

Food processing sector in Latvia — development during recent years

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Abstract

Privatization of food processing enterprises in Latvia has almost finished. There exist differences in legislation for individual subsectors of the food processing industry, nevertheless, each segment of the sector has both successful operators and loss-making companies. Further development of enterprises considerably depends on restructuring, which is being hampered by the lack of resources. However, in general the stability of economic and political situation there has been achieved. The present fixed exchange rate also contributes to economical stability.

Farmers as well as producers of processed food products have managed to cope with the consequences of price liberalization and have adapted their businesses to free market conditions. While domestic producers had similar knowledge and experience to operate in domestic market, the entering of foreign market required a lot of new skills and knowledge from them. And not all of them were able to adopt to the new market conditions. Free trade agreements, signed with several countries, provide a good opportunity to adopt to the conditions of international trade, which is essential in the light of Latvia's efforts to become a member state of the World trade organization and the prospective goal of joining the European Union.

Introduction

Since the times of Soviet rule Latvian industry, including food-processing industry, has undergone remarkable changes. The restructuring of market system has most significantly influenced the development of industry. In earlier years Latvia's exports and imports were not based on comparative advantage but were managed as a part of the command system of the FSU. The main agricultural commodities exported were milk products, meat, leather and sugar. Consumption decreased due to increasing retail prices and decreasing purchasing power.

The input price index (as for various types of energy) grew faster than the one for processed goods. As energy costs in the FSU were low, the design of processing lines and recovery systems was based on cheap energy and their characteristic feature was low energy efficiency. The large capacity centralized heating plants made it afterwards difficult for individual processing plants to economize on heat/steam. In most cases it was not possible to separate unused capacities from the central production unit thus adding to the processing costs.

Trying to clarify the historical background of the above-mentioned problems this report provides a short survey of development in food processing sector, paying special attention to the issue of privatization. More detailed analysis is given for milk, meat, grain and sugar sectors as they are the most important sectors in the Latvian economy, which are based on

domestically produced inputs. Moreover, the impact of monetary policy and investments is being considered. Finally, evaluated is the development of trade in basic agricultural goods as well as in processed food.

1. The general food processing sector: its importance and development

The share of manufacturing in GDP in constant prices was 37.3 % in 1992, which dropped to 22.5 % in 1996. During the last three years food processing accounted for 8 to 9 % of total GDP and about 40 % of GDP in manufacturing. In 1996 for the first time since Latvia regained independence the real volume of the total industrial output showed a small increase.

In 1996 the food industry accounted for 44.3 % of industrial output and it is the largest sector of industry in Latvia. The importance of the food processing industry has somewhat increased if compared to 1990, when it accounted for 37.5% of the industrial output.

Roughly, in the country there exist about 400 different food processing plants. There are employed approximately 30.000 people with an average output per employee of about \$30.000 per year. The highest output per employee is realized in the milling industry, as processing there is highly industrialized. The lowest output is in bread production, which is the result of mostly manual labour required in this branch. However, it must be noted that the structure of the food industry has undergone serious alterations.

As mentioned above, the structure of Latvian food industry has been changing for already several years and the present situation is reflected in Table 1—1. Variations in the development of these sectors have been conditioned by several factors - development of raw material base, exports potential of the respective products, changes in consumption.

Table 1—1. Structure of the Food Industry Sectors in 1995(vai te nebija jaunāki dati)

Types of activity/ product	Output (in current prices, mio. LVL)	Share (%)	Number of employees	Production per employee, LVL
Food industry (in total)	430.9	100	29627	14544
Meat processing	51.7	12.0	3150	16413
Fish processing	69.5	16.1	7292	9531
Fruit and vegetable processing	18.3	4.2	903	20266
Milk and dairy products	78.5	18.2	5199	15099
Basic grain products	37	8.6	1142	32399
Bread production	51.4	11.9	5601	9177
Sugar production	14.3	3.3	1259	11358
Chocolate and chocolate products	27.4	6.4	1269	21592
Production of non-alcoholic beverages	27.4	6.4	1816	15088
Other types of activity	55.4	12.9	1996	27756

Source: Central Statistical Bureau

The agricultural and food processing sector also accounts for an important share of the foreign trade turnover in Latvia. For the last four years export share has remained stable, approximately around 15% with a slight tendency to increase, while import shares doubled from 6 % in 1993 to 13.2% in 1996 (see Figure 2.1.1). However, as it has been noted in a

report issued by the Ministry of Economics, “the comparability of exports and imports data over years should be viewed critically“. Also, the Ministry of Agriculture is reporting significant volumes of uncounted agricultural and food stuff imports, but data on exports has been evaluated as more reliable. Exports of finished fish products and canned fish constituted more than one half of the total exports of food products in 1996. Milk and milk products were about 11%, and of the same value was confectionery, too. Main products imported were cereals, sugar, fish and finished fish products, fruits, also alcoholic beverages, juice and mineral water.

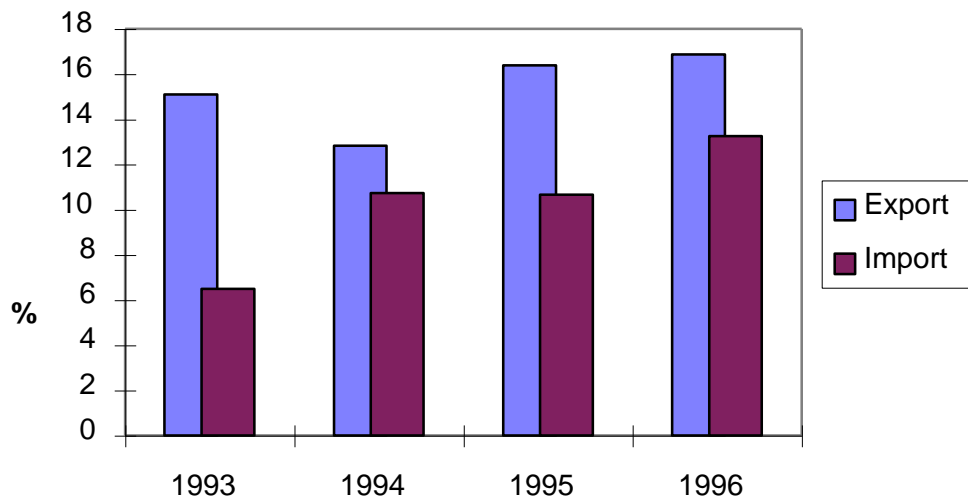


Figure 2.-1. Import and export shares of agricultural and food products in monetary terms, (import - C.I.F. prices, export- F.O.B. prices)

Currently, the food industry in Latvia has orientated itself to meet the preferences of consumers, gradually increasing the production of those products which originally came in the Latvian market as imports. Thus, for example, within 9 months in 1994 only 25 t of potatoe chips were produced in Latvia. During the last two years their output has grown 23 times, but the production of yogurt has gone up 3.5 times. The same can be said about the production of juice - during the last year it increased by 84%.

There are a lot of reasons why food processing would be inefficient or efficient. The growing inflow of foreign investments in this sector is the evidence of its future potential for successful development. In 1996 7 of the 18 largest foreign investors invested their money in food processing industry, that is approximately 18% of FDI inflow during the year. Large share of investments was allocated for beverage production sector. Part of investors aims to use cheap labor force for processing of imported raw materials and to export finished products. Overall, the established joint ventures have a positive effect on the development of competitiveness of Latvian food processing industry, which is the result of investments in modern technology, training staff and management.

2. Macroeconomic indicators

Over the last several years Latvia was engaged in a process of economic reform. There have been established institutions needed for a functioning market economy, as well as steps

taken to ensure macroeconomic stability. The Latvian economy has completed the first stage of the transition period. However, though market institutions are established, a lot of work still remains to improve their performance to a satisfactory level.

Macroeconomic indicators show that the economic situation in Latvia has stabilized. In 1996, there was growth in the country's GDP, and the decline in industrial output was halted. The positive trends of 1996 are continuing in 1997. In 1996 consumer prices increased by 17.6% (yearly average), while prices in December 1996, if compared to the same month of the previous year, had increased only by 13.1%. At the end of 1997 inflation reached only 7 %, which is the lowest among the Baltic states. The level of selected food retail prices is close to that in Europe. Consequently, the price index on food products in 1997 was only 2.3 %. It means that processing margin should be reduced to maintain the same profit margin for processors. It should be noted that the Baltic free trade agreement is facilitating competition in the food products market in Latvia. As the food prices in Latvia are the highest in the Baltic region, a prices of food products are not expected to rise in nearest future. In the short term the biggest losers in this situation are going to be the food processors at least till they find a less expensive raw material market in the neighbouring countries. In the long run prices for primary agricultural products in all Baltic states should equalize.

The government of Latvia has managed to preserve fiscal discipline, and the Bank of Latvia has implemented a strict monetary policy. Since February 1994 the Lat has been pegged to the SDR (0.7997 LVL = 1 SDR). According to OECD calculations in 1993 lat was undervalued 4.4 times, in 1994 - 2.9 times. If differences of inflation are not accommodated through adjustments of the currency rate, the currency could gradually become less undervalued. It is also discussible how strong is the connection between the rate of inflation and exchange rate, but according to Viksnins (1997, p 135) there is no simple direct link between the Latvian CPI and the exchange rate. At the same time the purchasing power of lats is domestically declining, which to some extent is the result of the activities of monopolies and carried out administrative price adjustments. As suggested by Houck (1992, p 170), undervaluation causes decrease in foreign supply, reducing the volume of import and boosting domestic prices of imported products. This could expand the share of export, but while in Latvia imports are dominating over exports, there are no substantial gains neither for domestic producers nor consumers.

3. Privatization Process in the Food and Frocessing Industries

The privatization process in processing industry and food sector started in 1992-1993 and, generally, followed two different ways (see figure 3.-6.).

The privatization of most enterprises was carried out according to the general privatization scheme determined by the Law "On privatization of state and municipal enterprises", passed in 1992 and later - in 1994 - rewritten as a completely new version. In most cases it was valid in the privatization of enterprises of general food industries, such as vegetable and fruit processing industries, beverages and confectionery production (excluding bakery industry) as well as to the enterprises from other sectors of economy.

Some sectors of food and processing industries were privatized according to the so called "special laws". It concerns milk, meat, grain industries, bakeries and sugar industry. There were passed special laws on privatization of state-owned enterprises in each particular branch. These laws mainly ensured some preferences for agricultural producers.

3.1. General privatization scheme

General privatization law provides that the shares of a privatized company should be distributed among several groups of future owners, such as employees (5-20 %), the state (5 %) and the so called private investors (50 - 90 %). The actual rates, how shares were "packaged", differed and was dependent on decision of privatization commission for each enterprise.

There could be distinguished two different kinds of approaches: top-down used till 1994 under the first version of general privatization law, and down-up - after 1994 under the next version of privatization law and under special privatization laws.

Top - down approach.

This approach was utilized till the year 1994. According to this approach, the so-called business partners, such as suppliers of raw materials or the main consumer companies, were allowed to acquire 30 to 70 per cent of shares of an enterprise. The rest part of shares could be offered to any other interested investor. According to the procedure other possible applicants as banks and investment funds had no real chances to acquire shares unless the company being under privatization faced financial difficulties. Specific rules of privatization for each company were elaborated by the privatization commission - the value of enterprise, the number of shares in different lots, its price, form and terms of payment as well as some other obligations (working places, environment protection measures, investments etc.) These commissions were appointed by the Government to each particular enterprise individually.

According to this first privatization approach there were privatized such state companies as "Laima" and "Uzvara" in confectionery industry, "Rīgas Vīni" in alcohol production, and some others.

Among the problems resulting from this approach could be mentioned the following:

- share distribution among different groups of owners made difficult the decision making process,
- short payment terms for acquired shares and already existing debts resulted in an even worse financial situation;
- the complicated procedure followed by co-ordination among various governmental institutions remarkably slowed down the privatization process;
- financial funds acquired during the privatization process were transferred to state budget, but were not invested in the development of enterprises.

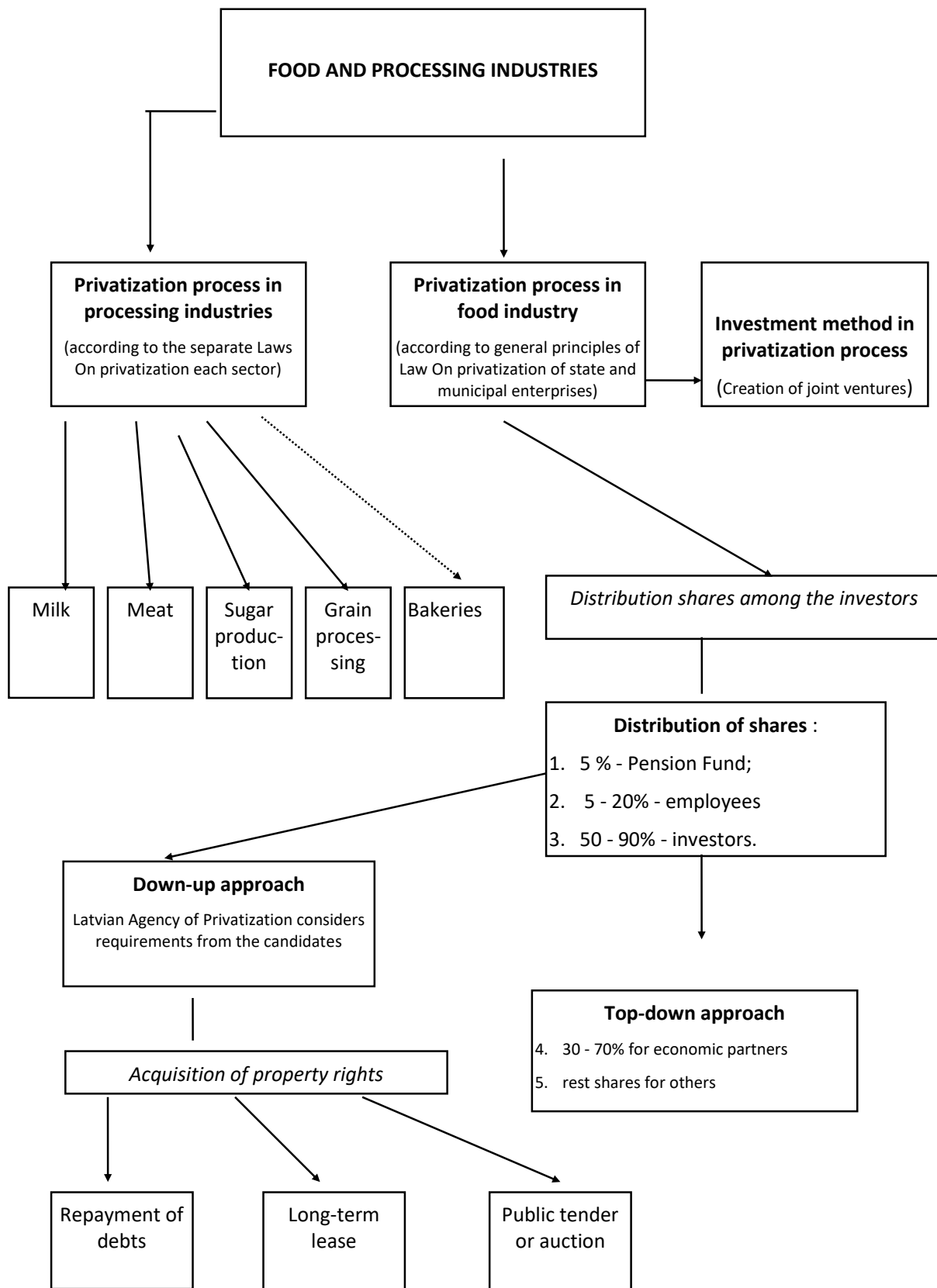
Besides, early privatization also provided some other advantages: as a result of private ownership, companies had better incentive to successfully operate and an early start gave them handicap later.

Down-up approach.

It came into effect after the new version of the law was passed in 1994 to solve contradictions existed in the original version.

There was established a centralized State Privatization Agency. Every physical or legal person interested to acquire a management control over an enterprise could become a "strategic investor" while according to the old version of the privatization law nobody was expected to acquire majority of shares and to become the "main" decision maker. In a case of several investors being interested in acquiring shares of one and the same enterprise, an agreement among them had to be reached (consortium or a new company is established) before they submitted their application.

Figure 3.-6. Scheme of Privatization process in the food and processing industries In Latvia



The new version of the law contributed to the transparency of the privatization process. It is required to periodically publish announcements in official newspapers to inform public on the current stage of privatization of each particular company:

- **state company is passed to Privatization Agency.** By this the Privatization Agency calls for suggestions regarding the ways how the state owned entity could be privatized. It means that any individual or legal person can come forth with his suggestions on the privatization method to be used, the possible reorganization of the entity into several separate units, the form and terms of payment for shares, distribution of lots etc. These suggestions must comply with the Privatization law and usually they are submitted by persons interested in acquisition of this company.
- **privatization rules are approved and tender announced.** After having collected and analyzed all the applications, the Board of the Agency makes and approves its final decisions on the particular privatization method and rules. Now any individual or group of persons, including the ones who did not present their application during the previous stage, can try to take part in the privatization according to accepted scheme.
- **public subscription for shares in a company to be privatized is announced.** In some cases, part of shares is expected to be allocated for public subscription for privatization vouchers.

The new version also provided a procedure, how a state company can be liquidated, assets sold, and debts covered.

There are four main methods how to acquire property rights of a state-owned company:

- capitalization of debts;
- long-term lease;
- public auctions, paying by money or privatization vouchers.
- issuing new shares and selling them to private individuals or companies.

All these methods can be combined as well, for example - capitalization of debts, selling new shares to private individuals or companies and public auctions for some part of the shares.

In food and processing sector this approach was used to privatize such processing industries as breweries, confectionery “Staburadze” and alcohol industry.

Participation of foreigners in the privatization.

Principally both versions of the General Privatization law and also other privatization concepts allow foreigners to participate in the privatization process- either directly or through subsidiaries registered in Latvia. Privatization rules of some companies even provided some preferences for foreigners. It resulted in entering of Scandinavians into brewery business, Austrians and Germans into bakery business, Americans into confectionery business and a British company into sugar industry. In some other cases foreign companies entered into Latvian food and processing business after the initial privatization was ended and the private business was already started. This occurred in bakery business, where a joint venture with Finnish Cultor was established, also in meat and

dairy industries, where Estonian companies have recently become as owners. Special tenders for foreign companies as owners - investors was more broadly used in other industries, such as energy, telecommunications.

Some companies later changed their legal status - after privatization they became open joint stock companies, which allows them to sell shares in open market.

3.2. Special laws

In addition to the general privatization law, there were introduced some other special privatization laws for several branches of the food industry. These laws have been effective for dairy, meat, sugar, bakery and also milling industries. For each of the above-mentioned processing sectors there was adopted a Special Law on privatization. The special regulations were elaborated to reach three main purposes:

to regulate the distribution of shares among different groups of shareholders (see table 3.-6.). The existing General privatization law does not provide any preferences for agricultural producers, however, a strong political pressure was experienced in favor of such preferences. Mainly it was achieved in dairy industry and, to some extent, in grain processing.

to speed up the privatization process in processing. These special laws were issued already before the new version of General privatization law was passed. The privatization in agriculture and retail mainly was concluded in 1992- 1993, and just the intermediate chain-processing remained as state owned, causing additional problems and inefficiencies.

to improve the management of the privatization process in processing industry. Single and centralized privatization commissions for each particular processing branch were established in opposite to special commissions for every enterprise provided under general privatization legislation.

Afterwards several concepts from these specific laws were overtaken in the new version of general privatization law. Among them should be mentioned reorganization of state enterprise into joint stock company (state owned) followed by the selling of shares of this company as one of the privatization methods, one privatization commission for the whole branch, "strategic investor" concept.

3.2.1. The privatization of dairy sector

The main privatization goals in this sector were - to create economically viable farms based on private ownership, at the same time not substantially reducing farm incomes. The law tries to preserve former cooperation among producers in selling their production . Even during the Soviet time among big ones a lot of small scale producers operated. The central collection and transportation system was organized to avoid large handling costs. After the state regained its independence small scale producers became even more important, in lot of cases this part of income constituted a substantial part for the rural families' total income.

Privatization in the dairy sector was carried out in two stages. At the first stage privatized were (mostly as co-operatives) the small, local dairy enterprises collecting milk and carrying out the first stage processing. Their ownership was transferred, without compensation, to the dairy farmers' co-operative associations on the basis of their claims. These associations were to be set up under the by-laws on Dairy Farmers' Associations and according to the

'Law on Co-operative Associations. Dairy producers were given the opportunity to choose the level of their co-operation system.

The large centralized dairy plants were privatized at the second stage. According to the 'Law on Privatization of Dairy Processing Enterprises', which was passed in 1993, they were to be transformed into joint stock companies with specific quotas set for the distribution of shares: dairy producers' associations were to hold at least 70 percent; employees were allowed no more than 10 per cent; the remaining 20 per cent were to remain in the hands of the state.

No exact data are available regarding utilization of capacities. According to the Central Statistical Bureau of Latvia, if we compare the volumes of agricultural products sold to processing enterprises in the years 1991-1995, we can see that the physical volumes have decreased six times. From this figure, we can draw some conclusions as to the capacity utilization rate. However, it should be taken into account that some of the equipment is worn out and obsolete and should be replaced with new one while some other requires capital repairs.

The relative competitiveness of dairy processing industry is successfully enhanced by the umbrella organization - Latvia Dairy Farmers Central Union//the Central Union of Dairy Farmers of Latvia??, which was created after the privatization mainly to represent milk producers in governmental organizations and to promote trade.

3.2.2. The privatization of meat processing enterprises

Privatization of this sector was carried out according to the Law "On privatization of State meat processing enterprises", passed in 1993. The main method of the privatization of State meat processing enterprises was the reorganization of the enterprise into a stock company followed by the sale of state-owned shares to private persons- individuals or companies.

The Central Privatization commission for the meat processing enterprises was established under the Ministry of Agriculture. The Commission was responsible for the whole privatization process of state enterprises in the sector, including:

- organization of assets' evaluation,
- reorganization of enterprise into company,
- elaboration of privatization rules,
- organization of tenders and subscription of shares,
- selling of shares.
- arranging a general meeting of the new shareholders after the majority of shares have been sold.

According to the procedure the majority of stocks were to be offered in public tender without restrictions to the so-called principal investor. Requirement was to present successful business plan prior to the auction. However, later accepted amendments granted certain privileges to farmers and their co-operatives, which actually were not utilized.

Generally, after the privatization the shares were allocated according to the approved rules. There were only some exceptional cases in dairy industry when milk producer cooperatives did not utilize their rights. The same can be said about meat processing industry- there, too,

agricultural producers did not utilize their preference to obtain 20 to 30 % of shares allocated to them (see table), and those were kept under state ownership for some time, being privatised later according to the general privatization procedures.

3.2.3. The privatization of grain processing and bread production enterprises

The privatization of grain processing enterprises and state bakeries was carried out according to the same principles which were applied in the case of the meat industry. The main difference was that, for grain processing enterprises, greater preference was given to grain producers' co-operatives or associations as the main shareholders: they were offered no less than 51 per cent of shares. Here again competitiveness depends on the ability of the co-operative or association to adjust to the new market conditions. As practice shows, after the privatization some of them, mainly thanks to efficient management, are doing very well.

3.2.4. The privatization process of sugar plants

The real privatization process of sugar plants was started in 1995. It was carried out according to the General privatization legislation. Just distribution of the lots of shares to different groups of applicants was set by a special Parliamentary decision "On privatization of sugar industry" adopted already in 1993. By November 1, 1995, two of the three plants had been fully privatized. Privatization of the third one was finished in July 1997. The shares of each factory were distributed among sugar beet producers, workers and various investors.

3.3. Some results of the privatization

Privatization of food and processing sector was basically finished by the end of 1996. At present there is only one important enterprise in the whole food industry - the main alcohol company- which is not completely privatized yet, but the tender is already announced.

Observing the privatization process of agricultural enterprises and agricultural produce processing enterprises in the aggregate we can see that it was a relatively quick process. It is difficult to estimate the results now, as the privatization law just presented mechanism according to which companies could change ownership rights and perform more successfully. It was also clear that processing overcapacities exist in the country and only the most successful companies will survive. For the time being self-selection process is going on and is based on the performance of each particular company. Also different degrees of successful privatization could be distinguished rather among companies of one branch but not among branches.

However, it must be outlined, that the privatization processes carried out in accordance with the above-mentioned basic principles must be considered only as an initial stage of restructuring of the sector. In the meanwhile, further development of enterprises is determined by market forces. This development is connected with the foundation of joint ventures, the attraction of investments as well as with forced or voluntary ceasing of the business activity in the case of failure to stand the existing competition.

4. Recent Structure of Latvian Food Industry

4.1. OWNERSHIP STRUCTURE

Practically all formerly state-owned processing enterprises are now reorganised as joint stock companies and now the owners are individuals or other entities.

The privatization processes in each sector of food and processing industry were carried out according to the different laws. Each sector and even each enterprise could be characterized by specific ownership structure. The basic division of shares is reflected in the Table 5-1.

Table 5-1. The basic ownership structure.

	Percentage of shares					
	Agricultural producers	Employees	State	From that: Pension fund	Others	From that Strategic investors
Small local dairies	100			0		
Large milk processing plants	>70	<10	<10	0	<20	0
Meat processing	<30	<10	<10	5	>51-70	>51
Bakeries	0	<10-25	<5-10	<5-10	>65-85	>65-85
Grain processing (milling industry)	>51	<10	<10		20	

4.1.1. Milk processing industry.

The process of privatization in milk processing industry is completed in all 15 big state processing enterprises, which was established on the basis of 10 former processing enterprises (during the process of privatization some enterprises were divided into the several sub-enterprises).

During of privatization process government decided to strengthen the position of milk producers in privatized milk processing enterprises by return of small dairies to milk producers free of charge and by giving them possibilities to acquired majority of shares (70%) on the large milk processing enterprises. There were the following main reasons for that:

- it was some kind of an attempt to restitute ownership rights in order to reestablish the milk producers' cooperatives, which were the basis of dairy sector in Latvia just before the soviet invasion;
- it was an intention to provide the milk producers close linkage to the upper stage in dairy producing chain.

It is necessary to mention, that there were no so advantageous chances to get property for agricultural producers in other processing sectors as it was particularly done in milk industry.

At the same time there were a number of enterprises which shares were not completely sold during the process of privatization. These shares stayed under state ownership. In after years these shares were sold to different commercial enterprises including banks. As a result, in some milk processing enterprises (especially it refers to enterprises located in Eastern regions of Latvia) more than 50% shares went to dairy nonrelated organizations.

The main problem of milk processing enterprises was and still is lack of working capital. A number of enterprises was forced to take loans, not being able to pay them back later on. The capitalization of these credits took place. It means a share of capital proportionally responding to the sum of the loan (including interest rate or fee) was committed to the trust company. As a result of this process banks and other trust companies gained control over several milk processing companies. Due to necessity of improvement and modernization of technological process enterprises searched for new ways of enchaining capital. It also caused significant changes in structure of owners. Value of new equipment, bought by investor was included in the shares capital and these shares were conferred to investor. Shares that were not bought during the process of privatization, later were sold „on the market”.

Comprehensive data regarding the structure of owners of each enterprise is not available, but the general structure of owners proclaims that dairy farmers and dairy farming associations controls majority of these enterprises at the moment.

It also should be noted that there was some kind of contradiction between farmer-owner and farmer-supplier. Farmer is more willing to sell his milk to those who is paying more rather than to the enterprise part of which he owns. Income in the kind of payment for raw material is dominating more than income earned from companies' profit. However it is necessary to note, that in most cases farmers did not sell their shares (and practically do not do it now) to other investors. Therefore, there is only one possibility for the other investors to acquire shares of particular food processing enterprise: though the purchasing of extra emitted shares.

Latvian processors (including the dairy sector as well) are more interested to cooperate with big associations or cooperatives of farmers, then small individual producers. Organization of farmers are able to provide processors with better quality of raw materials and more steady order in deliveries of raw materials between summer and winter seasons. Dairy associations or cooperatives, who became a new owners of processing enterprises put more emphases in their activity on improving of quality and diversity of assortments of final products. However, former agricultural producers as a newly created processors dealing as a entrepreneurs faced a lot of problems in the respect of lack of experience and management skills.

The ownership structure, which was established after the privatization (see table 5.-1) slightly has been changed during last three years. According to the expert estimations alteration of owners happened only in 10% of cases, when some investors acquired a company through purchasing of shares from previous owners. As outlining example Riga dairy case might be mentioned – it was acquired by a large domestic investor from food business.

Concerning to the foreign investors it is possible to say, that there was not so much interest from foreign companies during the privatization process in food and processing industries. However now, when alteration process between current owners is gone, western and eastern partners slowly become more active in discovering of new markets.

4.1.2. Meat processing enterprises

Privatization of meat processing enterprises resulted in rather different ownership structures: in one case the majority of shares went to the group of farmers (meat processing company in Daugavpils), in some other case just one individual obtained the control (processing enterprise in Jelgava), in case of Tukums meat processing plant a group of three individuals bought the control, and only in one case (a huge meat processing unit in Valmiera) the control went to the farmers' cooperative.

When privatization process was completed, the Estonian company "Rakvere" bought 67 % shares of "Rīgas miesnieks" (which at that moment was the biggest meat processing enterprise in Latvia) from the newly established owners. At the moment this is the only case, when the principal investor was changed in meat processing industry.

4.1.3. Milling industry

In milling industry since 1992 state owned milling enterprises started to operate as independent separate producers, because of abolishment of all regional procurement barriers and introduction of mechanisms of free market price. Before 1992, the definite procurement zones were existing for each processing enterprise. Processors were obliged to procure their raw materials only from definite range of suppliers, which was determined in centralized way.

After 1992 these separate processing enterprises entered the competition between themselves.

When compared with milk and meat industries, the process of privatization in milling industry was slower. In the middle of 1995, the privatization was completed only in two out of seventeen grain processing enterprises. A so-called special law (like in the case of meat processing units) was passed for milling industry, and it affected establishing the ownership structure during the privatization process. According to the Law "On privatization of bakeries" (this law was attributed also to the privatization milling enterprises) majority of shares (up to 85%) could be acquired as a package through the tender. Strong preferences were given to the farmers' established cooperatives – at least 60 % of the shares as a package had to be offered under some kind of subtender to them.

The law defined the following order of payments:

- first installment (25% of the face value of shares) to be settled during the next two months after the results of competition are announced;
- second installment (75% of the face value of shares) to be settled within 20 months since the day the results of competition are announced.

According to the above-mentioned law, as well as the law "On privatization of meat processing enterprises" the half of financial fund, which was created after the sale of shares should be used as investment fund for the further development. However, only 10% - 20 % of total amount of shares were sold for the real money. As the result, only 5 - 10 % from total value of capital were available for development of these enterprises.

It is important to mention, that grain production co-operatives have received the controlling package of shares practically in all large milling enterprises. In some cases, foreign investors were interested in entering the Latvian milling industry and acquired that

part of shares, which were anticipated for so called “the other investors”. However, that was not the end of the game, and in practice a market of shares started to operate.

4.1.4. Sugar plants

Privatization of three sugar plants was started in 1995. Now all these plants are private. The distribution of shares among the different share holders for all three sugar beet processing enterprises is shown on the table 5.-2. In two of them a considerable part of the shares is owned by foreign investors

Table 5.-2. Distribution of shares in different sugar beet processing factories.

Factories	Sugar beet producers	Employees	Domestic investors	Foreign investors	Others
Liepaja		50%	48%		2%
Jelgava	70%			30%	
Jēkabpils	35%	10%		30%	25%

5. Some conclusions

An analysis of the current situation in milk and grain processing sectors allow to outline the following main features of their present development.

Big investments are necessary in order to survive in a situation of strong competition (especially, when production capacity is several times higher as compared to the available market, after deep decline in agricultural output and opening the market to international competitors), and to develop in the future. Deep restructuring of all the privatized enterprises is essentially needed and the lack of capital appears as outstanding problem for all branches of food and processing industry and particularly for small processing enterprises. Concentration with further specialisation of production might become as the main prerequisites for improving the technologies through obtaining the corresponding equipment and marketing incentives to obtain new markets (or segments of market) in Latvia and abroad are urgently needed.

The specialization of enterprises, which was started after privatization is carried out through strengthening of production potential of the largest processing enterprises. These enterprises are controlling considerable part of Latvian domestic market.

Development of food and processing sector in Latvia is characterised by started specialisation processes in the enterprises and orientation of their production activity on definite segment of consumer market.

Government has committed itself to finish privatization till mid-1998. That will promote both the development of processing sector and related spheres.

Consumer price inflation is decreasing gradually, that could positively influence domestic food consumption. Considering that inflation for food products is lower than for non-tradable, also in future companies and trading enterprises will have to think about reduction of farm to retail spread.

Government has to care not only about creation of favorable environment for foreign investments, but also about development of internal capital market, because access to credit resources is still limited and credit interest rates are high. As regards foreign investments

Latvian enterprises have shown quite good results so far, though they would better attract resources on their own and took care to pay them back.

Government's efforts to liberalize the market usually cause dissatisfaction of local producers. Therefore, larger attention should be paid to export development - to help enterprises to find foreign trade partners, to provide them with information on essential standards and to issue surveys on trade development trends in respective products in the rest of the world.

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