
AGRICULTURAL DEVELOPMENT IN LATVIA AFTER JOINING THE EUROPEAN UNION

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Abstract

Since 1990 significant structural changes have taken place in Latvia. First of all, the reestablishment of an independent state in 1991 and the accession to the European Union (EU) in 2004. Joining the EU provided free flow of goods, finances and individuals, a single system of legal acts as well as a trustful image of the state for foreign investors. In Latvia, 60% of the EU funds are allocated for agriculture and rural development, thus achieving the objective of producing food adequate for consumers' purchasing power and ensuring agricultural commodities are available for their processing. Financial aid for primary industries also results in support for the whole society and other industries from which necessary resources and commodities are purchased. After joining the EU, the growth of the agricultural industry was observed owing to support payments. As a result of the EU policy, the size distribution of farms changed in Latvia, the output and exports of food increased as well as agricultural productivity rose. The research aim is to analyse the changes in and gains for Latvia's agriculture after the accession to the EU. The following research methods were employed: the monographic and descriptive methods, analysis and synthesis and the logical and constructive methods.

Key words: Latvia; agricultural development; European Union; support; planning period.

Introduction

The preparation and adjustment process to join the EU started in Latvia already in 1995 by signing the Europe Agreement establishing an association between the European Communities and their Member States, of the one part, and the Republic of Latvia, of the other part. This process ended on 1 May 2004 when Latvia became a full member of the EU. The views and opinion on joining the EU were diverse, yet, the majority of people voted in favour of the accession and Antuža (2003) noted that Latvia would be a gainer, contributing to its wellbeing and development. The effects of the EU were felt already before the accession, as Latvia being a candidate country received funds under various EU programmes. Before joining the EU, the most popular one in agriculture was the SAPARD programme (Special Accession Programme for Agriculture and Rural Development). In the EU Member States, the development of agriculture and rural areas depends to a great extent on the future Common Agricultural Policy (CAP). The CAP has been among the main drivers for change in farmers' behaviour as well as the main instrument to address the viability of rural areas and to support the profitability of the agricultural sector (Bartolini et al., 2015). The CAP is constantly being reformed every three to seven years. In 2013, the process of adoption of a new CAP regulation was completed, which includes a re-definition of policy objectives, instruments and budget distribution for a further seven years (2014–2020) (Erjavec and Erjavec, 2015). Therefore, an assessment of how and whether agriculture in Latvia has developed after joining the EU owing to the Common Agricultural Policy (CAP) needs to be performed. In a number

of countries, scientists have positively assessed a country's agricultural development after its accession to the EU. For instance, Tomšik and Rosochatecka (2007) emphasised that the "adoption of the CAP rules meant really radical changes for Finnish farmers. With regard to rapid cut in producer prices caused by the introduction of the new rules, the competitiveness of the Finnish agrarian sector had to be improved". Poczta et al. (2012) pointed that the process of Poland's integration with the European Union has had a positive effect on an increase in the volume of agricultural output and income. In the Czech Republic, "it can be assumed that the CAP subsidies have had an effect on the stabilization of the livelihoods of rural inhabitants. In general, there is a positive shift of valuation of the CAP among farmers in the Czech Republic" (Lapka et al., 2011).

Antuža (2003) pointed out that Latvia is a small country with a limited domestic market and limited resources, as well as the country had insufficient finances for its development. Consequently, economic growth and wellbeing in Latvia directly depend on its foreign trade, investment, capability to compete and produce high value-added products. At the same time, one has to note that approximately 80% of Latvia's foreign trade goes to the EU Member States and candidate countries. The main gains from joining the EU are as follows: the free movement of goods, services, individuals and financial capital, a single legislation, single tax and regional policies, a customs union, etc. (Ārlietu ministrija, 2014).

The EU aims to contribute to social and economic equality in its Member States, and Latvia is one of the 16 Member States whose annual receipts from the EU budget are greater than contributions to it, and

this fact applies to all economically less developed EU countries. With such a policy, the EU stimulates production in developed Member States, ensuring new sales markets. The authors suppose that Latvia's accession to the EU allowed its economy, including its agriculture, to develop, as this industry receives a considerable share – on average, 60% - of the total EU funding for Latvia. Yet, one has to agree with Rivza et al. (2010) who stress that any country, when joining the EU, partially loses its freedom of action, and its activity is partially limited and regulated. One has to take into account that there are both gains and losses, and one of the main gains is an increase in foreign trade and investment.

The research aim is to analyse the changes in and gains for Latvia's agriculture after the accession to the EU.

To achieve the aim, the following research tasks were set:

1. To analyse the agricultural structural changes in and the main indicators of Latvia before and after the accession to the EU.
2. To examine the EU's financial contribution to Latvia's agriculture.

Materials and Methods

To carry out the present research, the authors used topic-related research papers and information available on the websites of the Central Statistical Bureau (CSB), the European Commission (EC), the National Rural Network and the Ministry of Agriculture (MoA). The research methods employed: the monographic and descriptive methods, analysis and synthesis and the logical and constructive methods. Since data availability was limited, the research findings do not apply to the same period.

Results and Discussion

Structural changes in and main characteristics of agriculture in Latvia

Over recent decades, significant changes in the rural environment have taken place in Europe owing to agricultural intensification and a change of land boundaries. It might be particularly observed in Central and East European countries, including Latvia, where radical political and socio-economic changes occurred in the 1990s. In Latvia, after regaining the independence, a land reform or privatisation was carried out in 1991, which aimed to replace soviet period collective and state farms with individual farms – economic entities of Latvia's first independence. Thus, more than 50000 small farms with an average size of less than 20 ha emerged. The privatisation process was chaotic and uncoordinated and farms lacked investment during the period of change, which reduced their productivity, the area sown and large-

scale agricultural production. The reform contributed to the fragmentation of farms, a large share of rural people moved to cities, renting out, selling or leaving unfarmed their privatised land (Vanwambeke et al., 2012).

In 2013, Latvia's total land area was 64.6 thou km², of which 37% was used in agriculture and 46% in forestry, which was 6% more than on average in the EU. Of the 37% of the agricultural area (AA), 65% was arable land, 35% was pastures and meadows and 9.5% was an overgrown area (Zemkopības ministrija (Ministry of Agriculture), 2014). According to the CSB, the AA reached 2.5 mln ha in Latvia in 1991, while over next years the AA gradually decreased if measured against the previous year and against 1991 as the base year (Augkopība (Crop farming), 2013). Keller (2000) points that rural territories decrease in size in the world because of the urbanisation of population and the expansion of cities. Until 2000, the AA decreased in Latvia by 37.4% or 947 thou ha in comparison with 1991. The key reasons for the decrease in the AA were an increase in the area unfarmed and overgrown with shrubs, the expansion of urban territories as well as a slight increase in the forest area (Mežsaimniecība (Forestry), 2013). From 2001, the AA was slowly reintegrated into agricultural production along with an increase in national support for agriculture and the introduction of first agricultural support instruments in Latvia (SAPARD was available from 2001). The next increase in the AA was observed from 2004 to 2007 when an economic crisis slowed down this increase, which also affected agriculture. Joining the EU considerably increased agricultural output, as various CAP support instruments were available, for instance, the EU Structural Funds and direct payments. In the programming period 2014-2020, the strategic target of the MoA is to retain 2 mln ha in agricultural production, while the AA level of 1991 is not going to be reached (Zemkopības ministrija (Ministry of Agriculture), 2015).

The number of small-size farms declined, whereas the number of farms with an area of more than 100 ha rose (Figure 1). In 2013, compared with 2003, the number of farms in all size categories with an area less than 99.9 ha declined, whereas the number of large farms having more than 100 ha rose by 3% and the area farmed by these farms was greater by 23%. After joining the EU, small and low-profitability farms in the leading agricultural industries were not competitive, and the introduction of and compliance with new EU standards did not contribute to the financial profitability of farms. These arguments may not be attributed to high value-added agricultural industries, for example, vegetable farming, fruit farming, non-traditional agriculture, etc.

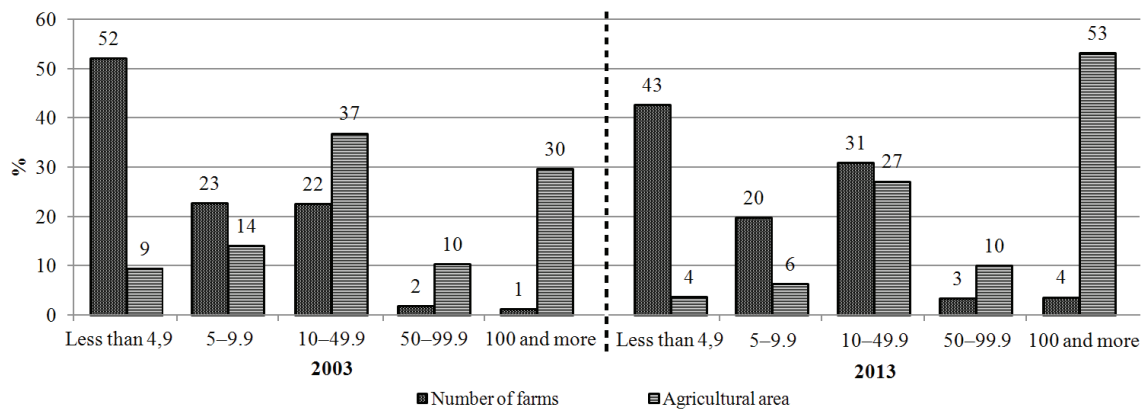


Figure 1. Percentage distribution of the number of farms and the AA by size of land owned by farms in Latvia in 2003 and 2013.

Source: authors' construction based on Lauku saimniecību struktūra, 2007 and Lauku saimniecību struktūra, 2013.

Already since 1991 in the crop sector, the dominant crops have been feed and green forage crops, permanent grasses and cereals, while since 1995 the main crop group in Latvia has been cereals, occupying 44% of the total sown area; in 2013 this area accounted for even 51%. The total sown area has decreased since 1991. Yet, since EU financial support has been available, this area has increased, but the base-year level has not been reached until 2014 (Augkopība, 2013).

Over this period, the crops being grown have changed; after joining the EU, in 2007, the sugar industry was liquidated in Latvia, and sugar producers and farmers were paid compensations. As a result, sugar beets were grown in small quantities for feed, and a former sugar beet area of 11.3 thousand ha was sown with rapeseed (Ministru kabinets, 2008).

The EC ambitious target to produce 20% of energy from renewable energy sources in 2020 has affected Latvia, too, for which the target is 40% of energy from renewable energy sources (European Parliament..., 2009). This, in its turn, has contributed to an increase in the area sown with energy and oil crops that are used to produce biofuel as well as biogas for electricity generation. The area sown with maize rose by 19.5 thousand ha in 2013, compared with 2004 (Augkopība (Crop farming), 2013).

An analysis of the vegetable and fruit industries showed that the largest area was sown with potatoes, 27.3 thousand ha in 2013, comprising 63.7% of the total vegetable area. The smallest area was sown with permanent crops such as bilberries, cranberries, fruit trees, berry bushes, etc., which do not generate any return and income in the first year. A specific of the fruit and vegetable industries is their small sown area, whereas the gain from and the value added of such crops are higher than for traditional crops. Given the fact that this area is small, a significant focus has to be placed on market demand when planning to plant

fruits and vegetables, so that this will not result in overproduction, thus reducing producer revenues.

Analysing the livestock industry's development, it has to be taken into consideration that the number of livestock is not the determinant factor, as livestock productivity has considerably increased, according to Atsbeha et al. (2012), and significant investments have been made in livestock selection and herd management. In the livestock sector, the leading industries are dairy, pork, poultry and beef production. In 2013, compared with 1991, the average milk yield per cow increased from 3.2 to 5.6 tonnes (Lauksaimniecības dzīvnieku..., 2013). The Agricultural Data Centre has reported a few farms having high-quality herds with an average milk yield of more than 12 tonnes per cow per year (Diedziņa, 2014). The decrease in the number of livestock also indicates the increasing productivity; in 1991 in Latvia, the number of milk cows reached 532 thousand, while in 2013 their number was only 165 thousand. After joining the EU, dairy farming in Latvia developed and was modernised owing to the EU support available for this industry. According to Bouamra-Mechemache et al. (2008), the quota system in the EU Member States limited the output of milk, and the cancellation of quotas would indicate the real production capabilities of a Member State.

Since joining the EU, the number of cow herds has decreased, whereas the number of livestock has increased, which indicates that farms with large herds have expanded; the reason was the EU animal welfare and sanitary standards, which small farms were not able to meet because it was too expensive. Complying with the standards that were supported by the EU funds, the eligibility criteria to be met and the expected outcomes to be achieved during the years of project implementation were the reasons for the decrease in the number of herds (Latvijas Holšteinas..., 2011; Popluga, 2009).

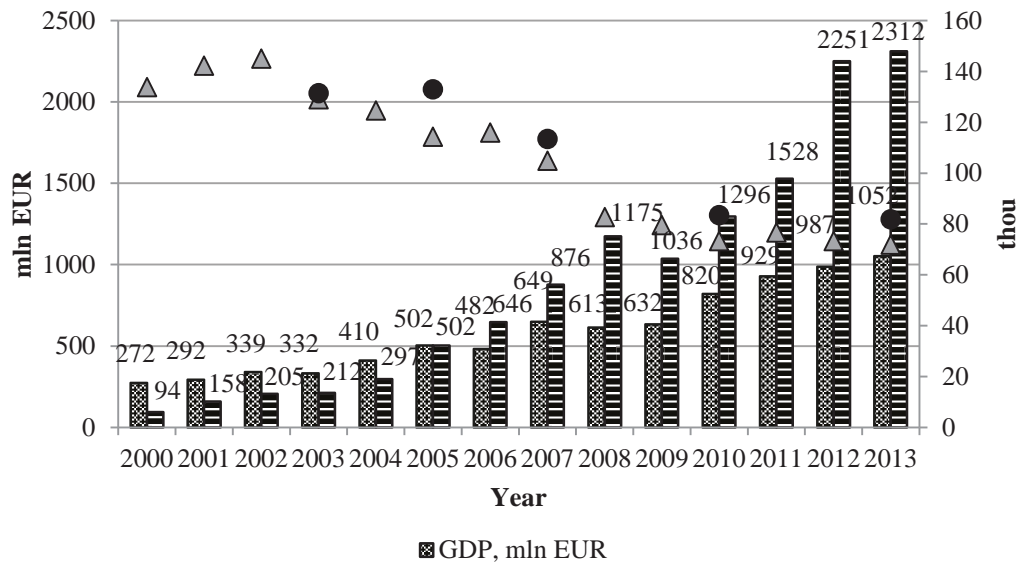


Figure 2. GDP and agricultural exports, mln EUR, the number of agricultural employees, thou, in the period 2000-2013 and the number of farms, thou, in 2003, 2005, 2007, 2010 and 2013 in Latvia.

Source: authors' construction based on Pilvere, Pilvere, 2010, Lauku saimniecību struktūra, 2007 and Lauku saimniecību struktūra, 2013.

Like in dairy farming, the number of livestock in pig and poultry farming does not indicate production quantities. By using the EU's financial support for farm modernisation and livestock selection, many breeds of fast-growing poultry and pigs, which reach the slaughter-weight within a shorter period, have been created; this results in a shorter life-cycle of livestock on farms. For instance, the productivity of laying hens in 2013, compared with 1991, rose by 35.8% or from 201 to 273 eggs per year, while broiler chickens reached the slaughter-weight, on average, within 42 days instead of 90 days earlier (Michael, s.a.).

The authors suppose that joining the EU and free trade opportunities have fostered agricultural exports to European markets, as well as the high EU sanitary and hygiene standards create a trustful and safe image of products for trade with third countries in the world.

After 1991, Latvia's agriculture gradually developed, thus contributing to GDP and exports (Figure 2). As noted by Mazūre (2007), in contributing to these indicators, an essential role was played by financial support available for agriculture (Figure 3), which rose by 585% after joining the EU in 2004.

The EU funding has positively affected the development of agriculture, and in 2006 agricultural exports exceeded the industry's contribution to GDP. Over the decade, agricultural exports rose almost eight times, reaching EUR 2.3 bln in 2013, while agriculture's contribution to GDP rose more than twice, reaching EUR 1.05 bln. In 2014, agriculture's contribution to GDP was only 4.6% of the total, while agricultural exports were 21.2% of the total exports, which leads to a conclusion that higher value-added

agricultural products were produced, and the national and EU financial support contributed to higher profitability (Zemkopības ministrija (Ministry of Agriculture), 2014).

In 2013 in terms of final agricultural output, Latvia's leading agricultural industries were cereal farming with 26.6%, dairy farming 22.4%, feed crops 9.6% and rapeseed 8.9%, followed by pork, poultry and beef production. In 2013, Latvia exported 1.9 mln t of grain and was the third largest grain exporter in the EU (Zemkopības ministrija (Ministry of Agriculture), 2014). After the accession to the EU, agricultural cooperation in primary agricultural industries and the education level and experience of farmers have significantly increased.

The EU's financial support and free trade have contributed to the competitiveness of agriculture both in the EU and at global level, changing the percentage distribution of agricultural products according to market conditions. Competitiveness means the introduction of new and precision agricultural technologies, which results in lower prices and higher quality of products, but it reduces the demand for labour force owing to increases in technological productivity. Modern innovative technologies significantly affect the size distribution of farms, as such technologies raise labour productivity, but only comparatively large and developed farms can afford to buy such technologies owing to their high prices. Technological development and price level increases lead to decreases in the numbers of small farms and agricultural employees. Consequently, a greater value of agricultural products is generated by employing

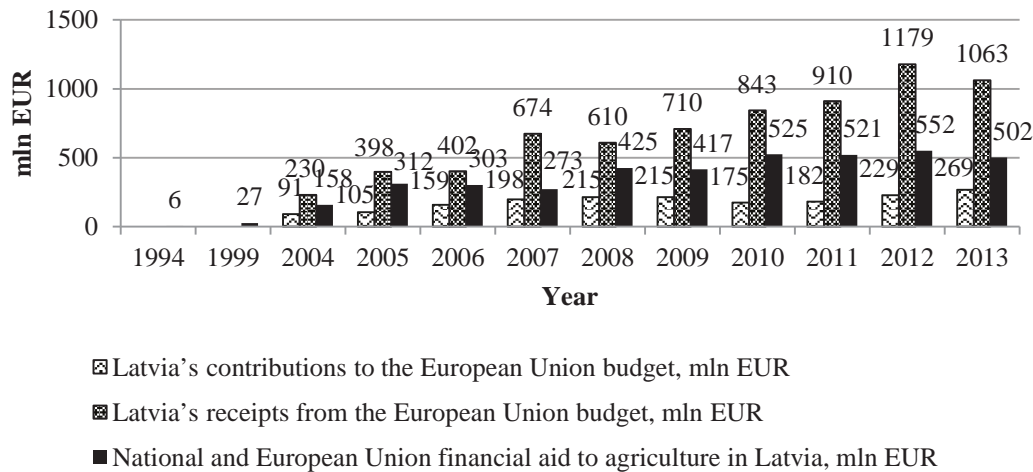


Figure 3. Latvia's contributions to and receipts from the European Union budget in the period 2004-2013 and the national and EU financial aid to agriculture in Latvia in 1994, 1999, 2004-2013, mln EUR.

Source: authors' construction based on Mazūre, 2007 and DG BUDG, 2013.

a smaller number of employees. The number of employees in agriculture in 2013, compared with 2003, decreased by 45%; yet, given the fact that the value-added of agricultural products rose 3.2 times, labour productivity in the agricultural industry increased significantly – 5.6 times – in the same period (Figure 2).

EU Financial Aid to Latvia's Agriculture

Balaceanu (2013) points that agriculture is the industry, the performance of which is not possible without government financial support, especially due to changeable weather and market conditions. Upīte (2010) has the same opinion, noting that the main problems of the agricultural industry are due to a market economy, as it is constrained by limited natural resources and changeable weather conditions. The specifics of use of labour force have to be also considered, as any rural enterprise is also the place of work and residence. Agricultural activity may be characterised as a lifestyle; it is featured by slow development, its share in GDP declines and it is less flexible, reacting on market changes. Therefore, subsidising agriculture was historically and objectively determined. The first kind of support to farmers in Latvia was a national financial assistance of EUR 6 mln allocated in 1994 (Figure 3). Over the next years, this assistance rose and reached EUR 39.3 mln in 2003; yet, after joining the EU, in eight months of 2004, the size of national and EU assistance for agriculture reached EUR 158 mln – four times more than in the previous year – and accounted for 68.7% of the total EU funding for Latvia.

In 2013, on average, 40% of the EU budgetary expenditures were allocated for agriculture (European Commission, 2013). Compared with 1991, the EU

budgetary expenditures on agriculture, on average, declined by 27%, but the greatest expenditures were reported in 1995, comprising 74% of the total budget (DG Agri, 2014). A similar trend was observed in the other Member States, while in Latvia, on average, 60% of the total EU financial assistance was spent on agriculture in the analysis period, reaching the highest level, 75%, in 2006. It has to be taken into account that agriculture is a producer of primary products; for this reason, the industry produces low value-added products that are subsidised, which contributes to prices adequate for consumers' purchasing power.

Latvia is one of the Member States that totally receives, on average, 3.7 times greater funds from the EU than it contributes to the EU budget. The receipts of all less developed countries of the EU are greater than their contributions. On the one hand, it is a paradoxical situation; yet, it has to be taken into consideration that the economies and exports of large EU Member States are fostered in this way, as the new EU Member States have poorly developed manufacturing sectors, and the materials, technological resources, machinery, equipment, fertilisers, plant protection products, etc. are imported from the large Member States that produce the mentioned products (Mileiko, 2013).

According to calculations performed by Mileiko (2013), in the programming period 2014-2020, Latvia will receive four euro of EU funding on every euro paid to the EU. This period's EU budget is reduced; yet, despite this fact, Latvia succeeded in getting greater receipts, compared with the pervious programming period, and this budget is estimated at EUR 7.5 bln.

In the period 2014-2020 in Latvia under the CAP, funding for agriculture is composed of two parts: Pillar 1 – direct payments totalling EUR 1.717 bln and Pillar 2 – funding for rural development, amounting

to EUR 966 mln (Mileiko, 2013). In addition, EU funding will be available for research, development of technologies, innovation, employment, education, etc. Agricultural nongovernmental organisations regard direct payments for farmers as the greatest achievement in negotiations with the EC on funding for agriculture, as the funding will be two times greater than that in the period 2004-2013. From 2019, the funding will be equal in all the Baltic States if measured per ha of agricultural land, 196 EUR/ha, and in order to get the maximum financial assistance, the corresponding criteria will have to be met, depending on the size of farmed land (Zemkopības ministrija (Ministry of Agriculture), s.a.). In the period 2014-2020, support will be available to farmers from two funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) (European Parliament..., 2013).

An analysis and comparison of the use of EU funds in the programming period 2007-2013 shows that, according to data as of the end of 2014, the situation in Latvia was not as successful as in the other Baltic States. Project submission activity in Latvia was the highest among the Baltic States and the number of approved projects exceeded the available EU funding by 4.9%. Nevertheless, the projects were implemented at an extent of 85.6% of the available funding, which means that the projects were implemented at a slower pace than in Estonia and Lithuania. However, the funding received from the European Commission was 81.2%, which showed that national funding was invested in part of the projects (ES fondi, 2015).

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Conclusions

1. In Latvia, since the restoration of its independence in 1991, agriculture has undergone structural changes, which were determined by the privatisation of agricultural land. Growth in agricultural production was observed at a faster rate after the accession to the EU, as the proportion of farms with a small area of agricultural land considerably declined, whereas the proportion of farms with an area of more than 100 ha increased.
2. Joining the EU and free trade opportunities have significantly increased the potential of agricultural exports, as the value of agricultural exports in 2013 was 11 times greater than that in 2003, and in 2013 Latvia was the third largest grain exporter in the EU. This was possible because the value of agricultural goods rose 3.2 times in that period. Since the number of agricultural employees declined in the analysis period, labour productivity in agriculture rose 5.6 times.
3. Latvia is one of the Member States that totally receives, on average, 3.7 times greater funds from the EU than it contributes to the EU budget. Until 2013, agriculture received, on average, 60% of the available EU funding for Latvia. So, every euro paid by Latvia into the European Union budget allows getting back approximately 4 euro.
4. In the period 2014 - 2020, a financial assistance of EUR 1.7 bln will be available for agricultural production under Pillar 1, which is twice as much as in the period 2004 - 2013; furthermore, EU financial assistance totalling almost EUR 1 bln will be available for rural development from the EAFRD, which allows predicting further stabilisation of agricultural production in Latvia.

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