts to reintroduce commercial milk production on family farms may prove to be profitable. The low efficiency of the downstream sector however remains a major blocking factor.

In the **pig meat** sector the cost price relation has improved over the last two years, due to the fact that prices for cereals has dropped, while prices for pork have increased. The problem of low conversion rates remains however, so that the advantage of lower grain prices is less significant.

Prices for **beef meat** are still rather low and do not yet allow profitable commercial meat production based on purchased inputs. It can however be expected that once the destocking process is finished, which seems to be the case, meat quality will improve, leading to higher prices and increased profitability of beef meat production. In such circumstances specialised meat production could be envisaged.

3.0 Upstream and downstream industries

The privatization of the upstream and downstream industries began only in 1993. For each sub-sector a specific privatization law has been established. The official privatization policy for the upstream and downstream industries favours the producer associations by giving them preferential conditions in the allocation of shares. In this way, producer organisations have a major stake, particularly in the dairy sector. In the upstream sector their influence is however nearly negligible.

3.1 Upstream Industry

Fertilizers and Pesticides

The majority of the domestic fertilizer production is based in one factory in Ventspils using raw materials imported mainly from Russia. Imported fertilizers now have to be paid at world market prices, whereas farmgate prices for agricultural products have grown to a far less extent. The lack of liquidity and short term credits has added to the problem. As a consequence the application of fertilizers has declined sharply in the last few years.

The same situation can be observed for pesticides. In Soviet times most pesticides were imported from the FSU. Pesticides of high quality, manufactured in the West are available in principle, but due to the high prices the market cannot develop for the moment. The "Law on Plant Protection" foresees a state control on pesticides, which is assured by one central unit responsible for storage and distribution of plant protection products.

Agro-Service Enterprises

In the Soviet era the service sector comprised about 100 enterprises, which have now been split into 700 entities, most of which have been privatized by the management staff. Producer organisations have little share in these service enterprises.

The storage, distribution and spraying of pesticides and fertilizers was previously organized by a state monopoly "Agrokhimia" but activity collapsed due to poor demand and supply shortages. Nevertheless most of the field application is still carried out by former state enterprises which dispose of the necessary skill and equipment.

Feedstuffs

In the Soviet era simple feed mills existed on collective farms, but are no longer in use. Otherwise concentrated feed was produced in 7-8 big feed mills, which still exist but due to the fact that livestock numbers have declined, they are now operating at very much under capacity. Some feed mills are still in state ownership. The quality of feed is rather low compared to Western standards and has dropped further in recent years. Protein content as well as the energy content is low, which, as a consequence has resulted in low conversion rates. As far as the large scale farms are concerned, the situation shows some sign of improvement. In order to save transport costs but also to avoid problems of delayed payments for cereals, demand now exists for concentrated feed pre-mixes which are mixed with cereals at the farm level. This might lead to some improvement in feed quality and result in better conversion rates.

Machinery

A total of 77.500 tractors were available in 1994 which is an average of one tractor on 32 ha. The machinery however was not equally distributed and the state farms and statutory companies were still better equipped.

Tractors and most other machinery are imported from Belarus and Russia, simple machinery, such as sowing machines are however produced in Latvia. Much of the tractor and harvester stock is worn out and oversized for the new smaller sized farms. There is still some lack of adequate mechanisation especially in some of the smaller farms. Some supplies do however appear to be available from Belarus, so that the situation has already improved to some extent. Second hand machinery, imported mainly from the Scandinavian countries, is also now leading to an improvement of the situation.

Agricultural Credit

The Latvian banking system has been privatized but the whole sector suffers from a lack of capital. The former state bank with a network of 49 branches is still one of the most important. Recently established commercial banks often have very little capital (generally less than ECU 0.4 million equivalent). The lack of soft credits is seen as a major problem for the recovery of the agricultural sector.

3.2 Downstream industry

The downstream industries in Latvia are dominated by the grain, meat, and dairy processing industries. Employment in the sector is however decreasing. Most enterprises are oversized and product quality does not meet Western standards. The technology is inefficient in the use of energy and raw materials. At present, the output per employee is only 10% of that reached in Western agro-processing industries, influenced also by the fact that factories are running at only 15-30% of their capacities. The limitations on profit margins, which had been set at 15% above the production costs, were lifted in 1993 which should help to encourage further investment and restructuring.

Dairy sector

Given that the structure of agricultural production is unlikely to change to a large extent, the development of the milk processing industry will remain of enormous importance, not only for local consumption but also for future export possibilities.

In the Soviet era, the dairy sector was dominated by 11 state owned plants dispersed all over the country and with a network of milk collection stations and intermediate processing plants. Many of the plants are outworn and oversized but some are of recent construction (the Riga dairy was finished only in 1992) while others were modernized in the eighties. The overcapacity of the sector is still one of the major problems facing the industry.

At present the total network of milk processing plants comprises 50 dairies. Most of the smaller units are specialised in cheese and butter production. Due to the fact that cow herds were split into small entities, the percentage of milk collected decreased from over 90% of production before independence to some 70% in 1993. Even if the dairies at present do not fulfil EU requirements there would seem to be a basis for an improvement of the sector. The best plants are expected to reach EU standards within two years.

During the restructuring process producer associations have been largely favoured. Smaller production units were given back to producer organisations free of charge. The corresponding privatisation law of January 1993 required, the 11 larger enterprises to be privatized and to be transformed into joint stock companies. 70% of shares have been given to producers associations, 10% allocated to the employees and the remainder retained by the state. By the beginning of 1994 all dairies had been privatized.

Meat sector

The meat sector was dominated by 14 states enterprises. Two big slaughterhouses in Riga and in Valmiera accounted for some 50% of the total meat output. Following independence, new enterprises have been established. At present the profitability of most of the slaughterhouses is very low and the realized margins often do not cover production costs.

Privatization is governed by a law adopted in 1993. Participation of outside investors is more important than in the dairy sector. The enterprises had initially to be transferred into joint stock companies. Subsequently shares were to be sold on a quota basis determined by the

privatization commission. Quotas were given to producers, employees and to the pension fund. Quotas for the main outside investors have been sold on a competitive basis. By the beginning of 1995 the last two meat processing plants had been privatised.

For the time being none of the former state owned slaughterhouses meet EU hygiene standards, so that meat exports to the EU are not possible. There is however a smaller private slaughterhouse near Riga which is hopeful of obtaining EU approval in the nearer future. Like the dairy sector, the large overcapacity compared to current livestock numbers is a major problem for the meat processing sector.

Grain sector

The grain sector has a high level of vertical integration and has remained for a long time under the control of a state monopoly "Latvia Labiba". This organization comprised 28 enterprises including 12 bakeries, 12 grain elevators and processing units and a number of feed mills and seed plants. In January 1993 this monopoly was split into independent but still state owned enterprises which are now undergoing privatisation. The privatisation process will probably be completed by the end of 1995.

Performance differs between branches. Flour mills are in a far better condition than feed mills, which badly need investment. Drying facilities are of crucial importance since the average moisture content of the grain harvested is too high for storage. They are however in poor condition and need to be renewed.

Retail and Distribution

The retail sector is completely privatised and competition is increasing. The industrial sector is establishing its own retailing outlets for direct factory sales. These outlets have however diversified their product range in recent years. An estimated 30% of total sales is now accounted for by such outlets. Supermarket chains have also started to appear and a certain concentration of the market share can already be observed in the retail sector.

4.0 Agricultural policy

The main support to Latvian agriculture has been provided by border protection measures. Apart from subsidies for high quality seeds and breeding material, there is practically no internal price support, either through state procurement or direct payments.

4.1 Price policy

In principle price regulations were abolished in 1991. In 1992 however, high support prices for cereals were provided, aggravating the economic situation of the livestock sector and leading to high stocks in 1993. The "National Grain Board" which had a dominating position

on the grain market has lost some of its influence. The main functions of the grain board are now to issue licences for importing enterprises, which is intended to control black market activities. The grain board also organizes the state procurement of cereals. In 1994, a small amount of 50.000 t of bread cereals, (less than 10% of the total cereal production) was intended to be purchased and a total amount of Lat 3 million (ECU 4.45 million) was foreseen in the budget for this purpose. Due to the low prices offered, actual purchases were however well below this level. The "guaranteed minimum prices", which are set by the grain board are below market prices and cannot be seen as a profitable outlet for producers or as an incentive for higher production. Taking into account the present budgetary situation, price support measures are unlikely to be reintroduced in any significant way.

4.2 Border protection measures

During recent years, the level of border protection has changed frequently. Generally, import tariffs were continuously raised, leading to increasing domestic prices above those of neighbouring countries. As a consequence the necessity for border protection was further increased.

For the time being an import tax of 40% is now applied to live animals, meat and skimmed milk powder. For butter and cheese the import tax is 55%. For cereals and animal feed a fixed levy of Lat 0.075/kg (ECU 112/t) is imposed .

To some extent this tariff policy offsets the import pressure resulting from the overvalued currency. On the other hand consumers are penalised with higher prices for food which therefore requires an even greater share of their income. In addition, high prices for animal feed will have a deteriorating effect on the livestock sector, with the greatest impact being felt by the pig meat sector.

At the end of 1994 export subsidies (ECU 2.2 million) were introduced, mainly to support the export of dairy products. The 1995 budget foresees that this level of subsidization will continue.

4.3 Direct payments

Diesel fuel subsidies were introduced in 1992 and in 1993 and a total amount of Lat 4.6 million (ECU 6.8 million) has been spent in this way. The subsidised fuel however was distributed by a single enterprise, which used its strong market position to increase price levels, so reducing the net benefit for farmers.

In 1994 Lat 6.6 million (ECU 9.8 million) was spent mainly to support higher quality breeds in the livestock sector and to promote the breeding of high quality seeds. Some subsidies were also directed to flax production, which traditionally played an important role and could gain some limited importance in the future. Production at present is however only marginal.

For 1995 the total volume of direct subsidies for the agricultural sector will amount to Lat

13.2 million (ECU 20 million) but only a small proportion of this will be accounted for by direct payments.

4.4 Farm credits

The total amount of credits given to the agricultural sector amounted to ECU 26 million at the end of 1994, 90% of it as short term credit and with only 11% going to private farmers. Private farmers at that time had a share of only 11% of this credit volume. It is obvious that the lack of agricultural credit still hampers the development of agriculture.

The "Agricultural Finance Company", a state owned joint stock company with some 10 local branches has been established to manage a 25 Mio \$ World Bank credit line, to provide the farming and the processing sector with credits. The operational costs of the institute are covered by the PHARE programme.

4.5 Taxes

A land tax is applied to all agricultural land, the rates being fixed by the local government. The tax rates are determined by the rating of the land for agricultural use and its location. New established farms can be exempted from this tax for the first five years of their operation.

Until the end of 1994 agriculture had been exempted from property tax, from income and from profit taxes. The social security tax which is levied on all rewards for work is applied with a reduced base rate.

5.0 Agricultural Trade

5.1 General situation

Traditionally Latvian agriculture was producing large surpluses in dairy products, fish, eggs and in meat that were exported mainly to the former Soviet Republics and in particular to Russia. The value of exported food products amounted to roughly 25% of total export value. On the other hand this production was dependent on high imports of animal feed, grain, fertilizers, plant protection products and machinery, mainly from the FSU.

Following liberalization trade patterns changed dramatically. Imported animal feed from Russia had to be paid at world market prices. Livestock production as a result became more expensive and exports to Russia were less competitive. In addition local consumption declined due to decreasing purchasing power.

As a consequence, exports of agricultural commodities dropped significantly, while imports slightly increased. The official trade statistics show, that starting in 1994, Latvia became a net-importer of agricultural commodities. It must be mentioned however, that the data is not

always complete and important parts of the trade flows may not be registered. It can however be assumed, that starting in 1994 the data quality improved.

Table 5.1
Share of agricultural trade, including fish in total trade

	Imports			Exports		
	Total	Agriculture		Total	Agriculture	
	Mio Lats	Mio Lats	%	Mio Lats	Mio Lats	%
1993	639	41	6.42	675	101	14.96
1994	695	75	10.79	553	71	12.84

source: Central Statistical Bureau

Trading partners

The main importers of Latvian agricultural products in 1993 were the FSU (23.5 Mio ECU), which is still the most important market for Latvian meat and dairy products, followed by the EU (3.4 Mio ECU), Poland (3.2 Mio ECU) and Lithuania (1.8 Mio ECU). It can be assumed that the Russian market will continue to be most important in the future, particularly because of the low quality of Latvian goods and poor marketing structures, which limit access to Western markets.

Imports of agricultural commodities into Latvia came mostly from the EU, the FSU, EFTA countries, Lithuania and Poland. In 1994 Latvia had a positive trade balance for agricultural products with the FSU, whereas the trade balance with the EU was negative.

Exports

Official trade statistics show four major groups of agricultural export commodities. The most important remain meat and meat products, followed by dairy products and fish. Exports of meat declined in 1994, whereas exports of prepared meat products increased. The reduction of dairy exports continued also in 1994, whereas the export of fish regained momentum.

Table 5.2
main agricultural export commodities

	1993		1994	
	000 LVL	%	000 LVL	%
02 Meat and edible offal	14780	14.66	1375	1.94
03 Fish	2906	2.88	7125	10.03
04 Dairy products	21516	21.34	6920	9.74
10 Cereals	3132	3.11	1716	2.41
16 prepared meat	18185	18.03	23760	33.44
22 beverages	10476	10.39	7212	10.15
other	29857	29.61	22950	32.30
TOTAL	100843	100	71058	100

source: Central Statistical Bureau

Imports

Imports are more equally spread over numerous groups of commodities. In recent years however, tropical fruit, sugar, and beverages have become the most important import commodities. The share of cereal imports has diminished significantly. In 1994 imports of cereals and cereal products accounted for no more than 11% of total agricultural imports.

Table 5.3
import of main agricultural commodities

	1993		1994	
	000 LVL	%	000 LVL	%
01 Live animals	698	1.70	5209	6.98
08 Bananas	3812	9.28	7879	10.55
09 Coffe and tea	3448	8.40	2102	2.82
10-12 Cereals	3349	8.16	8214	11.00
17 sugar	3551	8.65	9388	12.57
22 beverages	3617	8.81	9220	12.35
other	22600	55.03	32652	43.73
TOTAL	41066	100	74664	100

source: Central Statistical Bureau

While free trade agreements have been concluded with Switzerland and with the Scandinavian countries these contain only limited concessions for trade in agricultural commodities. A free trade agreement between the three Baltic countries does not yet include agriculture, since prices and border protection vary considerably between them. Negotiations to extend the agricultural concessions have however begun.

In 1992 Latvia applied for GATT membership and since that time has had observer status. Negotiations for accession have not yet been concluded. The starting level for border protection might be based on the tariffs in force at the end of 1994. As far as future constraints are concerned, a clear picture cannot yet be drawn. Due to the relatively high tax level which is presently applied, border protection will probably cause the fewest problems. It will however be difficult to increase the present level of internal market support or to introduce higher subsidies on exports.

5.2 Trade Agreements with the European Union

An association agreement between the European Union and the three Baltic Republics was concluded on 9 June 1995. In January 1995, the trade regulations, laid down in the free trade agreement with the EU, entered already into force. This agreement opens access to the EU market at preferential conditions and foresees a transition period of two years. For the most important commodities, preferential access is limited by quotas. The effect of this agreement on the restructuring of Latvian agriculture can however be assumed to be limited. In the short run, quota fulfilment can be difficult due to sanitary constraints but also due to missing marketing capacities.

Tariff quotas with a 40% reduction on the MFN tariff or the specific duty rate have been agreed on a series of products the most important being pork meat, chicken meat skimmed milk powder butter fresh cheese, cheddar and edam cheese together. (Further details see Annex).

The arrangements for live bovine animals which have already been concluded with other CEEC's have been extended to the Baltics. It provides a common quota of 3.500 animals with live weight under 300 kg for all the three Baltics.

Reduced duties have also been agreed for a series of vegetables and fruit, namely soft fruit, the latter being subject also to minimum price arrangements.

It has to be mentioned in this context, that Latvia also made trade concessions to the EU, which are listed in Annex 10 of the free trade agreement. At present Latvia applies tariff reductions on EU imports, which are more favourable than quoted in the agreement.

Table 5.4
Main concessions of the Europe agreement

	quantity (t)			tax or levy applied
	year 1	year 2	successive	
pork	800	900	1000	60% of MFN duty
poultry	400	450	500	"
SMP	2000	2250	2500	"
butter	800	850	900	"
cheese	900	1050	1200	"
vegetables	450	525	600	"
sausages	150	175	200	"
processed beef meat	150	175	200	"
life cattle*	3500 heads	3500 heads	3500 heads	25% of full amount of MFN duty
beef meat*	1500 t	1500 t	1500 t	40% of full amount of MFN duty

* Common quota for all Baltic countries

6. Perspectives , Evolution, Conflicts and Problems

6.1 The development of the macro-economic situation

Recent figures show signs of a recovery of the macro-economic situation. **GDP** in 1994 stabilized following declines in previous years. The private sector's share of GDP is increasing and the service sector in particular is progressing, while the share of agriculture is declining slightly.

The official **Unemployment** rate lies at around 6.5% and is likely to increase with the ongoing industrial restructuring process. Agriculture will therefore continue to serve as a buffer for employment in rural areas, especially with regard to the small scale farming, which now makes up some 30% of the agricultural land.

A declining **rate of inflation**, which was 25% in 1994 and rising real wages will lead to an increase in purchasing power and allow for increasing demand for food products. This might be offset to some extent by the declining size of the population even though per capita consumption is increasing. In spite of considerable inflation rates the exchange rate of the "Lat" has remained very stable which may have negative impact on future trade.

The **budget deficit** in 1994 was moderate, at around 2% of GDP. Due to the fact that revenues lag behind expectations the budget deficit may increase significantly in 1995.

For the development of **trade relations** the markets in the east are likely to be still more important than the markets in the west, if for no other reason than the low standard of quality and packaging. Latvia and Russia have granted each other "most favoured nation" status, which may improve the volume of their bilateral trade. It is therefore likely that for the foreseeable future Russia will keep its role as Latvia's most important single trading partner. The trade balance which turned to be negative in 1994 is likely to remain in deficit at least for the next few years. The effect of an overvalued currency is of importance in this context.

6.2 General perspective for Latvian Agriculture

Production

Since 1991, agricultural production has declined constantly. The livestock sector was more affected by this development than the crop sector. It can be assumed, that the decline in agricultural production bottomed out in 1994 and that from 1995, in line with the overall economic development, agricultural production could start to recover but at a rather slow pace. It can be taken for granted, that the pre-independence level of production will not be reached again. Crop production will probably recover much quicker than the livestock sector which is particularly in need of investment..

Production costs are marked by low costs for labour and mechanization and the absence of a genuine land market. On the other hand labour productivity is also low compared to West European standards as are the costs of all inputs that have to be purchased. Production costs per output unit are also affected by low yields in the crop sector due to climatic conditions and the low fertility of the soil. Feed conversion rates in the livestock sector are considerably higher than in the EU, to the extent that the potential benefits from cheaper animal feed are somewhat reduced. Conversion rates however could be improved if a higher percentage of protein was used in the feed mixture. Most of the protein feed will have to be imported. Dramatic changes in the structure of production costs cannot be expected for the coming years.

Farm structure is still changing. Some of the statutory companies, emerging from former co-operatives and state farms have not proved viable in current economic circumstances and are in the process of liquidation. The number of private farms is increasing but statistically their average size is declining.

Taking into account that unemployment will remain a problem for the foreseeable future and that the share of income spent on food will remain high, it is very likely, that especially under a social aspect, small household plots will continue to play a major role in agriculture. While large-scale farms might keep their present share of some 20% of the agricultural land, some will still be subject to liquidation and be split into smaller entities. In the longer run it can be expected, that up to 30% of the agricultural land will be managed by corporate or individual farms of between 100 and 500 ha land.

As long as land values have not been established and that a land market is not functioning, a restructuring process, leading to bigger and more efficient farms, will not proceed very quickly. Technical and administrative problems with land registration will also limit the pace of structural change.

Farm gate prices for cereals used to be relatively high compared to the other Baltic Republics but dropped in the last year, leading to a better position for the livestock sector. On the other hand, producer prices for milk and for meat increased equally, so that livestock production gained some profitability.

In recent years farm gate prices have risen at a slower pace than retail food prices, leaving higher margins for the intermediate and particularly the retail sectors. Until now this did not result in more competitiveness and the indebtedness of the processing industry is still a blocking factor for more competition and higher farm gate prices. Incentives for foreign investments in the food industry, apart from investments in the fish (processing), tobacco and soft drink sectors, are rather limited. The population of only 2.6 million inhabitants has little purchasing power and the market for highly processed, high value added products is small. It is likely therefore that the restructuring process in the processing industry will require several years. With the help of investments, part of the existing processing industry can be improved, while other parts will have to be closed down.

Agricultural trade will remain of some importance, but the trade balance is likely to stay negative until the turn of the century. Except for dairy products and for beef meat production will continue to exceed domestic consumption, even if production becomes more extensive. The FSU and especially Russia will remain the main markets for Latvian products for the coming years. It cannot be expected that trade between the Baltic Republics will gain much importance since the structure of production is very similar. Price differences that exist are levelled out by import restrictions and if a free trade agreement should include agricultural products, that would require a rapprochement in their price and trade policies.

If the exchange rate of the "Lat" is maintained at its present overvalued level, this will also have decisive impact on trade patterns. The GATT constraints for Latvia are not yet clear. Exports of dairy products could however face problems if the costs of production exceed world market levels. At present, internal support measures as well as export subsidies are at a very low level and it is unlikely that GATT will provide much scope for an increase. In 1994 ECU 2.2 million were spent on export subsidies, which accounts for about 2% of the value of production (Production 1 million t, farmgate price ECU 108/t).

Trade with the EU is based on a free trade agreement which entered into force in January 1995. For the most relevant commodities export quotas have been fixed which profit from tariff reductions. It can be expected that the quotas for SMP (2500 t) can be fulfilled. For cheese, problems may occur because of fat content requirements for cheddar cheese. Fresh cheese on the other hand is hardly produced any more. It is therefore doubtful whether the quota can be fulfilled. The quotas for pigmeat and eggs may also be difficult to fulfil.

6.3 Impact of Agricultural policy measures

The present level of direct support to Latvian agriculture is rather low. Taking into account that the budgetary limitations for increased payments to the agricultural sector are likely to continue, this situation is unlikely to change very much until the end of the century. Variable levels of border protection have until now been the main policy instrument. A really coherent policy for agriculture is therefore still missing.

6.4 Possible Development for the main commodities until the year 2000

The following forecasts for the production and consumption of main commodities has had to be based on rather weak data and numerous assumptions. For the moment precise forecasts cannot be made but an idea of the order of magnitude of expected developments and their impact on production, consumption and trade of the main commodities is nevertheless possible.

The cereal sector

The cereal sector has traditionally been largely in deficit and dependent on cheap imports from the FSU. It can be assumed that Latvian production will show some increase and therefore further reduce grain imports but will still not reach a state of self sufficiency. The following considerations would favour such a development:

- Present price structures do not greatly favour the production of cereals. The area planted to cereals has declined and will probably not reach its former level again. Part of the area will be shifted into grassland.
- Due to the massive destocking that has been observed in the livestock sector, consumption of feed grains has equally declined. A recovery in the livestock sector will also proceed at a slow pace, thus continuing to limit the future demand for feed cereals.
- An improvement of conversion rates, which is at present rather low, seems to be possible which would also have an impact on the cereal demand of the livestock sector.
- As far as human consumption is concerned, there is not much scope for a further increase. Per capita consumption is relatively high and might even decline with growing purchasing power and the availability of a wider range of food products. Consumption would then shift to more highly processed and higher value added products, such as meat and dairy products. In addition, the recent decline in the population is likely to continue in the future.

Table 6.1
Projection for cereals

	1993	1994	1995	2000
Population (Mio)	2.582	2.548	2.548	2.548
area (000 ha)	696	489	494	595
yield (t/ha)	1.8	1.8	1.9	2.3
production (000 t)	1235	901	928	1182
utilisation (000 t)	1257	1082	1092	1306
- of which feed	779	643	646	847
- of which human	285	285	285	269
exportable surplus (000 t)	-26	-181	-164	-124

Potatoes

Potato production has stayed relatively stable in recent years. The small household plots play a significant role in potato production, being important for family nutrition as well as for local marketing. It is likely that potato production will remain at its present level during the next five years.

Fruit and vegetables

Fruit and vegetable production increased on household plots and private gardens but commercial production declined significantly. There is certainly a potential for the production of soft fruit, for which export markets might also be found, but at present a structure which would allow for efficient marketing is completely missing. The Europe agreement allows for preferential access of soft fruit to the EU, if a minimum price is respected.

Other crops

The production of sugar beet and flax fibres is of limited importance. The Baltic states used to be traditional producers of flax fibres for textile production. There are some projects aimed at an increase of flax production but at present flax production plays only a marginal role and is unlikely to recover very quickly. Production of sugar beet is affording a high level of protection and due to the rather low yields is unlikely to become competitive.

The dairy sector

The dairy sector used to be highly export oriented and production by far exceeded domestic demand. After liberalisation, production as well as exports and internal consumption declined considerably. Nevertheless the enormous amount of available pastures means the potential for

milk production is considerable (provided improvements in cooling and milk collection are made). It can be expected that a shift in land use will therefore take place. Part of the less fertile arable land might be transformed into permanent grassland, whereas some of the (marginal) grassland might be afforested. Relatively high prices for purchased feedstuffs favour an extensive form of milk production which is mainly based on grassland.

Milk prices are low but an improvement is already visible, so that conditions for professional milk producers are becoming more favourable. A certain tendency towards bigger cow herds can also be observed. If this trend were to continue milk yields and milk quality could also be expected to improve. Increasing internal consumption can be expected as soon as purchasing power increases.

The downstream sector is still in difficulties and is unlikely to recover very quickly. It can be expected that agriculture in Russia will recover very slowly and that a considerable deficit in dairy products will be apparent, which would leave a market for Latvian surplus production. Milk production in Latvia would under these conditions remain above domestic consumption, but starting from the present low level of production, the exportable surplus is likely to remain rather low over the next five years.

Table 6.2
Projection for milk and dairy products*

	1993	1994	1995	2000
production (000 t)	1157	937	983	1187
number of dairy cows (000)	351	312	321	351
yield per cow (kg/year)	3296	3003	3063	3382
consumption (000 t)	1099	969	992	1148
- cons. per head (l/year)	355	325	331	381
exportable surplus (000 t)	120	-32	-9	39

expressed in milk equivalents

Beef meat

The beef meat sector is closely linked to the dairy sector. Since the destocking process appears to have bottomed out, beef production is likely to stabilize in 1995 and may slightly increase in subsequent years. Consumer preference for beef is still rather low and attracts a lower price than pigmeat. Increasing purchasing power would therefore likely lead to increasing pork consumption rather than to an increase in beef consumption. Beef therefore might stay in slight surplus. Perspectives for specialised beef production are uncertain. At present prices, high quality feed is far too expensive to enable profitable production. The situation might however be different if special meat breeds were introduced, applying extensive husbandry techniques. The free trade agreement with the

EU opens a small common quota for the export of live bovine animals but not for beef. Due to the fact that there are no slaughterhouses currently approved for exports to the EU, the Russian market would continue to be the major outlet.

Table 6.3
Projection for beef

	1993	1994	1995	2000
production (000 t)	107	68	69	74
cattle number (000)	678	551	568	639
carcass weight (kg)	148	202	200	200
consumption (000 t)	79	68	68	66
- cons. per head (kg/year)	30.5	26.5	26.5	26.0
exportable surplus (000 t)	28	0	1	7

Pork

Production has declined dramatically, especially in the large production units, which have all now been privatized. Recent figures suggest however that swine inventories and pork production has started to increase again. Due to relatively high prices for cereals however, "professional" production will continue to be hampered to some extent, but an improvement of conversion rates might improve the situation. Part of the production might for the short run shift to small family farms and household plots. Until the end of the century Latvia will probably remain self sufficient but an exportable surplus cannot be expected. Latvia used to be an important producer and exporter of high quality sausages and there still appears to be some processing enterprises working quite successfully in this field. Further growth for such specialised products may be possible, providing a more stable future for the Latvian pork sector.

Table 6.4
Projection for pork

	1993	1994	1995	2000
production (000 t)	68	54	55	77
livestock numbers (000)	482	501		
carcass weight (kg)	91	89	89	90
consumption (000 t)	72	66	68	77
- cons. per head (kg/year)	27.8	26.0	26.8	30.1
exportable surplus (000 t)	-4	-12	-13	10

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ANNEXES

Annex 1

Price comparison between the Baltic States

Price relations in the Baltic Republics

In spite of price differences between the Baltic Republics that are to a large extent due to the way the exchange rates of the different currencies are fixed, which has led to an overvaluation of the Latvian and to a minor extent also of the Estonian currency. Nevertheless in principle the relations between the prices for major products are similar for all of the three Baltic Republics.

For the main products the following observations can be made on the producers level:

- Milk prices are very low and reaching approximately 20% of EU price levels.
- Pig meat prices are relatively high compared to prices for beef meat, but reach only between 40% and 60% of EU prices. Compared to prices for cereals there are differences between the three countries. The best relation between prices for cereals and prices for pig meat can be observed in Lithuania, whereas this relation is much worse in Latvia (high prices for cereals) and Estonia (relatively low prices for pig meat).
- beef meat has a low consumer preference and has a rather low price, not reaching more than some 10% of the EU price level. The low price is partly also due to the destocking during the last few years.
- prices for cereals lie around the World market price levels. They are the lowest in Lithuania and the highest in Latvia, where they exceed the World market price. (to a large extent a consequence of the overvalued currency).

Even if prices which have been collected from different sources and may be subject to distorting effects through high rates of inflation, the following conclusions concerning the agricultural production can be drawn:

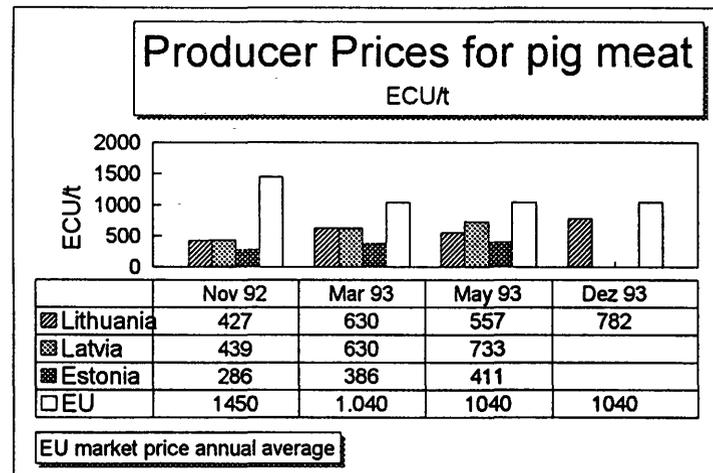
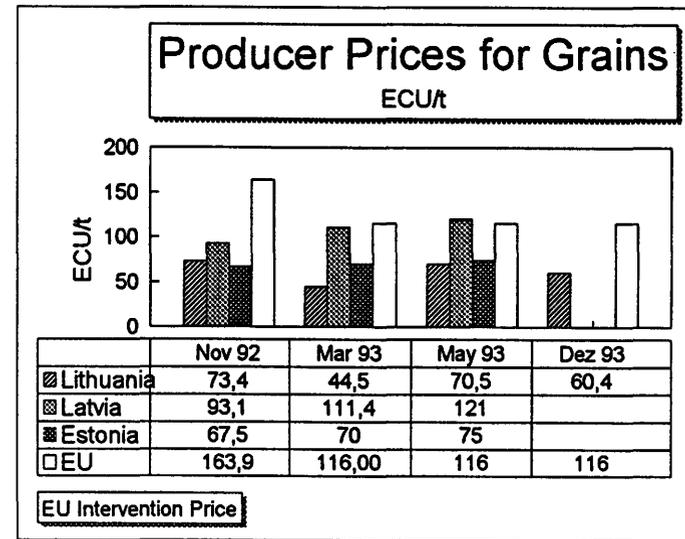
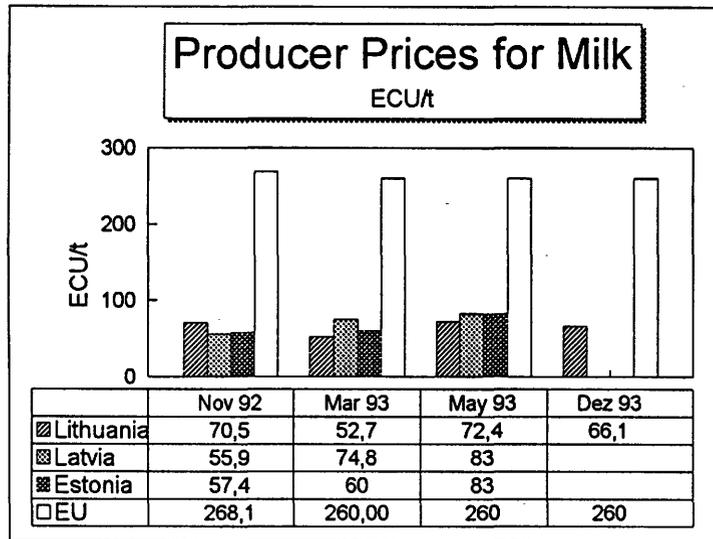
For the time being **Pig meat** can be produced at reasonable costs, at least in Lithuania, even when conversion rates for the feed are a good deal lower than in Western Europe (due to missing protein) For Lithuania the price relation between feed grain and meat is lying around 1:10. It can be assumed, that pig meat production will stay an important agricultural product but it can be doubted whether it will on the long run have a big comparative advantage, if prices for cereals and feed which make up for the bulk of the production costs tend towards the world market level, both in the Baltic states and in the EU.

Beef meat as a specialised production line and base on cereals seems not to be very profitable, since the price relations between cereals and beef meat lie only between 1:5 and 1:7. Beef meat production under current price constellations can only be profitable as a by product of milk production.

Milk: milk production based on purchased feed is totally excluded from an economic point of view. Only a very extensive form of milk production, taking a maximum of feed from pastures and meadows and involving a minimum of purchased inputs can be envisaged under

the actual price relations. Taking into account that with ongoing economic recovery the price for milk will rise in relation to prices for inputs higher returns for the farmer can be expected. In principle the dairy sector seems to be the most promising one for the future development of agriculture in the three countries in question, but for the time being low prices at producer level and the difficult situation of the dairy processing industry the present situation is very difficult.

Grains: on the long run the climatic conditions and relatively poor soil quality do not favour intensive cereal production. Due to missing or very low prices for land, cheap Russian type machinery and negligible costs for labour, and reduced usage of fertilizers and other inputs, gross margins for grain production are lying around the world market levels, however without taking capital- and other fixed costs into account. For the future development it should be kept in mind, that high prices for the grain sector do have an important impact on the key sectors of agriculture in the Baltic Republics, dairy and pig meat production.



Annex 2

Balance sheets for the most important agricultural products

CEREALS BALANCE SHEET

all cereals	1990	1991	1992	1993	1994	2000
Population Mio	2.671	2.662	2.632	2.582	2.548	2.548
area(000ha)	666	657	703	696	489	595
yield(ha)	2.44	2.03	1.64	1.77	1.84	2.26
production(000t)	1622	1336	1152	1235	901	1182
UTILIZATION (000 t)	2479	2054	1649	1268	951	1306
- human	278	280	290	287	283	269
- human per capita	104.1	105.2	110.2	111.2	111.1	105.4
- feed use	1955.7	1702.0	1406.0	779.0	499.5	847.3
- seed use	164.3	175.8	174.0	122.3	123.5	123.5
- other uses and losses	81.1	66.8	57.6	61.75	45.05	0
exports						0
imports	857	718	498	37	45	124

Livestock Balance

		1990	1991	1992	1993	1994	2000
beef	production (000 t)	125	132	120	107	68	74
	slaughter number (000)	625	582	674	724	336	368
	average weight (kg)	200	227	178	148	202	200
	utilization (000 t)	68	70	74	79	68	66
	utilization per capita (kg)	25.4	26.3	28.1	30.5	26.5	26.0
	exports (000 t)	57	62	46	28	0	7
	imports (000 t)	0	0	0	0	0	0
pork	production (000t)	138	125	101	68	54	77
	utilization (000 t)	96	100	84	72	66	77
	utilization per capita (kg)	36.1	37.5	32.0	27.8	26.0	30.1
	exports (000 t)	42	25	17	-4	-12	-0
	imports (000 t)	0	0	0	0	0	0
poultry meat	production (000t)	46	43	33	22	20	41
	utilization per capita (kg)	10.5	11.4	7.1	2.8	2.8	5.7
	utilization (000 t)	28	30	19	7	7	14
	exports (000 t)	12	3	2	6	4	9
	imports (000 t)	0	0	0	0	0	0
eggs	production (000t)	46	43	33	22	20	41
	utilization (000 t)	34	31	30	30	30	32
	utilization per capita (kg)	12.7	11.7	11.5	11.5	11.7	12.6
	exports (000 t)	12	11	3	-8	-10	9
	imports (000 t)	0	0	0	0	0	0
total meat utiliz. per capita (kg)		47.6	40.3	33.6	31.3	32.1	41.3

Milk and Dairy Products Balance

		1990	1991	1992	1993	1994	2000
milk	production (000 t)	1893	1741	1479	1157	937	1187
	number of dairy cows (000)	535	531	482	351	312	351
	yield per cow (kg)	3538	3279	3068	3296	3003	3382
	utilization (000 t)	1213	1118	974	917	828	970
	utilization per capita (kg)	454	420	370	355	325	381
	exportable surplus (000 t)	396	362	283	120	-32	39
butter	production (000t)	43.6	38.3	31.8	18.8	8.8	
	utilization (000 t)	19.5	19.4	14.5	13.7	13.5	
	utilization per capita (kg)	7.3	7.3	5.5	5.3	5.3	
	exports (000 t)	24	19	17	5	-5	
	imports (000 t)	0	0	0	0	0	
smp	production (000t)	8.9	7	5.6	2.7	0.8	
	utilization (000 t)	0	0	0	0	0	
	exports (000 t)	0	0	0	0	0	
	imports (000 t)	0	0	0	0	0	
cheese	production (000t)	24	21.3	14.8	13.7	9.3	
	utilization (000 t)	11.8	12.2	10.0	9.0	8.9	
	exports (000 t)	12.2	9.1	4.8	4.7	0.4	
	imports (000 t)	0	0	0	0	0	

Commodity Balance Crop Production

cereals		So	1990	1991	1992	1993	1994
all cereals	Population Mio	n	2,671	2,662	2,632	2,582	2,548
	area(000ha)	n	666	657	703	696	489
	yield(ha)	k	2,4	2,0	1,6	1,8	1,8
	production(000t)	n	1622	1336	1152	1235	901
	consumption	k	2479	2054	1649	1268	951
	- human cons		278	280	290	287	283
	- human cons per capita		104	105	110	111	111
	- of which feed use	n	1955	1702	1406	779	499
	-seed use	k	164	176	174	122	123
	- other uses and losses		81	67	58	62	45
	exports	f					
imports	n	857	718	498	37	45	
soft wheat	area(000ha)	f	141	70	123	153	51
	yield(ha)	k	2,6	2,7	2,6	2,0	2,4
	production(000t)	f	370	186	324	305	124
barley	area(000ha)	f	307	397	347	270	239
	yield(ha)	k	2,3	1,9	1,2	1,7	1,9
	production(000t)	f	693	762	426	446	458
rye	area(000ha)	f	131	69	131	188	56
	yield(ha)	k	2,5	2,1	2,3	1,8	2,0
	production(000t)	f	324	146	295	341	112
oats	area(000ha)	f	82	93	69	49	45
	yield(ha)	k	2,1	1,9	0,9	1,5	1,8
	production(000t)	f	176	177	60	74	82

other crops			1990	1991	1992	1993	1994 ²
potatos	area(000ha)	f	80	82	97	88	70
	yield(ha)		12,7	11,5	12,0	14,5	14,2
	production(000t)	f	1016	944	1167	1272	994
	consumption		1.207	1.107	1.118	1.065	1.040
	of which human	k	334	306	305	307	306
	- per capita	n	125	115	116	119	120
	of which feed use	n	444	318	344	351	315
	of which seed	ass	328	388	352	280	320
	other use and losses		102	94	117	127	99
	exports						
	imports		191	163	(49)	(207)	46
	ending stocks						
sugar beet	area(000ha)	f	15	15	25	12	11
	yield(ha)		29,3	25,2	18,5	24,8	24,9
	production(000t)	f	439	378	463	298	274
sugar	production (000t)	n	31	35	36	26	16
	consumption	n					
	exports						
	imports						
	ending stocks						
vegetables	area(000ha)	n	11	13	19	19	18
	yield(ha)		15,4	16,2	13,2	11,9	12,4
	production(000t)	f	169	210	251	226	223
	consumption						
	exports						
	imports						
ending stocks							
fruit and berries	area(000ha)	n	25	22,9	18	18	18
	yield(ha)		0,9	4,4	3,7	6,6	1,9
	production(000t)	n	23	100	66	118	34
	consumption			113	112	161	160
	of which feed use						
	exports	n			3,6	1,2	
	imports	k		13	49,6	44,2	126

Annex 3

Production costs

Production Costs cereales costs per ton per ton based on 1993 prices yield 3,5t/ha

	Unit	No	Cost/Unit	Cost/ha	% of total variable
Variable Costs					
seeds	kg	240	0,156	37,44	18,4
fertilizer total	kg	420	0,1	42	20,6
-Nitrogen					
-Phosphate					
-Potassium					
Agrochemicals	l	2	10,1	20,2	9,9
Ttractor hours	ECU			0	0,0
Harvesting costs	ECU	1	80	80	39,3
Labour	hours	40	0,6	24	11,8
variable and labour costs				203,64	100,0
Variable and labour costs per ton				58	
Price per ton	t	1	121		
return per ton			63		

price per ton for wheat: Dez. 1993

Annex 4
Europe Agreement

ANNEX VII

List of products referred to in Article 14.2

Imports into the European Community of the following products originating in Latvia shall be subject to the duties set out below.

CN code	Description (1)	Duty rate
0409	Natural honey	17.3%
06011000	Bulbs, tuberous roots, corms, crowns and ryzomes, dormant	5.1%
06022090	Edible fruit trees, shrubs and bushes, other	8.3%
06024050	Roses, grafted or not	6%
07069030	Horse radish	7%
07070019	Cucumbers, fresh or chilled (from 16 May to 31 October)	16%
07095130	Chantarelles	free
08104030	Bilberries of the species "Vaccinium myrtillus"	(2) free
08104050	Fruit of the species "Vaccinium macrocarpon" and "Vaccinium corymbosum"	(2) 3%
08104090	Other berries	(2) 5%
090940	Seeds of caraway	free
20097030	Apple juice of a density not exceeding 1.33 g/cm ³ at 20° Of a value exceeding ECU 18 per 100 kg net weight, containing added sugar	12%
20097093	Of a value not exceeding ECU 18 per 100 kg net weight, with an added sugar content not exceeding 30% by weight	12%
20097099	Not containing added sugar	12%

(1) Notwithstanding the rules for the interpretation of the combined nomenclature, the wording for the description of the products is to be considered as having no more than an indicative value, the preferential scheme being determined within the context of this Annex by the coverage of the CN codes. Where ex CN codes are indicated, the preferential scheme is to be determined by application of the CN code and corresponding description taken together.

(2) Subject to minimum price arrangements contained in the Annex hereto.

Annex to Annex VII

Minimum import price arrangement for certain soft fruit for processing

1. Minimum import prices are fixed for each marketing year for the following products:

0810 40 30	Bilberries
0810 40 50	Fruit of species <i>Vaccinium macrocarpon</i> and <i>Vaccinium corymbosum</i>
0810 40 90	Other berries

The minimum import prices are fixed by the Community in consultation with LATVIA taking into consideration the price evolution, imported quantities and market development in the Community.

2. The minimum import prices shall be respected in accordance with the following criteria:
 - during each three month period of the marketing year the average unit value for each product listed in paragraph 1, imported into the Community, shall not be lower than the minimum import price for that product,
 - during any period of two weeks the average unit value for each product listed in paragraph 1, imported in the Community shall not be lower than 90 % of the minimum import price for that product, in so far as the quantities imported during this period are not less than 4 % of the normal annual import.
3. In case of non-respect of one of these criteria the Community may introduce measures ensuring that the minimum import price is respected for each consignment of the product concerned imported from LATVIA.

Products referred to in article 14.2

Arrangements for imports of live bovine animals, bovine meat, sheep and goat meat into the European Community.

1. Independently of the balance sheet arrangements foreseen in Regulation (EEC) No 805/68, a global tariff quota of 3,500 heads of live bovine animals for fattening or for slaughter, with a live weight of not less than 160 kg and not more than 300 kg, falling under CN code 01.02, shall be opened to imports from Latvia, Lithuania and Estonia.

The reduced levy or specific duty rate applicable to animals under this quota shall be fixed at 25% of the full amount of the levy or the specific duty rate.

2. In case forecasts show that imports into the European Community may exceed 425,000 head for any given year, the European Community may take safeguard measures in accordance with Regulation (EEC) No 805/68, notwithstanding any other rights given under the Agreement.

3. A global tariff quota of 1,500 tonnes of meat of bovine animals, fresh, chilled or frozen, falling under CN codes 02.01 and 02.02, shall be opened to imports from Latvia, Lithuania and Estonia.

The reduced duty rate and levy or specific duty rate applicable under this quota shall be fixed at 40 % of their full amount.

4. Within the framework of the autonomous import arrangements provided for in Regulation (EEC) No 3643/85, a global quota of 100 tonnes of meat of sheep or goats, fresh, chilled or frozen, falling under CN code 02.04, shall be reserved for Latvia, Lithuania and Estonia.

Products referred to in article 14.2

Imports into the European Community of the following products originating in Latvia will be subject to a 60% reduction of the variable levy, the ad valorem duty and/or the specific duty rates within the limits of the indicated quantities (tariff quotas)

CN code	Description (1)	year1	year2	Successive
		tonnes	tonnes	years tonnes
ex 0203	Meat of domestic swine, fresh or chilled(2)	800	900	1000
02071015	chicken carcasses; breasts of chicken; legs of chicken	400	450	500
02072110				
02071019				
02072190				
02073921				
02074141				
02073923				
02074151				
04021019	Skimmed milk powder	2000	2250	2500
04022119	whole milk powder			
04022999	milk or cream, concentrated, ad. sugar	150	175	200
04050011	Butter	800	850	900
04051119				
040610	fresh cheese	300	350	400
04069021	cheddar cheese			
04069023	edam cheese	600	700	800
070200	tomatoes, fresh or chilled	60	60	60
07041010	cauliflowers, from 15 April to 30 Nov.	60	60	60
07049010	white cabbages and red cabbages	150	175	200
07061000	carrots	150	175	200
07101000	potatoes, frozen	150	175	200
16010091	sausages, dry or for spreading uncooked	150	175	200
16025010	Prepared or preserved bovine meat	150	175	200

(1) Notwithstanding the rules for the interpretation of the combined nomenclature, the wording for the description of the products is to be considered as having no more than an indicative value, the preferential scheme being determined within the context of this Annex by the coverage of the CN codes. Where ex CN codes are indicated, the preferential scheme is to be determined by application of the CN code and corresponding description taken together.

(2) Excluding tenderloins presented alone.

Annex 5

PHARE Assistance to Latvian Agriculture

1. General Framework and Background

From 1991 to 1994 Phare programmes for agriculture in Latvia were in the form of General Technical Assistance Facilities ; there was no specific sectoral programme for Agriculture.

The GTAF permits to adapt and respond quickly to the rapid changes in the countries ; its flexibility allows the financing of short and medium term technical assistance to core areas, and of limited exploratory studies in other sectors. The general objective of GTAF in all the 3 Baltic States is to assist the authorities to develop appropriate institutions are required where the necessary amount of Phare support does not justify a separate system of management.

Phare agricultural commitments for Latvia (Mio ECUs)

1990	1991	1992	1993	1994
0	1.25	0.95	5	3

In each of the three Baltic States, the co-ordination of the different component of the General Technical Assistance Facilities is under the overall responsibility of the National Aid Coordination Unit, in liaison with the European Commission.

2. Specific Actions

In 1991, Phare assistance has been available only since the end of the year ; 0.95 Mios ECUs were provided for economic analysis and support for agricultural development, and 0.3 for the implementation of a Project Management Unit in the Ministry of Agriculture.

For 1992, 0.95 Mio ECUs were allocated to agricultural and fisheries sector under the GTAF. Agricultural activities concentrated on the promotion of agricultural productivity, improvement of farmer's access to financial extension and technical services and to foreign currency for imports of agricultural inputs and machinery. The amounts were shared as follows :

- preparatory planning , implementation for joint EC, World Bank rural finance project : 0.25 Mio ECUs ;
- equipment and technical assistance for project management, extension of statistical services : 0.5 Mio ECUs ;
- restructuring fisheries industries : 0.2 Mio ECUs.

The studies previously realised under the Technical Assistance for USSR programme (introduction of the rural banking structures, de-monopolisation of equipment

supplying industries, development of a market in farm land and review of the current food production and distribution chain) were continued under the Phare Latvian component of 1992. Furthermore, provision has been made for additional studies of the reform of the agricultural extension services and implementation of a market in land.

The agricultural part of the 1993 GTAF programme (5 Mio ECUs) complemented a World Bank sectoral loan to strengthen farm-advisory and extension services, and to support the establishment of rural credit facilities ; other fields of assistance include land registration and restructuring, de-monopolisation and the privatisation of state owned enterprises in the agro-industrial sector. The commitments were provided in the following way :

- privatisation of agro-industry : 0.4 Mio ECUs ;
- rural financial service development : 0.8 Mio ECUs ;
- training and equipping advisory services : 1.15 Mio ECUs ;
- training and equipping agricultural statistical services : 0.3 Mio ECUs ;
- marketing and other information services for private enterprises and agro-industry : 1.18 Mio ECUs ;
- reinforcement of local projects management : 1.17 Mio ECUs.

For 1994, 2.6 Mio ECUs has been allocated from the GTAF for land cadastration technical assistance and equipment, and 0.4 Mio ECUs for fisheries restructuring.

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