Ministry of Agriculture Republic of Latvia

Agriculture and Rural Area of Latvia

2008

Agriculture and Rural Area of Latvia

Publisher – Ministry of Agriculture Republic of Latvia
Republikas laukums 2
Riga, LV-1981
Latvia

Publisher in Chief – Maruta Grīnberga
Head of Economic Information Division
Common Agricultural Policy Department

Design & Print – SIA Talsu Tipografija
www.taltip.lv

Dear Readers,

You have the new Ministry of Agriculture 2007 report on Latvia's agricultural and rural development in front of you. The brochure contains a summary and analysis of comprehensive information on all sub-sectors under the auspices of the Ministry of Agriculture, with the exception of forestry, which will have a separate dedicated report.

Looking at the overall sectoral development, it has to be noted that, as in the previous years, the value added of the sector has increased, although employment in agriculture is on a decline as a result of increasingly more modern technologies being introduced.

The year 2007 was very favourable for crop farming. Particularly grain producers were very successful: record-high grain yield was harvested and the prices on grain grew exceptionally under the impact of the global price hike resulting from shortage of grain. Dairy farming also experienced a price rise, supported by the favourable situation on the global markets of dairy products. Yet with the prices on fodder grain going up, the situation became critical in pig-breeding.

Analysing the information contained in the present report, it has to be noted that, although the hike of the consumer prices affected agricultural production, farmers' income increased by 44%. The gap between the farmers' income and the average salary in Latvia is also shrinking gradually.

A positive development is the growing competitiveness of the agricultural holdings as suggested also by the shift in the composition of the holdings: the number of small farms is decreasing, whereas that of large farms with distinct specialisation is increasing. Last years have also witnessed considerable shrinking of unused areas of agricultural land.

In 2007, the Ministry of Agriculture became the Managing Authority for implementation and administration of two new European Union funds: the European Agricultural Fund for Rural Development and the European Fisheries Fund, as the Rural Development Committee of the European Commission approved the Rural Development Programme for Latvia 2007–2013.

As a result of implementing the Rural Development Programme measures, Latvia's rural areas will receive a total of 1.4 billion euro by 2013. The first applications for implementation of the measures provided in this programme were submitted last year, supporting an inflow of new investment in agriculture and rural territories.

In 2007, Latvia actively engaged in discussions concerning the mid-term review of the European Union's Common Agricultural Policy or the so-called "health-check" issues. The objective of the "health-check" is to evaluate the progress made in reform implementation and correct any "mistakes". The most significant change advocated by Latvia is equal direct payment rates across all Member States, as the current historical criteria for distribution of funding (based on the yield, area etc.) are out-dated and do not reflect the current situation. Latvia also supports simplification of the agricultural policy, to make the legislation easier to understand and administer both from the perspective of farmers as well as policy-makers.

We shall face new challenges in 2008, but we consider it to be both inspiring and motivating. By joining our efforts, we can become even better and more confident.

May we all succeed!

Minister of Agriculture Mārtiņš Roze

Table of contents

Situation in agriculture and rural area of Latvia





1. Situation in agriculture and rural area of Latvia

1.1. Role of agriculture in the economy

Agriculture is one of the most important economic sectors. It is the biggest user of agricultural land as well as the factor determining the quality of the rural landscape and environment. The development of the sector accelerates year-by-year, yet the contribution of agriculture to the gross domestic product is decreasing against the background of more rapidly growing value added of other sectors.

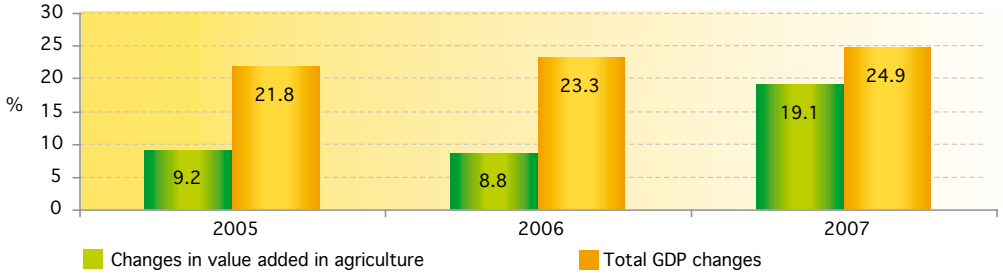
Table 1.1.

Gross domestic product in agriculture and its share in the structure of gross domestic product in 2005-2007

	2005	2006	2007
GDP at current prices, thous. LVL	9 059 087	11 171 693	13 957 410
Value added of agriculture and hunting at current prices, thous. LVL	198 514	215 948	257 198
Contribution of value added of agriculture and hunting to GDP at current prices, %	2.2	1.9	1.8

Source: CSB

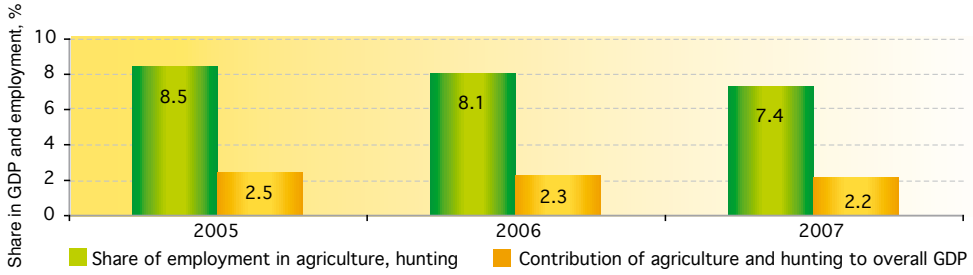
Latvia's gross domestic product at current prices amounted to 13957410 thousand lats in 2007, which corresponds to 6134 lats per capita. In comparison with 2006, the GDP has grown by 10.3%, mainly on account of an increase in the contribution by types of activity, like financial intermediation (22.5%), construction (14.4%) and trade (12.7%).



Source: Central Statistical Bureau (CSB)

Figure 1.1. Year-on-year percentage change of GDP and value added in 2005–2007

Nevertheless, the share of those employed in agriculture as well as the contribution of agriculture to total GDP is shrinking, and this tendency only brings Latvia closer to the EU average: it becomes increasingly more effective.



Source: CSB

Figure 1.2. Share or persons employed in agriculture and hunting and contribution of agriculture and hunting to total GDP in 2005–2007

1.2. Employment

An indicator of the real availability of labour force is the ratio of economically active population to total population. In 2006, it amounted to 64.5% (age group 15–74), whereas in 2007 the economically active population grew to 66%, although the population of this age group decreased from 1809.6 thousand in 2006 to 1803.6 thousand in 2007.

Overall employment has a tendency to grow year-on-year in Latvia. In 2007, it increased by an average of 3%. Analysis of the number of employed persons by typeset of activity reveals that employment is following an upward trend in construction (9.5% in 2006; 11.2% in 2007), trade (15.6% in 2006; 16.5% in 2007), and also in services sector and real estate, but in agriculture it is decreasing year by year (from 8.1% in 2006 to 7.4% in 2007).

Table 1.2.
Employment developments in Latvia in 2005–2007 (thousands of people)

	2005	2006	2007
Economically active population aged 15–74	1135.0	1167.5	1191.1
Employed	1035.9	1087.6	1119.0
Employed in agriculture and hunting	87.8	88.4	82.6

Source: CSB

Looking at the number of persons employed by the sector in the context of the contribution of the value added of the sector to the gross domestic product (GDP) provides an indication of the effectiveness of the sector.

The relatively low contribution to the GDP and rather high employment in agriculture suggest that the effectiveness of the sector is low. For comparison, in EU–15 countries the value added per person employed in agriculture was 7.7 times higher than in Latvia in 2006, suggesting that Latvian agriculture operates quite ineffectively. The reason of low effectiveness is mainly the small economic size of farms, technologies (out-worn equipment) and low level of specialisation.

Unemployment is on a downward trend. It is the most difficult to find a job in Latgale, where the unemployment rate is the highest in Latvia. The lowest unemployment rate is reported in Riga and Riga vicinity.

In 2007, the rate of job-seekers in the rural areas was lower than in the urban areas (5.9% and 6.1% respectively), which can be partly explained by a lower share of permanent jobs and a higher share of seasonal jobs.

Table 1.3.
Rate of job-seekers and unemployment rate

	2005	2006	2007
Rate of job-seekers as a % of economically active population (Latvia total)	8.7	6.8	6.0
Rate of job-seekers as a % of economically active population (rural areas)	7.4	6.7	5.9
Rate of job-seekers as a % of economically active population (urban areas)	9.3	6.9	6.1
Registered unemployment rate (period average; %)	8.0	7.0	5.7

Source: CSB

1.3. Economic performance indicators of agricultural holdings and comparison with EU Member States

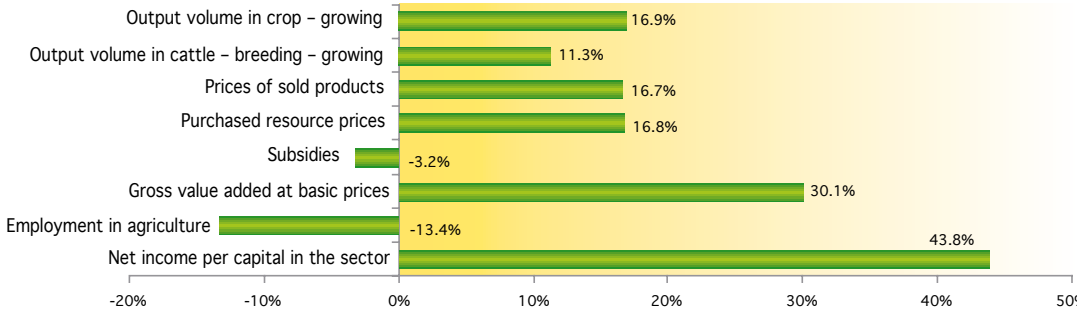
Using the Economic Accounts of Agriculture (EEA), an estimate of agricultural income for 2007 was prepared. Data used in assessing production are the actual data, while those used in cost assessment are preliminary estimates, as the actual data only become available in the second half of the year.

The estimate was prepared for the overall sector of agriculture, covering all categories of agricultural holdings and types of agricultural activities, including non-agricultural secondary activities, provided that no separate accounts are kept for those activities by the holding.

Income estimate was obtained by aggregating the data on the volume of outputs, their consumption, prices, support, production costs and income reallocation of the whole sector. Main sources of information were the data supplied by the Central Statistical Bureau of Latvia, Farm Accounting Data Network (FADN) and Rural Support Service. The data were either recalculated or used as a basis for the estimate. Previous years figures were adjusted as a result of data specification and methodology improvements. Sampling was used in obtaining information as well as various sources were combined and various estimates were used in the calculations; therefore, the final result should be considered conditional and be only used for guidance purposes.

It has to be noted that final output is used in income analysis, and the difference between that and gross output is that it does not include certain types of consumption.

Overall, 2007 was a very favourable year for crop-farming. The grain sector benefited significantly from the rapidly growing prices on global markets due to shrinking supply caused by bad weather conditions, on the one hand, and significant growth of demand to produce bioenergy and satisfy the growing consumption in Asian countries, on the other hand.



Source: The institute of Agrarian Economy of Latvia (Economical Accounts of Agriculture) (IAEL (EEA))

Figure 1.3. Changes in main sectoral indicators in 2007/2006

Moreover, contrary to most other EU Member States where the total yield dropped under the impact of weather conditions, Latvia harvested a record-high yield of cereals in 2007. Of cattle-breeding sectors, a significant rise in producer prices in the second half of the year was reported for milk sector against the background of the favourable situation on the global markets for dairy products. Yet the situation became critical in the pig-breeding sector as a result of higher prices on fodder caused by rising prices on cereals and the pressure exerted by Polish imports on buying and selling prices of pigs. The estimate shows that the nominal income per capita in agriculture increased by 43.8% year-on-year in 2007.

Changes in the physical volume of output

In 2007, a very sharp increase in the volumes was registered: combined final output of the sector grew by 11.1%, representing one of the highest growth rates within the last years. Physical volume of output increased notably in crop-farming (+16.9%); physical volume of output in cattle-breeding also expanded at a much higher rate than in the previous years (+11.3%).

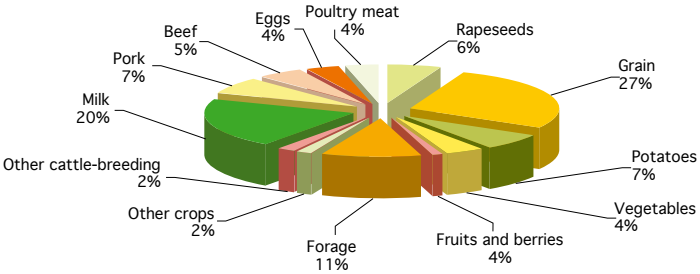
Final output of crop-farming grew mainly on account of higher volumes achieved for cereals (+32.2%), rape (+62.3%) and potatoes (+21.6%). Higher total yield was primarily achieved due to favourable weather conditions resulting in better productivity, as of the main crops fairly significant changes as to the area of sowings were registered only for rape. It has to be noted, however, that the performance of 2007 looks exceptionally good against the background of 2006, when lower than the last year average yields were reported for all main crops as a result of unfavourable weather conditions. Nevertheless, some crops reported lower physical volume of output in 2007: fruit and berries (-30.8%) as well as vegetables (-12.3%). Also due to the liquidation of the sugar sector in Latvia, sugar-beet yield was only about 2% of the previous year yield in 2007.

Volumes of output have grown for all main types of products in cattle-breeding. Meat production (particularly beef production) has expanded significantly (+30.8%; including live weight changes in farms). Production of pork (+12.0%) and eggs (11.8%) has also increased. After climbing persistently for many years, poultry meat production has stabilised; yet the number of birds has increased. Milk production has also grown at a higher rate than before (by 3.3% in 2007 as compared to 1.0% in 2006).

Price developments

The average producer price increase for final output of the agricultural industry amounted to 19.6% in 2007. For the second consecutive year, prices grew particularly strongly for crop-farming outputs (+31.7%); prices on cattle-breeding outputs have also moved up (+7.9%).

Because of the favourable situation on the global market, prices of cereals rocketed unexpectedly high in 2007 (+60.5%). Rape prices also grew notably (+23.3%). Of the main crops, a significant rise was also reported for fruit and berries (+34.5%), vegetables (+26.3%) and forage crops (+21.1%). Potato prices, on the contrary, declined by 8.1% as a result of higher volume of output.



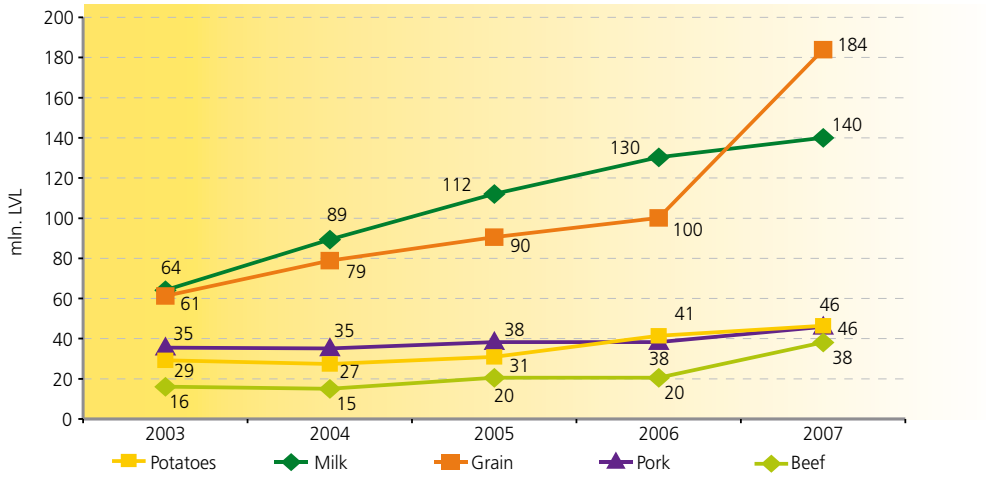
Source: IAEL (EEA)

Figure 1.4. Structure of final agricultural goods output in 2007 (at basic prices)

Of cattle-breeding products, the highest rise was reported for poultry (+24.2%) and eggs (+17.8%) in 2007. Those prices had been practically constant since 2003. The average price of milk grew by 10.6% in 2007; nevertheless, it has to be noted that the price-hike really began in the second half of the year, as from July to December the purchase prices for milk increased by 42%.
As average product subsidies per unit decreased considerably in 2007 (impacted by higher volume of output as well as lower overall production related payments), the basic prices of final output of the agricultural industry have grown at a much lower rate in comparison with producer prices: by 13.5%.

Changes in output

In 2007, crop-farming accounted for 57.9%, whereas cattle-breeding for 42.1% of the total value of final agricultural goods output at basic prices. In the structure of final agricultural goods output, the share of crop-farming has increased considerably in comparison with the previous year (by 5.6 percentage points), with the share of cattle-breeding shrinking accordingly.
Due to favourable weather conditions cereals became the most significant agricultural product in Latvia in 2007, accounting for 27.6% of the total value of agricultural goods at basic prices (Figure 1.4.). Consequently, milk, with its share amounting to 21.0%, was only the second most significant product. The next most significant products were forage crops (10.7%), potatoes (7.0%) and pork (6.8%). Looking at individual products, the share of cereals expanded the most (by 8.1 percentage points), whereas the decline was been the most notable for milk (by 4.4 percentage points). Of other changes exceeding the limits of 1 percentage point, one has to mark also rapeseeds (+1.7 percentage points) as well as sugar-beet. The share of sugar-beet became negligible in 2007.



Source: IAEL (EEA)

Figure 1.5. Changes in value of selected products in 2003-2007 (at basic prices)

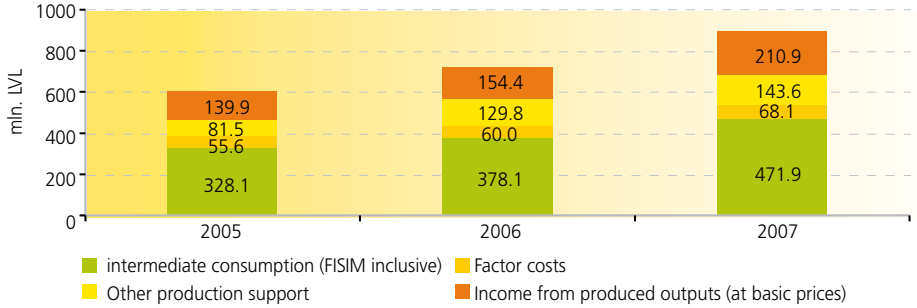
Looking at the changes in the value of the most significant types of agricultural products at basic prices (Figure 1.5.), the value of cereals has grown quite considerably in 2007 (+83.6%), mainly as a result of the unexpectedly high price-rise as well as the record-high total yield of cereals. Output value in producer prices for this type of products has reached even 112.2% (the amount of subsidies per unit of output decreased considerably). The value of final output for milk at producer prices has grown comparatively less, by 17.0%. The increase for milk was also mainly underpinned by rising prices. Taking into account that starting from 2007 direct payments in the milk sector are completely decoupled from production, the value of the final output in the milk sector at basic prices has grown by a mere 7.4%. Higher potato yield resulted in an increase of the value of the respective final output by 11.8% at basic prices, as following the considerable price-hike in 2006, potato prices slightly decreased in 2007. Regardless of the quite unfavourable position of the sector resulting from the steeply growing forage prices in combination with low purchase prices for pork caused by the strong pressure exerted by the Polish imports, the value of the respective final output at basic prices grew by 20.0%. Basic value was pushed up by rising volumes as well as the complementary government support granted for sows. With outputs growing, the value of the final output of beef production at producer prices increased by 29.5%. In the beef production sector, payments were also partly decoupled from production. As a result, the value of the final output at basic prices grew to a lesser extent: by 17.0%.
Overall agricultural output value at basic prices (product subsidies inclusive) amounted to 750.9 million lats in 2007 (+26.7%). Price increase boosted the output value by 117.9 million lats, whereas higher volume by 69.3 million lats. With the volume of production expanding, the level of subsidies per unit

of output decreased. Also with the introduction of decoupled CNDP in 2007 (recorded with other support to production) the total amount attributable to product subsidies also diminished. Hence, lower product subsidies resulted in a conditional decrease of the output value by 28.7 million lats.

Changes in intermediate consumption

Agricultural income depends on the value of produced outputs and subsidies, but also on production related costs, of which the main component is intermediate consumption.

Figure 1.6. shows the structure of agricultural income: the respective shares made up by intermediate consumption, other costs, and farmers' income.



*Other costs include: production related taxes, fixed asset consumption, rent and credit interest payments (less FISIM)
Source: IAEL (EEA)

Figure 1.6. Share of costs in the income of agricultural industry in 2005-2007

In 2007, the output value at basic prices increased considerably (+26.7%), yet the intermediate consumption expanded almost as notably (+24.8%).

Beginning with 2005, intermediate consumption is calculated by including also the financial intermediation services indirectly measured (FISIM): payments inherent in the interest paid to financial intermediaries as part of their compensation.

Table 1.4.

Main items comprised in agricultural income in 2005-2007

Indicators	Value at basic prises, mln. LVL			Changes (+-) %	
	2005	2006	2007(p)	2006/2005	2007/2006
Crop farming	240.8	268.1	385.5	11.3	43.8
Cereals	90.4	100.1	183.8	11	83.6
Raps seeds	20.4	20.5	38.1	0	85.8
Sugar beets	15.1	12.4	0.2	-18	-98.2
Fodder cultures	41.9	50.1	71.3	19	42.4
Vegetables	21.8	24.8	27.3	14	10.1
Potatoes	30.9	41.4	46.3	34	11.8
Fruits and berries	10.8	8.6	8.3	-20	-3.9
Other vegetable products	9.4	10.2	10.2	8	0.7
Cattle breeding	210.1	243.7	279.9	16.0	14.9
Milk	112.0	130.3	140.0	16	7.4
Cattle	23.2	27.7	32.4	19	17.0
Pigs	38.2	38.2	45.9	0	20.0
Poltry	6.8	14.1	24.6	106	75.0
Eggs	18.3	18.3	24.1	0	31.8
Other animals products	11.4	15.2	13.0	33	-14.1
Output of the agricultural goods	450.8	511.8	665.4	13.5	30.0
Output in producers prices	410.5	460.7	634.0	12	37.6

Production-related subsidies	40.3	51.1	31.4	27	-38.5
Services	15.7	15.5	18.0	-1	15.5
Indivisible side activities	56.4	65.1	67.5	16	3.7
Output of agricultural industry	522.9	592.4	750.9	13.3	26.7
Intermediate consumption (With IEFS)	328.1	378.1	471.9	15	24.8
Gross value added	194.8	214.4	279.0	10	30.1
Subsidies not dividend into products	81.5	129.8	143.6	59	10.6
Production-related taxes	5.4	3.8	3.9	-30	4.0
Consumption of fixed assets	42.3	47.8	53.8	13	12.7
Net value added (factor expenses)	228.6	292.6	364.8	28.0	24.7
Rental	4.2	4.3	5.2	3	20.0
Credit interest	3.7	4.1	5.1	12	24.6
Income from agricultural activities	220.7	284.2	354.5	28.8	24.7
Income tax	18.8	24.2	30.7	29	27.0
Income of hired employees	25.7	36.3	47.2	41	30.0
Income of family labour force	176.2	223.6	276.5	27	23.6
Number of annual work units in agriculture, thous. people	138.2	121.9	105.5	-12	-13.4
Income per person employed in agriculture, LVL per year	1461	2134	3069	46.0	43.8

Source: IAEL (EEA)

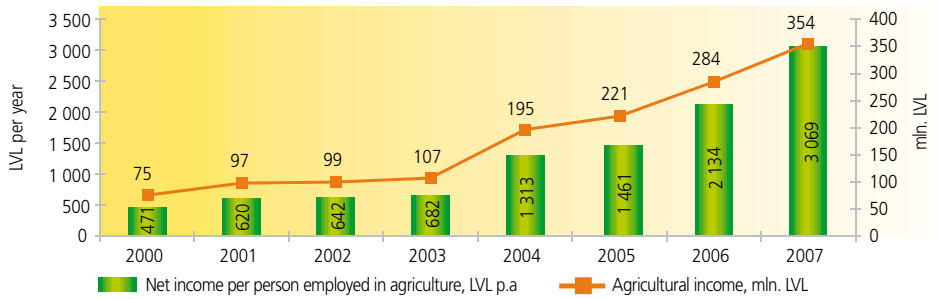
The strong growth of consumer prices in Latvia largely affected also the intermediate consumption resources used in agriculture. The prices on those inputs went up by 18.2% on average in 2007, only slightly lagging behind the rise of producer prices. Prices grew for all intermediate consumption items (except plant protection substances, where a price drop was reported), but the increase was the most significant for forage (+33.9%), pharmaceuticals (+30.1%), seeds (+21.5%). The average intermediate consumption price rise was also exceeded by prices on materials and services required to maintain machines and buildings (by +32.6% and +20.4% respectively). The increase in the volume of used intermediate consumption inputs is estimated at 5.6%.

Changes in value added and income

Gross value added can be obtained by subtracting the intermediate consumption costs from the value of agricultural industry output. In 2007, it amounted to 279.0 million lats (+30.1%).

The net value added of agricultural industry at factor costs, which is estimated by adding other support to production to the gross value added and subtracting taxes and fixed asset consumption, totalled 364.8 million lats (+24.7%).

Additionally subtracting the rent and credit interest, gross operating surplus from agriculture in the amount of 354.5 million lats was calculated, representing a 24.7% increase over the previous year.



Source: IAEL (EEA)

Figure 1.7. Agricultural income in 2000 - 2007

Estimated net income per person employed in agriculture amounted to 3 069 lats p.a. in 2007 or 256 lats per month. In comparison

with 2006, the nominal income in agriculture grew by 43.8%. Income grew largely also on account of declining employment in agriculture, estimated at 13.4% in 2007. This figure was estimated based on the result of the structural survey of 2007. Employment data for 2006 also were adjusted accordingly. The estimates show that farmers' income increased at a slightly higher rate than the average net wage and salary in Latvia, which grew by 32.4% in 2007. As a result, the gap between farmers' income and the national average wage and salary decreased to 10.5% (farmers' income amounted to 89.5% of the national average wage and salary). Considering the high GDP deflator (115.7% in 2007), real income in agriculture increased by 24.3% in 2007.

Income of individual holdings differs significantly from the average figure, mainly based on the size of the holding, specialisation, production efficiency and market outlets.

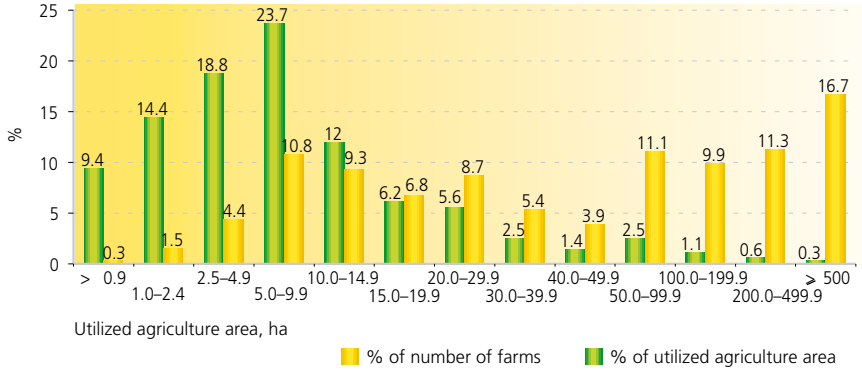
Translating those figures into constant prices, it was been estimated that the 2007 increase of agricultural income was primarily based on volume increase (+ 47.5 million lats), prices contributed 37.7 million lats to the income growth, while the contraction of subsidies decreased the income by 14.9 million lats.

Income changes in other EU Member States

Latvia's agricultural income increased at a higher rate than the European Union average. According to the Eurostat 2nd estimate data for 2007, the real (taking into account the decrease in the purchasing power of money caused by inflation) net value added at factor costs per person employed in EU-27 countries increased by 5.4%. Income development trends observed across the Member States differed: in the northern part of the EU income increased, while in several countries of the southern part it decreased. Income disparities across the Member States were primarily the result of changes in crop-farming output. Income grew the most significantly in Lithuania (+39.3%), Estonia (+22.5%), the Czech Republic (+20.9%) and Sweden (+16.5%); consequently, according to the adjusted data Latvia is also one of the Member States with the highest income growth (+24.4%). The most significant decrease in income was reported in Romania (-16.7%), Bulgaria (-8.5%) and Portugal (-5.0%). At constant prices, the net value added at factor costs per person employed in Latvia amounted to about 42% of the EU-27 average in 2007 (33% of EU-25). Latvia's net value added was 23% of the EU-15 level.

1.4. Structure of Agriculture Farms

In 2007 in Latvia there were 113,4 thousand economically active agriculture farms, which managed agriculture land of the total area of 1775,8 thousand hectares. Comparing with 2005 there were 133 thousand farms with 1705,2 ha utilized agriculture area. That's mean in two years number of farms decreased for 19,6 thousand or 14,7%. On average, one farm had 25,5 ha land, including 15,7 ha the utilized agricultural land.



Sorce: CSB

Figure 1.8. Number of farms and utilised agricultural land in farms of different size in 2007, %

Comparing the structure of agricultural farms in 2007 and 2005 it can be noticed that the proportion of small farms has decreased – in the farm group with the size of agricultural land up to 1 ha for 3,9%, but in the farm group with agricultural land size from 2 to 4,9 ha – for 5,4%. At the same time a trend can be observed that there is increase of the number of farms, which manage larger areas of agricultural land number of farms with the agricultural land size that exceeds 50 ha has increased for ~ 660 or1,2%).

Table 1.5.
Farms by type of farming and economic size in 2007

Type of farming	Total number of economicaly active farms	Economic size units						
		small farms			medium-sized farms		large farms	
		<2	2.0-3.9	4.0-7.9	8.0-15.9	16.0-39.9	40.0-99.9	>=100
Total	113382	90568	11589	5614	2915	1689	671	335
Field crops	30757	25731	1760	1184	857	688	362	176
Horticulture	398	208	66	55	37	19	7	6
Permanent crops	3255	3074	87	46	18	14	15	0
Mixed cropping	11105	9658	871	378	137	53	7	1
Dairying	22076	13684	4055	2258	1220	609	201	49
Grazing livestock (without dairying)	13147	11960	796	261	98	26	4	2
Granivores (pigs and poultry)	1338	1187	33	29	25	13	11	41
Mixed livestock	11966	9655	1633	487	132	48	5	7
Mixed cropping and livestock	19339	15411	2290	917	391	219	59	52

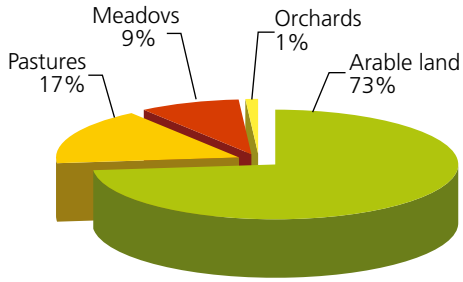
Sorce: CSB

Comparing data from the survey of Rural Farm Structure Survey in 2007 and data from 2005, area of utilized agricultural land increased by 70.6 thousand ha or 4%, we have seen increase of arable lands and also meadows and pasture. But there were important decrease of unutilized agriculture land – by 65 thousands ha or 29.5 ha.

Table 1.6.
Usage of the agricultural land at farms in 2005 and 2007, thousands of ha

	2005	2007
Utilised agricultural land	1705.2	1775.8
Of which Arable land	1077.7	1113.1
Permanent crops	24.3	17.3
Utilised meadows and pastures	603.2	645.3
Unutilised agricultural land	220.1	155.1

Sorce: CSB



Source: State Land Service, MoA
Figure 1.9. Agricultural land by type of land use in Latvia; % as at 01.01.2008.

1.5. Use of agricultural land

Agricultural land resources

According to the land survey of the State Land Service of the Republic of Latvia, as at 1 January 2008, Latvia had 2 361 582 ha of agricultural land (AL), including 1 731 083 ha or 73.3 % of arable land, 24803 ha or 1.05% of orchards, 210 034 ha or 8.9% of meadows and 395 661 ha or 16.8% of pastures (Figure 1.9.), including ameliorated AL with the total area of 1 483 729 ha.

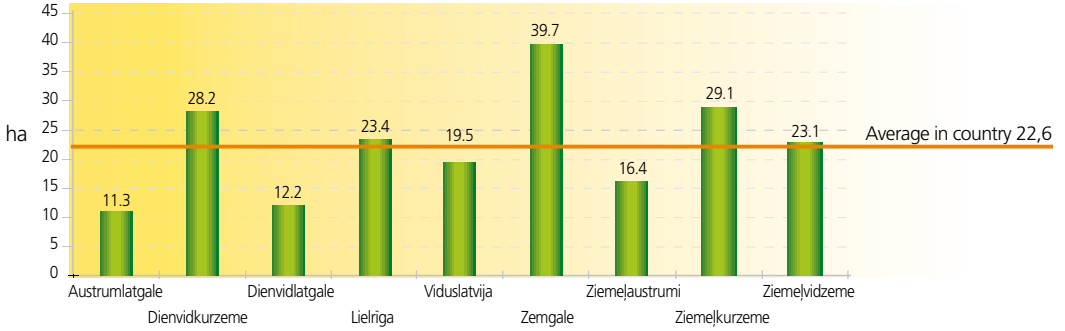
Agricultural land management

According to the Rural Support Service (RSS) information, the area of AL declared when applying for the single area payment (hereinafter referred to as SAP) in 2007 at the regional agricultural departments was 1.57 million lats ha or 66.5% of all land usable in agriculture.

Of the area declared for the SAP, the area declared for complementary national direct payments (CNDP) for arable crops amounted to 0.62 million ha, while the declared fodder area totalled 0.42 million ha. It can be assumed that 1.04 million ha AL or 66% of the AL area declared for the SAP in 2007 were used in agricultural production. Other agricultural land was managed, in order to receive support payments for maintaining good agricultural condition of land.

Considering that the use of agricultural land is not monitored in Latvia, there is no information as to the use of other agricultural land with the area of about 0.79 million lats ha that was not

applied for support payments.
From 2005 to 2007, the area of AL declared for the SAP purposes has grown by 115.8 thousand ha or about 7.9%, thus reducing the area of agricultural land which supposedly is unmanaged.
According to the RSS information, the average area declared for the SAP per holding broken down by regional departments was 20.2 ha in Latvia. Austrumlatgale and Dienvidlatgale agricultural departments reported that their average area applied for the SAP per holding amounted to 59% of the national average.



Source: RSS (Rural Support service)
Figure 1.10. Average area declared for the SAP per holding by regional department (in ha)

Agricultural land transformation

In 2007, the Rural Support Service issued permits for transformation of agricultural land for the total area of 7958 ha, including transformation of ameliorated land with the area of 3240 ha or 40.7% of all area applied for transformation (Table 1.7.).

Table 1.7.
Issued land transformation permits by year

Year	AL designated for transformation; ha		To be transformed out of the total area of AL; ha				
	Total	Incl. ameliorated area	Into forest land	Into water body land	Construction	Under roads	Other land
2005	6537.5	2619.8	4983.2	312.4	1083.0	4.1	154.9
2006	7064.2	2687.0	5493.8	261.8	1127.5	6.2	150.8
2007	7957.8	3240.1	5885.3	403.6	1338.1	15.4	268.3
Total	21559.5	8546.9	16362.2	977.8	3548.6	25.6	574.0

Source: RSS, MoA
Ziemeļaustrumi RAD and Austrumlatgale RAD issued the largest number of permits for land transformation into forest lands (2480 ha and 1913 ha respectively). The area of land applied for afforestation was the smallest in Dienvidlatgale RAD (93 ha) and Ziemeļkurzeme RAD (102 ha). The AL area applied for transformation for the purposes of construction was the biggest for Lielrīga RAD (685 ha; Table 1.8.).

Table 1.8.
Transformation of agricultural land in 2007 by regional agricultural department (RAD) and by district

District	Total transformed ALV (ha)	including ameliorated	Of total area transformed; ha				
			Construction	Into water body land	Into forest land	Under roads	Other land
Austrumlatgale RAD							
Rēzekne	226.24	84.59	27.23	8.85	157.35	0.00	23.13
Ludza	1803.24	580.76	5.00	2.46	1755.63	0.00	26.55
Total:	2029.48	665.35	32.23	11.31	1912.98	0.00	49.68

Dienvidkurzeme RAD							
Saldus	172.44	18.48	12.09	0.30	153.20	0.00	6.85
Kuldīga	183.20	63.62	5.93	27.70	140.57	0.00	9.00
Liepāja	361.07	40.75	35.25	4.62	310.83	0.17	10.20
Total:	716.71	122.85	53.26	32.62	604.60	0.17	26.05
Dienvidlatgale RAD							
Preiļi	34.95	5.55	7.70	2.00	18.96	0.00	6.29
Daugavpils	105.32	6.73	46.70	1.50	53.70	0.00	3.42
Krāslava	32.52	2.91	12.57	0.00	19.95	0.00	0.00
Total:	172.79	15.19	66.97	3.50	92.61	0.00	9.71
Lielrīga RAD							
Aizkraukles	124.63	24.40	11.46	5.70	90.00	0.00	17.47
Ogre	142.49	113.22	100.06	19.51	16.90	1.67	4.35
Riga	600.95	492.56	572.95	17.90	10.10	0.00	0.00
Total:	868.07	630.18	684.47	43.11	117.00	1.67	21.82
Viduslatvija RAD							
Jēkabpils	52.84	7.70	8.14	11.2	18.7	0.00	14.8
Madona	122.85	46.06	0.02	4.78	118.05	0.00	0.00
Total:	175.69	53.76	8.16	15.98	136.75	0.00	14.8
Zemgale RAD							
Jelgava	282.36	180.79	157.23	55.19	67.10	0.00	3.45
Dobele	114.88	25.22	37.63	27.50	46.30	0.00	0.00
Bauska	200.82	176.46	86.44	48.59	39.66	0.00	5.00
Total:	598.06	382.47	281.31	131.28	153.06	0.00	8.45
Ziemeļaustrumi RAD							
Alūksne	609.39	217.60	7.59	25.60	557.20	0.00	19.00
Balvi	936.51	373.44	15.20	62.88	840.26	5.40	12.77
Gulbene	1166.84	550.69	5.77	41.43	1082.71	0.50	36.43
Total:	2712.74	1141.73	28.56	129.91	2480.17	5.90	68.20
Ziemeļkurzeme RAD							
Talsi	78.74	23.14	21.09	2.00	49.85	0.00	5.80
Tukums	121.84	19.49	41.13	0.80	18.90	4.82	56.19
Ventspils	62.87	34.28	22.11	5.06	32.90	2.80	0.00
Total:	263.45	76.91	84.33	7.86	101.65	7.62	61.99
Ziemeļvidzeme RAD							
Cēsis	92.11	38.19	18.58	18.44	51.30	0.00	3.79
Limbaži	53.28	24.80	27.90	5.11	18.44	0.00	1.83
Valka	179.39	27.07	9.49	1.00	166.90	0.00	2.00
Valmiera	96.06	61.64	42.80	3.46	49.80	0.00	0.00
Total:	420.84	151.70	98.77	28.01	286.44	0.00	7.62
Grand Total:	7 957.83	3 240.14	1 338.05	403.58	5 885.26	15.37	268.32

Source: RSS

From 2005 to 2007, an average of 76% of the AL undergoing transformation was planned to be transformed into forest lands, which means that the land managers were rather willing to grow forest on agricultural land than use it for agricultural production. 16.5% of the area undergoing transformation was meant for construction. In comparison with 2005, the area transformed for construction purposes had grown by 255 ha.

Summary

In 2007, 66.5% of the real estate use target group "Area of agricultural land" were declared for the purposes of the single area payment.
66% of the area of AL declared for the SAP in 2007 was used for agricultural production.
There is no information as to the management of about 0.79 million ha of agricultural land not applied for support payments.
Of the total area of AL undergoing transformation in 2007, 76% were meant to be afforested.
The area of land undergoing transformation for construction purposes in 2007 increased by 255 ha in comparison with 2005.

1.6. Environment – friendly agriculture

In April 2007, the third year of implementation of the "Action Programme for Particularly Vulnerable Territories that Require Increased Requirements for Protection of Water and Soil against Pollution with Nitrates Caused by Agricultural Activity" (hereinafter referred to as Action Programme) completed and the fourth one began, which is significant for the Ministry of Agriculture and Ministry of Environment as well as the farmers. According to Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources, Member States have to review and, if necessary, amend their Action Programmes by including additional measures.
In order to evaluate the effectiveness and performance of the Action Programme as well as the measures provided for in 18 December 2001 Cabinet of Ministers regulations No.531 "Regulations on Water and Soil Protection from the Pollution with Nitrates Caused by the Agricultural Activities", the following control and organisational measures were taken in 2007:
1. Based on Paragraph 26 of the above regulations, Latvian Environment, Geology and Meteorology Agency coordinates and organises the implementation of the monitoring programme concerning nitrate pollution of particularly vulnerable areas and collates information in order to assess the quality of Latvian surface and ground waters based on the allowable nitrate (ion NO3-) concentration of 50 mg/l (11.3 mg/l nitrate nitrogen concentration).
In 2007, surface waters of particularly vulnerable territories were monitored for nitrate pollution at 30 monitoring stations on 21 rivers. Water samples were taken 3 to 12 times per year. Nitrate concentration exceeded the maximum reference value at 13 observation sites, including at 7 sites repeatedly (up to six times in Īslīce estuary). At five monitoring sites, the maximum nitrate concentration reference value was exceeded more than on two occasions. In Vircava river, all monitoring results exceeded the reference values, yet it has to be taken into account that the water samples from Vircava river were analysed only three times. Measurements were scarce during the active vegetation period, when in none of the rivers any exceeding of the reference values was detected.
Almost all monitoring stations reported the highest nitrate concentration in January 2007. In December 2006 and January 2007, the meteorological conditions in Latvia were atypical. The weather was comparatively warm and with considerably high precipitation (more than twice higher than the long-term average).
In 2006, ground water monitoring in the Lielupe river basin area was carried out in 19 boreholes at seven stations (tests from two boreholes of one station were condemned defective) and three sources. Nitrates were analysed once a year. Overall, their concentration was low, at times even below the detection limit and did not exceed the critical limit value. Maximum nitrate content at 7.79 mg/l was detected at Dobele district Zebrus lake source.
According to the monitoring data, the above mentioned detected nitrate pollution of the surface waters could not be clearly attributed to agricultural activity only. The issue of what is the actual contribution of agricultural activity to nitrate pollution of water remains open. To assess the impact of the agricultural activity on the water quality, additional monitoring data, research, assessment of cross-border carry and summary of information on sources of point pollution and the pollution caused by these sources are required.

2. Lielrīga and Jelgava regional environment departments of the State Environment Service (hereinafter referred to as SES) control the particularly vulnerable areas according to the requirements outlined in the CoM regulations regulations No.531 and Cabinet of Ministers 27 July 2004 regulations No.628 "Special environmental requirements for polluting activities at animal stalls" (hereinafter referred to as CoM regulations No.628). In 2007, 170 checks were completed at farms on particularly vulnerable territories. Overall, 28 verbal warnings were given and 10 operators (farms) were administratively punished.
The SES has collated the results of 2007 checks concerning compliance with the requirements of the CoM regulations No.531 and CoM regulations No.628 in particularly vulnerable territories.

3. In order to improve the content of regulations governing management measures and requirements in particularly vulnerable territories and to strengthen the functions delegated to the respective controlling authorities, on 16 October 2007 the Cabinet of Ministers adopted regulations No.708 "Amendments to 18 December 2001 Cabinet of Ministers regulations No.531 "Regulations on Water and Soil Protection from the Pollution with Nitrates Caused by the Agricultural Activities" and issued 17 October 2007 instruction No. 647 "Amendments to the Action Programme for Particularly Vulnerable Territories that Require Increased Requirements for Protection of Water and Soil against Pollution with Nitrates Caused by Agricultural Activity"". Both

the above regulations concern one territory, i.e. particularly vulnerable territories, in order to:
1) strengthen the control functions delegated to the State Plant Protection Service (hereinafter referred to as Service) and set the measures to be taken by the Service as concerns the monitoring and database maintenance;
2) set the rights and responsibilities of the Service inspectors in implementing the monitoring measures;
3) supplement the requirements concerning the development of a crop fertilisation plan and submission of a summary to the Service by land owners and land users managing particularly vulnerable territories;
4) set a more specific restriction period for scatter of bedding manure, liquid manure and slurry in particularly vulnerable territories: 15 November to 1 March;
5) introduce some editorial revisions.
The additionally required financing for the Service to implement the functions was included on the list of new policy initiatives of the Ministry of Agriculture Strategy 2007-2010 for 2008-2010 as a new policy initiative "Monitoring and control of fertilisation plans on nitrate sensitive territories", but it did not gain support. The measures provided in the draft regulations will be implemented in 2008 from the central government budget funding granted to the State Plant Protection Service. The issue of granting additional central government budget funding for implementation of functions provided in the draft regulations in 2009 and the years beyond will have to be decided by the Cabinet of Ministers, when preparing the medium-term central government budget, in the context with new policy initiative applications prepared by other Ministries and other central government institutions.
Monitoring of crop fertilisation plans will secure the monitoring of the use of all types of fertilisers by farms and fertiliser flows on those territories in general (so far, only particularly vulnerable territories).
Currently crop fertilisation plans are prepared by various firms, consultants or the farmers themselves, based on a different approach and starting data. The content of the crop fertilisation plans is not monitored and the obtained results cannot be used to evaluate the effectiveness of the Action Programme implementation concerning the use of all types of fertilisers. The possibilities of high-quality monitoring are thereby also limited.

4. In order to improve the effectiveness of management measures, the Ministry of Agriculture implemented the following activities:
1) sub-measure "Setting up buffer zones" (setting up buffer zones along fields, rivers, lakes, water bodies and ditches) of support measure "Agri-environment" of the Latvian Rural Development Plan for implementation of the Rural Development Programme 2004–2006 (hereinafter referred to as Rural Development Plan). As at 15 December 2007, 340 applications in total were received and the length of the declared buffer zones totalled 366 917 m;
2) under the Rural Development Plan measure "Technical assistance", support was granted to the activity "Methodology for preparation of crop fertilisation plans". From 2008, crop fertilisation plans will have to be prepared by all farms located on particularly vulnerable territories and using fertilisers on an area of 20 ha and larger, whereas at fruit and vegetable growing farms the particular area is 3ha and larger. Starting from 2009, State Plant Protection Service will monitor and check the crop fertilisation plans at farms located on particularly vulnerable territories.
3) methodology for preparation of crop fertilisation plans was developed by Latvian Rural Consultation and Education Centre ltd.;
4) within the framework of subsidies granted to national agricultural development, the Agro-chemical research centre ltd. and the scientific institute Sigra of the Faculty of Biotechnology and Veterinary Medicine of the Latvian University of Agriculture implement a project "Improvement of manure normatives and animal unit calculation" with a view to improving manure standards applied to various farming animal groups according to the European Union guidelines, taking into account the productivity of farming animals. The data are required to calculate the capacity of manure storage facilities and the allowable volume of manure to be worked into soil per ha in a year;
5) central government budget funding was granted to implementation of the activity "Sectoral standard "Manure collection and management"". The purpose of the activity was to develop single national manure collection, management and facility construction standards, in order to ensure safe storage of manure compliant with the existing requirements prior to its scattering on fields or utilisation;
6) using the Rural Development Plan "Technical assistance" funding, in 2008 the company Agitis ltd. will improve and supplement the 1999 edition of "Good Agricultural Practices in Latvia" based on the requirements of the EU legislation and changes in Latvian legislation.
7) within the framework of subsidies granted to national agricultural development, in 2007 the Agro-chemical research centre ltd., continued to implement the research project "Monitoring of Soil Mineral Nitrogen in the Specially Sensitive Territories in Order to Implement the Requirements set forth in the EU Nitrate Directive (91/676/EEC)" started in 2005, in order to provide the agricultural producers with a forecast to specify the nitrogen dosages for winter crops, based on monitoring data on content of mineral nitrogen in soil;
8) with the MoA 21 February 2007 instruction No.38 "On establishment of fertilisation planning coordination working group", a working group was established to provide recommendations and approve the basic indicators required to develop fertilisation plans, as well as prepare proposals for amendments to legislation concerning the preparation and monitoring of fertilisation plans. The working group involved representatives from various institutions and farmers non-governmental organisations. In 2007, four working group meetings were held discussing the existing problems with crop fertilisation planning in Latvia and the necessity to improve

manure standards.
In order to educate farmers, the Latvian Rural Consultations and Education Centre ltd. organised nine seminars in Bauska, Dobele and Riga districts concerning the EU requirements relating to the Nitrate directive and other topicalities of the common agricultural policy. The total number of participants at those seminars was 328.
Within the framework of the UNDP Global Environment Fund (GEF) project "Ensuring Latvia's capacity for UN convention to combat desertification/soil degradation", the following activities were implemented in Svēte civil parish of Jelgava district:
1) agro-chemical survey of soil on agricultural land with the total area of 2664 ha, using the GPS, and identification of the agro-chemical characteristics of soils;
2) a field balance of plant nutrition elements in nine civil parishes was calculated;
sowing structure dislocation in nine farms of the civil parish was assessed.
The year 2007/2008 is the fourth year of implementation of the Action Programme. By October 2008, Latvia together with other Member States having joined the European Union will submit to the European Commission a report on implementation of the Council Directive 91/676/EEC.

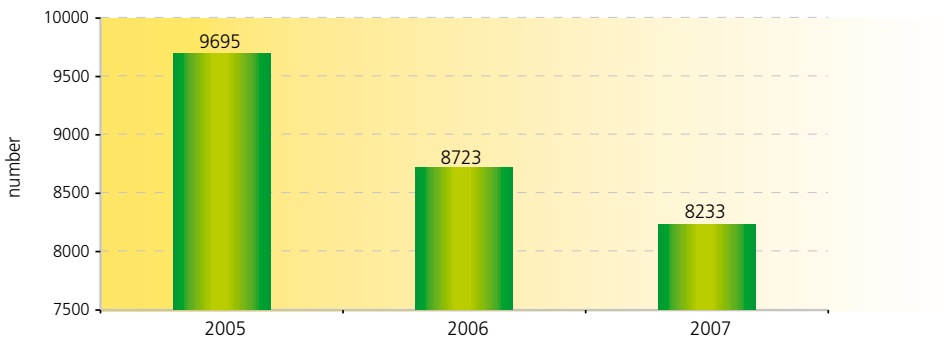
1.7. Education, consultations and science

Education

Latvian University of Agriculture (hereinafter referred to as LUA) under the auspices of the Ministry of Agriculture is the third biggest university following the University of Latvia and Riga Technical University in terms of the number of students. It provides higher academic and vocational education in the following areas: agriculture, veterinary medicine, food technology, engineering, forest science, rural socio-economic development, information technologies and environment management.

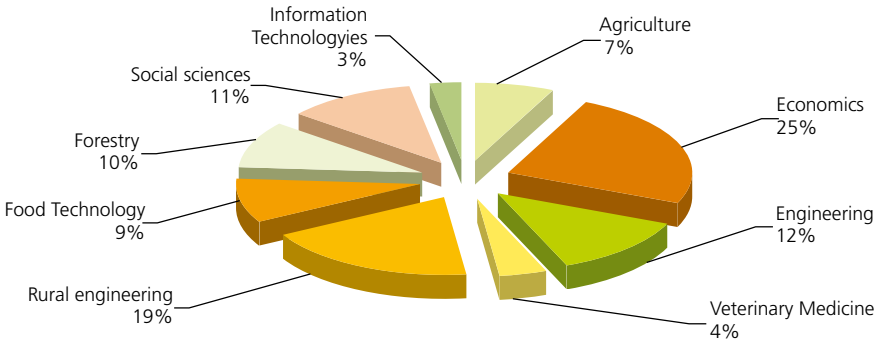
- In 2007, the LUA ran the following educational level study programmes:
- 42 basic study programmes;
- 24 higher level (master degree study programmes);
- 13 higher level scientific (doctor degree) study programmes.
- Three new study programmes were established in the reporting year:
- professional master degree study programme "Public administration";
- professional bachelor degree study programme "Public administration";
- professional master degree study programme "Agriculture".

The number of students financed from the budget grant at the level of basic studies and master degree studies was as planned: 1005 students.
The overall number of students has a tendency to decrease. The number of students is expected to decrease also in the years to follow.



Source: LUA
Figure 1.11. Number of students (basic level studies, master degree) at LUA in 2005–2007

Because of the market demand, in the academic year 2006/2007 the number of students increased in the area of engineering and technologies, mainly construction, landscape architecture and planning, land improvement specialities. Interest about agriculture, forestry and food technologies remained low.

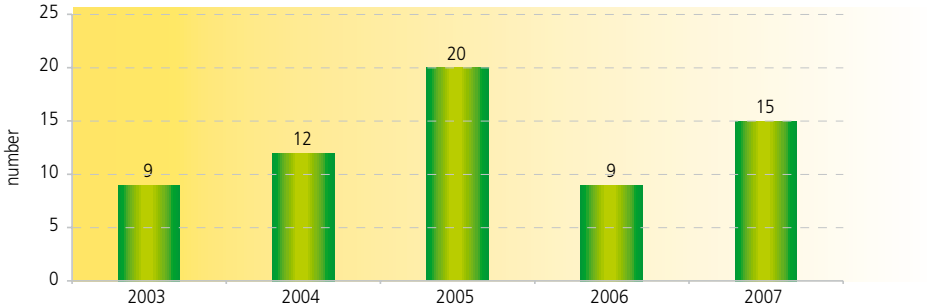


Source: LUA

Figure 1.12. Breakdown of students by faculty in 2007

Targeted performance indicators in the area of doctor degree studies were not met. The target for the number of doctor degree students was 105, yet it will be impossible to achieve this number in the nearest future as the actual number in 2007 was only 36 students.

15 promotional papers were defended in 2007 instead of the targeted 25.



Source: LUA

Figure 1.13. Development of the number of defended promotional papers in 2003-2007

The proportion of teaching staff with a PhD in academic personnel was 67.5%, which secures the status of a university for the establishment.

The importance of life-long education increased. In 2007, the Life-Long Education Centre was established offering:

- 17 long-distance and e-study disciplines;
- 77 further education programmes within the competence of the LUA, of which 10 programmes were already implemented in 2007. 30 training staff members were engaged in implementation of further education programmes.

Within the framework of international cooperation (priority: NOVA/BOVA cooperation project), 19 courses for master degree and doctor degree students were organised, with the participation of 71 students and 25 training staff members.

Within the framework of SOCRATES/ERASMUS programme, 39 students and 25 training staff members underwent training or studied abroad.

Total number of scientific projects with participation of the LUA scientists was 156 and the financing totalled 1 281 176 lats.

Consultations

Consultations on agricultural and non-agricultural business to Latvian rural population at district level are provided by the Latvian Rural Advisory and Training Centre ltd. (hereinafter referred to as LRATC) established in 1991, owned by the state (99%) and the Latvian Farmers Federation (1%).

In order for the consulting and related services to be available to the majority of rural population, the LRATC has local consulting offices in 26 districts across Latvia.

With a view to promoting rural development, improving the professional and economic knowledge of rural business people, the LRATC implemented the following measures in 2007:

- organised 1168 training seminars for farmers and rural business people, with 23 104 participants;
- provided 88 001 free-of-charge consultations concerning the Common Agricultural Policy, EU support opportunities, cattle-breeding, crop-farming, plant protection, organic farming, horticulture, joint action, taxes, economics, rural

mechanisation, construction and other topical issues;
- work continued to encourage public activity in 52 civil parish initiative groups;
- "Gross coverage calculations for farms for 2006" were collated and prepared. Calculations were prepared for 49 crops and 23 groups of farm animals, 3 aquacultures;
- information bulletin Lauku Lapa was issued regularly in 67 200 copies;
- the sector of agriculture was promoted at 78 Latvian comprehensive schools;
- A pilot project "Animation of low activity rural population, consultations to small farms in business improvement and changing profile" was launched .

Table 1.9.

LRATC activities in 2005-2007

Measures	2005	2006	2007
Number of provided free-of-charge consultations	36 000	60 000	88 000
Preparation of information materials for farmers; author's sheets	22	30	23
Further education seminars; participant hours	80 000	30 000	117 500

Source: Latvian Rural Advisory and Training Centre (LRATC)

In 2007, the LRATC completed the implementation of the national programme "Establishment of farmer consultation and farm expansion services" project "Establishment of rural farm advisory system". The total financing of three years amounted to 2 151 756 lats. The purpose of the project was to increase the LRATC capacity to help farms in adapting their agricultural activities to the European Community standards in the field of environmental protection, hygiene and animal welfare, good agricultural practice, and establish a "cross compliance" advisory system in Latvia.

In 2007, the LRATC was 67% self-financed. Revenue amounted to 3.9 million lats. This suggested that farmers were increasingly more willing to use the LRATC services and that the LRATC gained stronger positions in the field of rural business consulting.

The Rural Consultancy and Information System continued its operation as a result of cooperation between the Ministry of Agriculture, LRATC and Latvian Union of Local Governments. The LRATC coordinated and provided methodology guidelines for rural development specialists in 510 local governments. Overall, 460 specialists were trained on the basic principles of initiative promotion, communication technology and communication skills.

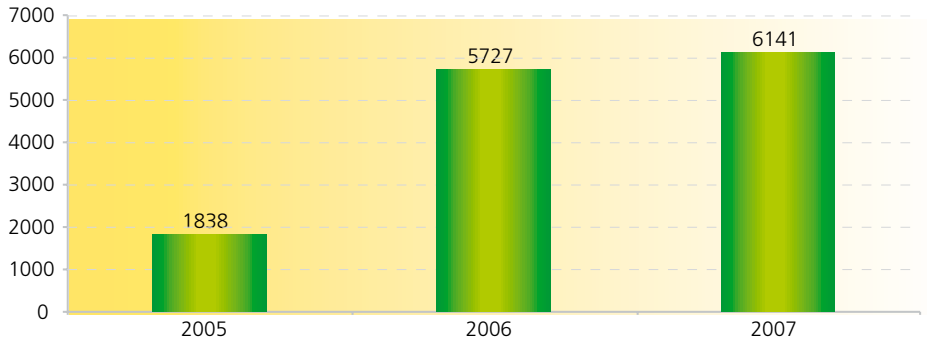
Professional qualifications were improved with the help of the LRATC in 2007 by 2851 specialists of the Ministry of Agricultures and its subordinated institutions.

Vocational training

In 2007, the Ministry of Agriculture continued the implementation of the project "Vocational training 2005–2006" of the national programme "Support to vocational education enhancing professional skills and competence of farmers, forest owners and others involved in agricultural and forestry activities" of the European Agricultural Guidance and Guarantee Fund. The project "Vocational training 2004" was implemented within the framework of the national programme from 20 July 2005 to 30 June 2006, whereas the project "Vocational training 2005–2006" was implemented from 24 May 2006 to 30 May 2008.

Training was carried out in three training modules: agriculture, business and forestry.

Project implementers were selected through a tender: the Latvian Rural Advisory and Training Centre ltd. and Lando training ltd.



Source: MoA

Figure 1.14. Number of participants

In 2007, the most popular and highest attendance courses were:

- untraditional farming: "Apiculture";
- organic farming methods;
- diversification of rural economy "Rural landscaping, yard improvement and decorative gardening";
- cattle breeding: in-depth course;
- veterinary medicine;
- diversification of rural economy "Growing untraditional plants or animals";
- live-stock evaluation or monitoring;
- basics of agriculture;
- accounting and taxes;
- project management.

Science

In 2007, scientific research was carried out by the following institutions under the supervision of MoA:

1. University of Agriculture of Latvia (LUA);

2. LUA agencies:

- Research Institute of Agriculture;
- Research Institute of Water Management and Land;
- Research Institute of Agricultural Equipment;
- Research Institute of Biotechnology and Veterinary Medicine Sigra;

3. Public sector agencies which achieved the status of derived public persons as of 6 January 2007 (28 December 2006 Cabinet of Ministers regulations No.1076 "Amendments to Scientific Activity Law"):

- Latvia State Institute of Fruit-Growing;
- State Stende Grain Selection Institute;
- State Priekuli Plant Breeding Institute;
- Latvian State Institute of Agrarian Economics;
- Latvian State Forestry Research Institute Silava;

4. State limited liability companies:

- Agro-chemical Research Centre;
- Latvian Plant Protection Research Centre.
- Scientific research in the area of agriculture was also carried out by Latgale Agricultural Research Centre ltd. and Pūre Horticulture Research Centre ltd.

Based on 23 January 2007 Cabinet of Ministers regulations No.78 "Regulations on state support to agriculture in 2007 and procedure for granting support" (hereinafter referred to as regulations), Annex 4 "Support to education, science and information dissemination", the Ministry financed 28 studies for the total amount of 1 013 979 lats.

Based on Annex 6 to the regulations "Support to investment in agriculture" the Ministry financed procurement of assets at scientific institutions in the amount of 585 000 lats.

Measure "Development of Local Action (LEADER+ type measures)"

Implementation of LEADER+ type measures within the framework of the measure "Development of Local Action (LEADER+ type measures)" co-financed from the Guarantee Section of the Agricultural Guidance and Guarantee Fund continued in 2007.

The purpose of the measure is to increase the rural population activity and involvement in addressing the problems of the respective territories by implementing self-developed projects compliant with the integrated rural development pilot strategies prepared by the local action groups (societies or foundations), thereby improving the economic and social quality of life as well as preserving the nature.

Within the framework of the measure, two activities were implemented: "Acquisition of skills" and "Integrated rural development pilot strategies".

In order to promote active participation of rural population in implementation of LEADER+ type measures, 62 information seminars were organised within the framework of the activity "Acquisition of skills" in 2007, with about 2000 participants in total.

At the end of 2007, a conference "Implementation of LEADER+ type measures in Latvia" was organised with 125 participants, including representatives from Lithuania and Estonia. The conference provided an insight into implementation of the LEADER+ type measure in Latvia and its neighbouring states and highlighted its role in the rural development and future opportunities.

Within the framework of the activities, several publicity measures were completed in 2007: an information brochure "Be happy in the country!" was prepared and published, featuring information about the operation of 28 local action groups (LAG) in Latvia, publications were put into mass media and an internet website of the measure " Development of Local Action (LEADER+ type measures)" was developed.

In 2007, 28 local action groups started active operations.

11 local action groups were trained and received methodology support in preparation of a development strategy in cooperation with 13 local action group process facilitators, provided by an association of individuals comprised of Latvian-British joint company Zygon Baltic Consulting ltd., Konsultanti ltd., Konsorts ltd., Firma L4 ltd. and LRATC (hereinafter referred to as association of individuals), and 13 local initiative group process facilitators, provided by LRATC.

Within the framework of the training project, the association of individuals:

- organised training for local action group (hereinafter referred to as LAG) process facilitators: 13 LAG process facilitators were trained;
- organised LAG training for 11 groups, providing training to the total number of 121 local action group representatives; as a result of training, 11 development strategies were prepared;
- provided methodology support to 1965 persons (4877 hours);

- prepared and published a booklet on good practices by 18 local action groups within the framework of the training project.

Within the framework of the LRATC training project:

- organised training for local initiative group (hereinafter referred to as LIG) process facilitators: 13 LIG process facilitators were trained;
- organised LIG training for 22 groups, providing training to the total number of 359 local leaders, of which 190 were community coordinators;
- provided methodology support to 1550 persons (3005 man-hours).

Within the framework of the activity "Integrated rural development pilot strategies", 17 local action groups implemented development strategies and 7 of them received the previously-mentioned methodology support in development strategy implementation from process facilitators.

Local action group development strategy implementation was organised by way of an open project application tender. Project applicants were associations or foundations, i.e. local initiative groups, planning to implement the project on the operational territory of the particular local action group. The project was agreed with the development strategy prepared by the particular local action group. There were two project application submission rounds, for some local action groups more than two. Within the framework of the first round, 363 project applications were submitted, of which support was granted to 261 project applications. At the end of 2007, the second round was held. 267 project applications were submitted and their evaluation will only be completed at the beginning of 2008.

The supported project applications provide for implementation of activities related to construction of children's playgrounds, establishment and improvement of community activity sites, improvement of village territories, park maintenance, educating rural population, availability of services, building new sports grounds and improvement of the existing sports grounds, procurement of equipment required for culture and sports measure organisation as well as other activities provided for in the strategy of the respective local action group.

Within the framework of the activity "Acquisition of skills", support was provided to local action groups in 2007 for participation in cooperation measures in Latvia and abroad (conferences, seminars, experience exchange trips) facilitating improvement of local action group skills required for preparation and implementation of development strategies, experience exchange with other local action groups and inviting new cooperation partners. Support was given to 42 cooperation measure projects. Within the framework of the projects, 11 cooperation measure activities involving local action groups in Latvia and 40 cooperation measure activities abroad were organised.

Participation in the EU decision – making





2. Participation in the EU decision – making

Within the framework of its sector, the Ministry of Agriculture is responsible for supervision of the EU issues and representing Latvia's interests in the EU. In 2007, it actively participated in various EU decision-making institutions and represented the national interests in matters within the competence of the Ministry. Taking into account the large number of issues considered and approved as a result as significant decisions at various-level EU working groups, participation in the EU decision-making institutions is one of the priorities of the Ministry of Agriculture.

After the EU accession, the Ministry of Agriculture established an EU issues coordination system. It sets a uniform procedure for the Ministry and its subordinated institutions to use for the flows of internal and cross-institutional EU documents, national position, instruction and respective draft documents, as well as the procedure for implementation of Latvia's commitments vis-à-vis the EU (Directive implementation).

In order to ensure a comprehensive analysis of the EU issues looking from various angles, thereby assisting in definition of the national position and thus effectively representing the national interests in the EU decision-making institutions, the Ministry of Agriculture is involved in cross-institutional working groups together with representatives from other Ministries responsible for the particular issue as well as non-governmental organisations (hereinafter referred to as NGOs). Participation of NGO representatives in the process of preparing the national positions and, consequently, also in the process of drafting and adopting the EU legislation ensures that the NGO interests are observed.

In order to represent the national interests in matters within the competence of the Ministry in the EU and facilitate information flows across the EU institutions, the EU Member State representatives, Resident Representative Office of Latvia in the EU and the Ministry, the Ministry of Agriculture is represented in Brussels by 5 specialised attachés.

In 2007, the Ministry of Agriculture participated in about 423 EU Council and European Commission working group or committee meetings as well as 12 EU Council of Ministers of Agriculture and Fisheries meetings concerning the organisation of the common agricultural market, veterinary, food safety, plant health and fisheries issues. Participation in European Commission and EU Council working groups and committees is particularly noteworthy, as it creates an opportunity to influence the EU decisions already in the process of their making. As a result, significant decisions are made facilitating equal development opportunities for Latvian rural producers within the EU framework.

Overall, 142 positions were prepared (including 59 positions for the EU Council of Ministers of Agriculture and Fisheries and 6 positions for the EU Council of Ministers of Environment) and 164 instructions (115 instructions for the EU Council ad hoc Committee on Agriculture and 49 instructions for Permanent representative committee COREPER).

Most important issues examined in 2007

Decisions made:

1. Agreement has been reached on the Common Agricultural Policy (hereinafter referred to as CAP) simplification regulation: CAP financing regulation, crisis reduction in the cereals sector;
2. Proposals have been viewed for establishing a common organisation of agricultural markets (CMO) and on specific provisions for certain agricultural products (including fruit and vegetable reform, wine reform). The objective of the common market organisation is to review the existing regulations on CMOs of separate sectors and unify them into a single general regulation, in order to rationalise and simplify the legal framework and create a uniform horizontal legal framework;
3. A reform was carried out in the sugar sector to make the restructuring programme even more attractive to producers. New provisions included inter alia non-discriminatory measures for the Member States which applied for restructuring support in 2006/2007 and 2007/2008;
4. One of the most important issues if the area of animal health and welfare which will remain topical in the future is the animal health strategy for the period up to 2013. The Council adopted conclusions giving a positive evaluation to the work implemented by the European Commission so far and setting further operational priorities, including highlighting the need to prepare the European Commission action plan for strategy implementation. As concerns the above, Latvia has initiated the issue of creating a single European level agency to coordinate the issues of animal feed, control of animal origin products, food imports and transit. Discussions about this issue will continue in 2008;
5. Agreement has been reached on the European Parliament and Council regulation banning the placing on the market and the import of or export from the Community of cat and dog fur and products containing such fur;
6. Various issues have been examined concerning draft Commission decisions on authorising products manufactured from various genetically modified product lines;
7. In the field of fisheries, proposals have been submitted for the Council Regulation establishing measures for the recovery of the stock of European eel, as well as a Regulation has been

adopted establishing a multi-annual plan for the cod stocks in the Baltic Sea and the fisheries exploiting those stocks;
8. Agreement has been reached on the draft European Parliament and Council regulation on the definition, description, presentation and labelling of spirit drinks in order to improve the application and transparency of Regulation No.1576/89/EEC, by grouping the alcoholic beverages into three basic categories depending on the product content (does or does not contain ethyl alcohol of an agricultural origin, natural or synthetic sweeteners and other additives), to apply the regulation to new technical requirements, World Trade Organisation requirements, set criteria for geographical indications of spirit drinks.

Discussions started on the following important issues:

1. The most important issue for the future of the Latvian agriculture is the proposal for European Commission Communication on the Mid-Term Review of the Common Agricultural Policy published at the end of 2007. Active discussions are ongoing and specific decisions will be taken at the end of 2008. In those discussions, Latvia has actively supported (and will continue to do so) the idea of a need to establish new and equal rules and criteria for granting payments applicable to all Member States, which would be able to meet the new CAP challenges and ensure equal treatment of all Member States. The current historical financing distribution criteria (e.g. yield, areas, number of animals and others) are out-dated and do not take into account that the European Union consists of already 27 Member States. As concerns the modulation principles (or money transfer from Pillar I to Pillar II), Latvia believes that the modulation should serve as a tool to smooth out the disparities across the rural regions of the Community. This could be achieved by using partial distribution criteria for the funding, based on objective and real needs. As concerns the modulation of financing across the CAP pillars, an analysis is required and an agreement has to be reached across all budget decision-making bodies;
2. Work on amendments to Council regulations on cross-compliance: Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the agriculture policy and establishing certain support schemes for farmers, and Regulation No. 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (political agreement reached in January 2008);
3. Discussions on amendments to Regulation No.1234/2007 establishing a common organization of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) as regards the National quotas for milk.

EU measures for agriculture and rural development





3. EU measures for agriculture and rural development

3.1. Common agricultural policy

3.1.1. CAP mid-term review (health check)

Common agricultural policy (hereinafter referred to as – CAP) includes not only issues concerning manufacturing of products, but also environment issues and those of the welfare of rural population. In order to evaluate the functioning of the Luxembourg reform adopted in 2003 and answer the question as to how the reform can better achieve its objectives, taking into account the EU enlargement and other changes, the European Commission (hereinafter referred to as Commission) plans to conduct a mid-term review or the "health check" of the CAP from 2008 to 2009.

The purpose of the CAP "health check" is to improve the CAP by checking whether the CAP instruments function according to the policy objectives as well as to establish what instruments would be required for the CAP to be able to adjust to the new challenges.

The expected CAP "health check" had been discussed at the EU decision-making institutions and also among the Member States for already about 2 years, and on 20 November 2007 the Commission published the European Commission Communication to the European Parliament and to the Council "Preparing for the "health check" of the CAP reform".

The Commission communication contained the following main tasks:

1. Review the EU agricultural sector, particularly market outlook from the global perspective;
2. Take stock of the implementation of the current single payment -scheme (hereinafter referred to as SPS) and look into the possibilities of simplification, considering the issues of:

abolishment of the compulsory fallows policy;

further movement towards a fully decoupled payment scheme for Member States not applying the single area payment scheme (hereinafter referred to as SAPS);

raising the compulsory modulation rate to ensure financing required for the rural development policy;

simplification of the cross-compliance system;

3. Evaluate various market instruments (e.g. interventions, quotas and other). Commission communication contained a proposal to abolish the milk quota system from 2015 as well as to review the potato starch and sugar quotas system;
4. Ensure a stable pillar II rural development policy by continuing to support competitiveness, environmental improvement, economic diversification and ensuring high quality of life in rural areas. Pillar I will continue to exist (agricultural policy instrument: direct payments, market interventions, price support and export subsidies). Nevertheless, the instruments and functions of this pillar have to be carefully reconsidered.

Latvia's position is based on the following key principles for the future operation of the CAP:

• activity: size of support depends on input, i.e. the agricultural lands are really used for agricultural activity and not mown to receive subsidies;

• equality: equal rate of support across all Member States – equal rate of support per unit across the EU for compliance with equal provisions;

• simplification: to make the CAP and the relevant legislation better understandable and easier to administer by all stakeholders (farmers as well as the policy makers) and to reduce the administrative burden and costs.

Table 3.1.

The ideas of Latvia and the European Commission concerning the EU CAP mid-term review as in November 2007

European Commission ideas	Latvia's ideas
Simplification of direct payments: • abolishment of the compulsory set-aside requirement; • review of the minimum eligible area for single payment (0.3 ha).	Latvia agrees
Review and simplification of cross-compliance requirements.	Implementation of the cross-compliance requirements in the Member States using the principle of gradualness. Latvia believes that the cross-compliance requirements should apply fully to the new Member States only when the amount of direct payments has reached the level of the EU-15 Member States.

Full decoupling of payments starting from 2013.	Latvia agrees, provided that the decoupling of payments is applied to all Member States in the same period, applying equal rate of support across Member States.
Transition from the historical model to regional model with a single rate of support per ha in each region.	It has to be stated that to all Member States equal new support eligibility criteria apply, which are not based on historical indicators but reflect the real present performance of the farmer.
Setting the minimum and maximum ceiling for the EC support payments in order to ensure equality of support across large and small farms.	Latvia proposes to set an equal rate of support per unit across the EU for compliance with equal standards.
Increasing modulation by 2% each year from 2010 to 2013.	Review the principles of modulation: at least 80% should be channelled to the EU rural development budget instead of the current less than 20% and reallocated across the EU Member States based on the objective needs of each Member States.
Review the CMO elements: • abolishment of milk quotas from 2015; • review of potato starch quotas system; • intervention mechanism should be preserved only as a measure to ensure market stability: the measure should be implemented only in cases of market instability; • review of energy crops support scheme.	Latvia agrees
EC reaction reserved	• Extend the SAPS, to avoid the need for a temporary change of the aid scheme before the expected CAP changes; • Abolish the SAPS provision concerning the good agricultural condition as at 30 June 2003; • Abolish the permanent pastures and meadows preservation condition.
Partly finance the risk management system from funds obtained as a result of modulation.	Establish a clear risk management system. To reduce the risks in agriculture, encourage also the formation of private risk management funds in agriculture, while other risks have to be undertaken by the farmers themselves.

Source: MoA

The discussions which started at the end of 2007 concerning the CAP "health check" continued at the beginning of 2008, and it is planned that in May 2008 the Commission will publish legislation. Work on it will continue during the presidency of France.

3.1.2. Direct payments

As in 2006, direct payments were made by applying the single area payment scheme in Latvia in 2007. Yet based on the changes introduced in the EU legislation by the European Commission (EC), all European Union (EU) Member States had to implement a reform of complementary national direct payments (CNDP) in 2007, ensuring that within the limits of granted financing CNDPs are implemented as two types of payments: production linked payments and decoupled payments. Therefore, in 2007 considerable changes were introduced concerning the CNDP implementation in Latvia: an agreement was reached with the EC on new CNDP granting provisions, total amount of support and support rates for the period of 2007–2009. Previously the EC approved the CNDP granting provisions, total amount of support and support rates every year, and that limited the farmers' ability to plan the amount of financing available to the farm and adapt to market conditions.

Thus in 2007, farmers could apply for 14 various EU direct payments. In comparison with 2006, the same support provisions applied in 2007 for the single area payment, separate payment for sugar and the following CNDPs: for areas of arable crops, for fodder areas, for slaughtered or exported bovine animals, for suckler cows, for ewes, for seeds of grasses and flax, for potato starch.

In 2007, the following new direct payments were introduced and available to farmers: support for energy crops, decoupled CNDP for areas, decoupled CNDP for slaughtered or exported bovine animals, decoupled CNDP for milk and decoupled CNDP in special cases for new farmers.

The EU legislation provides for a gradual increase of the direct payments in the new EU Member States, stipulating that the new Member States will catch up with the "old" EU Member States by 2013. In comparison with 2006, in 2007 the amount of financing available for the single area payment increased by 15.25%. Various sources will be used to finance the direct payments up to 2013: the EU budget as well as the national budget.

In 2007, Latvia's farmers could receive the direct payments in

the amount of 70% of the payments received by the farmers of the "old" EU Member States. The direct payments available to the farmers in 2007 totalled 94.2 million lats. In comparison with 2005, the total amount of funding available as direct payments increased by 24.41 million lats.

In compliance with the EU legislation, the 2007 support to farmers will be disbursed from 1 December 2008 to 30 June 2009.

The provisions for obtaining the direct payments were governed by the 17 April 2007 Cabinet of Ministers regulations No.269 "Procedures by which State and European Union support is granted to agriculture in the framework of direct support schemes". In 2007, a procedure for administration and monitoring of the direct payments was prepared: 17 April 2007 Cabinet of Ministers regulations No. 406 "Procedure for administration and monitoring of the national and the European Union support to agriculture and rural development as well as procedure for publishing information on beneficiaries".

Single area payment

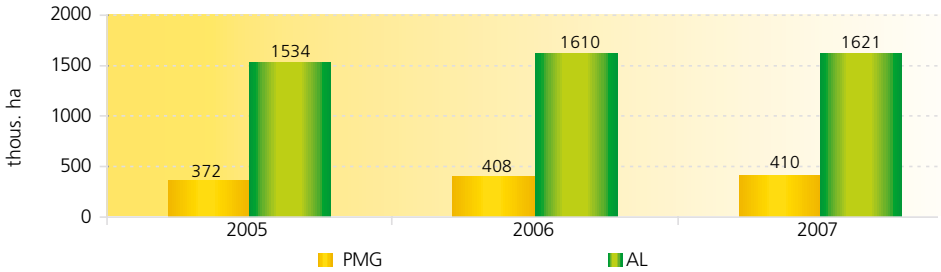
The EU legislation stipulates that the amount of the single area payment is increased year by year. By 2013, the level of the "old" EU Member States will be caught up with, i.e. the financing will be fully covered from the EU budget. In 2007, the amount of financing granted to Latvia totalled 39.282 million lats with the maximum rate of aid at 26.63 lats per ha. Yet taking into account that in 2007 the farmers declared and the Rural Support Service approved as eligible for payment an area (1 536 127 ha) exceeding the reference area (1 475 000 ha) established upon Latvia joining the EU, the actual disbursement rate of the single area payment was 25.57 lats per ha.

Single area payments can be granted for agricultural land which was at a good agricultural condition as at 30 June 2003. A farmer is eligible for the single area payment if managing at least 1 ha of agricultural land. Moreover, the EU legislation provides that the single area payment is available to a farmer regardless of whether the land is or is not used for agricultural production, provided that the farmer complies with certain good agricultural and environmental condition.

Good agricultural and environmental condition presume that the agricultural land is maintained using adequate agro-machinery, maintaining the drainage systems at the farmer's disposal and the fertility of the agricultural land, as well as that the permanent pastures and meadows are timely and regularly mown or grazed and mown.

In 2007, area payment applications submitted by farmers declared as permanent meadows and pastures an area of 410 208 ha and a total area of agricultural land of 1 620 511 ha.

The 2006 and 2007 experience proves that the area of permanent meadows and pastures increased, because to receive direct area payments the farmers had to comply with the provision that in 2005 and the years to follow the declared permanent meadows and pastures had to be preserved according to the procedure set by the Cabinet of Ministers. Consequently, the ratio of these areas to the declared agricultural land increased instead of decreasing. In comparison with 2005, the ratio of permanent meadows and pastures to the declared agricultural land has increased by 6.12%, amounting to 25.31% in 2007 (Figure 3.1.).



Source: MoA

Figure 3.1. Ratio of permanent meadows and pastures (PMP) to declared agricultural land (AL) in Latvia

Separate sugar payment

From 2006 to 2010, a separate sugar payment is available to the new EU Member States where the single area payment scheme is applied. The purpose of this payment is to provide income support to farmers to cover the losses sustained by the market as a result of the sugar sector reforms.

The amount of financing for separate sugar payments was set at 3.634 million lats for Latvia in 2007. The EU legislation provides that the new Member States have an opportunity to include part of the set financing of the separate sugar payment into the financial envelope of the single area payment, thus increasing the rate of the single area payment and reducing that of the separate sugar payment . Latvia elected to use all the available financing of the separate sugar payment as payment for sugar, i.e. as disbursements to sugar-beet growers, without reallocating it to all single area payment beneficiaries.

This choice was made due to several considerations. Firstly, to prevent the amount of compensation to sugar-beet growers from decreasing; secondly, to prevent the complementary national direct payments from decreasing as a result of increased

single area payments. The EU legislation provides that the amount of direct payments in the new Member States may not exceed 100% of the payments in the "old" EU Member States. Therefore, the calculation of the direct payments provides that the larger the support received by each sector via the single area payments, the smaller the respective complementary national direct payments.

Farmers eligible for the single area payments and having agreements with sugar producers on supply of sugar-beet signed in the commercial year 2006/2007 were eligible for support.

Separate sugar payment is a decoupled payment, and its rate at the national level is each year calculated by the Rural Support Service, taking into account the amount of support of the given year and total volume of sugar-beet (in tons) within the framework of sugar quota in Latvia, for which a sugar-beet supply contract has been signed in the reporting period. In 2007, the rate of support for the sugar was set at 8.44 Ls/ton. Therefore, the amount of separate payment made to farmers is calculated, taking into account the eligible sugar tons and the above-mentioned calculated rate of the separate sugar payment .

Support for crops with a high energy value

In 2007, farmers could receive support for crops with high energy values for areas used for growing energy crops which are utilised for the manufacture of energy products.

In 2007, farmers could not receive support for crops with high energy values for meadows, pastures and perennial grassland, which are intended for the production of hay as a raw material of energy production, as well as for areas in which trees and bushes are growing for the obtaining of energy .

In order to receive support for crops with high energy values for 2007, farmers had to:

1) complies with the conditions for receiving a single area payment;

2) by 15 May 2007, conclude a sales contract for energy crops with a recognised energy crops collector or first processor;

3) by 15 May 2007, submit to a regional agricultural office of the Rural Support Service an area payment application, a proof of 2007 sales contracts for energy crops, a copy of contract with a recognised energy crops collector or first processor;

4) by 1 March 2008, supply all (no less than the representative yield) harvested energy crops to the collector or first processor and sign a mutual supply declaration;

5) by 1 April 2008, submit to a regional agricultural office of the Rural Support Service a supply declaration on energy crops.

Maximum financial support for crops with high energy values amounted to 1.119 million lats in 2007 and the maximum rate of support was 22.52 Ls/ha.

In 2007, the number of applicants totalled 644 and the area declared for support amounted to 51 828 ha, whereas the actual rate of support was 22.27 Ls/ha.

Complementary national direct payments

The EU legislation provides that each new Member State has an opportunity to disburse complementary payments in addition to the single area payment in sectors significant for each particular Member State, taking into account that the EU has identified which sectors should be supported. Moreover, the amount of support available to the respective sector and received through the single area payment and complementary national direct payments (CNDP) may not exceed 100% of the payments in the "old" EU Member States.

The European Commission (EC) provides that the new Member States will have access to the single area payments scheme until 2010 and that CNDP are to be hereafter applied partly as decoupled payments. Therefore, as already mentioned before, within the limits of granted financing the CNDP were implemented as two types of payments in 2007: production-linked (coupled) and decoupled payments. It means that the coupled payments are disbursed to farmers for real agricultural production (per ha, animal, ton), whereas the decoupled payments are disbursed for production within a specific reporting period (support is not linked to the farmers activities: use of specific products or production factors) at the current moment.

In 2007, farmers could receive the following production-linked (coupled) CNDP:

1) for arable crop areas;
2) for fodder areas;
3) for slaughtered or exported bovine animals;
4) for suckler cows;
5) ewes;
6) for seeds of grass and flax;
7) for potato starch.

In 2007, farmers could receive the following decoupled CNDP:

1) for areas;
2) for milk;
3) for slaughtered or exported bovine animals;
4) in special cases for new farmers.

Complementary national direct payment for arable crops

In 2007, payments for arable crops were granted based on the crop codes featured in the Cabinet of Ministers regulations.

Farmers could receive the arable crops payments, if they complied with the single area payment eligibility conditions: the minimum total area was at least 1 ha, whereas the area of each field at least 0.3 ha; under normal growth conditions, the arable crops areas were sown before 15 June and the sowings were maintained at least up to the beginning of the ripening phase.

In comparison with 2006, the total amount of complementary national direct payment (CNDP) for arable crops available to farmers in 2007 was smaller, as part of the financial envelope was to be disbursed as decoupled payments (for the production of the previous reporting period). Consequently, the overall amount available to the Latvian farmers as CNDPs for arable crops in 2007 was 12.293 million lats (21.47 million lats in 2006), whereas the maximum rate of support amounted to 27.44 Ls/ha

(48.39 Ls/ha in 2006).
Yet considering that the area declared by the farmers in 2007 and approved as eligible for payment by the Rural Support Service was larger area than the arable crops reference area (443 580 ha) identified at the time of Latvia's accession to the EU, the actual rate of support disbursements within the framework of CNDPs for arable crops was 20.29 Ls/ha.

Complementary national direct payment for fodder areas

Fodder area payments were granted for areas used to obtain of rage or for graze animals (grass is grazed down and mowed around or mowed off and removed at least once by 1 August).
Payments could be received for perennial grass sown into arable land - in areas which the botanic component of the sward predominantly forms from cultivated papilionaceous plants and cereal grass species and that typically has a uniform sawed density, as well as for areas where cereals, grain, legumes and maize for green forage and silage are grown.
Farmers could receive the fodder area payments if compliant with the conditions for receiving the single area payment: the minimum total area was at least 1 ha, whereas the area of each field at least 0.3 ha.
The maximum amount of financing available as complementary national direct payment for fodder areas was 3.148 million lats in 2007, whereas the maximum rate of support amounted to 7.97 lats per ha. Nevertheless, the actual rate of support was 7.88 Ls/ha, as the area declared by the farmers in 2007 and approved as eligible for payment by the Rural Support Service was larger than the reference area established for complementary national direct payment for fodder areas.

Complementary national direct payment for slaughtered or exported bovine animals

Payment could be received for the bovine animals slaughtered or exported within the relevant year, if the animals were older than eight months at the time of submitting them for slaughtering or exporting and retention period in the herd of the farmer for at least 2 months prior to submitting them for slaughtering or exporting according to the data at the disposal of the Agricultural Data Centre.
According to the Cabinet of Ministers regulations, a bovine had to be slaughtered in a slaughterhouse that is under the supervision of the Food and Veterinary Service or recognised in the territory of the European Union slaughterhouse on, or it had to be exported outside the territory of the EU directly by the farm or using the services of a commercial company.
A farmer was eligible for support, if the animal was duly registered with the State agency "Agricultural Data Centre", if information on all changes in the livestock was provided regularly following the procedure set in the legislation of the Republic of Latvia concerning the registration of animals, herds and cattle-sheds.
In comparison with 2006, the total amount of complementary national direct payment for slaughtered or exported bovine animals available to farmers in 2007 was smaller, as part of the financial envelope was to be disbursed as decoupled payments (for the production of the previous reporting period). Consequently, the overall amount available to the Latvian farmers as complementary national direct payments for slaughtered or exported bovine animals in 2007 was 2.80 million lats (6.92 million lats in 2006), whereas the maximum rate of support amounted to 22.52 lats per animal (55.68 lats per animal in 2006).

Complementary national direct payment for suckler cows

In 2007, complementary national direct payment for suckler cows could be received for:

1) a suckler cow of a meat breed or a suckler cow born of a cross with a meat breed animal;
2) Latvian brown breed, Latvian blue breed, Swiss, Norwegian red breeds, Tyrol grey breed and other breed suckler cows not mentioned in Annex I to the European Commission Regulation No.1777/2004 and used as sucklers for calves rather than for milking;
3) a heifer from 8 months of age that has not yet calved.

A farmer could get the payment if the following conditions are observed:

1) the animal was duly registered with the State agency "Agricultural Data Centre", information on all changes in the livestock was provided regularly following the procedure set in the legislation of the Republic of Latvia concerning the registration of animals, herds and cattle-sheds;
2) cows and heifers were declared with the State agency "Agricultural Data Centre" as suckler cows and potential suckler cows (heifers) by 31 December 2007;
3) the number of suckler cows specified in the application for support may not be less than 60% of the total number of animals applied for payment in the relevant year and the number heifers applied for payment may not exceed 40% of the total number of animals applied for the payment;
4) the farmer shall retainin in the herd the number and proportion of animals submitted in the application for at least 6 months.

The maximum amount of financing available as complementary national direct payment for suckler cows was 1.79 million lats in 2007, whereas the maximum rate of support amounted to 92.2 lats per animal.

Complementary national direct payment for ewes

A payment could be received if the farmer had at least 10 ewes in the herd, which according to the data of the State agency "Agricultural Data Centre" had lambed once or were older than one year as at 1 July 2007.
A farmer was eligible for support, if the animal was duly registered with the State agency "Agricultural Data Centre", if information on all changes in the livestock was provided regularly following the procedure set in the legislation of the Republic of Latvia concerning

the registration of animals, herds and cattle-sheds. Moreover, the farmer had to preserve the ewes mentioned in the application in his/her herd until at least 23 October 2007 (100 days after the final date of submission of applications, which was 15 July).
The maximum amount of financing available as complementary national direct payment for ewes was 0.18 million lats in 2007, whereas the maximum rate of support amounted to 9.85 lats per animal, yet the actual rate of support was 8.5 lats per animal. The actual rate of support was lower, as in 2007 applications for the complementary national direct payment (0.22 million lats), exceeding the maximum amount set by the European Commission at 0.18 million lats.

Complementary national direct payment for seeds of grasses and flax

In 2007, payments were disbursed for seeds produced and sold in 2006, which had been certified with the State Plant Protection Service.

A farmer could receive a payment for seeds produced and sold in 2006 if the following provisions involving the regional agricultural office of the Rural Support Service where met:
1) information on the harvest was submitted by 1 October 2007;
2) information on the actual selling price of the seeds produced in the previous year was submitted 1 August 2007;
3) an application for support, copy of the seed certificate (must show original copy) and copies of invoices (must show original copy) or mandatory receipts registered with the State Revenue Service for the homegrown and market seeds will be submitted by 1 August 2008.
Overall amount of financing available as complementary national direct payment for sold seeds was 0.187 million lats in 2007. Support disbursements for 2007 will be made to farmers in 2008, and the rate of support is dependent on the species of seeds (Table 3.2.).

Table 3.2.
2007 rates for complementary national direct payment for seeds of grasses and flax, LVL/100 kg
(for the seeds produced and sold in 2006)

Species	Payment	Species	Payment
Triticum spelta L.	9.67	Phleum pratense L.	52.15
Linum usitatissimum L. (fibre flax)	13.32	Poa nemoralis L.	9.61
Linum usitatissimum L. (linseed)	12.85	Poa pratensis L.	13.79
Cannabis sativa L.	11.12	Poa palustris L.	16.7
Agrostis canina L.	31.26	Poa trivialis L.	14.04
Agrostis gigantea Roth.	40.14	Hedysarum coronarium L.	18.06
Agrostis stolonifera L.	31.26	Medicago lupulina L.	4.68
Agrotis capillaris L.	31.26	Medicago sativa L. (ecotypes)	0
Arrhenatherum elatius (L.) P.	40.59	Medicago sativa L (varietes)	7.99
Dactylis glomerata L.	30.48	Onobrichis viciifolia Scop.	8.77
Festuca arundinacea Sherb.	37.67	Trifolium alexandrium L.	5.57
Festuca ovina L.	17.36	Trifolium hybridum L.	5.66
Festuca pratensis Huds.	24.02	Trifolium incarnatum L.	5.57
Festuca rubra L.	17.04	Trifolium pratense L.	24.33
Festulolium	17.45	Trifolium repens L.	26.23
Lolium multiflorum Lam.	10.43	Trifolium repens L.var.giganteum	23.16
Lolium perenne L.	16.48	Trifolium resupinatum L.	5.57
Lolium x boucheanum Knuth	9.54	Vicia sativa	18.25
Phleum Bertolini (DC)	26.99	Vicia villosa	13.58

Source: MoA, RSS

Complementary national direct payment for potato starch

Complementary national direct payment per ton of potato starch was available to those planters of starch potatoes who:
1) concluded a potato growing agreement with a starch manufacturer for delivery of a particular amount of potatoes;
2) delivered potatoes to the starch manufacturer in accordance with the terms of the concluded potato growing agreement;
3) by 15 July 2007, submitted to a regional agricultural office of the Rural Support Service an application for support and a copy of the growing agreement.

The rate of complementary national direct payment for 2007 was set as 46.45 lats per each ton of potato starch, and the total amount of financing was 0.269 million lats.

Decoupled complementary national direct payment for areas

In 2007, decoupled complementary national direct payment for areas was available to farmers, who:
1) complied with the single area payment eligibility conditions;
2) in 2006, were the beneficiaries of the complementary national direct payment for arable crops or complementary national direct payment for potato starch.
3) by 15 May 2007, submitted an area application to a regional agricultural office of the Rural Support Service.
In 2007 and beyond, farmers could and will be able to receive the decoupled complementary national direct payment for a reference area or a part thereof preserved in 2007 in compliance with the conditions for receiving the single area payment. A reference area is the number of hectares approved as eligible for complementary national direct payment for arable crops in 2006, and the number of hectares stipulated in the potato growing contract with the starch producer in 2006.
Overall amount of financing available as the decoupled complementary national direct payment for areas was 10.32 million lats in 2007. The rate of support available in Latvia was calculated based on the procedure set by the Cabinet of Ministers regulations by the Rural Support Service, and it was 17.97 lats per ha.
In 2007, the total number of applicants for the decoupled complementary national direct payment for areas was 41 248, and the total area declared for payment was 562 687 hectares.

Decoupled complementary national direct payment for milk

In 2007, decoupled complementary national direct payment for milk was available to farmers, who:
1) complied with the single area payment eligibility conditions;
2) by 15 May 2007, submitted an application to a regional agricultural office of the Rural Support Service.
In 2007, decoupled complementary national direct payment was granted to farmers for milk sold within the quota of 2006/2007 quota year, as well as by new dairy farmers for the milk sold within the quota of 2006/2007 quota year (obtained as a result of 2006/2007quota transactions) and granted milk ton from the restructuring reserve.
In 2007, new dairy farmers were considered to be farmers owning a farm, but having no quota on 1 April 2006 and starting milk production and sales within the framework of restructuring reserve quota in 2006. 2007 quota year: i.e. from 1 April 2006 to 31 March 2007.
The maximum amount of financing available as decoupled complementary national direct payment for milk was 15.05 million lats in 2007.
In 2007, the total number of applicants for the decoupled complementary national direct payment for milk was 17 589, and total eligible milk quota in Latvia in 2006/2007 quota year was 614 389 tons.
Based on the above-mentioned total eligible milk quota in quota year 2006/2007 and total amount of financing available for the decoupled complementary national direct payment for milk, the rate of support available in Latvia was calculated based on the procedure set by the Cabinet of Ministers regulations by the Rural Support Service on 16 October 2007, and it was 24.63 Ls per milk ton.

Decoupled complementary national direct payment for slaughtered or exported bovine animals

Decoupled complementary national direct payment for slaughtered or exported bovine animals could be received in 2007 by farmers who were the beneficiaries of the complementary national direct payment for slaughtered or exported bovine animals in 2006 and who were compliant with the single area payment eligibility provisions in 2007.
Decoupled complementary national direct payment for slaughtered or exported bovine animals was granted to farmers for:
1) bovines for which the farmer received complementary national direct payment for slaughtered or exported bovine animals in 2006;
2) bovines which according to the State agency "Agricultural Data Centre" data entered (were born, transferred from another herd or bought) the herd in the period of time from 1 January 2007 to 1 March 2007 and from the moment of entry were kept on the herd for at least two months;
3) bovines conforming the eligibility conditions for complementary national direct payment for slaughtered or exported bovine animals, which according to the State agency "Agricultural Data Centre" data had been slaughtered from 1 January 2007 to 1 March 2007.
The maximum amount of financing available as decoupled complementary national direct payment for slaughtered or exported bovine animals was 4.20 million lats in 2007. The rate of support available in Latvia was calculated based on the procedure set by the Cabinet of Ministers regulations by the Rural Support Service on 16 October 2007, and it was 32.71 lats per animal.
Overall, 25 228 applicants applied for the decoupled complementary national direct payment for slaughtered or exported bovine animals in 2007, and the number of declared bovines totalled 110 168.

Decoupled complementary national direct payment in special cases for new farmers

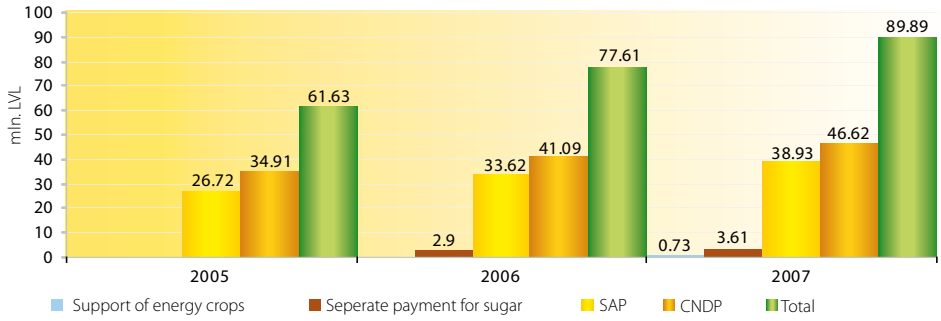
In 2007, decoupled complementary national direct payment in special cases for new farmers could be received for hectares eligible for the single area payment in 2007 or the number of hectares fow which the single area payment was received in 2007.

Decoupled complementary national direct payment in special cases for new farmers was provided, because there could be farms which started their agricultural activities in 2006, unaware of the changes in implementation of the complementary national direct payments introduced in 2007.
In 2007, this payment was available to farmers having registered with the Commercial Register from 15 May 2006 to 1 March 2007 and performs agricultural activities.
To receive this support, farmers had to apply for the single area payment, by submitting an area application to a regional agricultural office of the Rural Support Service by 15 May 2007.
As there is no fixed total financial envelope for this payment, it is planned that it will be financed from the total available unused amount of complementary national direct payments, i.e. from unused financial envelopes of 2007.

The rate of 2007 decoupled complementary national direct payment in special cases for new farmers was calculated based on the procedure set by the Cabinet of Ministers regulations by the Rural Support Service on 16 October 2007, and it was 18.82 lats per reference ha.
Overall, 176 applicants applied for the decoupled complementary national direct payment in special cases for new farmers in 2007, and the total declared area was 12 720 hectares.

Summary

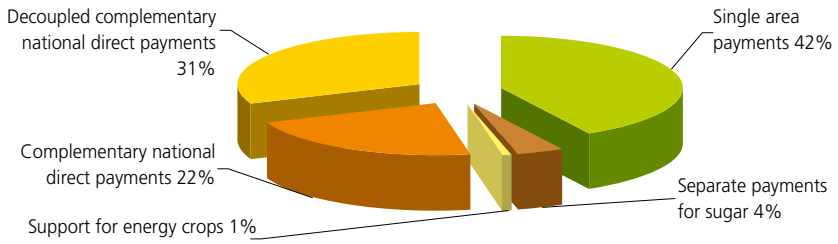
From 2005, the single area payment scheme is implemented in Latvia, and by 2007 229.19 million lats had been disbursed to farmers as direct payments, of which 55.4 % or 127.05 million lats were financed from the EU budget (Figure 3.2.).



Source: RSS

Figure 3.2. Disbursement of direct payments in Latvia (in millions of lats)

In three years, not only the amount of disbursements, but also the number of applicants and the areas entered for receiving support have grown. That can be explained by the high proportion of area payments in the total direct payments and comparatively simple criteria for receiving support. Amounts of financing available in 2007 by type of payment are featured in Chart 3.



Source: MoA

Figure 3.3. Amount of financing available as direct payments in 2007 by type of payment

Every year, the number of areas entered and approved for the complementary national direct payment for arable crops exceeded the reference area. The area applied for the single area payment also exceeded the reference area in 2005, 2006 and 2007.
According to the EC approach to implementation of the relevant EU legislation, from 2007 direct payments will have to be primarily implemented as decoupled payments, i.e. without linking them to the actual production. Consequently, payments are linked to areas, instead of such production units as animals or tons. The purpose of such an approach is to catch up with the objectives of the World Trade Organisation for achievement of market liberalisation by decoupling payments and production as well as limit protectionist policies at the EU level.

3.1.3. Import, export administration measures (licences, export refunds, tariff quotas)

Export refunds

Only 25 out of more than a 100 World Trade Organisation member states may apply export refunds. Latvia has access to export refunds since its accession to the European Union in 2004, as according to the WTO provisions the European Union is one of the WTO members that may apply export refunds to particular products (20 products in total).

Export refunds are applied to compensate the price difference between the European Union market and third country markets and only to those products, where consumption can be satisfied by the European Union's domestic market. Taking into account the need to ensure levelling of prices and availability of the product for consumption on the domestic market, in 2007 export refunds were available for products, like cereals, sugar, sugar in processed fruit and vegetables, milk and dairy products, pork, processed agricultural products etc..

From 15 June 2007, as the situation on the global market was extremely favourable and to satisfy the domestic demand of the European Union, the European Commission abolished export refunds for milk and dairy products. That means that export refunds were suspended until such time when the situation on the global market would warrant the need to level out the prices of exported products.

In 2007, export refunds in Latvia were disbursed for the following products: cereals, sugar, sugar in processed fruit and vegetables, milk and dairy products, pork, processed agricultural products. In comparison with 2006, the total amount of export refund disbursements increased by 42.17% (from 1.3 million in 2006 to 1.9 million in 2007). The largest share of export refunds was paid for milk and dairy products: 89% of the total amount of export refunds. Consequently, it can be forecast that in 2008 the amount of used export refunds will decrease, as no export refunds are applicable to milk. Yet it has to be borne in mind that Latvia's businesses did not apply for export refunds for beef in 2007. If they use this opportunity in 2008, the decrease of granted export subsidies could be less notable in 2008.

Table 3.3.

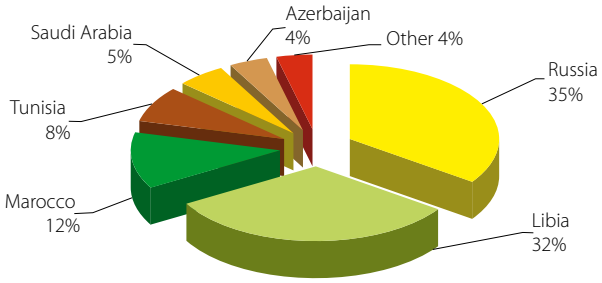
Export refunds disbursed in Latvia by product sectors in 2005-2007

Disbursed amount, LVL			
Sector	2005	2006	2007
Milk and dairy products	257 846	860 156	1 719 846
Sugar processed in fruit and vegetables	0	0	100 406
Processed products	140 577	155 643	94 092
Cereals	169 194	260 175	10 429
Sugar	55 157	78 964	1 475
Pork	0	0	152
Eggs	0	24	0
Beef and veal	6 221	0	0
Total:	628 995	1 354 962	1 926 400

Source: RSS

In 2007, the biggest amounts of export refunds out of exports subsidised in Latvia were disbursed for products exported to Russia (35%) and Lybia (32%). The main exports were milk and dairy products. These were followed by subsidised exports to Morocco (12% of total subsidised exports), Tunisia (8%) and Saudi Arabia (5%).

Comparison with the data on 2006 leads to a conclusion that the amount of subsidised exports for products exported to Russia decreased by almost a half. The subsidised exports to Lybia, on the contrary, grew almost three times (export refunds were disbursed only for milk and dairy products).



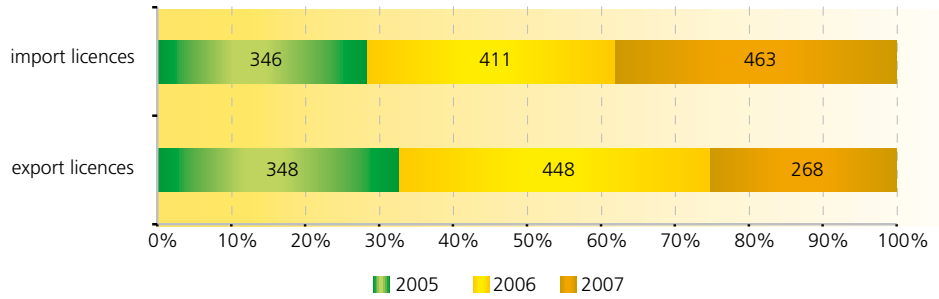
Source: RSS

Figure 3.4. Country of destination for subsidised exports (%)

Import/export licences and tariff quota

Licences are required for the exports of particular agricultural products to third countries or their imports from these countries. Import licences are required for dairy products, sugar, grain, rice, wine etc., whereas export licences are required for sugar, grain and rice, beef etc. A licence is mandatory if imports or exports are carried out under preferential arrangements: exports with refunds or imports within a quota.

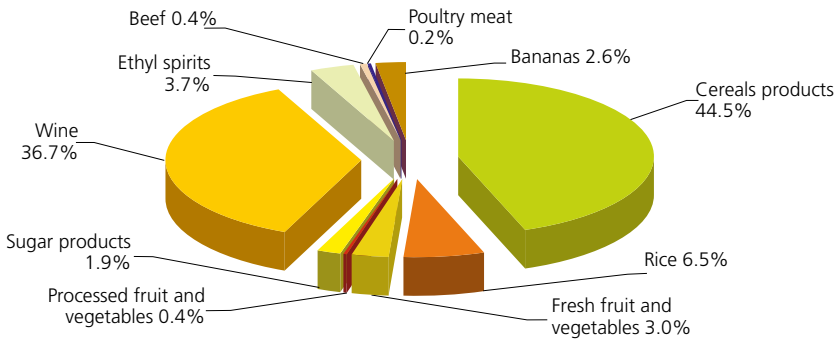
Prior to importing or exporting any product, it has to be checked whether the importing or exporting of the particular product requires any licence. An import/export licence is a permit obliging the holder to import or export the amount of products stipulated by the licence during the term of its validity.



Source: RSS

Figure 3.5. Number of issued export licenses and import licenses in 2005-2007

In comparison with 2005 and 2006, only the number of import licences increased in 2007. The number of import licences granted in 2007 grew by 12% in comparison with 2006, whereas the number of export licences granted in 2007 decreased by 40% year-on-year. Of 463 granted import licences, 9 were licences for imports within the framework of a tariff quota.

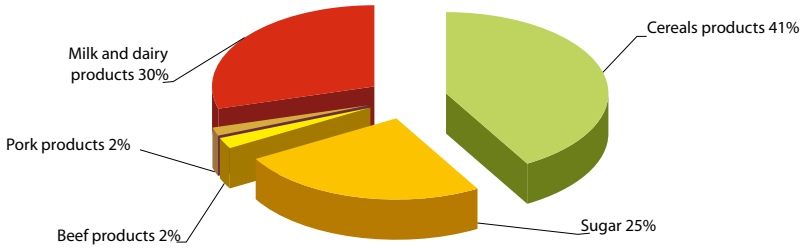


Source: RSS

Figure 3.6. Number of issued import licences in 2007 by product sectors (%)

The biggest number of import licences in 2007 was issued for wine and grain. In comparison with 2006, the number of import licences issued for grain increased by 7%, for fresh fruit and vegetables by 2.5%, whereas the number of import licences issued for wine decreased by 14.6%, for ethyl spirits by 0.4%. It has to be noted that 6.5% of all licences granted in 2007 were licences for rice (no licences were granted for this product in 2006). It has to be also noted that in 2007 import licences for milk and dairy products were no longer issued (in 2006, they amounted to 1.2% of the total number of import licences granted). In other sectors, changes in the number of issued import licences in comparison with 2006 were minimal.

In 2007, import licences were granted for imports from Argentina, USA, Australia, Brazil, Chile, Canada, Ecuador and also from the CIS countries: Belarus, Russia, Kazakhstan, Ukraine, Georgia, Moldova, as well as from Israel, India, Pakistan, South Africa, Thailand, China, Vietnam and Uruguay.



Source: RSS

Figure 3.7. Number of issued export licences in 2007 by product sectors (%)

In comparison with 2006, the share of export licences for sugar has increased by 11% in 2007, whereas export licences on milk and dairy products and grain and cereals products have decreased (by 4.7% and 6.2% respectively).

In 2007, export licences were issued primarily for exports to the CIS countries: Belarus, Georgia, Kazakhstan, Russia, Uzbekistan, as well as to Cape Verde islands, Gambia, Israel, Island, USA, Japan, Morocco and Norway.

Summary

In 2007, export refunds increased by 42.2% in comparison with 2006 and amounted to 1.9 million lats. Overall, 268 export licences for grain products, sugar, beef and pork products, milk and dairy products were granted in 2007. In 2007, 463 import licences were granted. Import licences were granted for such agricultural products, like cereals, rice, fresh or processed fruit and vegetables, sugar products, wine, ethyl spirits, bananas.

As regards the export refunds, it can be expected that the amount of refund disbursements will decrease significantly in 2008, as no export refunds will be applied to milk. At the same time Latvian exporters can apply for export refunds for beef (this opportunity was not used in 2006 and 2007).

Starting from 2008, trade arrangement implementation in Latvia will be governed by the Cabinet of Ministers 1 April 2008 regulations No.406 "Procedure for administration of the external trade regime of the European Union concerning agricultural and processed agricultural products".

3.1.4. Market interventions

Grain

Last intervention stock in Latvia was sold on the domestic market in spring 2007. Latvia's intervention centres stopped buying grain since the commercial year 2005/2006. By the end of the commercial year 2007/2008, the EC plans to sell all European Union intervention stock. EC proposes to preserve interventions only for soft wheat, believing that this will serve as a safety measure for the prices of other cereals, until they stabilise at their natural level.

Grain intervention price has remained unchanged since 1 October: 101.31 EUR per ton. Every month, the price increases by 0.46 EUR per ton. In the commercial year of 2006/2007, up to 31 December 2006 no grain was offered for intervention storage. Grain for the intervention in the current commercial year can be purchased starting from 1 November until 31 May of the next year. Grain intervention measure is the last chance for the producer to sell the grain if not possible on the market, ensuring the minimum price.

Milk and meat products

Within the framework of the European Union's common market organisation in milk and dairy products, pork and beef and veal, no market intervention measures for milk and meat products were taken in 2007.

3.1.5. Promotion of EU agricultural products

Information and promotion measure support system for agricultural products allows receiving EU support (50% of total programme costs) and state aid (30% of total programme costs) for programmes developed by sectoral professional organisations. There are two programmes in Latvia since 2006:

1. Promotion of honey and other apiculture products (submitting authority: Latvian Apiculture Society);
2. Development of the market of organic farming products (submitting authority: Latvian Association of Organic Farming).

Both programmes successfully inform consumers in Latvia of the aspects of quality and nutritive value of those products as well as introduce their variety at various testing events, exhibitions, over mass media (TV, internet, magazines, radio). After the first year of programme implementation, it can be concluded that programme implementation has boosted the awareness of consumers and interest in the respective products as well as increased the demand at selling places of those products.

During 2007 the European Commission developed programme development guidelines to facilitate programme preparation and evaluation. Legislation was simplified at the European Union level, resulting in a merger of several regulations. Changes are planned in the EU legislation in the future to improve and simplify the information and promotion measure support system. These changes will be based on Member State proposals.

3.1.6. Latvian Rural Development Plan 2004 – 2006

Situation at 2007

In 2007, implementation of the national and European Union support to rural development from Latvian Rural Development Plan for implementation of the Rural Development Programme 2004–2006 (hereinafter referred to as Rural Development Plan) continued.

Latvian Rural Development Plan includes the following measures:

1) Agri-environment (sub-measures: "Developing organic farming", "Maintaining biodiversity in grasslands", Establishment of buffer belts", "Preserving livestock genetic resources of farming animals", "Reduction of erosion");
2) Less favoured areas (LFA) and areas with environmental restrictions (AIVAN);
3) Early retirement;
4) Support to producer groups;
5) Support for restructuring of semi-subsistence farms;
6) Meeting standards;
7) Technical assistance.

Successful implementation of the Rural Development Plan continued in 2007. Administration of the Rural Development Plan was facilitated by mutual cooperation and information exchange between the Ministry of Agriculture and Rural Support Service.

In 2007, several amendments were introduced in the Rural Development Plan measures:

1. 20 March 2007 amendments to "Less favoured areas and areas with environmental restrictions", "Early retirement", "Meeting standards" measures by reducing the financing of those measures. To improve the spending efficiency of the Rural Development Plan funding, based on the calculations prepared by the Rural Support Service and Ministry of Agriculture, financing was increased for the Rural Development Plan measures "Agri-environment", "Support for restructuring of semi-subsistence farms", "Technical assistance" and single area payments.
2. 23 October 2007 amendments to the Rural Development Plan measures "Support for restructuring of semi-subsistence farms" and "Less favoured areas and areas with environmental restrictions", whereby the financing of those measures was reduced. To improve the spending efficiency of the Rural Development Plan funding and ensure full use of the funding, based on the calculations prepared by the Rural Support Service and Ministry of Agriculture, financing was increased for the Rural Development Plan measures "Early retirement" and "Support to producer groups". Reallocation of financing granted to the measures was required to ensure the approval of applications submitted under the Rural Development Plan measure "Support to producer groups" and disbursements for 2007, and to meet the commitments within the framework of the measure "Early retirement".

Measure spending and activities in 2007

1. From 18 May to 15 June 2007, applications were accepted under the measure "Support to producer groups. In 2007, 48 applications were approved, with the total disbursement to beneficiaries amounting to 763 519 lats.
2. From 16 April to 11 June 2007, applications were accepted under the following sub-measures of the measure "Agri-environment": "Developing organic farming", "Maintaining biodiversity in grasslands" and "Setting-up buffer zones". Until 3 September 2007, admission of applications continued under the sub-measure "Preserving livestock genetic resources" of the measure "Agri-environment", whereas until 2 October 2007 it continued under the sub-measure "Reduction of erosion" of the measure "Agri-environment". Overall, under the measure "Agri-environment" 16 563 applications were confirmed in 2007, with the total disbursement to beneficiaries amounting to 32,7 million lats. Concerning the applicants applying for support under the Rural Development Plan measure "Agri-environment" sub-measures for the first time in 2007, no new commitments were undertaken and support for additionally applied areas or animals was not granted based on Paragraph 27 of 17 April 2007 Cabinet of Ministers regulations No.255 "Procedure for granting state and European Union support to rural development".
3. 22 624 applications submitted in previous years and amounting to 14,7 million lats were disbursed under the Rural Development Plan measure "Less-favoured areas and areas with environmental restrictions" in 2007. In calendar year 2007, the measure "Less favoured areas" (LFA) and its sub-measure "Areas with environmental restrictions" (AIVAN) have been realized under the Latvian Rural Development Programme 2007–2013.
4. Within the framework of the measure "Technical assistance", the Rural Support Service received and approved 58 reports on implementation of activities planned under the measure in 2007. Total disbursement amounted to 429 025 lats.

In 2007, 2 training measures were financed from the "Technical assistance" funding, 6 databases were built, a study of the Rural Development Programme 2007–2013 measure "Vocational education and information measures" concerning the advisable training themes was prepared as well as various information measures were completed (conferences were organised and booklets and manuals were published).

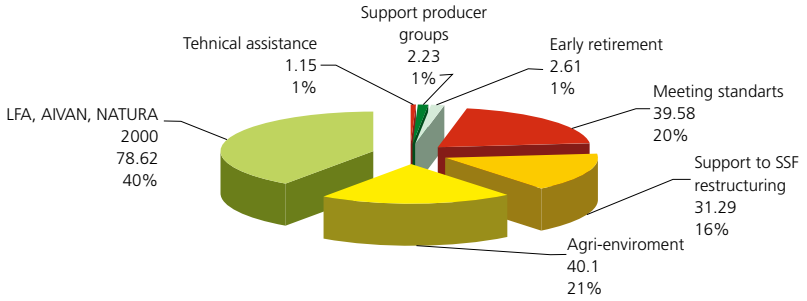
The following information and publicity measures were implemented and funded under the Rural Development Programming support measure "Technical assistance" in 2007:

1) a series of five TV broadcasts on the RDP measures: improving the competitiveness of agriculture and forestry sectors; promoting rural life quality; support for restructuring of semi-subsistence farms (June–August 2007);
2) a series of four TV broadcasts on opportunities to receive the EU funding (June–August 2007);
3) topical information about the RDP on Latvian radio, in Latvijas Avīze, Agropols;
4) four regional conferences on rural development issues in

August 2007;
5) regular press releases on rural development issues;
6) telephone campaigns in editor's offices of Latvian district newspapers;
7) replies to questions over the "hotline" of the MoA;
8) SMS to farmers about the latest RDP developments;
9) A workshop – training for staff/civil servants involved in development of the Rural Development Plan 2007-2013 in procurement organisation and management;
10) Publication of presentation materials.
The following information, publicity and evaluation measures funded under the Rural Development Plan support measure "Technical assistance" were started in 2007:
1) Development of visual identity guidelines for implementation of information and publicity measures under the European Agricultural Fund for Rural Development;
2) Development of methodologies to prepare a fertilising plan for cultivated plants;
3) Improvement and expansion of good agricultural practices in Latvia based on the requirements of the EU legislation and changes in Latvian legislation, and preparation of the draft to be approved as the Minister of Agriculture recommendations for land management.

Results of implementation of the Rural Development Plan in 2005 – 2007

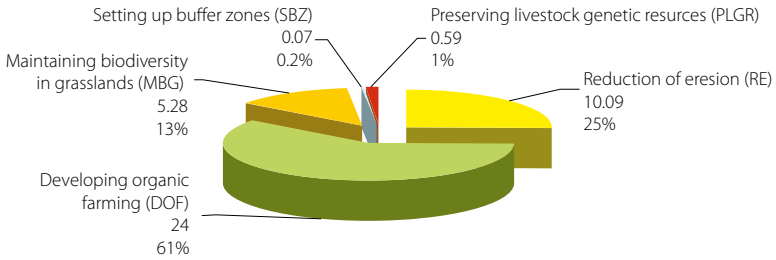
Total disbursements made for the Rural Development Plan measure implementation in 2005–2007 amounted to 215.9 million lats. There was disbursed 80.7, million lats in 2005, 66,4 million lats in 2006 and 68,8 million lats in 2007.
The largest disbursements from the Rural Development Plan funding in 2005-2007 were made under the measures "Agri-environment" (40.1 million lats) , "Meeting standards" (39.6 million lats) and "Support for restructuring of semi-subsistence farms" (31.3 million lats).



Source: RSS

Figure 3.8. Disbursements from the Rural Development Plan funding made to measures in 2005-2007 (in millions of lats)

The biggest disbursements from the Rural Development Plan measure "Agri-environment" funding in 2005-2007 were made to the following sub-measures: "Developing organic farming" (24.1 million lats), "Reduction of erosion" (10.1 million lats) and "Maintaining biodiversity in grasslands" (5.3 million lats).



Source: RSS

Figure 3.9. Breakdown of disbursements made from the Rural Development Plan 2005 - 2007 by sub-measures of the measure "Agri-environment" (in millions of lats)

Table 3.4.

Implementation activity of the Rural Development Plan measures in 2005 - 2007

Year	LFA and AIVAN (no of disbursed applications)	Agri-environment (no of contracts)	Support to producer groups (approved applications)	Support for restructuring of semi-subsistence farms (approved applications)	Meeting standards (approved applications)	Early retirement (no of contracts)	Technical assistance (admitted reports)
2005	65382	5922	40	11475	2533	7	34
2006	52106	23285	41	14785	2529	343	44
2007	25450	16563	48	14294	2699	653	58

Source: RSS

Table 3.5.

Number of applications submitted to receive support under the Rural Development Plan measure "Agri-environment" sub-measures in 2005 – 2007

Year	Developing organic farming	Maintaining biodiversity in grasslands	Setting up buffer zones	Preserving livestock genetic resources	Reduction of erosion
2005	2841	2429	244	502	0
2006	4058	3718	273	535	8436
2007	4021	3505	245	435	7698

Source: RSS

Expected policy changes

Starting from 2010, a less-favoured area reform is expected to be implemented, within the framework of which the selection criteria for these areas will be reviewed.

Within the framework of the common agricultural policy, the European Commission has a plan to simplify the direct payments: abolish the mandatory fallows preservation provision, review the minimum eligible area (0.3 ha), review the cross-compliance requirements, introduce full decoupling of payments starting from 2013 as well as to move from the historical model to a regional model with a single rate of support per ha in each region.

Summary

Successful implementation of the Rural Development Plan continued in 2007. Administration of the Rural Development Plan was facilitated by mutual cooperation and information exchange between the Ministry of Agriculture and Rural Support Service. No new applications were admitted under the RDP measures "Meeting standards", "Early retirement", "Support for restructuring of semi-subsistence farms" and "Technical assistance".

The Ministry of Agriculture in the capacity the Managing Authority for the European Agricultural Fund for Rural Development (EAFRD) completed negotiations with the European Commission on the Latvian Rural Development Programme for 2007. – 2013. on 20 December 2007, receiving a positive opinion from the EC Rural Development Committee concerning the approval of the RDP 2007. – 2013. by the EC. Although in 2007, the "Latvian Rural Development Programme 2007 - 2013" was not yet approved, farmers could apply for support also under the RDP 2007-2013 measure "Natura 2000 payments and payments linked to Directive 2000/60/EC" and measure "Payments to farmers in areas with handicaps, other than mountain areas".

3.1.7. Latvian Rural Development Programme 2007–2013

National and European Union support to rural development is granted based on Latvian Rural Development Programme 2007–2013 (hereinafter referred to as RDP 2007-2013), which was agreed with the European Commission at the end of 2007. The decision on the RDP 2007-2013 approval was received on 15 February 2008.

RDP 2007-2013 is a policy planning document for rural development setting the development directions and breakdown of the European Union and national financing for the programming period 2007–2013.

The RDP 2007-2013 was developed based on Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund

for Rural Development (EAFRD) and Commission Regulation (EC) No 1975/2006 of 7 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures.

RDP 2007–2013 funding for rural development support in total amounts to 1.36 billion euro, of which about 1.04 billion euro will be the EU financing and other financing or 0.32 million lats will be the national co-financing of Latvia. This EAFRD funding will be administered by the Rural Support Service (hereinafter referred to as RSS) under the management of the Ministry of Agriculture.

RDP 2007 – 2013 axis and measures

RDP 2007-2013 sets the rural development priorities and measures, broken down into four groups or axis according to their objectives.

Axis 1 is set as promotion of the competitiveness of agricultural and forestry sectors. The financing for the axis amounts to 50% of the total financing and is mainly channelled to farmers and forest managers for investment and training. In order to promote the competitiveness of agricultural and forestry sectors, the same as in the previous programming period, support is given to modernisation of farms, farmer training, set up of young farmers. A new thing is various information measures to strengthen and improve the knowledge possessed by farmers and forest managers. A new area is wide advisory services. As before, in the period of 2007–2013 the economic value of forests will be improved, processing will be modernised. To raise the competitiveness, support will be also extended to semi-subsistence farms and producer groups. A newly planned measure is improvement of infrastructure relating to agriculture and forestry development.

Within the framework of this axis, 10 measures will be implemented. The largest part of the axis financing will go to the measure "Modernisation of agricultural holdings". RDP axis 1 includes the following measures:

1. Vocational education and information measures;
2. Setting up young farmers;
3. Early retirement;
4. Use of farm and forestry advisory services;
5. Modernisation of agricultural holdings;
6. Improving of economic value of forests;
7. Adding value to agricultural products;
8. Infrastructure related to the development and adaptation of agriculture and forestry;
9. Support for restructuring of semi-subsistence farms;
10. 142 - Producer groups.

The financing for the **axis 2 (improving the environment and rural landscape)** amounts to 30% of the total financing. It will be used on various agri-environment payments, supporting the development of organic farming and integrated horticulture, which significantly reduce the chemical stress to the environment compared to intensive farming methods, promote extensive management of biologically valuable grasslands as well as increase the soil content of plant nutrients and reduce the impact of erosion. Priority measure "Agri-environment payments" will use more than 40% of the total axis funding. Public financing within the framework of this measure will be channelled to maintenance of local varieties of agricultural animals and promoting reduction of pollution caused by intensive agriculture in particularly vulnerable territories by establishing grassland belts along rivers, ditches and fields, thus promoting the preservation of biodiversity, mitigation of climate changes and improvement of water quality.

37% of the axis 2 financing will be used on measure "Payments to farmers in areas with handicaps, other than mountain areas", as a continuation to the support extended in the previous programming period to agricultural activity in less favoured areas. Taking into account the agro-climatic and socio-economic conditions, management of agricultural land preserving an open rural landscape will be supported. Support to agricultural production in less-favoured areas is gradually reduced, increasing the total financing for investment accordingly. It is also planned to continue compensating legal restrictions in agricultural lands included as "Natura 2000" territories. Compensations will be provided for restrictions on forestry operations on forest lands within "Natura 2000" areas. As before, support will be given to afforestation of agricultural lands not used in agriculture and preventive measure implementation.

Axis 2 includes six measures and four sub-measures.

Measures targeting the sustainable use of agricultural land:

1. Payments to farmers in areas with handicaps, other than mountain areas;
2. NATURA 2000 payments and Payments linked to Directive 2000/60/ECC;
3. Agri-environment payments. Included sub-measures:
   - Developing organic farming
   - Introducing and promoting integrated horticulture
   - Maintaining biodiversity in grasslands
   - Stubble field in winter period

Measures targeting the sustainable use of forestry land:

4. First Afforestation of Non- Agricultural land;
5. „NATURA 2000 Payments (to Forest Owners);
6. Restoring Forestry Potential and Introducing Prevention Actions.

The objective of axis 3 is to improve the life quality in rural areas and diversify the economy. The planned financing amounts to 20% of the total financing. This measure will be used for diversification of the rural economy, renewal and special promotion of non-agricultural business activities. Support to rural tourism will continue. New support is granted to infrastructure development measures as well as preservation and development of the cultural and historical heritage of the rural areas.

Priority measures within the framework of axis 3 are "Support for

business start-ups and development (including diversification into non-agricultural activities)" and "Basic services for the economy and rural population". The axis includes four measures:

1. Support for creation and development of enterprises (including diversification into non-agricultural activities); Includes the following sub-measures:
   - Support and development of microenterprises;
   - Diversification into non-agricultural activities ;
   - Production of energy from biomass which is of an agricultural or forestry origin ;
2. Encouragement of tourism activities;
3. Basic services for the economy and rural population;
4. Conservation and upgrading of the rural heritage.

Implementation of the principles of LEADER approach will continue under Axis 4 in the programming period 2007-2013 by implementing targeted and mutually coordinated activities to promote rural development (local action groups, their developed strategies), using 2.5% of the total EAFRD financing.

In order to ensure a common (integrated) perspective on the options of addressing rural development issues, representatives of various sectors (economic, social and municipality representatives) join together and form a local action group.

As opposed to the previous programming period (2004–2006), when a separate LEADER+ type measure was implemented, in the Rural Development Programme 2007–2013 the LEADER approach is used much more widely.

Latvian Rural Development Programme 2007 – 2013 implementation results

Although in 2007, the "Latvian Rural Development Programme 2007 - 2013" was not yet approved by Europen Commission, national legislation has been elaborated and several RDP 2007-2013 measures launched including "Modernisation of agricultural holdings", "Support for business start-ups and development" as well as "Payments to farmers in areas with handicaps, other than mountain areas" and "NATURA 2000 payments and Payments linked to Directive 2000/60/ECC".

Under the measure "Payments to farmers in areas with handicaps, other than mountain areas", 61 007 applications were submitted, the total area declared was 1.08 million ha, but the total area confirmed was 1.06 million ha.

Under the measure "Natura 2000 payments and payments linked to Directive 2000/60/EC", 5874 applications were submitted in 2007, the total area declared was 45.8 thousand ha, but the total area confirmed was 44.8 thousand ha.

Under the measure "Support for business start-ups and development", 82 projects were submitted, with the eligible costs applied totalling 6 294 391 lats, whereas the public financing claimed amounted to 2 486 321 lats. Yet only 43 projects were approved, as other project applications were rejected in the process of evaluation because of various reasons (e.g. majority of applicants did not understand the requirement related to the applicant's legal status). Consequently, in the first round up to 55.3% (total eligible costs of 3 483 994 lats, including public financing of 1 392 197 lats) of the total available amount were committed. Looking at the application items, the biggest share of eligible costs was made up of purchases of new production assets.

For the first round of the measure "Modernisation of agricultural holdings", public financing in the amount of 32 million lats was granted. 934 projects were submitted, with the eligible costs applied totalling 77 975 219 lats, whereas the public financing claimed amounted to 29 375 978 lats. The unclaimed public financing for the round amounted to 2 624 022 lats. Of the submitted project, 870 projects were approved, with their total public financing amounting to 25 315 338 lats. Evaluation of the results of the first round leads to a conclusion that the activity was the highest in the RSS Zemgale, Ziemeļkurzeme and Lielrīga regions, where the financing turned out to be insufficient. The lowest activity and the highest amount of unclaimed financing were reported by Austrumlatgale, Dienvidlatgale and Ziemeļaustrumi region. Looking at the application items, the biggest share of eligible costs was made up of purchases of new production assets (including tractors, harvesting, soil cultivation, cargo loading and sowings/plantings tending equipment). The next biggest spending items approved in the projects were new buildings, reconstruction of buildings and purchase of construction materials as well as overheads.

European Union and national support to agriculture

From 1 May 2004, financing from the EU structural fund: Financial Instrument for Fisheries Guidance (FIFG) is available for promotion of sustainable development of the fisheries sector in Latvia.

In 2007, the Rural Support Service approved project applications under the following FIFG measures and activities:

"Balancing of fishing effort" – 15 projects;
"Renovation of fleet and modernisation of fishing vessels" – 7 projects;
"Development of processing and marketing of fishery and aquaculture products" – 10 projects;
"Fishing port facilities" – 3 projects;
"Aquaculture" – 9 projects;
"Development of coastal fishing" – 4 projects;
"Socio-economic measures" – 79 projects;
"Support to producer organisations" – 1 project.

Overall, from 1 May 2004 to 18 April 2008 the Rural Support Service approved funding to project applications under the following FIFG measures and activities:

"Balancing of fishing effort" – 76 projects with public financing totalling 12 012 021 lats;
"Renovation of fleet and modernisation of fishing vessels" – 61 projects with public financing totalling 380 049 lats;
"Development of processing and marketing of fishery and aquaculture products" – 45 projects with public financing totalling 3 953 616 lats;
"Fishing port facilities" – 15 projects with public financing

totalling 2 458 940 lats;
"Aquaculture" – 28 projects with public financing totalling 1 178 834 lats;
"Development of coastal fishing" – 5 projects with public financing totalling 253 784 lats;
"Socio-economic measures" – 204 projects with public financing totalling 1 423 891 lats;
"Promotion of new market outlets" – 3 projects with public financing totalling 118 788 lats;
"Support to producer organisations" – 3 projects with public financing totalling 8 781 lats.

Expected future policy changes

From 2004 to 2006, financing from the EU structural fund: Financial Instrument for Fisheries Guidance (hereinafter referred to as FIFG) was available to the fishery sector of Latvia. In 2008, the financial support from the FIFG will be replaced by a new financial instrument: European Fisheries Fund (EFF) established for promotion of sustainable development of fisheries throughout the European Union.

EFF will operate until 2013, whereas projects will be implemented until 2015. About 125 million euro (87.8 million lats) will be granted from its budget to the development of the fishery sector in Latvia. To enable the Latvian fishery sector to receive this funding, co-financing from the Latvian national budget is required amounting to approximately 41.7 million euro (29.3 million lats). The majority of projects implemented with the assistance from this financial instrument would also have to provide private co-financing from the project implementers.

In order for Latvia to receive EFF financing for promotion of fishery development in the new programming period, a Strategy Plan for the Fisheries Sector 2007–2013 (hereinafter referred to as NSP) was drafted. Based on the objectives, development areas as priorities identified in the NSP as well as the basic eligibility criteria set in the information report "On Measures to Be Financed from the European Fisheries Fund, the Operational Programme (hereinafter referred to as OP) for Implementation of the European Fisheries Fund Support in Latvia 2007–2013 was developed.

The NSP includes a general background description of the sector, an analysis of the strengths, weaknesses, opportunities and threats (SWOT) of the sector, sectoral development ideas, achievable objectives and priorities as to the sustainable development of fisheries, identified in compliance with the common fishery policies of the European Union.

The OP includes a set of support measures and activities to be implemented using the EFF co-financing aimed at attainment of the objectives identified in the NSP. The OP contains an analysis of the current status of the fisheries sector, the strategy at the OP level, an outline of priority areas to be receive co-financing within the framework of the EFF as well as identifies the measures and activities, their implementation provisions in compliance with the requirements set by the Council Regulation (EC) No 1198/2006 and Commission Regulation (EC) No 498/2007.

The Operational Programme for Implementation of the European Fisheries Fund Support in Latvia 2007–2013 includes the following priority areas:

1. "Measures for adaptation of Community fishing fleet";
2. "Aquaculture, fishing in inland waters and the processing and marketing of aquaculture and fishing products";
3. "Measures of common interest";
4. "Sustainable development of fisheries areas".

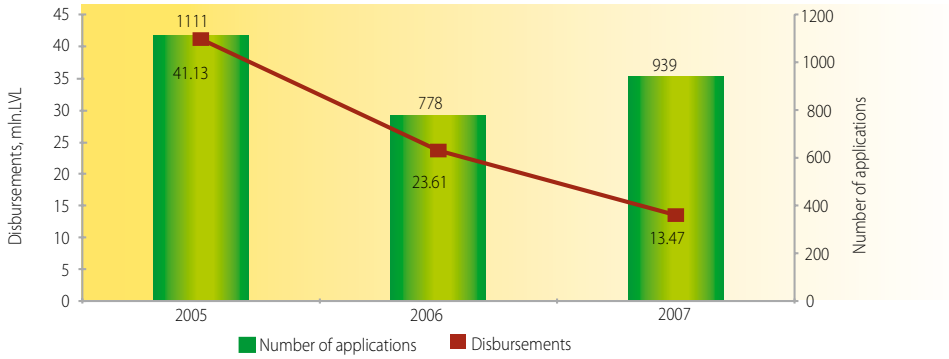
3.2. Structural Funds of the European Union

Drawdown from the structural funds of the European Union for agriculture and rural development (support from the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF)) was successful in 2007. Overall, 939 rural and forestry development project applications for 13.47 million lats were paid from the Guidance section of the EAGGF under the Single Programming Document Priority 4 (hereinafter referred to as SPD Priority 4) "Development of Rural Areas and Fisheries" in 2007.

The following SPD Priority 4 measures were paid from the Guidance section of the EAGGF in 2007:

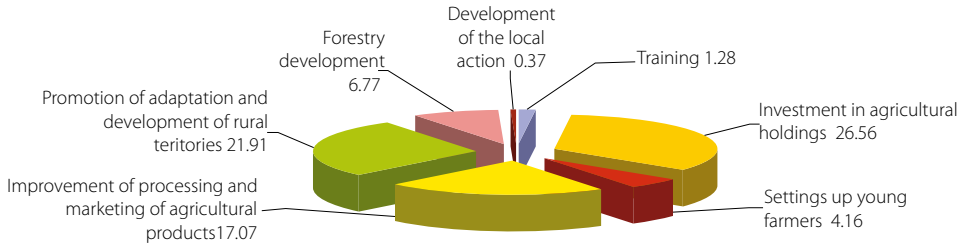
1. Investments in Agricultural Holdings (49 applications);
2. Setting Up of Young Farmers (2 applications);
3. Improvement of Processing and Marketing of Agricultural Products (2 applications);
4. Promotion of Adaptation and Development of Rural Areas (97 applications);
5. Forestry Development (771 applications);
6. Development of the Local Action (14 applications);
7. Training (1 application).

The total disbursements made under the Guidance section of EAGGF for SPD Priority 4 measure implementation in 2005–2007 amounted to 78.21 million lats. The highest amount was disbursed in 2005 (41.13 million lats).



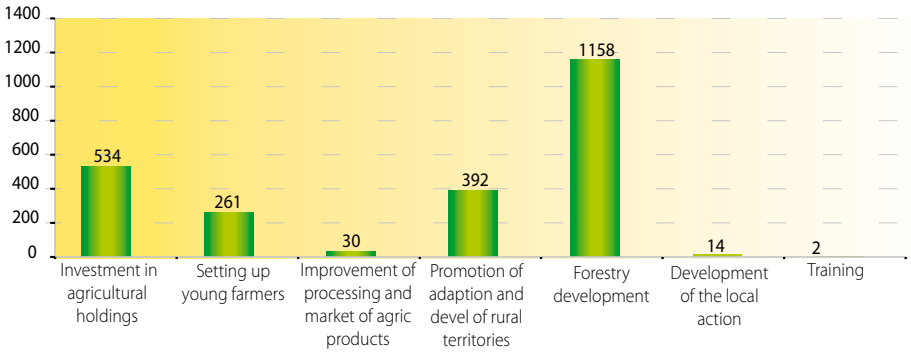
Source: RSS

Figure 3.10. Disbursements made under the Guidance section (in millions of lats) and number of applications paid under the Guidance section of the EAGGF for SPD Priority 4 measure implementation in 2005 – 2007



Source: RSS

Figure 3.11. Total disbursements under the Guidance section of the EAGGF for SPD Priority 4 measure implementation in 2005 – 2007 (in millions of lats)



Source: RSS

Figure 3.12. Number of applications paid under the Guidance section of the EAGGF for SPD Priority 4 in 2005 – 2007

By the end of 2007, within the framework of the EAGGF 2375 projects were implemented and the following performance indicators by measure were met:

• support for investment in agricultural holdings was received by 656 agricultural holdings, where 58 buildings and construction required for production were reconstructed;

• support for setting up young farmers was received by 298 young rural holdings; the number of young owners of agricultural holdings increased by 1.3%;

• support for improvement of processing and marketing of agricultural products was received by 26 processing companies, one

internal quality control and quality management system was introduced, thereby achieving a proportional increase of agricultural processing companies with improved quality control and quality management system by 2.05%;

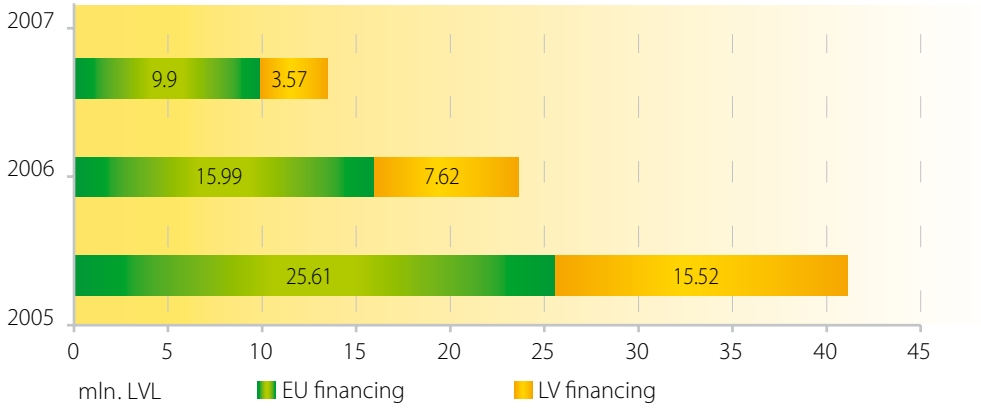
• under promotion of adaptation and development of rural areas, 286 diversification projects in 262 companies with diversified activities were supported; 351.62 km of drainage systems were reconstructed, renovated or reconstructed, thereby achieving a proportional increase of improved drained agricultural lands by 3%; 1 740.53 ha of acid soils were limed, thereby achieving a proportional increase of limed agricultural lands by 0.5%; 10% of the total agricultural land territory were cleaned from the large hogweed;

• from forestry development support, 2225.82 ha were afforested, thereby achieving a proportional decrease of unmanaged land by 0.16%; 66.8 ha of forest stands were improved, thereby achieving a proportional decrease of low quality forest stands by 0.08%; 411 items of quality and highly productive logging, forest soil preparation and timber pre – processing equipment were purchased; forest roads with the total length of 8.5 km were constructed or rebuilt; 24 forest owner associations were established;

• within the framework of support for development of the local actions (initiative „LEADER+" type measures), the number of people involved in community activities increased by 1668; on 17 local action group territories, implementation of 261 projects started and 267 projects were submitted and are currently undergoing evaluation. Their implementation will start in 2008;

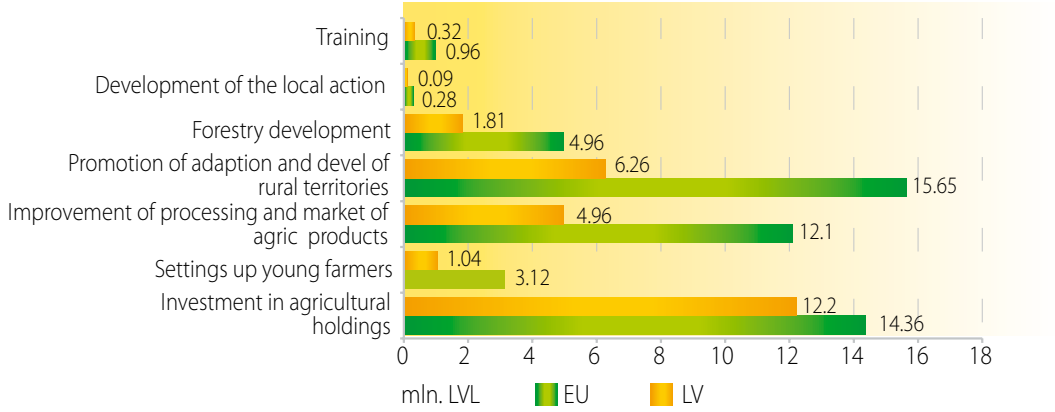
• overall 15 372 persons in agriculture and forestry sector were trained for the total duration of 679 182 man – hours, thereby increasing the percentage of trained persons employed in agriculture and forestry by 10%.

The total disbursements from the Guidance section of the EAGGF for SPD Priority 4 measure implementation in 2005–2007 amounted to 78.21 million lats, of which EU support was 51.50 million lats, whereas the national support was 26,71 million lats.



Source: RSS

Figure 3.13. Disbursements under the Guidance section of the EAGGF for SPD Priority 4 measure implementation from the EU and national financing in 2005 – 2007 (in millions of lats)



Source: RSS

Figure 3.14. Disbursements under the Guidance section of the EAGGF for SPD Priority 4 measure implementation from the EU and national financing in 2005 – 2007 by measure (in millions of lats)

Summary

Overall implementation of measures within the framework of the Guidance Section of the EAGGF is successful. It is proved by the volume of claimed payments amounting to 78% of the public financing at the end of 2007.

At the end of 2007 the largest reimbursements (100%) within the framework of the Guidance Section of the EAGGF were made under the measure "Setting Up of Young Farmers", where project implementation is complete, and measure "Promotion of Adaptation and Development of Rural Areas" (99%), where project implementation is still ongoing. Less progress was made under the measure "Development of the Local Action" (LEADER+ type measures), where 18% disbursements have been made. The measure implementation started with a delay: nevertheless, the activity is high and 267 projects have been submitted for the remaining financing, exceeding the total amount of available financing. EAGGF project implementation, as any other implementation of EU structural funds' projects, has been influenced by inflation and rising project costs, yet it has to be concluded that all this has exerted no significant impact on spending of the available financing.

National support to agriculture rural development



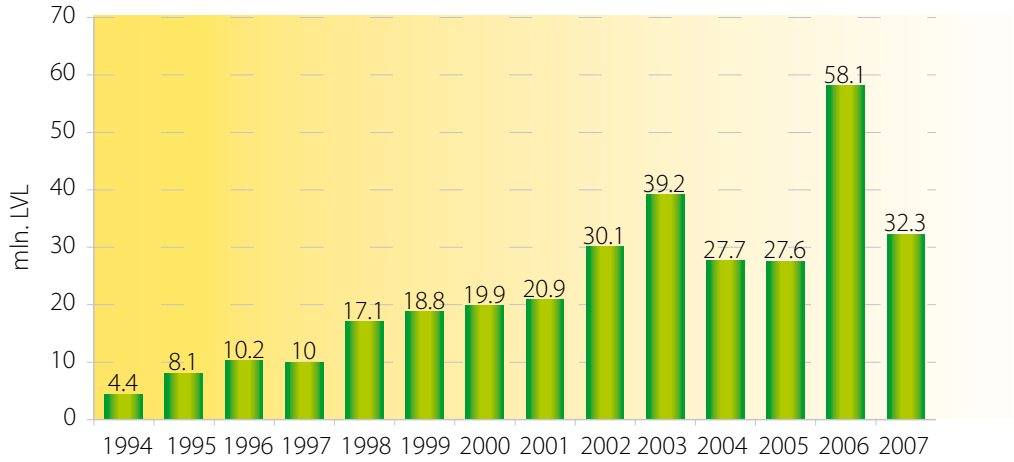


4. National support to agriculture rural development

4.1. State aid: subsidies

In order to foster agricultural and rural development as well as to improve the living standards of the rural population, the state provides support or national subsidies in addition to the EU support. According to the provisions of Paragraph 2 of Article 5 of the Law on Agriculture and Rural Development, agricultural subsidies provided by the state should be at least 2.5% of the total expenditure of the annual basic budget, and they are covered from grant from general revenue less contributions to the EU budget.

In 2007, total subsidies amounted to 32.27 million lats. When looking at the considerable differences in comparison with 2006 (Figure 4.1.) it has to be borne in mind that in 2006 the government granted additional subsidies on top of the existing subsidies in the amount of 25.8 million lats as compensation for losses incurred by drought.



Source: RSS

Figure 4.1. Total amount of subsidies in 1994 – 2007 (in millions of lats)

State support measures were defined based on the business strategy 2007 – 2009 of the Ministry of Agriculture and in consultation with non – governmental organisations of farmers.

According to the provisions of the business strategy, agricultural and rural development subsidies will be used to implement the following main tasks:

1) development of economically stable, environment – friendly agriculture;
2) creating equal social and economic welfare opportunities for those employed in agriculture;
3) development of selection of genetically valuable plants and animals, preservation of national importance genetic resources;
4) increasing animal productivity by using advanced breeding methods;
5) ensuring supportive lending policy for agriculture;
6) promotion of education and information in the area of agriculture, forestry, fisheries and rural development as well as promotion of links between production and science;
7) promotion of cooperation of rural businesses;
8) mitigation of sectoral risks in agriculture.

Based on 23 January 2007 Cabinet of Ministers regulations No.78 "Regulations on state support to agriculture in 2007 and procedure for granting support", 12 support measures were implemented (Table 4.1.).

Table 4.1.

Programme spending in 2007 (in lats)

	Measures	Number of subsidy beneficiaries	Total amount, Ls	% of total financing
1.	Support to amelioration of agricultural land	921	1 554 289.95	4.8
2.	Support to development of cattle – breeding	10 804	11 025 336.03	34.2
3.	Support to development of crop – farming	336	865 859.84	2.7
4.	Support to education, science and spreading of information	356	2 870 818.52	8.9
5.	Co – financing of Latvia in foreign co – projects	7	79 187.75	0.2
6.	Investment support in agriculture	2 621	10 836 688.92	33.6
7.	Support to development of rural and farmers associations and foundations and development of cooperative societies providing agricultural services	120	703 425.02	2.2
8.	Support of organic farming	30	198 270.03	0.6
9.	Support to market promotion	1	1 374 000.00	4.3
10.	Support to mitigation of sectoral risks in agriculture	3 868	491 645.69	1.5
11.	Support to implementation of European Union requirements	1 114	891 020.04	2.8
12.	Payments carried forward from 2006		1 382 964.26	4.3
	Total	18 380	32 273 506.05	100

Source: RSS

Overall, 12 support measures were successfully implemented in 2007, of which the largest financing was spent on breeding development in the sector of cattle – breeding, where subsidies amounted to 11.0 million lats or 34.2% of the total subsidy programme.

Second biggest part of financing went to investment in agriculture: 10.8 million lats or 33.6% of the total support (Table 4.1.).

Table 4.2.

Use of programme financing by year, (in thousands of lats)

Programmes	2005	2006	2007
Amelioration of agricultural land	414.8	280.2	1554.3
Development of cattle – breeding	6669.9	9990.6	11025.3
Development of crop – farming	977.0	1764.5	865.9
Education, science and spreading of information	2573.6	2069.6	2870.8
Co – financing of Latvia in foreign co – projects	290.0	250.0	79.2
Investment support in agriculture, including:	7143.8	11058.1	10836.7
partial coverage of interest payments and guarantee of loan interest rates	2754.3	3021.1	3066.6
technical modernisation of agricultural production	4389.5	8037.0	7770.1
Support of agricultural non – governmental organisations and groups of producers	606.8	787.4	703.4
Support of organic farming	243.0	213.7	198.3
Market promotion	743.0	1102.3	1374.0
Activities of insurance of agricultural sectors	48.5	180.2	491.6
Compensation of damages caused by agro – climatic circumstances	2726.6	25064.2	359.1
Other programmes	987.4	4920.0	1914.9
Total for national subsidies payments	23424.4	57648.2	32273.5

Source: RSS

4.2. Market promotion programme

Agricultural and food product market promotion programme in Latvia is being implemented since 2001. The programme is implemented by Latvian State Institute of Agrarian Economics in co – operation with the association "Marketing Council". In 2007 the programme was implemented via quality product production and consumption promotion activities as well as searching for new markets with a view to increasing the export value of foodstuffs. Companies developed new products labelled as "Quality Products". They also sought new markets and assortment expansion opportunities at international fairs.

One of the main measures within the programme was the monitoring of the trade mark "Quality Product" and promoting its popularity. As at January 2008, 219 products of 34 Latvian companies were labelled with the trade mark "Quality Product". The trademark was recognised by 70% of the population.

Within the framework of the programme, 8 joint stands of Latvia were organised at the following international food fairs: "Prodexpo" in Moscow, "Gulfood" in Dubai, "Rīga Food" in Riga, "AgroBalt" in Kaunas, "Anuga" in Cologne, "World Food Ukraine" in Kiev and "Internationale grun Woche Berlin" in Berlin.

Latvian food companies and sectoral organisations received support also for individual participation in various marketing events: fairs, experience exchange trips, visiting cooperation partners etc. Overall, 37 various events were supported.

Within the framework of the trade mark "Growing Green in Latvia" promotion measure, a film "Dream Meal" was prepared, trade mark book and advertising clips were developed, other measures and activities were implemented involving both Latvian agriculture and food companies as well as other cooperation partners.

8 studies were completed, covering individual food sectors: beer, ready – made and fast – food products, bread, vegetables, honey, fish products and aquaculture.

In 2007 6 food product quality competitions were organised, a training programme "Marketing planning in a sales company" was organised for Latvian companies. In cooperation with Latvian Bakers Association, Bread festival was organised. Within the framework of information campaign "Choose poultry meat!", trade promotion events were organised in supermarkets and schools and many other measures were implemented assisting Latvian food producers to promote their products on the domestic and foreign markets.

4.3. Loan guarantees to rural entrepreneurs

State joint stock company "Rural Development Fund" (hereinafter referred to as Fund) provides guarantees for short – term and long – term loans granted to rural entrepreneurs by banks. In addition to the Fund, the Latvian Guarantee Agency also provides loan guarantees, yet not for loans taken for development of agriculture.

In 2007, the Fund provided 141 loan guarantees (including 78 guarantees to Latvian Mortgage and Land Bank, 28 guarantees to SEB banka, 14 guarantees to Hansabanka, 10 guarantees to Latvijas Krājbanka, 11 guarantees to Baltic Trust Bank) for the total amount of 6.27 million lats.

In comparison with 2006, the number of provided guarantees has decreased by approximately 30%. Such a reduction relates to the fact that no funding from the EU structural funds was available in 2007.

Using the guarantees issued by the Fund, rural entrepreneurs were able to receive loans for the total amount of 19.91 million lats in 2007.

Of the 141 loan guarantees issued in 2007, 34 were granted for purchase of machinery, 15 for increasing current assets, 61 for construction and purchase of equipment, 12 for purchase of land and real estate and 19 for various other activities.

Since 1997 which was the year when the Fund started to guarantee loans, in total 2522 loan guarantees have been issued for the total amount of 61.69 million lats. As a result of loan repayment, 1368 loan guarantees have become invalid for the total amount of 25.26 million lats, including 256 guarantees in 2007 for 6.85 million lats.

As at 1 January 2008, 1116 loan guarantees for the total amount of 21.46 million lats were valid.

Table 4.3.

Guarantees provided by the SJSC "Rural Development Fund" in 2005 – 2007

	2005	2006	2007	Total in 1997 – 2007
Number of provided guarantees	337	208	141	2522
Amount guaranteed (thousands of lats)	9952	7273	6267	61690
Total of loans received with the guarantees of the SJSC "RDF" (thousands of lats)	30732	20324	19905	169494

Source: RDF

In 2007, the Fund provided guaranteed all loan guarantees requested by banks for loans issued to rural entrepreneurs compliant with the loan guarantee rules of the Fund. It is expected that in 2008 the demand for loan guarantees will grow about twofold in comparison with 2007, as the EU structural funds will become available.

4.4. Taxes

According to the information at the disposal of the State Revenue Service, 27 198 farms and 1196 legal persons engaged in agricultural production were registered with the Taxpayers Register of as at 1 January 2008. In 2007, the total revenue paid by farms to the central government budget in all types of taxes amounted to 5167.7 thousand lats, representing an increase of 44% in comparison with 2006. Legal persons engaged in agricultural production paid 19760 thousand lats to the central government budget in taxes in 2007, representing an increase of 18% over 2006.

Table 4.4.

Central government budget revenue from farms in 2005–2007 (in thousands of lats)

	2005	2006	2007
Personal income tax	1456.6	1842.4	2370.7
Corporate income tax	441.2	795.1	731.3
Social security contributions	3322.1	4350.3	5960.6
Value added tax	– 4133.8	– 4175.8	– 3991.4
Natural resources tax	51.7	56.3	74.3
Excise duty	4.4	1.2	1.1
Customs duty	10.5	15.4	21.1
Revenue total	1152.7	2884.9	5167.7

Source: SRS

Table 4.5.

Central government budget revenue from legal persons engaged in agricultural production in 2007 (in thousands of lats)

Sectors	Revenue total	Personal income tax	Corporate income tax	Social security contributions	VAT	Excise duty	Natural resources tax	Customs duty
Growing of cereals and other crops n.e.c, vegetables, decorative crops and plantings, fruit, nuts, spice crops and beverage crops	5115.7	1521.2	139.1	2422.7	1016.2		15.1	1.4
Breeding of bovines, sheep, goats, horses, donkeys and mules, pigs, poultry, other animals, dairy farming	6832.1	2077.0	386.2	3776.7	540.4	1.8	35.3	14.7
Growing of rootstock and drupe, fruit and nuts of other trees and shrubs, beverage crops and other multi – annual crops	257	51.0	11.0	110.3	82.2		1.7	0.8
Crop – farming and cattle – breeding (mixed farming)	6393.3	2075.2	44.0	3723.2	277.3	243.2	30.4	
Plant propagation	81.5	12.2	1.3	30.8	37.2			
Crop – farming and cattle – breeding related services; decorative gardening etc..	1080.1	313.8	55.1	571.3	136.4		3.5	
Total	19759.7	6050.4	636.7	10635	2089.7	245	86	16.9

Source: SRS

As at 1 January 2008, 280 agricultural processing companies were registered with the Taxpayer Register, including 187 meat processing companies, 55 milk processing companies and 38 grain processing companies. Selection of companies was made based on the principal types of business activities identified in the general economic classification NACE (NACE 1.1. rev.) Information on types of principal business activities received by the State Revenue Service from the Central Statistical Board was used to make the selection.

Table 4.6.

Central government budget revenue from agricultural processing companies in 2007 (in thousands of lats)

Sectors	Revenue total	Personal income tax	Corporate income tax	Social security contributions	VAT	Excise duty	Natural resources tax	Customs duty
Production of meat, meat products & canned meat	20899.6	3255.5	561.8	6405.6	9608.8	1010.6	57.1	0.2
Milk processing, production of cheese & ice – cream	9886.9	3360	165.9	5607.9	657.3	16.3	77.4	2.1
Production of products of grain milling, starch & starch products	2424.4	769.6	74.8	1260.7	283.9	0.2	4.4	30.8
Total	33210.9	7385.1	802.5	13274.2	10550.0	1027.1	138.9	33.1

Source: SRS

According to the information displayed in (Tables 4.4., 4.5.,4.6.), in 2007 the total revenue paid to the central government budget by farms, legal persons engaged in agricultural production and processing companies amounted to 58 million lats, of which 27.0 million lats were state social security contributions and 15 million lats were personal income tax.

Personal income tax

In 2007, the untaxed monthly minimum of income for the purposes of the personal income tax was 50 lats and relief for a dependent amounted to 36 lats. From 1 January 2008, the untaxed monthly minimum of income for the purposes of the personal income tax was raised to 80 lats, whereas the relief for a dependent person to 56 lats per month. As of 1 January 2008, the minimum wage in Latvia is 160 lats, whereas the minimum hourly tariff rate is 0.962 lats.

Starting from 2008, the personal income tax rate on business activity is 15%. Nevertheless, eligible expense (social contributions by self – employed, education and medical expenses, donations, payments into private pension funds, health and life insurance payments) untaxed minimum and relief for dependents will not apply to income from business.

Starting from 2008, a taxpayer having registered as engaged in business but with no employees can opt to pay a flat rate, if the income does not exceed 10 000 lats in the pre – taxation year. The flat personal income tax rate is set at about 5% to 10% of the income from business. The minimum flat rate income tax payment is 25 lats per year.

State social security contributions

In a general case where an employee has been ensured against all types of risks, the compulsory state social security contribution rate remains unchanged at 33.09% in 2008, of which the employer pays 24.09% and employee 9%. For employees having reached the age of retirement, the rate is 28.26% in 2008(employer pays 20.57%, employee pays 7.69%). Employees enjoying a service pension or persons with category III disability pay 30.61% (employer pays 22.28%, employee pays 8.33%), self – employed persons or persons with category I and II disability pay 30.44%.

Value added tax

In 2007, 12% value added tax compensations paid to agricultural producers amounted to 5406.8 thousand lats as compared to 4763.1 thousand lats in 2006.

From 1 September 2007, tax invoices where the total value of goods and services (VAT exclusive) is 500 lats and larger (previously 100 lats) have to be shown separately in the input tax report of the monthly vale added tax return.

Although the EU has set very strict requirements as to the tax application, its Member States still enjoy the right to apply reduced rates (no lower than 5%) to individual sectors and product groups as well as to apply increased rates. Overall, the EU Member States use the reduced rates quite widely. Almost all countries have reduced VAT rates on food products, except Latvia, Estonia, Denmark and Hungary.

Real estate tax

From 2008 to 31 December 2010, the real estate tax rate will be 1% of the cadastre value of the real estate. In cases when the use of the real estate changes, the amount of the real estate tax paid separately for each unit of land and each building in 2008, 2009 and 2010 may not exceed the tax calculated in the previous taxation period by more than 25% (relief not considered). In 2008, the first deadline for tax payment is 15 April.

Natural resources tax

In 2008, natural resources tax on all types of packing will increase. For example, the rate on glass containers will increase by 25% (from 0.16 lats to 0.20 lats per kilogram), while on plastic containers by 50% (from 0.40 lats to 0.60 lats per kilogram). The rate on wooden, paper and cardboard packing will from from 0.05 lats to 0.15 lats per kilogram of material.

Excise duty

According to the Council Directive setting the minimum excise duty rates, countries that have not pegged their national currencies to the euro have to adjust their national excise duty rates in the national currency annually, so that to make them compatible with the euro rates set in the Directive. In 2007, the excise duty rate on 1000 litres of diesel fuel was 178 lats. From 1 January 2008, this rate will be 193 lats. For lead – free and leaded petrol, the rate was raised from 209 and 294 lats to 228 and 297 lats for 1000 litres of petrol respectively.

Refunds of the excise duty on diesel fuel to agricultural producers

According to data provided by local governments, the area of land actually used for production, for which refunds of excise duty for purchased diesel fuel were claimed in 2007 was 720 thousand ha. The received tax compensation totalled 12.52 million lats, of which 2.62 million lats were associated with the diesel fuel purchased in 2006.

On 8 August 2007, Cabinet of Ministers regulations No.528 "Procedure for refunds made to agricultural producers for diesel fuel and diesel fuel supplemented with rape seed oil or bio – diesel obtained from rape seed oil" were adopted, stating that from now on excise duty refunds may also be claimed on diesel fuel supplemented with rape seed oil or bio – diesel obtained from rape seed oil. Regulations basically preserve the previous procedure for excise duty refunds, but the period for checking the submitted documents and excise duty refunds has become longer: 30 days.

Table 4.7.

Excise duty refunds on used diesel fuel in 2005 – 2007

	Unit of measure	2005	2006	2007
Total excise duty paid out, including	Millions of lats	11.5	10.69	12.52
for what was purchased in the current year	Millions of lats	10.3	9.15	9.90
for what was purchased in the previous year	Millions of lats	1.2	1.54	2.62
Excise duty refund made for	Millions of ha	0.71	0.65	0.72
Refund applications received	Millions of lats	11.1	10.11	12.82
of which: deemed invalid	Millions of lats	0.25	0.24	0.76

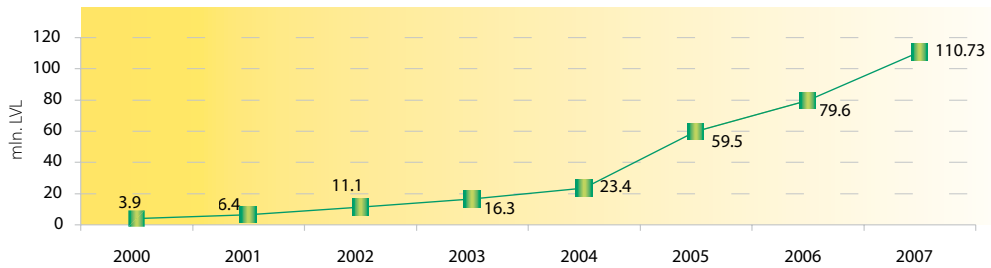
Source: SRS

4.5. Support to cooperatives and non – governmental organizations

Promotion of Cooperation

The main task of a cooperative is to promote and seek new markets for the products manufactured by its members on both the local and the EU market as well as to cater for raising the competitiveness and welfare of its members.

Due to a successful state support policy, competitive cooperative societies providing services started to form in Latvia in 2000. Cooperative societies have developed in recent years (Figure 4.1.). In 2007, the turnover of cooperative societies providing agricultural services increased from 79.6 to 110.73 mln. lats.



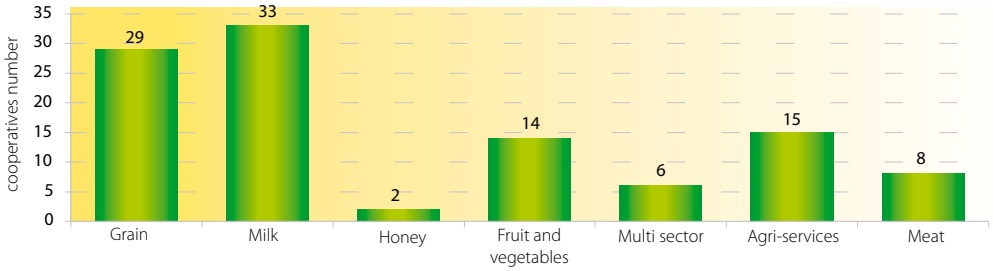
Source: Latvian Agricultural Cooperatives Association

Figure 4.2. Turnover increase for cooperative societies providing agricultural services

Based on 17 June 2003 Cabinet of Ministers regulations No.328 "Regulations on documents required for registration of an agricultural services co – operative society and procedure for approval of the said society", 64 cooperative societies providing agricultural services were recognised in 2007, of which 49 cooperative societies received national subsidies in the amount of 97500 lats. 9 newly – established cooperative societies received 25500 lats, whereas 10 recognised cooperative societies providing agricultural services received 129718 lats to cover interest on loans.

Recognised cooperative societies providing agricultural services could apply for support within the framework of the Rural Development Plan 2004–2006 measure "Support to producer groups" in 2007.

In 2007, 107 cooperative societies providing agricultural services were operative in Latvia. Of those, 29 were dealing with crop pre – processing and storage, 33 were milk production cooperatives, 14 were fruit and vegetable production cooperatives, 2 were honey production cooperatives, 6 were multi – sector cooperatives, 8 were meat production cooperatives and 15 were agricultural machinery services cooperatives (Figure 4.3.).



Source: Latvian Agricultural Cooperatives Association

Figure 4.3. Number of cooperative societies providing agricultural services by sector

The main cooperation partner of the Ministry of Agriculture in issues concerning development planning and support policy of cooperative societies providing agricultural services is the "Latvian Agricultural Cooperatives Association" (hereinafter – LACA).

Support to non – governmental sector

In order to encourage involvement of rural and farmers associations and foundations in decision – making and ensure information exchange across public administration institutions, European Union institutions and farmers, within the support measure "Support to rural and farmers associations and foundations" 39 rural and farmers associations and foundations received financing in 2007, totalling 265 807 lats, whereas 22 district farmers unions received 79 900 lats.

In 2007, state support in the amount of 55 000 lats was granted to Cooperation Council of Farmers Organisations, 40 000 lats to the Brussels office of the Cooperation Council of Farmers Organisations, and 6000 lats to Latvian Federation of Food Enterprises.

Development of agricultural sectors

5. Development of agricultural sectors

5.1. Summary

The section on development of agricultural sectors focuses on an evaluation of the cattle – breeding sector, characterising the sector as a whole, including the reasons, factors affecting the sector that have impeded with or supported the development of the sector. An analysis of production performance indicators of the last three years is provided, pointing to development or downslide trends in each sector.

The biggest attention in 2007 was paid to the pork production sector. The situation in the pork production sector was critical at the beginning of 2007, and it persisted throughout the year. Negative pork market developments were triggered by high purchase prices on fodder grain, rising resource costs, inflation etc. factors. Nevertheless, the sectoral performance in 2007, as compared to the previous years, was stable and showed some signs of improvement both as to the number of animals as well as production and processing volumes and productivity.

Latvian dairy farming sector continued on an upward trend in 2007 supported by restructuring and concentration within the sector as well as favourable global market developments which resulted in a particularly favourable situation for exports of dairy products. These tendencies enabled investment in production and processing, significant increase of the milk purchase price, expansion of production volume and productivity.

Looking at the sectors in general and analysing the statistical data from all agricultural sectors, it can be concluded that production volumes are stable and there is a potential to increase the volume of sales. Tightening of the competition on the domestic and global market for dairy and meat product groups should be viewed by Latvian dairy farmers and meat product manufacturers as a factor motivating to produce more competitive products, invest in company specialisation as well as concentrate production in larger companies. This would create an opportunity to increase the production of specific products with lower production costs and higher purchase prices.

5.2. Manufacture of milk and dairy products

Dairy farming is one of the basic agricultural sectors in Latvia. 841 646 tons of milk were produced in Latvia in 2007, of which cow milk was 838 356 tons, representing a 3.2% increase year – on – year. Dairy farming accounted for 21.6% of the total final output of agricultural goods in 2007, which is slightly less than in 2006 (24% respectively).

Table 5.1.

Milk balance in 2005 – 2007 (in thousands of t)

	2005	2006	2007*
Stock at the beginning of the year, converted to milk	**16.3**	**32.1**	**35.2**
Resources			
Produced milk and dairy products, converted to milk	810.3	815.1	841.6
Imports of dairy products, converted to milk	80.5	138.3	127.6
Total resources	**907.1**	**985.4**	**1004.2**
Consumption			
Consumption of milk and dairy products, converted to milk	**670.6**	**623.1**	**641.4**
– of which food consumption of population	542.1	507.4	539.6
– of which animal feed	128.5	115.7	101.8
Exports of dairy products, converted to milk	**204.4**	**327.1**	**327.5**
Total consumption of milk and dairy products, converted to milk	**875.0**	**950.2**	**968.9**
Stock at the end of the year	**32.1**	**35.2**	**35.3**

* – *preliminary data*

Source: CSB

Increase in milk production can be partly explained by the unusually favourable milk purchase price developments prevalent in the second half of 2007, when the prices were 50% higher than the respective prices of the same period of 2006 and the impact of seasonality was reduced to the minimum.

Food consumption of milk and dairy products grew by 6.3% in 2007 over 2006, which is a positive development, taking into account that in 2006 the consumption of milk and dairy products followed a downward trend in comparison with the previous periods.

Minimal export growth for milk and dairy products most likely can be explained by the significant increase in sales of unprocessed milk to neighbouring countries, particularly Lithuania.

In comparison with 2006, consumption of unprocessed milk at farms (for human consumption and animal feed) decreased by 20% in 2007. The sales volume of unprocessed milk grew by 11.6%. Both purchased volumes and direct sales of unprocessed milk increased. The volume of dairy products sold from farms remained broadly unchanged, at 2.3 thousand tons.

Dairy farming sector is undergoing structural changes for already several years. This is largely facilitated by the national and EU support granted to the sector and introduction of the quotas system. Producers invest in livestock regeneration by introducing more productive, enduring species, as well as in farm modernisation and expansion, creating growth opportunities for the dairy sector. Nevertheless, milk production in Latvia remains fragmented, 90% of all dairy farms are small (up to five cows), and these farms account for about 37% of the livestock of Latvian milking cows. Since 2000, the number of such small dairy farms has decreased by 45% and the number of big farms (100 and more cows) has increased by 40%, yet the share of large farms in the overall structure remains very low (0.4%).

Table 5.2.

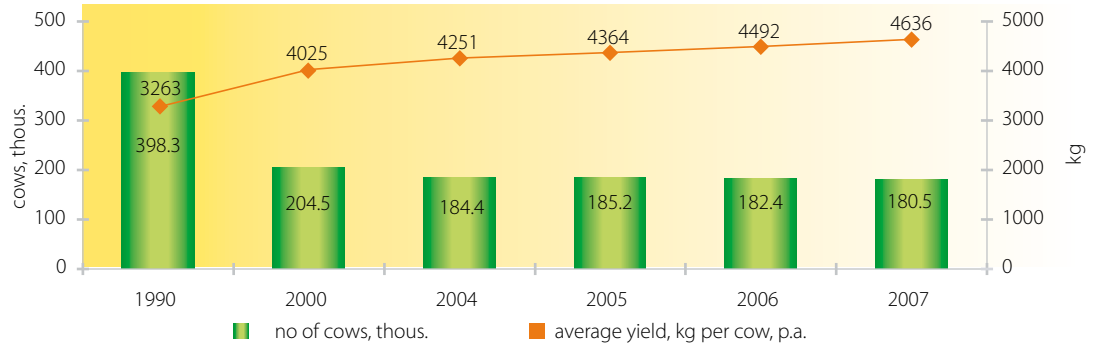
Grouping of farms of fall types according to the number of the milking cows in 2005 – 2007

Number of milking cows at farm	2005				2006				2007			
	Farms with respective number of milking cows		Number of milking cows in the group		Farms with respective number of milking cows		Number of milking cows in the group		Farms with respective number of milking cows		Number of milking cows in the group	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
1	32 185	53.9	32 185	17.4	22 991	51.8	22 991	12.7	19939	51.4	19939	11.1
2	14 058	23.6	28 116	15.2	10 655	24.0	21 310	11.8	7045	18.1	14090	7.8
3 – 5	8 268	13.9	29 227	15.8	5 884	13.3	22 991	12.7	5769	14.9	19948	11.1
6 – 9	2 483	4.2	17 557	9.5	2 038	4.6	15 478	8.6	2406	6.2	16446	9.2
10 – 19	1 704	2.9	21 730	11.7	1 692	3.8	24 171	13.4	2122	5.5	26262	14.6
20 – 29	396	0.7	9 263	5.0	456	1.0	11 701	6.5	680	1.7	15159	8.4
30 – 49	240	0.4	8 755	4.7	300	0.7	11 898	6.6	427	1.1	14757	8.2
50 – 99	148	0.2	10 065	5.4	206	0.5	14 755	8.2	278	0.7	17767	9.9
100 – 199	51	0.1	6 659	3.6	80	0.2	11 077	6.1	97	0.2	12583	7.0
200 – 299	28	0.0	7 006	3.8	34	0.1	8 627	4.7	32	0.1	8166	4.6
>=300	33	0.1	14 612	7.9	34	0.1	15 786	8.7	30	0.1	14302	8.1
Total	59 594	100.0	185 175	100.0	44 373	100.0	180 785	100.0	38 825	100	179 419	100.0

Source: CSB

In 2007, the average size of herd in Latvia was 3.92 cows, representing a decline over 2006 and remaining one of the lowest figures among the European Union Member States. Structural changes are expected to continue in Latvia in the years to follow.

Increase in milk production is also supported by the continuous growth of productivity of cows. According to the CSB data, the average annual yield per cow was 4636 kg in 2007, which is 3.2% higher than in 2006. Productivity growth offset the decrease in the total number of cows and increase in production volumes. According to the CSB data, the number of cows in Latvia decreased by 1.9 thousand or 1.1% in 2007 in comparison with 2006.



Source: CSB

Figure 5.1. Developments concerning the number of milking cows and average yield in Latvia per year

Dairy farming sector growth depends critically on market opportunities and development. Every year, the share of milk sold to milk processing companies increases. In 2007, 630.7 tons of milk were purchased for processing, which is 75.2% of the total milk produced and 6.5% more than in 2006. Since 2005, purchase of milk for processing has grown by 25.7%. The volume of milk purchased is affected by rising purchase price (the influence was particularly strong in the second half of 2007) as well as by the concentration processes observed in production and processing.

In response to the growing global demand, changes were introduced in dairy product manufacturing in 2007 in Latvia as well. Production of cheese whey powder began and 4.17 thousand tons were manufactured in 2007. In response to the growing global demand, production of skimmed milk powder grew more than twofold in 2007, yet the overall production decreased by 2.2%, taking into account that the production of whole milk powder declined by 47%. In the last two years, the annual production of butter expanded to 6.15 thousand tons, representing a 6% increase over 2006. Cheese production grew by 2.3%. Production volumes for butter and particularly for cheese are largely dependant on the global market price and demand developments.

Table 5.3.

Purchase of milk and production and sales of the main dairy products in 2005 – 2007

	2005		2006		2007	
Purchase of milk for processing, in thousands of t	501.70		592.3		630.7	
Product manufacturing and sales:	Produced, in thousands of t	Value of sold products, in millions of lats	Produced, in thousands of t	Value of sold products, in millions of lats	Produced, in thousands of t	Value of sold products, in millions of lats
Butter	5.97	9.66	5.78	9.65	6.55	12.73
Cheese	20.61	39.10	21.27	43.20	22.0	49.53
Milk powder*	4.86	7.29	7.27	no data	7.11	no data
Cheese whey powder*	–	–	–	–	4.17	no data

Source: CSB, Latvian Dairy Committee (LDC)*

Tightening of the competition on the domestic and global market for dairy and meat product groups should be viewed by Latvian dairy and meat product producers as a factor motivating to produce more competitive products, invest in company specialisation as well as concentrate production in larger companies. This would create an opportunity to increase the production of specific outputs with decreased production costs and increased purchase prices.

Production volumes for other dairy products continued to grow in 2007. The increase in the production volumes for those products was primarily affected by domestic market factors. It has to be concluded that Latvian dairy product market situation was favourable, despite of various economic factors. The increase in the production volumes for those products was related with the growth of consumption for those products. For some items, the growth was quite considerable in comparison with 2006 (e.g. 76.4% for cottage cheese products, 55.6% for cottage cheese). Production of skimmed milk cottage cheese and yogurt expanded by about one third, whereas the production volumes of other products increased at a more moderate rate.

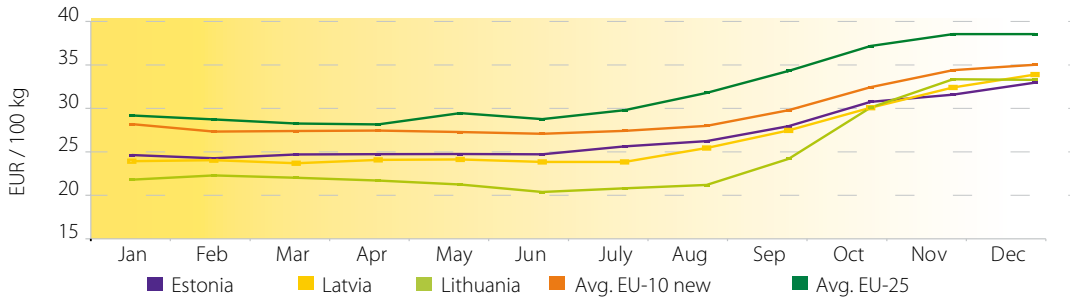
Table 5.4.

Manufacture of dairy products in 2005–2007 (in tons)

Product	2005	2006	2007
Milk	72 573	73 750	85 120.0
Sour milk beverages	22 289	23 948	27 386
Cream	3 059	4 581	5 209
Sour cream	16 185	15 747	19 374
Fat cottage cheese	2 758	2 975	4 629
Yogurt	8 536	7 277	9 157
Cottage cheese products	1 307	1 430	2 522
Skimmed milk cottage cheese	3 565	3 092	3 962
Ice – cream	4 235	4 480	4 718

Source: LDC

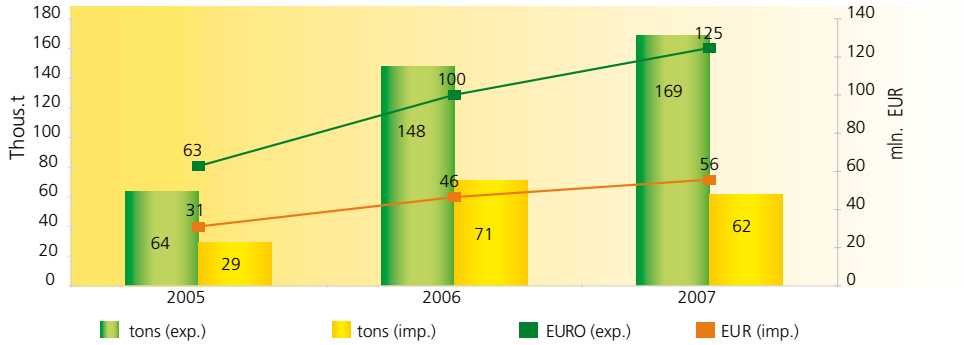
In the first half of 2007, the average purchase price of milk continued to grow, at the same time preserving the seasonality trend, whereby the prices are higher in the winter months and decline with warmer weather setting in and milk yield increasing. Nevertheless, in the second half of the year, responding to favourable demand and price tendencies for dairy products observed on the global markets, the purchase prices rose considerably. The average purchase price of milk climbed to 236.36 Ls/t in December, which is 42% higher than the July purchase price and 41% higher than the price paid in December 2006. In 2007, the average purchase price of milk was 183.31 Ls/t, representing a 12.6% increase over the average purchase price of 2006. Looking at the price developments in the neighbouring countries, it can be concluded that, similarly as in the previous years, purchase prices in Lithuania were slightly lower, while in Estonia they were slightly higher than in Latvia. Only at the end of the year, purchase prices in Estonia declined to a level below the purchase price in Latvia, whereas Lithuania experienced the strongest growth in the last quarter of the year and in the last months the price was even higher than in Latvia. Looking at the average level of purchase prices in the European Union, Latvia's purchase price went up from 81% in January 2007 to 87% in December.



Source: Europen Commision

Figure 5.2. Average milk purchase prices in Latvia, Baltic States and EU in 2007 (EUR/100 kg)

In 2007, Latvia's milk and dairy product exports grew by 14% in comparison with 2006, whereas the increase of its value was slightly bigger (24%). The imports of milk and dairy products, the contrary, decreased, while the gross value of imports grew by 19%, primarily related to the global price rise trends.



Source: Eurostat

Figure 5.3. Milk and dairy product exports and imports to/from Latvia in 2005–2007

According to the data provided by the Rural Support Service, in 2007 export refunds in the amount of 1 719 846 lats were paid in the dairy farming sector, which is about twice as much as in the previous year. The share of export refunds for milk and dairy products in the total export refunds granted to the sector of agriculture increased by 40% in comparison with 2006. Yet it has to be noted that no export refunds were applied in this sector starting from 15 June 2007.

Table 5.5.

Export refunds for dairy products in 2005–2007

	2005	2006	2007
Amount, LVL	257 845	860 156	1 719 846
% of all agricultural products	41.0	63.5	89.3

Source: RSS

Breeding

According to the data from the Animal register of the Agricultural Data Centre (ADC) as at 1 January 2008, 390808 bovines were registered in Latvia, including 184928 milking cows and 49605 herds of bovines, of which 46306 herds of milking cows. Number of milking cows decreased by 17790 in 2007 as compared to 2006.

Table 5.6.

Quality of Herds of Cows in 2005 – 2007

	2005	2006	2007
Number of monitored cows (in thousands)	111.4	118.9	125.9
Average milk – yield per cow (kg per year)*	4364	4492	4636
Average milk – yield per monitored cow (kg per year)	5084	5296	5478
Milk fats from monitored cows (%)	4.38	4.42	4.37
Milk proteins from monitored cows (%)	3.32	3.29	3.37

* Central Statistics Board (CSB)

Source: Agricultural Data Centre (ADC),

Comparing monitoring results for the last three years, the average milk yield from monitored cows continued to grow in 2007, amounting to 5478 kg per cow, representing a 182 kg increase over the previous monitoring year. Comparison of the changes in the number of cows under monitoring with those of the previous years, reveals that the number of cows under monitoring continued to grow and reached 125.9 thousand cows in 2007 or 7 thousand more than in the previous monitoring year. That means that the milking cow herd owners understand and appreciate the need for monitoring work in the context of successful herd management, which results in higher herd productivity.

Cows of different breeds and average milk yield, protein and fat content are subject to monitoring.

Table 5.7.
Productivity of Various Breeds of Monitored Cows in 2005 – 2007

Breed of cows	Number of closed lactations			Milk – yield from cow, kg per year			Milk protein, %			Milk fats, %		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Latvian Brown breed	68404	65656	62043	4886	4926	5035	3.36	3.33	3.32	4.46	4.45	4.45
Black and white Holstein breed	28780	30622	30753	5692	5854	6061	3.23	3.20	3.19	4.26	4.24	4.21
Angler breed	384	385	359	5978	6121	6273	3.38	3.38	3.37	4.72	4.65	4.65
Danish Red breed	257	349	322	5408	5504	5652	3.35	3.32	3.30	4.47	4.45	4.45
Swedish Red and White breed	243	343	432	5677	5667	5733	3.33	3.30	3.30	4.27	4.51	4.53
Red and white Holstein breed	956	1099	1119	5538	5654	5696	3.30	3.28	3.28	4.36	4.34	4.33
Latvian Blue breed	205	264	352	4386	4412	4325	3.36	3.34	3.35	4.36	4.38	4.39

Source: ADC

Latvian brown breed cows formed the majority of the herd of milking cows of Latvia (63% of the total number of milking cows) with the average milk yield of 5035 kg, fat content of 4.45% and protein content of 3.32%. The Holstein black and white breed cows formed 34% of the total number of milking cows. Compared to 2006, their productivity grew by 207 kg per cow annually in 2007. Analysis of 2007 by breed of monitoring reveals that the Angler breed had the best performance in terms of the average milk yield of 6273 kg, followed by the Holstein black and white breed cow with the yield of 6061 kg.
Two pedigree animal breeder organisations continued to operate successfully in Latvia in the field of dairy farming: Latvian Pedrigree Animal Breeding Union and Latvian Association of Holstein Cattle Breeders. Both organisations were engaged in systematic breeding using high quality breeding animals. In order to improve the genetic quality, breeding animals were also imported from abroad, thereby improving the herd productivity. The average yield of cows of the Latvian Association of Holstein Cattle Breeders was 7705 kg in 2007 or 2227 kg more than the average monitored yield in Latvia. The average yield of cows of the members of the Latvian Pedrigree Animal Breeding was 6439 kg.

Common market organisation measures

This section describes two instruments regulating the milk and dairy product market: milk quotas system and support programme for milk supplied to educational establishments ("School milk" programme).

Milk quotas system

The system of milk quotas was introduced in Latvia as of 1 May 2004, when Latvia joined the European Union. The system ensured accurate accounting and control of milk production and sales both in terms of the quantity and quality and ensured preconditions for restructuring of the milk production. Initial national milk quota granted to Latvia was 695 395 tons, which was about 60% of the amount requested at accession negotiations. Yet as a result of implemented sectoral restructuring measures, Latvia was granted an additional delivery quota of 33 253 tons in 2006.
From 1 April 2008, Latvia's total milk quota is 743 221 tons (including an increase by 2% according to Council Regulation (EC) No 248/2008 of 17 March 2008 amending Regulation (EC) No 1234/2007 as regards the national quotas for milk).
Delivery quota of Latvia amounts to 98.5 % of the total milk quota. Direct trade quota decreases year – by – year, which can be explained by the milk purchase price increase trend benefiting producers. Delivery quota implementation in the quota year 2007/2008 was 91.1%. Direct trade quota implementation (including the third quarter) amounted to 68.6%. It is forecast that in the fourth quarter the direct trade quota implementation will be 75.4%.

Table 5.8.

Milk quota granted to Latvia by year (as of the beginning of quota year; in thousands of tons)

Quota	2004/2005	2005/2006	2006/2007	2007/2008
Total national quota, including:	695 395	695 395	728 647	728 647
delivery quota,	468 943	631 856	715 404	717 342
quota implementation %	73	83	88	91
increase over previous period, %	No data	35	7	3
direct trade quota,	226 452	63 539	13 244	11 306
quota implementation %	16	55	76	78
decrease over previous period, %	No data	71	72	2

Source: ADC

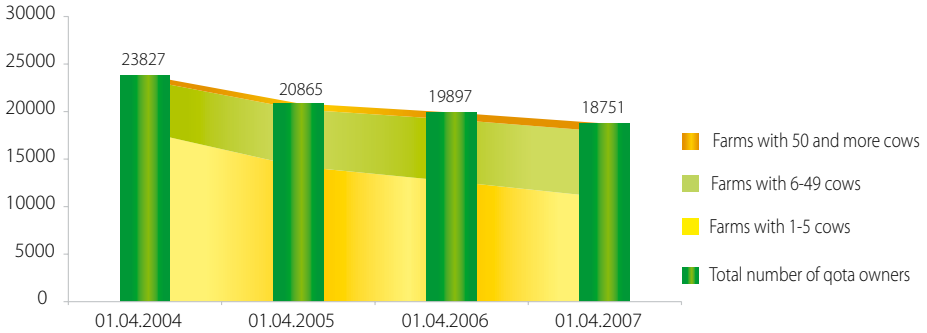
Milk purchase in quota year 2007/2008 for delivery after levelling was 657 237 tons, representing a 3% increase over quota year 2006/2007. In direct trade, milk purchase amounted to 8 524 tons.

As at the end of the quota year 2007/2008, 21 009 quota owners were registered in Latvia, of which:

1) 20 025 were active producers (delivery quota of 18 940, direct trade quota of 1080);

2) 984 quota owners were inactive and did not sell.

As at the end of the quota year 2007/2008, 100 milk buyers were recognised in Latvia, of which 63 were active buyers (milk collection, handling and processing companies).

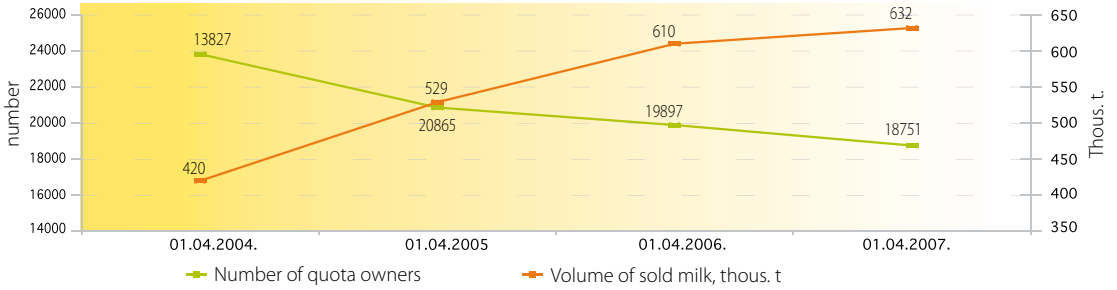


Source: ADC

Figure 5.4. Number of milk quota owners by farm groups as at the beginning of the year

Structural changes in the sector are visible also when looking at the breakdown of granted quotas by groups of farms. Small producers remained the ones with the biggest number in the total number of quota owners (1 – 5 cow farms) as well as medium – sized producers with 6 – 49 cows. Looking at the structural changes by year, it is obvious that the share of small farms in the total number of owners gradually decreases, while that of average and big farms slowly increases.

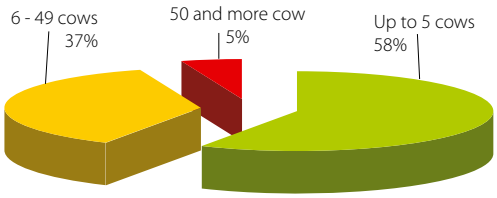
The total number of owners of milk quotas decreases gradually year – by – year, at the same time the volume of sold milk increases. This is one of the indicators characterising the restructuring process in the sector.



Source: ADC

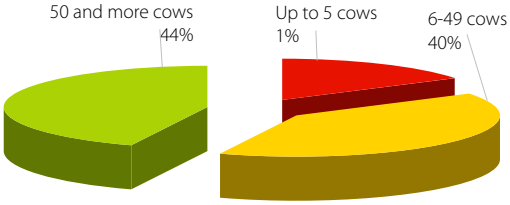
Figure 5.5. Development of the number of producers and volume of sold milk

Looking at the quota implementation figures based on the volume of sold milk depending on the size of the farm as at 1 April 2008, it is obvious that the big quota owners accounting for 5% of all quota owners, supply 50% of milk, while the small farms (1 to 5 cows) only 10%.



Source: ADC

Figure 5.6. Number of quota owners by size of farm as at 01.04.2008



Source: ADC

Figure 5.7. Sold milk as at 01.04.2008

Latvia did not exceed the total national quota in the last complete quota year (2007/2008) as well. Yet taking into account the annual growth tendencies of production and purchase volumes, it can be expected that the quota will be exceeded in the nearest future. Within the framework of the ongoing EU Common Agricultural Policy "health check" concerning abolishing of the milk quota system in European Union by 2015, Latvia struggles to achieve that the sanctions imposed as a result of exceeding the quota are reduced to the minimum.

Support to milk deliveries to educational establishments

Latvia continued to enjoy EU support within the framework of the "School milk" programme for delivery of milk products to pre – school, elementary school and secondary school students in 2007. Eligible applicants within the framework of this programme were milk producers, distributors, the educational establishment itself or the local government on the territory of which the particular educational establishment operated. The European Union support means that the comprehensive school students can receive 200 or 250 ml of milk or a specific dairy product every day at a reduced price. Maximum price has been set so that the beneficiary income from selling the milk within the framework of the support programme would cover the difference between the prime costs of the product (sales price, including delivery costs) and EU support for the specific milk product. 23 January 2007 Cabinet of Ministers regulations No.78 "Regulations on state support to agriculture and procedure for granting support" provided for co – financing in the form of state support in 2007 to provide free – of – charge milk (maximum 250 ml milk per day) to pre – school of comprehensive school grade 1–9 students. An information and advertising campaign was carried out with a view to promoting regular dairy product consumption at schools, dairy product availability at lower prices, using the European Union and state support. To popularise the programme "School milk", various activities were implemented in the school year 2006/2007: regional seminars were organised, information booklets were published, a training aid for pre – school students (work book Runcis Pienapuncis bērnudārzā) was prepared as well as advertising posters were put on display.

Table 5.9.

"School milk" programme implementation in school years 2005/2006–2007/2008

School years	2005/2006	2006/2007	2007/2008 (as at 31.12.2007)
Applications to receive approval	119	71	11
Approved enterprises	104	62	9
Applications to receive support	388	938	371
Applicants engaged in programme	59	114	95
Involved educational establishments	786	725	543
Volume of supplied milk, t	953.887	3 447.642	1 113.551
Disbursement (EU and national support), Ls	166 555	545 813	312 384
EU support	44 066	152 095	92 314
State support	122 489	393 718	220 070

Source: RSS

The number of educational establishments involved in the "School milk" programme increased at the beginning of the school year 2006/2007, yet in the second half of the school year it slightly decreased, as part of the educational establishments withdrew from further implementation of the programme. Moreover, as a result of the growing milk production costs and the price hike, in 2007 several milk processing companies also withdrew from participation in the "School milk" programme. Some companies narrowed the range of serviced educational establishments due to administrative difficulties. These educational establishments either found other milk suppliers or became beneficiaries themselves and continued with programme implementation. Overall, the "School milk" programme is popular at schools and children have milk quite willingly. The amount of supplied milk, EU support and national support disbursement amounts have a tendency to grow in comparison with the previous school years.

Summary

In 2007, Latvia's dairy farming sector continued on an upward trend started in the previous years both under the impact of sectoral restructuring and concentration as well as the favourable global market developments resulting in particularly favourable conditions for dairy product exports. These developments enabled investment in production and processing, significant increase of the milk purchase price, expansion of production volumes and productivity. In 2007, milk production expanded by 3.2% in comparison with 2006, yield per cow grew by 3.2%. The favourable situation on the dairy product market and rising milk purchase prices supported the growth of the volume of milk sold for processing and compressed the volume of milk sold by direct trade. This was also mirrored by the milk quota system: as a result of quota transformation deals, milk delivery quota of 2007/2008 grew by 0.3%, whereas the direct trade quota decreased by 15% as a result of those transactions.

As a result of high market demand and favourable price situation, no market intervention measures were implemented for milk products. The support programme for delivery of milk to comprehensive school students ("School milk") was used much more widely than before, suggesting that the programme had become quite popular in Latvia.

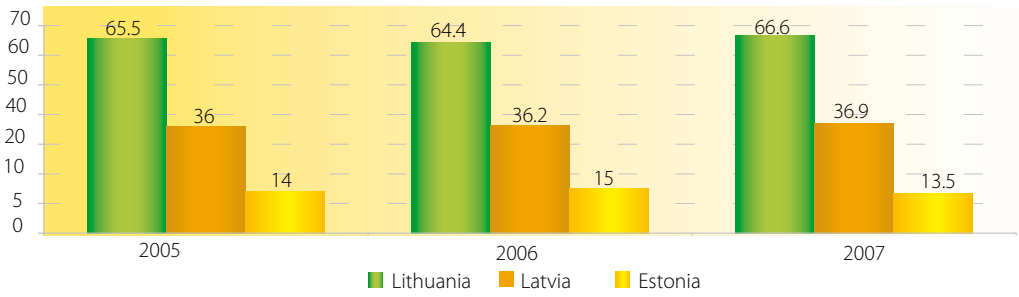
5.3. Production of pork

2007 was a complicated year for the Latvian pig – breeding sector, as at the beginning of the year the situation became quite critical. Negative pork market developments were caused by the high prices of grain, export restrictions to Russia and Ukraine, rising resource costs and inflation as well as other factors.

One of the most negative factors was the rise of prices on grain, which exerted a significant impact on the Latvian pig – breeding sector, as the feed used for pigs is 55%–75% based on grain. At the beginning of 2007, pig feed costs amounted to 70%–77% of the total production costs and continued to grow until the end of the year. Due to the high fodder prices, pork production sector became unprofitable, producers operated with losses and, as a result, the total number of pigs decreased. In October 2007, the number of pigs had decreased by 9% in comparison with October 2006. Rising grain prices steered the sector towards bankruptcy.

Pork purchase price declined by 3.7% at the end of 2007. The situation continued to deteriorate, as the grain purchase price already exceeded the average pork purchase price. At the end of 2007, the price of fodder barley was 127 Ls/t, wheat cost 124 Ls/t, whereas the price of pork was merely 109 Ls/100 kg. As a result, pig – breeders operated with significant losses of 44 lats per feedlot pig.

To preserve sows in herds, the Ministry of Agriculture granted financial support to pig breeders within the framework of national support for agriculture (support for breeding and animal growing in pig – breeding sector). With state support, the number of sows in herds was preserved and even increased slightly over 2006 (Figure 5.8.).

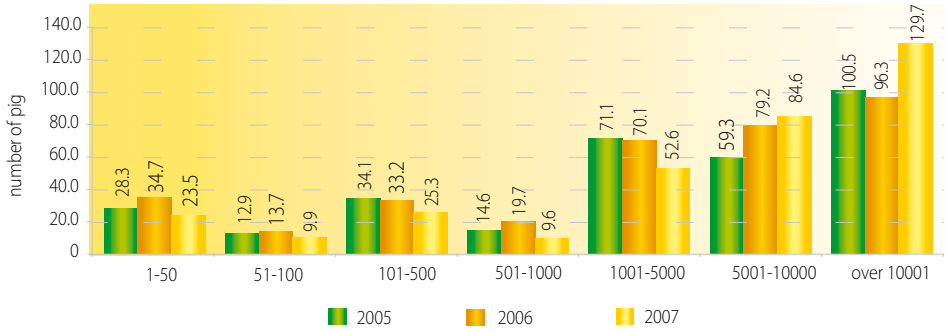


Source: CSB

Figure 5.8. Number of sows in Lithuania, Latvia and Estonia (in thousands)

According to information by the European Commission Management Committee for Pigmeat, in 2007 there was a shortage of fodder grain on the European market and grain prices increased. It is also confirmed by reports from other EU Member States concerning the difficult situation on the pork market.

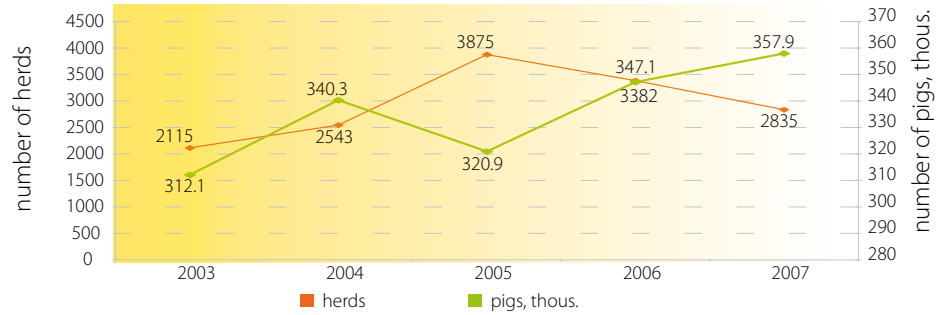
Comparison of pig herds in 2006 and 2007 reveals a trend in 2007 for the number of herds with 5000–10000 pigs and more than 10000 pigs to increase. The number of small herds decreased. This suggests that the pig – breeding sector focussed on big herds in order to improve the competitiveness of the sector (Figure 5.9.).



Source ADC

Figure 5.9. Number of pigs by size of herd in 2005. – 2007. (at the end of year)

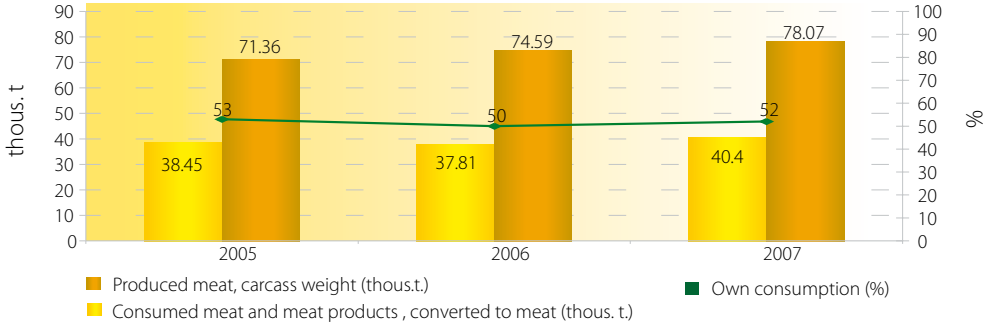
Although the overall number of herds decreased, the number of pigs grew from 347.1 thousand in 2006 to 357.9 thousand in 2007, representing in increase of 4% year – on – year (Figure 5.10.).



Source: ADC

Figure 5.10. Dynamics of total number of herds and pigs.

Despite of the critical situation in 2007, the volume of pork production increased and amounted to 40.4 thousand tons, while the consumption of meat and meat products was 78.07 thousand tons. Self – provision with pork increased slightly year – on – year. In 2006, it was 50%, while in 2007 amounted to 52% (Figure 5.11.).



Source: RSS

Figure 5.11. Meat production and consumption

Comparing the 2007 balance against the previous year, the volume of produced meat at carcass weight has grown by 7%. Total consumption of meat and products thereof has increased by 4%. Imports and exports have also expanded (Table 5.10.).

Table 5.10.

Pork balance in 2005 – 2007 (thousands of tons)

	2005	2006	2007
Stock at the beginning of the year	**2.50**	**3.50**	**2.40**
Resources			
Produced meat, live weight	49.29	48.48	51.84
Produced meat, carcass weight	**38.45**	**37.81**	**40.43**
Meat (including live livestock) imports, carcass weight	**35.83**	**36.53**	**42.83**
inc. live livestock (converted to meat)	3.64	4.42	4.54
meat	25.32	26.07	27.64
By – products	2.42	2.07	1.93
food fats	2.32	2.74	2.90
salted/smoked items	1.44	1.24	1.32
Imports of meat products (converted to meat)	**3.61**	**3.88**	**4.61**
inc. sausages	2.95	2.97	3.04
Total resources (converted to meat)	**80.39**	**81.72**	**85.73**
Consumption			
Consumed meat and meat products (converted to meat)	71.36	74.59	78.07
Exports of meat	5.53	4.73	4.97
Exports of meat (including live livestock), carcass weight	3.18	1.08	1.48
Exports of meat products (converted to meat)	2.35	3.65	3.49
Total consumed meat and its products (converted to meat)	**76.89**	**79.32**	**83.03**
Stock at the end of the year	**3.50**	**2.40**	**2.70**

Source: RSS

The average pork purchase price in Latvia was 104.6 Ls/100 kg in 2007, representing a 3.2% decline over 2006. The EU average price on pork also decreased by 6.9% year – on – year (Table 5.11).

Table 5.11.

Average pork prices in E – category (Ls/100kg)

Average price (Ls/100kg)	2005	2006	2007
Latvia	95.7	108.1	104.6
EU	87.3	102.1	94.99

Source: COMEX (Eurostat data base)

In order to overcome the crisis on the EU pork market and promote the growth of prices, two pork market regulation mechanisms were resorted to. Initially, a private storage mechanism was introduced, which did not improve the situation. Then export refunds on chilled and frozen pork exported to third countries were introduced.

Breeding

Pig – breeding occupies an important place in Latvian agriculture. The main objective is to reduce the prime costs of production by using genetically valuable breeding material, thereby supporting the stabilisation of the pig – breeding sector and improving the competitiveness of its products both on the Latvian and foreign markets.

Producers in Latvia, the same as anywhere else in the world, have to be ready to face market turbulences; therefore, farms need adequate high – quality breeding material whose off – springs gain weight quickly using less feed per unit of output and have a lean carcass consistent with the meat processors requirements. In previous years, good results were achieved in the field of pig breeding. We should build on what has been started in order to achieve even better use of the genetic breeding potential of pigs. High income in the pig – breeding sector can be guaranteed by correctly steered breeding, where the most important is the selection of the right varieties and their cross – breeding, productivity control, establishing the breeding value of animals and quick introduction of the achievements gained through

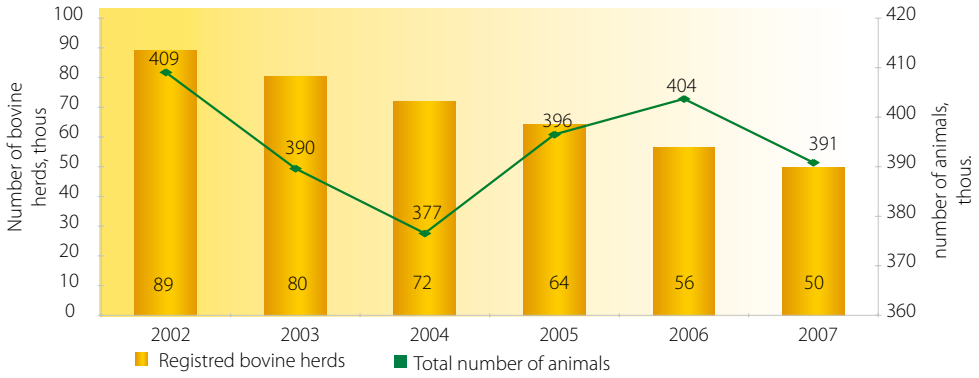
selection into production.
Cross – breeds of two varieties (M1) of gilts most popular on the domestic breeding market are the most profitable for pork producers and are much more productive that pure – bred sows. The annual number of piglets is also bigger. Recent years were marked by an increase in the total number of pigs in farms. In 2007, 60.6% of all pigs were bred in farms with the number of pigs exceeding 500.
In 2007, 18 farms were dealing with reproducing of breeding material in Latvia in the status of an animal breeding farm. Genetic improvement of animals in pork breeding farms was coordinated by pedigree animal breeding organisations: Pig Breeding Centre ltd. and Agrosels ltd. To achieve the selection aims and tasks, the organisations prepared a "Programme for Pig Breeding in Latvia". The breeding programme was based on Yorkshire, Landrace, Pietren, Durock and Large White breed pigs bred in Latvia. To ensure successful implementation of the selection programme, 41 pedigree boars were imported from European Union Member States into Latvia in 2007.
Pig Breeding Centre ltd. also implements a breeding programme for improvement of the Latvian large white pig variety. Implementation of this programme enables to receive European structural funds payment for preservation of genetic livestock resources.
According to the ADC data, there were 2835 herds registered with the pigs register in 2007, with the total number of 357 974 pigs and 32 967 sows (as at 01.01.2008). In recent years, the average number of pigs in a herd tended to grow. In 2006, the average number of pigs in a herd was 104, whereas in 2007 it was 126.

Summary

Despite of the complicated situation in the sector, 2007 output indicators were stable in comparison with the previous years. Signs of improvement could be observed with regard to the number of animals, production and processing volumes as well as productivity.
Currently the Ministry of Agriculture and EU institutions have to mobilise themselves, in order to improve the market situation in the pig – breeding sector at both the national and European level. In addition to addressing the current problems, sectoral representatives also have to think about the future and further development of operations that would prevent any new crisis.
Cooperation is one of the most important aspects in the pig – breeding sector. Currently there is no developed horizontal or vertical cooperation in the sector. A universal cooperation pattern for pig – breeders, meat processors and grain producers is required. Cooperation and inter – operability in business improve access to financing and sales of the products. Larger volumes reduce unit costs.
Global market tendencies also have to be closely watched as the market provides opportunities and better prospects, but also is associated with risks and threats. This is another reason why realising which are the priorities in the overall pig – breeding sector is so important. Future development of the pig – breeding sector should focus on production for the domestic market, EU common market or third country exports. Skills and determination are required to implement the farmers own. They have to be able to assess the situation and act accordingly, responding to changes in the market, as the situation is constantly changing.
The MoA is highly interested in stabilisation of the pig – breeding sector and raising the competitiveness of outputs, yet it can only address the problems within the Ministry competence: strengthen the legislative and regulatory framework, defend the interests of pig – breeders in various EU institutions and the government as well as support the drafting of the sectoral development strategy.
Correctly using high – quality breed boar sperm in pig – breeding within the framework of the breeding programme, pig breeding organisations have managed to increase the productiveness of Latvian Landrace sows in breeding farms from 11.4 to 12.2 piglets in the period from 1999 to 2007. The annual number of piglets produced has grown from 22 to 24.7 and the age of gilts at 100 kg has been reduced from 192 to 165 days, the thickness of fat has been reduced from 12.2 mm to 9.7 mm and the amount of lean meat increased from 58.4% to 60.8%. Daily increase in weight has gone up from 610 g to 817 g (live weight increase test results).
Structural changes are still ongoing in the pig – breeding industry and the production is concentrated in larger farms. Self – provision with pork was 52% (preliminary information) in 2007. In general the pork quality has improved as a result of breeding planning.

5.4. Production of beef

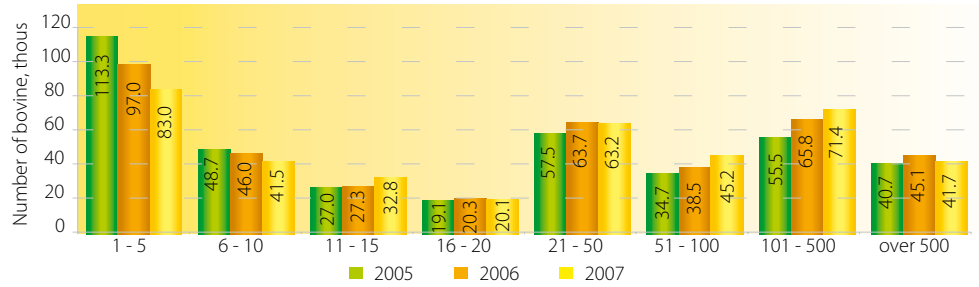
2007 was a rather successful year for the meat bovines sector. Activities of the sector focussed on sales of produced high – quality beef, raising the competitiveness, increasing export opportunities as well as providing the consumers with Latvia – produced beef possessing improved qualities. Increasing the number of meat breed animals and the number of their crossbreeds with milk breeds helps to improve the competition on the EU market.
According to the ADC data, as at 1 January 2008 there were 49 605 bovine herds with 390 808 bovines registered with the register of herds, of which 3299 were meat breed herds with 205 880 animals (Figure 5.12.).



Source: ADC

Figure 5.12. Total number of bovine herds and animals in 2002 – 2007 (at the end of year)

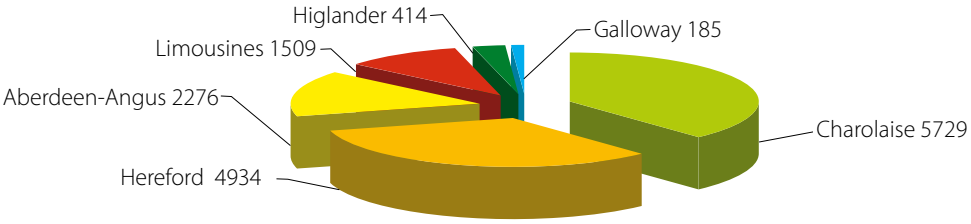
Analysis of the structure of bovine herds (Figure 5.13.) leads to a conclusion that the number of herds with 11–15 animals and with 101–500 animals increased in 2007 year – on – year. Nevertheless, small herds accounted for the largest share (70%), yet it tended to decrease. Farms with 50 and more animals accounted for about 1% of the total number of farms, yet they contained about 30% of all Latvia's bovines.



Source: ADC

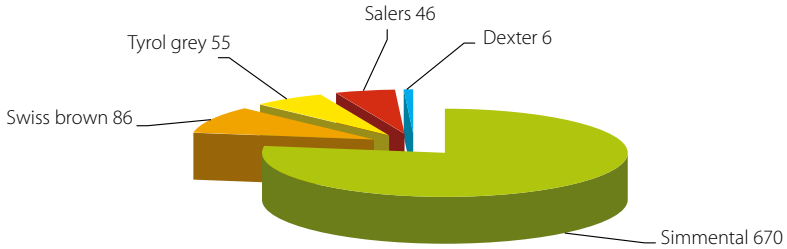
Figure 5.13. Grouping oh herds based on the number of animals from 2005 – 2007 (at the end of year)

According to the ADC data, in 2007 the number of specialised meat breed animals and their crossbreeds in Latvia totalled 16 095 animals (Figure 5.14).



Source: ADC

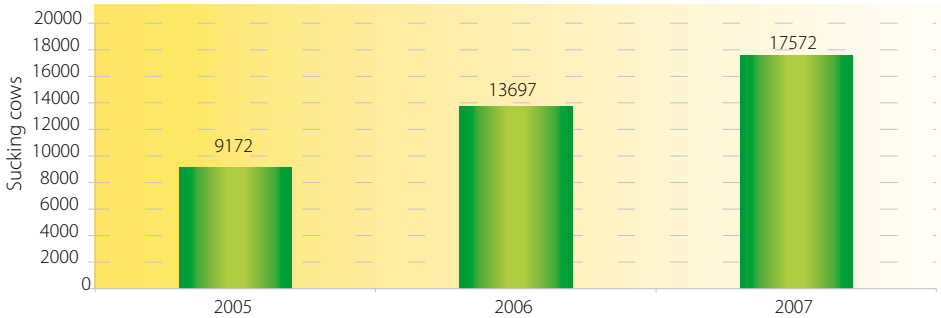
Figure 5.14. Specialised meat breed animals by variety in 2007



Source: ADC

Figure 5.15. Meat and milk cross – breeds by variety in 2007

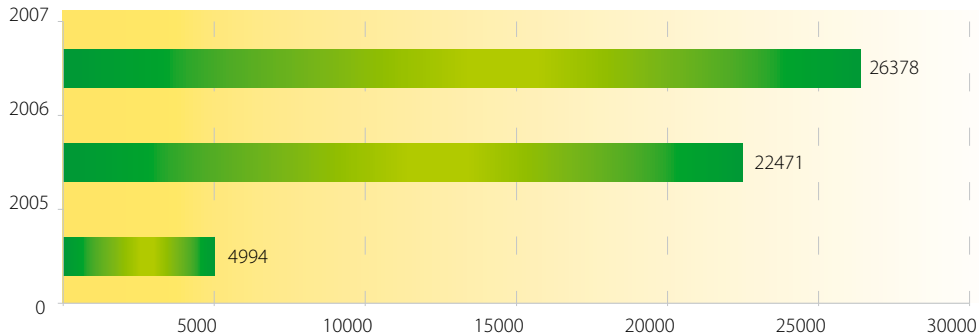
In 2007, 17 572 suckling cows (pure breed and meat breed cross – breeds) were registered in Latvia. In comparison with the previous year, the number of suckling cows had grown by 23% (Figure 5.16.).



Source: ADC

Figure 5.16. Number of suckling cows from 2005 – 2007 (at the end of year)

In 2007, the beef market was still insufficiently developed in Latvia and beef producers had difficulties with selling the produced young stock at adequate prices. Local meat processing companies were not interested in buying high – quality beef at adequate prices. In order for their operation to be profitable, a large part of bovine breeders opted to sell their calves and young stock at weaning to buyers from the EU for further breeding in other European Union Member States. Payment for such separated 3 to 12 months old calf and young stock equalled that paid by local processing companies for a fattened 1.5 to 2 years old young stock.
According to the ADC data, it can be concluded that 2007 was marked by a tendency to sell milk breed and meat breed cross – bred calves outside Latvia, exporting them to other Member States. In 2007, the number of 3 to 12 months old calves and young stock increased by 17% in comparison with 2006 (Figure 5.17.).



Source: ADC

Figure 5.17. Number of suckling cows by year

In 2007, the volume of produced beef at carcass weight increased by 9% year – on – year or by 22.76 thousand tons in Latvia. Beef consumption is traditionally significantly lower in Latvia as compared to pork consumption, which is also evidenced by the statistical data. Pork consumption amounted to 78.07 thousand tons, whereas the consumption of beef to merely 22.49 thousand tons. Total consumption of meat and its products grew by 8% year – on – year. Imports and exports also increased (Table 5.12.).

Table 5.12.

Beef balance in 2005 – 2007 (in thousands of tons)

	2005	2006	2007
Stock at the beginning of the year	**1.30**	**0.90**	**0.70**
Resources			
Produced meat, live weight	37.86	38.30	42.14
Produced meat, carcass weight	**20.44**	**20.68**	**22.76**
Meat (including live livestock) imports, carcass weight	**5.14**	**6.72**	**6.89**
inc. live livestock (converted to meat)	0.89	0.94	0.75
meat	2.89	2.18	2.31
By – products	1.25	3.59	3.79
salted/smoked items	–	0.02	0.04
Imports of meat products (converted to meat)	0.06	0.11	0.20
Total resources (converted to meat)	26.88	28.30	30.39
Consumption			
Consumed meat and meat products (converted to meat)	**22.55**	**20.77**	**22.49**
Exports of meat (including live livestock), carcass weight	**2.64**	**5.05**	**6.59**
Exports of meat products (converted to meat)	0.77	1.78	0.71
Total consumed meat and its products (converted to meat)	**25.98**	**27.60**	**29.79**
Stock at the end of the year	**0.90**	**0.70**	**0.60**

Source: RSS

Analysing the statistics, it can be concluded that the beef production was stable, yet the production volumes wre low. As the beef production cycle is quite long, it is impossible to achieve rapid growth of production in a short period of time.
Analysis of the average purchase price of beef reveals that from the beginning of 2005 the average purchase prices in Latvia remain lower than the European Union prices. Price analysis shows that average purchase price increased slightly in 2007 in comparison with 2006 (Table 5.13.).

Table 5.13.

Average purchase prices (LVL/100kg) in 2005 – 2007

	Young bull carcasses (category A – R3)			Cow carcasses (category D – O3)			Carcasses of heifers not yet calved (category E – R3)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
LV	112.01	121.50	126.99	92.46	93.22	94.59	109.84	115.34	115.82
EU – 25	205.13	221.95	211.87	160.36	167.12	160.94	206.32	220.80	220.96

* provisional estimates

Source: COMEX

In 2007, the average purchase price of beef in Latvia was 25% lower than that in the EU. In 2007, the average purchase price of beef in Latvia increased by 3% on average, whereas in the EU – 25 countries it decreased by 3.95% in comparison with 2006.

Breeding

The sector of breeding of specialised meat breed animals is developing quite rapidly in Latvia. The same rapid development is reported for the variety of bred meat bovines. Some years ago when monitoring of meat animals started in Latvia, there were just 4 varieties: Hereford, Charolaise, Limousines and Aberdeen – Angus, whereas currently 12 varieties of specialised meat breed bovines are registered.

Table 5.14.

Number of various breed animals in monitored meat breed herds as at 01.01.2008

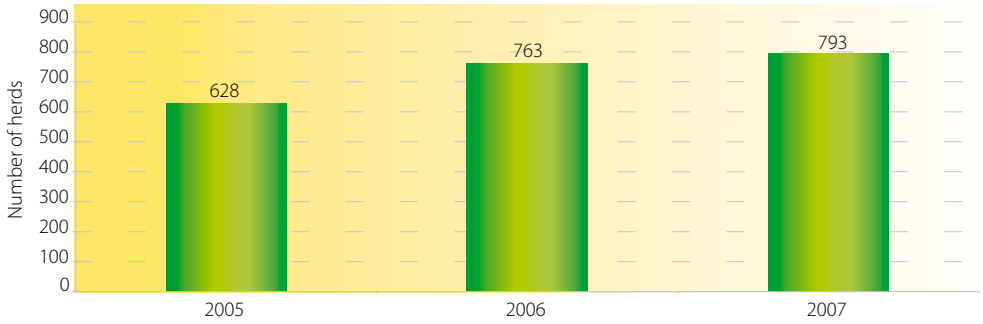
Variety	Number of animals		
	female	male	Total
Charolaise (ŠA)	3643	746	4389
Hereford (HE)	2682	586	3268
Aberdeen – Angus(AB)	1149	196	1345
Limousines(LI)	818	143	961
Simmental (SI)	467	150	617
Highlander (HA)	210	80	290
Galloway (GA)	139	44	183
Tyrol grey (TP)	42	13	55
Salers (SL)	37	9	46
Belgian blue (BZ)	10	2	12
Swiss brown (OB)	11	0	11
Dexter (DR)	2	4	6
Meat breed cross – breeds (XG)	1709	775	2484

Source: ADC

The variety of breeds suggests that Latvian farmers had an opportunity to learn from the vast experience of other European countries and try to use it in Latvia. Yet it does not guarantee that doing the same thing in Latvia will always be successful. Many of the varieties have been bread in particular circumstances and they have a specific market in the countries, where the population of those animals is big. Having imported an unknown variety to Latvia, herd owners realised that there was no demand for this breed in Latvia, the buyers did not recognise and appreciate the specific qualities of the animals or their meat. Breeding is complicated when the animal population is small. Thus before importing any new breed to Latvia, all its advantages and prospects have to be evaluated first prior to making investments.

Breeding of beef pedigree cattle in Latvia wais coordinated by the Latvian Association of Beef Cattle Producers ltd. It has the following delegated functions: keeping the breed register of meat breed bovines, certification of breeding bulls, attestation of pedigree animal breeding farms, organisation of meat bovine auctions, animal imports, implementation of local and international projects and popularisation of the sector in Latvia. Overall, there were 37 meat breed bovine breeding farms in Latvia dealing with selection and providing quality breeding material to other farms.

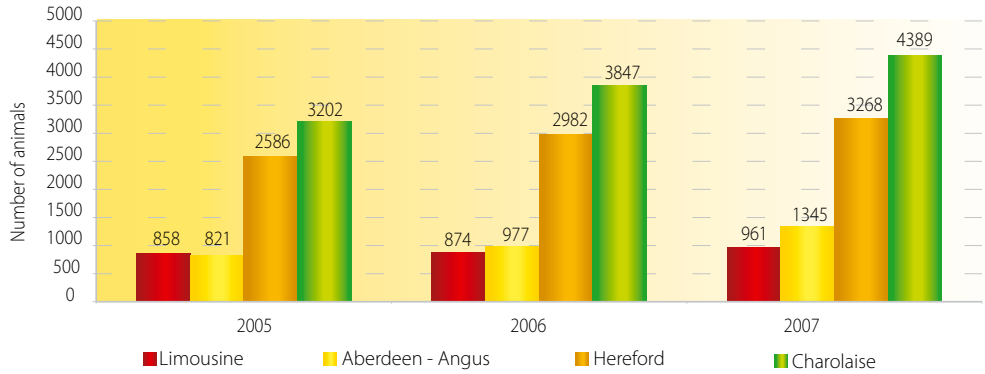
Collection and processing of animal monitoring data is ensured by the public sector agency "Agricultural Data Centre". Farms submit animal monitoring results at least three times per year. Thus the results can be analysed at the level of herd as well as the national level and summaries prepared for herd owners to be used in further improvement of the herd and management.



Source: ADC

Figure 5.18. Changes in the number of monitored from 2005 – 2007 (at the end of year)

As can be seen from the ADC information, the number of the monitored meat breed herds was following a stable upward trend. In the last four years, the number of the monitored herds has grown considerably, pointing to the willingness of herd owners to improve the breeding value of the animals contained in their herds.



Source: ADC

Figure 5.19. Changes in the number of meat breed animals in monitored herds by year

Looking at the variety composition of monitored herds, it can be concluded that the biggest number of monitored animals can be found in Charolaise and Hereford breed herds. These breeds have the longest traditions in Latvia and also the biggest number of herds in comparison with other varieties. The number of monitored animals of the Aberdeen – Angus and Limousines varieties is smaller; nevertheless, the number of monitored animals is increasing in all variety groups.

Overall, it can be concluded that the breeding measures applied in meat breed herds have been successful, as both the number of monitored animals as well as the number of monitored herds is growing rapidly. From now on larger attention has to be paid to work with non – monitored herds and herds breeding various meat cross – breeds, with a view to improving the market competitiveness of those breeders.

Summary

Beef production was stable in Latvia, with a minor increase in output. Increasing the number of meat breed animals and the number of their crossbreeds with milk breeds as well as improvement of the meat quality helped the beef sector to raise its competitiveness on the European Union market.

Current situation on the beef market means that new solutions for sales of the products have to be found. Therefore, many breeders are trying to find their market niche by selling meat to local shops, catering companies, individual buyers. Unfortunately this niche is not big enough to accommodate all breeders; therefore, a large part of the produce is still exported outside Latvia to other EU Member States.

Recently Lithuania and Germany have expressed interest in purchasing fattened young stock. The price offered by the dealers from those countries is higher than that offered by local processing companies. Meat bovine breeders find this proposal attractive and many are ready to sell to other EU countries. Unfortunately, high – quality beef is still mostly exported from Latvia to countries offering higher payment for the work input

by the breeders.
Production of beef is one of the sectors of cattle – breeding with the best prospects. There are large territories in Latvia, which are difficult to cultivate using the agricultural machinery and it is not profitable for the farmers to grow crops in these territories. Therefore, there are opportunities for reorientation to breeding of meat bovines.

5.5. Production of eggs and poultry

In 2007, there were 4756.8 thousand fowls in Latvia, representing a 6% increase over 2006. Analysis of the CSB data, leads to a conclusion that the number of laying hens declined by 0.4%, while the number of broilers and broiler hens grew by 9% over 2006. The number of ducks, geese and turkeys decreased (Table 5.15.).

Table 5.15.
Total number of fowl in 2006–2007 (in thousands)

	2006	2007
Total number of birds	4488	4757
including laying hens	2272	2260
broilers	1613	1760
of which broiler hens	58.6	93.1
Ducks	20	15
Geese	12	8
Turkey	9	8

Source: CSB

Analysis of 2007 balance leads to a conclusion that 20.55 thousand tons of poultry meat were produced. The volume of production remained at the level of the previous year, and the share in the total volume of produced meat remained unchanged. This could be related to the strong growth of production costs and rising grain prices as well as other factors (Table 5.16.).

Table 5.16.
Poultry meat and meat product production and consumption balance in 2005–2007 (thous. tons)

	2005	2006	2007*
Stock at the beginning of the year	**3.90**	**4.00**	**4.20**
Produced meat, live weight	24.58	29.44	29.34
Produced meat, carcass weight	**17.20**	**20.61**	**20.55**
Meat (including live fowl) imports, carcass weight	29.36	35.19	30.55
including			
live fowl (converted to meat)	0.02	0.03	0.03
meat	27.40	30.15	27.46
by – products	0.74	2.67	2.05
salted/smoked items	–	2.34	1.01
Imports of meat products (converted to meat)	**1.16**	**0.82**	**1.62**
Total resources (converted to meat)	**51.62**	**60.62**	**56.97**
Consumption			
Consumed meat and meat products (converted to meat)	45.39	50.19	49.46
Exports of meat (including live fowl), carcass weight	**1.92**	**5.77**	**4.32**
Exports of meat products (converted to meat)	**0.31**	**0.46**	**0.69**
Total consumed meat and its products (converted to meat)	47.62	56.42	54.47
Stock at the end of the year	**4.00**	**4.20**	**2.50**

* preliminary data
Source: RSS

Analysis of the average purchase prices of poultry meat leads to a conclusion that in 2007 they increased by 21% year – on – year. The average purchase price of poultry meat in Latvia was 3% lower than the EU average. Overall, the average purchase prices of poultry meat have grown both in Latvia and the EU, as grain prices increased significantly in 2007 resulting in higher prices on bird feed. Production and energy costs also increased (Table 5.17.).

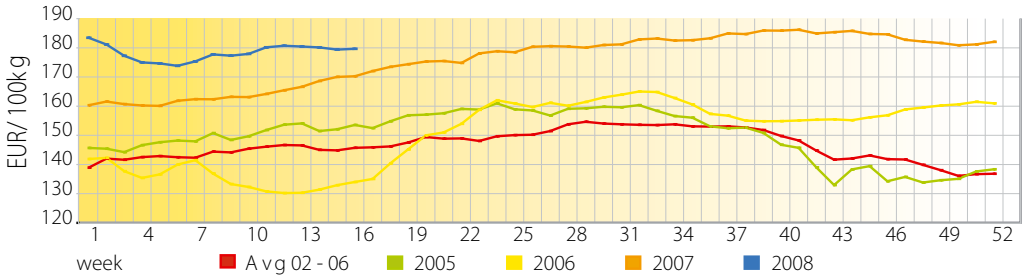
Table 5.17.

Average purchase prices of poultry meat (LVL/100kg)

	2005	2006	2007
Latvia	93.52	95.10	118.92
EU	110.83	103.78	122.77

Source: COMEX

In 2007, the prices of broiler meat in EU climbed to EUR 185.59 per 100 kg and were 1% higher year – on – year. In 2007, the prices followed an upward trend. (Figure 5.20.).



Source: COMEX

Figure 5.20. Average purchase prices of broiler meat in EU

Analysis of the egg production indicators reveals that the number of laying hens increased by 237.2 thousand or 11% in 2007 in comparison with 2006. The number of hen eggs grew by 77117,4 thousand or 14% in 2007 year – on – year. The overall number of produced eggs grew by 77 699 thousand, whereas income from sold eggs increased by 31% (Table 5.18.).

Table 5.18.

Egg production in 2005 – 2007

	2005	2006	2007
Average number of laying hens	2 097 848	2 115 295.0	2 352 476
Produced hen eggs, in thousands	538 646.3	551 293.8	628 411.2
Produced other fowl eggs, in thousands	7 093.8	1 436.2	2 018.2
TOTAL	545 740.1	552 730.0	630 429.4
Of all produced eggs:			
Used for incubation	10472.4	13884.7	15 518.5
Consumed by farm	43401.3	46407.3	64 372.7
Sold	401 207.2	427 923.7	483 381.9
Income from sold eggs, Ls	14 707 325	16 338 042	21 362 387

Source: CSB

Analysis of the egg and egg product balance leads to a conclusion that the volume of produced eggs and egg products grew by 77.64 million pcs. or 14% in comparison with 2006. Imports of eggs and egg products decreased by 6.6 million pcs. or 12.7 % in comparison with 2006. Exports of eggs and egg products increased by 107.22 million pcs. in 2007 year – on – year. Consumption of eggs and egg products was 20.4% lower than the output produced (Table 5.19.).

Table 5.19.

Egg and egg product balance (in millions of pcs)

	2005	2006	2007
Stock at the beginning of the year	**5.10**	**7.50**	**7.57**
Produced	**545.74**	**552.73**	**630.37**
Imports	**21.52**	**51.90**	**45.30**
Total resources	572.36	612.13	683.24
Consumption			
Consumed	510.94	538.98	501.35
Exports	**53.92**	**65.57**	**172.79**
Total consumed	564.86	604.56	674.14
Stock at the end of the year	**7.50**	**7.57**	**9.10**

* preliminary data

Source: RSS

Analysis of the average purchase prices of eggs leads to a conclusion that in 2007 they increased by 2% year – on – year. The average purchase price of eggs in Latvia was slightly higher than the EU average. Overall, the average purchase prices of eggs have grown both in Latvia and the EU, as grain prices increased significantly resulting in higher prices on bird feed and higher production costs (Table 5.20.).

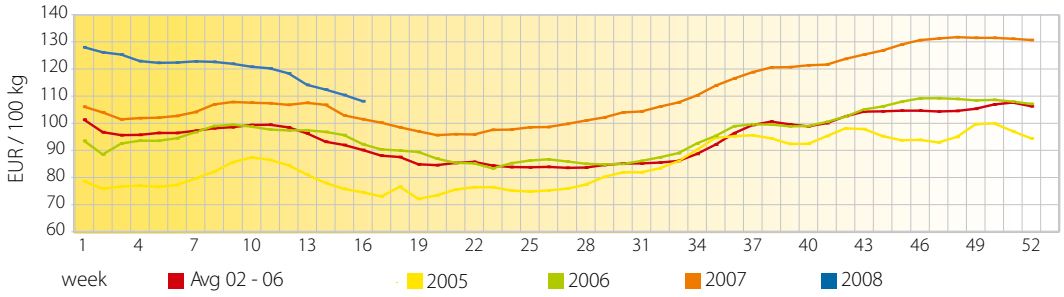
Table 5.20.

Average purchase price of eggs in 2005 – 2007 (LVL/100 kg)

	2005	2006	2007
Latvia	70.32	66.98	67.90
EU	68.7	62.80	67.46

Source: COMEX

In 2007, the average purchase prices of eggs in EU climbed to EUR 130 per 100 kg and were 1% higher year – on – year. Prices followed a steep upward trend (Figure 5.21).



Source: COMEX

Figure 5.21. Average purchase prices of eggs in EU

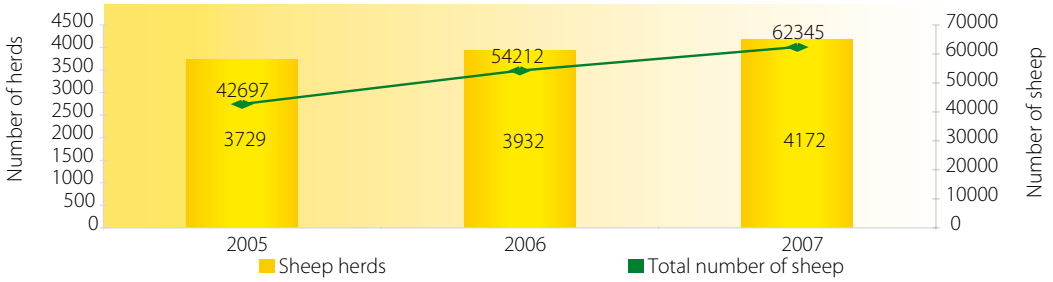
Summary

In 2007, 20.6 thousand tons of poultry meat was produced, which means that production decreased by 0.29%. 630.4 million eggs were produced, representing a 14% increase over the previous year.

Imports grew for both eggs and poultry meat. Exports increased slightly and mostly to the EU Member States.

5.6. Development of Sheep Farming and Goat Farming

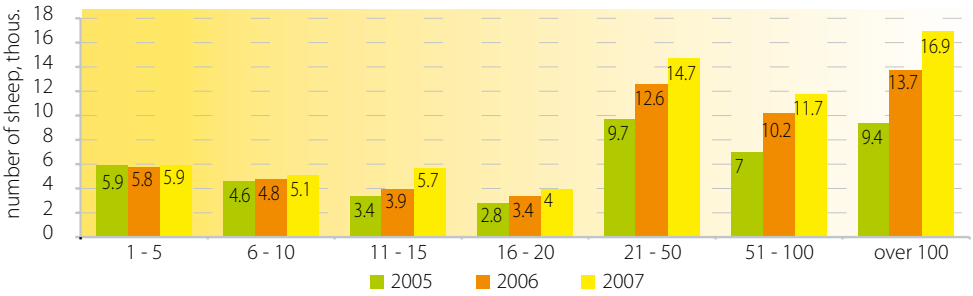
2007 was a successful year for the sheep farming and goat farming sectors. The main line of operation for the Latvian sheep farming was meat production, processing and sales development. Goat farming sector priority was milk production, processing and sales development. In order to promote sales of goat meat, meat breed goats were gradually imported.
According to the ADC data, as at 1 January 2008 there were 4172 sheep herds with 62 345 sheep registered with the animal register in Latvia. In comparison with the previous year, the number of herds grew by 6% and the number of sheep by 13% (Figure 5.22.).



Source: ADC

Figure 5.22. Total number of sheep herds and animals

Analysis of the structure of sheep herds reveals that the number of sheep grew in all herds, but particularly in herds with 100 and more sheep and with 21–50 sheep (Figure 5.23).



Source: ADC

Figure 5.23. Number of sheep by size of herd from 2005 – 2007 (at the end of year)

Sheep meat production data lead to a conclusion that the volume of produced meat at carcass weight increased by 11% in 2007 over 2006. The number of slaughtered sheep grew by 21% (Table 5.21.).

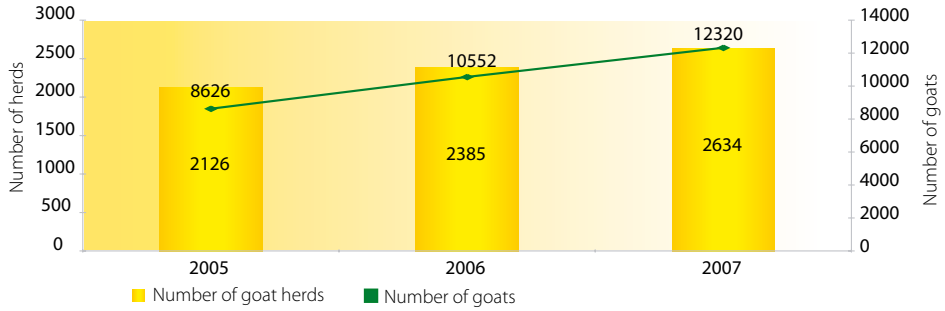
Table 5.21

Sheep meat production in 2005 – 2007 (in tons)

	2005	2006	2007
Carcass weight in tons			
Number of animals slaughtered and sold for slaughter	13 142	15 112	18 345
Produced or obtained meat at farm	350	383	424
Live weight in tons			
Produced or obtained meat at farm	700	766	848

Source: CSB

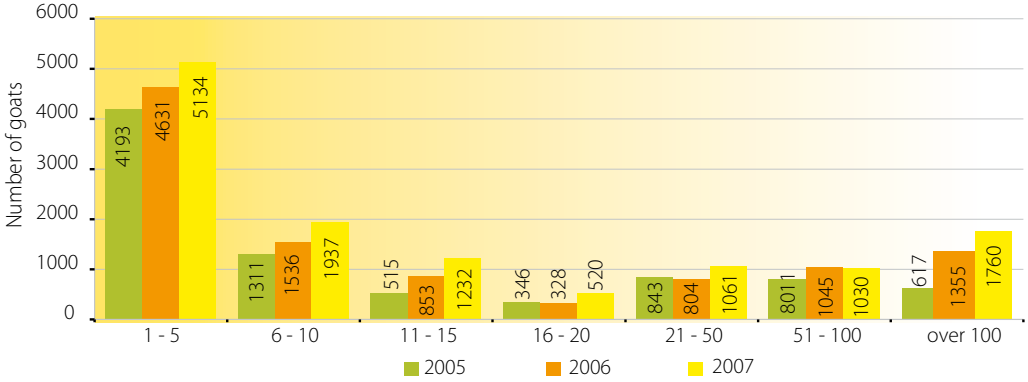
According to the ADC data, as at 1 January 2008 there were 2634 goat herds with 12 320 goats registered with the animal register in Latvia. In comparison with the previous year, the number of herds grew by 10% and the number of goats by 15% (Figure 5.24.).



Source: ADC

Figure 5.24. Total number of goat herds and animals

Analysis of the structure of goat herds reveals that the number of goats has grown equally in all herds (Figure 5.25.).



Source: ADC

Figure 5.25. Number of goats by size of herd

In Latvia, goats are bread mainly for milking and only rejected goats are used for meat production. According to the data of the CSB, in 2007 farms produced 3290 tons of milk, which is 12% more than in the previous year (2939 tons of milk).
Goat meat production data lead to a conclusion that the volume of produced meat at carcass weight increased by 23% in 2007 over 2006. The number of slaughtered goats grew by 33% (Table 5.22.).

Table 5.22.

Goat meat production in 2005 – 2007 (in tons)

	2005	2006	2007
Carcass weight in tons			
Number of animals slaughtered and sold for slaughter	3 868	2 791	3 720
Produced or obtained meat at farm	78	56	69
Live weight in tons			
Produced or obtained meat at farm	156	112	138

Source: CSB

Breeding

Latvian Association of Sheep Breeders coordinates the breeding work in the sheep farming sector and implements a breeding programme providing for an improvement of economically useful features of Latvian dark – headed sheep breed as well as systematic breeding of various crossbreeds. The objective of the Association is to promote sheep farming in Latvia. In 2007, the Association

organised seminars, monitoring courses and a sheep farming experience exchange trip visiting sheep breeders in Kurzeme as well as participated at Vecauce agricultural fair.

Meat production has become the main area in sheep farming: therefore, the main objective of the breeding programme is improvement of sheep ewe productiveness, preservation of lambs and intensive production of lamb.

In 2007, 23 farms with the status of pedigree breeding farm were dealing with reproduction of pedigree material.

In 2007, there were 1438 sheep ewes in pedigree sheep breeding farms, of which 65% were of the E class and 31% of the I class. Average live weight of sheep ewes was 71.1 kg, average wool clip 4.6 kg and average productiveness 167.2%. Farms use breed rams of E class with the average live weight 110.4 kg and average wool clip of 6.4 kg.

Work in the goat farming sector was organised by two recognised breeding organisations: Latvian Association of Goat Breeders and Latvian Goat Farming Association. These organisations implement a breeding programme in the goat farming sector with a view to raising the productivity of goats. In 2007, 21 farms with the status of pedigree breeding farm were dealing with reproduction of pedigree material.

In 2007, there were 1327 goat ewes in goat breeding farms, of which 15% were of the E class and 78.3% of I class. 853 goats were subject to monitoring, and the average milk yield per goat in Latvia was 532 kg.

Summary

Quality indicators of the sheep and goats bread in Latvia improved in comparison with the previous years, and it was fostered by the state support to breeding and animal farming.

Development of the sheep farming and goat farming sectors depends on the state support. Currently, without this support both sectors would be unprofitable and unable to develop. Local market demand for sheepmeat, goat milk and its products is growing. Increase of the number of sheep ewes and goat ewes has a positive impact on the sector, suggesting that the sheep farming and goat farming sectors are developing.

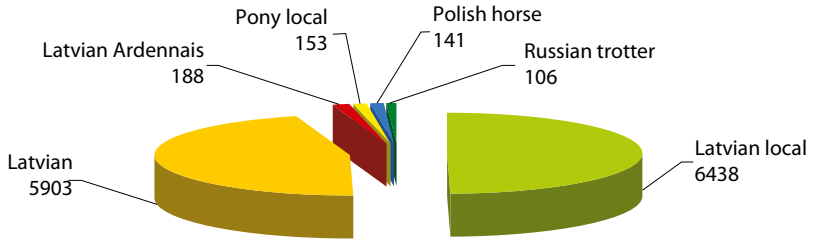
5.7. Horse farming

Horse farming is an ancient sector of agriculture, which was well – developed during the pre – war period of the first Republic of Latvia. Horse was the main pulling force at the farms of that time.

Nowadays horses are primarily used in sports, particularly in two disciplines of classical equestrian sports: dressage and show jumping. Recently, horses have became rather widely used in tourism, recreation and border – guarding as well as in therapeutic horse – back riding for sick children. In recent years, other sports disciplines have started to develop in Latvia: carriage driving, as well as rebirth of horse racing is observed. Horse breeding and keeping ensures additional jobs in the rural areas of Latvia.

Different breeds of horses are bread in Latvia, but the selection work by the horse breeders of Latvia is basically performed only with one Latvian horse breed (LS Latvian Breed horse). Currently, Latvian breed sports and driving horses are bread in Latvia. Driving type horses are of a gentle nature and, therefore, very suitable for using in tourism and recreation as well as in therapeutic horse – back riding. Latvian breed sports horses are well – known on the international market as well.

The current composition of horse breeds in Latvia is beginning to become more diverse, because of an increasingly larger number of European breed horses being brought to Latvia.



Source: ADC

Figure 5.26. Number of horses by breeds in 2007 (at the end of year)

Using the national support for purchase of breeding material, three breeding stallions were imported to Latvia from abroad in 2007.

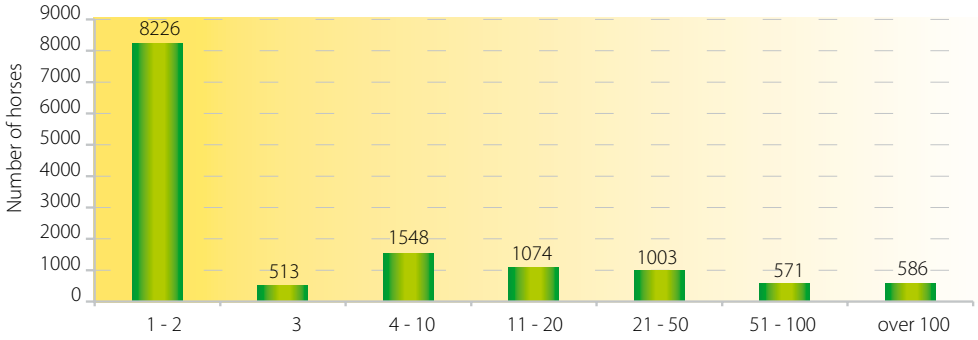
Although state support is paid in horse farming to monitored farms engaged in breeding, the total number of horses in Latvia decreased by 4.4% in comparison with 2006.

Table 5.23.
Total number of horses in all types of farms in 2005 –2007 (in thousands)

	2005	2006	2007	2007/2006 (%)
Total number of horses in all types of farms	13.9	13.6	13.0	95.6
Including mares from 3 years of age	5.3	5.2	4.9	94.2

* preliminary data
Source: CSB

Public Sector Agency "Agricultural Data centre" registered 8128 herds with the total number of 13 442 horses in the Joint Register of Horses in 2007.
Horse breeding in Latvia was coordinated by the following pedigree animal breeding organisations: Latvian Association of Pedigree Horse Breeders and Latvian Association of Horse Breeders. These organisations systematically use animals of high quality and preserve and improve the existing gene pool, thereby implementing the breeding programme of Latvian breed horses and the breeding programme of the driving type Latvian breed horses. 26 farms with the status of a pedigree breeding farm or a candidate for the above status participated in implementation of the breeding programmes in 2007.



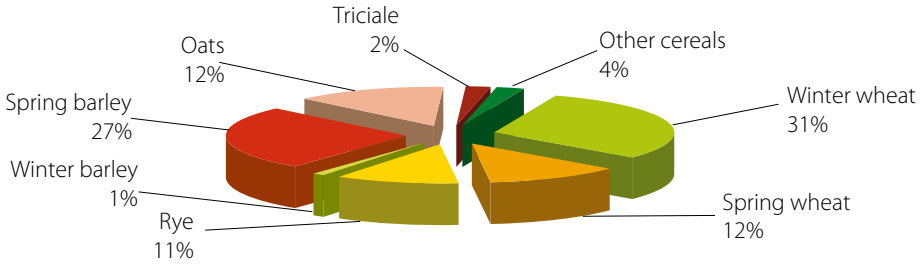
Source: ADC
Figure 5.27. Number of horses by size of herd

Summary

In 2007, the breakdown of the number of horses by size of herd changed significantly as compared to 2006. The number of horses in herds consisting of 1–2 animals decreased by 6%. In 2006, 15% of the total number of horses in Latvia were in farms with 21–100 and more horses. In 2007, 16.1% of the total number of horses in Latvia were in farms with 21–100 and more horses.
In 2007, serious work in pony breeding started. Breeding programmes were prepared and three pony breeder farms were granted the status of a candidate to a pedigree breeding farm.
In recent years, the number of driving – type horses decreased and the number of sports horses grew. Currently, the domestic market is very small, as the demand for both types of horses is low. Therefore, deals which are reasonably profitable are rare on the Latvian domestic market and so far cannot serve as an economic basis for sectoral development. Taking into account the demand on the external market, farms mainly breed sports – type horses for exports, and that is the source of profit for the horse – breeders.
Training of qualified specialists (coaches) is required in the horse farming sector, who would be able to develop the working abilities of horses and prepare them for international auctions.

5.8. Production of cereals

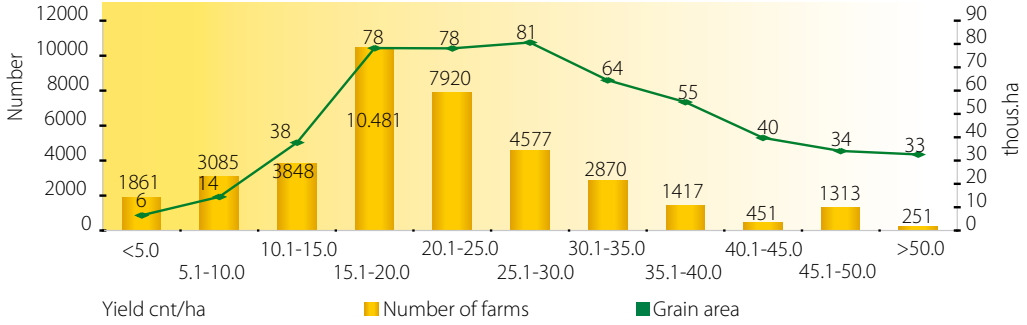
Cultivation of grain is one of the most important sectors producing agricultural goods in Latvia. Grain is used in the production of bread and breadstuffs as well as mixed feed for cattle and fowl. Yet the global and European Union developments suggest that other areas of using grain also need to be developed in the future: production of bioethanol, incineration of low – quality grain to produce thermal energy.
In 2007, cereals occupied 521.9 thousand ha or 46.3% of the total area of all fields. In 2007, cereals were sown on 10.1 thousand ha more than in 2006. The largest quantities of cereals were sown in Jelgava (43.1 thousand ha), Bauska (41.8 thousand ha) and Dobele (40.6 thousand ha) districts.



Source: CSB

Figure 5.28. Composition of cereal sowings in 2007

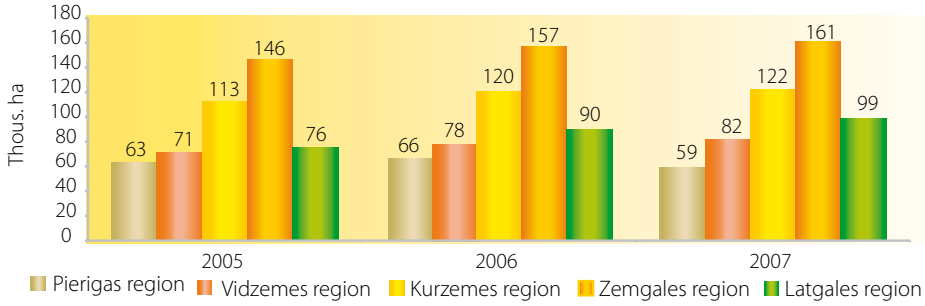
Analysis of the 2007 composition of cereal sowings leads to a conclusion that the vastest areas of the total area of sown fields were sown with winter wheat and summer barley: 31% and 27% respectively. The least popular species in Latvia in 2007 were triticale (2%) and winter barley (1%) (Figure 5.28.).



Source: CSB

Figure 5.29. All farms by yield (cnt/ha) in 2007

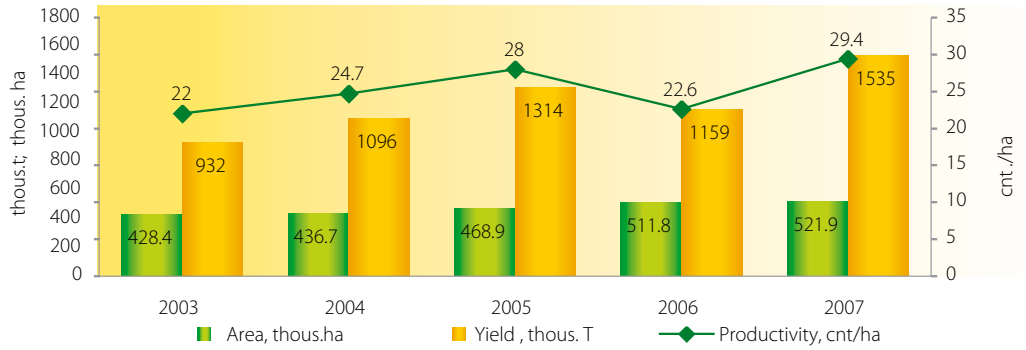
In 2007, cereals were cultivated in 38074 farms. It can be concluded that in 50.6% of farms the yield was up to 20 cnt/ha and these farms accounted for 26% of the total area of cereals sowings. The number of farms with the yield over 50 cnt/ha was only 0.7% (521 farms) of the total number of farms (Figure 5.29.).
The biggest area of 81 thousand ha (15.5%) of all cereals area was taken up by farms with the average yield of 25.1–30 cnt/ha, which also represents the average national yield.



Source: CSB

Figure 5.30. Areas of cereals sowings by region

The largest areas of cereal were sown in Zemgale region. The areas of sowings are growing gradually in all regions, except Greater Riga, where the areas decreased by 6.5% in comparison with 2005 and by 11% in comparison with 2006 in 2007 (Figure 5.30.)



Source: CSB

Figure 5.31. Areas of cereals sowings, total yield and productivity

In 2007, cereals occupied 521.9 thousand ha, which is 0.92% of the total EU area of cereals of 56751 thousand ha (except rice). Latvian yield of cereals was 0.59% of the EU – 27 yield in 2007.

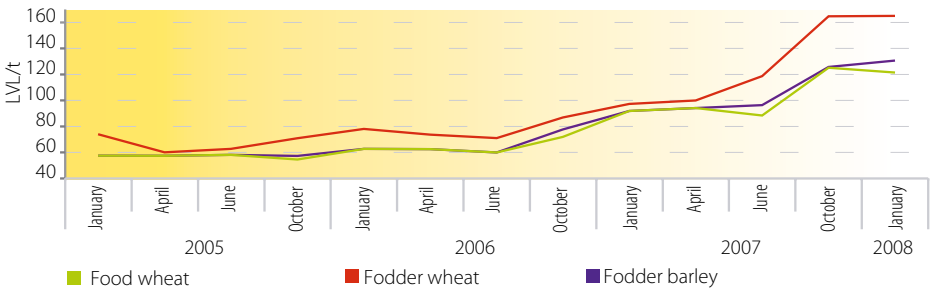
The areas of cereals sowings have grown gradually in course of five years. In comparison with 2003, they have increased by 17,9%. Along with growing areas of sowings and higher productivity, the total yield also increased in 2007 to 1,535 million tons, representing an increase of 32% over 2006. Considerable growth of the yield can be explained by the fact that in 2006 the average yield was 22.6 cnt/ha as a result of unfavourable weather conditions, while the average yield in 2007 was 29,4 cnt/ha. The highest growth of yield was reported in 2007 for rye (55%), oats (42%) and wheat (35%).

It can be concluded that the total area of cereals sowings increases year – by – year. In 2007, 10.1 thousand ha or 2.1% more were sown year – on – year (Figure 5.30).

The total area of winter crops grew by 24.1 thousand ha or 11.4%. Spring crop sowings decreased by 14 thousand ha or 4.7% year – on – year.

Grain prices

As in all EU, prices rose steadily in Latvia in 2007. According to the LSIAE market promotion data (Figure 5.31), in January 2008 prices of wheat for human consumption grew by 70% and 111% over January 2007 and January 2006 respectively. Those on fodder wheat increased by 42% and 108% and on fodder barley by 32% and 93% respectively.



Source: LSIAE market promotion centre

Figure 5.32. Grain purchase prices in Latvia (LVL/t)

The first considerable rise of grain prices was reported already at the beginning of 2007. That can be explained by the low harvests in the Ukraine, Hungary, Romania, Bulgaria, USA, Australia, as well as by the fact that a large proportion of grain is used for production of biofuels.

European Commission programme for the most deprived persons

In 2007, the EC programme for the most deprived persons operated based on the EC Regulation No 3149/92 of 29 October 1992 laying down detailed rules for the supply of food from intervention stocks for the benefit of the most deprived persons in the Community (hereinafter referred to as Regulation No.3149/92). Yet taking into account the fact that the intervention stock had been practically used up, the EC proposed to review the meaning of the programme and its further direction in the nearest future.

Latvia began participation on the programme in 2006.

Table 5.24.

Data on implementation of the EC programme for the most deprived persons (2006 – 2008)

	2006 programme	2007 programme	2008 programme
Amount of grain requested, t	2 643	3 280	1440
Granted financing, euro	281 215	348 962	153 910
Planned number of persons	19 706	150 000	30 000
Number of persons actually serviced/ entered by charity organisations	26681	3571	37 115
Distributed product	White bread	Groats	
Loaves of bread (pcs) or amount of groats (t) handed out/required annually	1087136	42,852	445,38
Entitlement to receive foodstuffs	Persons with income below the minimum income threshold set by the CoM	Persons with income below 50% of the minimum monthly salary	
Number of places of delivery	265	29	205
Number of charity organisation	9	5	7
Number of commercial suppliers	6	1	RSS announced tender

Source: RSS

Collected information on programme performance of 2006 and 2007 and the forecast for 2008 show that the 2007 programme implementation was quite unsuccessful in Latvia. Although the amount of grain requested was 637 t bigger than in 2006, insufficient number of charity organisations applied under the programme. The claimed amount of grain had to be reduced and only 75 t barley and 97 t wheat were used (Table 5.24.). The inactivity of the charity organisations could have also been affected by the particular product chosen (groats). Yet the selection of the particular product was justified, as bread:

1) has a very short period of use and has to be distributed frequently;
2) logistics for bread distribution is complicated and expensive;
3) baking bread requires additional products.

From 2007, the status of the most deprived person was changed within the framework of the programme, enabling a larger group of persons to receive support (i.e. all persons with income below 50% of the minimum monthly salary are entitled to receive those food products).

Regulation No.3149/92 stipulates that from 2008:

1) financing will be granted to Member States instead of intervention products;
2) the products designated for the most deprived persons are bought on the market (previously intervention products from intervention stocks were used).

Summary

2007 was a successful year for the crop – farming sector. Yields increased for almost all crops: cereals (by 30%), potatoes (by 30%), vegetables (by 11%) and fruit (by 6%). Sowing areas of cereals and rape continued to expand, whereas those of potatoes, vegetables and fruits contracted slightly.

The first considerable rise of grain prices was reported at the beginning of 2007. That can be explained by the low harvests in the Ukraine, Hungary, Romania, Bulgaria, USA, Australia, as well as by the fact that a large proportion of grain was used for production of biofuels. As a result, in January 2008 prices of wheat for human consumption grew by 70% and 111% over January 2007 and January 2006 respectively. Those on fodder wheat increased by 42% and 108% and on fodder barley by 32% and 93% respectively.

Participation in the EC programme for the most deprived persons continued. 42.8 tons of groats via 29 distribution sites were distributed in Latvia with the assistance of 5 charity organisations.

The areas of cereals sowings have grown gradually in course of five years. In comparison with 2003, they increased by 17.9% in 2007. Along with that, the total yield has increased in 2007 to 1.535 million tons, representing an increase of 32% over 2006.

In 2007, cereals were cultivated by 38074 farms. In 50.6% of farms the yield was up to 20 cnt/ha.

The average yield in 2007 at 29.4 cnt/ha was the highest reported in the last five years. The highest growth of yield in comparison with 2006 was reported in 2007 for rye (50%), oats (42%) and wheat (35%).

Rising grain prices can be explained by the low harvests in the Ukraine, Hungary, Romania, Bulgaria, USA, Australia, as well as by the fact that a large proportion of grain is used for production of biofuels.

Last intervention stock in Latvia was sold on the domestic market in spring 2007. Latvia's intervention centres stopped buying

grain since the commercial year 2005/2006. The EC proposes to preserve interventions only for soft wheat, believing that this will serve as a safety measure for the prices of other cereals, until they stabilise at their natural level.
In 2007, within the framework of the programme 42.852 t of groats were distributed to 3571 persons. Of intervention stock, 75 t of barley and 96.786 t of wheat were used.

5.9. Fruit and vegetable growing

Despite the cool summer of 2007 and showers, the year was overall successful for vegetable growers, and some farms even managed to grow record – high harvest.

Table 5.25.
Vegetable areas in all types of farms in 2005 – 2007

	2005	2006	2007
Open field area, in thousands of ha	12.9	13.4	11.0
Covered area, in thousands of ha	131.8	170.1	108.8
inc. glass hothouses	44.6	41.6	40.2
polythene hothouses	87.2	128.5	68.6

Source: CSB

In 2007, vegetable areas decreased by 18.5% year – on – year and occupied only 0.97% of the total area of agricultural crops (Table 5.25.). Vegetables were mainly grown to be consumed fresh and only a small part of the harvest was processed (sauerkraut, stewed cabbage and pickled cucumbers) at farms.
In 2007, 90% of the total harvest of vegetables was grown in open field (Table 5.26.).

Table 5.26.
Vegetables in open field

	Total yield, tons			Average yield, cnt/ha		
	2005	2006	2007	2005	2006	2007
Vegetables – total	158791	155318	141017	123.1	115.6	128.8
including:						
cabbage	65859	64371	52971	202.3	165.6	203.3
cauliflower	1506	1101	1434	119.6	79.8	88.8
leeks	633	701	210	82	45.4	51.2
lettuce	128	95	116	28.9	24.8	45.6
spring onion	645	234	373	49.8	22.5	31.3
cucumber	5588	6413	4492	52.3	54.5	60.2
tomato	306	371	261	32.1	38.6	41.6
beetroot	23608	25174	22636	134.1	118.2	128.4
carrot	34725	31640	30408	123.3	136.8	135.6
onion	15904	13566	16687	91.7	99.8	129.9
garlic	537	565	828	23.5	28.0	29.0
horse radish	255	174	194	27.8	33.1	48.9
gourds and marrows	5024	5706	5057	131.2	123.8	126.4
Other vegetables	5579	6309	6784	46.1	43.2	50.9

Source: CSB

Although the areas decreased and the weather conditions of the season were not very favourable, productivity in comparison with 2006 increased. The productivity growth was the result of the farms specialising in growing specific crops as well as farm modernisation. In 2007, both vegetable growing and fruit growing sectors experienced shortage of labour. Therefore, with the yield growing, the farms that had invested in purchasing growing and harvesting equipment and machinery could work more successfully. Shortage of labour and rising energy prices affected to the size of vegetable areas. After an increase of open field and covered areas in 2006, the areas decreased again in 2007, which is related to changes in the composition of farms: some small unprofitable farms changed their profile to other types of business.

Table 5.27.

Vegetable production in covered areas

	2005	2006	2007
Produced vegetables, t			
Glass hothouses	8572	9675	9334
Polythene hothouses	4837	9456	5548
including :			
tomato	6464	11010	6964
cucumber	6719	7888	7261
lettuce	100	85	526
spring onions	19	96	63
radish	8	7	4
other vegetables	99	45	64
strawberries	20	3	9
Total, t	13409	19131	14882

Source: CSB

In 2007, 10% of the total vegetable harvest was grown in covered areas (Table 5.27.). Cucumbers and tomatoes still account for the largest part (96%) of all total yields (cucumbers 49% and 41% in 2007 and 2006 respectively; tomatoes 47% and 58% in 2007 and 2006 respectively). Lettuce, spring onions, radish and other greens are grown for a comparatively short period of time in spring (March, April).

In the previous two years, long – term plantations tended to grow, yet in 2007 these areas decreased again by 3.4 thousand ha (Table 5.28.), which is related to liquidation of the old unproductive orchards.

Table 5.28.

Planted areas of fruit – trees and berry bushes (in thousands of ha)

	2005	2006	2007
Total fruit – trees and berry bushes	13.4	13.7	10.3
Apple – trees	8.5	9.5	7.3
Pear – trees	0.8	0.7	0.6
Plum – trees	0.9	0.7	0.4
Cherry – trees	0.9	0.8	0.7
Red currant, black currant	0.9	1.1	0.6
Raspberries	0.2	0.1	
Gooseberries	0.1	0.1	0.04
Strawberries	0.7	0.5	0.3

Source: CSB

The changing weather conditions of winter 2006/2007 had an adverse effect on orchards. Following the warm temperatures of the end of January (up to +10 – +11°C), cold set in at the beginning of February, which in some regions of Latvia sustained damage to cherry, plum, raspberry and partly also black currant plantings and the total yield of those crops decreased in 2007 as a result.

Regardless of a lower total yield of fruit and berries, the average yield of apple – trees, pear – trees and buckthorn increased (Table 5.29.).

Table 5.29.
Total yield and productivity of fruits and berries

	Total yield, tons			Average yield, cnt, ha		
	2005	2006	2007	2005	2006	2007
Fruits and berries total:	55039	46266	36958	40.9	33.7	35.9
Apples	37524	33898	30542	44.1	35.9	41.4
Pears	2006	1307	1096	24	17.7	18.1
Sea buckthorn	29	50	18	6.4	5.3	8.0
Quinces	459	132	83	18.1	30.8	17.5
Plums	2445	1520	250	25.1	20.9	7.0
Cherrie	1863	1551	910	20.7	20.4	12.3
Red currant, black currant	5186	4910	2102	58.2	43.8	32.4
Gooseberries	826	434	311	91.7	63.0	81.9
Black chokeberries	224	135	91	32.4	16.2	27.7
Raspberries	464	145	109	26.4	10.7	10.3
Strawberries	4013	2184	1446	57.7	41.3	42.4

Source: CSB

Lack of cooperation among producers remains the weakest spot of the sector, thereby increasing the prime costs of production and impairing the competitiveness of Latvian producers on the common EU market. Shortage of product sorting equipment and storage facilities is also a problem resulting in large losses of products.

Fruit and vegetable growing, particularly harvesting involves large amount of manual labour. Consequently, these sectors exert a direct upward pressure on labour costs. To address the problem of shortage of labour, some farms imported labour from ex–Soviet republics for the harvesting season of 2007.

EU and national support

The EU common market organisation for fruit and vegetables enables producer organisations and producer groups to receive support to promote sales of products by members of fruit and vegetable grower cooperatives. In 2007, the first producer group was recognised in Latvia, consisting of five professional vegetable gardening farms. Support to producer groups was granted to cover administrative expenses and investment. Other fruit and vegetable growers have also expressed interest about establishment of producer groups.

In 2007, national support in the amount of 400 000 lats was available to new productive long – term plantings, of which only 129 337 lats were spent. The low national subsidy spending level was related to changes in the procedure for getting the subsidies. To receive support growers had to show documents confirming transactions related to planting of the long – term plantations. Many farmers were unable to do that.

Support continued to farmers who undertook a five year commitment to grow fruit and vegetables using the integrated horticulture methods in 2006. In 2007, overall 500 000 lats were available for this measure, of which 440 863 lats were disbursed.

Summary

Rising energy prices and shortage of labour had the most significant impact on the development of fruit and vegetable growing sectors in 2007. Smaller farms, where mainly manual labour was used, suffered the most. With their competitiveness deteriorating, many farms had to stop the production of fruit and vegetables.

Following two years of growth, open field vegetable growing areas decreased by 2.4 thousand ha in 2007, thereby reaching the lowest level of the last years at 11.0 thousand ha. Nevertheless, average yield of vegetables was growing, suggesting that farmers increasingly more thought about how to raise the labour productivity, reduce costs and apply carefully thought – out growing technologies.

Occupied areas decreased sharply in the fruit – growing sector. In 2007, they reached an all – time – low at 10.3 thousand ha, which was related to liquidation of the old unproductive orchards.

The changing weather conditions of winter 2006/2007 had an adverse effect on the harvest of specific fruits and berries. The biggest reduction in yield was reported for cherries, plums, red currants and black currants.

In recent years, the areas of glass hothouses decreased and those of polythene hothouses have grown. Nevertheless, covered areas are insufficient to provide the Latvian market with home – grown vegetables as well as supply open field farms with vegetable planting material.

The issue of building modern product storage facilities, purchasing specialised transport for transportation of the

products, which would increase the product storage time and market competitiveness of producers, also remains open.

In 2007, the first producer group was recognised in Latvia, consisting of five professional vegetable gardening farms. Producer groups recognised according to the EU common market organisation for fruit and vegetables can receive support from the EU and national budget to establish and develop their organisation.

The reform of the common EU market for fruit and vegetables is finished. The main change affecting Latvian fruit and vegetables sector is the increased support to producer groups in Member States that joined the EU after 1 May 2004, in order to promote improvement of the quality of outputs and coordinate delivery to trading sites. From 2008, Latvian farmers growing strawberries and raspberries will be able to receive support, if their produce is supplied to processors.

The sector of fruit – growing was struck by an outbreak of bacterial fire blight of fruit trees in the summer of 2007. As a result, phyto – sanitary measures were carried out on the infected territories and farmers losses were covered from the central government budget (200 000 lats).

5.10. Sugar sector

The main objective of the reform of the European common market organisation in sugar is to improve the competitiveness of the sugar sector and promote sustainability and market – oriented sector development.

As a result of restructuring of the sugar industry, starting from commercial year 2007/2008 sugar production quotas were no longer granted to Latvia and the growing of sugar – beet for sugar production stopped.

The reform of the common market organisation provides for reduction of a specific quantity of sugar production and abolishing of sugar quotas.

After an assessment of the sugar restructuring support offered by the European Union, Latvian sugar producers together with sugar – beet growers, based on a common agreement, opted to stop the production of sugar and receive support for restructuring of the sugar industry.

In order for sugar refineries to receive support for restructuring, they prepared a sugar industry restructuring plan in 2007, including:

1) a social plan;
2) an environmental plan;
3) a refinery dismantling plan;
4) a financial plan.

The objective of the restructuring plan was to ensure than the sugar production was stopped by full dismantling of sugar production related equipment, pulling down the buildings, cleaning the environment and offering the laid – off staff consultations, skills improvement as well as retraining opportunities.

Implementation of the restructuring plan started in March 2007, and it is scheduled to be finished in May 2009.

Although the dismantling of sugar refineries began in 2007 and sugar – beet was no longer grown for processing, sugar refineries continued the packaging and sales of the sugar produced in the previous season. Sugar balance suggests that the stocks of sugar at the beginning of the year have a tendency to fluctuate every year (Table 5.30.). In recent years, the sugar amounts sold on the domestic market have gradually decreased, totalling 33.3 thousand tons in 2007, which was 4.5 thousand tons less than in 2006. That can be explained by the fact that sugar refineries have wound up their business and are in no hurry to sell out their stock, and also the sugar produced by neighbouring countries is entering the market.

Table 5.30

Sugar production and consumption balance in 2005 – 2007 (in thousands of t)

	2005	2006	2007
Stock at the beginning of the reporting period 01.01.	43.2	53.6	48.9
Resources			
Sugar produced from sugar – beet in calendar year, incl.	71	59.3	0
A quota sugar	64.6	0	0
B quota sugar	0.1	0	0
out – of – quota sugar	6.3	0	0
total resources	114.2	59.3	0
Consumption			
Sales of sugar by local sugar refineries (consumption)	48.1	37.8	33.3
A quota sugar	48.1	0	0
B quota sugar	0.0	0	0
Sugar exports	12.5	13.4	0.7
Stocks of sugar at the end of the reporting period 31.12.	53.6	48.5	14.9

Source: RSS

EU and national support

Sugar – beet growers can receive separate payment for sugar based on the single area payment scheme for the total volume of sugar – beet (in tons) stipulated in the sugar – beet supply contract within the framework of the sugar quota. The size of payment by year is stipulated in paragraph K of Annex VII of the Council Regulation (EC) No.319/2006. Total payments amounted to 5 164 000 euro in 2007, whereas in 2008 it will be 6 110 000 euro and in 2009 6 616 000 euro.

If sugar refineries apply for restructuring support by fully dismantling their equipment, Latvia is entitled to 730 euro for each declined ton of the sugar quota in the commercial year 2007/2008 from the European Union restructuring fund.

Total restructuring support available to Latvia amounts to 48 548 650 million euro, including:

1) 80% or 38 838 920 euro to sugar producers;

2) 20% or 9 709 730 euro to sugar – beet growers.

Taking into account that the aim of the European Commission to reduce the production of sugar in Europe by 6 million tons through restructuring of the sugar industry was not achieved, proposals were developed to stimulate the European sugar producers to stop the production of sugar. At the meeting of the European Council of Ministers of Agriculture and Fisheries of 9 October 2007, amendments to Council Regulation (EC) No.320/2006 establishing a temporary scheme for the restructuring of the sugar industry in the Community and amending Regulation (EC) No.1290/2005 on the financing of the common agricultural policy were adopted, providing that sugar – beet growers having supplied sugar – beet to sugar producers can give up sugar production quotas in exchange for an additional payment in the amount of 237.5 euro for each declined ton of sugar quota. Consequently, sugar – beet growers will receive 10 241 770 euro more from the restructuring fund in addition to 9 709 730 euro.

Taking into account that Latvia has fully phased out the production of sugar and is no longer granted a sugar quota, it has additional access to support from the restructuring fund. The aim of this support is:

1. promote and support sugar industry restructuring in affected regions to eliminate damage to infrastructure and environmental problems directly related to operation or wound – up of operation of the sugar industry, thereby creating an attractive environment for development of business replacing the sugar industry and improving the environment overall. Available support amounts to 8 496 013 euro, including

1) temporary restructuring fund: 7 282 297 euro;

2) Latvian national co – financing 1 213 716 euro.

2.support sugar – beet growers who have stopped growing sugar – beet to encourage restructuring of production at farms and preserve income opportunities. Available support amounts to 7 282 297 euro.

Latvia has drafted the National Sugar Industry Restructuring Programme to use this support. Programme implementation will start in 2008.

Summary

Latvian sugar producers have started the process of sugar industry restructuring and have stopped sugar production starting from the commercial year 2007/2008.

As a result of restructuring of the sugar industry, starting from commercial year 2007/2008 sugar production quotas were no longer granted to Latvia and the growing of sugar – beet for sugar production stopped. Total restructuring support extended to Latvia amounted to 48.6 million euro, including 80% or 38.8 million euro for sugar producers and 20% or 9.7 million euro for sugar – beet growers. In addition, the sugar – beet growers will receive 10.2 million euro from the restructuring fund, in order to encourage giving up the sugar production quota and 7.3 million euro to encourage restructuring of production at farms and to preserve income opportunities. Taking into account that Latvia has fully phased out the production of sugar, it has additional access to support from the restructuring fund available to regions affected by sugar industry restructuring to eliminate damage to infrastructure and environmental problems. The available support totals 8.5 million euro.

According to the restructuring support scheme, starting from the commercial year 2007/2008 Latvia is no longer granted a sugar production quota.

Latvia can receive additional support from the sugar industry restructuring fund granted as diversification support to regions affected by sugar industry restructuring and diversification support to sugar – beet growers for restructuring of production. Restructuring support to sugar – beet growers was increased.

5.11. Potato growing

Potato harvest was very good last year; therefore, many growers had difficulties with selling their product this year. It is, no doubt, affected also by changing eating habits of the population and availability of other country produced potatoes on the Latvian market.

There is a risk that the potato areas could decrease under the impact of rapidly rising grain prices causing many farmers to grow cereals instead of potatoes.

Table 5.31.

Potato production in 2005 – 2007

	2005	2006	2007
Area, in thousands of ha	45.1	45.1	40.3
Yield, in thousands of t	658.2	550.9	642.1
Productivity, cnt/ha	145.9	122.2	159.4

Source: CSB

Looking at the potato production indicators leads to a conclusion that although the areas decreased by 10.6% in 2007 as compared to 2006 and 2005, productivity grew by 30.4% and total yield by 16.6 % over 2006 (Table 5.31.).

EU and national support

Since 2005, state support is provided to potato growing farms infected with the ringspot virus, as detected by the State Plant Protection Service. The support was significant to those farms, as according to phyto – sanitary requirements they have to buy certified seed potatoes from other farms for two consecutive years, i.e. they may not use own – produced potatoes for planting during those two years.

When negotiating this support with the EU, the EU stated that it did not agree to compensations for purchase of certified seed potatoes after 1 May 2007. Consequently, in 2008 this expenditure item is no longer considered eligible, as it is contrary to the EU legislation concerning national support.

In 2007, state support to grow seed potatoes was granted to farms, covering the seed potato certification costs. The aim of support was to ensure development of seed potato growing farms and increase the stock of available certified seed potatoes. The support continues in 2008 as well.

Potato starch

In Latvia, potato starch is produced by Aloja Starkelsen ltd., located in Aloja of Limbaži district. From 2004/2005 to 2007/2008, the potato starch production quota for Latvia has been set at 5778 t.

Table 5.32.

Potato starch quota implementation in the commercial years 2004/2005 – 2006/2007

Commercial year	Volume of produced potato starch, t	Quota implementation, %
2005/2006	4749	82.19
2006/2007	2414	41.78
2007/2008	3584	62

Source: CSB; Aloja Starkelsen ltd.

Potato starch quota implementation was affected by various factors: weather conditions, farms changing their profile to do business in another area, common market policy. The year 2007 was a good year for potato production. Potato starch quota implementation increased by 48% in comparison with the commercial year 2006/2007. Yet the overall quota was still unused for 38% (Table 5.32.).

In order to establish whether it could be economically profitable to grow starch potatoes in Latvia's conditions, complying with all restrictions of the EU legislation regarding direct and support payments, *Aloja Starkelsen ltd.* coordinated a production test which was implemented in three agricultural holdings.

Evaluation of the results leads to a conclusion that good financial results in growing starch potatoes can be achieved if the yield is at least 40 t/ha.

Research will continue in 2008.

Summary

Although the areas decreased by 10.6% in 2007 as compared to 2006 and 2005, productivity grew by 30.4% and the total yield by 16.6 % over 2006.

A topical problem in the sector of potato growing is the bright ringspot virus. Since 2005, state support was provided to farms infected with the ringspot virus. As the EU does not agree to compensations for purchase of certified seed potatoes after 1 May 2007, in 2008 this expenditure item is no longer considered eligible.

In 2007, 3584 tons of potato starch was produced, and 62% of the quota granted to Latvia was used.

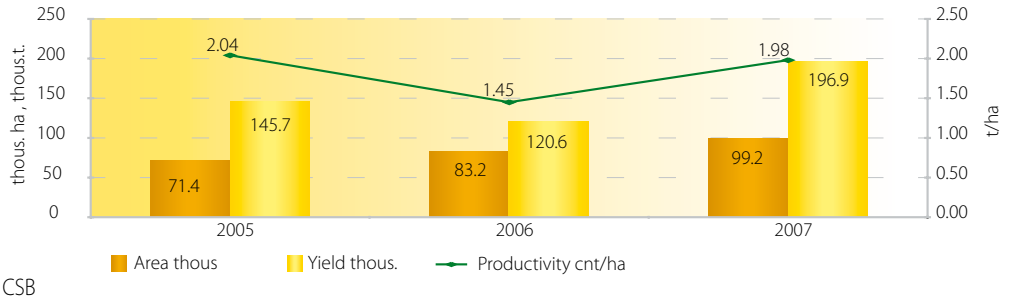
Production tests conducted by Aloja Starkelsen ltd. in three agricultural holdings in 2007 proved that good financial results in growing starch potatoes could be achieved if the yield was at least 40 t/ha

5.12. Growing of oil plants

Rape seeds

The tendency for rape sowings areas to grow continued in 2007. Responding to the demand on the European market, rape sowings areas were increased by 19.3 % in comparison with 2006.

Productivity was supported by good weather conditions of 2007, and it increased by 36.6% in comparison with 2006 (Figure 5.33).



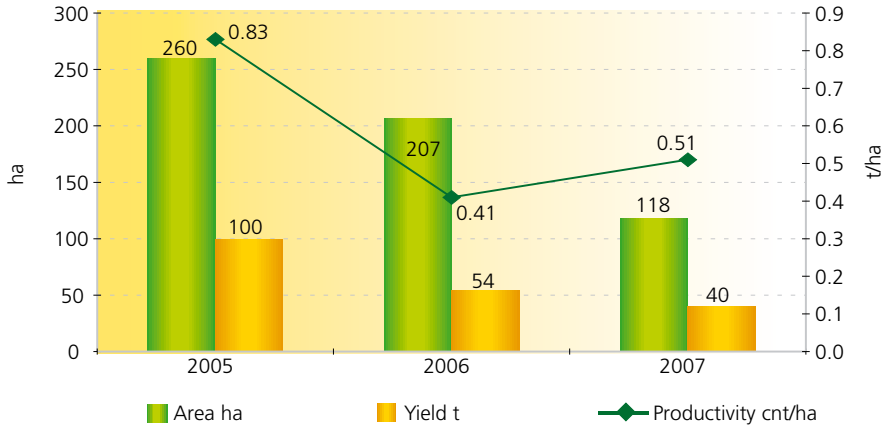
Source: CSB

Figure 5.33. Rape sowings areas, total yield and productivity in 2005–2007

In 2007, rape seed exports to the EU Member States totalled 97 590 tons, which was 49.6% of the total rape seed yield (EUROSTAT data). This can be explained by the high demand for rape seed oil on behalf of the European countries required for production of bio – diesel, which was necessary to meet the set European target for the use of biofuel: 3.5% of the total fuel consumption in 2007. Germany was one of the largest buyers of Latvian rape seed due to the high demand for biofuel.

Oil flax

The areas of oil flax sowings decreased considerably by 43% in 2007 as compared to 2006 (Figure 5.34.).



Source: CSB

Figure 5.34. Oil flax areas, total yield and productivity in 2005–2007

EU and national support

Rape and flax are covered by the national and European Union agricultural support system. Growers can receive the single area payment for the sowings areas, complementary national direct payment and support for growing energy crops.

Energy crops support can be obtained by farmers growing rape with a view to processing it into energy products: thermal energy, biofuel etc. In 2007, the area of energy crops in the European Union exceeded the maximum guaranteed area of 2 000 000 ha; therefore, instead of the planned 45 EUR/ha rate a rate with a reduction coefficient (0.70337) was applied.

Flax growers will receive a complementary national direct payment in 2008 for oil flax seed grown in 2007 (at the rate of 12.85135 LVL/cnt.).

Summary

In 2007, the areas of oil plant sowings grew to 99.3 thousand ha, representing an increase of 19% over 2006, yet the increase was merely on account of growing rape sowings areas, as the areas of oil flax sowings decreased almost by half.

In comparison with 2006, the weather conditions were more favourable in 2007, and that supported an increase of the productivity of both rape and oil flax.

5.13. Production of flax

Although the areas of flax sowings decreased by 6% in 2007 as compared to 2006 (Table 5.33.), flax stem productivity was higher than in 2006 and grew by 53%.

Table 5.33.

Flax production in 2005 – 2007

Year	Sowings areas (thousands of ha)	Sold flax stems (thousands of t)	Flax stem productivity (t/ha)	Total yield of fibre flax seeds (thousands of t)	Productivity of fibre flax seeds (t/ha)
2005	2.2	3.7	2.33	0.5	0.36
2006	1.5	1.4	1.58	0.2	0.35
2007	1.4	0.3	2.43	0.1	0.22

Source: CSB and RSS

National and EU support

In addition to the single area payments (37.84 EUR/ha in 2007 and 47.30 EUR/ha in 2008), complementary national direct payments will be available in 2008 for flax seeds produced, certified and sold in 2007.

Rate of support for fibre flax has been set at 13.3159 LVL/cnt.

According to the Treaty of accession to the European Union, temporary national support for flax growing (from national subsidies) was set at 261.6 thousand euro in 2007, 130.8 thousand euro in 2008, while no support will be granted in 2009.

European Union support to primary processing of long flax fibre was set at 160 EUR/t in the commercial year 2007/2008. Starting from the commercial year 2008/2009, it will be 200 EUR/t. Support to primary processing of short flax fibre was set at 90 EUR/t in the commercial year 2007/2008.

In 2007, authorised primary processors of flax fibre who were eligible to apply for support for the produced short and long flax fibre stated the flax sowings area of 944.01 ha in their applications for support. Based on an estimate, the amount of arbitrary units of long flax fibre was set at 181 kg per ha of flax sowings in the commercial year 2007/2008, whereas that of the short flax fibre at 1391 kg per ha of flax sowings. Calculation of the support for the produced flax fibre wais based on the arbitrary unit values, set rate of support and number of hectares.

Summary

The views of representatives of the sector and experts concerning the basic economic indicators of flax growing (productivity, resulting fibre, harvesting and primary processing technologies) are quite diverse. Output markets also have not been sufficiently studied.

Some market – oriented companies working in Latvian crop – farming sector have developed ideas about developing the flax growing in Latvia in two directions: production of fibre which is a quite traditional product, as well as specialisation in a relatively new area of producing linseed oil.

These sector development ideas were based on two essential elements: modern comprehensive technologies for growing and harvesting as well as close links between the production of raw materials and industrial processing in order to prepare the product for wider marketing. Yet development of both directions is possible only with considerable long – term investments.

5.14. Preserving agriculture genetic resources

Preserving livestock genetic resources

Preserving livestock genetic resources facilitates breeding of highly productive herds and effective cattle – breeding production. Genetic resources of farm animals in Latvia are considered to be Latvian Brown breed cows, Latvian Blue breed cows, Latvian White breed pigs, Latvian Dark – headed breed sheep, Latvian driving breed horses and Latvian local breed goats.

Animal owners as well as pedigree animal breeder organisations that coordinate and implement breeding programmes, artificial insemination stations as well as the public sector agency "Agricultural Data Centre" are involved in preservation of the genetic stock in agriculture. "Agricultural Data Centre" has created a database of livestock genetic resources which facilitates better organisation of work of the pedigree animal breeder organisations as well as the administrative procedure required to receive support payments for livestock genetic resources within the framework of the Rural Development Plan.

In 2007, several research projects started concerning livestock genetic resources and productivity analysis. The projects were implemented by pedigree animal breeder organisations.

Within the framework of the Rural Development Plan, animal owners could receive support payments for previous period commitments concerning livestock genetic resources animals compliant with the requirements set in the breeding programmes in 2007.

Conservation of the genetic resources of cultivated plants

Genetic resources of plants an asset of all mankind; therefore, the issues of identification and evaluation, conservation and potential use of the genetic resources are always in the focus of global attention, as the biological and genetic diversity is an important pre-condition to ensure sustainable development of agricultural production and rural environment. Intensification of agricultural production has resulted in a significant impairment of the diversity of plant genotypes. Increasingly more productive artificially created (by means of selection) plant genotypes with qualities targeted at specific ways of using them are introduced in production. These genotypes travel long-distance. All this aggravates the risk of losing the naturally-formed genotypes that have adopted themselves to the local circumstances having undergone a long period of natural selection. These genotypes possess a certain degree of flexibility and resistance to any potential stress situations of the specific environment.

19 April 2007 Cabinet of Ministers decree No.213 approved the genetic resources programme "On Programme for long-term conservation and sustainable use of genetic resources of plants and animals, forest and fish used in agriculture and food industry for years 2007-2009".

As concerns the genetic resources of field crops, a stock-taking of the selection of seeds contained in the gene pool was undertaken in 2007. Work on the development of a website for the genetic resources began. Evaluation of crop clones, lines and material collected in expeditions (perennial grass plants) and seed propagation was completed. Work on describing the genetic resources of field crops based on descriptors started for 533 genotypes of 15 species.

Molecular passportisation methodologies were developed

for Trifolium hybridum L., rye, peas and oats and molecular passportisation of potatoes, red clover and wheat was completed.

As concerns the genetic resources of fruit plants and berry bushes, conservation of the selection of fruit plants and berry bushes was completed in 2007 as well as a partial duplication of the selection and evaluation and propagation of the material collected in expeditions. Work on describing the genetic resources of fruit plants based on descriptors started for 95 genotypes of cherries and apple-trees. Passportisation methodologies were developed and introduced for black currants and raspberries as well as the molecular passportisation of sour cherries and apple trees was completed.

As concerns the genetic resources of vegetables, conservation of the genetic resources of vegetative propagation species of vegetables was completed in 2007 as well as a duplicate selection was prepared and the material collected in expeditions was evaluated and propagated. Work on describing the genetic resources of vegetables based on descriptors started for garlic, onion and Latvian origin melon lines. Molecular passportisation of onions and melons was completed.

Regarding the genetic resources of aromatic and vulnerary plants, ex-situ conservation of the genetic resources of aromatic and vulnerary plants was completed for 81 genotypes of 9 species contained in the selection by the Agro-Biology Institute of the University of Agriculture of Latvia. Based on the prepared descriptors, describing of 4 species started.

In 2007, the conservation and study of the genetic resources of plants was funded from a central government subsidy programme.

5. 15. Non – traditional agricultural sectors

Fur – farming

37 farms were involved in breeding of fur animals in Latvia, of which 11 bread minx, fox and Arctic fox, while 24 were chinchilla farms with the total of about 7000 chinchillas in 2007. The largest farms engaged in minx breeding were Gauja AB ltd., JSC Grobiņa. Only five farms bread Arctic fox, of which the biggest was JSC Madona AB, while the biggest fox breeding farm was Gulbenes zvērsaimniecība ltd.

The biggest chinchilla farms were Ezas ltd., with about 1250 breeding mothers, single – owner company Uzijas with 850 breeding mothers and agricultural holding Sautlāči with 560 breeding mothers.

Table 5.34.

Number of fur – bearing animals – mothers and reared cubs in 2005 – 2007 (thousand/heads)

Year	2005		2006		2007	
	Number of mothers	Number of reared cubs	Number of mothers	Number of reared cubs	Number of mothers	Number of reared cubs
Minx	116918	453568	122168	499999	1118400	445025
Arctic fox	1396	9556	1283	6179	1029	2534
Fox	3092	14816	3282	11526	3802	11778

Source: MoA, Fur – Farming Association

The number of minx cubs reared in 2007 decreased by 11%, as two farms underwent liquidation due to profitability reasons as well as some farms fully replaced the breeding animal stock. As a new technology (artificial insemination) was introduced in 2007 in breeding of Arctic fox, the number of cubs declined by 59%. The number of fallen animals was very high, while the number of cubs per mother was low (2.82). Nevertheless, the number of fox cubs grew by 2.2%.

In 2007, Latvian Association of Fur Farmers attested and recognised 16 farms as pedigree animal breeders, where animal recording and animal evaluation based on the "Breeding Programme for fur – farming 2003 and nearest perspective" was introduced.

In order to improve the quality of animal stock, 10 minx, fox and Arctic fox and two chinchilla farms purchased high value breeding material from abroad (Denmark, Lithuania, Finland and Estonia), partly financed from national subsidies (Cabinet of Ministers 2007 regulations No.78 "Regulations on breeding support to agriculture and procedure for granting support", Annex II).

Breeding of Ostriches

Breeding of ostriches is a relatively new sector of non – traditional farming in Latvia, oriented at production of meat and hide as well as rural tourism.

In 2007, 15 farms were engaged in systematic breeding of ostriches, of which three farms produced meat and hide, while the others were engaged in rural tourism. The sector was actively promoted by the farms participating at events organised by Slow food introducing the excellent qualities of ostrich meat to wider community.

Ostrich breeding enthusiasts from several countries participated at the XIV World Ostrich congress organised by the Latvian Ostrich Society.

One ostrich farm extended its breeding farm status and another was awarded a candidate farm status.

In 2007, breed ostriches were imported from Poland and Portugal, partly financed from national subsidies (Cabinet of Ministers 2007 regulations No.78 "Regulations on breeding support to agriculture and procedure for granting support", Annex II).

Breeding of wild animals

Breeding of wild animals in enclosed territories in Latvia was coordinated by the Association of Breeders of Wild Animals, which had the status of a pedigree animal breeder association. It comprised 37 members dealing with breeding of elks, fallow – deer, wild boar, moufflon, chamois, yaks and deer.

The farms were mainly focussed on meat production, animal selection and organisation of commercial hunting.

In 2007, 9 farms which have received a certificate of an elk breeding farm extended their breeding farm status. The number of monitored elks was 958 or 20% of the total number of animals at deer – breeding farms. The biggest breeders of elk were Zemitāni farm and Kakti deer garden.

Three seminars in various regions of Latvia with participation of the owners of the existing breeding farms and other interested parties were used to promote elk breeding. At the seminars, information about the operation of breeding farms was provided as well as practical advice on breeding and evaluation of elk.

In order to establish good genetic potential breed material was imported mainly from England, Denmark and Belgium in 2007. Farms also traded among themselves, partly financed from national subsidies (Cabinet of Ministers 2007 regulations No.78 "Regulations on breeding support to agriculture and procedure for granting support", Annex II).

Rabbit – breeding

The following associations of breeders of pedigree animals were engaged in rabbit – breeding in Latvia: Latvian Association of Pedigree Rabbit Breeders and Latvian Association of Small Animal Breeders Rabbit and others.

In 2007, pedigree animal breeder organisations granted the status of a pedigree animal breeder farm to five farms. These farms produced quality breeding stock for breeders as well as for farms producing rabbit meat and fur.

The number of rabbits in farms totalled 96.4 thousand in 2007, representing an increase by 3.8% over 2006.

Using national subsidies, high quality genetic potential breed material was purchased abroad in 2007 to improve the existing genetic potential.

In 2007, a pedigree rabbit breeder conference–seminar in Rāmava and rabbit exhibition in Ķīpsala exhibition centre was organised. Pedigree rabbit breeders participated at an agricultural fair in Vecauce and the annual conference organised by the European small animal breeder organisation in Slovakia.

Apiculture

Cabinet of Minister 15 September 2007 regulations No.617 "On granting, administering and monitoring of state and European Union support to apiculture" define the development measures of the sector and their financing. Support received by the beekeeper associations is meant for dissemination of information, technical assistance, control of variosis and honey analysis.

Following Latvia's accession to the European Union, the sugar price difference is no longer compensated.

Every year, the number of bee colonies increases, providing an opportunity to receive larger financing within the framework of the National Apiculture Programme. According to the Agricultural Data Centre register, there were 47799 bee colonies registered in Latvia as at 1 January 2008, representing an increase of 10230 colonies over 1 January 2007.

Table 5.35.

Honey production in 2005 – 2007

	2005	2006	2007
Amount produced, kg	916076	1 383 311	900558
Sold, kg	452533	654944	506646
Income from sold honey, LVL	1013768	1711470	1318510

Source: CSB

Mushroom cultivation

Currently, there are associations uniting persons involved in cultivation of oyster mushrooms and Shitake mushrooms in Latvia. Farms cultivating champignons have become a bit more active recently. As champignon growers are not united by any organisation, it is difficult to tell what the actual number of growers and the volume of their output are.

Large – scale oyster mushroom cultivation has a tendency to shrink year – by – year in Latvia.

In 2007, the biggest producers were Gobas farm of Vecumnieki parish in Bauska district and RLS ltd. of Smiltene parish in Valka district.

For own needs, oyster mushrooms were grown (both on deciduous tree stumps and substratum blocks) by about 200 – 300 farms.

Oyster mushrooms cultivation was burdened by out – dated technologies, diseases and infections, which in 75% of cases were caught in the process of preparing the substratum blocks and during the incubation period.

Investments for implementation of new cultivation technologies in industrial production of oyster mushrooms and other mushroom crops are sought, which would enable to provide the growers with better quality and highly productive substratum blocks. Using this technology, mushroom substratum blocks would be prepared in a centralised way and later placed in mushroom farms throughout all regions of Latvia.

According to the Association data, 36 tons of oyster mushrooms were sold in 2007, at an average price of 1.50 Ls/kg.

Shitake mushrooms in Latvia are cultivated since 1990. A Latvian Shitake mushroom grower association has been established. In cooperation with scientists from the University of Latvia, it provides training to farmers in Shitake mushroom cultivation. In 2004, a project "Evaluation of Shitake mushroom stumps for

cultivating under the climate conditions of Latvia" was launched. Final results will be summarised after 2008, when the logs have stopped producing mushrooms.

In 2007, a new project "Help others by helping yourself" was launched in Salacgrīva rural territory of Limbaži district in the field of rural employment.

Cultivation of Shitake mushrooms takes place in all regions of Latvia. The sector association unites approximately 150 members. Many Shitake mushroom growers cultivate mushrooms for own needs. Mushroom cultivation could be one of the ways to diversify agricultural production in Latvia.

Cultivation of medicative herbs

Medicative herbs are cultivated in small areas in Latvia. According to the CSB data, in 2007 those areas totalled 9 ha, representing a decrease by half over 2006.

In order to be profitable in this business, one would have to grow excellent quality medicative herbs on an area of at least 1–2 ha. Drying of herbs and washing, cutting and drying of roots require large amount of manual labour.

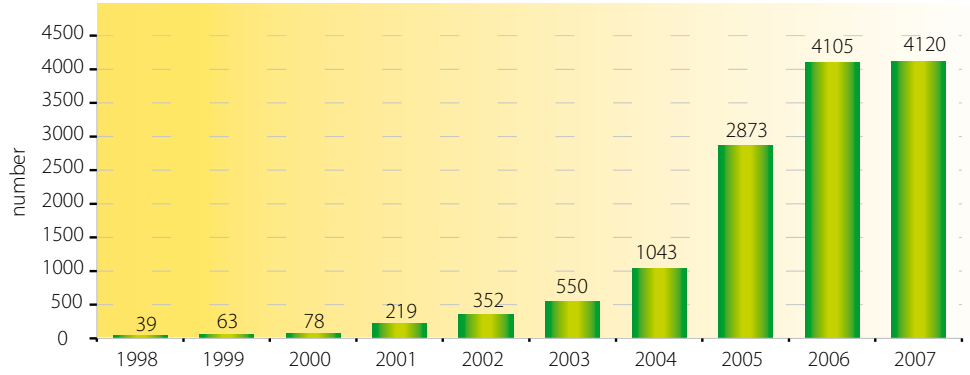
There is no uniting organisation for persons involved in cultivation of medicative herbs; therefore, many issues are addressed individually.

One of the biggest producers of medicative herbs is Rūķīšu tēja farm of Krimūnas parish of Dobele district, producing 5000 kg of herbal tea per year. The farm packages the prepared tea itself and sells it as mono – tea and in mixtures.

5.16. Organic farming

Organic farming is an agricultural system based on the principles of minimising the human impact on environment, at the same time ensuring as natural as possible functioning of the agricultural system. These principles have been defined in the Council Regulation 2092/91 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs, Council Regulation 834/2007 on organic production and labelling of organic products and repealing Regulation (EEC) No 2092/91.

At the end of 2007, the number of farms engaged in organic farming in Latvia had grown by 0.4% in comparison with the end of 2006 (4120 farms in total).

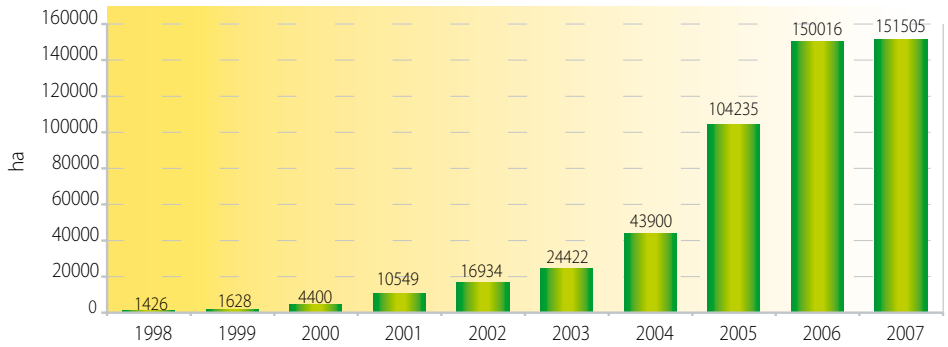


Source: MoA

Figure 5.35. Number of organic farms in 1998 – 2007

More than 2800 of those were organic farming companies, about 1200 farms had obtained a certificate for a transitional period towards organic farming and only 63 farms had started the transition.

The total certified agricultural area also increased in 2007, reaching 6% of all agricultural land or 151 505 ha. Of those, a little below 100 thousand ha were certified as organic farming areas, 46 thousand ha were in a transition period and on 5.8 thousand ha the transition period had just started.



Source: MoA

Figure 5.36. Certified areas of organic agricultural land 1998 – 2007

In order to promote marketing of organic farming products, national subsidies were granted in 2007 to support primary processing and processing of those products as well as seed – farming development and establishment of a database of vegetative propagation stock. Support for primary processing and processing of products was received by farms developing and implementing projects. In 2007, 30 farmers received support from the national subsidy programme amounting to over 138 600 lats.

Support in the amount of 9774 lats was granted also for development of organic seed – farming, comparing of species in the organic farming received support of 34 872 lats and establishment of a database of vegetative propagation stock received 14 986 lats.

The number of companies and farms engaged in primary processing and processing of organic farming products grew in 2007. 16 companies were operational in 2007: a bakery *(Ķelmēni farm)*, three slaughterhouses *(Zaubes cooperative,* rabbit slaughterhouses ***Sveķi*** *and Šalkas – Elvi),* four milk processing companies *(Ķeipenes piensaimnieku sabiedrība,* goat milk processing company *Līcīši ltd., Juri* farm and JSC *Trikātas siers)*, three tea manufacturers *(Ozoliņi, Ragāres and Upmaļi farms)*, four fruit, berries, vegetables and hemp processing companies *(Pārsla – 2 ltd., Meldri and Sidrabi* farms and Latvian Cooperative Society of Dairy – Farmers *Latgales Ekoprodukti)* and a honey processing company *(Vinnis ltd.).*

Three grain storage facilities, two milk collection companies as well as a packaging and sales cooperative *(Zaļais grozs)* were also involved in circulation of organic farming products.

Under the management of the Agricultural Consulting and Educational Support Centre, training of organic farmers continued in 2007. The course on organic farming (180 hours total) was completed by 748 farmers.

MoA prepared 12 June 2007 CoM regulations "Procedure for monitoring and control of organic farming and 15 April 2008 CoM regulations "Procedure for circulation of animals, wild plants and products thereof, not governed by directly applicable European Union legislation concerning organic farming".

5.17. Energy crops in agriculture

Energy crops are cultivated in Latvia for production of biofuel (bioethanol, pure vegetable oil and biodiesel). Wheat, rye and tritikale are used in production of bioethanol, whereas primarily rape is used in production of pure vegetable oil and biodiesel.

EU support

In order to support the production of energy from renewable energy resources, the EU has established an aid scheme providing support to farmers cultivating high energy value crops (hereinafter energy crops), provided that those energy crops are further processed into energy products. The maximum guaranteed rate for energy crops is 45 EUR/ha, provided that the areas applied for support in all European Union do not exceed 2 million hectares.

The EU aid scheme has two patterns between which the Member States may choose. One is a guarantee deposit system, whereby the collector or primary processor of energy crops pays to the Paying Agency of the particular Member States a guarantee deposit of 60 EUR per each ha, concerning which an agreement with energy crops breeder has been signed. Another system is the system of recognition of collectors or primary processors of energy crops, whereby Member States recognise collectors or primary processors based on specific criteria. Under this system, collectors or primary processors do not have to pay a safety deposit, but penalty sanctions are applied for non – compliance with the provisions of the recognition system equal to the safety deposit system in money terms.

Opting for the recognition system, Latvia has drafted and adopted two Cabinet of Ministers regulations stipulating implementation of the recognition system from 2007 and procedure for granting

the EU support to energy crop growers. In parallel, amendments to Latvian Administrative Code are developed providing for penalty sanctions to be applied to collectors or primary processors of energy crops for non – compliance with the provisions of the recognition system.
Energy crop growers can receive this support in addition to the existing single area payments.
In Latvia's position concerning the common agricultural policy "health check", the Ministry of Agriculture pointed out that the current EU energy crops aid scheme has to be reviewed to decide whether this is the correct type of support to stimulate production of renewable energy, as it generates artificial demand for crops, resulting in a sizeable growth of the areas of cereals and rape sowings, thereby reducing the rate of complimentary national direct payment for arable crops.

Implementation of energy crops aid scheme in 2007

In 2007, applications for 2.843 million ha were submitted for the EU energy crops aid. As the maximum guaranteed area was exceeded, the planned rate of support (45 EUR/ha) was not paid in full and a reduction coefficient (0.70337) will be applied to the areas applied for support.
As at the moment of application, about 57000 ha were applied in Latvia, while as at 15 October only 49000 ha remained in the aid scheme. It can be explained by the high prices on grain and rape towards the end of the year. The prices featured in the agreements signed between farmers and processors of energy crops were lower than the sales prices at the end of the year; therefore, part of farmers withdrew from the EU aid scheme.
At the beginning of 2008, the Ministry of Agriculture published the following representative values for energy crop productivity (minimum yield per 1 ha) for the purposes of the EU aid scheme in 2008 in the newspaper Latvijas Vēstnesis:
1) summer rape 10.9 cnt/ha;
2) winter rape 16.9 cnt/ha;
3) wheat 21.8 cnt/ha;
4) rye 16.5 cnt/ha;
5) barley 15.3 cnt/ha;
6) tritikale 15.9 cnt/ha.
Towards the end of 2007, Cabinet of Ministers regulations No.746 "Procedure for granting, administration and monitoring of the European Union support for high energy value crops" were adopted, providing that from 2008 also recognised farmers using or processing the energy crops in their own farms (hereinafter referred to as self – processors) are eligible to apply for the EU support for energy crops.
For 2008, the Rural Support Service recognised the following:
1) 15 collectors of energy crops;
2) 7 primary processors of energy crops;
3) 5 collectors and primary processors of energy crops;
4) 2 self – processors of energy crops.
A farmer wishing to apply for the EU energy crop support should be able to produce at least the representative value yield from energy crops and have a contract with a collector or primary processor of energy crops recognised by the Rural Support Service.
It is planned that from 2008 EU aid scheme support for energy crops will be also available to farmers:
1) growing short rotation trees and shrubs;
2) growing energy crops on land that is not eligible for single area payment purposes;
3) uses or processes the energy crops in own farm.

Summary

In 2007, applications for 2.843 million ha were submitted for the EU energy crops aid. As the maximum guaranteed area was exceeded, the planned rate of support (45EUR/ha) will not be paid in full and a reduction coefficient (0.70337) will be applied to the areas applied for support.
As at the moment of application, about 57000 ha were applied in Latvia, while as at 15 October only 49000 ha remained in the aid scheme. It can be explained by the high prices on grain and rape towards the end of the year. The prices featured in the agreements signed between farmers and processors of energy crops were lower than the sales prices at the end of the year; therefore, part of farmers withdrew from the EU aid scheme.
It is planned that from 2008 EU aid scheme support for energy crops will be also available to farmers:
1) growing short rotation trees and shrubs;
2) growing energy crops on land that is not eligible for single area payment purposes;
3) uses or processes the energy crops in own farm..
Ministry of Agriculture believes that to stimulate production of renewable energy the current EU energy crops aid scheme has to be reviewed to decide whether this is the correct type of support.
From 2007, EU aid scheme for growing energy crops is implemented in Latvia. As the maximum guaranteed area in all EU was exceeded (2 million ha), the planned rate of support (45EUR/ha) will not be paid in full and a reduction coefficient (0.70337) will be applied to the areas applied for support. As at the moment of application, about 57000 ha were applied in Latvia, while as at 15 October only 49000 ha remained in the aid scheme. It can be explained by the high prices on grain and rape towards the end of the year.

Food

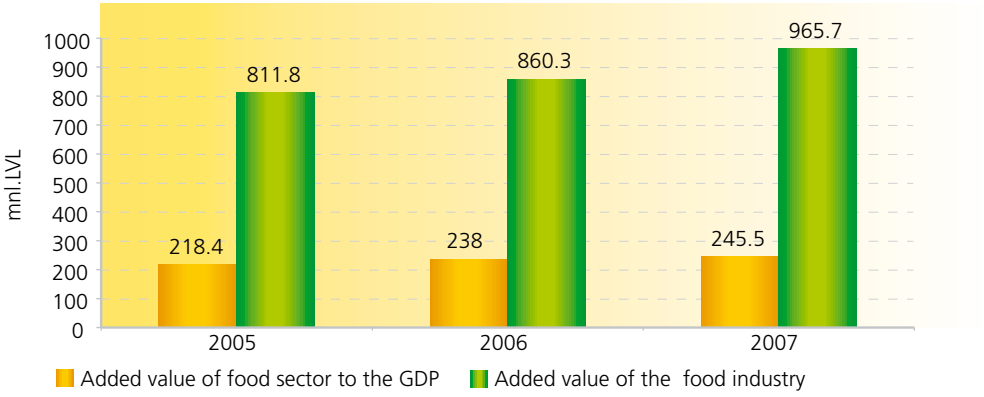




6. Food

6.1. Manufacture of food products

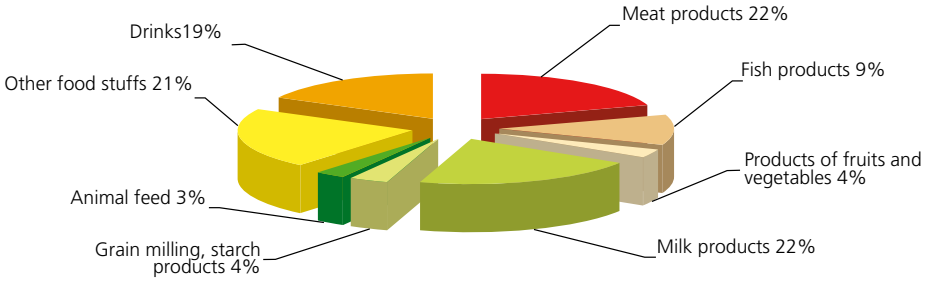
According to preliminary data of the CSB, the value added of the food and beverages production sector amounted to 245.5 million lats in 2007, representing a 3.2% increase in comparison with 2006. 3.2% of all those employed in the economy were employed in this sector in 2007.



Source: CSB

Figure 6.1. Development of the value added by food sector and production value of food industry

The composition of food and beverages production remained broadly unchanged year – on – year (Figure 6.2.).



Source: CSB

Figure 6.2. Value composition of food and beverages production (%)

As at 1 January 2008, there were 1525 registered food chain companies subject to FVS in Latvia, of which 867 companies were recognised:

1. 369 companies manufacturing animal origin products, of which 196 meat and meat processing companies, 53 milk collection and processing companies, 120 fish product processing and canning companies;
2. 498 companies producing and packaging plant origin products, of which 85 companies dealing with handling, processing and packaging of fruit, vegetables and other plant origin products, 8 cereals handling and processing companies, 317 producers of bread and breadstuffs, 48 producers of beverages and 40 other companies.

Table 6.1.

Sales of food industry outputs in 2005 – 2007 (LVL thousand)

Branches	2005				2006				2007			
	Selling industrial outputs	including			Selling industrial outputs	including			Selling industrial outputs	including		
		Domestic market	Exports	Exports of industrial output, %		Domestic market	Exports	Exports of industrial output, %		Domestic market	Exports	Exports of industrial output, %
Production of foodstuffs and beverages	809.4	627.2	182.3	22.5	852.8	645.4	207.4	24.3	979.4	744.7	234.7	24.0
Production of meat and meat products	170	162.7	6.9	4.1	183.9	171	12.8	7.0	211	196.5	14.6	6.9
Processing and canning of fish and fish products	93.1	34.7	58.3	62.6	87.5	26.8	60.7	69.4	87.1	31.2	56	64.3
Processing and canning of fruit and vegetables	27.5	16.6	10.8	39.3	25.8	16.7	9.1	35.3	32.3	23.7	13.5	41.8
Production of plant and animal oils and fats	5.3	*	*	*	5.8	*	*	*	9.6	*	*	*
Manufacture of dairy products	158	118.2	39.8	25.2	178.4	136.4	42	23.5	211	156.4	54.6	25.9
Manufacture of grain milling and starch products	30.1	25.6	4.5	15.0	27.3	22.8	4.6	16.8	36.8	27.8	9	24.5
Production of animal feed	22.3	16.2	6	26.9	21.8	*	*	*	29	*	*	*
Production of other foodstuffs	171.7	150	21.8	12.7	170	144.9	25.1	14.8	180.1	154.3	25.8	14.3
Production of beverages	131.8	98.5	33.4	25.3	152.3	104.7	47.6	31.3	177.6	125.2	52.3	29.4
Production of beer	40.4	38.2	2.2	5.4	46.5	44.3	2.2	4.7	54	50.9	3.1	5.7

Source: CSB

6.2. Food chain state surveillance

Main results of state surveillance of food chains in 2007

1) State surveillance of food chains and implementation of the FVS functions in compliance with Latvian and EU legislation, documents, programmes and plans governing the operation of the FVS was ensured,.

2) 14 state laboratory control testing programmes were implemented.

3) System for state surveillance of food chains was improved and its effectiveness was increased by preparing and updating regulatory documents and databases, providing training to food inspectors, implementing international projects.

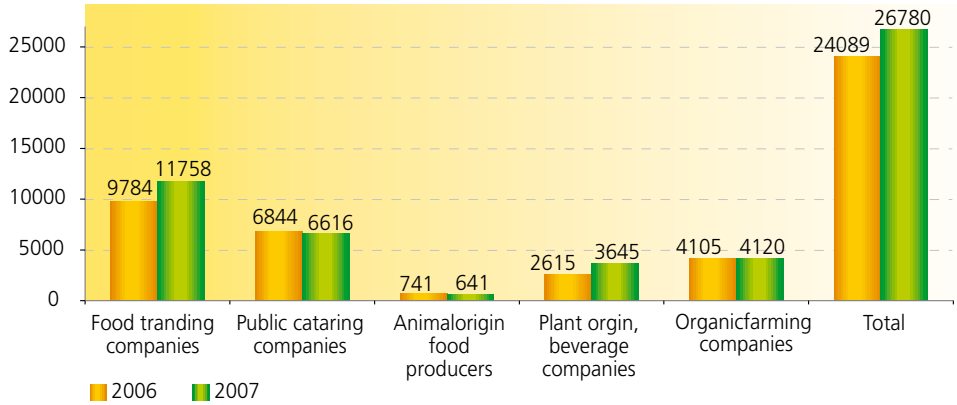
4) Improvement of the competitiveness of Latvian food companies on the European common and external market was facilitated through cooperation with the competent authorities of the EU and third countries, providing guarantees concerning the compliance of Latvian food companies with hygiene and harmlessness requirements, validating the veterinary (health) certificates required for exports of food products, ensuring visits of inspectors and experts the competent authorities of third countries to Latvia.

5) Successful cooperation with counterpart institutions in Latvia, European Union and other countries was ensured, experience exchange visits to Latvia (Azerbaijan, Moldova, India, Macedonia) organised, cooperation investigation visits to third countries implemented.

6) International cooperation projects were implemented: MEDA programme twinning project in Jordan "Reorganisation of Jordanian food surveillance service" was completed, bilateral cooperation project with Moldova "Optimisation of Moldovan food and veterinary surveillance system" was implemented, several components were completed in cooperation project with Germany "Improvement of control system for animal origin products". Cooperation project applications were prepared for projects with Azerbaijan and Croatia.

7) FVS system for ensuring harmlessness of food companies was accredited with LATAK in compliance with the requirements of LVS EN ISO/IEC 17020 standard "Main criteria for various type institutions involved in inspections".

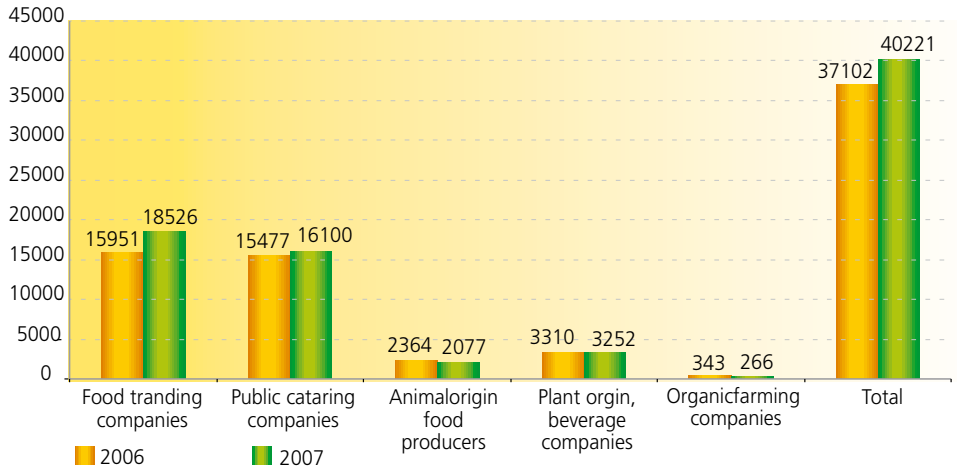
8) System for state surveillance of food chains was improved for home – made food products in compliance with the requirements set by EC and Latvian regulatory acts.
In 2007, 26780 monitoring objects (food companies) were subject to state surveillance and control at all stages of the food chain.



Source: FVS

Figure 6.3. Number of companies involved in the food chain

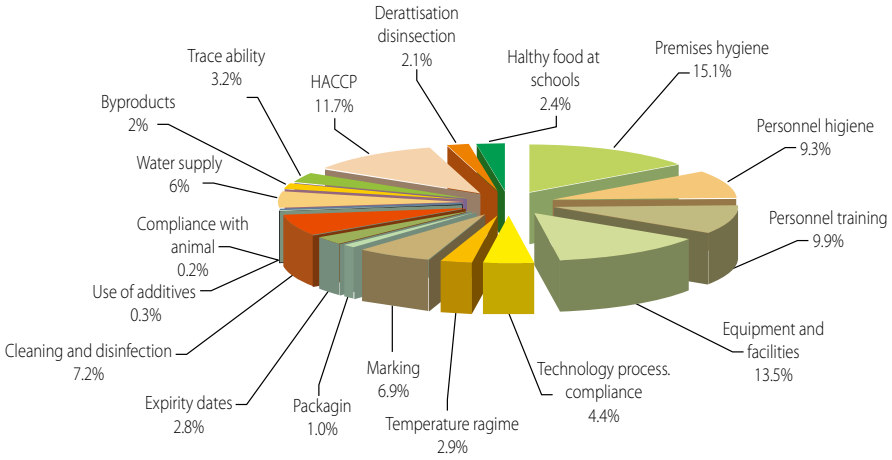
In 2007, the number of companies involved in the food chain continued to grow and increased by 2691 companies or 11.2% in comparison with 2006 and by 4589 companies or 17.1% in comparison with 2005. The main trends in the number of companies can be seen when looking by sector.
In comparison with 2006, the number of monitored companies engaged in production of plant origin products, beverages and organic farming grew by 1030 companies or 39% in 2007. The increase is related to the fact that the areas to be monitored increased for this type of plant origin product companies from this year as well as the number of home – producers of plant origin products increased.
The number of animal origin food producers decreased by 13.5% in the reporting period, due to the fact that the total number of food companies no longer includes companies producing animal origin non – food by – products (separate monitoring reports were developed for the said companies in the reporting period) as well as 1.7% of companies wound up their operations.
The number of public catering companies decreased by 228 companies or 3% in 2007, primarily as a result of audits and updating of company database.
The number of monitored trade companies and warehouses grew by 1974 companies or 20.2% in 2007, mainly on account of pharmacies as well as wholesale companies dealing with intermediation (Figure 6.4.).



Source: FVS

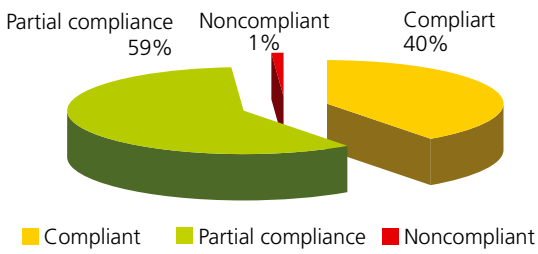
Figure 6.4. Number of inspections of food chain companies

In 2007, FVS inspectors conducted 3119 inspections or 8.4% more than in 2006.
Number of inspections of public catering companies grew by 623 or 4%, whereas the number of those conducted in trade and warehousing companies by 2575 or 16.1%. That can be explained by the overall increase of the number of companies and a higher number of ad hoc inspections (work on weekends and holidays, other thematic checks).
Although the number of plant origin production and beverages production companies grew, inspections of those companies decreased by 2% in 2007 year – on – year. That can be explained by the fact that the FVS inspection schedule was changed in 2007 concerning the frequency of checks, particularly for primary producers of plant origin products: from once a year to once every three years. A high percentage of checks were conducted in honey producing companies, home – production companies of plant origin products, which could be explained by the increase in the number of those companies.
Number of inspections conducted at organic farming companies decreased in 2007. That could be explained by the fact that the FVS inspection procedure was changed in 2007 (6% of the total number of organic farming companies are inspected) (Figure 6.4.).
In 2007, FVS inspectors detected 75987 cases of non – compliance in companies participating in the food chain, which was 5% less than in 2006, when 80361 cases of non – compliance were discovered.

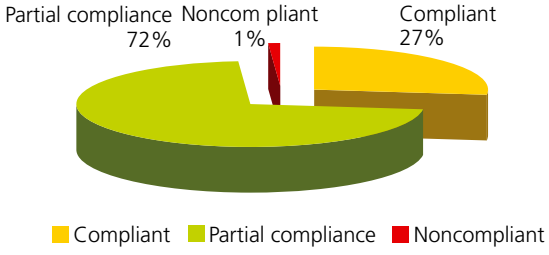


Source: FVS
Figure 6.5. Cases of non – compliance detected in food companies in 2007

As in the previous year, the largest number of cases of non – compliance in companies participating in the food chain was related to premises hygiene in 2007 (15.1%) and noncompliant equipment and facilities (13.5%). The number of non – compliance cases detected in the field of HACCP (11.7%), personnel training (9.9%) and personnel hygiene (9.3%) was also quite high. The most frequently detected cases of non – compliance in 2006 were the ones relating to personnel training (15.3%) (Figure 6.5.)

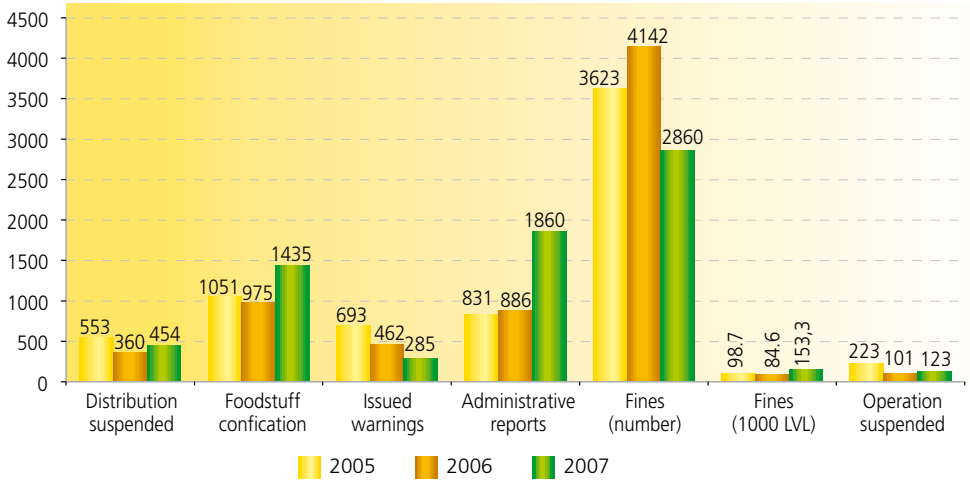


Source: FVS
Figure 6.6. Hygienic assessment of food chain companies in 2006



Source: FVS
Figure 6.7. Hygienic assessment of food chain companies in 2007

In 2007, 4458 companies were rated as fully compliant with the hygiene standards. Those companies accounted for 27,2% of all evaluated companies.
Companies partially compliant with the hygiene standards still accounted for the largest share of all evaluated companies (11770 or 71,8%; 59% in 2006).
171 companies or 1% were rated as noncompliant with the hygiene standards. In comparison with 2006, the number increased by 68 companies, primarily coming from the group of food trade companies (Figure 6.6.1 and 6.6.2).



Source: FVS

Figure 6.8. Actions by Food and Veterinary Service upon detecting non – compliance

The number of applied administrative sanctions decreased in 2007 as compared to 2006:
1) issued warnings – 38%;
2) fines – 31%,
The number of applied administrative sanctions increased:
1) administrative reports – 210%;
2) suspension of operation in the field of foodstuff distribution – 26 %;
3) confiscation of foodstuffs – 47%;
4) increased fine – 80%;
5) suspension of company operation – 22%.

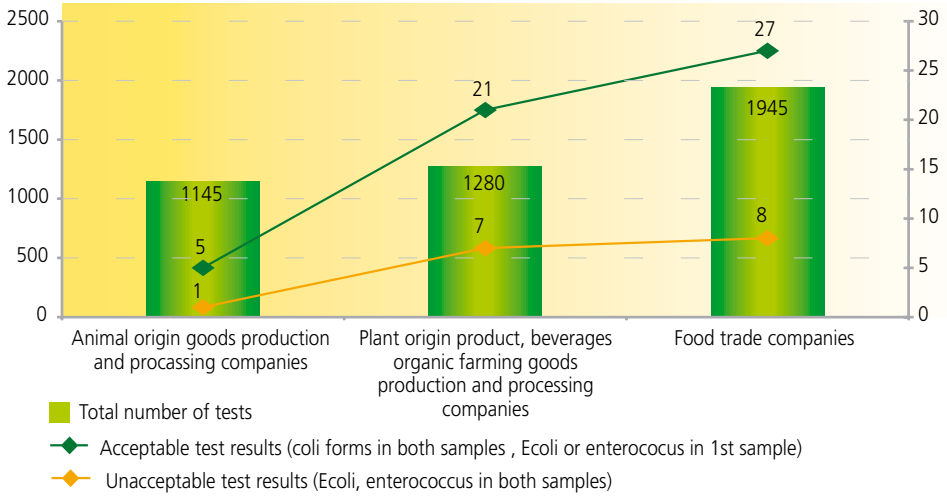
Table 6.2.
Food laboratory testing programmes 2007

No	Programme title	Number of samples taken	Number of tests
1. Operational tests of food chain companies			
1.1.	Laboratory testing programmes of food chain companies	4195	17069
2. Residual substance, including environmental pollutant, control			
2.1.	Residual substance control programme for animals and animal origin products	1830	2525
2.2.	Antibacterial substance residuals control programme	1020	1100
2.3.	Pesticide residuals control programme for plant origin products	130	9448
2.4.	Dioxime control programme	137	274
3. Zoonosis agents control programme			
3.1.	*Listeria monocytogenes* control programme	118	490

3.2.	*Salmonella* control programme	319	7915
3.3.	*Campylobacter* control programme	46	230
3.4.	Verotoxigen *E.coli* control programme	128	540
4. Other pollutant control			
4.1.	Control programme for products containing genetically modified organisms	106	126
4.2.	Irradiation control programme	99	198
4.3.	Alcoholic beverage control programme	98	327
4.4.	Acrylamide surveillance programme	40	40
4.5.	Control programme for migration of elements of materials and items intended for contact with foodstuffs	54	54
	Total:	8320	40336

Source: FVS

Overall, 14 programmes were developed in 2007 and 4 additional instructions on tightened product controls. In 2008, 16 programmes will be developed. During the year, several additional instructions are usually prepared concerning tightened product controls depending on any ad hoc issues raised.



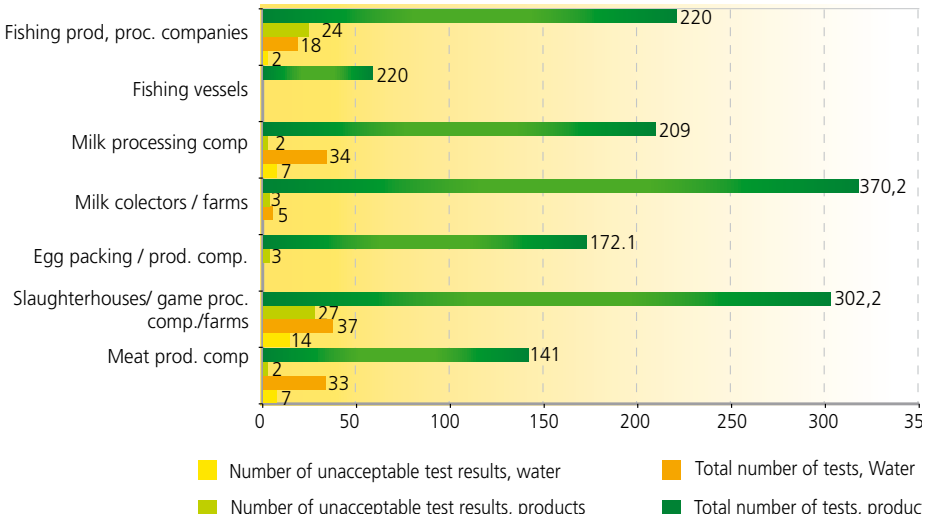
Source: FVS

Figure 6.9. Microbiology tests of potable water in companies in 2007

Was a result of laboratory tests of potable water used in food companies, the lowest number of unacceptable microbiology test results was obtained in animal origin goods production and processing companies. In comparison with 2006, the number of cases of unacceptable potable water microbiology test results in this group decreased or remained unchanged in 2007, except milk processing companies were it increased.

The biggest number of unacceptable microbiology test results was detected in plant origin product, beverages and organic farming production and processing companies.

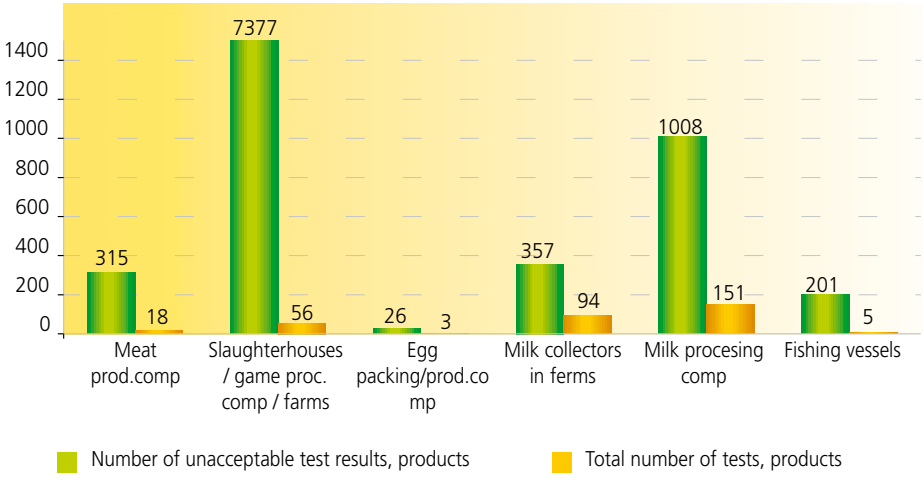
Most often coliforms, enterococcus and E.coli are detected in the potable water of companies.



Source: FVS

Figure 6.10. Animal origin good production and processing companies: unacceptable chemical, including physical tests

As to the chemical contamination in companies producing and processing animal origin products, the following problems were most often detected in 2007: benzo(a)pyren in smoked fishing products as well as cadmium and lead in game by – products.
The number of samples for tests for residue of veterinary medicines in animal origin products will be increased significantly in 2008 as well as the number of samples for testing other country origin products of animal origin.



Source: FVS

Figure 6.11. Animal origin goods production and processing companies: unacceptable test results in 2007

Samples to detect indicator microorganisms taken within the framework of "Laboratory tests of companies" in animal origin goods production and processing companies confirm compliance of production hygiene standards with the provisions of Regulation 2073/2005.

Table 6.3.

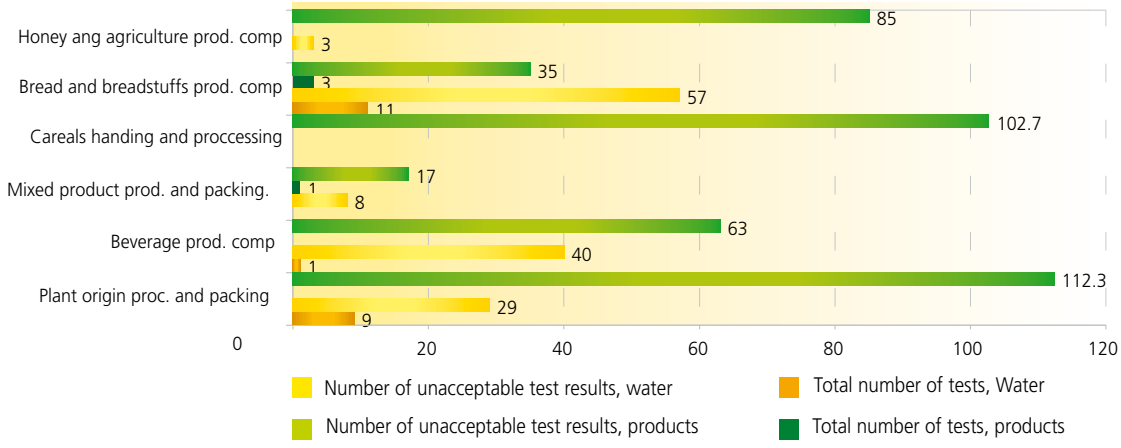
Laboratory tests of companies in 2006–2007

2006	2007
Slaughterhouses	
In 19% of slaughterhouses slaughtering hygiene to be considered inadequate; in 31% of slaughterhouses slaughtering hygiene to be considered acceptable	In 18% of slaughterhouses slaughtering hygiene to be considered inadequate; in 31% of slaughterhouses slaughtering hygiene to be considered acceptable
Meat processing companies	
In 6% of meat processing companies production hygiene process to be considered inadequate; 12% of meat processing companies production process to be considered acceptable.	(3 out of 20) in 15% of meat processing companies production hygiene process to be considered inadequate; in 10% of meat processing companies production process to be considered acceptable.
Milk processing companies	
In 16% of companies production hygiene to be considered inadequate, in 10% of companies production hygiene to be considered acceptable.	In 12% of companies production hygiene to be considered inadequate, in 8% of companies production hygiene to be considered acceptable.

Source: FVS

In 2007, a broad – based Salmonella control programme was developed and implemented in compliance with the requirements of Regulation 2073 / 2005 and it will continue in 2008.

The number of samples for testing other country origin products of animal origin will be increased to test the presence of residual substances as well as zoonosis agents.

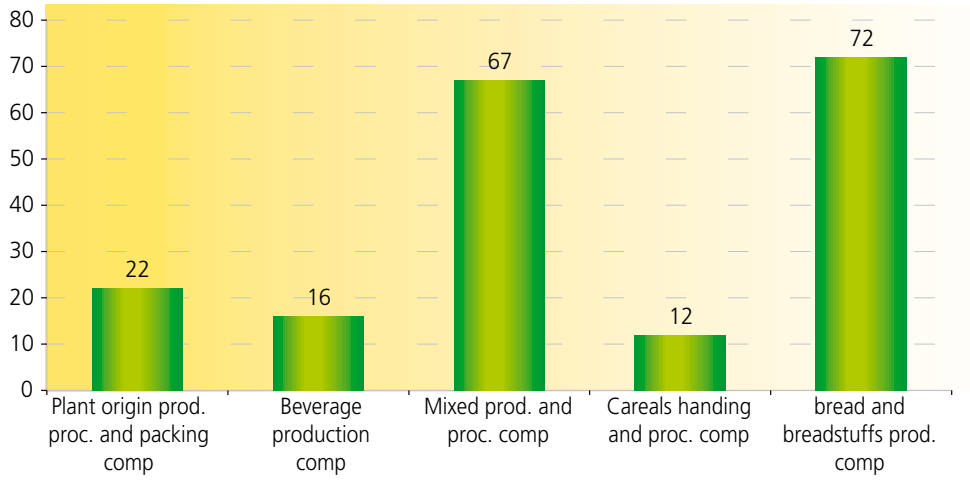


Source: FVS

Figure 6.12. Plant origin products, beverages and organic farming goods production companies: chemical, including physical tests in 2007

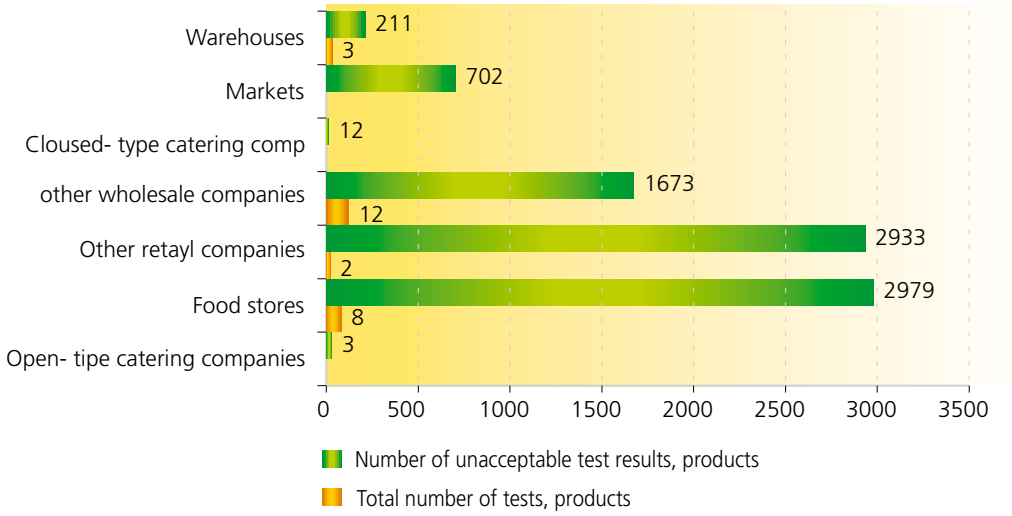
In animal origin goods production companies, mainly problems concerning organoleptic tests of products were detected, while no problems with microbiology tests were identified.

It has to be noted that from 2006 microbiology criteria for animal origin products have been narrowed considerably.



Source: FVS

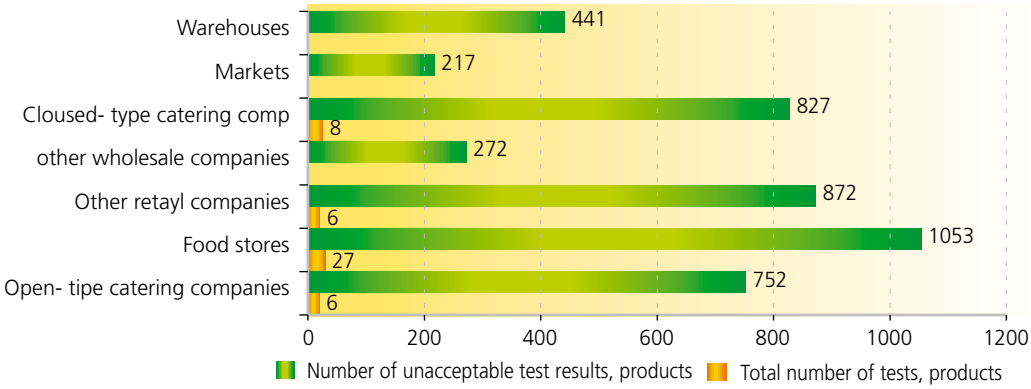
Figure 6.13. Plant origin products, beverages and mixed goods production companies: microbiology tests in 2007



Source: FVS

Figure 6.14. Food distribution companies: chemical, including physical tests in 2007

In food distribution companies, mainly samples from other country origin products were taken. As concerns chemical tests, non – compliance of imported mineral water of Borjomi brand with the effective legislation was detected in Latvia in 2007, also the concentration of barium in it was too high.



Source: FVS

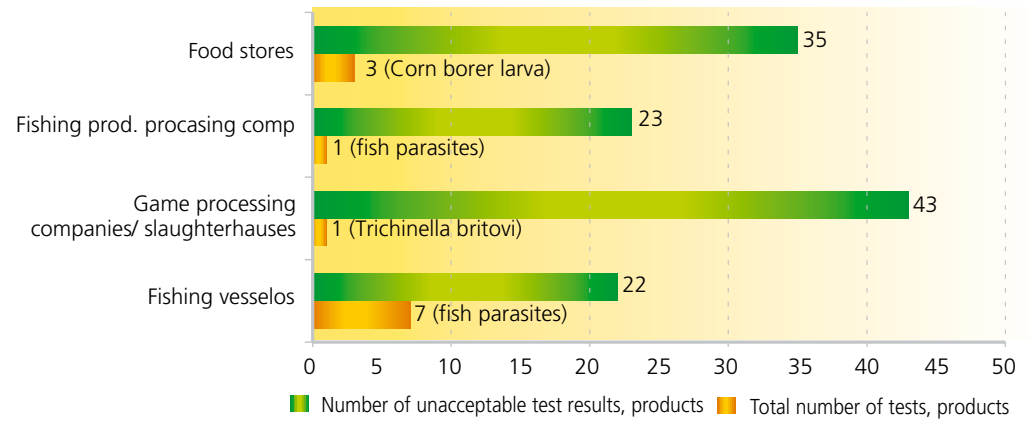
Figure 6.15. Food distribution companies: unacceptable microbiology test results in 2007

Microbiology tests were primarily conducted in public catering companies, where the results pointed to compliance of the food preparation processes with good hygiene practices.

Table 6.4.

Microbiology tests in public catering companies in 2006–2007

2006	2007
Closed – type catering companies	
In 7%, food preparation process considered not compliant with good hygiene practices	In 1%, food preparation process considered not compliant with good hygiene practices, while in 13% it is acceptable
Open – type catering companies	
In 17%, food preparation process considered not compliant with good hygiene practices	In 6%, food preparation process considered not compliant with good hygiene practices, while in 25% it is acceptable



Source: FVS

Figure 6.16. Parasytology tests of food products in 2007

Parasytology tests within the framework of state surveillance are run for fish products to detect fish parasites and for meat to detect trichinellas.

In some cases, usually based on consumer complaints, insect larva or insects at other development stages are found in various brands of tea, cereal products or pastry – work, where they mainly have arrived with nuts, seeds or dried fruit.

6.3. State veterinary surveillance

The objective of comprehensive and effective state veterinary surveillance is to set high animal health and welfare standards and protect the national territory from breakouts of particularly dangerous infective animal diseases, thereby promoting availability of safe and harmless raw materials for food production. State veterinary surveillance was characterised by the following indicators in 2007.

As at 1 January 2007, the Food and Veterinary Service (hereinafter referred to as FVS) monitored 64 197 veterinary surveillance objects, including:

- 61 641 animal stalls;
- 490 animal feed production and distribution companies;
- 790 companies engaged in circulation of veterinary medicines;
- 1 276 animal welfare surveillance objects (except farm animal stalls):
  - 403 transport vehicles for transportation of live animals,
  - 382 animal transporters,
  - 265 animal transportation cases,
  - 9 sites for keeping animals used in experiments,
  - 19 house pet shelters and hotels,
  - 15 wild animal collections,
  - 163 animal (house pet and farm) trading sites,
  - 20 measures with animal participation.

In order to ensure circulation of animal origin products harmless to the consumer, starting with the primary leg of production (farm animal stalls), inspectors of the FVS territorial units inspected animal stalls based on a uniform procedure developed by the Central Office of the FVS.

Table 6.5.

Number of checks in veterinary surveillance objects

Veterinary surveillance objects	Number of checks				
	2003	2004	2005	2006	2007
Farm animal stalls	22629	23627	14362	11512	13419
Circulation and use of veterinary medicines	1601	2353	1490	1127	1397
animal feed production and distribution	7265	7350	4839	1146	1632
Animal welfare monitoring and control	–	–	959*	1270*	1605*
Total	31495	33330	21650	15055	18053

* Due to new legal acts taking effect, the number of animal welfare monitoring objects increased.

Source: FVS

Number of inspections completed in 2007:

- 13 419 stall inspections concerning seven fields of monitoring: compliance with requirements for identification and registration, infective diseases, welfare, animal feeding, veterinary medicines circulation, milking and milk pre – processing as well as animal imports;
- in 1 397 companies engaged in circulation of veterinary medicines (veterinary pharmacies, veterinary departments of general pharmacies, veterinarian practices and veterinary medicine treatment institutions);
- 1 632 inspections monitoring animal feed circulation in animal feed circulation companies recognised and registered in 2007, in order to check harmlessness of feed, presence of any disease agents in feed, checking whether consumer interests have not been breached by analysing and monitoring feed correspondence to markings and information provided therein.
- 610 tests of animal feed samples within the framework of animal feed surveillance programme.
- In the field of animal welfare monitoring the following has been completed:
  - 382 inspections of transport vehicles for transportation of live animals,
  - 265 inspections of animal transportation,
  - 385 training and certification of animal transporters,
  - 27 inspections of sites for keeping animals used in experiments, 57 inspections of pet shelters and hotels, 19 checks of wild animal collections, 450 checks of animal trading sites, 20 checks of measures with animal participation;
- In the field of animal protection the following has been checked:
  - 386 received complaints about violations of regulations for keeping house pets and/or cruel handling of animals;
  - 23 applications about experiments with animals evaluated;

• Rabies prevention measures ensured for domestic animals and wild animal populations, vaccination programme for foxes and racoon dogs introduced in all Latvia. 148 636 preventive and coercive vaccinations of domestic animals against rabies. Preventive vaccination of forest animals against rabies in all territory of Latvia during spring and autumn campaigns by dispersing 3 351 500 dosages of vaccine using aircraft;
• Bird flu monitoring programme improved and implemented, ensuring health checks for presence of bird flu viruses for domestic fowl and wild birds. Number of diagnostic checks to detect the epizootic background of the disease. National Diagnostics Centre checked 1 063 domestic fowl and 523 wild birds;
• State surveillance plan 2007 for infective animal diseases prepared and implemented. The following compulsory diagnostic checks concerning infective animal diseases completed within the framework of the state surveillance programme:
- leucosis – 102 775 checks;
- brucellosis – 62 193 checks;
- tuberculosis – 98 798 checks;
- rabies – 935 checks;
- transmissive spongiform encephalopathy (hereinafter referred to as TSE) – 48 067 checks of cows, sheep and goats.

• In course of implementing the TSE control programme for cows, sheep and goats, only negative test results were obtained, thereby preserving a TSE – free country status for Latvia as well as allowing to continue with animal origin product trading activities;
• Random checks of 100 sheep detected resistance to TSE. In more than 60% of the checked animals, genotypes resistant to TSE were detected;
• State surveillance programmes for infective animal diseases have been prepared, ensuring compliance of the disease diagnostics and combating measures with the European Union legislation and increasing their effectiveness, promoting compliance of animal origin products with harmlessness requirements:
- state surveillance and combating programme for enzootic leucosis of cows;
- cow, sheep and goat brucellosis monitoring programme;
- state surveillance programme for cow tuberculosis;
- bird flu monitoring programme for domestic fowl in commercial and personal farms as well as for wild birds;
- TSE monitoring programme, including for deer family;
- procedure for checking effectiveness of vaccination of foxes and racoon dogs against rabies;
- salmonellosis agent monitoring programme in feedlot pigs;
- salmonellosis agent monitoring programme in commercial flocks of domestic fowl.

• 444 093 state surveillance diagnostics checks were completed, including:
- 230 049 serology checks,
- 51 104 virusology checks,
- 46 545 checks for bovine spongiform encephalopathy (GSE),
- 1 522 checks for Scrapie disease of sheep and goats,
- 98 798 animals underwent allergic diagnostics for tuberculosis,
- 6 702 epizootic background checks for particularly hazardous infective animal diseases.

Table 6.6.

Number of diagnostic checks

Year	Diagnostic checks total	Diagnostic checks include:					
		animal tuberculinisation	serology checks	virusology checks	serology and virusology tests include:		
					bovine spongiform encephalopathy	Scrapie disease of sheep and goats	epizootic background checks for particularly hazardous infective animal diseases
2003	902944	309329	566371	11819	6126	4	6550
2004	584157	205823	244314	33255	29576	38	4943
2005	676985	328130	242883	46307	36963	83	5038
2006	652968	118428	329084	45987	39395	905	5611
2007	444093	98798	230049	51104	46545	1522	6702

Source:FVS

In the field of international trade monitoring, application of information exchange systems as stipulated by laws and regulations was ensured:

• certification of animals and animal origin non – food products;

• trade among EU Member States and exports to third countries was promoted;

• communication with the competent authorities of other states was ensured, thereby reducing the risk of spreading of infective diseases and securing international circulation of animals and animal origin products compliant with veterinary requirements.

In 2007, 5 export certificates for exports of animals and animal origin non – food products to Russian Federation and 9 veterinary certificates to third countries were cleared.

Measures implemented in 2007 in Latvia ensured high animal health and welfare standards, facilitating availability of safe and harmless raw materials for the industry, helped to preserve both a stable epizootic condition as well as a status of a good territory for business and trade activities for Latvia.

External trade policy of the European Union





7. External trade policy of the European Union

The European Union has a uniform approach to trade in agricultural and processed agricultural products with third countries. It is implemented by application of various trade mechanisms (export refunds, import/ export licences and tariff quotas).

The general provisions of trade mechanisms are outlined in EU Regulations. The national legislation further specifies the administrating bodies and their operations in administration of the trade mechanisms in compliance with the provisions of the Regulations (including, application of Member State choices and derogations from general requirements, where possible and necessary).

The bodies administering the trade mechanisms in Latvia are the Rural Support Service, National Customs Board of the State Revenue Service and Food and Veterinary Service. The implementation of trade mechanisms in Latvia is governed by the Cabinet Regulations No.406 of 22 April 2004, Procedure for administration of the external trade regime for agricultural and processed agricultural products. Taking into account the significant amendments introduced to the Regulations governing the trade mechanisms of the European Union, amendments were prepared to the above national regulations as well and these will be effective from 2008 (Cabinet Regulations No.237 of 1 April 2008, Procedure for administration of the European Union external trade regime for agricultural and processed agricultural products).

The new regulations will provide for specific changes in the functions of administrating bodies and appoint the Agricultural Data Centre as an administrative body. Alongside with the existing mechanisms, it will also set a tariff quota administration procedure for imports of frozen beef intended for processing, procedure for administration of special export refunds for exports of beef from adult male cattle's; procedure for administration of export refunds for exports of preserved beef and veal products, procedure for administration of wine export refunds and procedure for imports of hemp seeds and unprocessed hemp fibre into Latvia.

7.1. International trade agreements

Since Latvia's accession to the European Union, its external trade policy is closely linked with the external trade policy implemented by the EU, which provides for a uniform policy in third – country trade. Upon Latvia's accession to the EU, certain inappropriate trade and economic cooperation and free trade agreements were denounced, replacing them by adequate EU agreements with third countries. The European Commission concludes international trade agreements with third countries on behalf on Latvia and other Member States, which not only helps to unify and consolidate the EU domestic market, thereby strongly increasing its competitiveness, but also promotes sustainable economic development at a global scale, facilitating international trade.

The EU (and consequently also Latvia's) trade relations with third countries and country groups are based on multilateral agreements within the framework of World Trade Organisations (hereinafter referred to as WTO), bilateral trade and economic cooperation agreements and other trade measures unilaterally applied by the EU.

Unilateral EU trade measure

Unilateral EU trade measures are implemented by applying the generalised system of preferences (hereinafter referred to as GSP). The GSP is one of the main instruments used by the EU to reduce poverty and promote sustainable development in developing countries by assisting them with fast integration into the global market and earning income from international trade. The main principle of the GSP is that the EU does not request equally preferential treatment in trade from their partner states. Currently, 178 countries of the world enjoy the benefits of the system, including the countries of the Commonwealth of Independent States.

The GSP functioning in ensured by the Council regulation (EC) No 980/2005, providing for three preferential arrangements: general GSP arrangement, the special incentive arrangement for sustainable development and good governance (hereinafter referred to as GSP+) and the special arrangement for the least – developed countries ("Everything But Arms" – EBA). Under the general GSP arrangement, developing countries enjoy lower import duty or duty free access depending on product sensitivity in the EU and the economic condition of the beneficiary country. Under the GSP+ arrangement, additional trade preferences are granted and they act as an incentive for these countries to achieve the objectives of sustainable development and good governance. The special arrangement for the least – developed countries (EBA) grants free access to the EU for all products originating in the particular country, except arms.

Council Regulation (EC) No.980/2005 on GSP application came to effect on 1 January 2006 and is applicable until 31 December 2008. For this reason, work on the drafting of a new GSP regulation began in 2007, to ensure that the system continues to operate. The new regulation will not provide for any significant changes in the existing system but rather will feature improvements to make the regulation easier to understand and take into account the latest changes in the international economic and political relations. Moreover, the

regulation No 980/2005 is regularly updated. The updates are required, e.g. to exclude a country with which the EU has signed a bilateral trade agreement from the GSP. As on 1 March 2005 an Association agreement between the EU and Chile came to effect, therefore in 2007 the Commission Regulation (EC) No 566/2007 excluded Chile from the list of the GSP beneficiary countries. Amendments were introduced to the Regulation No.980/2005 also after the accession of Bulgaria and Romania to the EU on 1 January 2007. Before Romania's accession to the EU, Romania and Moldova had signed a free trade agreement; therefore, based on that agreement the European Council plans to expand the autonomous preferences at the beginning of 2008, abolishing all the remaining tariff restrictions on Moldova origin industrial goods and agricultural products, in order to eliminate the negative impact on some export products important for Moldova which are marketed in Romania. Belarus was deprived of the GSP preferences already in 2006 for an indefinite period of time, as it continuously failed to comply with the international conventions, which is a significant pre – requisite for being granted access to the GSP (e.g., freedom of association and protection of rights). The situation in Belarus did not improve in 2007 as well, and the International Labour Organisation came to a conclusion that its recommendations to Belarus had not been implemented. Therefore, the GSP will not be applied by the EU to Belarus in the future as well.

Bilateral trade policy

An important event in 2007 was the EU enlargement on 1 January 2007 which also brought some adjustments to the EU bilateral trade policy. According to the Treaty establishing the European Communities, EU Member States implement common external trade policies; therefore, the customs tariffs applicable to third country imports from EU changed from 1 January 2007 for several types of products. As a result, third countries lost market access advantages with regard to the markets of the new EU Member States. Bulgaria and Romania signed the European Economic Area (hereinafter referred to as EEA) Agreement to ensure smooth functioning of the EEA internal market. As a result of the EU enlargement, the EU signed agreements by exchange of letters or agreements by protocol to grant new EU trade preferences with several third countries in 2007 (Chile, Mexico, Russia, Egypt, Macedonia, Israel, South Africa, Lichtenstein, Georgia, Armenia, San Marino etc.).

Also after several years of negotiations, the EEA Agreement was supplemented by the food legislation package establishing the European Food Safety Authority in 2007. Negotiations which started in 1992 with Norway about liberalisation of trade in agricultural products within the framework of Article 19 of the EEA are still ongoing. In 2007, the EU also started a dialogue with Island concerning liberalisation of trade in processed agricultural products.

In 2007, the EU completed and continued negotiations started in the previous years concerning bilateral trade agreements with a wide range of countries or country groups. Very significant bilateral negotiations in 2007 were continued by the EU with the African, Carribean and Pacific countries (hereinafter referred to as ACP) about signing the European Partnership Agreement (hereinafter referred to as EPA) with a view to enhance the economic and political links between the region and the EU. The Agreement would also be compliant with the World Trade Organisations requirements. Negotiations were started already in 2002 and scheduled to be finished by 2008; nevertheless, at the end of 2007 it became clear that it will be impossible to sign agreements with several ACP regions. EPA could be signed with only one region, CARIFORUM comprising 15 Carribean region countries. Yet in order to prevent any potential disruptions in the ACP country trade flows to the EU due to the expiry of Cotonou trade arrangement on 31 December 2007, a decision was made to start negotiations about temporary agreements, thereby moving forward to the objective of signing comprehensive regional EPAs. It is hard to foresee the outcome of EPA negotiations and whether they will be completed during 2008, as the negotiations concerning certain specific issues are very hard. Showing its good will, the EU has adopted Commission Regulation (EC) No 1528/07 granting ACP countries that have committed to sign EPAs the same access to the EU market as was available under Cotonou trade arrangement.

In 2007, the EU started important negotiations with the Andian Community countries and Central America countries about signing association agreements incorporating also free trade agreements, as well as free trade agreement negotiations with South Korea, India and the Association of Southeast Asian Nations (ASEAN) countries. The objective of these agreements is to promote the development of these third countries by improving their access to the EU market and eliminating trade barriers, but also dealing with such issues, like non – tariff barriers, sanitary and phytosanitary measures and other issues.

In 2007, the EU signed a Stabilisation and Association Agreement (hereinafter referred to as SAL) with Montenegro, providing an opportunity to create a free trade area between the European Community and Montenegro in five years after the Agreement taking effect. The objective of the SAL is to create close and long – lasting cooperation based on mutual interests allowing Montenegro to further enhance and expand the existing relations with the EU. The EU and Montenegro signed an additional temporary agreement on trade and trade related issues to ensure improvement and strengthening of trade relations as well as implement the SAL rules concerning trade and trade related issues. The EU is still negotiating a SAL and a temporary agreement on trade and trade related issues with Serbia. With the EU and Serbian SAL taking effect, both parties undertake to abolish import duties and equivalent payments as well as quantity restrictions on imports of Serbian

origin industrial, agricultural and fishery products to the EU and imports of the EU origin industrial, agricultural and fishery products to Serbia.

In 2007, the EU continued negotiations with several Mediterranean region countries (Lebanon, Jordan, Tunisia, Egypt) concerning further liberalisation of trade in agricultural, processed agricultural and fishery products within the framework of association agreement, with a view to establish a common trade area by 2010. The EU and Morocco concluded a fisheries partnership agreement.

Multilateral trade policy

The multilateral trade policy is defined by the WTO. The WTO unites 151 countries, and it is the only international organisation dealing with international trade issues. The European Community is treated by the WTO as a single country. Therefore, the interests of the EU in the WTO are represented by the European Commission.

With a view to reduce or abolish international trade barriers was organised the Uruguay Round of multilateral trade negotiations. As a result of Uruguay Round, the WTO agreement was signed in 1994 in Marakesh. The first three annexes to the agreement contain multilateral trade agreements binding on all WTO countries (trade in goods, services, trade related intellectual property issues, dispute settlement issues and trade policy review arrangements), while annex IV concerns multilateral agreements exclusively binding on the WTO member states that have accepted them.

On 1 January 1995, the Agricultural Agreement took effect creating a framework for sustainable agricultural trade and domestic policy reforms as well as strengthening the rules governing agricultural trade, thereby promoting market – oriented and predictable trade with a reduced impact of market – distorting domestic support.

7.2. Agricultural policy reform negotiations of the World Trade Organisation

Article 20 of the Agreement of Agriculture stated that the WTO countries had to launch negotiations about continuing agricultural reforms in 2000. In 2001, at the WTO Ministerial conference in Qatar Doha Development agenda was opened, which included a mandate for negotiations on agricultural policy reforms alongside with 20 subjects of negotiations.

The objective of Doha Development agenda is through fundamental reforms to create a just and market – oriented trade system that would include stricter requirements and special commitments concerning domestic support and market protection to avoid limitation and distortion of the global agricultural market. Agricultural policy reform negotiations are held in three pillars which each have their own objective:

1) domestic support: significant reduction of trade distorting support;

2) market access: significant improvement of market access by reducing and simplifying import tariffs, setting new or increasing the existing tariff quotas for sensitive products as well as limiting or abolishing market protection measures;

3) export competition: reduce and limit all types of export subsidies.

As a result of reforms, WTO countries will have to undertake new commitments with regard to the said three pillars. To achieve that, the WTO countries must reach an agreement on modalities within the framework of reform negotiations. Modalities are a negotiation agreement document containing guidelines and formulas for the new commitments and their application.

Initially, the Doha Development agenda was scheduled to be completed on 1 January 2005, yet the WTO Ministerial conference of December 1995 held in Hong Kong postponed the deadline until 30 April 2006. Taking into account the protectionist positions held by some countries and their unwillingness to give up, it was impossible to develop comprehensive modalities and reach an agreement on completion of negotiations until the end of 2007. The main obstructing factors were the failure of the developed countries to reach an agreement on the amounts of reduction for imports tariffs of agricultural goods, reduction of trade distorting domestic support (a particularly sensitive issue for the USA) and methodologies for identification of sensitive products and setting their tariff quotas, as well as the unwillingness of the developing countries (primarily, Brazil, Argentina and India) to concede concerning the market access to industrial goods.

At the same time, experts believe that the end of 2007 marked a significant milestone in Doha Development round negotiations, as by defending their previously – voiced positions countries actively participate in technical discussions to address the essence of the issues. A turning point was August/September 2007 when the draft modalities prepared by the Chairman of the WTO Committee on Agriculture was circulated and its discussion began.

The European Commission's negotiation mandate has remained unchanged since 28 October 2005, and its cornerstone is the Common Agricultural Policy (hereinafter referred to as CAP). That means that the European Commission must not allow any concessions endangering the framework of the existing CAP in agricultural reform negotiations.

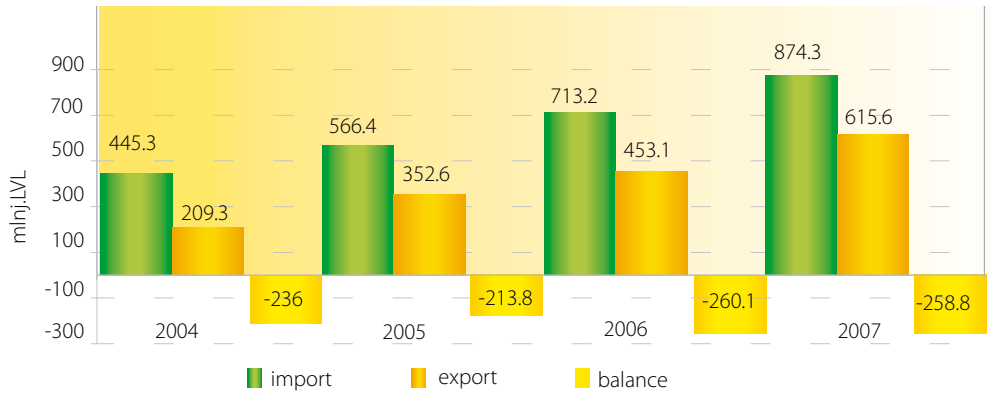
Several main issues of the EU interests in agricultural policy reform negotiations and discussions following the circulation of the draft modalities paper can be mentioned.

1) Reduction of overall trade distorting support
The European Commission has pointed out that we can reduce market distorting support by 80% of the level of the existing commitments, but not by 85%, which is the highest proposed reduction in the modalities paper. It is significant to note that the CAP framework still allows the European Commission some room for manoeuvring at negotiations. The situation in the USA is the opposite, as it is not ready to negotiate any significant reduction of the market distorting support. We are interested in the USA significantly reducing the amount of domestic support.
2) Disciplining the "green box" domestic support
As a result of the pressure applied by Argentina, significant discussions started at the negotiations to amend the definition of decoupled income support to farmers and to reduce the said support. The EU cannot accept any restrictions, as it is not ready to enter into any further CAP reforms. The European Commission negotiates that any potential amendments concerning decoupled payment rules should be consistent with the single payment scheme.
3) Import tariffs reduction
The European Commission does not support the considerable reduction of the import tariffs proposed in the modalities paper.
4) Identification of sensitive product and setting tariff quotas
The EU is willing to accept as sensitive products 8% of all tariff lines, whereas the modality paper offers an arrangement of 4% – 6% of the tariff lines. Particularly the emerging economies are interested in designation of a smaller number of sensitive products as well as larger tariff quotas and 0% in – quota – tariff. The European Commission has stressed the need to designate the tariff quotas for sensitive products using a partial designation method, providing larger opportunities for the market protection or smaller quota expansion.
5) Special safeguard measures
The EU wants to preserve special safeguard measures for some products, in order to protect the local producers from an excessive growth of imports or reduction of prices as a result of implementing the DDA commitments, yet the USA and some developing countries believe that these measures have to be abolished.
6) Balanced outcome in export competition
As the 2005 Hong Kong WTO Ministerial conference reached an agreement that export subsidies in developed countries will be phased – out by 2013, the European Commission insists on a balanced outcome also for other subsidy elements (international food aid, export credits, state trading enterprises), providing for a tighter discipline.

The most significant progress achieved in 2007 relates to the methodologies for increasing sensitive product tariff quotas, as the countries agreed that the tariff quota expansion should be based on domestic consumption data. The European Commission managed to convince its negotiation partners to accept partial designation method; therefore, it can be expected that the EU interests will be observed in the negotiations concerning sensitive products. A common understanding was also reached on a balanced outcome in export competition.
As no agreement could be reached on all negotiation elements in total until the end of 2007 in agricultural reform negotiations and also in other Doha Development agenda negotiations, completion of negotiations was postponed until the end of 2008. It means that an agreement about the modalities has to be reached in the middle of 2008, followed by the development and adoption of national commitment schedules, and reach of agreement on other negotiation areas (like trade facilitation, register of geographic indications)
The possibility to reach a final agreement in 2008 is considered to be critical due to objective reasons (both the USA and EU administration changes). If no agreement is reached, Doha Development agenda may fail, significantly impairing the global economic outlook.

7.3. External trade analysis

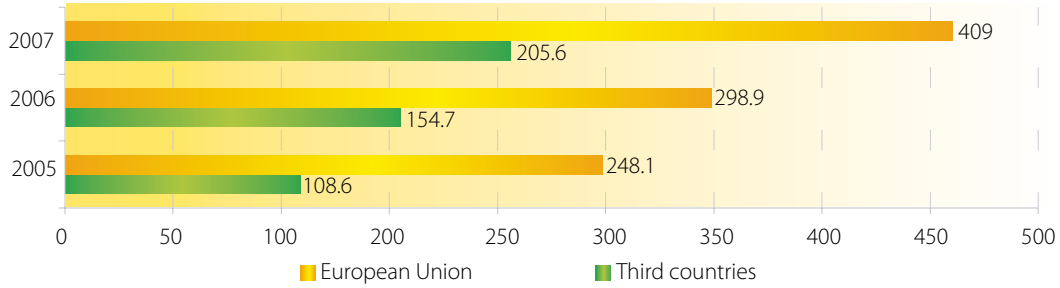
In 2007, the trends observed in the previous years continued, i.e. both exports and imports of agricultural products expanded (Latvia`s trade with EU Member States is included in import and export data). Exports of agricultural products grew by 162.5 million lats or 35.8% in 2007 year – on – year, whereas imports of agricultural products increased by 161.1 million lats or 22.6% (Figure 7.1). The growth of exports of agricultural products slightly outpaced that of the imports in 2007, thereby reducing the external trade deficit for agricultural products by 1.3 million lats in comparison with 2006.



Source: MoA based on Eurostat data

Figure7.1. External trade balance of Latvia's agricultural products in 2004 – 2007 (in millions of lats)

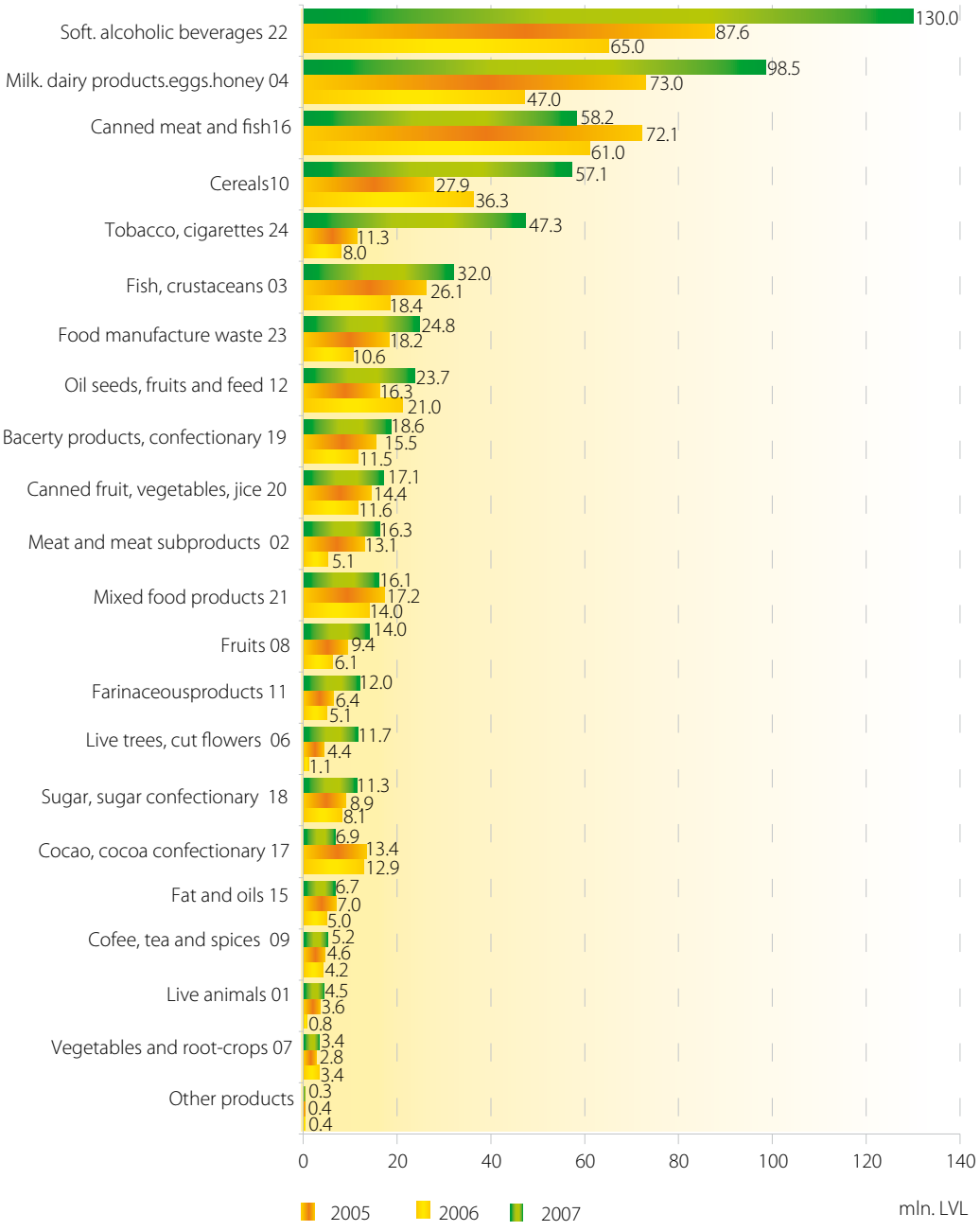
Exports of agricultural products expanded to both the EU Member States and third countries (Figure 7.2). The growth of exports to the EU Member States (by 111 million lats) was twice as high as the growth of exports to third countries (by 50.9 million lats). The tendency for the share of EU Member States to be the biggest in the composition of total exports also prevailed, i.e. 66.6% of Latvia's agricultural products were sold on the EU domestic market.



Source: MoA based on Eurostat data

Figure 7.2. Latvia's exports of agricultural products by country group in 2005 – 2007 (in millions of lats)

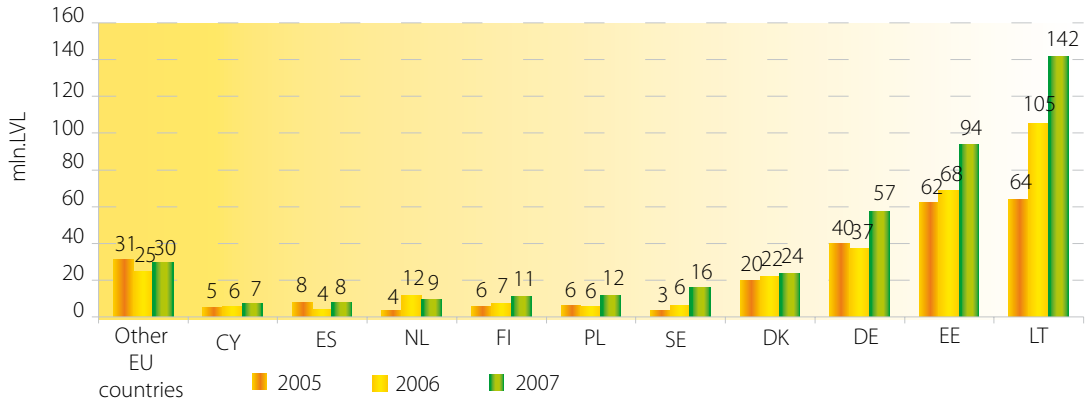
The most important agricultural products exported by Latvia in 2007 were non – alcoholic and alcoholic beverages, milk and dairy products and well as meat and fish products (Figure 7.3). In 2007, exports of almost all commodity groups expanded. The most significant export growth was reported for tobacco (by 318.6%), growing trees (by 166%) and cereals (by105%). Export decrease was registered for meat and fish products, mixed foodstuffs and sugar confectionery. The most significant decrease of exports was reported for sugar confectionery (by 48.5% year – on – year), followed by meat and fish products and mixed foodstuffs (by 19.3% and 6.4% respectively).



Source: MoA based on Eurostat data

Figure 7.3. Exports of Latvia's agricultural products in 2005 – 2007 (in millions of lats)

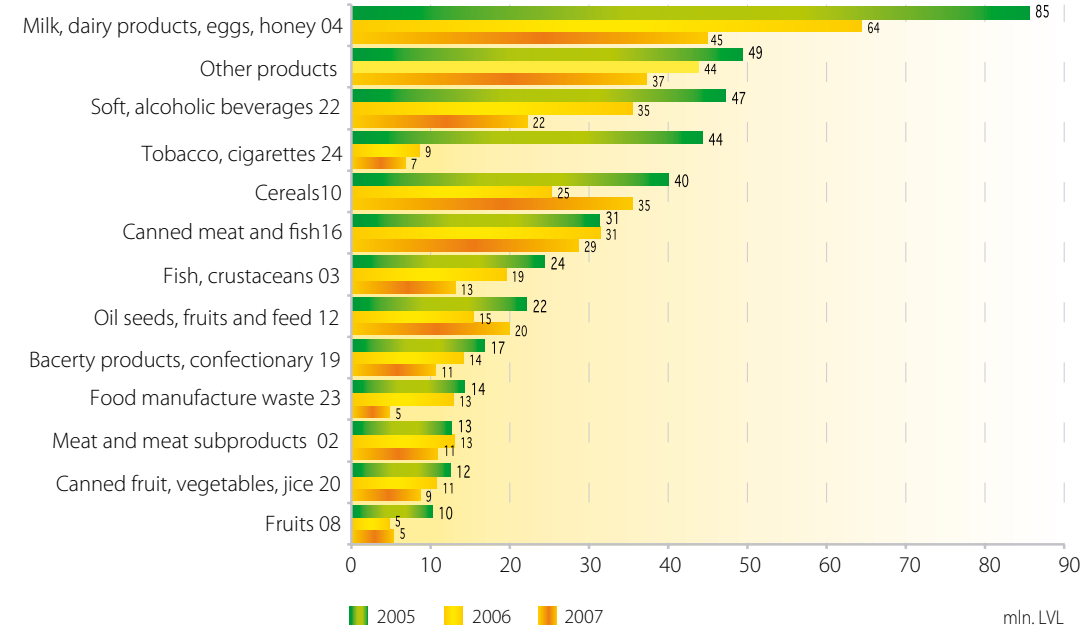
In 2007, the most significant export partners for Latvia's agricultural products among the EU Member States were Lithuania, Germany, Estonia and Denmark (Figure 7.4), to which Latvia's exports increased year – on – year. The most significant growth of exports was recorded to Lithuania: from 105 million lats in 2006 to 142 million lats in 2007. Of the most significant export partners from the EU, the most considerable export decrease was recorded to the Netherlands: from 11.7 million lats in 2006 to 9.3 million lats in 2007.



Source: MoA based on Eurostat data

Figure7.4. Exports of Latvia's agricultural products to EU Member States (main countries of final destination) in 2005 – 2007 (in millions of lats)

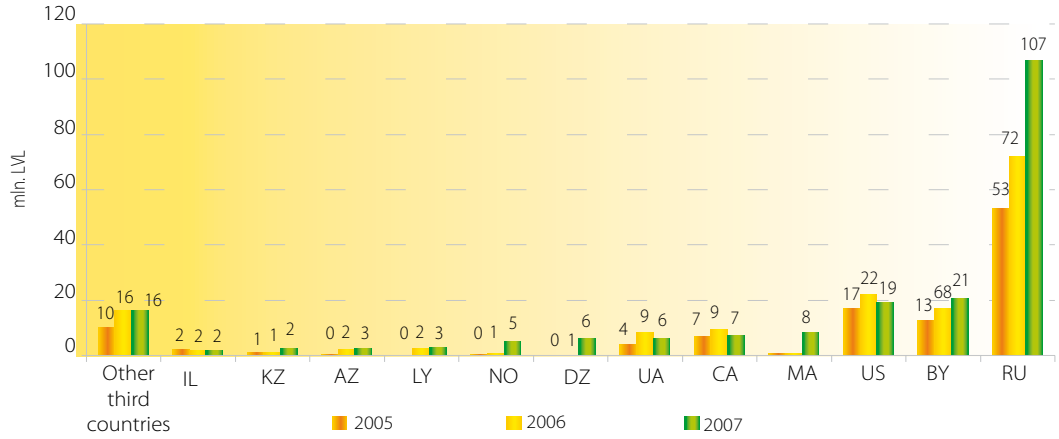
In 2007, the main Latvia's exports to the EU countries were milk and dairy products (20.9% of the total exports of agricultural products to the EU), non – alcoholic and alcoholic beverages (11.5%), tobacco and cigarettes (10.8%; Figure 7.5). In comparison with 2006, the most significant export growth to the EU was reported for tobacco and cigarettes: by 35 million lats or 388.9%.



Source: MoA based on Eurostat data

Figure 7.5. Exports of Latvia's agricultural products to European Union Member States in 2005 – 2007 (in millions of lats)

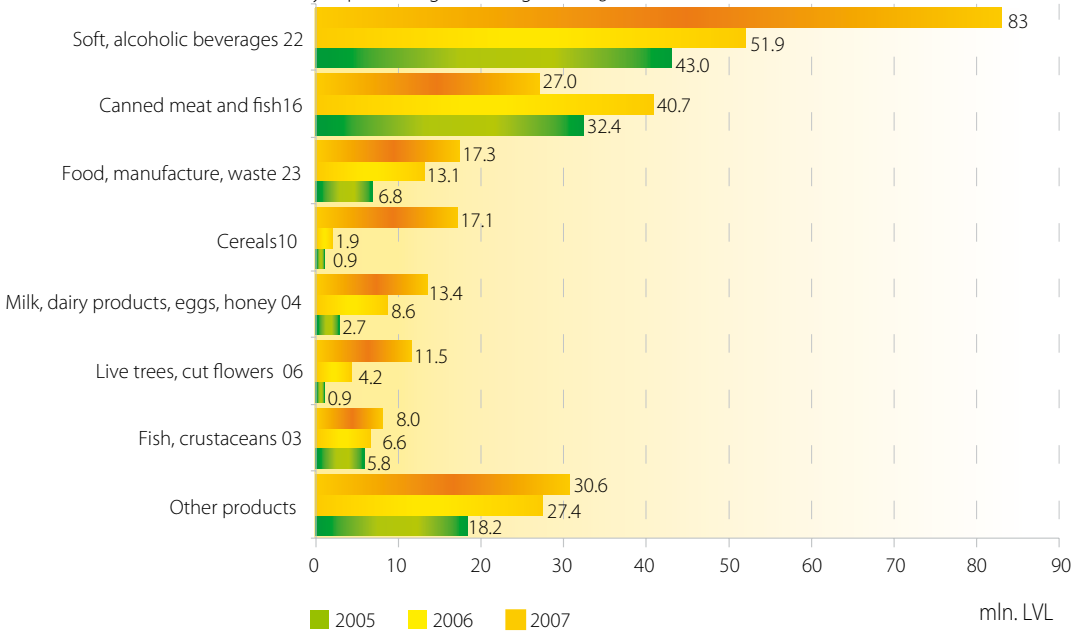
Among third countries, the most important Latvia's export partners for agricultural products in 2007 were Russia, Belarus, USA, Morocco and Canada (Figure 7.6). In 2007, Latvia significantly increased agricultural products exports to some Mediterranean countries (Morocco and Algeria). In comparison with 2006, Latvia's exports of agricultural products to Morocco grew 10 times, reaching 8.3 million lats, whereas exports to Algeria totalled 6 million lats. These countries ranked fourth and seventh respectively among the most significant third country export partners of Latvia. A slight decline of exports was reported to the USA, Canada and Ukraine.



Source: MoA based on Eurostat data

Figure 7.6. Exports of Latvia's agricultural products to third countries in 2005 – 2007 (in millions of lats)

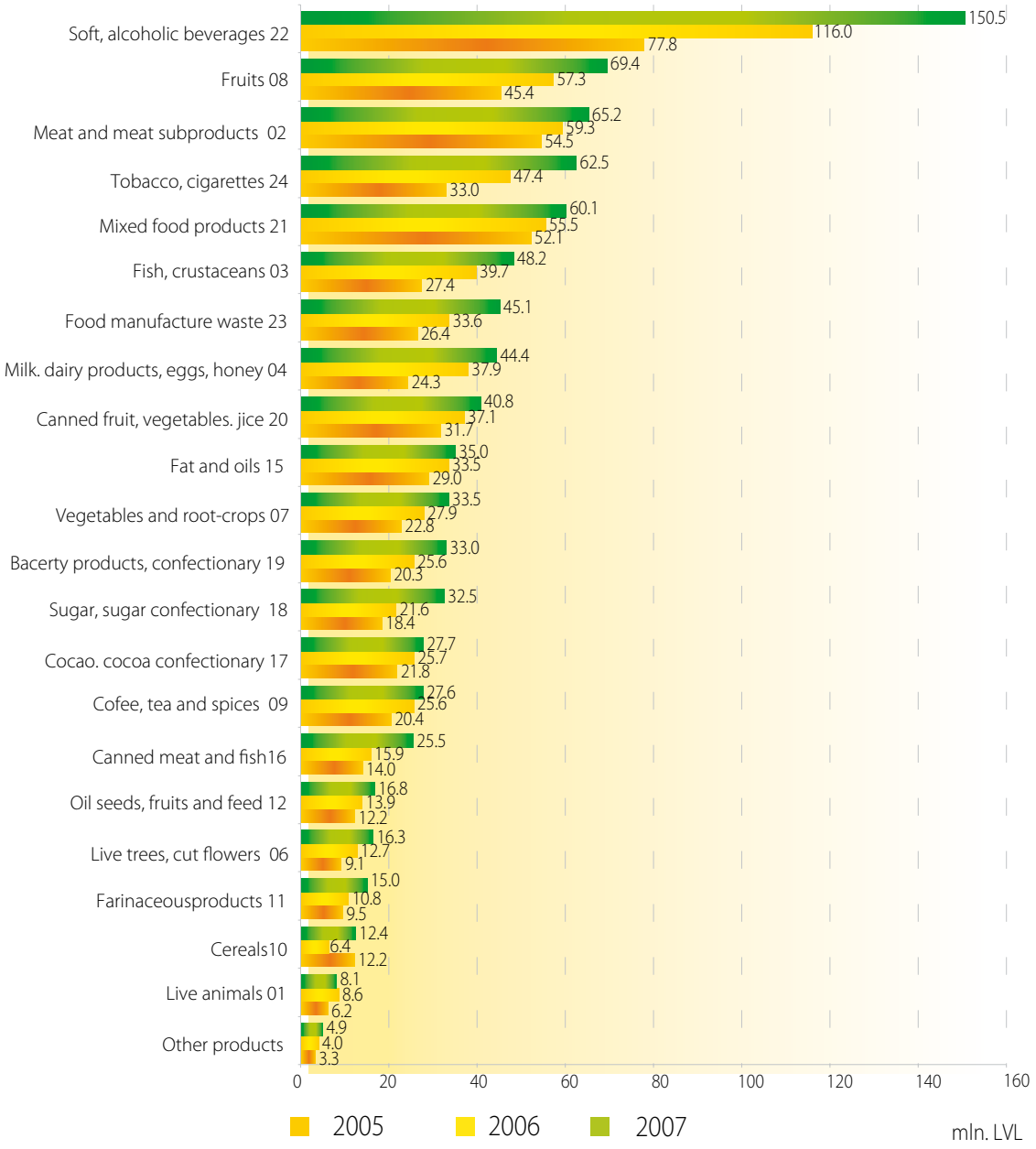
Mostly non – alcoholic and alcoholic beverages were exported to third countries, accounting for 39.9% of the total exports to third countries. Exports of meat and fish products made up 13.0% of all exports to third countries, whereas residues from food industries accounted for 8.3% of all third country exports of agricultural goods (Figure 7.7).



Source: MoA based on Eurostat data

Figure 7.7. Exports of Latvia's agricultural products to third countries in 2005 – 2007 (in millions of lats)

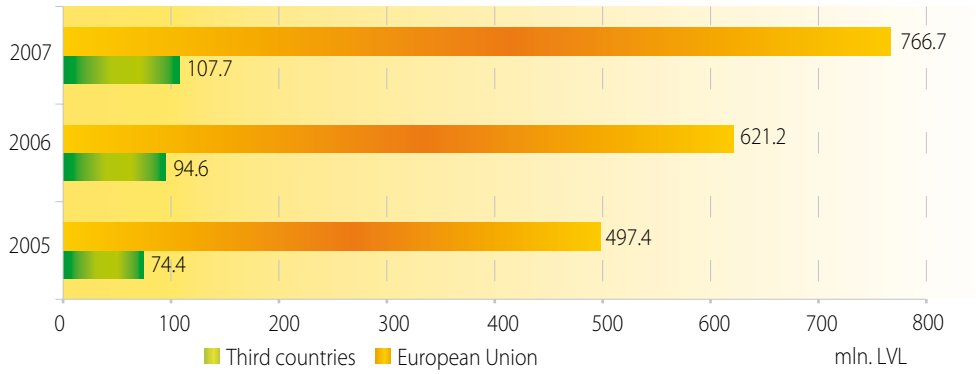
Looking at the composition of imports of agricultural products leads to a conclusion that the most significant product groups in Latvia's imports were non – alcoholic and alcoholic beverages accounting for 17.2% of the total imports of agricultural products, fruit (7.9%) and meat and meat offals (7.5%; Figure 7.8). Import growth was reported for almost all commodity groups. In 2007, the highest import growth year – on – year was reported for non – alcoholic and alcoholic beverages (34.6 million lats or 29.8 %) and fruit (12 million lats or 21 %).



Source: MoA based on Eurostat data

Figure 7.8. Latvia's imports of agricultural products in 2005 – 2007 (in millions of lats)

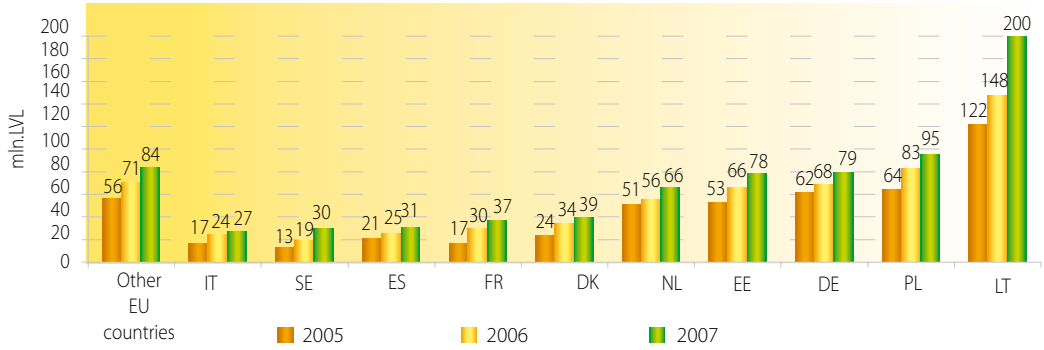
Agricultural imports grew from both the EU Member States and third countries (Figure 7.9). In comparison with 2006, agricultural imports from the EU Member States expanded at a higher rate (by 23.4%) than from third countries (by 13.8%) in 2007. The composition of imports remained broadly unchanged in 2007: 87.7% of agricultural imports came from the EU Member States.



Source: MoA based on Eurostat data

Figure 7.9. Latvia's imports of agricultural products by country group in 2005 – 2007 (in millions of lats)

In 2007, the most significant importers of agricultural goods among the EU Member States were Lithuania, Poland, Germany, Estonia and the Netherlands (Figure 7.10). As in previous years, the growth tendency for imports from all Latvia's major import partners among the EU Member States prevailed. The highest import growth was reported with Lithuania (52 million lats or 35.4% more in comparison with 2006).

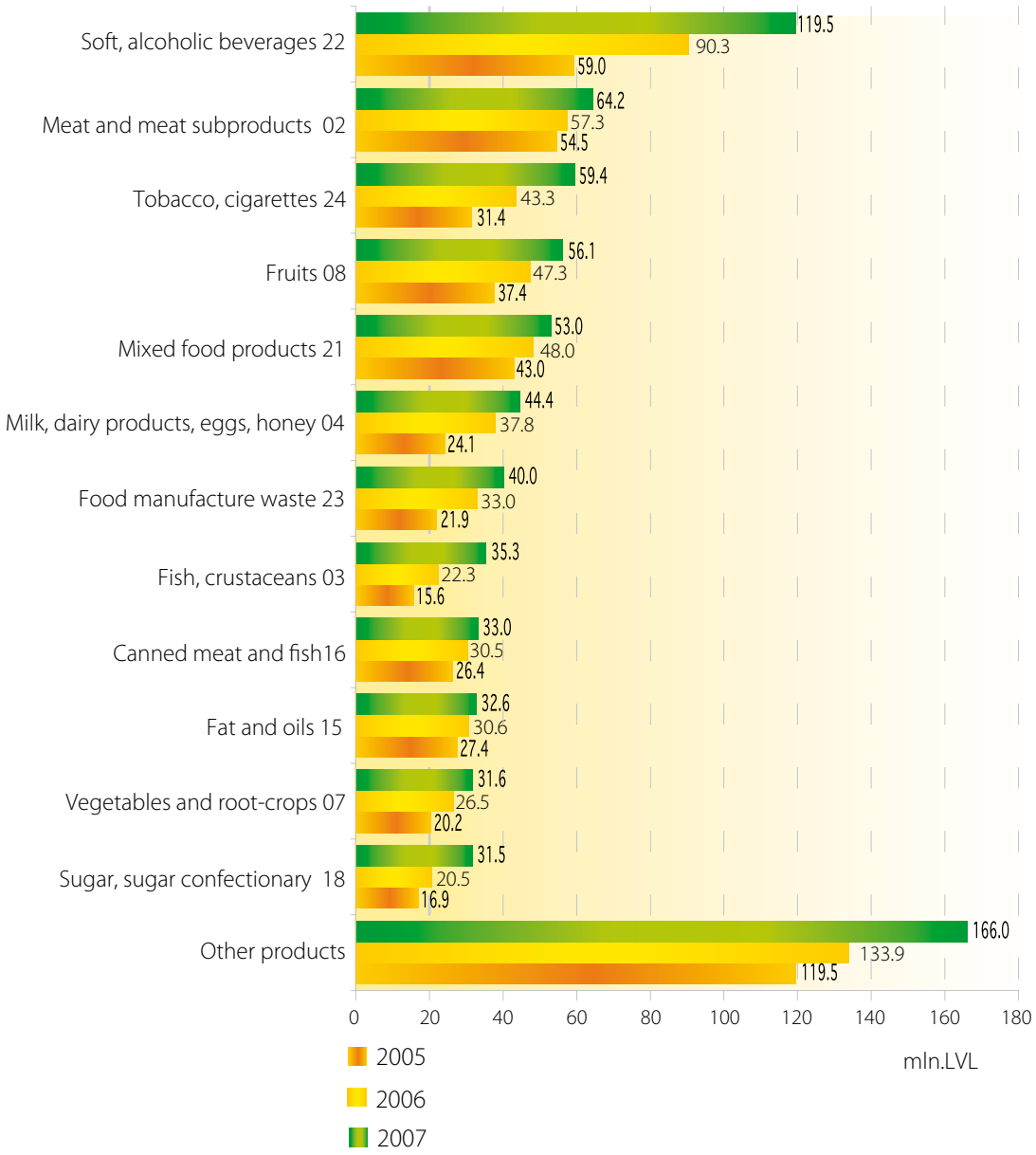


Source: MoA based on Eurostat data

Figure 7.10. Latvia's imports of agricultural products from EU Member States (main countries of origin) in 2005 – 2007 (in millions of lats)

Looking at the composition of agricultural imports from the EU Member States, the most important Latvia's imports from those countries were non – alcoholic and alcoholic beverages accounting for 15.6% of all agricultural imports from the EU Member States, meat and meat offals (8.4%) and tobacco and tobacco products (7.4%; Figure 7.11).

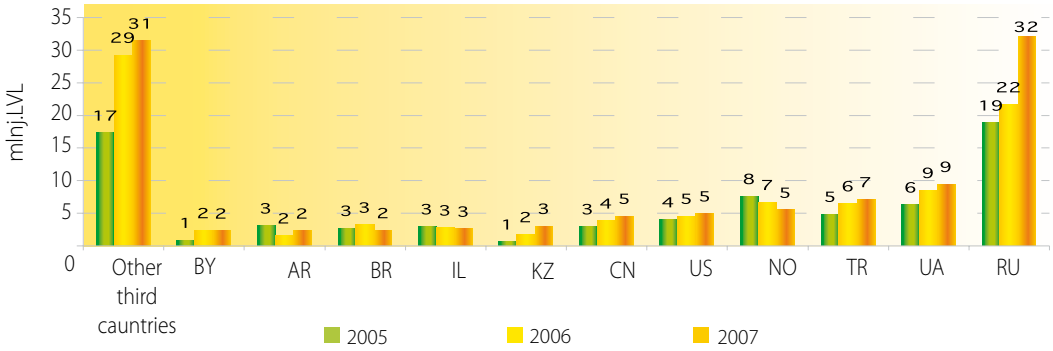
The highest import growth in comparison with 2006 was reported for non – alcoholic and alcoholic beverages (by 29.2 million lats or 32.3%) and tobacco and tobacco products (by 16 million lats or 37.4 %).



Source: MoA based on Eurostat data

Figure 7.11. Latvia's imports of agricultural products from EU Member States in 2005 – 2007 (in millions of lats)

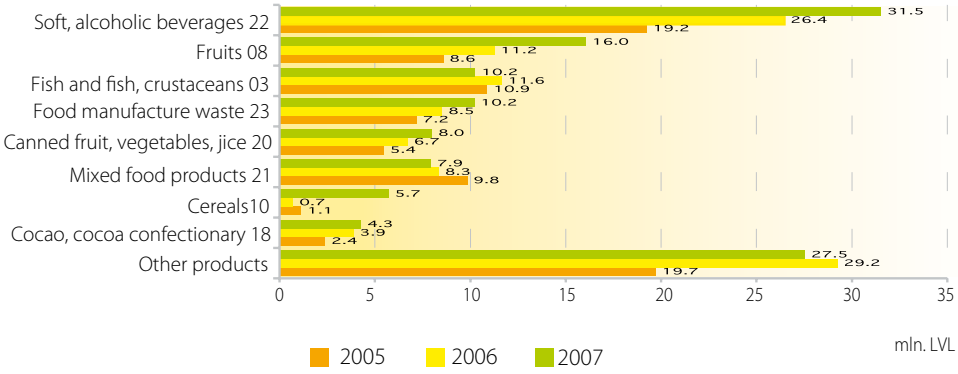
In 2007, the most important import partners among the third countries were Russia accounting for 29.7 of the total third country agricultural imports, the Ukraine (8.3%), Turkey (6.5%) and Norway (4.6%; Figure 7.12).



Source: MoA based on Eurostat data

Figure 7. 12. Latvia's imports of agricultural products from third countries (main countries of origin) in 2005 – 2007 (in millions of lats)

In 2007, Latvia's most significant imports from third countries were non – alcoholic and alcoholic beverages accounting for 29.2% of all third country agricultural imports, fruit (14.9%) and crustaceans (9.5%; Figure 7.13).



Source: MoA based on Eurostat data

Figure7.13. Latvia's imports of agricultural products from third countries (main countries of origin) in 2005 – 2007 (in millions of lats)

7.4. EU market protection measures affecting the interests of Latvian agriculture

Antidumping measures concerning imports of Potassium chloride

From 1992, antidumping measures against imports of a Russian and Belarus origin potassium chloride are effective in the European Community that have been reviewed on several occasions.

As a result of the expiry review, on 13 July 2006 changed antidumping measures against imports of a Russian and Belarus origin potassium chloride came to effect. A new antidumping duty was approved for Belarus at 27.5% of imports exceeding 700000 tons in a calendar year. As concerns Russia, a differentiated antidumping duty was approved, depending on the supplier: 12.3%–23% for producer companies, 19.611 to 40.63 EUR/t for other suppliers depending on the KCl content.

Antidumping measures against imports of ammonia nitrate

Antidumping measures are applied to imports of a Russian origin ammonia nitrate on the European Community market since 1995. According to 15 April 2002 Council Regulation No658/2002, the effective antidumping duty in the European Communities is 47.07 EUR/t for ammonia nitrate, ammonia nitrate and calcium carbonate or other inorganic substance mixture with the nitrogen content exceeding 28%.

In January 2007, the European ammonia nitrate producers, based on paragraph 2 of Article 11 of the Council Regulations (EC) Councils Regulations (EC) No. 384/96 on protection against dumped imports from countries not members of the European Community, submitted an application to review the rate of the antidumping duty. In response to this application, the European Commission released a communication on 14 April 2007 on the expiry review concerning the antidumping measures applied to imports of a Russian origin ammonia nitrate. The above antidumping duty application was automatically extended until the end of the expiry review. In course of the review, the European Commission concluded that the Russian ammonia nitrate producers still sell the ammonia nitrate on the Community market at dumping prices. Moreover, Russia possesses a high ammonia nitrate production capacity, overall amounting to one fourth of the Community consumption. Taking into account the conclusions of the review, the European Commission proposed to extend the existing antidumping duty application in May 2008. On 27 May 2008, this proposal of the European Commission was approved by the majority of the Member States voting in favour of continuing the application of the existing antidumping duty.
Latvia has consistently supported abolishment of the above antidumping duty, as Latvia imports ammonia nitrate primarily from Russia; therefore, the existing antidumping duty significantly raises the prices of ammonia nitrate available to farmers.
According to 19 April 2007 Council Regulation No 442/2007 on expiry review, Ukrainian imports of ammonia nitrate to the Community are subject to an antidumping duty of 29.26 to 33.25 EUR/t, depending on the nitrogen content in the fertiliser. This duty will be applied until 2009.

Antidumping measures against imports of frozen strawberries

From 18 April 2007, imports of frozen strawberries of a Chinese origin are subject to an antidumping duty amounting to the difference between the minimum import price set by 16 April 2007 Council Regulation No 407/2007 and the net free at Community frontier price, before duty, if the latter is lower than the former. As production of frozen strawberries in Latvia is almost non – existent and those strawberries are mainly imported from Poland, the application of the antidumping duty bears no direct effect on the price of frozen strawberries in Latvia.

Antidumping measures against imports of salmon

From 20 January 2006, based on the Council Regulation No 85/2006 an antidumping duty is applied to Norwegian origin imports of salmon to the Community, amounting to the difference between the minimum import price set by Regulation and the net free at Community frontier price, before duty, if the latter is lower than the former. The European Commission launched a partial interim review concerning the antidumping measures applicable to the imports of salmon bread in Norway on 21 April 2007. The European Commission completed the interim review, and in 27. May 2008 a proposal to abolish the antidumping duty applied to imports of salmon of Norwegian origin was approved.

Summary

Framework of trade policy plays an essential role in external trade. Therefore, the bilateral negations held in 2007 between the EU and third countries with a view to concluding trade liberalisation agreements were of an utter importance (e.g. negotiations continued with the ACP countries about signing EPAs and negotiations started with the Central America and Andian Community countries about signing FTAs). The technical progress achieved in WTO Doha Development agenda negotiations in 2007 was of an equal importance. Completion of the WTO Doha Development agenda negotiations is significant for global trade liberalisation and further development. The WTO Director – General Pascal Lamy and majority of Members unanimously agree that the Doha Development programme has to be completed in 2008, yet at the same time the countries stress that the content should steer the process and not the other way round.

Fisheries





8. Fisheries

Fishing

In 2007, 89 365 tons of fish in total were caught in the Baltic Sea and Riga Gulf. A positive trend is that due to favourable nourishment conditions, in recent years the stock of sprats in the Baltic Sea has increased significantly. Therefore, the sprat fishing quota available to Latvia in 2007 was increased to 62 877 tons.
At the same time, it has to be acknowledged that due to the EU requirements concerning the gradual reduction of the use of drifting fish nets to limit the accidental penetration of the nets by the Harbour porpoise, Latvia used only 22 tons (7.8%) of the 282 tons of salmon fishing quota granted to Latvia in 2007. This poor performance will deteriorate further, as the European Union legislation provides for full abolishment of the drifting fish nets from 2008 and that will definitely affect Latvia's catch of salmon in the Baltic Sea, which is already low as it is. Other fishing quotas granted and exchanged with other countries were used up almost fully in 2007.

- In comparison with 2006, fishing quotas changed as follows in 2007:
- sprats: 58 219 tons in 2006 to 62 877 tons in 2007 (quota increased by 4658 tons);
- Baltic herring in the Baltic sea: 3 212 tons in 2006 to 3 680 tons in 2007 (quota increased by 468 tons);
- Baltic herring in the Riga Gulf: 21 528 tons in 2006 to 20 183 tons in 2007 (quota decreased by 1 345 tons);
- cod in sub – region 22 – 24: 1 026 tons in 2006 to 964 tons in 2007 (quota decreased by 62 tons); cod in sub – region 25 – 32: 3 873 tons in 2006 to 3 486 tons in 2007 (quota decreased by 387 tons);
- salmon 59 478 pieces 2006; 56 504 pieces in 2007 (quota decreased by 2 974 pieces).

In 2007, the Council Regulation establishing a multi – annual for the stock of the Baltic Sea cod was adopted, which provides for additional conditions applicable to fishers when fishing for cod starting from 2008. These conditions were adopted as an alternative on behalf of the Member States to an even more considerable decrease of cod fishing opportunities in the coming years.
In 2007, 5 Latvian fishing vessels were actively fishing in the territory of Mauritanian Islamic Republic with the total catch amounting to about 60 000 tons. Only one Latvian fishing vessel participated in fishing in the economic waters of the Kingdom of Morocco. 2 fishing vessels were fishing in the fishing regions of the Northwest Atlantic Fisheries Organisation (NAFO) in 2007, whereas only one fishing vessel was fishing in the territory of the North East Atlantic Fisheries Commission (NEAFC).
Overseas fishing mainly took place in the economic zone waters of the coastal countries of the Central East Atlantic fishing zone (Mauritania, Morocco) using the fishing licences issued in accordance with fishing agreements concluded between the European Union and the respective countries. Exchanging fishing opportunities, Latvia gained a quota for additional 270 tons of Atlantic groupers in Greenland waters and a quota for 500 tons of Atlantic groupers in the NEAFC fishing region. Moreover, Latvia, by way of exchange, received and additional quota for 65 tons of northern shrimp in the NAFO fishing region in 2007.
Fishing vessels in Latvia may use 10 harbours for fishing activities where the infrastructure is more or less adapted to the needs of fishers. However, further renovation and modernisation of the infrastructure is required.

Aquaculture

In 2007, the main sub – sector of aquaculture in Latvia was fish – farming. Crayfish farming in Latvia is still at the development stage. Fish – farming has several sub – types and the main of them are as follows:
1. breeding of fish fry;
2. breeding of fish fry for their stocking into natural water bodies for re – growing and supplementing of fish stock (restocking of fish resources);
3. providing angling opportunities at ponds to catch the bred fish.

Restocking of fish resources was implemented by the public sector agency "Agency for Fish Resources of Latvia" fish nurseries Tome, Dole, Brasla, Kārļi, Ķegums, Pelči and Sērene. In 2007, the nurseries stocked into natural water bodies 16.158 million fish fries and larva, including 11.86 million lamprey larva. In addition to the state programme for restocking of fish resources, 2.810 million fish fries and larva were released from state nurseries into natural water bodies (rivers and lakes), of which about 2.7 million were pike larva. As a result of the implementation of the state programme for restocking of fish resources, the opportunities and efficiency of using inland waters for fishery purposes increased. In places used for active restocking of the fish resources, licensed fishing was organised. In 2007, it was organised in 50 water bodies. Licensed crayfish fishing was possible in 8 water bodies, whereas 4 water bodies offered the opportunities of licensed underwater hunting.
Total production amount of aquaculture in 2007 was 733.8 tons.

Fish processing

Fish processing sector used mainly sprats, Baltic herring, cod fish, flounders and salmon caught by local fishermen as well as fish imported in order to diversify the assortment: mainly herring, mackerel and sardinellas. Fresh water fish were also processed in small amounts. Currently, 116 companies compliant with

the EU requirements are engaged in fish processing in Latvia. 25 of these companies have obtained the right to export their products to Russia.

Latvia produces a large variety of fish products: frozen, salted and smoked fish, unprocessed canned products (preserves) and ready – to – serve fish products as well as processed canned products. The share of ready – made and canned fish production in the total production amount has been decreasing in the recent years.

The total amount of produced fish products, including canned fish, decreased by 5% in 2007 in comparison with 2006 and amounted to 170.0 thousand tons. Both the amounts of produced fish products and canned fish decreased by 1.2% and 11.5% respectively in 2007. That resulted in a decline in the sales of fish products in cash terms by 9%. Fish products, including canned fish, were sold for the total value of 91.3 million lats in 2007.

The sales of canned fish decreased by 9% or 6.2 thousand tons in 2007. This was still the result of the ban imposed by the Veterinary and Phyto – Sanitary Service of the Russian Federation on certain Latvian producers of canned fish to export canned fish (mainly sprats in oil) to the Russian Federation, based on the detected excessive content of benso(a)pyrene in smoked fish products. Production of canned fish using the Baltic Sea fish decreased by 20%. Although the production of other types of canned fish expanded, it could not boost the overall production volume of canned fish, as this particular segment is insignificant. The situation improved only at the beginning of 2008, when many Latvian fish processing companies renewed their exports to Russia.

Trade in fishery products

Exports

Majority of fish products made in Latvia are exported. In 2007, the share of fisheries in the total exports of Latvia decreased and the share of fish products and canned fish amounted to a mere 2.1% of all exports. Fish products and canned fish were exported to 50 countries in 2007.

In comparison with the previous year, the exports of fish products decreased by 6% in 2007 and amounted to 85.3 thousand tons. The value of the exported fish products totalled 36.7 million lats. Exports to the CIS and the EU countries play a major role in Latvia's exports of fish products. The share of these countries in the total exports of fish products of Latvia is large: 45% and 28% respectively. Exports of fish products to the EU countries decreased by almost one third in 2007. Mainly frozen cod fillets, chilled cod fish as well as frozen fish from vessels fishing in the economic zone waters of Mauritania are exported to the EU countries. Changes in the export structure were affected by the concluded business contracts and their provisions concerning product sales in the respective country. As the production of canned sprats in oil decreased in 2007, chilled sprats exports to the EU Member States (Sweden and Denmark) increased. Overall, 5.1 thousand tons or 8% of Latvia's total catch of sprats in 2007 were exported to those countries. Exports of fish products to the CIS countries increased by 21% year – on – year in 2007. A particularly high increase was reported for the exports of fish products to Russia (3 times), the Ukraine (by 22%), whereas exports of fish products (mainly frozen fish) to Moldova decreased by one third. Exports of fish products to Belarus remained broadly unchanged in 2007. Traditionally frozen sprats were exported to the CIS countries.

Processed and unprocessed canned fish made in Latvia represent a significant share in the total exports of Latvia. In 2007, the exports of ready – made and canned fish decreased by 19% or 13.2 thousand tons in comparison with the previous year. That was related to the prohibition for several Latvian fish processing companies to sell canned fish, especially sprats in oil, on the Russian market. Direct exports of canned fish to the CIS countries dropped by 16% year – on – year in 2007 (29.6 thousand tons in 2007, 35.1 thousand tons in 2006), yet the share of these countries in the total exports of ready – made and canned fish increased slightly from 50.2% to 52.2%. Canned fish was still exported to the CIS countries through Estonia, yet these exports decreased in 2007 in comparison with the previous year (9.0 thousand tons in 2007, 11.2 thousand tons in 2006).

At the same time, continuously increasing exports of canned fish to the EU15 countries (Member States before the EU enlargement in 2004) is to be considered an accomplishment. Exports of canned fish to the EU15 countries grew by 14% year – on – year in 2007. The share of exports to these countries reached 4.2% of Latvia's total exports of ready – made and canned fish. Moreover, new Member States joining the European Union provided new market opportunities. Exports of canned fish to Bulgaria and Romania grew by one third.

In comparison with 2006, the price of exported canned fish increased by 6.7% in 2007. It was related to the fact that the share of those countries where the price of exported canned fish was quite high grew. In 2007, exports of canned fish expanded particularly to the Central Asia countries (Kazakhstan, Uzbekistan, Turkmenistan and Tajikistan; 2.5 times), Mongolia (2.4 times), Spain (1.8 times), Denmark (by 19%) and Belarus (by 13%). At the same time, exports of canned fish to such traditional countries as Moldova and Czech Republic, Ukraine, Lithuania and Georgia declined (by 55%, 35%, 27%, 22% and 13% respectively). Moreover, as a result of the US dollar depreciation, Latvia lost the positions on the US market as well. Last year exports of canned fish to the USA decreased by 35%. For comparison, exports of canned fish to the USA reported a significant increase in 2006 (2.3 times) and reached an all – time – high at 16.7% of Latvia's total exports of canned fished.

Imports

With small and medium – size fish processing companies across Latvia developing, the local producers offer an increasingly wider assortment of fish products. Not only fish from the Baltic Sea, but also ocean fish are used in production. However, taking into account the fact that Latvian fishing companies whose vessels operate in the Atlantic Ocean sell the caught fish outside Latvia, local fish processing companies import ocean fish from other countries.

In 2007, imports of fish products increased by 13% over 2006 and amounted to 36.4 thousand tons. Lithuania strengthened its leading position among the countries supplying fish raw material (27.1% of the total fish product imports) as well as Sweden (19.4%) and Norway (16.7%). In 2007, imports of fish products from Sweden grew almost twofold in comparison with 2006. Swedish exports of fish products into Latvia consisted mainly of chilled salmon and frozen shrimps. Significant increase in imports of fish products was recorded from Morocco (almost 5 times), Vietnam (3.8 times) Poland (1.7 times) and the Netherlands (1.5 times). At the same time, imports of fish products from the United Kingdom, Argentina and Denmark dropped. Mainly frozen mackerels, sprats and herrings and also frozen sardines and sardinellas were imported from Lithuania. In 2007, the composition of salmon importer countries continued to change. Currently, the imports of salmon from Norway compete with salmon species fish imported from the EU Member States, mainly from Sweden. In 2007, imports of salmon species fish from Norway accounted for merely 5% of Latvia's total imports of salmon species fish (31% in 2006). Overall, Latvia imported fish products from 37 countries.

In order to expand the assortment of the local market, ready – made and canned fish as well as sea products were also imported to Latvia. The share of the imports of ready – made and canned fish in the total fish product imports amounted to 15% of Latvia's total imports of fish products (including canned fish). In 2007, 6.4 thousand tons of ready – made and canned fish and sea products were imported, representing a 1.5 times increase over 2006. In terms of money, the imports of canned fish reached 20.2 million lats.

Overall, the external trade exports–imports balance for fish products and ready – made and canned fish retained a surplus and amounted to 29.7 million lats in 2006.

Institutions Forming and Implementing Agricultural and Rural Development Policy





9. Institutions Forming and Implementing Agricultural and Rural Development Policy

The **Ministry of Agriculture** (MoA) is the leading public administration institution at the agricultural, forestry and fishery sector. The main functions of the ministry are development of the agricultural, forestry and fishery policy and organization and coordination of its implementation.

www.zm.gov.lv.

The minister and units and departments of the MoA, their units and the permanent unit that are subordinated to the state secretary or his/her deputy in compliance with the segregation of functions defined by the state secretary, have overall responsibility for the operation of the Ministry of Agriculture.

- Structure of the Ministry:
- Minister,
- State Secretary,
- Deputy State Secretaries,
- Departments,
- Units.

Rural Support Service (RSS) – http://www.lad.gov.lv

The Rural Support Service is a direct management institution subordinated to the Ministry of Agriculture that is responsible for united implementation of the state aid and the European Union support policy in the country, monitors compliance with the legal enactments at the agricultural sector and fulfils other functions related to implementation of the agricultural and rural support policy.

Latvian Rural Advisory and Training Centre (LRAC) – http://www.llkc.lv

The LRAC ensures services and advises regarding:

- agriculture,
- accountancy and legislation,
- economics and rural development: development of business plans for the EU and national support,
- publishing,
- continued education.

Food and Veterinary Service (FVS) www.pvd.gov.lv

The Food and Veterinary Service is a public administration institution under the subordination of the Ministry of Agriculture that ensures state monitoring and control of the food turnover and veterinary medicine sectors.

Institute of Agrarian Economy of Latvia – (IAEL) http://www.lvaei.lv

Institute of Agrarian Economy of Latvia is an independent state public derived body that launches researches and provides advises on the economic processes regarding agricultural production and rural development in order to promote the economic and social development of the rural area.

State Fishery Board – http://www.vzp.gov.lv

The State Fishery Board is a civil institution under the subordination of the Ministry of Agriculture that implements the state policy at the fish – farm sector and manages the internal waters of the Republic of Latvia and fish resources of the territorial and economic zone waters.

State Forest Service – http://www.vmd.gov.lv

The State Forest Service is a public administration institution under the subordination of the Ministry of Agriculture that is responsible for implementation of the forest policy in the whole territory of Latvia, monitors implementation of the legal enactments and launches support programme for provision of the sustainable forestry.

State Agency "Agricultural Data Centre" – http://www.ldc.gov.lv

State Agency "Agricultural Data Centre " is state institution under the subordination of the Ministry of Agriculture that provide common data base of animal register for monitoring and controle.

State Plant Protection Service – http://www.vaad.gov.lv

The State Plant Protection Service is a public institution under the subordination of the Ministry of Agriculture that performs state control and monitoring regarding the plant protection measures, fertilizing substances, turnover of plants, plant products, plant species, seeds and planting materials, as well as cooperates with the international institutions and provides exchange of information with other countries on the issues regarding plant protection, plant quarantine, seed turnover and protection of breeder rights.