

Agriculture and rural policies

Some ideas from Latvia in EU context

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Today about

- ❑ General economic profile of Latvia
- ❑ The recovering and development of rural areas – is it important in Latvia?
- ❑ Specific conditions to be considered for evaluation and goal definition
- ❑ Consistency of terminology
- ❑ Rural structure as object for policy makers
- ❑ About the choosing the policies to be applied

General economic profile of Latvia

	2005	2006
GDP at average prices of 2000, mio LVL	7016,9	
Increase of GDP at average prices of 2000, %	10,2	13,1 (1st quarter)
Employment, thsd.	1036	1056
Unemployment rate, %	8,7	7,2
Neto wage index in real terms, last 3 years, %	21	
Inflation, last 3 years consumer price index, %	17	

Source: CSB of Latvia

The recovering and development of rural areas – is it important in Latvia?

- ❑ GDP in rural territory (excluding 7 cities of national importance) – 29% of total GDP in Latvia
- ❑ Population in rural territory - 49% of total population
- ❑ GDP per capita in rural territory – 42% of average level in Latvia, 26% of the level in cities of national importance
- ❑ Agricultural income (average per one full time employee) in 2005 - 129 Ls/per month/per employee (27% less than average income per employee in Latvian economy)
- ❑ Decreasing number of people employed in agriculture and hunting – in average 8% per year.

Specific market and policy conditions to be considered for Latvia

❑ Market conditions

- Common market of the EU, common rules for the EU foreign trade,
- Exceeded selfsufficiency rate for the most food products in the EU – increase of productivity will reduce the resources (land, people) involved in agriculture.

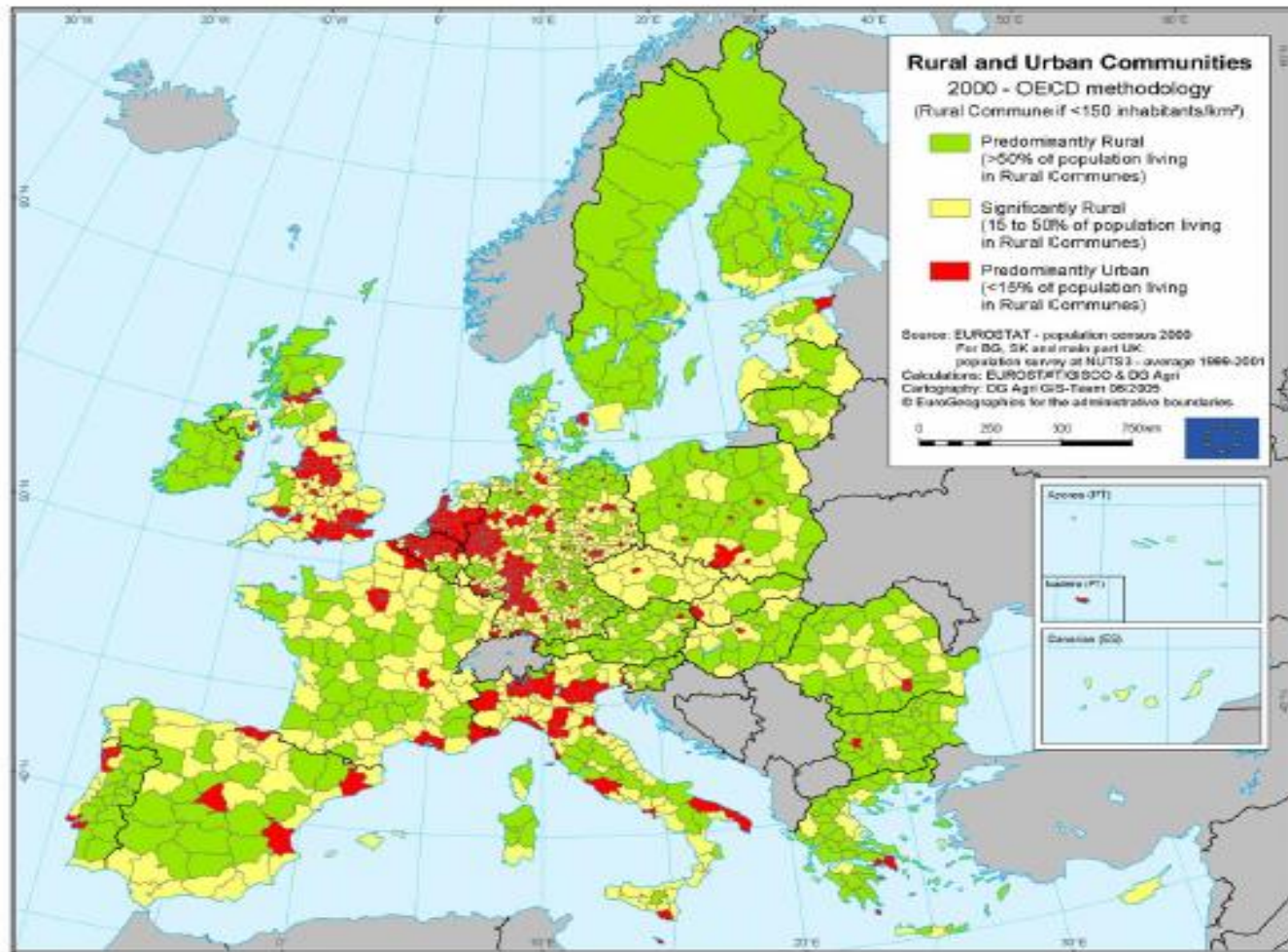
❑ Policy frame - Common Agricultural Policy of the EU

- 1st pillar (CMO, direct subsidies for agricultural production),
- 2nd pillar (rural development policy – strategy and rural development plan for Latvia for 2004-2006, 2007-2013)

Terminology

- ❑ Agriculture (extended list of new products, not only for food production- rural landscape, environment, resources for non food and fibre industries);
- ❑ Rural territory (different methodologies used for classification of rural territories – OECD, national statistical bureau, legal documents);
- ❑ Agricultural and rural development policies – mostly combined, must not be oriented only to agricultural activities.

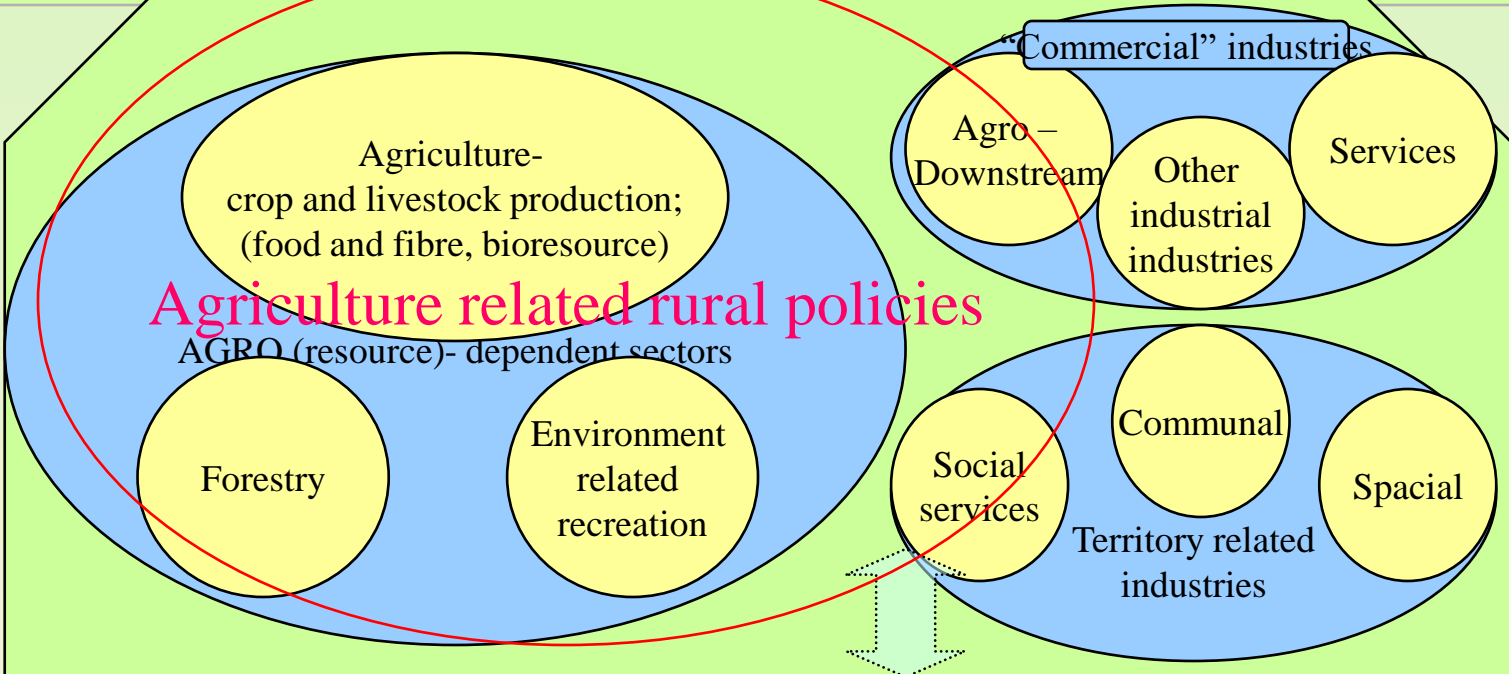
Designation of rural areas (OECD methodology)



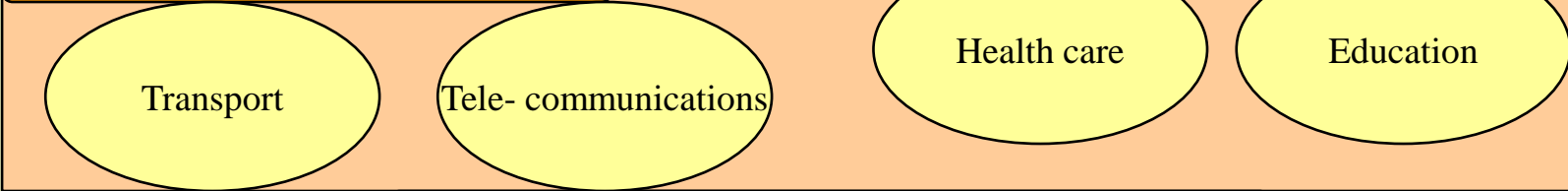
Rural territory as part of national economy

- ❑ Sectoral structure
- ❑ Policy objects

**Rural territory –
object of real rural development policy**



Infrastructure



Wealthy individual in sustainable countryside

What's happening?

- ❑ Due to the global development of production technologies, markets and economies -
 - agriculture and forestry related employment is going down
 - agri- related industries cannot absorb the eliminated from agriculture labour
- ❑ The choice for general regional development (and rural development as part of it) strategy should be made
 - monocentric *vs.* polycentric
 - urban *vs* rural
 - efficiency *vs* stagnation

What to do?

– evaluation and vision

□ If

- in the agriculture dependent rural territory:
 - ✓ agricultural farms are non profitable
 - ✓ rural people have low income levels and not sufficient living standard
- and the state (governments in behalf of the whole society)
 - ✓ wants to improve the situation
 - ✓ agrees to re- distribute its [financial] resources

What to do?

– definition of goals

Vision and goals should be defined, where (from many) the options are:

- ❑ Increase of agri-sectors' output
 - is a sector competitive enough?
 - will the market be available?
- ❑ Increase of agriculture people income
 - to increase the efficiency?
 - to keep the employment?
- ❑ Increase of rural people welfare
 - efficient employment opportunities?
 - infrastructure development?
 - social support policies?
- ❑ To improve the whole society welfare

ag. production
component

ag. society
component

rural
component

national economy
component

What to do?

– preconditions

- ❑ choice of economic regime
 - privately governed distribution,
 - ✓ with clear and equal taxation and competition policies
 - state governed distribution

If the 1st chosen -

- ❑ promotion of private motivation
 - private business approach is the key driver
 - public businesses just to fill the gaps
 - ✓ massive state intervention in the business?
 - ❑ in case, state does not believe in its people (>ПОВИННОСТЬ)
- ❑ established general and equal to everybody policy environment
 - policy environment is on place
 - private initiative and capital are welcome

What to do?

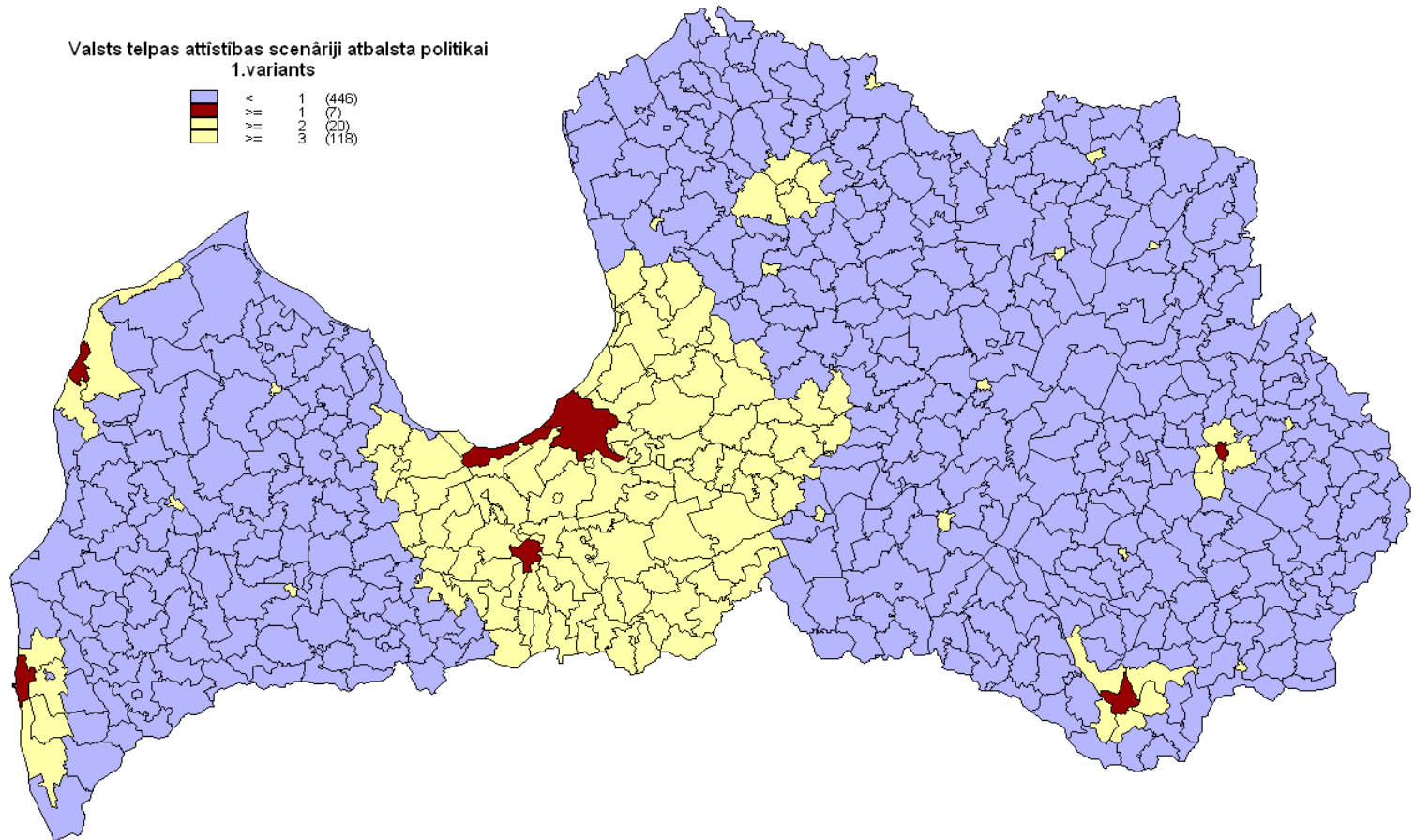
– setting the instruments

- ❑ price support
 - price subsidies
 - market support
 - market promotion
 - ✓ development of value adding chains??
- ❑ decreasing the costs
 - input subsidies
 - ✓ investment credit and financial support
 - improving the technologies
- ❑ improving the infrastructure
 - transport and communications
 - social services – education, health care
- ❑ diversification of rural business structure
 - non agricultural industries and services
- ❑ sharing the responsibilities
 - passing the social functions to public bodies

Development outcome

..... – if the agriculture based approach would be chosen

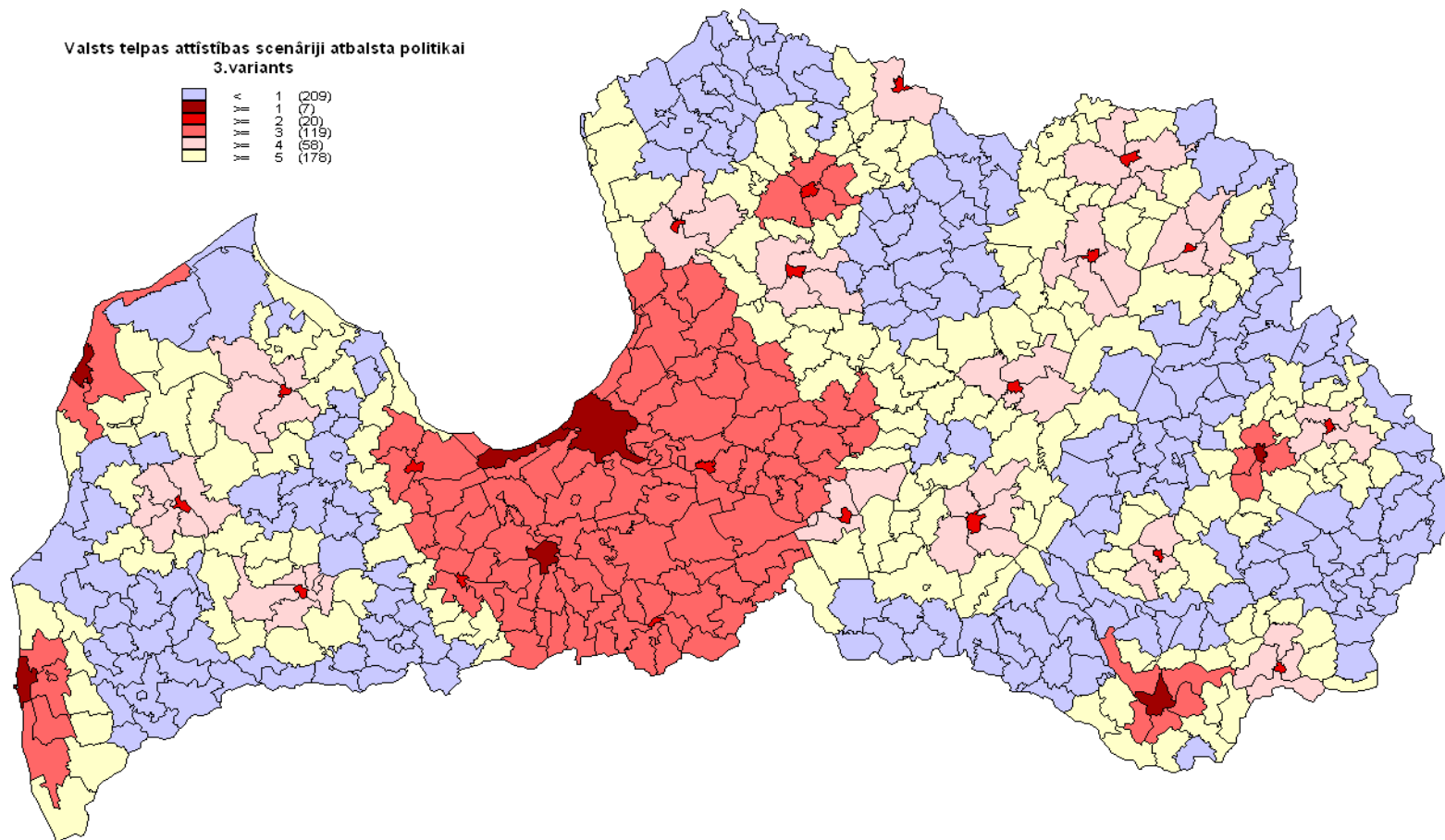
Valsts telpas attīstības scenāriji atbalsta politikai
1.variants



Source: Dr.oec. Daina Saktinja, LSIAE, 2006

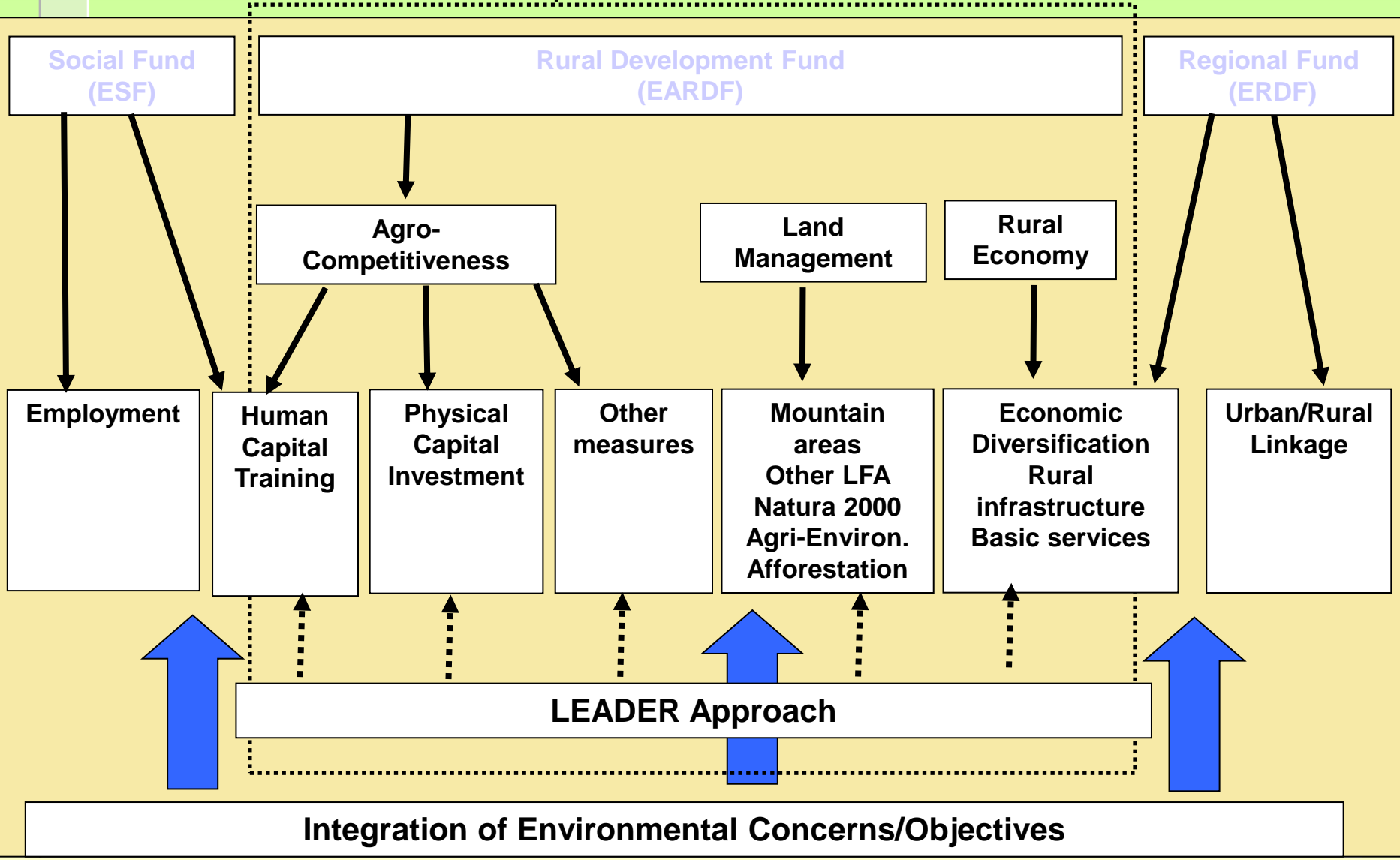
..... – if the balanced approach would be chosen

Valsts telpas attīstības scenāriji atbalsta politikai
3.variants



Rural Development Coverage – EU Policies

from EC DG-AGRI presentation



The choice should be made by the society
An understanding is needed

We wish
to have a clever mind to make the right decisions
have a capacity to implement and improve them
and are ready for questions