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DATA ON FARM STRUCTURE IN LATVIA

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1. DATA:

It is difficult to give exact data about the farm structure in Latvia. There are several reasons for that. There are ten years past, since the land reform was started, and the structure of the general business legislation, setting the forms (types) of business operational units, was not issued in that time yet. And only two types of legally recognised forms of business operation were valid in the time, when the land reform was announced - ***peasant farms*** (called also *family farms*) and soviet type large scale farms - ***collective and state farms***. Therefore the **individuals could claim** for the land in order:

- to establish a family (peasant) farm (assuming mainly commercial production of agriculturalproducts),
- to have a household plot (assuming mainly production of agricultural products for own consumption ,
- to have a subsidiary farm (assuming mainly a plot of land to maintain a garden or to have some pastures to those of people living in countryside and not having private house and therefore living in rented appartments.

The business (entrepreneurial) legislation, issued later is giving completely different set of forms of the possible agricultural holdings, where even family owned farming activity could have either legal form of limited liability company (and therefore counted in the same group as corporate farm) or as an individually owned (private) enterprise (with full responsibility) and registered in the general Company register, or a family holding being registered just at the local municipality.

However, most of the surveys and registers, following the implementation process of the land reform, use the structure of units (holdings) according to the Law on Land reform (purposes declared in the submitted claims for the land).

Also some changes in the initial approach of the land reform have taken place, namely- in the beginning the land reform was treated mainly as the tool to privatise the farm operations, and any private individual or a legal person could claim for a piece of land to start or to continue a farming or to maintain a garden, or to build a house in rural areas. The former ownership rights (those, which were broken by the soviet occupation in 1940) were counted just as one of the factors to be taken into account during the process of land distribution. Later the land reform was turned more into the direction of restitution, assuming that first of all the land should be given back to the former owners, and only the rest can be distributed to other claimants. It has lead to still increasing number of peasant farms, indicated in the reports of State Land Cadastre Register, as the consequence of the restitution and privatisation process.

Therefore the data about the farm structure given by the State Land Cadastre Register (and shown in the Table 1 does not represent a real structure of the farming holdings, while it gives the impression about the development of the land ownership structures since the land (and also the whole agrarian) reform has started.

The Central Statistical Bureau carries out the Structural survey annually. It tries to cover the farming holdings and agricultural activities, but it does not cover a full land structure. The structure of holdings according to the CSB in given in the annexed Excel table. The problem is - these data are available only for 1998 and 1999. Data from year 2000 survey are not published yet.

The full answer about the current structure of agricultural holdings, which also could give some basis for comparison of the different data sources, could be given by the Agricultural census to be carried out in 2001.

2. Assessment of trends

2.1. Holdings by size class: numbers and areas.

High numbers represented here (in particular in the class of below 50 ha) are the consequence of the land reform, when everybody who has had a wish to establish farming unit or have had some land in the past could claim for the restitution or for the issuing of a new parcel during the reform process.

Now, when the term of business development has come, the structures have started to develop in the direction of concentration. It means increase in the part of holdings with more then 50 ha, which can be counted like as a threshold of being the farming business as the main source of income, if the farm has a “traditional” farming. Probably we will have further reduction in the part of farms with less then 50 ha, because of:

- these units are are too small to generate value added needed to cover the family needs;
- these units are too big to maintain then just for hobby.

The numbers of holdings below 5 ha is significantly dependent on the threshold chosen for the surveys- is it 1 ha or less, because almost any family living in rural areas has some piece of land just for garden. For example, in 1999 the threshold was 1 ha, and in 1998 it was 0,1 ha. And it gives a difference in the number of holdings by more then 40 thsd. unites or almost 30 %.

The further and more rapid farm concentration process can be hampered mainly by two factors:

- establishing of the bigger farms requests **investments,** which **hardly can be paid back due to the law profitability**, caused mainly by law farm-gate prices and very limited state support, especially of the basic (traditional) sectors for Latvian agriculture and requesting extensive areas of farmland - dairy and beef production, and also grain production. This contributes also to the **treating the agriculture as a risky sector**, which increases the interest rates to the capital borrowed, and in this way decreasing the profitability even more, because the introduction of more efficient technologies can not be financed.
- keeping of the small holdings is caused by **still high importance of the subsistence farming**. The off-farm employment opportunities are still limited, earnings in cash giving opportunities to buy food on the market, are little.

2.2. Holdings by type of farm (specialization): numbers and areas.

As it is illustrated by the figures represented in the Excel data table, most of the farms have diversified production- they deal with several products- milk production, growing of bovine animals, grain and potato production. However there is no representative data available to have a picture of the whole Latvian agricultural sector in terms of farm type by its specialisation. Some impression on this is given by Latvian FADN, although there the data sample up to the year 2000 was not representative enough to characterise the whole sector.

In 1998, according to that Latvian FADN data, 489 (from 825) farms had specialisation *crop production*, 80 milk and beef production (herbivores), and 256 were farms with a mixed specialisation, according to FADN classification.

However some judgement might be made also taking into account the role of price structure in the setting of Standard gross margins (SGM), which has given some preference to the crop production- lets compare SGM of 75 lats per animal in beef production and 330 lats per ha in potato production.

Judging empirically, (using a common sense method), the specialization has been developed in the group of market oriented farms, in particular- sugar beet and wheat production, some milk producing farms, also pig and horticultural farms. These are the sectors, which give the best (from the worst) business opportunities (sugar beets, wheat, fruits) or which are represented by the units using the facilities taken from the privatised large scale farms and then developed by the new owners.

However the total number of such specialised farms is relatively little and mostly farmers prefer to have diversified production in order to share the risk and to use low investment based technologies.

For the future we would assume, the further decrease of the numbers of holdings and also of the labour input will take place in the most of the specialization directions, excepting horticulture, while the SGM might go up in herbivores due to the increase in prices of milk and beef, will stay approximately on the same level in crop production and granivores, because in these sectors further price increase is little possible due to the fact, that the prices of these products are already exceeding the world and EU price level. On micro-level some improvement might be possible in the pig sector due to the possibilities to improve the efficiency of feed use.

As the main problems hampering the development of efficient structures here, those, numbered above, also can be presented- low level of profitability, high importance of subsistence farming, however **a need of farmers to coupe with the market risks alone** due to the weakness of the state policies in this area might be added.

2.3. Holdings by use of land and number of livestock

Number of farms dealing with cereals and potatoes (they are surveyed and analysed by CSB) is permanently decreasing, although still is high. Similar trends in the livestock production can be outlined. Several reasons can be numbered, few main could be:

- the "commercialisation" of the agricultural service sector, understanding the inclusion of also the fixed costs in the tariffs for the soil processing, harvesting and plant protection services. In a large extent it is caused by the outdating of the machinery cheaply taken from the privatised state and collective farms and the need to replace them by the new items, bought for the current market prices.
- a coming understanding of the holding owners, that the production in small amounts still take quite a lot of resources and gives small, if any- value added.

Probably, also in future the number of holdings in all the production lines will continue, because the average numbers of areas under the crops and also the number of animals per holding still are low, and in the most of the farms production can not generate amount of value added to meet the owner family living requirements, and some other income opportunities must be found.

2.4. Holdings and livestock by herd class size

All that said above can be summarised, when to have a look on the size structure of the livestock farms. The decrease of the engagement of the small holdings in production with some increase in the medium scale units will be the consequence of the specialisation process and the possible (and needed) development of the off-farm income opportunities, including retirement schemes. The numbers of farms in the biggest given size classes could stay at the same level, because the development of such type of farms would require relatively big investments and also the involvement of the skilled off- family labour, the both of which are the development limiting obstacles.

2.5. Farm Structure according to ownership

Due to the above mentioned reasons it was impossible to present data according to the requested structure. In order to illustrate the ownership structure of Latvian agricultural holdings some relevant data are represented here (Table 1).

Table 1. Number of Latvian agricultural holdings and land (total area) at their disposal

	1990	1992	1994	1996	1998	% of total, 1998
Total						
Number (1000)	8.1	308	378	351	292	100
Total area (1000 ha)	3882	3313	2735	3820	4047	100
Family farms						
Number (1000)	7.3	52.3	64	95	97	33.2
Total area (1000 ha)	152	873	1279	2238	2305	57
Average size (ha)	20.8	16.7	20.0	23.6	23.8	
Household plots						
Number (1000)	-	106	119	157	154	52.7
Total area (1000 ha)	-	457	621	1242	1175	29.0
Average size (ha)		4.3	5.2	7.9	7.6	
Subsidiary farms						
Number (1000)	-	92	125	17	29	9.9
Total area (1000 ha)	-	215	252	142	102	2.5
Average size (ha)	-	2.3	2.0	8.4	3.5	
State and corporate farms						
Number (1000) (1)	0.58	0.76	0.75	0.55	0.404	
Total area (1000 ha)	3545	1763	515	174.5	197.0	
Average size (ha)	6112.1	2320	687	317	487	

* Data for Corporate farms from 1997

Source: LVAEI, using the data from State Land Cadastre Register and CSB

Not all the holdings have registered their land as the property, several of them stiil are thye “users”. As of 1 April 1999 the register of the Land Cadastre Center holds 231,300 records of land property. But land titling is lagging even more behind, although the legal and institutional framework is on place.

As a result of the land reform, more then 97 thsd. family farms and 180 thsd. subsidiary farms and household plots emerged. Family farms are private farms, where the owner has got full responsibility for liabilities. They intend to produce agricultural goods for commercial purpose.

In contrast, according to the Law on Land Reform, the land used by household plots is the property of the user/owner, but farming itself is of ancillary character, and the whole household is economically to a greater part dependant on some other income source, foe example other business, public services, forestry. Subsidiary farms are rural farms (including kitchen gardens) suspected by the Law either being too small for a private farm (and at least one of the family members working outside agriculture), or the individuals lease farmland from the local government or other legal entity. Nowadays this classification from economical and legal point of view is not more so relevant, because it is not consistent with entrepreneurship legislation and also from the land ownership rights point of view. Therefore discussions have started to transform this classification, at least merging these two last categories together.

Table 1 shows the development of the land use for different types of farm enterprises. While in 1990 state farms and collective farms accounted for about 31 % and 61 % of total agricultural land, today Latvia is almost entirely farmed by family or subsidiary farms or household plots. While family farms and household plots have continuously increased their share in total land use over the last years, subsidiary farms became less important. The state cultivated area is less than 1 % of total agricultural land, mainly occupied by experimental and training farms for schools or by local authorities. Larger corporate farms have almost ceased to exist.

3. IMPACT OF THE FARM STRUCTURE ON THE COMPETITIVENESS OF LATVIAN FARM SECTOR

The current farm structure is fully based on private ownership and, mainly, on family managed holdings. In this respect, there are set the preconditions for further changes in the farm sector in order to adjust it to the changing market and policy conditions.

However the land reform has resulted in a very big number of holdings having some agricultural land with average size of only 18 ha of total area. It is not sufficient to concentrate a capital needed to invest in order to introduce a modern technology and also to get a sufficient market power.

Also some positive development trends in the Latvian farms structure can be observer during the recent years - the number of smaller holdings is decreasing, while the number of medium and bigger size holdings has started to grow, although the increase in the last still can not cover the decreasing processes in the first- the profitability is still not sufficient - the earnings from the agricultural production still cannot cover full costs.

“Medium- small” farms and “big” farms, from their competitivety point of view, are in rather similar positions, because the higher labour input needs and lower other efficiency rates in the first group are compensated by significantly higher real depreciation and other capital costs in bigger holdings.

Improvement in the market and policy environment, which could give a significant impulse to increase the level of the overall sector profitability, is an essential precondition for not only the decrease in the numbers of small holdings, but also for the increase of production volumes in the bigger holdings.

Creation (improvement) of the off-farm income opportunities also could facilitate the improvement of the farm structures via encouraging of the owners of current holdings to stop their farming operations.

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