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Session 1 The production and processing sector in the Baltic region

SITUATION AND TRENDS IN THE LATVIAN MILK PRODUCTION SECTOR

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Abstract

Dairy sector is historically one of the priority agricultural sectors in Latvia, it has favourable pre-conditions for development both from climatic and soil aspects.

During the last decade there has been a significant reduction in Latvian dairy production figures, as it was the case in most new-formed states in Central and Eastern Europe. The reduction affected not only the volumes of milk production in Latvia, but also the quality of milk and the structure of dairy farms. Also the financial crisis in Russia in 1998 had its negative impact. Nevertheless, in 2000 there has been a slight increase in the sector, and it can be anticipated that the upward trend will continue. The productivity of Latvian dairy cows is steadily increasing as from 1993.

Milk production structure has remained fragmented since the early nineties due to change in the property rights to the production assets from 100% state owned to private ownership. Due to the privatisation process and abolition of large state farms, the bulk of the dairy cattle today is kept in small individual farms with not more than 5 cows. Though, the trend of formation of average sized dairy farms with 15-100 cows and modern technologies has appeared in recent years.

State support in form of direct and indirect subsidies to milk production has been allocated since 1996 and in recent years it has been focused at breeding activities, cattle registering and identification, fulfilment of milk monitoring programme. The aim of support is to increase total milk production in the country by modernisation of farms and increasing productivity of the cattle.

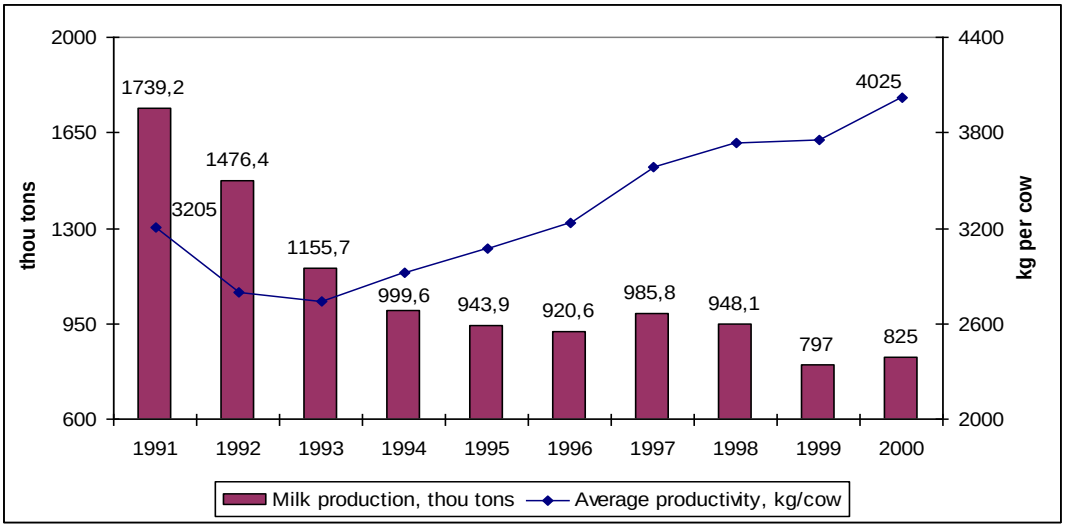
Production

Dairy sector is still one of the priority agricultural sectors in Latvia. The pre-conditions for development of the sector are favourable both from the climatic and soil aspects. Besides, there are also more people employed in dairy compared to other sectors of agriculture. In 2000 the value of final production of milk accounted up to 65 mln LVL, which represent 45% of total final production of livestock products, and exceeded the relevant figure of 1999 by 13%.

In last 10 years when Latvian agriculture was undergoing the transition to the principles of market economy, the dramatic decrease accrued in whole dairy sector, both in milk production and processing volumes. The world financial crisis of 1998, with its major impact coming from Russian market, interrupted the slight positive growth, which emerged in 1997. However, in year 2000, the development trend in the sector turned upwards again, exceeding the figure of 1999 by 26.3 thou tons or 3 %. Moreover, the bulk of the increase has appeared in individual sector, when in the statutory farms milk production has decreased. It can be

expected that in 1999 production had reached its lowest level and that in the near future steady, if not significant, increase will appear. One of the major reasons for such prediction is the improvement of processing and marketing of milk products.

Figure 1 below reflects the dynamics of milk production in comparison to the average productivity in the period of 1990 – 2000.



Source: Latvian Central Statistical Bureau

Figure 1. **Milk production and average productivity in Latvia in 1991 – 2000.**

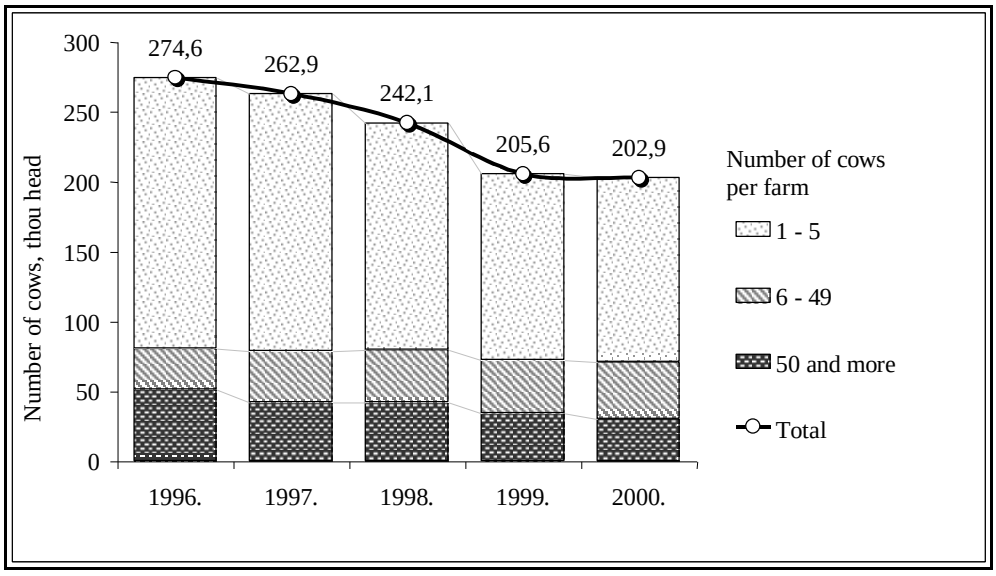
As the Figure 1 shows, notwithstanding the decrease in total milk production by 58%, the average productivity of dairy cows has increased by as much as 25,6% during the reference period, in 2000 reaching the level of 4025 kg/cow. Such a trend can be justified by improving the breeding activities, introduction of high quality breed cattle in the dairy herds, as well as improvement of feeding technologies.

As one of the factors behind the decrease in total milk production volumes, the reduction in the number of dairy cows can be mentioned. The reduction counted up to 62% (Figure 2) in the year 2000 compared to the figure of 1990. Nevertheless, the reduction can be partially attributed to the abolition of low quality cows in dairy herds. However, today the situation with renewing of the herd has become problematic, as Latvian farmers are hardly finding the possibility to purchase the high quality breeding material.

More optimistic figures can be seen from the milk-recording programme. The average productivity of cows under the milk recording programme in 2000 was 4408 kg per cow, which is by 10% higher than the average productivity in the country. Also the fat content and protein content in milk derived from cows under the milk-recording programme is higher – in 2000 it was, respectively, 4,44% and 3,31%, if compared to average of 4,08% (fat) and 3,18% (protein) in the country.

Though, the number of cows under the milk-recording programme in Latvia follows the general declining trend of dairy cow numbers in Latvia. In 2000 there were only 73 thousand cows registered under the milk monitoring programme, which was by 6% less than in 1999 and by 9% less than in 1998.

The trends in total number of dairy cows and the structure of milk production in Latvia since 1996 is reflected in the Figure 2.



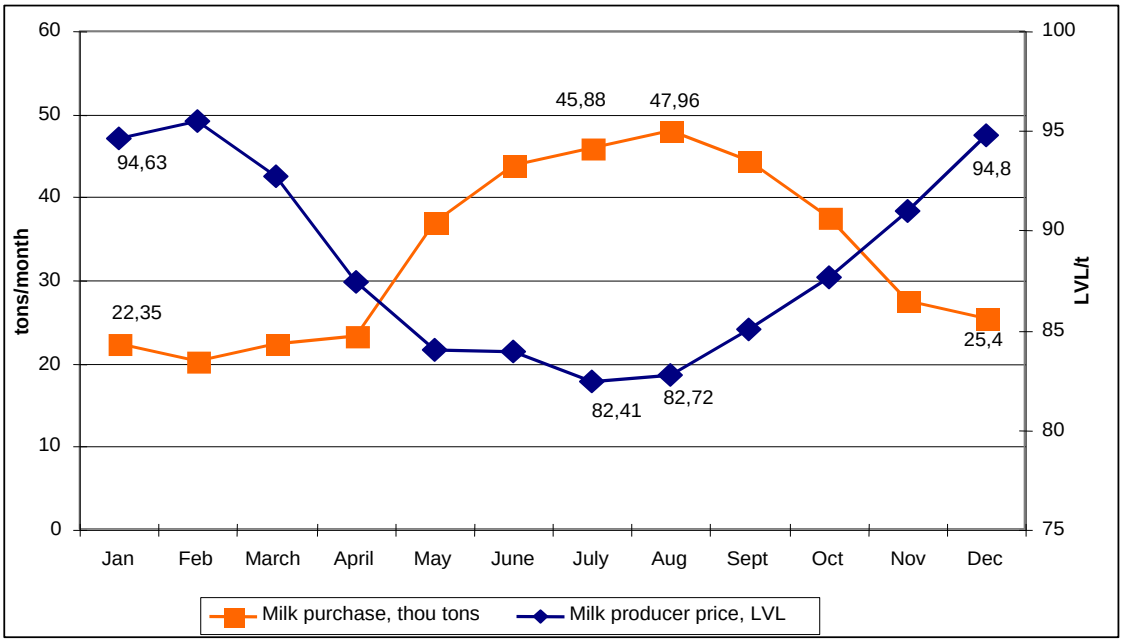
Source: Latvian Central Statistical Bureau

Figure 2. **Dairy cow numbers and the structure of milk production in Latvia, 1996-2000.**

As it was the case for the most of the countries emerging from the former USSR in the early nineties, the ownership of agricultural production assets had changed from close to 100% state owned to mostly privatly owned and, therefore, the structure of Latvian milk production was split into many small units, with only minor number of dairy farms holding more than 100 cows. Still, today the structure of dairy farms in Latvia is very fragmented – in year 2000 up to 65% of cows were kept in farms with average herd size of 1-5 cows. The share of those small farms counted for 94% of all dairy farms in Latvia. It is evident that such a structure is not motivating farmers to invest in the technologic development of the dairy farm; this factor has been strengthened by lack of financial resources.

Though, in recent years there has been a trend of diminishing number of small farms with 1-5 cows and forming of middle to large size farms with 10 –199 cows. These positive developments in structure of milk production, if supported by effective state support policy, could lead to further increase in average milk yields, raw milk quality and total volume of milk production. The production- and progress-oriented Latvian dairy producers are aware that intensification and concentrating the production, increasing the size of the herd are the factors, which play significant role in increasing the quality of milk, quality and health of the herd, as well as diminishing the production cost (veterinary services, investments in technologies, etc.) per unit and also, attracting the higher milk purchase price from the dairy.

Milk production in Latvia historically has developed with a visible seasonal character, which makes an essential problem in respect of uneven supply of milk during the year. Both the producers and the processing industry suffer from the seasonality of milk production, since due to the excess supply of raw milk in summer period milk prices reach the lowest levels throughout the year, where in the winter and fall seasons there is a shortage of raw milk. (Figure 3).



Source: Latvian Central Statistical Bureau

Figure 3. **Dynamics of milk purchases and producer prices for milk in 2000.**

Nevertheless, it should be pointed out that several farmers have already adjusted their milk production so that to flatten the production during the year and to diminish its seasonal character.

As the positive trend in Latvian milk production sector, also the shrinking scope of so called "grey market in raw milk" can be mentioned, when milk is delivered to processing establishments or sold on the market places without tracing its origin. It can be partially attributed to the steadily increasing milk producer price, which in 2000 has been by 8,2% higher than in 1999. The further improvement in monitoring of the milk market in Latvia can be anticipated by implementing the system of detailed accounting of all milk quantities purchased by dairies from each individual milk supplier, broken down by individual quantities and quality classes. This system, called Milk Producers` Register will be implemented as from January 1st 2002 under the recently adopted Regulations of the Cabinet of Ministers "On circulation of milk, treated milk and milk products", but already today it is functioning partially on the voluntary basis. In the view of Latvia`s integration into the European Union, the register will form the basis for implementation of milk quota system.

State support to milk production

The main strategic goals of the state policy in milk production sector of Latvia are defined in the Programme for Development of Agriculture for year 2001 and they are:

- formation of rational milk production structure;
- milk production conforming with the sanitary, hygiene and animal welfare requirements of the EU;
- improving raw milk quality;
- increasing the productivity of dairy cows (reaching up to 5000 kg per cow);

- minimisation of milk production costs.

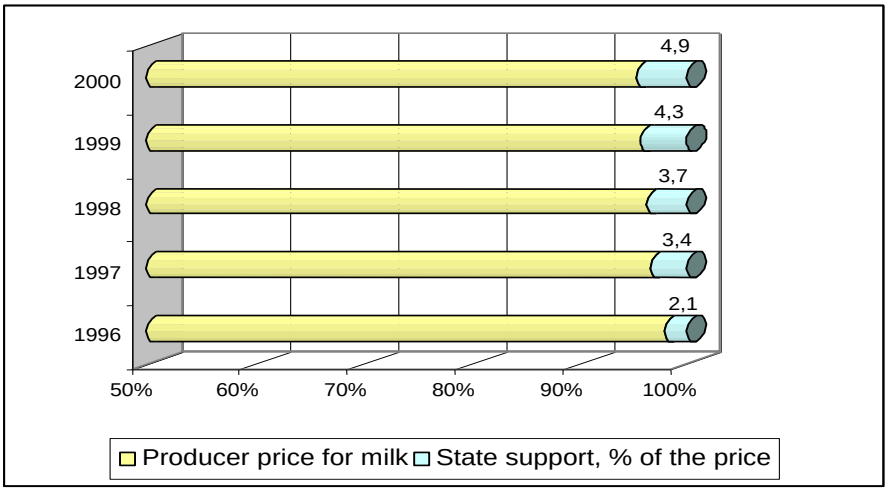
In order to achieve these strategic goals, the state support payments are allocated to milk producers under the yearly-adopted Instruction of the Ministry of Agriculture "On state support for production of agricultural products conforming with the EU requirements". The main accent of state support through recent years has been put on animal breeding measures, updating and keeping the cattle register, as well as technological modernisation of milk production. In 2001 the following support is granted for dairy farming:

- keeping up of the cattle register (160 thousand LVL);
- keeping up of the milk monitoring programme (400 thousand LVL);
- development of dairy farming (Ls 3340 thousand LVL.);
- establishment and keeping up of the Milk Producers` Register (40 thousand LVL).

Total amount of state support to milk producers in 2000 amounted to 3220,9 thou LVL, which was 17,2% of the total state support to agricultural production. In 2001 the share of support to milk production in respect to the total national support for agricultural production is estimated at 18,8%.

State support is allocated based on certain eligibility conditions to be fulfilled by milk farmer, e.g., minimum productivity level of the dairy cow, milk recording programme fulfilment, minimum number of dairy cows in the herd and other, depending on the aim of the specific support measure.

To analyse the effect of state support, its impact on the milk producer price paid by dairies (Figure 4) can be considered.



Source: Latvian Central Statistical Bureau, Ministry of Agriculture of Latvia

Figure 4. **Relative share of state support in the producer price for milk.**

As the Figure 4 shows, the state support to dairy farming in Latvia contributes to the producer price for milk only to a minor level, and in 2000 it counted only to 4,9% of the average milk price.

Besides national subsidies, also the support for milk production will be available according to the support program "Modernisation of agriculture machinery, equipment and construction of buildings" within SAPARD Programme for Agriculture and Rural Development.

Conclusions

1. The reduction in the whole agriculture sector since the beginning of previous decade affected not only the volumes of milk production in Latvia, declining from 1892 thou tons in 1990 to only 825 thou tons in 2000, but also the quality of milk and the structure of dairy farms. The Russian financial crisis in 1998 also had the negative impact. Though, in 2000 there was a slight increase in the sector, and it can be anticipated that the upward trend will continue. Despite the decline in total production volumes and dairy cow numbers, the productivity of Latvian dairy cows is steadily increasing as from 1993, reaching 4025 kg per cow in 2000.

2. Milk production structure in Latvia is very fragmented since 1990 due to the privatisation process and abolition of large state farms. The number of small farms with only 1-5 cows has remained at the level of around 65% during last 5-6 years; the number of average sized dairy farms with 15-100 cows has been more fluctuating.

3. State support in form of direct and indirect subsidies to milk production has been allocated since 1996 and in recent years it has been focused at breeding activities, cattle registering and identification, fulfilment of milk monitoring programme. In 2000 the state support accounted to 17,2% of total state support budget to agriculture, and in 2001 it is estimated at 3940 thousand LVL, which would comprise 18,8% of total support to agriculture. Though, if to analyse the contribution of state support to the milk producer price paid by dairies, it can be seen that the price is affected only to a minor level of 4,9% in 2000 and 4,3% in 1999.

4. Slight trend of centralisation and concentration accrues in milk production in Latvia, which should contribute to minimisation of production costs (new technologies, veterinary services, salaries, etc.), as well as to improvement of milk quality.

5. The productivity of cows under milk recording programme is higher than the country`s average figure, but the number of cows under the programme is declining, following the trend of the total dairy cow numbers in Latvia.

6. The "grey market" in raw milk is shrinking due to measures for increasing controls and improving monitoring on the milk market, as well as to steadily increasing milk producer price attracted from dairies.

7. By steadily improving the feeding technologies and introducing high quality breeds in Latvian dairy herds, the quality of herd is improving and volumes of milk production are expected to increase.

8. The acquisition of high quality breeding material is problematic today for Latvian dairy farmers due to "empty" breeding cattle market.