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SUPPLY CHAIN IN LATVIA
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Introduction to the dairy sector

Dairy production is one of the basic agricultural sectors in Latvia – it constitutes on average 23% of total output of Latvian agriculture. 806770 tonnes of cows' milk were produced in 2005. The average number of milking cows reached 185,200.

In the last ten years, the dairy sector has shrunk (Fig. 1.1., 1.3.). Overall the number of cows fell by 35% within that period. Increased producer prices for milk have slowed down the reduction rate and cow numbers are expected to stabilise shortly as a result of restructuring. As the numbers of cows and herds have fallen, average yields have increased to 4364 litres per cow/year to compare with 3074 in 1995 (Fig. 1.2.). Average yield essentially depends on herd size, being higher for cows in larger herds (Table 1.2.).

Yields also depend on the breed of milking cow (Table 1.1.). 376547 heads of cattle were registered on the Register of the Livestock in Latvia on 1 January 2005, including 204982 milking cows. The monitoring of the milking cows was ensured at 12102 herds. Cows of different breeds are under the monitoring and their average milk yield, protein and fat content are different.

The Latvian Brown cow is the country's predominant dairy breed accounting for 69% of Latvia's total dairy cows; their average milk yield is 4831 kg, with fat content of 4.48% and protein content 3.29%. Holsteins make up another 30% of the national herd, their average yield increased by 305 kg during 2005. The Angler breed has the highest average milk yield at 6056 kg, with 4.68% fat content and 3.30% protein content but this breed makes up only a very small part of the national dairy herd.

Diversity of dairy products in the market is increased by imports, most of which originate from Lithuania, Poland, Germany or Estonia (Fig. 2.1).

The main dairy products exported from Latvia are cheese and skimmed milk powder; also butter and milk are exported. 96% of exports go to EU countries – mostly to Germany, Netherlands, Denmark and Estonia (Fig. 2.2.).

The determinant factor of industry growth is the market growth; the share of milk sold to processing companies is growing year by year and in 2005 it reached 62% from the milked amount of milk and that is for 4,9% more than in 2004. Such tendency is caused by the increase of milk purchase price and also by the concentration of production in the result of successful development of production of particular dairy products.

Following EU-Accession, the milk quota system was introduced from 1 May 2004 and the dairy sector began restructuring. Total milk quota for the country for period of time from 2004/2005 to 2006/2007 was set at 695 395 tons from which 631.9 tons in 2005/2006 were delivery quotas and 63.5 thousand tons were direct trade quota that means increase of the delivery quota for 34%, but decrease of 28% for the direct trade quota, if compared to the previous quota year. For the State reserve stock constant 1% of each quota type is provided.

Increase of the amounts of milk deliveries and the reduction of direct trade amounts both are caused by the restructuring processes that take place in the dairy farming in Latvia and it reflects also in the transactions with milk quotas. In total in 2005/2006 quota year 11 234 transactions

with milk quota have been registered from which 3931 were quota transformation transactions, 2992 – quota purchase transactions, but 333 milk producers resigned their milk quotas.

After levelling the performance of delivery milk quota at the end of the quota year was 82%, but performance of the direct trade quota was only 12%, which means that also in second functioning quota year Latvia has not exceeded the granted quota. At the end of quota year 2005/06 Latvia had 30,1 thousand active owners of milk quota.

In the first year of EU membership, the average purchasing price of milk rose by 20% to 220 € per tonne (data from the Latvian Central Dairy Association - LCDA) that is 73% of the weighted-average purchasing price of milk of the EU (data of the DG Agri-D1, at purchasing according to the actual fat content of milk). Since then it has risen further and the average price in 2005 was €0.11 per litre, i.e. 62% higher than the average price for 2003 (€0.068) per litre (data of the LCDA). However, if compared to the average weighted milk purchase price in the EU, the milk purchase price in Latvia in December 2005 was at level of only 79,1%.

A dual sector ?

More than half of all Latvia's dairy cows (58 %) are in herds of fewer than 10 cows, however there is consistent tendency for herds to increase in size (Fig. 1.4.). Semi-subsistence farms (with herds of 1 or 2 cows) account for some 33% of overall cow numbers. By reducing the number of the small farms (1-5 cows), the proportion of the big farms grows gradually. The main increase is observable for farms with 10 to 100 cows. Reduction of farms with small size of herd was the main reason for the overall fall in cow numbers. Over the last ten years has been a fall in the number of very small (1 to 2 cow) herds – a fall, which is expected to continue as farmers leave the industry and as farm amalgamations take place.

At the other end of the size range, the number of herds with 51 to 100 cows has doubled in the period from 2000 to 2005. These ongoing structural changes in the dairy sector are expected to continue in the foreseeable future.

Prospects for dairy product consumption

Latvia is more than self-sufficient in dairy production as can be seen from (Table 2.1.), but over the last five years there was a noticeable reduction in the consumption of milk and dairy products as consumers switched to more healthy (i.e. lower fat content) food (Fig. 3.1.).

Milk processing enterprises in particular producers of butter and skimmed milk powder have benefited from various EU aid programmes; thus particular enterprises have succeeded in promoting sales and consumption of milk products through the "School Milk" Programme and enterprises exporting milk products to the third countries (for instance, Russia) have made use of export refunds. Others have utilised the intervention system and benefited from private storage aid. Again, this is expected to continue.

The following trends in the consumption of milk and milk products are foreseen in the coming years:

- consumption of liquid milk will go down;
- consumption of cheese will increase;
- low fat products will gain a larger share of the consumer's basket;

- the overall amount of milk products consumed will stabilise as consumer prices reach average EU levels.

Expert views on the challenges at the level of the milk production

Dairy farming sector experiences structural changes, which will continue also throughout the coming years. Milk producers attract investments for renewal of herds, modernisation and expansion of farms in such way creating the possibility for milk sector to develop. However, dairy-farming sector is still quite fragmented. Restructuring of herd is evidenced by the increase of the number of larger herds. It is particularly true about the farms from which it is possible to start specialisation of production – farm groups with the number of milking cows from 20-29 and 30-49. Number of herds (farms) in these groups has increased for 6,9% from 2004 to 2005, but the number of cows in these herds has increased for 6,7%. But the most essential indicator is the increase of the productivity of the herds.

Comparing the results of monitoring for the last three years, a high monitored milk yield has been reached in 2005 with the average milk yield of a cow of 5084 kg, i.e. for 121 kg more than in the previous monitoring year. Comparing the changes of the number of cows under monitoring with previous years it can be seen that the number of cows under monitoring is continuing to grow and in 2005 reached 111,4 thousand cows, i.e. for 7,4 thousand more than in the previous monitoring year. It means that the herd owners more and more use the monitoring information for the purpose of successful development of their herd; they understand and appreciate the necessity for monitoring work in order to perform successful herd management.

Expert views on the challenges at the milk processing stage

Increased competition in particular groups of dairy products in 2005 pushed producers of dairy products in Latvia to develop production of more competitive dairy products as well as perform concentration of the production in the largest companies and invest in company specialisation. This gives the possibility to increase production of definite products as well as reduce their production costs and increase the milk purchase prices. Such tendency can be particularly observed in cheese production, where the amount of produced cheese in 2005 has increased for 11,4% in comparison with 2004.

Changes are observed in people's eating habits, their diet includes more products with lower fat content as well as cheese and yoghurt. Therefore leading enterprises pay much attention to introduction of new products and improvement of product quality. Enterprises of similar production profile are trying to consolidate productive capacities in order to offer on market cheaper products and occupy market niche in production of specialised products. Along with improving food diet and increasing well being of urban residents, more successful businessmen establish new milk processing enterprises in order to manufacture products that can yet find free niche on the market. Specialised enterprises are established, designed for manufacture of only one product, such as casein and dry milk and skimmed milk powder, which are considered side dairy products. Some milk producers try to join milk production and milk processing, thus distributing economic costs between production and processing of milk.

During recent years amalgamation of reserves with large enterprises leading on the market is observed. Among amalgamation models the following two are most popular: loss of legal status by several enterprises and their affiliation to large enterprise as its structural division, and acquisition of controlling stock in small enterprises and control of their activity. Still, big part of enterprises is not able to withstand competition without reasonable economic management. In Latvia, bankruptcy of milk processing enterprises both in Kurzeme and Latgale regions resulted in non-payment to farmers of considerable amounts for milk delivered to milk processing enterprises. Taking use of geographical situation and close location of milk areas, small dairy farms are trying to retain their independence and existence by manufacture of specific products. However, these enterprises cannot expect considerable future capital investments in production, which would provide their existence in compliance with market and EU requirements to food production.

Conclusion

Following situation is observed at the milk-processing sector in Latvia:

- small increase of competition at the particular groups of milk products that stimulates producers of milk products of Latvia to develop production of more competitive products;
- concentration of production at the largest enterprises, merging of enterprises and investing in development of specialization of the enterprises.

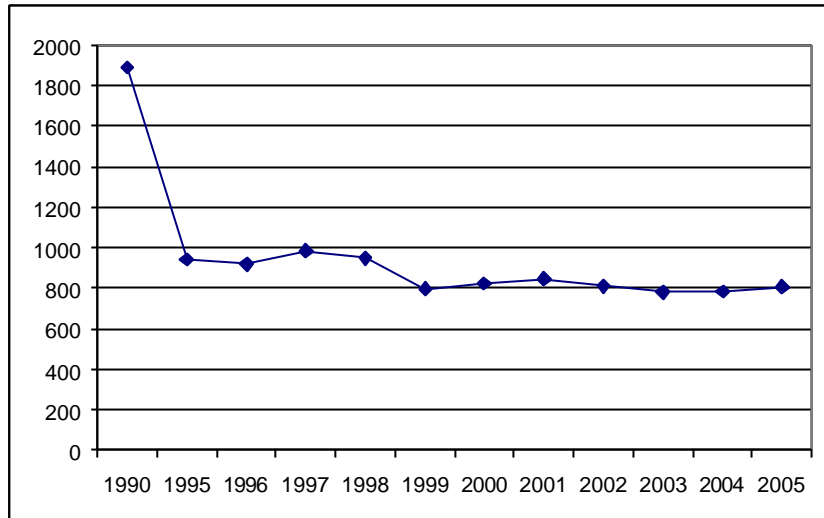
It creates a possibility to increase production of particular products, allows to reduce their production costs and to augment purchasing prices of milk. This tendency especially is observed at cheese production sector.

Specialization of production enterprises and concentration of the production will also promote more active utilization of organizational measures of the Common market of the European Union that will ensure a successful further development of the milk sector for long-term period.

Annex 1: Information on the primary production

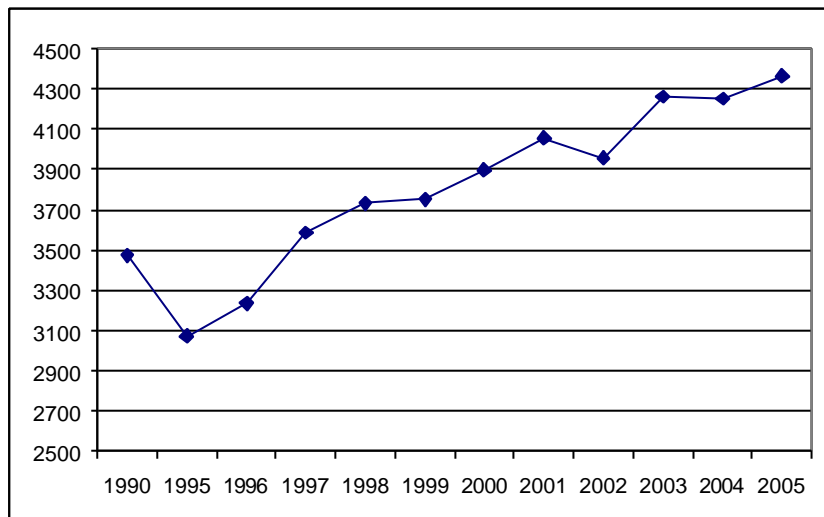
*Fig. 1.1.
Milk production (thous. t.)*

CSB Latvia



*Fig. 1.2.
Average annual yield (kg / cow)*

CSB Latvia



*Fig. 1.3.
Number of cows (thous. at the end of year)*

CSB Latvia

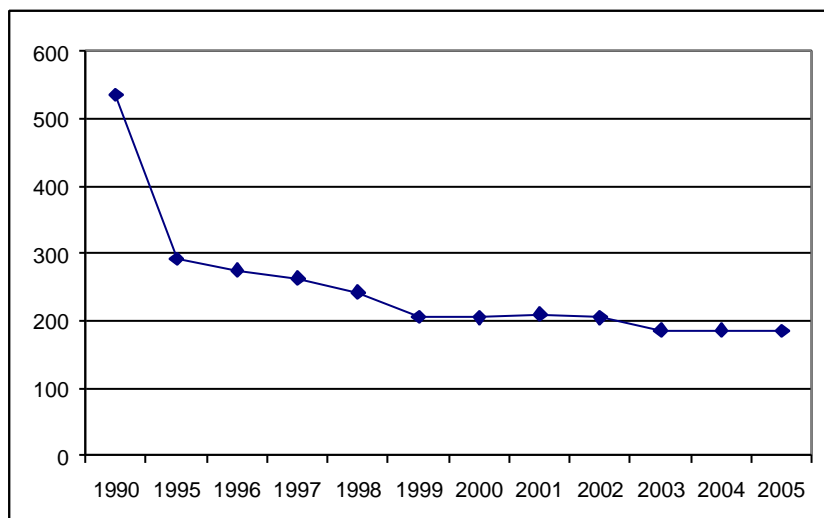


Fig. 1.4.
Change of percentage of cows in
herds of different size by year

Data: CSB Latvia

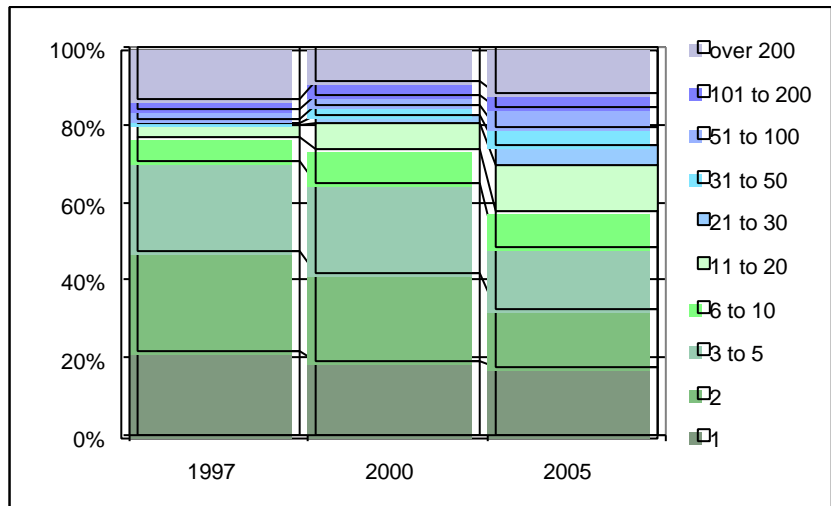


Table. 1.1.
Productivity of various breeds of recorded cows

Year	Breed of cows	Number of animals as % of total herd
2003	Latvian Brown breed	69,64%
	Angler breed	0,38%
	Swedish Red breed	0,24%
	Black and white Holstein breed	29,61%
	Latvian Blue breed	0,13%
2004	Latvian Brown breed	69,06%
	Angler breed	0,40%
	Swedish Red breed	0,23%
	Black and white Holstein breed	30,18%
	Latvian Blue breed	0,14%
2005	Latvian Brown breed	69,79%
	Angler breed	0,39%
	Swedish Red breed	0,25%
	Black and white Holstein breed	29,36%
	Latvian Blue breed	0,21%

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Milk-yield from a cow, kg per year

2003

4550

5515

5204

5296

4364

2004

4831

6058

5527

5601

4471

2005

4886

5978

5677

5692

4386

Milk proteins, %

2003

3,22

3,23

3,17

3,09

3,19

2004

3,29

3,3

3,24

3,16

3,28

2005

3,36

3,38

3,33

3,23

3,36

Milk fats, %

2003

4,45

4,67

4,32

4,21

4,35

2004

4,48

4,68

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4,34
4,25
4,42

2005
4,46
4,72
4,27
4,26
4,36

*Table 1.2.
Average yield in groups
of different herd size
(litres)*

LSIAE

Herd size (cows)

1 - 2

3 - 9

10 - 49

> 50

Average annual yield

3613

3728

4436

5277

Annex 2: Information on the processing and manufacturing sector

*Table 2.1.
Milk balance
(dairy products,
recalculated to
milk, thous.t)*

2001
2002
2003

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	2004	
		2005
<i>CSB Latvia</i> Produced		848,0
		813,7
		785,7
		786,4
		810,3
- processed		402,6
		384,9
		435,6
		478,1
		427,7
Consumed		828,1
		816,1
		767,7
		733,0
		670,6
- of which internally		425,5
		431,2
		332,1
		254,9
		242,9
Imports		69,5
		75,9
		88,2
		79,8
		80,5
Exports		94,9
		91,8
		100,6
		139,0
		204,4
<i>Coverage of consumption needs</i>		<i>102%</i>
		<i>100%</i>

102%
107%
121%

Fig. 2.1.
Imports of dairy products
(milj. LVL)

ImpExp Data basis

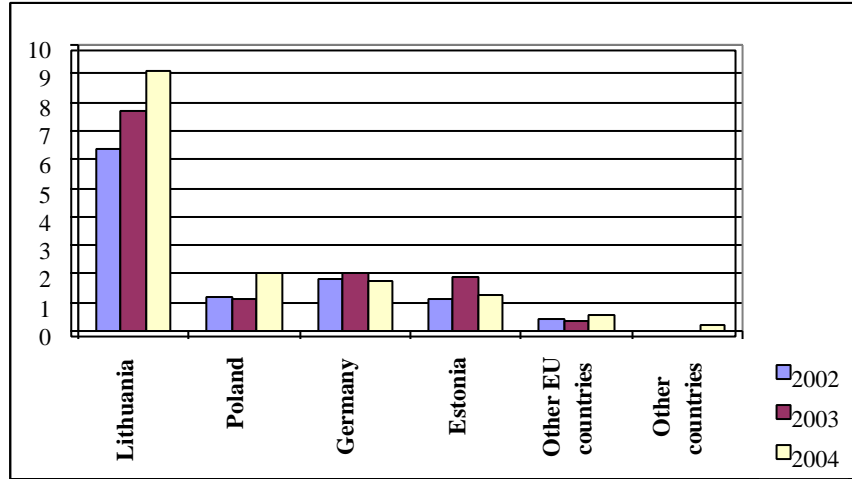


Fig 2.2.
Exports of dairy
products (milj. LVL)

ImpExp Data basis

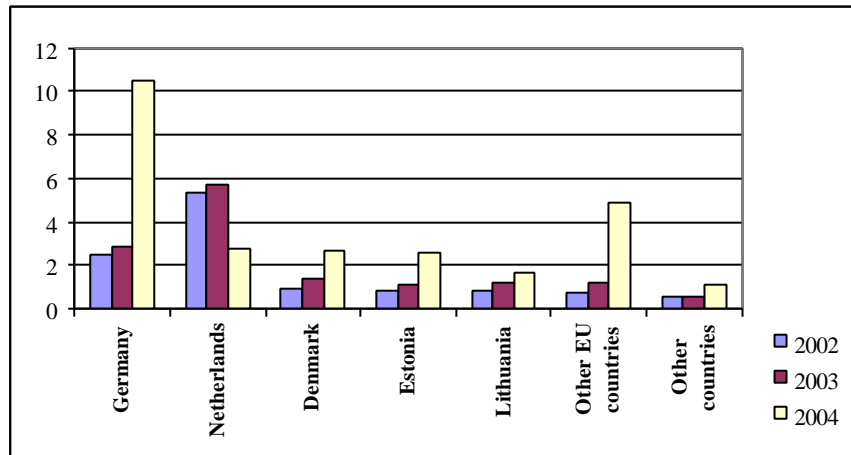


Fig 3.1.
Type of milk usually consumed
(%).

Health Promotion State Agency
Research data on Food habits in
Latvia

