OECD
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Expert Group Agricultural policies in non-member Countries

Latvia: Review of Recent developments in Agricultural Policies, Markets and Trade in 1998

GENERAL OVERVIEW OF ECONOMIC AND AGRICULTURAL DEVELOPMENTS

1.1. General economic developments

1.1.1. Economic growth and unemployment

In the first half of 1998 the GDP growth continued. During the 1st quarter GDP increased by 7.6 % over the same period of 1997, and in the 2nd quarter the indicator was 5.4 %. The main contributors to that were processing industry (growth by 10.9 %), trade (22.7 %) and forestry (25.1 %).

However the sharp decline in markets during the second part of the year, mainly caused by the Russian crisis, lead to slowing down the economy growth, and in the last quarter GDP growth was even negative. However the total GDP growth in 1998 continued to be positive, reaching the level of 3.6 %. Despite this indicator is significantly less then that expected in the beginning of the year, it demonstrates the ability of economy to meat a shock of lost markets and to turn into other stage of structural adjustments.

The need in adjustment is proved also by the increased rate of unemployment, which has reached 9.2 % level in the end of the year. That was the peak after regaining the independence. Differences in regional unemployment rates vary widely and have been estimated at about four times the national average in some eastern industrial towns.

The unemployment still continues to grow in 1999. Also agriculture contributes to that, because the number of employed people in the sector has decreased by 2 % in 1998. The income generated in the sector has decreased even more, and gives an indication, that further decrease in agricultural employment will take place.

Long term unemployment, continues to be a serious problem in Latvia, and accounts for over 40 per cent of registered unemployed.

Mostly the processing industry which is oriented to the NIS markets has effected by the economic crisis - Latvian industry has loosed about 10 % of its export markets, and also the banking sector, where the total losses reached more than USD 100 mil., mainly from investments in Russian state bonds, and the total assets have decreased by 10 % - from 1893 to 1700 mln.LVL, in the second half of the year.

Also the trend of interest rates dynamics turned into the increase in the second half of the year.

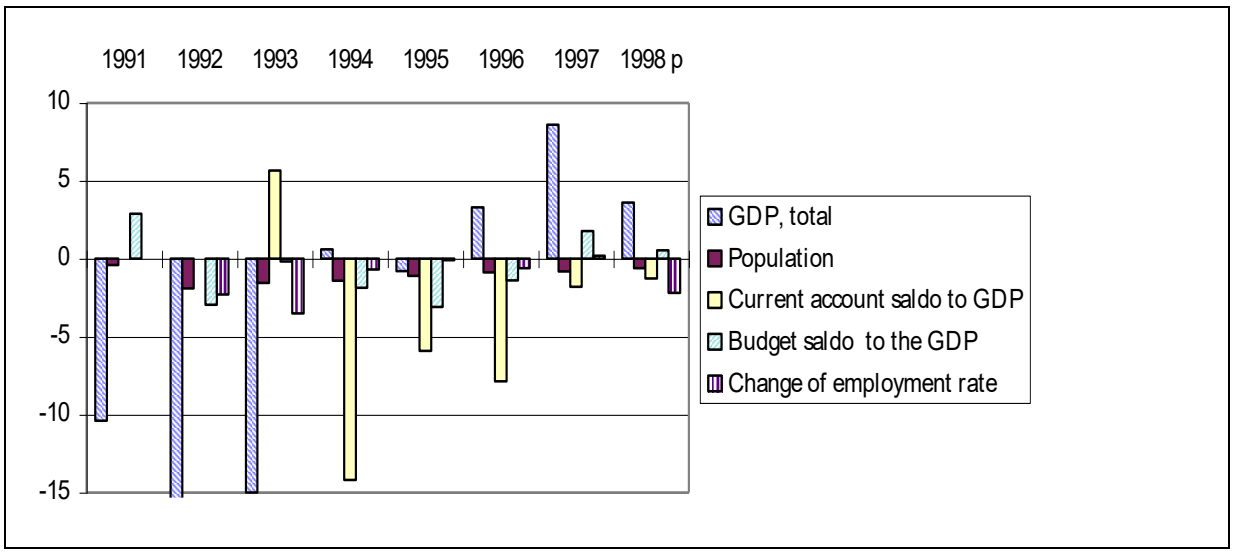
In terms of structural changes the growth of the share of service sector continued, reaching the level of 63 % in 1998 compared to 30 % in 1990. However that was rather due to the decline in industry, agriculture and construction, as caused by increase of service sector as such, which in constant prices has almost kept the level of 1990.

In 1998 the depopulation trend continued in Latvia, natural increase of population reached the level of -6.3 and net migration -1.3. That has lead to the faster increase in GDP per capita as compare to the total GDP increase. However GDP per capita as calculated with regard to PPP is less then 30 % of EU average. (Table 1).

Table 1. Dynamics of some general indicators in Latvia (% change over the previous year)

Indicator	1991	1992	1993	1994	1995	1996	1997	1998
GDP, total	-104	-35	-15	0,6	-0.8	3.3	8.6	3.6
Population	-0.41	-1.91	-1.55	-1.42	-1.1	-0.87	-0.81	-0.61
GDP, per capita	-10.1	-34.1	-13.4	2.16	0.3	4.2	9.5	4.2
Unemployment rate		2.3	5.8	6.5	6.6	7.2	7.0	9.2

Figure 1. Dynamics of some general indicators in Latvia (% change over the previous year)



The output of major sectors but agriculture and fisheries has increased in 1998. (Table 2)

Table 2. Dynamics of output by major sectors of national economy in 1995-1998 (in % over previous year, constant prices)

Sector	1995	1996	1997	1998 (p)
Industry	93.7	101.4	106.1	102.0
Construction	118.2	105.3	108.2	109.
Agriculture	106.9	100.8	97,7	96.0
Services	98.8	106.3	106.8	105.0

Source: CSB. Monthly Bulletin of Latvian Statistics. #12 1997;
CSB. Macroeconomic indicators of Latvia, Quarterly bulletin. #3/1997

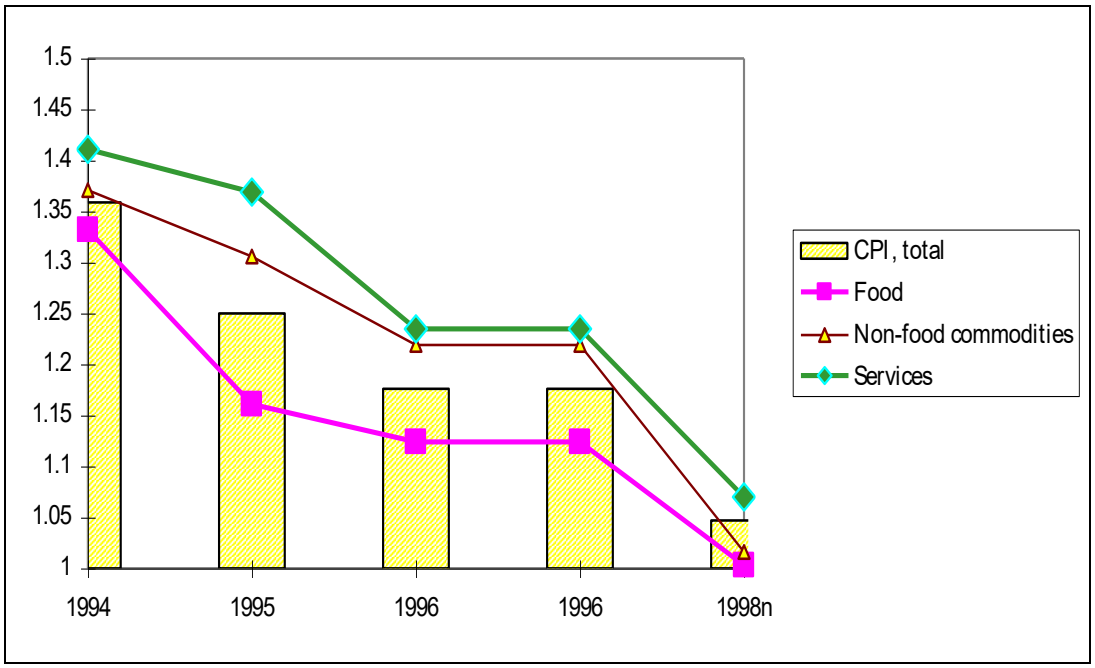
1.1.2. Inflation

The tight monetary and fiscal policies pursued in Latvia have succeeded in further lowering the inflation rate. It has reached the level of about 4,7 % over the previous year average and 2,8 % over the end of 1997. The biggest price increase still was in the sector of services, while the food prices increased just by 0.3 %. (Figure 2)

It can be expected, also in some next future mainly the increase in prices of non-tradables will cause the general price increase, which means rather further structural adjustment as inflation comparable to that process monitored in developed economies. The forecasts for 1998

show CPI increase by 4.5 % and approximately this level will be maintained up to year 2003.

Figure 2. Dynamics of consumer price indexes (CPI) in 1993-1997



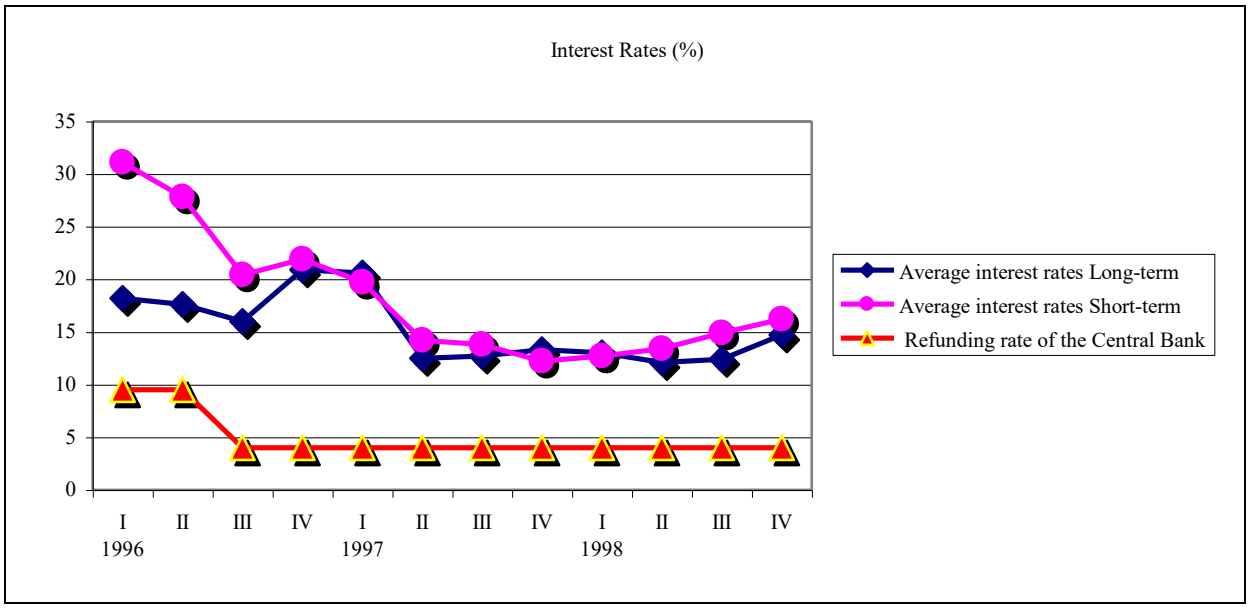
1.1.3. Budget and credit interest rates

In 1998 the Government still managed to maintain non-deficit state budget. Even more, already the second year was finished with the budget surplus in LVL 19.8 mln., which is 0.54 % of GDP, while the fiscal deficit was maintained less then 3 % of GDP. In 1998 this result was reached rather due more careful control over budgetary spendings as to increase in taxation rates and economic growth.

Slowing down the economic development and losses in the banking sector have lead to the new increase in interest rates for credits issued by the commercial banks of Latvia (Figure 3). For example average interest rates for long term credits have increased from 12.1 % in the 2nd quarter of 1998 to 16.2 % in the end of the year.

Latvia national currency "lats" (LVL) is still pegged to SDR. The exchange rate of national currency to USD fluctuated between 0.572 and) 0.602. increases to 0.59 Ls per US dollar, following the general appreciation of USD giving average 0.59 LVL/USD in 1998..

Figure 3. Development of credit interest rates in Latvia



Source: CSB of Latvia

1.1.4. Trade balance and balance of payments

In 1998 the biggest problem in the overall macroeconomic situation still was the current account deficit, caused mainly by the negative trade balance, which could not be offset by the positive balance in service sector. The balance of payments has become negative since the end of 1995. In 1998 the negative saldo continued to increase reaching LVL -160 mln. (-272 mln.USD) in the last quarter.

As the major contributor to this the foreign trade should be mentioned. The development of the current account deficit and foreign trade is shown in Figure 4) In 1998 trade deficit continued to grow in absolute terms and relative to GDP. Exports increase by 10 %, while the increase of import marked the level of 19 %. Trade balance reached the negative level of LVL 812 mln. or 11.3 % of GDP compare to LVL 611 mln. or 10 % in 1997 .

Latvia's exports are dominated by commodity products such as timber, timber products and food. EU continues to be the major trade partner (See Figure 5). A large proportion of Latvia's trade continues to be with the CIS, despite in the end of the last year a dramatic decline in exports to NIS took place reaching the level 37 % of that in the end of 1997. EU markets, despite on export increase couldn't offset this decline. Even more, deficit in trade with EU continued to grow step by step in 1998. It still is expected this trend will be followed in next years.

Figure 4. Development of Latvian foreign trade in 1992- 1997.

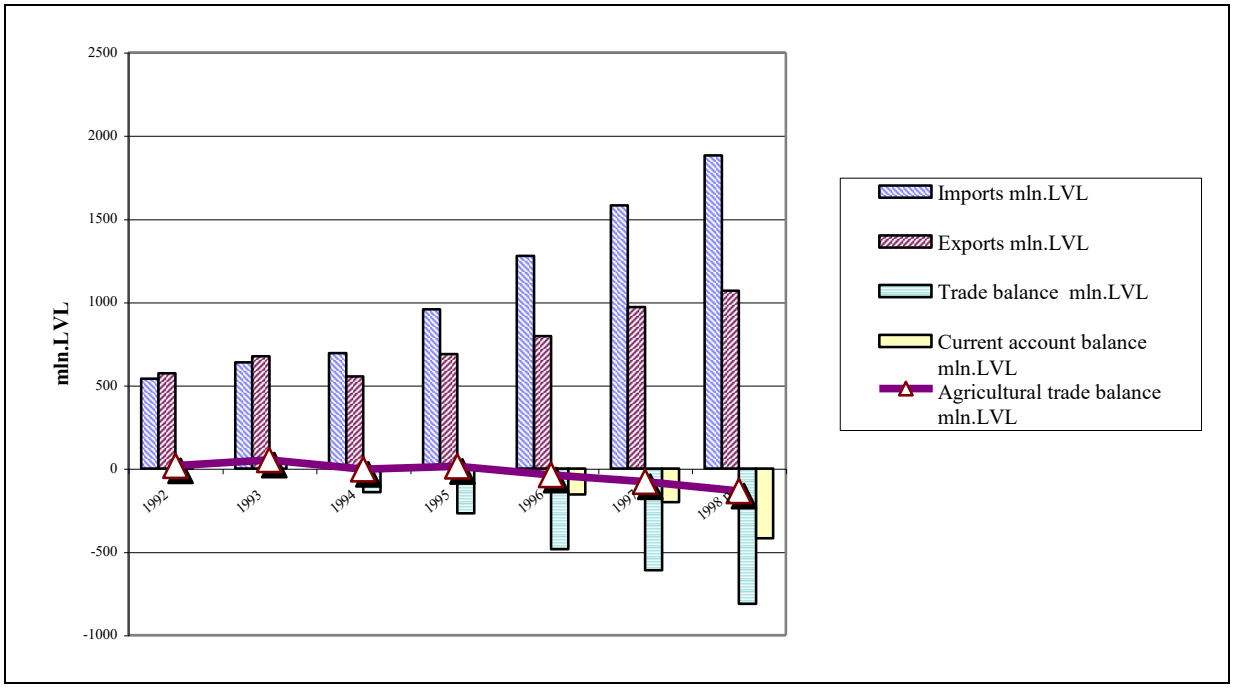
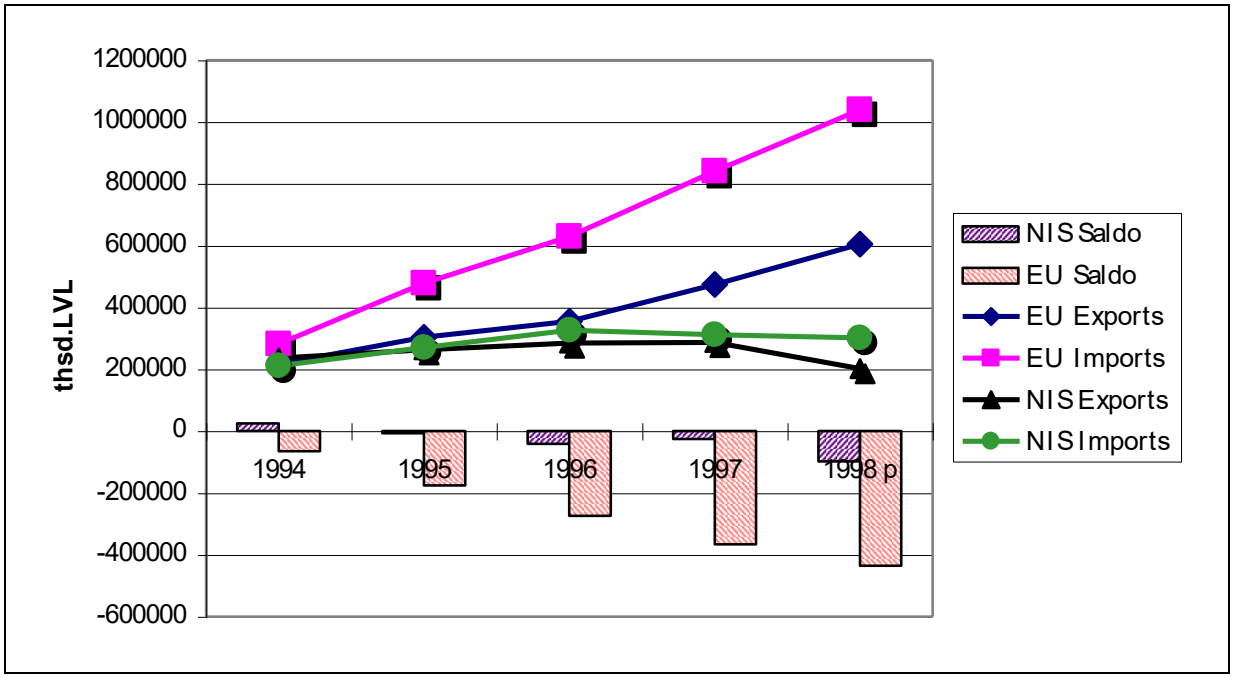


Figure 5. Dynamics of Latvian trade relations to CIS and EU in 1993 - 96.



In February 1999 the agreement on Latvia joining to WTO came into force. It could assist to improve the foreign trade balance and also the total balance of payments.

The current account deficit partly was compensated by FDI inflow, although it has decreased in 1998 twice marking at LVL 162 mln., and also by the increase of Latvia external debt what reached the level

of LVL 231.5 mln. in the end of 1998 compare to LVL 218.3 mln. in 1997 and LVL 227.3 mln. in 1996.

Inflow of foreign investment has slowed down substantially in 1998, with preliminary estimates indicating that FDI rose by just 160 mln.LVL or by 21 % comparing to 60 per cent in the previous year.

1.1.5. Privatisation

The privatisation process in production sector but the big state monopolies "Latvenergo", "Latvian shipping company", "Latvian savings bank" is finished. These monopolies are transferred to LPA (Latvian Privatisation Agency) for privatisation and the privatisation guidelines for these companies are under the elaboration to be approved in 1999.

The others state enterprises mostly are privatised through transformation into joint stock companies and selling the shares to private individuals and companies. Some have gone through the procedure of bankruptcy.

The land reform is basically concluded. According to the data of the State Land Service, as of 1 January, 1999 the Register of the Land Cadastre Centre holds 226.3 thsd. records of agricultural land property.

The apartment privatisation process is in the main stream now to be finished basically in year 2000.

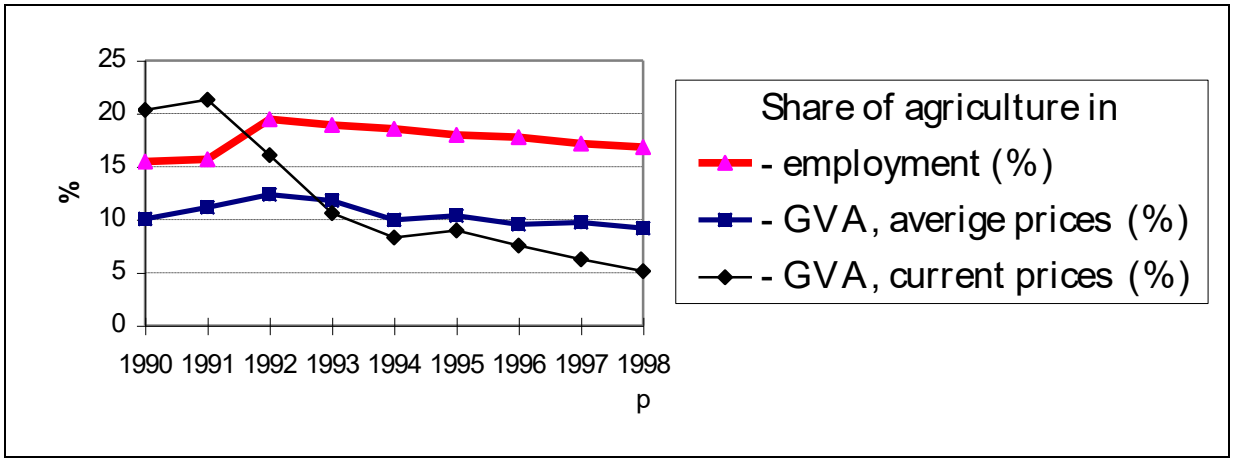
1.2. Position of agricultural sector in the overall economy

1.2.1. Contribution to GDP and employment

The share of agriculture in Latvian economy continued to decline.

In 1998 share of agriculture (without forestry) in GDP reached the mark of 5.1 %. In great extent that was due to the continuous decline in agricultural output prices and increasing input prices, which can be observed if to compare the development of the indicator in average prices of 1995. Also the share of agricultural employment continued to decline, but by less speed as to compare with output indicators. That gives some strong indications on further decrease in incomes of agricultural people. (Figure 6).

Figure 6. Share of agriculture in national economy.



1.2.2. Contribution to foreign trade

Agri- food sector still keeps relatively high share in foreign trade - more than 10 % in the both exports and imports Table 3. 1998 was the first year after some break, when exports declined not only in relative terms (the share of agri-food products in total exports), but also in volume terms. At the same time volume of imports continued to increase, what has lead to the increase of negative agri-food trade balance. In some extent that can be explained by the impact of Baltic FTA, which mostly was benefiting to Lithuanian exporters, but this is not the only reason. The EU dominating role in agri-food imports still is kept..

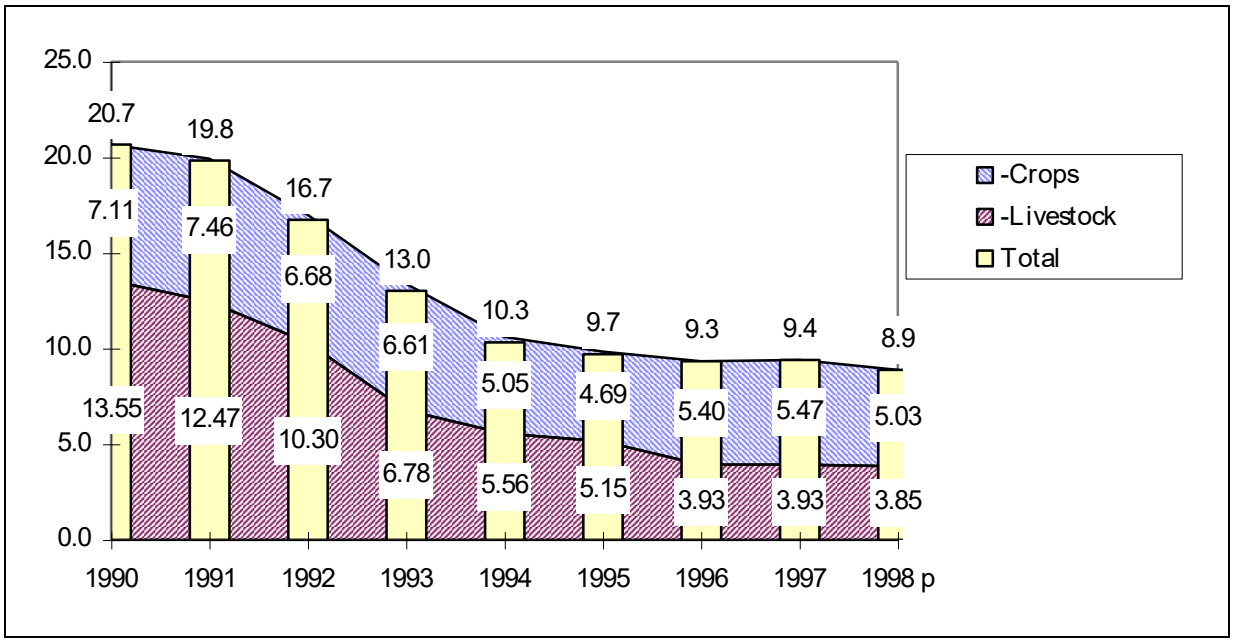
Table 3 Share of agri-food sector in foreign trade

	1992	1993	1994	1995	1996	1997	1998
Share of agri-food sector in total:							
- exports	9.2	13.3	12.8	16.4	16.9	14.5	10.7
- imports	6.5	5.8	10.7	10.3	13.5	13.1	12.2

1.2.3. Growth of agricultural sector

In 1998 production of all crops but sugarbeets decreased. Mainly it was caused by climatic conditions continued, because area sown under marketable crops did not change comparing to that in 1997. That to increase, what contributed to the growth of crops share in Gross agricultural product. At the same time number of livestock and total volume of livestock production continued to decrease slightly. (See Figure 7)

Figure 7. Dynamics of GAO in Latvian agriculture in 1990-1998 (in 1990 prices).



Source: Calculations of LSIAE based on data from CSB

1.3. Situation in the agri-food sector

1.3.1. General price developments and agricultural income situation

In 1998 the trend to start the new stage of input-output price squeeze observed already in 1997 continued. Input prices increased by 2 %, while output prices have even decreased by 4 % as average weighted. That did not result in the decline of food prices, which means, that first of all trade chain has increased taken its margin due to some continuous inflation trend. (Figure 8).

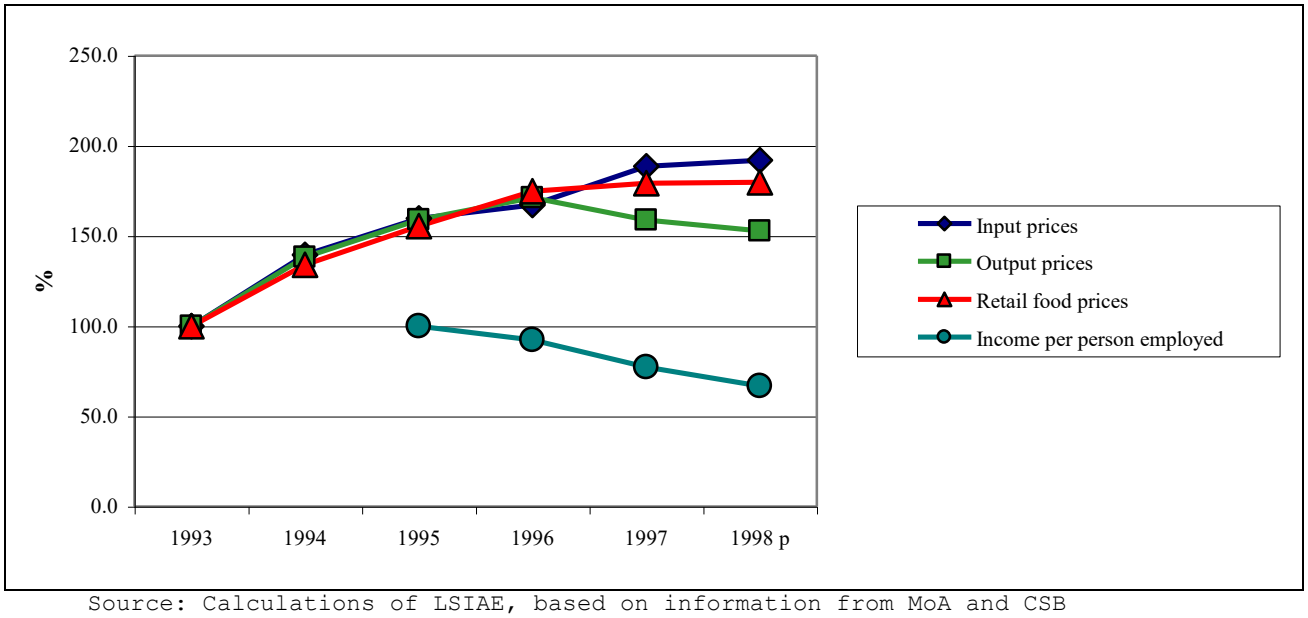
Finally this has resulted in decrease of income generated by the agricultural sector (Table 4). Since 1995 income from agricultural activity has been reducing, where increase in physical efficiency could not offset output price decline and also impact of not favourable weather conditions in 1998.

Table 4. Development of Income generated in Latvian Agricultural sector in 1995-1998.

	Units	1995	1996	1997	1998 p
Net income in agricultural sector	Thsd. LVL	130.6	116.4	102.8	87.7
Income form per person employed	LVL	722	667	558	482

Source: Calculations of LSIAE based on data from MoA and CSB

Figure 8. Development of agricultural prices in 1993-1998 (1993=100%).



Source: Calculations of LSIAE, based on information from MoA and CSB

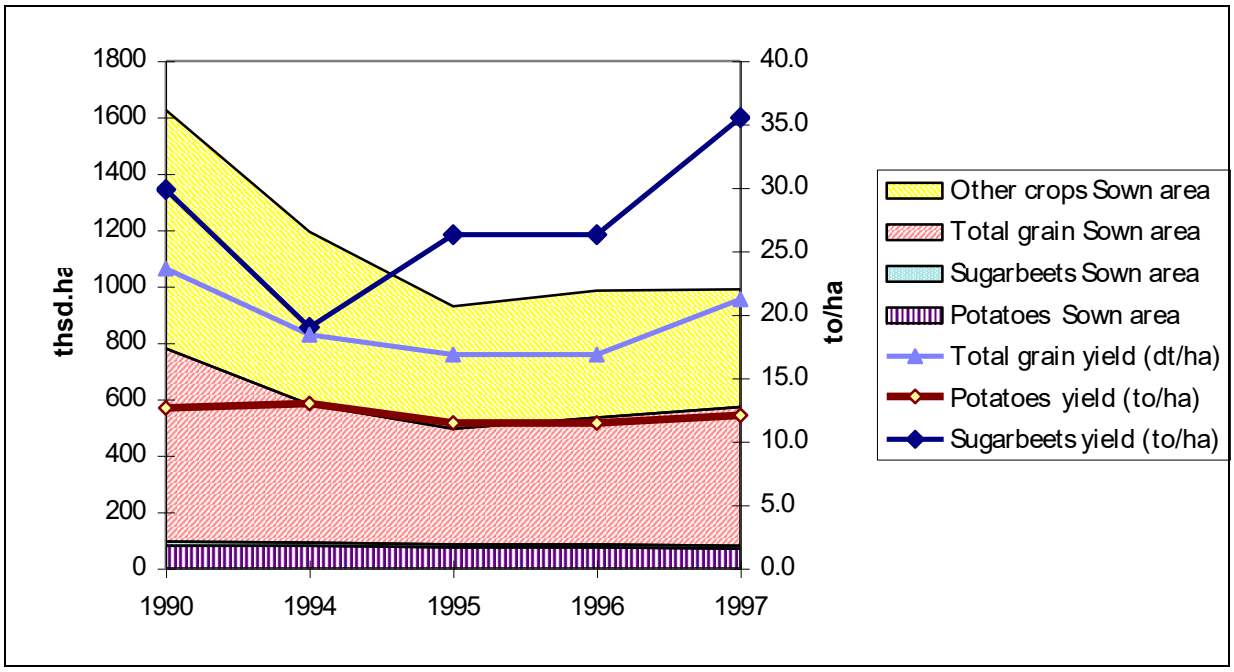
2. AGRICULTURAL PRODUCTION AND FOOD CONSUMPTION

After some increase in agricultural production taken place in 1997, the last year once more indicated further decline in production of all main products but sugarbeet. It was caused by two reasons mainly: unfavourable weather conditions during harvesting period and producer price decline, what has lead into negative income for many producers especially those small scale farms and those obliged to pay back the credits. As the consequence some increase of the share of agricultural output attributable to crops took place but just due to stronger decrease in crop production.

2.1. Crops

In 1998 total area sown remained at almost the same level as in 1997, decreasing just by 0.7 % and reaching the level of 986.1 thsd. ha (See Figure 9). This stop in area sown was clear response of farmers to some decline in producer prices, taken place in 1997. Having in mind further price decline and unfavourable weather conditions for autumn field works we can forecast some further decrease in area sown also for yield of 1999.

Figure 9. Dynamics of area sown and yields for major crops in 1990-1998



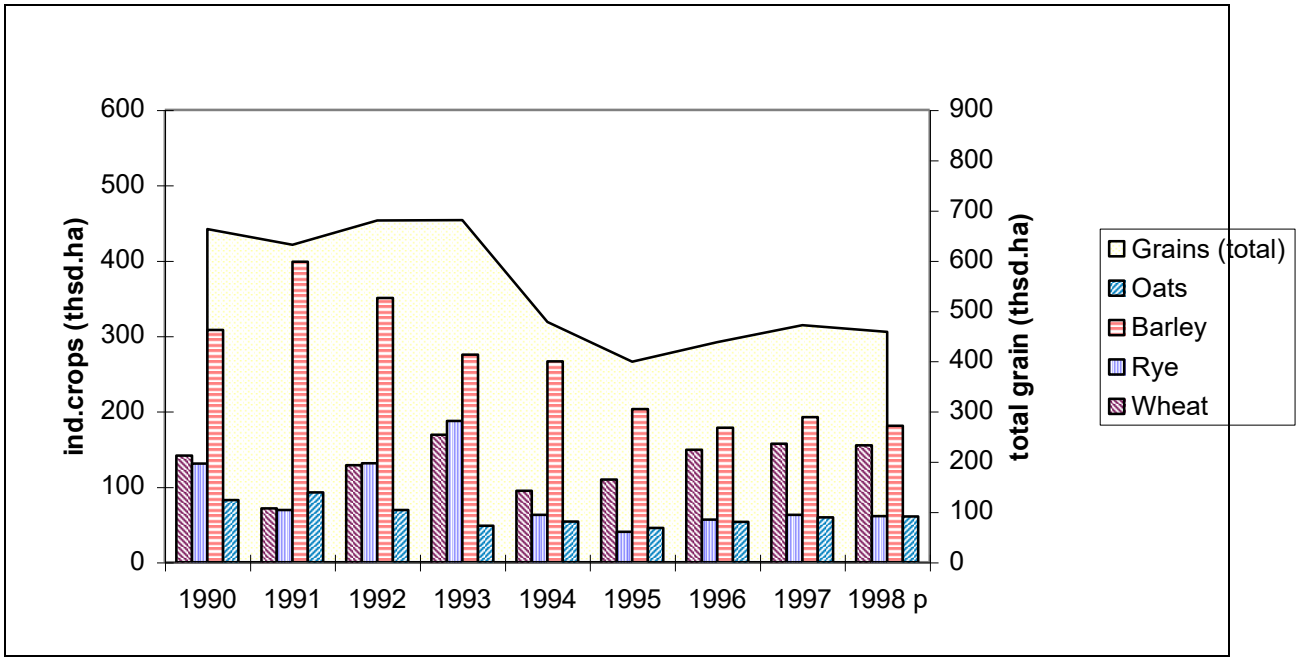
During the first half of year there was forecasted a significant increase in wheat and rye production, but due to extremely unfavourable weather conditions during harvesting period some about 30 % of total yield was lost and the quality of the rest part was not good sufficiently.

Finally the grain yield did not meet even all the local demand in this product. The perspectives for grain production in 1999 are unclear, because there are no real production alternatives for the current grain producers, and a lot of investment has inflow into this production line, however the price development was not favourable for the continuation of grain production.

The structure of grain production by crops has not change significantly within last three years. Wheat and barley are the main grain crops produces in Latvia. (See Figure 10). It reflects the demand by the local market, where rye and oats are mainly used in food processing, while barley and also large part of wheat are used for feed.

1998 was the most favourable for sugarbeet producers. Despite some 15 to 20 % of the fields were not harvested due to rains, the total yield marked the record levels- per ha and also the total amount. That was the first year, when locally produced raw sugar met the demand of the local market. However that created some new problems for sugar beet sector. The processing capacities were not prepared to process so big volumes in the short period, therefore big losses in the processing stage occurred and that created some additional pressure on the financial situation in the sector. Consequently, the statement 'further increase in sugar beet production is limited by processing capacities of domestic sugar factories' is still valid.

Figure 10. Dynamics of structure of area sown by grains in 1990-1997



What regards the production farm structure, further concentration has taken place in the sector of 'commercial' crops- mainly wheat and sugar beet production.

Table 5

Dynamics of yields in 1990-1997 (dto/ha)

Crop	1990	1994	1995	1996	1997	1998 p	98/97=%
Wheat	26.3	21.1	22.2	24.0	25.1	24.8	98.8
Rye	24.8	18.1	17.6	20.0	21.3	17.1	80.3
Barley	22.6	18.1	14.0	20.8	18.7	19.9	106.4
Oats	21.4	16.5	16.1	18.9	19.7	19.3	98.0
Sugarbeet	298.7	190.2	263.2	257.8	355.5	522.9	147.1
Potatoes	126.5	130.0	114.7	143.7	120.8	116.5	96.4
Total grain	23.6	18.4	16.9	21.5	21.2	19.8	92.5

Source: Latvian CSB

In economical terms the sugar beet production still is the most profitable for farmers, and it partly assisted to offset the loses from grain production in 1998.

The decline in prices for pigs has found reflection also in crop sector in the form of delayed payments for the grain delivered to the feed producing companies.

In 1998 the decrease in areas under potatoes continued, reflecting the lack of demand in the market. And it still remains rather a product for on-farm and family consumption as commodity for selling.

2.2. Livestock production

The downward trend in livestock numbers continued in 1998, for the ninth consecutive year. The cattle and poultry herd fell by a further 10 per cent. The fall in pig heard also continued- by 2 % in 1998.

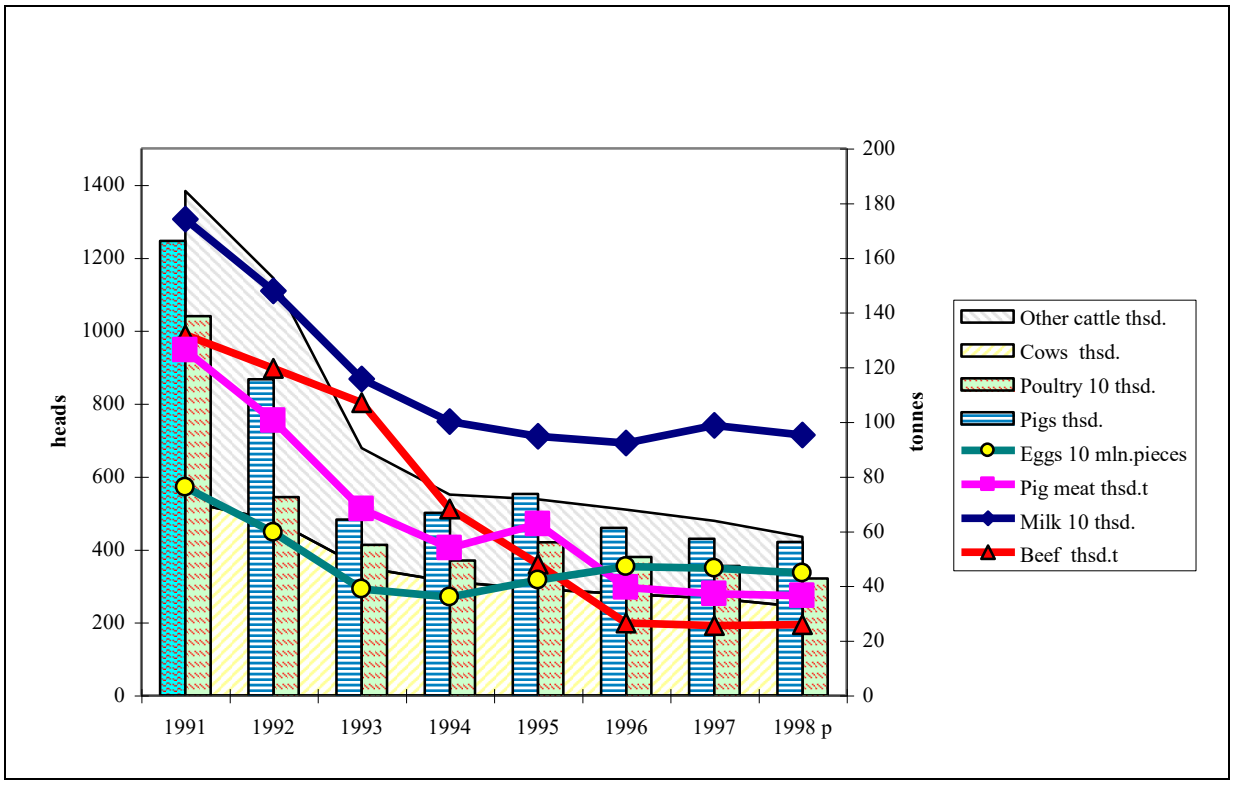
However the decrease in production of main livestock products was almost stopped In 1998. Production still declined in pig and eggs sector. Also the milk production volume was less then in the previous year, but the volume sold to the processing companies increased by some 5 % what indicates some structural change in the sector, where individual milk producers for self consumption have started to exit while the commercial oriented producers developed their activities. Indirectly it is indicated also but sharper decrease in number of cows as the volume of production, what is the result of continuously increased productivity (Table 6).

Table 6. Recent changes in livestock production

		1991	1995	1996	1997	1998 p	1998/97=%
Beef	thsd to	131.8	48.0	26.5	25.5	25.9	101.6
Milk	thsd to	1741.0	947.7	922.7	987.6	951.8	96.4
Pig meat	thsd to	126.2	62.6	39.5	37.1	36.4	98.1
Poultry	thsd to	33.3	10.8	8.6	7.6	7.9	103.9
Eggs	mln.p	760.6	421.0	470.8	464.7	446.8	96.1
Milk per cow	kg	3276.3	3246.7	3326.2	3715.6	3933.1	105.9
Pork per pig	kg	101.2	113.2	85.9	86.4	86.5	100.2

Source: LSIAE from CSB

Figure 11. Changes in herd size and production of livestock products in 1990-1998



Some small increase in beef production can be explained rather with further slaughtering out the cattle, because the cattle production still is among the least profitable sectors of Latvian agriculture and can be overlooked just as the side sector of milk production. Price for cattle is almost twice lower as for pigs.

The crisis in European pig markets and inflow of EU origin pork into the Baltic and, particularly, Latvian market stopped the development

of commercial pig production in Latvia which was started within last two years, following introducing of new technologies. In general, statistics indicate some stagnation of the livestock sector on the level of about 30 % from the pre-reform period (see Figure 11).

To the previous main problem for the livestock sector, which was a large number of farms with small heard size and insufficient investments into new technologies, a new one was added- European market decline and inflow of cheep - dumped or subsidised imports of the livestock products into the local markets, which could not be offset by the existing tariff protection level.

2.3. Price developments

In 1998 the further farmgate price decrease has taken place. (see Table 7.)

Table 7

Farmgate prices for major Latvian agricultural products in 1995-1997

Product	1995	1996	1997	1998 p	1998/97=%
Wheat	70.34	94.72	78.7	66.9	85.0
Rye	53.04	83.94	71.8	62.5	87.0
Barley	43.34	71.17	61.5	59.8	97.2
Sugarbeet	21.28	21.7	23.3	22.1	94.8
Milk	85.9	96.95	93	91.2	98.1
Beef	602.2	674.5	620	398	64.2
Pork	838.5	868.7	951	722	75.9

There were several reasons for that: the general food market decline in the world which was determined first of all the Asian crisis and then followed by the Russian crisis. The developing competition between the developed countries in subsidising the exports added to this, and also the opened market borders between the Baltic countries, and at the same time not the harmonised agricultural policies have played its role. In the grain sector the decreased product quality also gave its impact on lower grain prices, because additional drying and cleaning was necessary.

In fact only sugarbeets production remained a profitable agricultural sector. And even there not all the payments are maid to farmers due to some financial problems, caused by the difficulties of processing companies in the marketing of processed sugar.

2.4. Food consumption

The per capita consumption of meat continued to increase in 1998 and the trend to decrease the bread consumption continued reaching the level of 1990 (see Figure 12). Also the potato consumption started to decrease. Some conclusion on improved income situation can be made. As some other reason low rate of food price increase can be mentioned.

Also the continuous changes in consumer preferences can be observed. Figure 13 indicates clear switch in consumption of milk (especially

butter) to plant originated fats (oils and margarine). Similar switch can be observed in consumption of potatoes, bread and meat, while consumption of eggs is continuously decreasing.

What regards the share of household income spent for food, the previous forecasts to have the decreasing trend have fulfilled. And year 1998 gave some three more percent points of decrease in this rate, marking 43.5 %. However, taking into account the reasons for so moderate price increase and increased unemployment rate in late 1998 and 1999, the suggestion on the necessity to cover other living costs prevails in this process to the increasing prosperity of Latvian population and increased efficiency of food production.

Figure 12. Changes in per capita consumption of some products

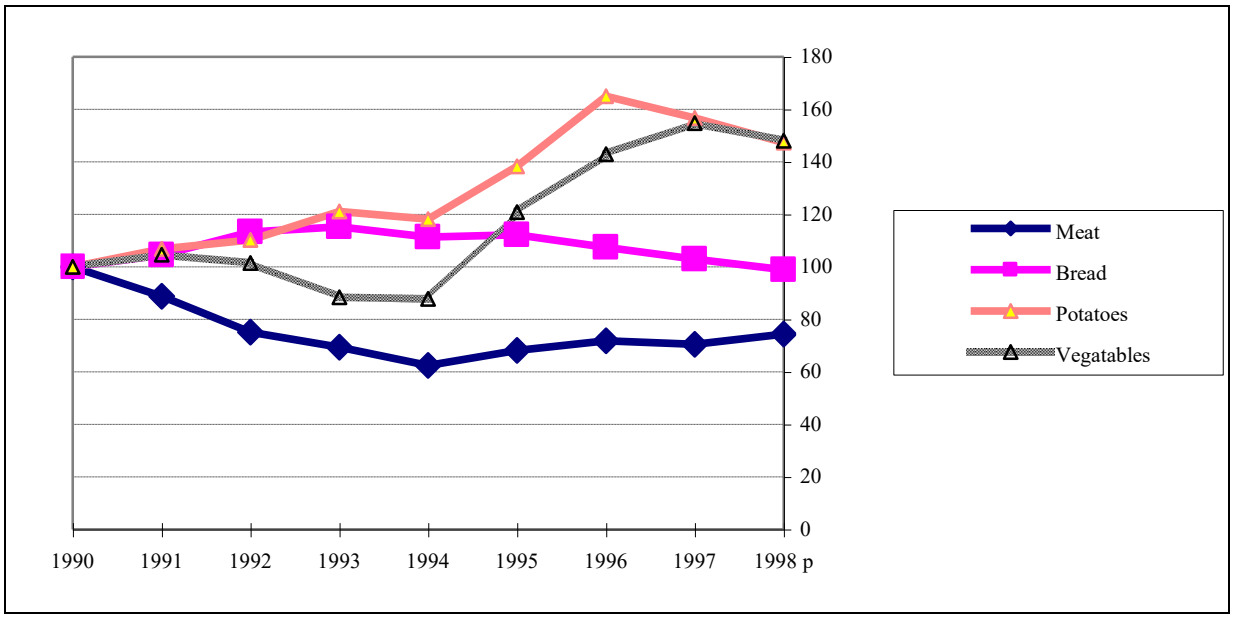
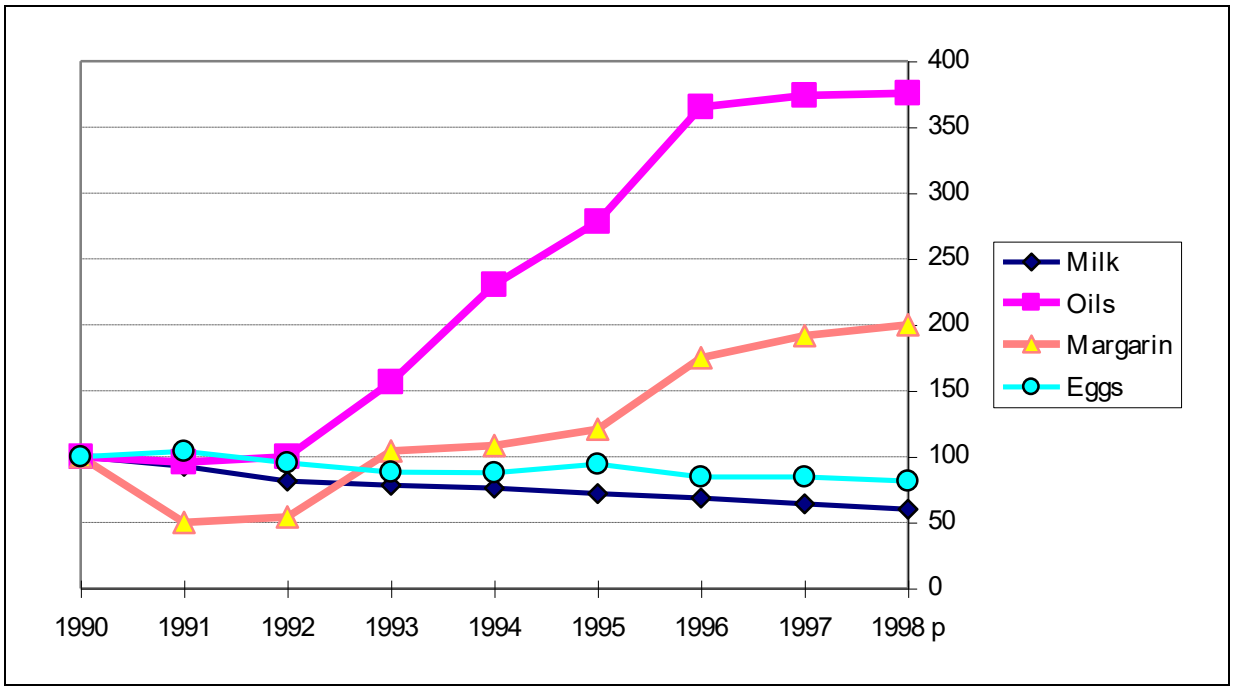


Figure 13. Changes in per capita consumption of some products



Source: LVAEI from CSB data

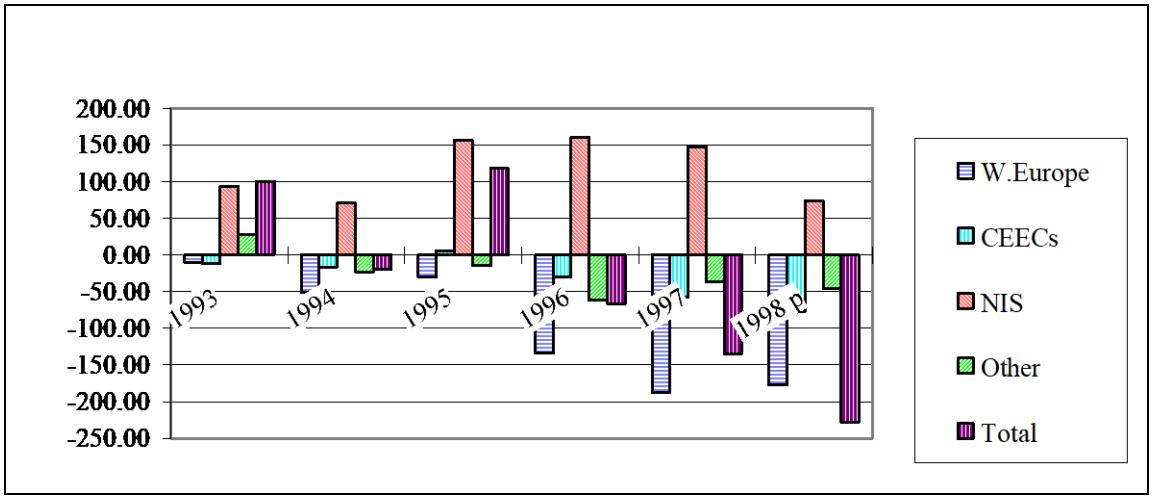
3. AGRICULTURAL TRADE

3.1. Trade flows

The trend in change of the composition of imports and exports was continuing also in 1998.

It concerns the both- structure of products and structure of trade partners by countries. 1998 was especially unfavourable year to Latvian agri-food trade. It shows significant negative saldo for all major groups of countries but NIS (Figure 14).

Figure 14. Agri-food trade saldo by groups of countries in 1993-98



However the latest could not cover strong increase in imports from West Europe countries.

3.1.1. Structure of trade by products

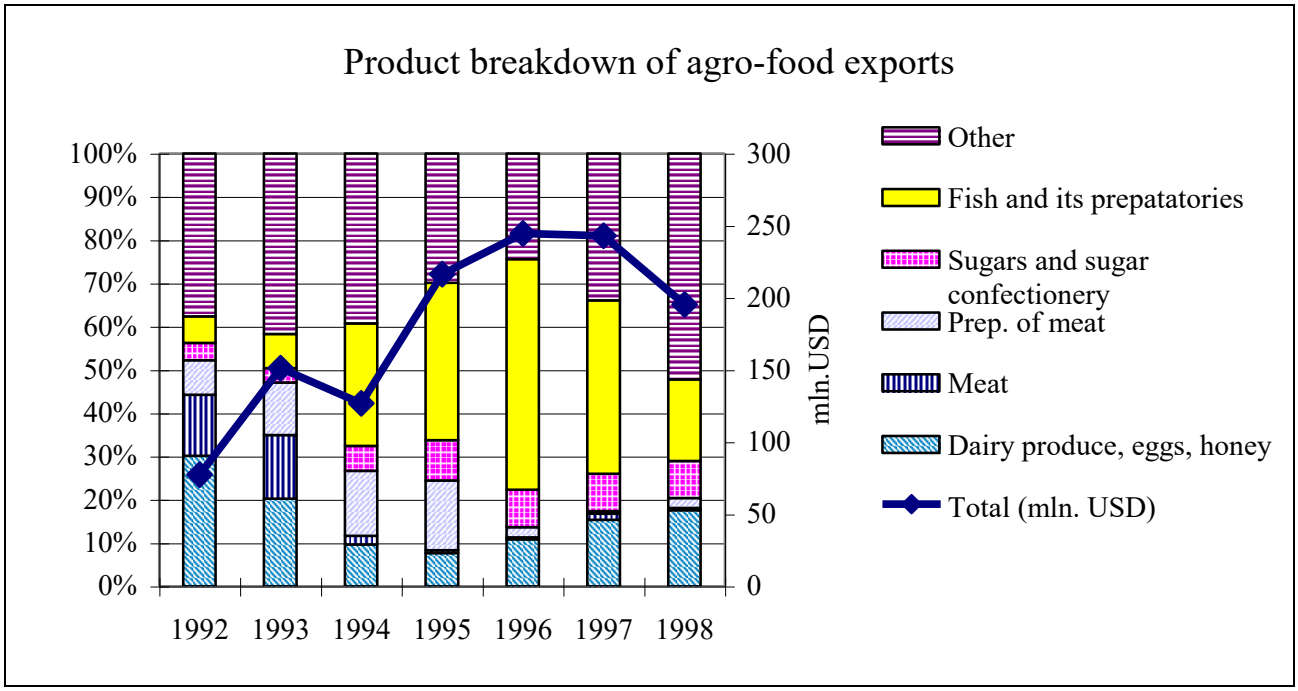
a) Exports

As statistics show, structure of exported agri-food products has changed significantly within 1992-1998.

The share of dairy produce and also meat as the representatives of classic agri-food exports has declined from about 50% in 1992 to just 17-18 % in 1998. In relative terms the share of dairy products has increased a bit, however in volume this group also has lost in 1998. Due to complete collapse of Russian fish products market for Latvian products, the share of this product line has declined most of all.

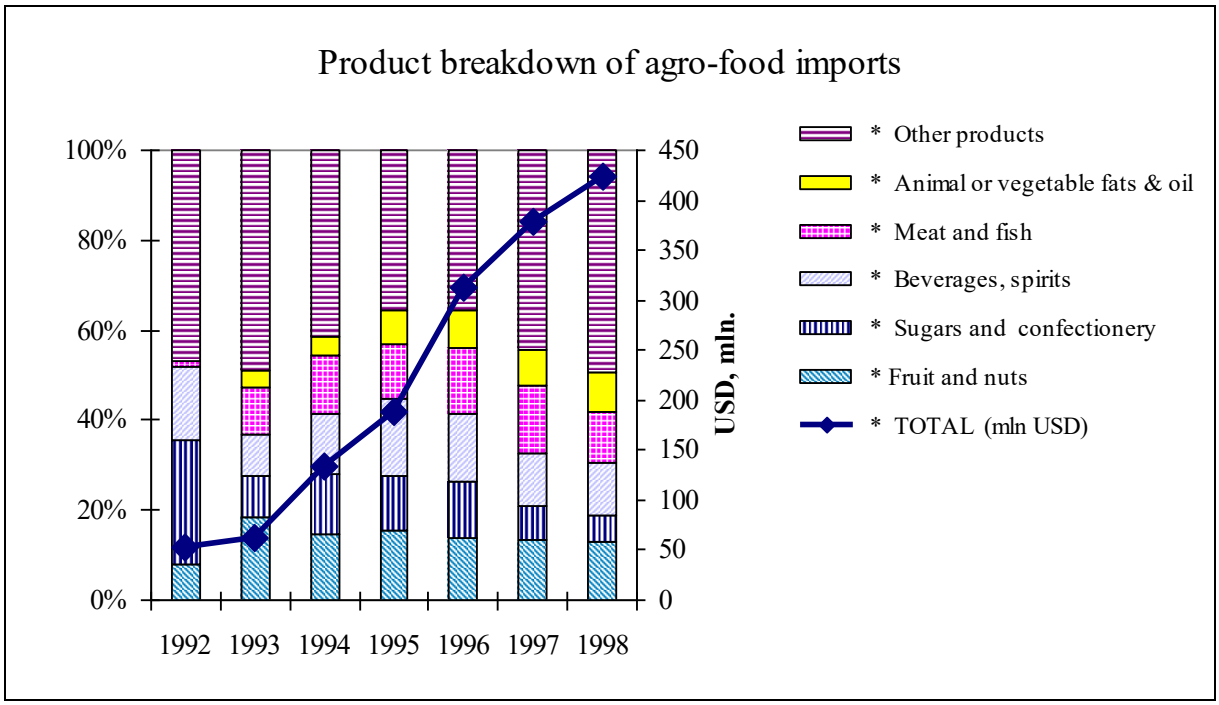
The trends in the changes of export structure shows also an increasing role of processed industrial food comparing to primary agricultural products in line with advantages of along the see located country.

Figure 15. Changes in structure of agri- food exports by groups of products (1993-1997)



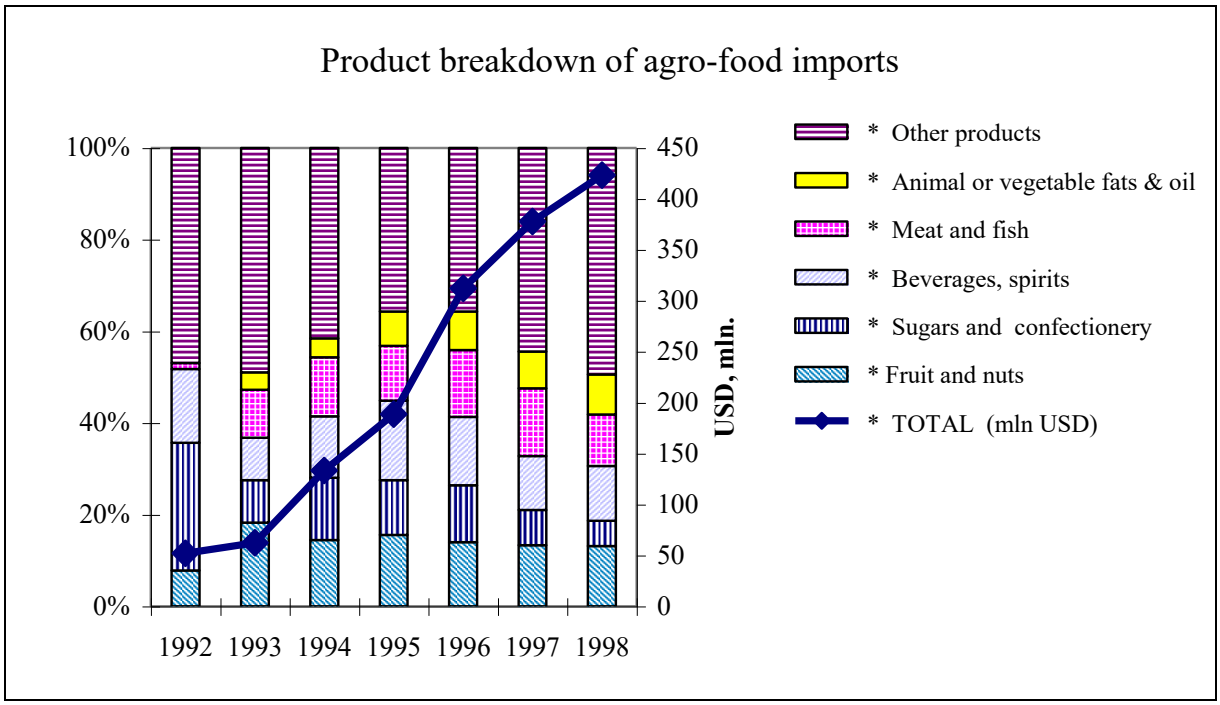
b) Imports

The structure of imports has changed much less (see Figure 16. Changes in import structure by product groups in 1992-1998 (USD, mln.)



). It is more diversified. There is no dominant of one product group.

Figure 16. Changes in import structure by product groups in 1992-1998 (USD, mln.)



3.1.2. Structure of trade by countries

As concerns countries of partners, structure of trade remains quite stabile. The share of CIS is still dominating in agricultural exports, while concerning imports it can not be said.

a) exports

In 1998 exports decreased significantly, in particular to NIS, which was caused first by the political tensions, and after by the economic crisis in Russia.

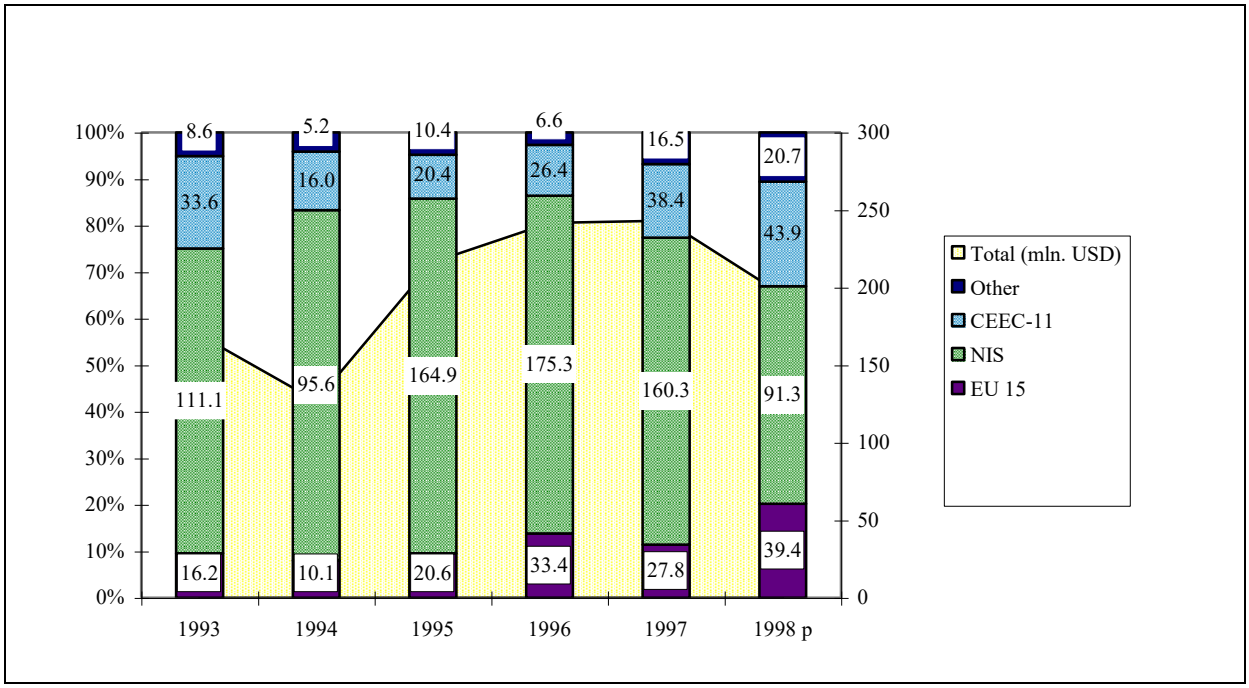
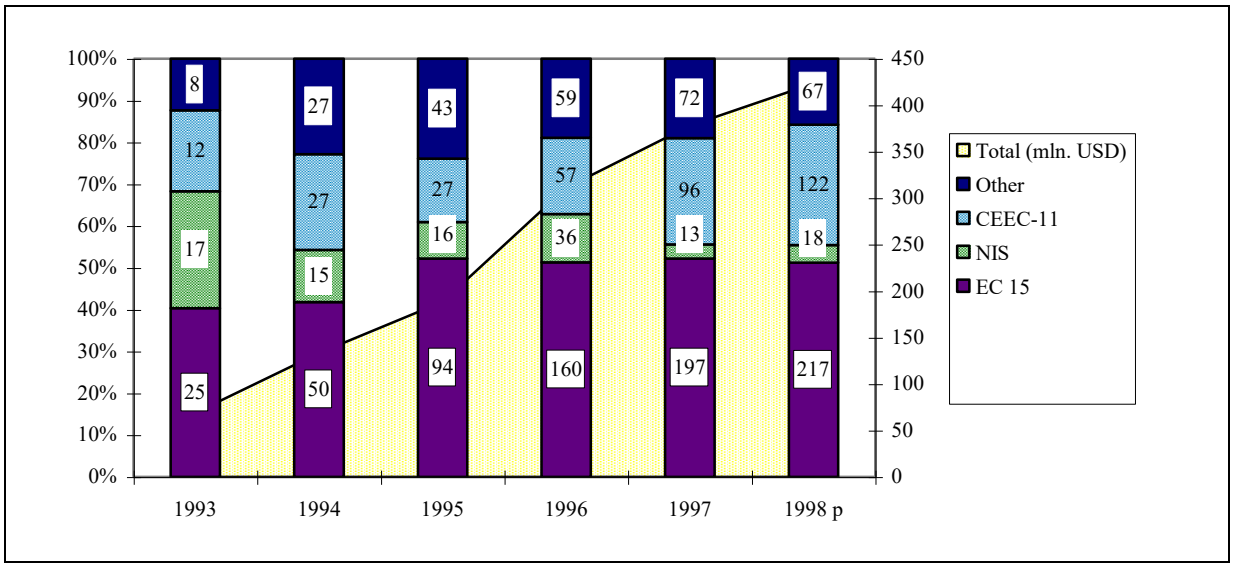


Figure 17. Changes in structure of agri-food exports by countries in 1993-1998

b) imports

Total volume of agri- food imports has continued to increase in 1997 reaching volume of USD 377.4 mln. As the main trade partner still is EU (Figure 18). But the share of CEECs also continue to increase in 1996.

Figure 18. Changes in structure of agri-food imports by countries



3.2. Agricultural trade relations

1998 was the second year of the operation of the Baltic Free Trade Agreement (BFTA) on trade in agri-food products, which was signed in June 1996. This agreement allows free trade in agricultural and food products of domestic origin between the three Baltic countries.

However, the differences in trade regimes (Estonia has no tariff barriers on imports, but Latvia has) created serious tensions between these two countries due to the pig meat imports to be processed in Finnish owned mat processing company in Latvia, which is the biggest one in Latvia and which stopped the buying of Latvian origin pigs. Similar but other origin tensions occurred in relations between Latvia and Lithuania regarding eggs exports to Latvia and milk products to Lithuania. That indicates, that without similar and harmonised agricultural policies, including trade regimes the full operation of really free trade agreements is limited. Market crisis in the world just aggravate the situation.

The existing restrictions on trade with third countries remain in force during 1998. Some slight decline in customs tariffs took place recently to make them in accordance to WTO commitments, because on October 14 1998 the accession agreement was signed and in February 14, 1999 it came into force.

However, as Latvia already had relatively liberal trade policies and a low level of domestic support, membership of the WTO is unlikely to result in major changes in agricultural trade policies; but some changes in institutional arrangements (quality standards, etc.) will be needed. Among the first range tasks adopting of anti dumping and anti- subsidies legislation in accordance to internationally recognised standards should be mentioned.

4. AGRICULTURAL POLICY DEVELOPMENTS

4.1. Structural policies

4.1.1. Institutional and organisational framework of the privatisation process

Privatisation process in agri-food sector is completed and it has led to fundamental changes in ownership and land use pattern. Currently just further restructuring of privately owned and run businesses is taking place through the whole sector.

In 1998 more than 95% of agricultural land was operated by families, other 3.8% by private companies (11.4 % in 1996) and just less than 1% by state (mainly experimental farms and training farms for schools) and local governments (as leased plots to people living in towns and villages).

With the on-going restructuring of the agricultural sector, the average size of family farms has been steadily increasing. For example, at the beginning of 1997 the number of family farms was estimated at 94 905, with an average size of 13.7 ha of agricultural land (23.6 ha in total), compared to 12.1 ha in 1995 (19.9 ha total area).

The land reform is practically concluded. All the land requested by the private individuals was distributed in the both ways- through restitution (the major part) and through issuing of land use rights with later possibilities to privatise it either for vouchers or for cash.

The Law "On concluding the Land Reform in Rural Areas" was issued in late 1997, where the formal procedure is defined, how the operation of local Land Reform Commissions must be finished an the final disputes regarding ownership transfer can be settled.

In the down stream sector a large number of processing enterprises have been taken over by producers' associations or processing co-operatives, which in the short run may mean there is little pressure for further restructuring of these enterprises. One of the major problems facing agri-food processors is the lack of capital investment for modernising and improving production technology as well as the lack of management and marketing skills for competing in an open, competitive market. Substantial overcapacity in many processing enterprises remains a serious problem, and further rationalisation is likely to occur in next few years.

4.1.2. Land market

From the legal point the land market in Latvia is very liberal. Changes in land privatisation legislation were made in 1997, allowing to own the agricultural land (with some minor exemptions) also for foreigners - private individuals and also legal persons. It was expected it will stipulate the development of credit market in agriculture and rural areas. However, the lack of profitability in the sector and low employment opportunities in rural areas outside agriculture continue to hinder the development of a land market.

4.1.3. Changes in structure of agricultural production

The restructuring and privatisation of agriculture has led to fundamental changes in farming in Latvia. In 1990 state farms accounted for about 31 per cent of agricultural land use and collective farms a further 61 per cent. By January 1997 almost 59 per cent of land was operated by family farms and less than 1 per cent - by state farms.

The number of family farms has exceeded 94 thsd. in 1997 with average size 13.7 ha of agricultural and 23.6 ha of total area. But some structural changes are continuing in this sector, because in 1995 those indicators were 12.1 and 19.9 ha.

In addition, there is still a large number of subsidiary farms and household plots in Latvia in 1997.

4.1.4. Credit policies

The shortage of credit at reasonable interest rates continues to hinder development of the agricultural sector in Latvia. Real interest rates have fallen sharply in recent years as inflation rates decline, and in 1997 the real rate of interest on short term loans was estimated at about 10 per cent. However, the economic crisis of 1998 marked a new stage of increase in interest rates, which now have reached the level of 18 to 22 % , which is more as average in economy due to the obstacle, that commercial banks treat the agriculture as the risky sector.

Most of the credits to agriculture are issued by ordinary commercial banks, their local branches serving the farms in their daily operation. Some credit available to agriculture is channelled through the State Land and Mortgage bank which has merged with special state credit institution "Laukkredits' (Rural credit), established to administer

World Bank loans to the agricultural sector in amount of USD 18 mil. However the new WB credit line opened in 1998 and amounted in USD 10 mln. is maintained by several commercial banks.

In an attempt to overcome the lack of credit in rural areas, several credit and saving co-operatives have been established with the assistance of the EU. However, the amount of financial resources available from these co-operatives is limited.

In 1998 more radical attempt to solve financial resource problem for investments was made. Major part from the state budgetary resources in support to agriculture were allocated attract financial resources from commercial banks on co-financing basis, where the co-financing rate fluctuates between 20 and 40 %, depending on farm location, the age of farmer and type of investment. In order to make credits more available also for farmers with not sufficient amount of collateral the Credit Guarantee fund was developed and become as a part of State Support programme in 1998.

In 1998 the programme of partly state financed interest rates on short term credits to meet the needs in operating capital during spring and harvesting periods also was continued.

4.1.5. Agriculture trade policies

Latvian maintains rather liberal trade policies

Latvia regained access to the EU market for its dairy products from 1 January 1998, following the tightening of EU health and hygiene regulations in 1997. The number of dairies in Latvia authorised by the EU authorities to export milk and milk products for human consumption has increased in 1998. Exports of milk and dairy products account for almost 20 per cent of annual Latvian milk output.

4.1.6. Environmental policies in agriculture

There are no special agri-environmental policies in Latvia apart from the general environmental protection and planning policies.

4.1.7. Rural development policies

1998 was the year, when some real political attention was given to the rural development problems.

Parliament has accepted Rural Development Programme, the goal of which is to create the preconditions for the integrated, multifunctional and sustainable rural development. And the three main tasks of the Programme are defined: to give the political foundation for rural development policies; to define the goals of rural development; and to set the tasks and responsibilities how to achieve the goals defined. As the further tools be used the regional and local programmes, development plans for local territories are mentioned.

Agriculture is mentioned as one of the sectors of rural development, where the priorities are to support the development of agriculture to use the natural and socio-economical potential of Latvia and to develop the sector to be competitive and being able to integrate into the common European and world market.

Therefore the political recognition of integrated rural and agricultural policies was given, although real structural,

environmental and social policies, clearly related to agri -food sector and rural areas still don't exist in Latvia.

Some support is given through the pprogram on Disadvantaged Regions which was approved already in 1996, to deal with the specific problems of less developed regions, where unemployment is high, and incomes and living standards are substantially below the national average. However, the amount of financial available for the implementation of the program is not sufficient to solve the problems as it is expected.

Some support to rural development and diversification is given also via agricultural support schemes, which provide a support for the development of rural tourism and so called non traditional agricultural production. Also a new World Bank Rural Development project started in 1998 and it provides a programme of soft loans for small businesses in rural areas, however the main part of the credit line amounted at USD 10 mln. will be used for agricultural credits.

It could give some solution of the rural development problems, which now have become as the major obstacle also for the development of Latvian agriculture due to lack of alternative employment opportunities in rural areas. The estimations of LSIAE indicate, that some about 50 to 60 % from the current agricultural employment in fact is hidden unemployment. Therefore some bigger diversification programmes, even related to the industrial production, are necessary to solve the problem completely.

4.2. Support policies

4.2.1. Agricultural and food strategy objectives

The main objectives for the Latvian agricultural policy and scope of implementation instruments are set by the law "On Agriculture" which was passed on November 8, 1996. It sets.

The declared objective in the Agricultural law is "… to maintain the development of agriculture as one of the sectors of national economy and to set a long term agricultural policy". Several main goals should be achieved:

- the development of an efficient agricultural policy for the transition period until a possible entrance into the EU, to implement necessary structural adjustments and to increase competitiveness in international markets;
- to create preconditions for an environmentally friendly and socially oriented agriculture, for the rational use of natural resources and taking into account regional differences;
- to create a pre-condition for the development of the rational enterprises of different types to produce competitive products on lesser costs, to increase agricultural production efficiency;
- to maintain employment in rural areas;
- to try to maintain income in agriculture compatible to the average in the national economy;
- to set out main principles of market regulation in agriculture;

- to maintain the development of agricultural science and education.

Some of the goals are contradictory and it is obvious the implementation of the law will require some compromises between all of them. However, several points should be mentioned.

1. It can be found in the document that the need for agricultural development to be efficient is prevailing over just agricultural income maintenance.
2. Several statements are formulated more as rural development objectives rather than agricultural policy goals. Among them the following can be mentioned: the necessity to create the pre-conditions for the maintenance of employment in rural areas; the development of different types of enterprises; the rational and environmentally friendly use of existing natural resources.

Comparing the goals and instruments mentioned in the Law "On agriculture" to those requirements and principles set by GATT/WTO, existing free trade agreements and EU association agreement, no significant contradictions can be found. Even more, there is a statement in the law, any type of support to agriculture and rural development should not contradict the principles and statements of international agreements signed or going to be signed by Latvia.

To develop the provisions of Agricultural law some other documents were issued in 1998. Among them the Rural Development Program, which contains also a part on agriculture, and the subsector development guidelines should be mentioned. Those documents clearly express the goal to increase the competitiveness of the sector on international markets and to prepare the sector for the integration into EU Single market. That must be reached via increasing the efficiency, technical modernisation, improvements in the marketing chains and developing of the farmers expertise. State support first of all must be allocated to encourage investments in modern agricultural production and processing. At the same time the activities necessary to develop institutional market environment, for instance the quality and veterinary control systems, border controls and others.

4.2.2. Prices

Government does not provide any special price support policy beside the tariff barriers, in agriculture but in grain sector.

But in practise they do not allow to maintain higher prices within the internal market comparing to the average world market prices. The main reasons for that are the low purchasing power of population, increased volumes of production (grains and milk particularly) and also as the consequence of Baltic FTA at the different support policies and market regimes).

In 1998 the intervention scheme for food wheat and rye was introduced. In fact that was working more as the tool to assist farmers to overcome shortages, caused by the inefficient grain and credit market functioning. Because there was no real surplus of grain on the market during 1998/99 marketing year. Therefore, in practice, the application of the grain intervention schema was caused more by the political

reasons to try to help farmers to market their grains earlier in the autumn rather by the practical market disbalances.

The changes in Law "On Grain market and State grain reserve" were maid to harmonise the law with this new approach of market regulation. Also the Governmental Regulations were issued to introduce the intervention scheme.

4.2.3. Subsidies and farm investment policies

While the level of budgetary support to the agricultural sector was relatively low in 1997, a 70 per cent increase in support has been approved for 1998. If the most of the budgetary support till 1997 was used in the form of direct payments to producers as well as through support for research, education and structural measures, 1998 schema pointed out a new approach with emphasis on investment support, for which all the increase was allocated. Two main schemas were selected. Investment co-financing to credits issued by commercial banks, where the co-financing rates are between 20- 40 % with bigger rates in areas with lower soil productivity and for younger farmers.

The other new program is the support for soil productivity maintenance. This program was set because due to natural features of Latvian soils they do need the liming and melioration. And these activities were left out of the attention since the reforms started, because of the lack of finances and long term payback for such expenditures.

4.2.4. Inputs' support

Some reimbursements of Excise tax on diesel fuel used in agriculture is still maintained for agricultural producers. It takes place since 1995, when the law increasing the Excise tax was adopted.

In practise these are only input support measures.

4.2.5. Taxes

There are some tax relieves left to stimulate agricultural production in Latvia.

a) income tax

Agricultural producers, who are the personal income tax payers, must pay the tax on profit gained from agricultural activities which exceeds LVL 3000, but all the other profits are fully taxable.

Private farmers should pay personal income tax if their annual income does not exceed 45000 Ls.

Enterprise income tax. Since 1995 those private farmers whose turnover in the previous year is less than 45000 Ls are exempt from corporate income tax and they may choose to pay personal income tax. Other agriculture enterprises have a tax discount of Ls 10 per hectare of land used in agriculture. They also can choose so called small enterprises discount rate 20 % from calculated income tax.

b) property tax

The property used exclusively for agricultural operations (or intended to be used so) is not taxed with property tax.

5. ASSESSMENT AND OUTLOOK

Economic growth slowed down in 1998 with GDP growth marked the level of 3.6 %. The process started in the second half of 1998 after recorded at a robust 6 per cent, following the moderate growth rate achieved in 1996. In 1999 GDP growth is expected to stay in range 3 -5 %.

Monetary and fiscal policies have resulted in a further lowering of the inflation rate to about 4.7 per cent in 1998, but the rate of unemployment started to increase drastically, marking the level at 9,2 per cent. The current account deficit continued to grow reaching 11 per cent of GDP, however, the government budget had a little surplus in 1998. Crisis in economy of the main trade agri-food export partner Russia has caused decrease in export volume by 20 per cent.

Privatisation in the production sector of Latvia is ended but two main state monopolies - "Latvenergo" and "Shipping company" are left for privatisation. Capital inflow in the form of FDI slowed down in 1998, but still took place in significant volumes.

Agriculture's share of GDP fell to even less than 6 per cent in 1998, while employment in the sector remained high at about 16 per cent. The downward trend in agricultural output in opposite to the previous forecasts still continued with a new speed reaching some 4 % in 1998. And following the price decline trends appears to be continued also in 1999. While the decline in livestock production continued, there are some indications that the decline in the dairy and pig sectors is bottoming out. As regards crops, due to unfavourable weather conditions production of grains decreased, while potato and vegetable output continued to decline sharply. With low world grain prices, the prospects for further increase in Latvian grain production are limited. The sugarbeet sector marked a record yield in 1998 and appear to stabilise at that level.

In 1997 agri food trade deficit continued to rise reaching the level, when the volume of imports is 2.2 times bigger as exports. There are no real signs on changing this trend.

Farmgate prices have decreased for all the agricultural products in Latvia during 1998. It does not give any serious signal to farmers to develop the production. State support schema was changed in 1998 adding some 60 per cent to the previous level, mainly for the investment support in the form of co-financing and credit guaranties.

Market price support through the implementation of tariffs on agricultural and food imports is on average relatively low. The intervention schema on the grain market was introduced in 1998.

The policy mix in the agricultural sector is expected to continue to evolve driven by the overarching policy of EU membership. Some of the major challenges facing the sector in Latvia include the need: to formulate structural policies that will facilitate the development of a competitive agriculture, to improve food safety and quality standards, and to identify and implement appropriate policies for the development of rural areas.