

# AGRICULTURAL DEVELOPMENT PROBLEMS AND POSSIBILITIES IN BALTIC COUNTRIES IN THE FUTURE

FINNISH-BALTIC JOINT SEMINAR  
SAKU ESTONIA 1993



MAATALOUDEN TALOUDELLINEN  
TUTKINUSLAITOS. JULKAISUJA 72





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## AGRICULTURAL DEVELOPMENT PROBLEMS AND POSSIBILITIES IN BALTIC COUNTRIES IN THE FUTURE

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**Abstract:** Agricultural economists from Finland and Baltic countries had their fourth seminar in Saku, May 31-June 1, 1993. The seminar was organized by the Estonian Research Institute of Agriculture. This publication includes presentations given in the seminar or summaries of them.

Topic of the seminar concerned the agricultural development problems and possibilities in the Baltic countries in the future. This topic was chosen because the transition of agriculture in Baltic countries is in the phase, where lines of changes are visible and the need for collaboration within agriculture and agricultural markets in Europe and worldwide is increasing.

Presentations from the host country dealt with the perspectives in the Estonian agriculture, income policy, prices and consumption of agricultural products and family farming as a part of the society.

Latvian presentations examined principles of the new agricultural policy, targets in income policy, forecasting the demand and supply, grain markets in Latvia.

Lithuanian economists examined the situation of agrarian reform, economic and social factors in agriculture, world market policy options and implications, forecasting the agricultural development and production regulation.

Finnish presentations concerned the experiences of the land reform after the war and its implications on the farm structure in Finland, importance of bookkeeping for profitable farming and the role of statistical data in planning agriculture.

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**Index words:** Agricultural policy, land reform, producer prices, consumption, Estonia, Latvia, Lithuania, Finland

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*Edited by Tellervo Sallinen*  
*Photos by the participants of the seminar*

## Contents

	Page
Current Situation and Perspective of Estonian Agricultural Policy <i>Valdek Loko</i>	7
Agrarian Reform in Lithuania <i>Arvydas Kuodys</i>	10
The Principles of Agrarian Policy in Latvia Searching for Our Own Way <i>Inesis Feiferis</i>	14
Some Experiences on the Structural Development in Finnish Agriculture <i>Jouko Sirén</i>	18
Economic and Social Factors Influencing Lithuanian Agricultural Development <i>Antanas Poviliunas</i>	21
European Integration and Finnish Agricultural Statistics <i>Simo Tiainen</i>	25
Lithuanian Agriculture and the World Market: Policy Options and Implications <i>Natalija Kazlauskienė and William H. Meyers</i>	29
Income Policy in Latvian Agriculture for the Next 5 Years <i>Biruta Arnte</i>	35
State Regulation of Agricultural Production in the Republic of Lithuania <i>Irena Krisciukaitienė, Gediminas Kuliešis and Aleksandra Stadnikova</i>	38
Income Policy of the Estonian Agriculture <i>Johannes Kaubi and Andres Tekkel</i>	42
Forecast of Agricultural Development in Lithuania <i>Valerija Uzdavinienė and Algirdas Kilius</i>	45
Course of Development of Privatization of Joint-Stock and Limited Companies in 1992 <i>Roberts Zile</i>	48

Family Farming as the Perspective of Estonian Agriculture <i>Jaan Timmermann</i>	52
Prognosis of Demand, Output and Supply of Foodstuffs and Raw Materials for Industry <i>Visvaldis Pirksts</i>	55
Prices of Agricultural Production and Consumption <i>Tõnu Akkel</i>	58
The Utilization of Farmlevel Bookkeeping Data in Finland <i>Olli Rantala</i>	61
Grain Market in Latvia <i>Andris Miglavs</i>	67
An Estonian Family Farm from the Point of view of Building Economy <i>Viktor Jullinen</i>	72
The Need of Investments for Improving Machinery Park in Estonian Agriculture <i>Jaan Kivistik</i>	77
Memorandum	82
Program of the Seminar	83
List of Participants	86

# GRAIN MARKET IN LATVIA

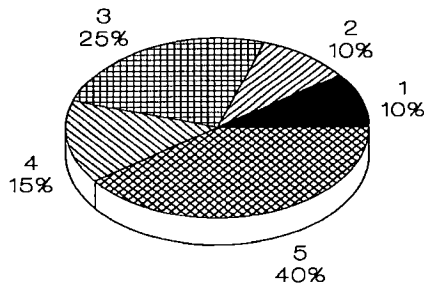
ANDRIS MIGLAVS

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## 1 Situation in Grain Market Before Reorganization

Till 1992 from the 2 million tons of grain annually consumed in Latvia only 15-20% were produced by agricultural enterprises and marketed, in most cases, to the state (in approximately equal shares as food grain and feed grain); about half was consumed locally at the agricultural enterprises as feed; the rest 40-50% of grain was imported.

At that time Latvia was integrated in the USSR grain procurement and distribution system where the price was uniform and very low, if compared to the world market prices (considering the exchange rate for hard currency). This and a number of other reasons accounted for the absence of real grain market in Latvia. In the current situation when Latvia has gained its political independence, an independent grain market is beginning to establish. The difference of grain prices in Latvia, in CIS and the world play an important role here.



- |                                     |                                |
|-------------------------------------|--------------------------------|
| 1. - Purchaced by state feed grain  | 4. - Imported bread-grain      |
| 2. - Purchaced by state bread grain | 5. - Self- produced feed grain |
| 3. - Imported feed grain            |                                |

Figure 1. Grain consumption in Latvia according to source.

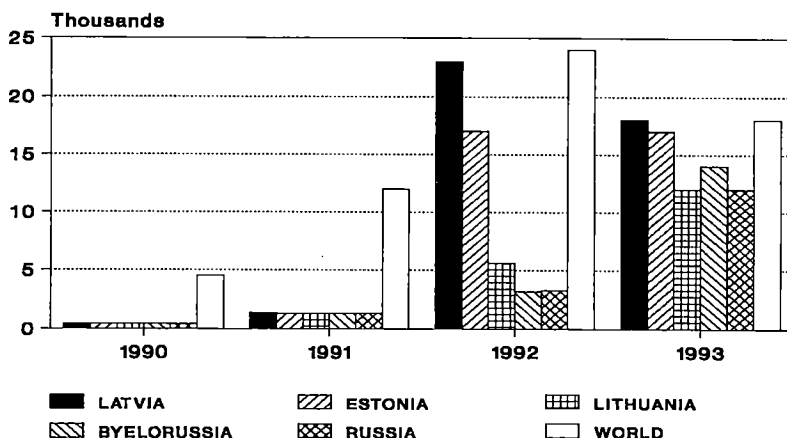


Figure 2. Producer price for grain in Latvia, in the world, in the neighbouring countries.

As a result of this Latvian agricultural producers find it very hard to compete with the grain produced in the CIS, or imported from the EEC as humanitarian help. This originates the need for protectionism of local grain market, in defence of Latvian farmers' interests.

## 2 The Basic Goals of the Reorganization of the Grain Market in Latvia

The previous of grain procurement and marketing might seem to be very attractive in this aspect. As to their legal status, all the grain procurement, storage and processing enterprises in Latvia were state-owned, and functioned as a concern with uniform price they paid to the producer, actually the state was a monopolist in grain marketing. In order to establish market relations also in grain market it is necessary to abolish this monopolist situation, at the same time care should be taken that Latvian farmers can compete with the imported grain. This can be only accomplished with a certain state control on grain market.

The following tasks were set for restructuring off the existing system, in order to attain the above goal:

- to eliminate monopoly situation with grain and grain products, as well as in baking industry;
- to ensure the possibilities to implement the principles of market economy in the branch;



- to ensure the right of the government to maintain control over state grain reserve, as well as over the price of grain and products in order to protect them from considerable fluctuations;
- to create prerequisites for privatization of the enterprises, however, taking into account the above said tasks.

In order to fulfill these tasks, the following principles are being adhered to:

1. Grain and bread market in Latvia predominantly consists of independent enterprises, operating as business units. They may differ as to their legal status and forms of ownership. Profitability is the efficiency criterion.
2. State has regulating functions in grain market by ensuring balance between demand and supply of grain. The regulating influence of the state will be implemented through:
  - state grain reserve;
  - state control on grain balance and foreign trade with grain.
3. Competition is being promoted among grain producers, buyers, processors, as well as bakers. Competition is being restricted among flour-mills, but not eliminated altogether.
4. The existing state enterprises may be privatized in future in accordance with relevant of the Republic of Latvia, provided that several additional prerequisites are considered, which are aimed at ensuring the development of uniform grain and bread market, as well as at retaining the present specialization of the enterprises.

### **3 Projected Scheme for Grain and Bread Markets Possibilities for Regulation**

Grain and bread markets in Latvia are a uniform structure, uniting grain producers, meat and dairy producers, grain storekeepers and processors, bread producers and traders the final part being the consumer.

#### **3.1. Grain Sources**

- 3.1.1. Agricultural producers in Latvia.
- 3.1.2. Grain imports.

Total volume of grain source should meet the demand in Latvian grain market. This depends on:

- grain price;
- marketing possibilities for other agricultural products; their price level, which has the main influence on grain consumption for the needs of livestock production.

The increase of grain import volume and prices causes price fluctuations in domestic market as well.

The grain produced by agricultural production enterprises is marketed to flour mills to be ground into flour and groats; to feed mills, to distilleries for spirits, as well as for creating state reserves or other reserves. Besides, part of grain is consumed locally at agricultural enterprises as feed or laid aside for seed. In future the export of surpluses is also possible.

The total volume of grain to be produced largely depends on general production provisions both for grain and other agricultural products.

Taking into account the present balance between grain production and grain consumption, as well as the relations between grain production and grain consumption structures, part of grain has to be imported. Therefore one of the most effective tools for price regulation is import-export regulation both as to the volumes and as to the import and export tariffs.

## **3.2 Grain Buyers**

3.2.1. Grain procurement and storing enterprises.

3.2.2. Flour mills, at the same time serving as elevators.

3.2.3. Feed milling and mixing enterprises, at the same timeserving as elevators.

3.2.4. State grain reserve.

Grain office, can entrust, on contract basis, the procurement to state reserve to any viable grain purchasing and storing enterprise.

To ensure the procurement of bread grain in sufficient quantities, a higher price should be set in comparison with feed grain.

## **3.3 Utilizers of the Purchased Grain**

3.3.1. Flour mills.

3.3.2. Feed mills.

3.3.3. State grain reserve.

3.3.4. Other processing enterprises (distilleries etc.)

At present the majority of the above said enterprises are stateowned. In future their ownership form and legal status should be changed, by turning them into joint-stock companies and by selling the shares to various physical and legal entities.

## **3.4 Bread Bakeries**

3.4.1. State bread bakeries.

3.4.2. Consumers' cooperative enterprises.

3.4.3. Bread bakeries owned by other entrepreneurs.

### **3.5 Bread Marketing Enterprises.**

## **4 State Role in the Regulation of Grain Market.**

The state exercises its influence on grain market through the Latvian State Grain Office, which is an independent non-profitmaking business organization. Its task is to prepare recommendations, and, after they have been accepted, implement the government grain policy. The functions of the Grain Office are as follows:

- 1) to determine the demand on grain and the possibilities to meet it with local grain supply at present and in future;
- 2) analysis of price formation in Latvian grain market, price forecasting, calculation of the expected expenses for the procurements to state reserve and for storage; working out recommendations for setting these prices;
- 3) regulation of the foreign trade of grain in compliance with the order set by administrative institutions of the Republic of Latvia;
- 4) procurement and storage of state grain reserve;
- 5) state grain inspection;
- 6) the Council of Ministers has the right to impose on the Grain Office any other related functions.

The activities of the Grain Office and grain policy it is implementing is under the control of the board of Grain Office, which is constituted from representatives of various state and business institutions.