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**Project Acronym**

CEEC AGRI POLICY

**Project title**

**Agro economic policy analysis of the new member states,  
the candidate states and the countries of the western balkan**

**Instrument**

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**Thematic Priority**

Scientific Support to Policies

**Dairy Sector: LATVIA**

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## **1. Introduction to the dairy sector**

Dairy production is one of the basic agricultural sectors in Latvia – it constitutes in average 23% of total output of Latvian agriculture. 806,77 thousand tonnes of milk of cows were produced in 2005. The average number of the milking cows reached 185,2 thous. cows.

In period of last ten years dairy sector was shrinking (Fig. 1.1., 1.3.). Overall number of cows reduced by 35% within period. Increase in producer prices for milk slows down reduction rate and stabilisation in nearest future is anticipated as a result of reaching equilibrium in restructuring. However, there is observable qualitative development of the sector – average yield increased to 4364 litres per year to compare with 3074 in 1995 (Fig. 1.2.). Average yield essentially depends on size of herd – it's higher for cows in larger herds (Table 1.2.).

Average annual yield depends on breed of milking cows (Table 1.1.). 376547 heads of cattle were registered at 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 Brown breed cows of Latvia form predominantly the herd of milking cows of Latvia – 68% of the total number under the monitoring, their average milk yield is 4831 kg, fat content – 4,48% and protein content – 3,29%. The Holstein black-spotted breed cows form 30% of the total number of cows under the monitoring - their productivity has grown for 305 kg per cow annually compared to the previous monitoring year. The Angler breed has the best indicators; where the average milk yield is 6056 kg, fat content of milk – 4,68% and protein content – 3,30%. But the number of these cows is small compared to the whole herd under the monitoring in the country.

Diversity of dairy products in market is increased by imports. The most part of imports origins from Lithuania, Poland, Germany and Estonia (Fig. 2.1).

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.).

Following the accession to the European Union the system of the milk quota was introduced from 1 May 2004 that created exact control of the production and realization of milk both regarding quality and quantity and ensured preconditions for reorganization of the milk production.

The common milk quota of the country was divided into individual quotas for each milk producer. The supply quota or the quota of the direct trade that were planned for 2004/2005 year of quota was awarded to the producer.

The total number of the registered quota proprietors reached 30733 in 2004/2005 year of the quota. The common milk quota of Latvia was 695 395 t (58% of the requested during the accession discussions). The supply quota was 468 942 t initially and the direct trade quota – 226 452 t, 1% leaving for the state reserve. Due to the reorganization process the amount of milk supply for processing was increased and the amount of the direct milk trade was reduced. Performing recalculation the supply quota was 631 855,798 t and the direct trade quota – 63 539,202 t at the end of the quota year.

Following the clearing the fulfilment of the milk supply quota was 72,6% but the fulfilment of the direct trade quota was 14%, which means that Latvia has not exceeded the milk quota allocated by the state within the first quota year.

The average purchasing price of milk has grown in Latvia, it has increased for 20% in March 2005 compared to March 2004 reaching the level of purchasing price of 154,6 LVL per tonne (data of 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). Beside that it has grown even more –for 54% during the longer period of time (compared to March 2003). The average price of 2005 – 0.11 € per litre is by 62% higher than the average price of 2003 – 0,068 € per litre (data of the LCDA).

## **2. A dual sector structure**

In Latvia at the moment dominant are farms with small number of cows – more than half of cows are in herds smaller than ten cows, however there is stable tendency for herds to increase in size (Fig. 1.4.). Semi-subsistence farms (assumed with herds of 1 – 2 cows) accounts approximately 34% of overall number of cows. By reducing the number of the small farms (1-5 cows), the proportion of the big farms grows gradually. Main increase is observable for farms with 10 – 100 cows. Reduction of farms with small size of herd was the main reason of overall reduction of number of cows in a country. Compared to 2005, it is valid to forecast that the number of small farms will reduce within the common structure due to increase of the purchasing price of milk, simultaneously number of big farms and number of cows at them will grow, as a result - effectiveness of the dairy production will be augmented.

Structural changes are ongoing in sector of dairy production at the moment that will continue in nearest future. Milk producers attract investments for renovation

of herds and for modernization and expansion of farms that ensure possibility for development of the sector.

Increase of number of largest herds approves the reorganization of the herd, for instance, number of herds including 51-100 cows (according to results of research this interval for herd sizes is indicated at the moment as the most effective for farms) has doubled in period from 2000 to 2005.

### **3. Prospects for dairy product consumption**

Latvian dairy production completely covers all consumption needs for milk and milk products (Table 2.1.), but at the same time there was notable reduction of consumption amounts in period of five years. It could be explained as an effect of switching for more healthy (with less fat contents) food (Fig. 3.1.).

Milk processing enterprises for production and selling of particular milk products (butter, skimmed milk powder) at the EU internal market have a possibility to utilize several measures of the aid programme (that are already implemented for several times concerning the butter production), thus particular enterprises have succeeded in promoting sales and consumption of milk products (by implementing also the “School Milk” Programme) several enterprises exporting milk products to the third countries (for instance, Russia) use export refunds stipulated by the EU for particular milk products.

Milk processing enterprises have possibilities to utilize the intervention system by implementing state intervention procurement (for butter and skimmed milk powder) or private storage (for butter and particular types of cheese). The possibility was already used for intervention concerning private storage of particular types of cheese for the storage period of 2004/2005 in compliance with provisions of the Regulation (EC) No. 1244/2004. Activities are ensured in 2005 in order to procure butter and skimmed milk powder, as well as to initiate the private storage of particular types of cheese for the storage period of 2005/2006.

There are anticipated following trends for consumption of milk and milk products:

- consumption of (drinking) milk will go down as a result of offering more diverse production in supply;
- consumption of cheese will increase (also as a result of diversification of food);
- more dominant in consumer basket there will become milk products with low fat contents;
- overall amount of milk products consumed will stabilize with some tendency to decrease in mid-term, because most part of

increase in consumer prices to reach average EU level already happened and there is anticipated more moderate trends.

#### **4. 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.

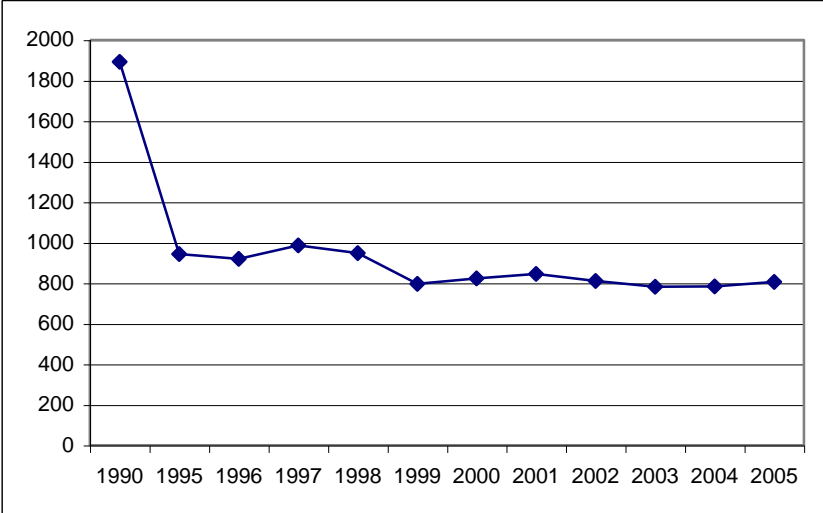
It creates a possibility to increase production of particular products, allows to reduce their production costs and to augment purchasing prices of milk. This tendency especially is observed at cheese production sector.

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.

**ANNEXES**

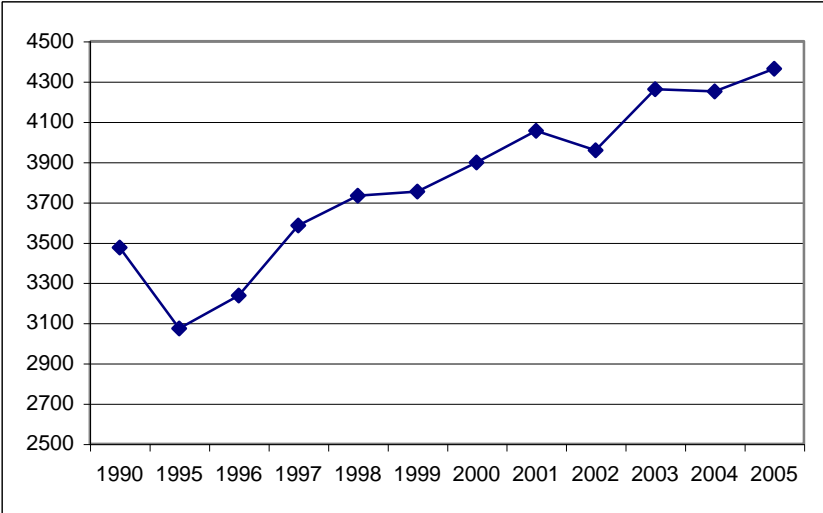
**Annex 1: Information on the primary production**

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



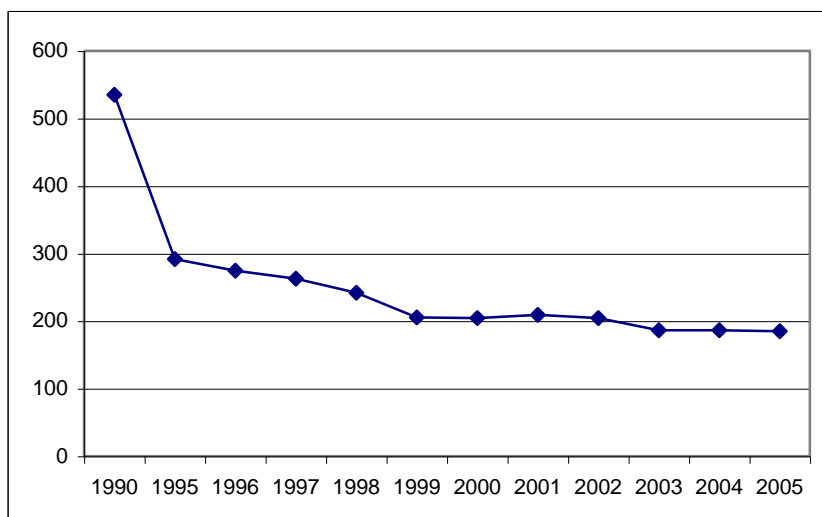
CSB Latvia

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



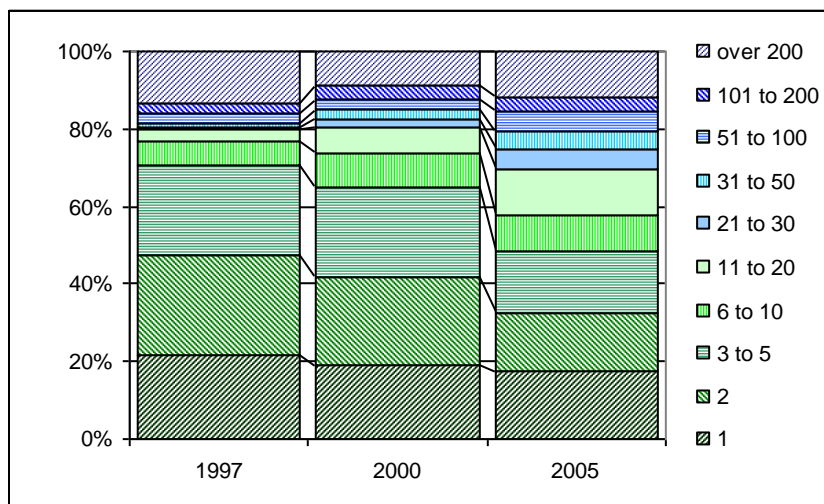
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**Fig. 1.3 Number of cows (thous. at the end of year)**



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**

Breed of cows	Number of animals		Milk-yield from a cow, kg per year		Milk proteins, %		Milk fats, %	
	2003.	2004.	2003.	2004.	2003.	2004.	2003.	2004.
Latvian Brown breed	68524	90628	4550	4831	3,22	3,29	4,45	4,48
Angler breed	376	524	5515	6058	3,23	3,30	4,67	4,68
Swedish Red breed	233	304	5204	5527	3,17	3,24	4,32	4,34
Black and white Holstein breed	29139	37176	5296	5601	3,09	3,16	4,21	4,25
Latvian Blue breed	128	218	4364	4471	3,19	3,28	4,35	4,42

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

	Herd size (cows)			
	1 - 2	3 - 9	10 - 49	> 50
Average annual yield	3613	3728	4436	5277

Source: LSIAE

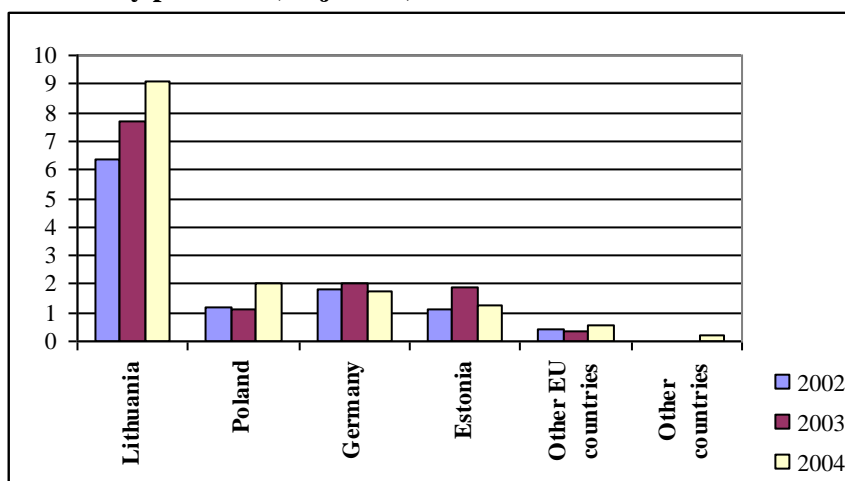
## Annex 2: Information on the processing and manufacturing sector

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

	2001	2002	2003	2004	2005
Produced	848,0	813,7	785,7	786,4	806,7
- processed	402,6	384,9	435,6	478,1	
Consumed	828,1	816,1	767,7	733,0	
- of which internally	425,5	431,2	332,1	254,9	
Imports	69,5	75,9	88,2	79,8	
Exports	94,9	91,8	100,6	139,0	
<i>Coverage of consumption needs</i>	<i>102%</i>	<i>100%</i>	<i>102%</i>	<i>107%</i>	

Source: CSB Latvia

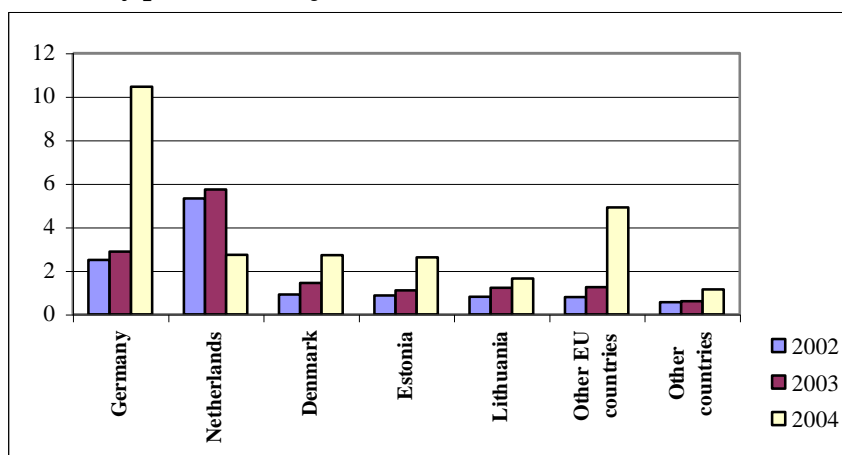
**Fig. 2.1. Imports of dairy products (milj. LVL)**



Source: ImpExp Data basis



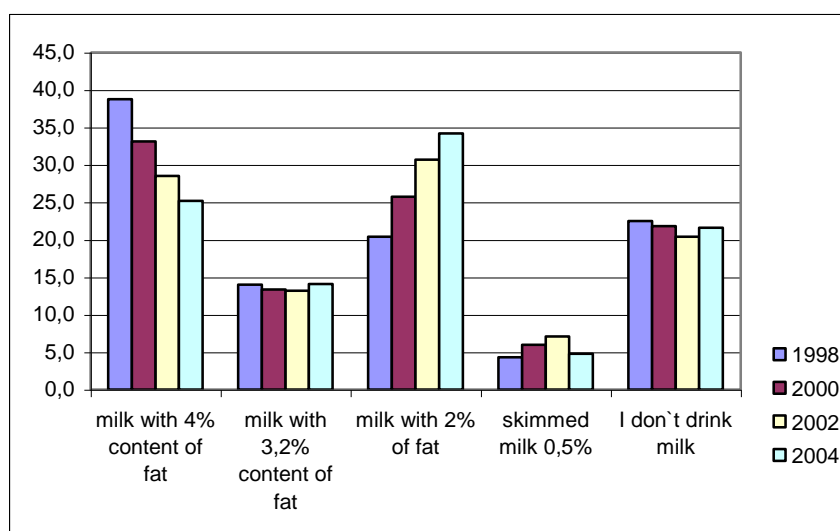
**Fig 2.2. Exports of dairy products (milj. LVL)**



Source: ImpExp Data basis

### **Annex 3: Information on the consumption of milk products**

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



Source: Health Promotion State Agency Research data on Food habits in Latvia