Some look on the development of competitiveness of Latvian agriculture and food sector

OECD Workshop “Enhancing competitiveness in the agro-food sector: making policy work”

16 - 17 June 2004, Vilnius

Danute Jasjko, Andris Miglavs, LSIAE

How to measure the competitiveness?

Competitiveness

Comparative advantage

- **Prices (lower costs?);**
- **Quality (higher quality?);**
- **in concrete shape, time and place (according to the consumers' demand)**

Institutional environment

Relative indicator,

based on :

- **analysis of market shares;**
- **cost analysis**

Analysis of market distortions (market regimes and support)

LSIAE experience in the analysis of competitiveness of agro-food chain

- …
- <u>1999:</u> ACE project "Inefficiencies in the food Industries of the Baltic States: Economic Analysis and Policy Options"
  - The objective of the study was to identify the most important obstacles to the development of an internationally competitive food processing sector in Latvia
  - Survey on the base of questionnaire form elaborated
  - In Latvian milling and dairy sector

(1) Some outcomes of the study:

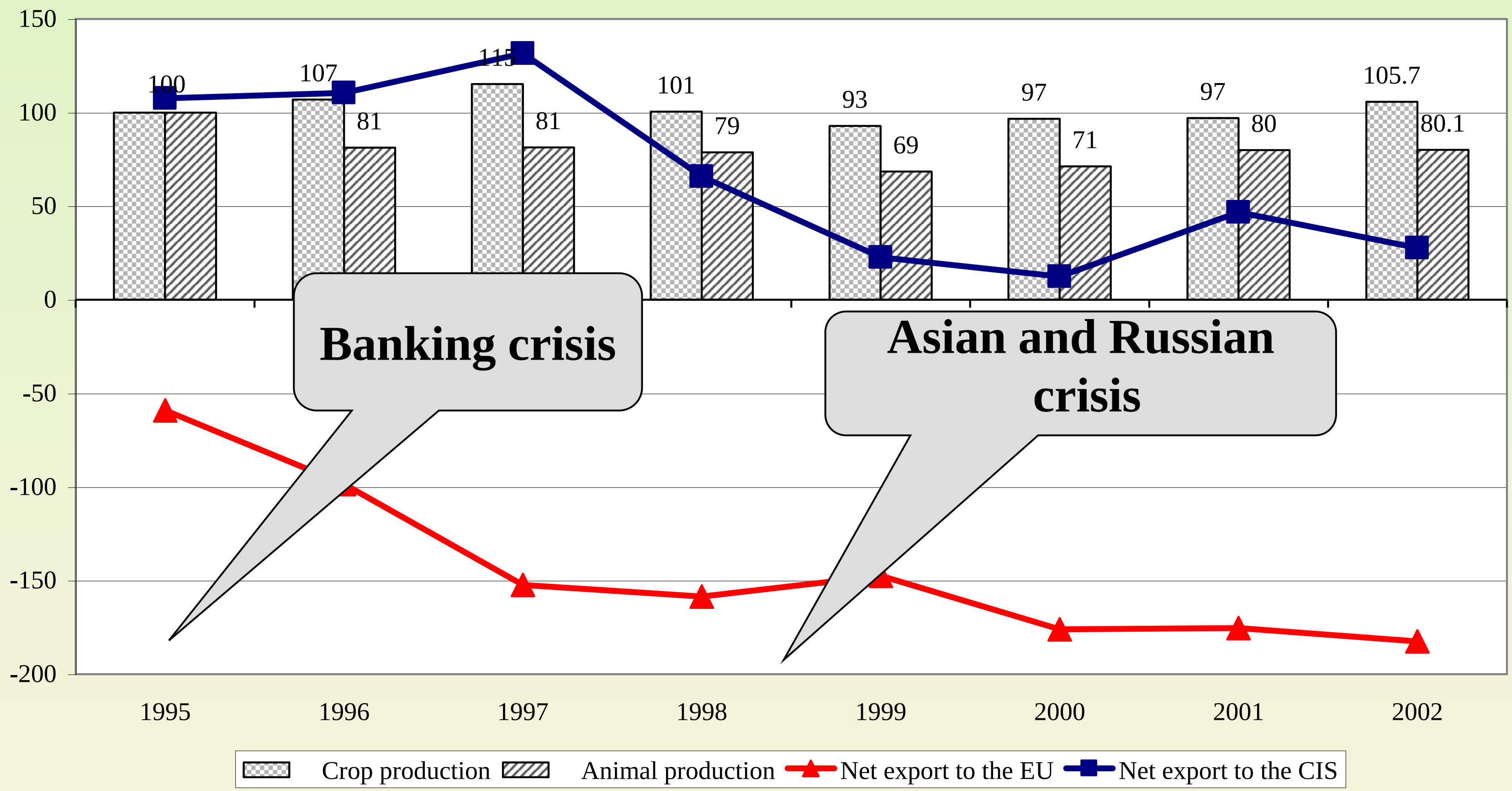
- All former state-owned food-processing enterprises have been privatised. Consequently, an essential precondition for the emergence of a competitive markets has been met;
- Sharp drop in agricultural production has reduced raw material availability for processing sector and its capacity utilisation;
- Macroeconomic environment has put the food industry under severe pressure (high rates of inflation, changes in consumption spending and patterns etc.)
- Investment resources have so far been limited mainly by enterprises' profits, because of high interest rates;
- In the end of 90ies a relatively large number of processing enterprises appeared, and elimination of loss-making enterprises might contribute to the creation of a more efficient industry structure;

(2) Some outcomes from the study

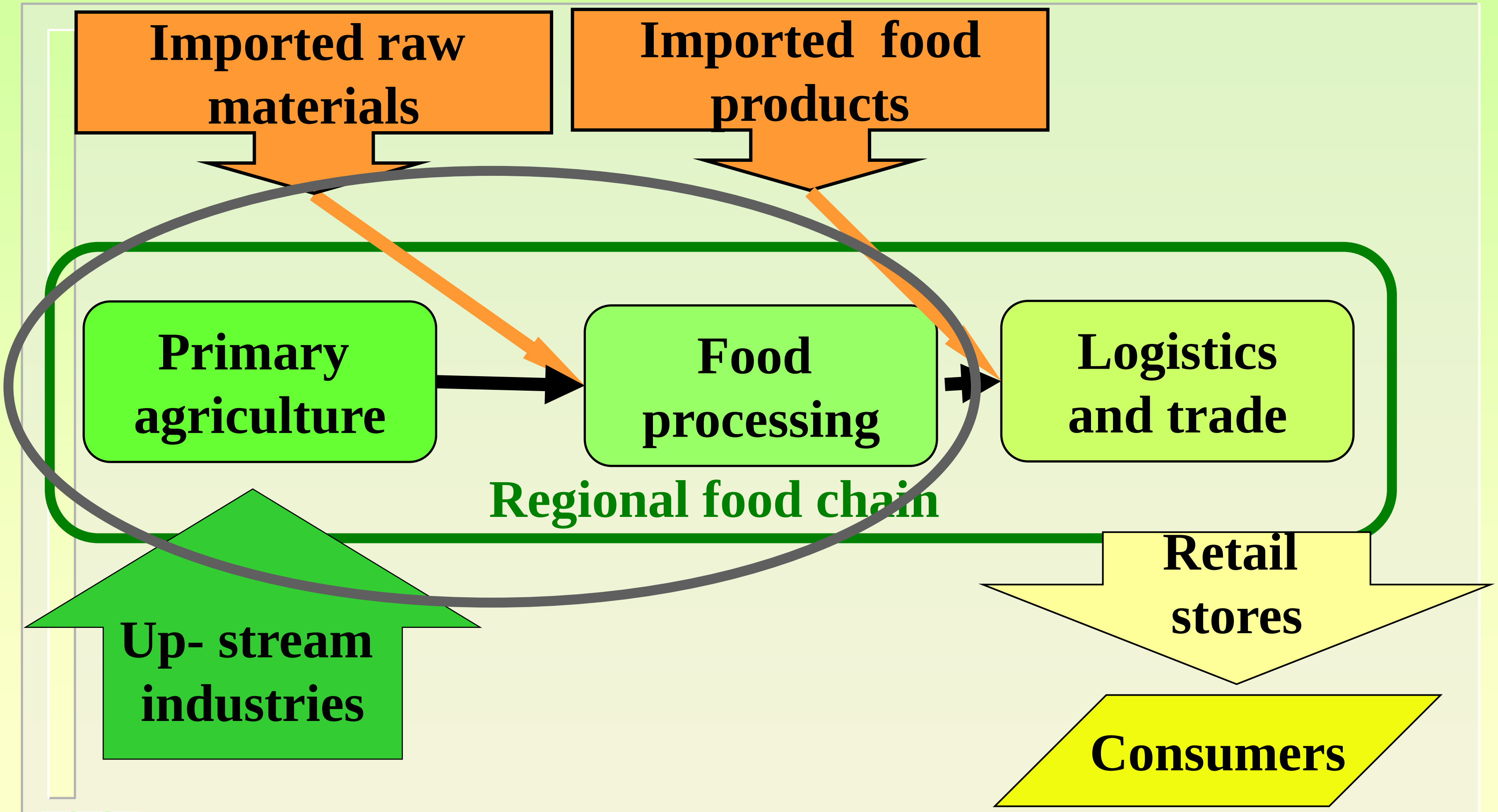
- Vertical integration,
  - if at all, was based mainly on partly ownership rights of primary ag-producers in processing companies after the privatisation,
  - there was not recognised a demand to strengthen an economic linkage between primary ag-production and food processing till the end of 90-ties;
- The main problems seen by processors were :
  - saturation of the domestic market,
  - lack of investment funds,
  - low quality of purchased milk.

The economical context of the studies made about the competitiveness in LSIAE

Indices of agricultural production in % (1995=100) and Latvian agricultural net export to the EU and CIS,mio EUR



Agro-food chain as object for competitiveness analysis



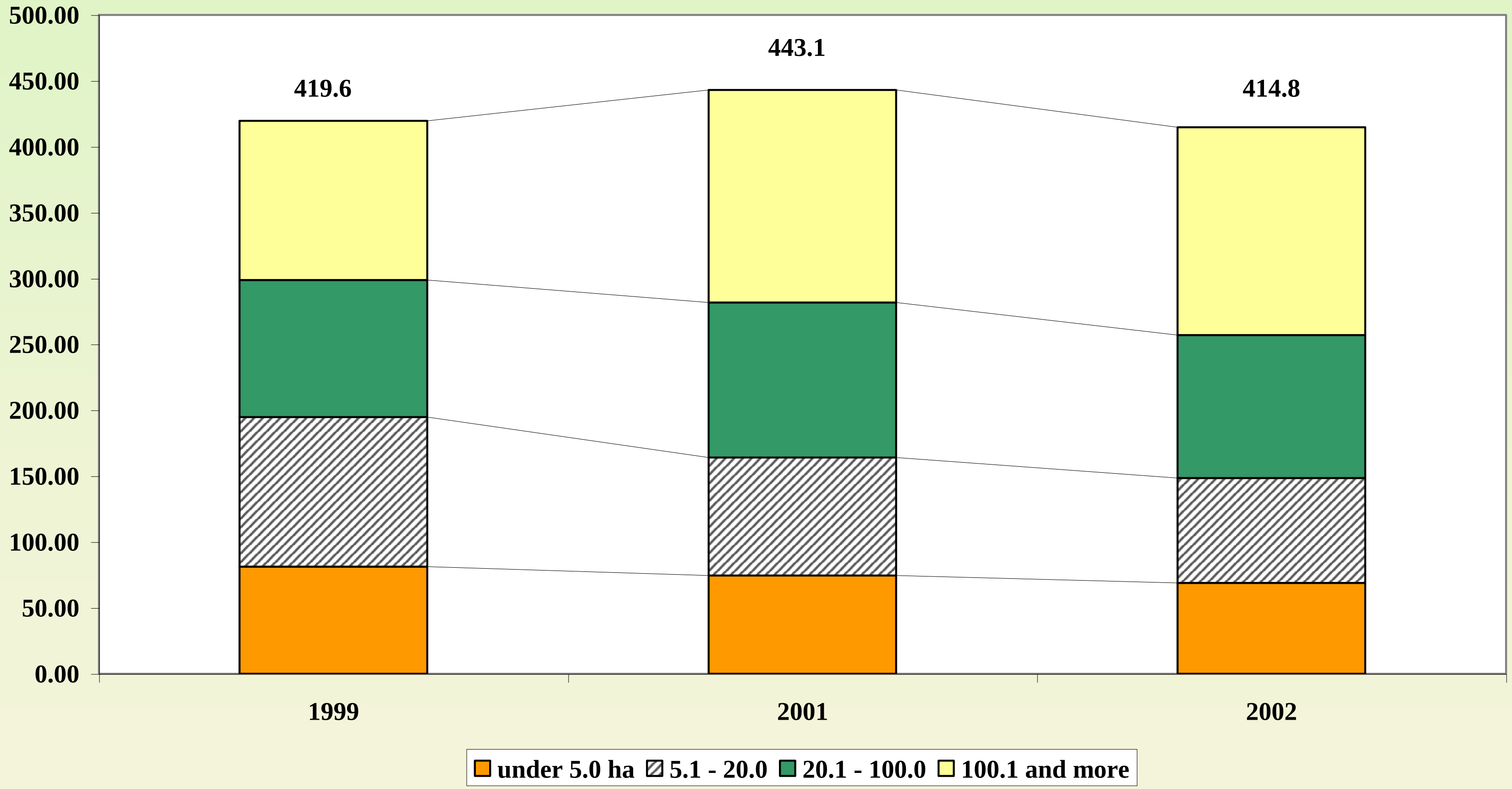
Current stage of development: Latvian agriculture

Average size of all family farms in Latvia, ha

	1999	2000	2003
Total area, ha	**23,7**	**23,5**	**24,0**
Agricultural land, ha	**13,7**	**13,7**	**14,1**

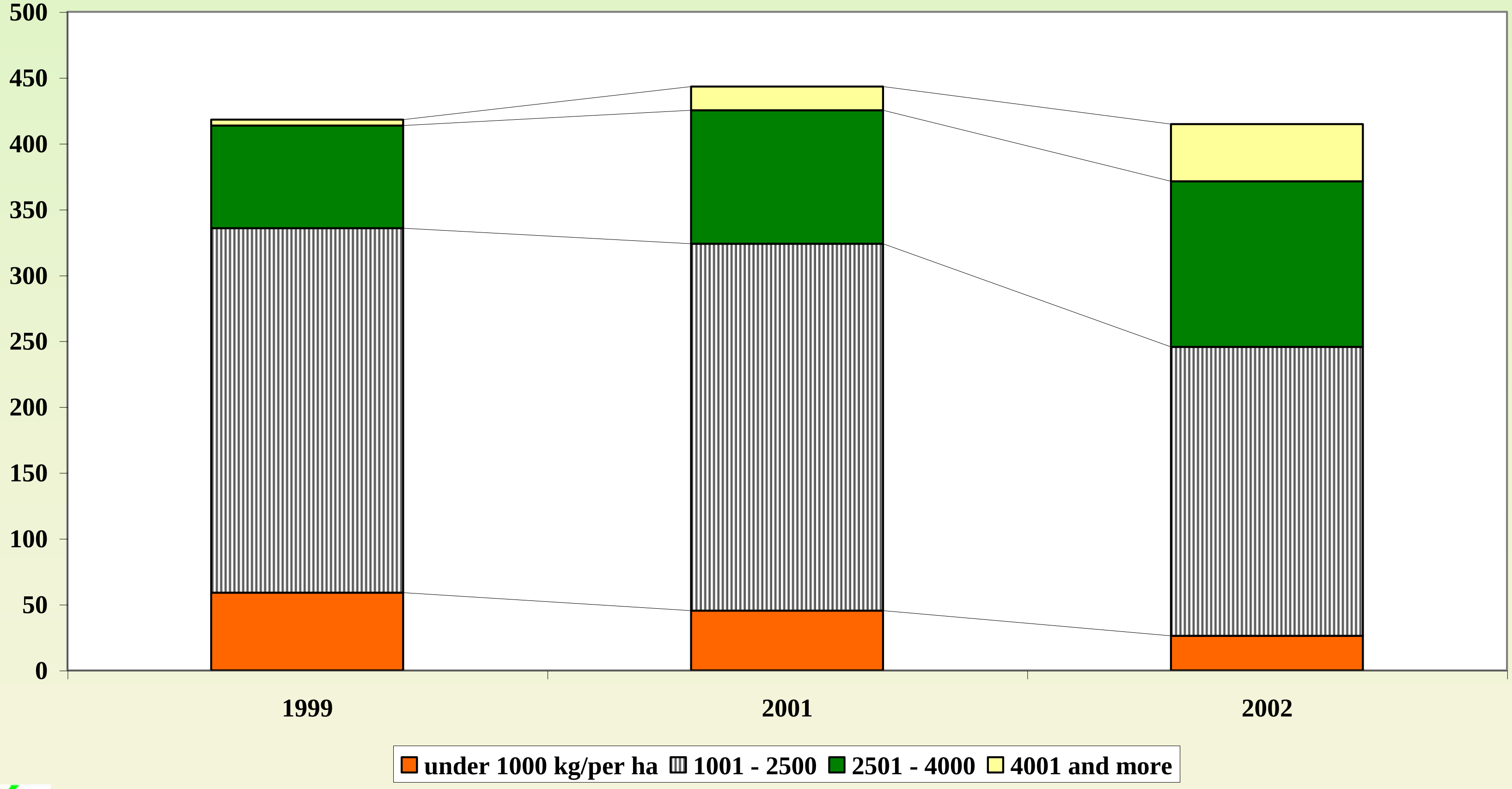
Source: LSIAE according to Land Service data

Grouping of all Latvian farms by sown area of cereals, thsd.ha



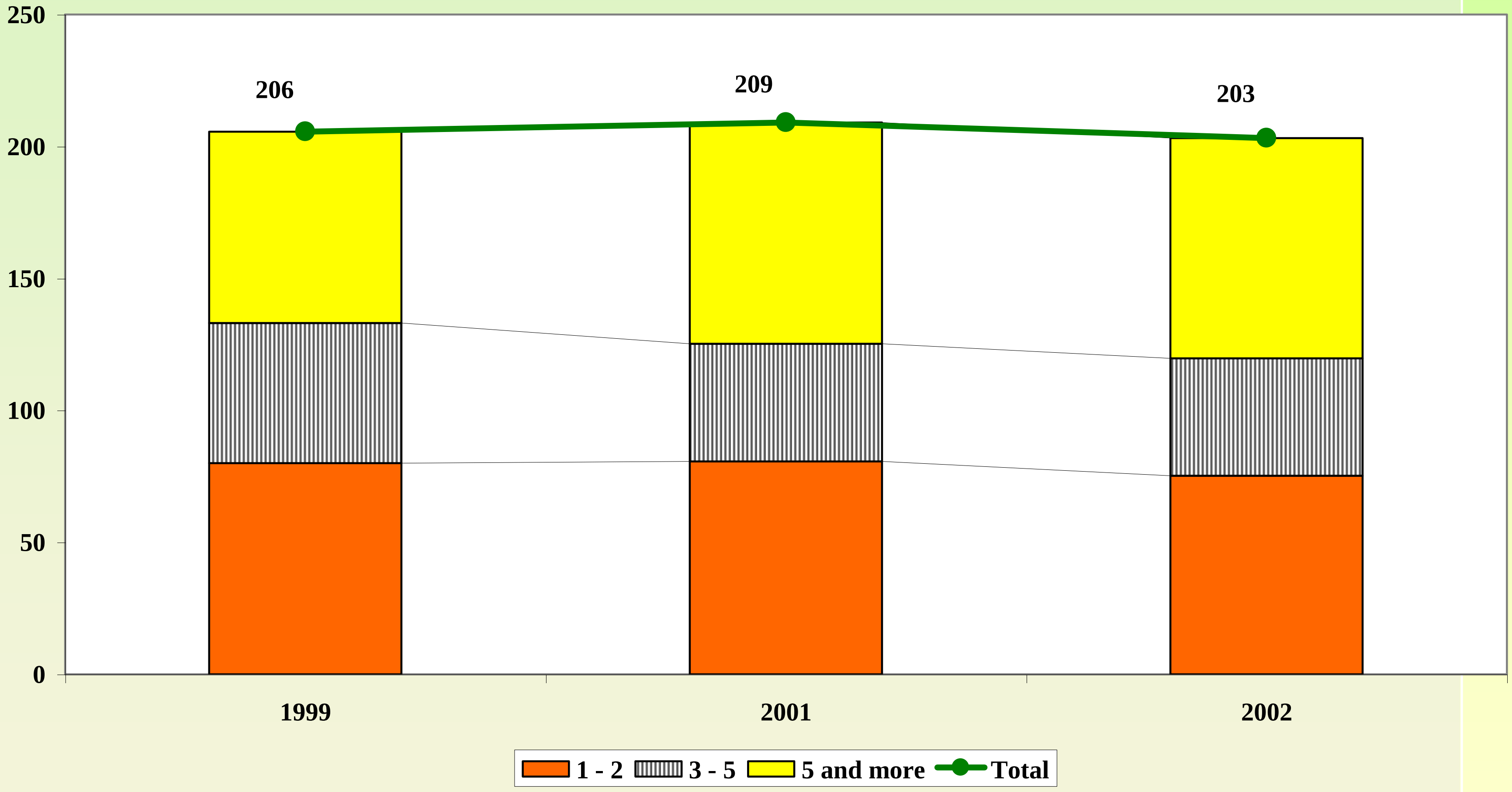
Source: LSIAE according to CSB data

Grouping of all Latvian farms by yield of cereals, thsd. ha



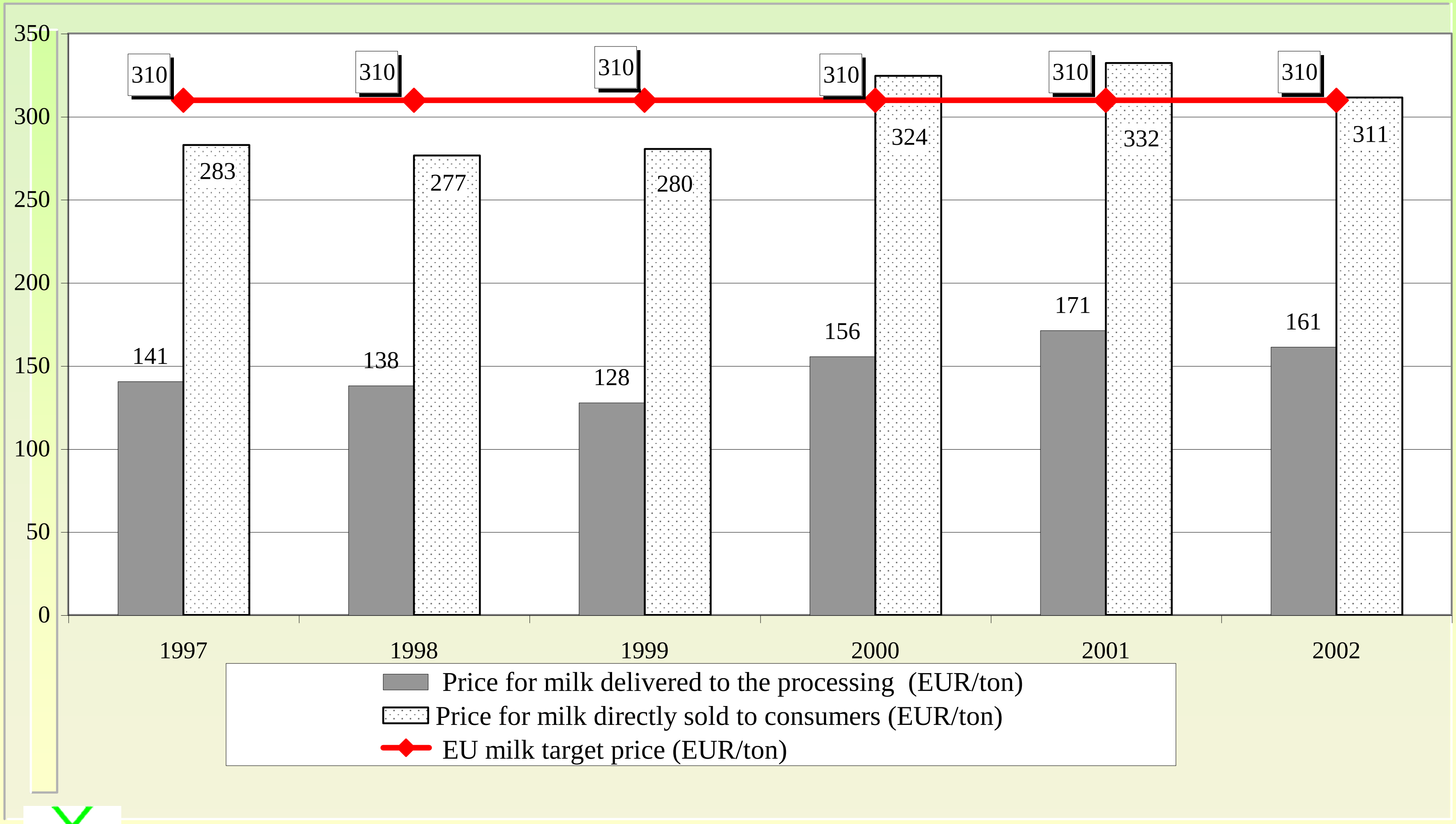
Source: LSIAE according to CSB data

Grouping of all Latvian farms by the number of dairy cows, thsd. number



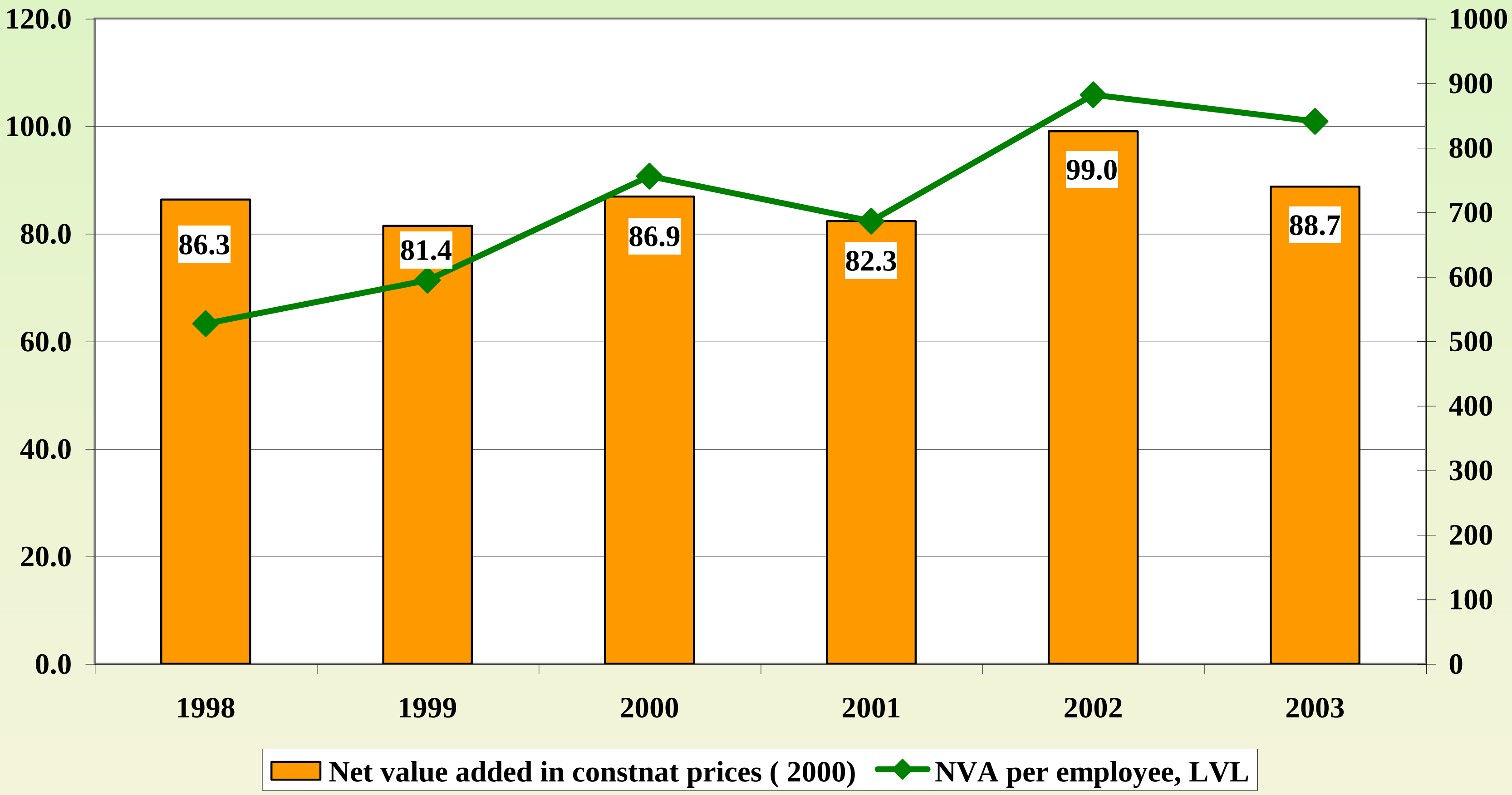
Source: LSIAE according to CSB data

Dynamics of milk prices in Latvia during the period from 1997 to 2002, EUR/ton



Source: CSB and Market promotion centre

Dynamic of NVA at constant prices (mio LVL) and NVA per employee (LVL/ person) in Latvian agricultural sector



Source: EEA data

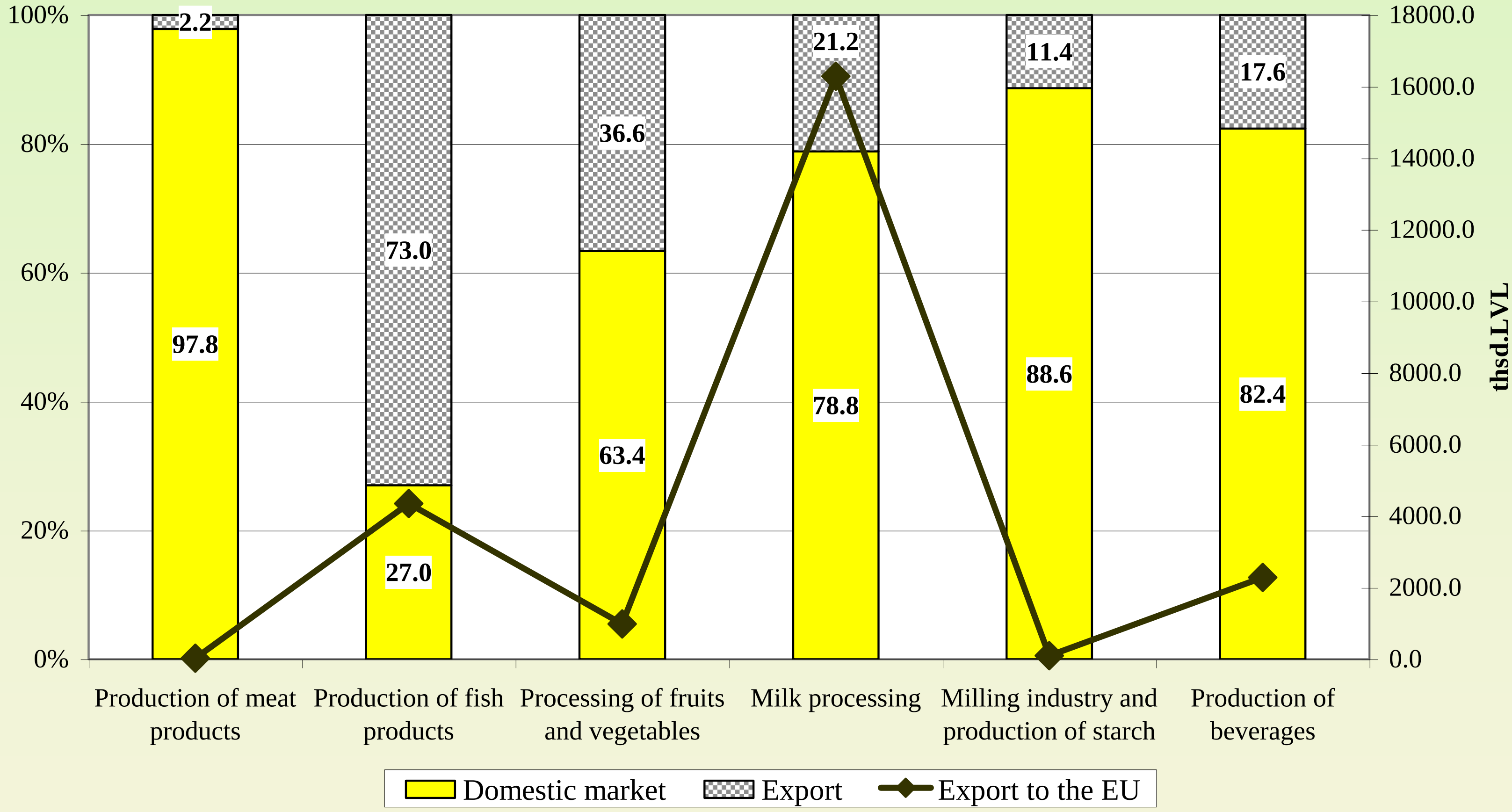
Current stage of development:

Latvian food industry

	1996	2003	% of approved enterprises in 2004
Milk processing	73	49	75%
Milling and feed production	17	12	
Meat processing	140	135	57%
Total number of enterprises in food industry	929	763	

Source: CSB and State register of enterprises

Latvian processing sector: the structure of sales (%) and export to the EU (thsd.LVL) in 2003



Source: CSB data

Market shares (%) measured by concentration ratio and labour productivity (thsd.LVL) in the Latvian dairy processing sector

Indicator	1995	2000	2001	2002	2003
Labour productivity thsd. LVL/person	12,5	18,7	23,8	23,6	27,3
Combined market shares of 4 largest milk processing firms	41	45	47	56	56
Combined market shares of 10 largest milk processing firms	68	70	73	77	78

Source: LSIAE according to CSB data

Market shares (%) measured by concentration ratio and labour productivity (thsd.LVL) in the Latvian milling processing sector

Indicator	1995	2000	2001	2002	2003
Labour productivity thsd. LVL/person	18,6	29,1	28,5	28,7	32,5
Combined market shares of 4 largest firms in milling industry	62	69	73	71	79
Combined market shares of 10 largest firms in milling industry	90	87	91	89	98

Source: LSIAE according to CSB data

Market shares (%) measured by concentration ratio and labour productivity (thsd.LVL) in the Latvian meat processing sector

Indicator	1995	2000	2001	2002	2003
Labour productivity thsd. LVL/person	11,5	18,7	21,8	24,0	26,0
Combined market shares of 4 largest meat processing firms	56	26	29	33	36
Combined market shares of 10 largest meat processing firms	79	51	53	57	63

Source: LSIAE according to CSB data

Market shares (%) measured by concentration ratio and labour productivity (thsd.LVL) in the Latvian fish processing sector

Indicator	1995	2000	2001	2002	2003
Labour productivity thsd. LVL/person	7,8	7,9	9,6	9,9	8,9
Combined market shares of 4 largest fish processing firms	44	39	34	33	40
Combined market shares of 10 largest fish processing firms	69	59	61	57	62

Source: LSIAE according to CSB data

Some conclusions

- The quality of milk delivered to processors is important obstacle for development of competitiveness of Latvian dairy products on common European market;
- The merging and concentration processes in Latvian food industry is still behind of similar processes in wholesale and retail sectors, which have essential market power against processors;
- Differentiation of support level among EU-15 and New Member States becomes a “distorting factor” in equal opportunities for competition in the EU market.