

Some lessons from the Agrarian reform in Latvia

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1. Starting of reforms in agriculture

Officially the post-socialist Agrarian reform in Latvia started in 1990, when on June 13 the decision of Supreme Soviet "On Agrarian reform" was passed. According to that decision agrarian reform had to be carried out in three directions:

- land reform;
- the reform of economic relations in agri-food sector ;
- the reform of the state administration structures.

However the first first initiatives in this field could be observed already since 1988, when according to the decision of Government, the first private farms were established in addition to existing collective and state farms. Till 1990 there were more than 8000 registered family farms in agriculture, which operated more than 120 thousand ha of land.

The key issues in agricultural reform were privatization and restructuring of agriculture. This is the reason, why so much attention was paid to privatisation legislation during working period of previous Latvian parliament. The following laws were passed in 1991-1993.

1. Land reform:	Data passed
"On Land Reform in Rural Areas"	June, 1990
"On Land Use"	July, 1990
"On Land Compensation in Rural Areas"	June, 1991
"On Land Privatisation in Rural Areas"	September, 1992
"On State Land Survey"	November, 1992
"On Land Title Register"	December, 1992
"On completion of Land reform in rural areas"	October 30, 1997
2. Privatisation of agricultural production, service and processing enterprises:	
"On Privatisation of Agricultural Enterprises and Collective Fisheries"	June, 1991
"On Privatisation of State Dairy Processing Enterprises"	1992, 1993
"On Privatisation of State Agroservice Enterprises"	October, 1992
"On Privatisation of Meat Processing Enterprises"	May, 1993
"On privatisation of bakeries", later extended to all grain processing enterprises	June, 1993

2. Land reform

The main idea of land reform was to create of a new structure of rural land tenure, based on private property rights. The land reform provides for the restitution of land titles to former owners (with a few exceptions) and the allocation of free land plots for other people. In fact land reform had two simultaneous objectives: the maintenance of land for agricultural production and the progressive establishment of a new land ownership structure.

Latvian land reform is divided into two overlapping phases: the first took place from 1990 till 1996, and the second covered a period of 10 years, starting on January, 1993.

In the **first phase** all land petitioners, including former owners who possessed the land before Latvia was occupied in 1940, the present users, and the new land petitioners, submitted their requests for land allocations before June 20, 1991, and specially for the reform established Land Commissions were to make decisions on the distribution of land use rights in the particular area.

The total balance of land claims was as follows:

- collective farms and state farms have petitioned for 2.7 million hectares. This included 74 percent of the acreage these farms were using before the reform 43 percent of the land subject to reform;
- 77 thsd. individual farms had reserved land for 1996, with a total acreage of 1.8 million hectares. Thirty-five thousand individual farms requested land for 1992 in order to establish medium-sized (~20 hectare) farms, with total acreage as high as 607,000 hectares;
- 100 thsd. subsidiary plots have been requested, with total acreage of 616,000 hectares. The average size of a subsidiary plot is 6 hectares;
- 100 thsd. plots for home workshop needs have been requested, with total acreage of 240,000 hectares, the average size is 2.4 hectares;

101,000 claims (or 36 percent of all land petitioners) came from former landowners, or their heirs, from them 1,400 or 2 claims came from people living abroad (mostly in the United States, Canada, Sweden, and Germany).

In the **second phase**, which started after passage of the law "On Land Privatisation in Rural Areas" on July 9, 1992, persons could formal title to land was to be recorded- either via restitution or via purchasing.

Subsequently the law "On Privatisation of the Agricultural Enterprises and Collective Fisheries" was passed in 1991. This law regulated the privatisation of **non-land assets**. These two laws dealing with privatisation often were in conflict. There were instances when Land Commissions had allocated land to the former owners or to new users (mainly for establishment of new individual farms), and the production units envisaged to emerge from former collective farms under privatisation (most often livestock-farms) were left with no land. This meant- the operation of these units in future was impossible without prior agreement with the land owner.

The reason, why privatisation in rural areas was carried out in two parallel closely linked, but independent, directions, is rooted in the establishment of collective and state farms in 1940 and in 1949-1950. All land became state-owned with nationalisation (without any compensation) in 1940. Collectivisation happened in 1949-1950 when farmers were compelled to collect all non-land assets (machinery, livestock, buildings) into collective ownership. Formally each farmer was a co- owner of all collective property. This was a background to the political decisions to reconstitute rights of landowners and to give rights to privatised non-land assets according to shares in the value in these collective farms.

3. Reform of economic relationship

The goal of this part of the reform was to ensure transition to a market-oriented agro-food sector to replace the former administered structure. Prices were to be freed throughout the sector Property rights to non-land assets (buildings, machinery, livestock, supplies and product stocks) were to be clarified and individualised by distributing collective and state-farm assets taken from them during collectivisation. Upstream and downstream industries were to be privatised and their monopoly powers abolished.

This reform is based on the coming of private ownership and management instead of common socialist type of ownership. But in different branches of agrarian sector this process proceeds specifically. Two main types of privatization methods may be emphasised.

- 1) Reorganization of existing state and collective enterprises into companies with subsequent privatization through using internal vouchers (shares), distributed among employees and former owners of assets. (Case of agricultural enterprises- non - land assets.)
- 2) Reorganization of existing state enterprises into companies and their privatization through selling of shares. (This method is being used in privatization of agroindustries 1.)

There are several approaches in the privatization of enterprises in different branches.

3.1. Reform in agricultural enterprises.

3.1.1. Approach and methodology

The law "On Privatization of the Agricultural Enterprises and Collective Fisheries" came into effect on July 1, 1991. This was the very first privatization law, not only in agriculturals and food sector, but in the national economy in general.

- here and further in this text- farm business input and output services

This law on privatization of non-land assets of agricultural enterprises (collective and state farms) contained the mechanisms to regulate the privatization process so that it could respond to various aspects of the problem. There were several economic principles of this law:

- While changing the character of entrepreneurship and ownership in agriculture, it is necessary to maintain existing production capacities;
- The principle of publicity should be observed when the property of an enterprise is being privatized;
- The transition from collective (with limited liability) business activities to individual businesses (farms and service enterprises) must be gradual;
- Because collectivization methods were illegal, it is admissible to buy out the property of agricultural enterprises on calculated parts of the capital, called shares, with the current currency and other means of payment;
- Specific items of collective farm property (tractors, cattle, and buildings) can be obtained for private ownership if the shareholders of the former collective farm become entrepreneurs (in any form of private initiative). However, movable property has to be divided in a way necessary to manage the real estate;
- A share is a mean to get, free of any other charge, property to start entrepreneurship, and not a way to make consumer payments. It is possible that, in the process of privatization, the shares of those who do not want to start private business activities can lose their initial nominal value;
- Guaranteed rights are given to all shareholders to obtain or to participate in a closed auction (if there are other applicants) when a technically or technologically integral item is being privatized.

The legislation provided that the privatization of non-land assets of collective and state farms be undertaken in two stages:

- 1) changing the legal status of collective and state farms;
- 2) allocation of all non-land assets to farmers and other entrepreneurs, and liquidation of former collective (state) farms.

The first stage. It provided that all collective and state farms (in January, 1991 in Latvia there were 623 such farms with average acreage 3550 ha agricultural land, number of employees- 310, livestock heads - 2350 and 55 tractors) must change their legal status from a collective or state farm to a company. The Privatization Commission of each collective or state farm were required to prepare the drafts of:

- the Shares' list,
- Propertie's inventory list, and
- By-laws,

which had to be adopted at the general meeting of each share holding company (former collective farm).

Preparation of the Shares' list required calculation of the shares for every member of a collective (state) farm and for other persons who, according to the Law, had to be included in the shares' list (for example, an owner of "collectivized" property who at the moment of privatization was not a member of the collective farm). As the basis (criteria) for calculating of shares were only:

- - value of collectivized assets and
- - input of labour during existing of socialistic farms.

The total value of shares was set as the fixed capital of the share holding company. The results of shares calculation were: each shareholder got individual shares in the company (former collective farm) with rights according the Law and By-laws of the company.

The Propertie's inventory list was a key document for further privatisation process. Besause it consisted of farm and non-farm production operating units and single units or items which in total value were equal with the value of fixed capital. The main idea of the Propertie's inventory list was, that these operating units and single items in the list were like goods in shop, they were available for purchase by shareholders who wanted them as items of private property.

Second stage of privatization. After March 1992, which was the deadline for all the collective and state farms to change their legal form and become registered as a company of some type, these enterprises entered the second stage of privatization.

During this stage a shareholder of a company could alienate, by paying with his shares, any single or combined item from the inventory list he wished to acquire.

3.1.2. Dynamics of the privatization process;

By January, 1994 about 69 % of companies assets were privatized (see Figure 1), and about 330 companies had undergone liquidation, and the large enterprises had ceased to exist as legal entities. on 01.12.94. only 193 from privatized collective and state farms were continuing their operation.

There have been many cases, when from the large livestock-farms empty buildings remain and livestock was sold separately, but this can be explained rather by the increasing difference in input and output prices what did not allow farmers to run their farms profitably.

3.2. Privatization of state owned agroindustries

The rapid privatization of collective (state) farm assets and production units caused a necessity to reorganise also the up- and down-stream sector rapidly. Different approaches to privatization of state processing enterprises in these industries were developed.

3.2.1. Reform in Dairy Farming.

There were two stages in the privatisation

3.2.2. . Since 1992 the dairy collection and processing enterprises (up to the dairy-plant level) are transferred without payment under the ownership of dairy-farmers' co-operative associations according to claims. Thus, dairy producers are given an opportunity to choose the level of their co-operation system.

3.2.3. 2. In 1993 large scale dairy processing enterprises are being privatized mainly by forming joint- stock companies where the main stockholders will be dairy farmers' co-operative associations. Most investments in dairy processing during recent years were made just in these enterprises and as these plants can process the largest part of the milk produced, it can be predicted that in the future, too, the bulk of dairy products will be produced in these dairy enterprises or their subsidiaries.

The privatization of dairy processing enterprises brought about changes in milk marketing and the system of settling payments. Milk producers, in fact, do not sell unprocessed milk, but the milk is

processed in their privately owned enterprises; profits are therefore directly dependent on the results of dairy processing and product marketing.

In January 1993 the law "On Privatization of Dairy Processing Enterprises" was passed concerning the privatization of the 10 largest dairy plants by transforming them into joint-stock companies, with certain quotas set for the purchasers of stock: not less than 70% for the dairy producers' associations; not more than 10% for the employees; up to 20% - the state owned share, which will subsequently be sold to the investors and for vouchers. As the deadline for this process is after 7 months, the producers are compelled to establish local dairy producers' associations in 2 to 5 months.

The legal background for the second stage is the law "On Privatization of Dairy Processing Enterprises", which regulates the division of enterprises share capital.

Since July 1992 about 170 dairy farmers' co-operative associations have been founded in Latvia. The revived dairy farmers' associations determined the geographical area for activities on the basis of 1940 territories. The exemplary by-laws of dairy farmers' co-operative associations have been worked out on the basis and convey the principles of the 1937 exemplary by-laws, approved by the Cabinet on December 17, 1937.

Process of privatization is finished in 10 from 11 central milk processing enterprises in the end of February 1994. The main part of difficulties in this field are coming from general economic preconditions in agriculture- inability of farmers to purchase shares due to lack of money.

According to the decision "On Privatization of Dairy Processing Enterprises", adopted by the Supreme Council of the Republic of Latvia on April 15, 1992, the Privatization is to be carried out in two stages. At the first stage part of the dairies (local level enterprises) were passed to the ownership of the revived and newly established Dairy Farmers' Associations, which were founded in compliance with the exemplary by-laws of Dairy Farmers' Associations, and the law "On Co-operative Associations" of the Republic of Latvia, passed on August 6, 1991.

3.3. Meat processing

Meat production, together with dairy production, has traditionally been one of the main branches of agriculture both in the pre-war Latvia and during the years of occupation. In independent Latvia (data of 1938) the structure of the livestock herd established naturally, i.e. proceeding from the quantity of domestic feed: there were 1224.4 thousand head of livestock, including 896.3 thousand dairy cows (there are no special varieties of beef cattle in Latvia, so beef production has always been a by-product of dairy farming), 813.5 thousand pigs, 1360 thousand sheep and 4391.2 thousand numbers poultry. During the Soviet centrally planned economy pork production was boosted through a large increase in the pig herd. The number of pigs was estimated to be 1703 thousand in 1986. The number of poultry was also increased and they were concentrated in the large poultry factories. The number of sheep decreased to 160 thousand (1988). The import of concentrated feeds for livestock from the former USSR constituted about 50% of feed consumed in Latvia.

Huge pig complexes were erected in Latvia: some held 30 000 pigs. Meat processing was concentrated in 14 plants, 2 of which, Riga and Valmiera, processed more than half of the meat produced. Annually about 100 thousand tons of meat were exported to the large cities in the USSR. The "influence" territories for the plants were strictly determined and they existed until 1992. The equipment in meat processing plants is obsolete both from the technological and efficient service life point of view: more than 60% of plant and machinery has been depreciated to less than half its cost. The packing lines for meat and sausage have been depreciated completely: seven of the plants do not have deep freezers.

In the initial stage all the main meat processing plants (excluding two, owned by the former collective farms, now- companies) were state enterprises.

In the second half of 1992 a real basis was formed for competition. The processing zones disappeared, because, even as state enterprises, the meat processing plants had to face competition - the one that offered the highest price to the producer and was the quickest in settling payments, was the winner and took the largest deliveries.

In 1992 essential changes have taken place to the structure of meat producers: while the total number of livestock decreased, in the private sector (small farmers and subsidiary farms) the number increased. Thus, more than half of dairy cows belong to private producers. During 1992, the number of cattle owned by farmers increased 2.3 times, including a 2 fold increase in the number of dairy cows; the number of pigs has increased 2 times and of poultry 2.8 times. These changes, when they increased the capacity of private meat producers, created conditions to start the privatization of large scale state owned meat processing enterprises.

In May 1993 the Supreme Council passed the law "On Privatization of State Meat Processing Enterprises". It is envisaged that the fixed capital should be privatized 100% in a comparatively short time period. In contrast to dairy plants, the potential buyers will not be farmers' co-operatives, but joint stock companies as competitive business.²

The main problem during the creation of this Law was found to be political compromise between farmers association, employees of state meat processing enterprises and suggestions from researchers, who pointed out the necessity to build privately owned and market oriented, flexible business entities. The differences among these points of view were quite serious, not only the question of who might own a meat processing enterprise, but also the question of privatization price of enterprises.

Farmers associations wanted to get these enterprises without payment and build their meat producers' co-operatives. At the same time employees of the enterprises, following syndicalistic ideals, had proposed to get all the enterprises or a majority of stocks in joint stock companies, which would be created on the assets of the enterprise, for a low price.

Nevertheless, the law provides two steps in the process of privatization of each particular enterprise:

3.3.1. 1) Reorganization of enterprises into state owned joint-stock companies;

3.3.2. 2) selling of shares to private persons according to special rules and quotas, set by privatization commission:

a) - to employees- up to 10 % of shares;

b) - to state pension fund- up to 10 % of shares;

c) - to farmers- 25-35% of stocks must be distributed among meat producers, who want to buy stocks according to the size of owned or used land, moreover, those meat producers who have not received all of the money from concrete state meat processing enterprises for sold animals, can get stocks to that value without payment;

²If the Farmers Union or some other group of meat producers would like to buy stocks to form part of the "general entrepreneur", they can . In that case, probably, the enterprise will be privatized as a form of producers' co-operative.

d) to the main share holder ("general entrepreneur")- at least 51 %. There are no special limitations to the main share holder- it may be as separate person as well as another company.

The choosing of the main share holder is carried out through open tender, and each potential purchaser has to propose his business plan.

The Law provides that if there is more than one request from eventual "general entrepreneurs", the Privatization Commission will have to decide whose business plan is better, but regardless, it will be auctioned among potential buyers, only the owners of the other business plans have, in this auction, a 20% price handicap.³

In conditions of privatization it can be foreseen that all stockholders will have to pay in the first year only 20% of the stock's nominal value or, if no potential buyers exist, the stock's sales price can be decreased.

Estimated dead line of this process is the middle of 1994.

As the main problem in this process low level of usage of potential capacity and old technology are faced.

3.4. Privatization of bakeries.

Privatization of bakeries was begun only in 1993 after passing the special law. This law provides similar rules as in the case of meat processing enterprises, excluding no providing selling of stocks to farmers as special group.

Estimated dead line of this process is the middle of 1994.

As the main problem in this process low level of usage of potential capacity and old technology are faced.

3.5. Sugar production enterprises.

The main features of the privatization of these enterprises are set by special decision of Latvian parliament in May 11th, 1993. Some priorities to farmers (in quotas and payments) were set by this decision. But almost nothing has been done in this field still now. Mainly it is so due to the follow obstacles:

3.5.1. - unformed legal sugar market;

3.5.2. - current payment inability of farmers and caused by it their inability to participate in the process of privatization of enterprises.

3.6. Agroservice enterprises

Privatization in the agroservice enterprises is regulated by the law "On privatization of assets in Agroservice enterprises", passed on March 30, 1993. According to this law the agroservice enterprises are to be split in the smallest independent enterprises possible, which, in their turn, are to be privatized through establishing businesses. The law provides that capital shares in these businesses are to be sold on the basis of quotas. Initially, about 50 % of shares are planned to be offered to farmers co-operatives (which do not exist in a lot of cases). As the criteria to setting of quotas is business done with the enterprises undergoing privatization. The shares which have not

³This complicated and partly subjective approach was created to find a compromise between Latvian entrepreneur and, perhaps, "dirty" money influence from CIS countries.

been sold and the remaining 50 % will be offered to the employees of the enterprises, and, subsequently, to other individuals interested in purchasing.

However, this process does not proceed as rapidly as it was initially envisaged.

4. Some conclusions on privatization in agriculture

So there are six special laws, regulating the process of privatization of non-land assets in agrarian sector.

Rather different goals are being set and the ways have been chosen to promote the process of privatization (see Figure ##).

There were two main fields, where these differences may be observed:

4.1.1. - scale of Reorganization of enterprises. It varied from complete Reorganization of enterprises (within agricultural production as itself) through partly splitting (in dairy) to keeping enterprises as whole units (in meat sector).

4.1.2. - new subjects of ownership relations. They varied from only producers and the employees at the same time (in agricultural enterprises) to dominant capital enterprises in bakery sector.

But the common main goal in all these enterprises was and is still now to find a new entrepreneur, able to manage by enterprise instead of state appointed managing officers.

At the same time the common problems are being observed in this field:

Private ownership of assets, including those in agricultural processing enterprises, is one of the main provisions for involving agricultural producers into self-administration system on voluntary basis. Technological production functions from state institutions are given over to producers, and agricultural processing enterprises are one of the first to be privatized.

III. Reform of the state administration structures.

As the main goals here might be numbered:

- **non-participation of state institutions** in direct management by production;
- **joining of activities of both the state and producers self managing organizations** in regulation of agrarian sector;
- establishing of economical environment to **develop efficiency of agricultural production on the basis of market competition.**

5. Changing of state's role in agricultural production

Some results in renunciation of state's rights to command production may be observed after four years of agrarian reform.

It is being reflected in:

- **price policy** - there are completely free price system without any state support at extremely low level of customs duties;
- **credit policy** - state doesn't influence on terribly high bank interest rate, which is 50- 120 % per year;
- **tax policy** - tax relieves set by legislation for farmers almost don't influence their income level due to deficit of any profit in agricultural production);
- field of **economical information** - there is lack of correct statistical information concerning reform process in agriculture, especially characterizing farm economics, income level etc.;
- **marketing policy** - Ministry of Agriculture don't fulfil role of distributor of agricultural products more, as it was in socialist period. There are lot of independent producers searching for marketing possibilities.

At the same time state institutions in their activities often ignore complete differences of present agriculture in terms of ownership and management, which don't allow administrative dictate more.

6. Policy reforms

1. Main changes in the Agriculture since 1989

The current complicated situation in the national economy exists also in agriculture. During the period of the planned economy the sectoral structure of the national economy was distorted. This is very much true in the agricultural sector. Agriculture was intentionally overdeveloped, with a strong emphasis on dairy and meat production: the main target was to increase exports to the Soviet Union. At the same time farm inputs, especially feed grain, fertilizers, and agricultural machinery, were supplied in abundance and at very low prices.

After proclaiming independence and making efforts to achieve it politically and economically, Latvia has to re-orientated its agriculture on a self-sufficiency basis with a little surplus for export. This may involve a liquidation of excess capacities and reduction in output, which is painful for the national income.

The year 1992 was dramatic for agricultural producers. Agriculture had started to experience difficulties in 1990 when the prices of industrial products were partly liberated and increased considerably, whereas the prices for agricultural products were fixed. The agricultural producers were put in an extremely disadvantageous situation. At the end of 1991 and later in 1992 prices of agricultural products were also partly liberated. That meant that producer prices of primary agricultural products were negotiated every 10 days between the representatives of producers, processors and government. The government also guaranteed a minimum producer price for the primary agricultural products. These prices could vary considerably from one district to another. For example, the producer prices for cattle were 20,000 LVR per tone in Liepaja and 42,000 LVR per ton in Saldus; for pigs - 95,000 LVR per ton in Ludza, Gulbene, Aluksne, Balvi and 135,000

LVR per ton in Saldus. The wholesale prices (set by the processing plants as there is no real agricultural commodity exchange in Latvia) may also differ from place to place. Thus, at the same time the processing plant in Cesis sold beef for 58 LVR per kg, while the plant in Riga sold at the highest price in the country (100 LVR per kg). However, the costs of farm inputs and labor have increased on average by 27 times if compared to 1990 (by 31 times for crops, by 26 times in livestock farming), whereas the producer prices for the same period have increased only by 14 times on average (by 77 times for crops, by 12 times for livestock).

The scope for increases in the prices of agricultural products is restricted by lack of demand both in domestic markets and in the markets of the former Soviet Union republics: low purchasing power of the population is the main reason for this weak demand. In addition, in the Eastern markets Latvian agricultural products cannot compete on price because Latvian farmers purchase most of their inputs at market prices close to or equal to world prices, and without any subsidies (except the grain purchasing in 1992), while agriculture in the former Soviet Union territories is strongly subsidized. The actual situation in 1992 was that crop production in Latvia has been operating at a profit (the government of Latvia purchased grain at world prices) but livestock production has incurred losses of 14 billion LVR.

All farmers suffer from chronic shortages of finance. The farmers who have already started to produce need short-term credits which are available only at commercial banks at a very high interest rate (120 - 180 % in 1992 and 60 - 80 % in 1994). Long-term credits are not available at all, except a small amount from international loans (interest rate 15-17%). There are many problems with mortgages too. The situation is made even more complicated by the delayed payments to the farmers for the farm products they have delivered to the large processing plants. The delay often is as long as 2 to 5 months.

The lack of economic incentives and other difficulties caused decreases in production of all primary agricultural products in 1992 compared with 1991 (production of meat decreased by 15 %, of milk by 12 %, of eggs by 20 %). In 1993 compared to 1992 level of production are follow: meat -76%; milk -82%; eggs -65%; cereals and pulses - 107%; potatoes - 109%; vegetables 114%. Falls in production were greatest in livestock farming where herds were reduced. The situation is not uniform for different types of agricultural producers. The private sector has been gaining momentum. Its contribution to total agricultural output was 40 % on average in 1992 (49 % of milk, 40 % of meat and 20 % of eggs,), and about 60 % on average in 1993 (52% of milk, 51% of meat, 25 % of eggs, 62% of grain, 93% of potatoes).

Since December 10, 1991, when the government took the decision on price liberation, the relations between all types of producers, processors, tradespeople and customers have changed dramatically. In a period of one year an economic and psychological revolution has taken place: the structure of the system has changed; the demand and supply interact in a way closer to that in market economies; and the food market has become more international.

If at the end 1991, when the prices for foodstuffs were set by the government, the public opinion was very much concerned about the export of food and tried to protect the domestic food market for local consumers, then at the end of 1992 the farmers, processors and tradespeople were occupied with problems of a completely different nature. There were difficulties with foodstuff exports from Latvia caused by relative high domestic prices and with import of foodstuffs from the CIS and Lithuania, where the prices are lower (they are state - regulated); it is hard to restrict this influx even with import customs tariffs.

Whereas in 1991 the consumers bought food chiefly at state stores and not at the marketplace, at present the customers are more likely to buy food at a private store or at the marketplace, where the prices are lower.

At the same time the marketing section of the food-chain is evolving from a planned distribution system to a free market; several phenomena testify to this fact.

1) The number of livestock is being reduced: they are slaughtered for meat. As the incomes of the population increase at a slower rate than inflation (from middle of 1993 these trends are in a balance), while the export possibilities are limited, supply exceeds demand, and, theoretically, prices should be reduced; however, this does not happen. The situation is full of paradoxes: the state meat processing plants do not accept livestock from farm producers, because after adding the high processing costs, the traders find it difficult to sell meat; or else, the state trade organizations do not settle their payments with the meat processing plants, which, in their turn, are in debt to meat producers. The meat producers find it impossible to lower the producer price, because the input prices increase more rapidly. They would rather sell live cattle to buyers from Poland, who have export potential.

In this chain several drawbacks, which have remained from the former economic system, can be pointed out:

- state processing enterprises are operating inefficiently and with large costs; however, at present they are monopolists;
- there is an insufficient proportion of private traders, especially at the wholesale level;
- real competition among agricultural producers is insufficient, because the existing taxation system in particular and agrarian policy in general do not promote competition between producers.

2) As meat prices in the world are still considerably higher than in Latvia (even without the import tax of 0.3 US\$ per kilo), the major "imports" are from the CIS (bread and flour also from Lithuania): usually are in small consignments, sold directly at the marketplace without any sanitary inspection.

3) Food expansion from the Western countries is indirect - as humanitarian help in kind. This saturates the market still more.

4) Sugar costs more if it is produced in Latvia, if it is imported - from Brazil, for example, even when the import tariff of 0.2 US\$ per kg is included it is cheaper. This means that Latvia should determine an appropriate level of agrarian protectionism; most probably it would not be useful to keep the prices of Latvian foodstuffs above the world price level.

5) The consumer is absolutely defenseless as to the quality of foodstuffs. The responsibility here largely lies on the customer himself, as he, owing to the low income level, often chooses the cheapest products, even at the so-called "black market" (i.e. illegally imported foodstuff market).

As there is a tremendous margin between the producer price and the price in the state or consumers' association retail shops, the farmers have an option to sell their product to private retailers. Quite a considerable proportion of farmers supply meat to small privately owned or cooperative stores, thus lowering the consumer price. Typically, this happens in fruit and vegetable marketing, lately, it has occurred in dairy marketing. Yet, most of the private traders buy meat from the processing plants and not directly from farm producers. Though the plants charge a higher price, the traders have lower transportation and processing costs.

One of the most serious shortcomings in food marketing is the monopoly in the wholesale trade. This belongs either to state owned wholesale bases, or to the consumers' association, which formally is a cooperative, but in fact is a structure preserved from the socialist times.

From second half of 1993 many of the above characterized processes experienced changes:

- on the April 1994 mainly all former state processing are privatized, and that created more flexible system in meat, dairy and partly also in sugar market (for example, in the first two months sugar exports exceeded imports);

- Latvia is on the stage of preparing agreement with EU (which would start from 01.01.95), it means that now are political discussions in Parliament and in Government considering new tariffs, quotas and other measurement for achieving agricultural protection on base of consumer payment.

Before the 1990 land reform (all the land was nationalized) the main land users were collective and state farms (see Figure 5.2.2.in annex). The peculiarity that before occupation the landowner in the majority of cases coincided with the land, which also carried a political connotation, determined the procedure of land reform.

7. Some conclusions and recommendations

1. As the result of the implementation of the agrarian reform the essential changes have taken place in aspects mentioned below.

1.1. The structure of agricultural production.

- in the structure of the enterprises,
- in the amounts and structure of the produced goods,
- in the use and owning of the land.

1.2. The interaction of the farmers, agricultural enterprises and state institutions in different forms and levels:

- on the level of separate enterprises and farmers. In most cases every farmer that previously worked in a state farm starts working in his private farm, he becomes an owner and worker in one person;
- on the level of an enterprise and the branch. Agricultural enterprises are not subordinated to a centralized system of planing and distribution, but they become the subjects of independent market relations, actually taking part in the struggle of competition.
- on the level of the whole national economy and the branch. The agricultural production as a branch practically no longer gets support from the government.

2. During this period of time the tendency towards the development of the private production in the countryside and in the branches connected with the production and service has appeared.

3. In fact the state monopoly for the sale of the food products and resources used in the production is ruined.

4. At the present moment the privatization of the state agricultural production processing enterprises has entered into the final stage.

That all creates the basis of the rapid development of market economy relationship in the whole agrarian complex.

5. For the nearest future Government could to introduce new goals in agricultural policies:

- to recognize the fact that agriculture fulfils not only the function as a producer of food and raw materials, but also plays certain role in regional and environmental aspects;

- to improve a manifold combination of occupation and income between agriculture and other sectors of the economy;
- to orient the agrarian production, processing and marketing to market conditions;