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**BALANCING PRIORITIES:
LATVIA'S AGRICULTURE
AND RURAL DEVELOPMENT
IN A EUROPEAN
UNION CONTEXT**

The study analyses the situation as of March 2003

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The author takes full responsibility for accuracy of the data.

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EXECUTIVE SUMMARY

This study poses questions about how accession to the European Union will affect various social groups in Latvia. It focuses primarily on questions concerning farmers and agricultural policy. However, in Latvia's case, questions involving those employed in the agricultural sector have significant social dimensions, so that the study will go beyond strictly agricultural problems.

Integration into the European Union is clearly Latvia's foreign policy priority. Inasmuch as the issue affects all parts of society and the future development of the nation as a whole, it is important to understand all the possible consequences.

The European Union's common agricultural policy (CAP) is currently a source of dispute not only within the EU itself, but also between the EU and the rest of the world. The CAP is often criticized by non-EU countries because they feel it restricts their ability to export agricultural products to EU countries and constitutes an impediment to free trade. The essence of the CAP is to ensure a privileged position and guaranteed income for EU farmers.

It was clear even before the end of the entry negotiations that farmers in Latvia cannot expect to receive the same support as farmers in EU member states. In view of EU's current CAP expenditures (in 2001 the CAP budget was 45.5% of the EU budget, or 43,788,654 million EUR), this is quite understandable, since maintaining the current level of support even for 15 EU Member States is too expensive. Following EU enlargement, the number of farmers in the EU will increase by 56% (there are approximately 6,800,000 farmers in the 15 Member States and 3,800,000 in the 10 candidate countries). These circumstances and the dilemma associated with the agricultural implications for Latvia of EU membership form the basis of this study.

Interviews with farmers conducted during the course of the study showed that what they are most concerned about is the inability to finance implementation of EU requirements pertaining to the environment, hygiene and animal welfare. Because of the added costs entailed by these new requirements, many fear that they will not be able to continue farming.

The study defines the main problems that people will be confronted with when Latvia joins the EU, and possible models for solving them.

The role of agriculture

Agriculture is a very sensitive issue in Latvia, connected not only with agricultural production, but also, as in many other countries, with the preservation of a rural lifestyle. In Latvia, agriculture also has a lot to do with social problems in rural areas. There are few jobs other than those in agricultural production, and the produce that is gained often compensates for low incomes and guarantees at least a subsistence-level existence. The implementation of all EU standards and norms, as well as quotas, will inevitably mean that many farms are no longer able to maintain current income levels. The number of persons employed in farming is declining and will continue to decline, but other sectors of the rural economy are not able to guarantee stable sources of income for those abandoning the agricultural sector.

The study proposes a solution to this problem through the development of non-traditional agriculture and the creation of new employment opportunities outside of traditional agro-industrial production. One option is organic farming. This would allow farmers to continue to farm and to keep their land; it would preserve and protect the country-side, and would put high-quality, healthy products on the market.

Adverse impact on the general population

Accession to the EU and the introduction of even a modified CAP will most likely lead to a gradual increase in the price of food products. This will lead to an increase in household expenses for food and utilities (see below). In turn, this will lower the purchasing power of the general population and will adversely affect those already living at the subsistence level.

The study proposes a solution to this problem through differentiation of the VAT between food and other products, and reduction of the VAT on food at least down to the average rate in EU Member States.

Adverse impact on Latvian farmers

An analysis of Latvia's preparations for accession to the EU shows that our own policy-makers are often the ones who impose high standards on agricultural producers. Latvia's policymakers tend to ignore the fact that the EU does not demand such high standards, and that the costs of their implementation may cripple one of Latvia's few production sectors.

We ourselves – policymakers, policy implementers and the public – must carefully consider how we want to see Latvia’s rural areas, Latvia’s farmers and Latvia’s agriculture. We must forge a fitting national rural and agricultural policy with a long-term vision in mind. EU’s CAP leaves many options open to its Member States. We must take advantage of them when taking administrative decisions and when allocating funds from the national budget.

Accession to the EU is Latvia’s foreign policy priority. On September 20, 2003, a referendum will be held to determine whether the people in Latvia support plans to join the EU. Since membership in the EU will affect each and every member of the public, it is important that the decision taken by the referendum be an informed one.

However, public opinion polls on public attitude to EU membership reveal not only an absence of consensus and a lack of information. To a certain extent, these polls also reveal a lack of interest. It is important to create public interest about issues connected with EU accession and, then, to provide accessible and objective information about the consequences of EU membership.

CONTENTS

Executive summary	5
Introduction	11
EU context	13
1. The current situation in the agricultural sector	13
Rural areas and agriculture	14
Number and profile of farms	15
Economic activity	16
Income	16
2. Main problems	17
3. Possible consequences	19
4. Problems and recommendations in an EU context	20
PROBLEM 1 – Farming alternatives	20
PROBLEM 2 – Increase in household expenses	25
PROBLEM 3 – Financial and legislative support	31
PROBLEM 4 – Public information	35
Conclusions	53
Appendices	
Appendix 1. Questionnaire	69
Appendix 2. Stages and methodology of the study	71
Sources	73
Tables and figures	75

INTRODUCTION

The objective of this study was to respond to some misconceptions about the negative impact of the EU on agricultural development in Latvia and to draw the attention of policymakers to possible ways of dealing with problems that will in fact arise if Latvia joins the EU.

It was not the objective of the study to produce a handbook for farmers on the consequences of EU membership. Each farm is an individual case and advice cannot be universally applied. Both the Ministry of Agriculture and the Latvian Agricultural Consulting and Educational Support Center regularly organize events to inform Latvian farmers about accession to the EU and about potential problems that farmers will be confronted with in specific areas of the agricultural sector.

This study was conducted with two target groups in mind.

The first are the policymakers.

The study identifies problems such as the standards for animal welfare, environment, hygiene and product quality, which will adversely affect the competitiveness of the agricultural sector as a whole, including agricultural producers and suppliers of agricultural services. It also identifies problems such as higher prices for consumer goods and services, which will affect the population as a whole by raising the cost of living and lowering household purchasing power.

The second target group is society at large, especially those members of the public whose argument for a negative response in the referendum on Latvia's membership in the EU is that "accession to the EU is a threat to Latvia's agriculture."

The study gives this target group information on opportunities and restrictions that people in Latvia, especially farmers, will be confronted with if Latvia joins the EU.

EU CONTEXT

Participation in the referendum on Latvia's accession to the EU is the right of every Latvian citizen.

In Latvia, as in other EU candidate countries, there is greater support for membership in the European Union among:

- younger people;
- people with higher incomes;
- people with higher levels of education.

Those who live in rural areas and are employed in the farming sector are often older, have lower incomes and lower levels of education.

The survey of popular trends that was carried out in the first half of 2002 shows that the attitude of farmers to membership in the EU is mainly negative.

To understand how the rural population will vote in the referendum and how the outcome will affect their lives, it is important to analyze and understand the situation in Latvia's rural areas.

1. The current situation in the agricultural sector

To answer the question of how accession to the EU will affect Latvia's farmers, it is necessary to understand the situation in Latvia's rural areas and the agricultural sector. And to understand this, it is necessary to understand what is important to the Latvian farmer.

Rural areas and agriculture

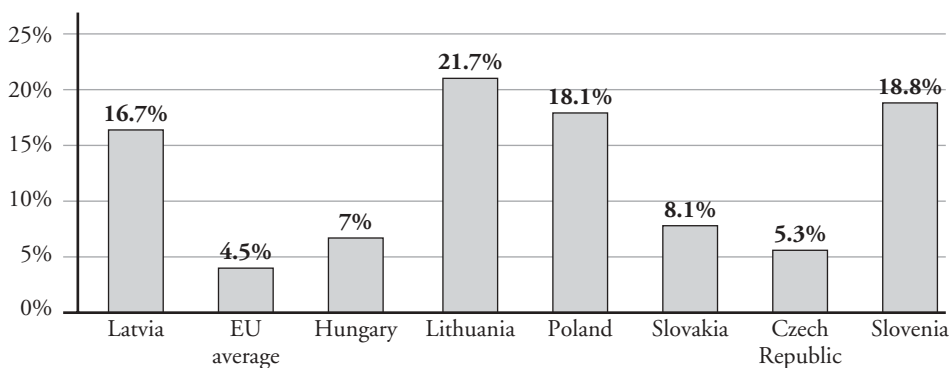
The illustration of the situation is based on the division of territory into cities and rural areas that is normally applied for statistics purposes.

98% of the Latvia's territory is rural, populated by 31% of the country's population.¹ 16.7% of those employed in the Latvian economy are employed in agriculture (including forestry and hunting).

For comparison, see data for the year 2000 on the average number of persons employed in agriculture in the EU and in other Central and Eastern European countries that will be joining the EU in this round of expansion.²

Figure 1.

Agricultural employment (% of total of employed persons) in EU Member States and candidate countries (figures for 2000)



The rural economy depends on farming as the main form of employment. The 2001 Agricultural Census shows that a total of 273.2 thousand persons or 45.7% of the rural population are involved in agricultural production. This includes intra-farm output.³

¹ Framework Document on the Resolution of Rural Problems and Rural Development. The Framework Document was prepared pursuant to Protocol No. 13 §34 of the March 27, 2001 Cabinet of Ministers meeting.

² Information from the Irish Department for Food and Agriculture. <http://www.irlgov.ie/daff/Publicat/Review2000/Files/Chapter8/Chapter8-7.htm> (last accessed on April 24, 2003).

³ Draft of the Latvian Rural Development Plan. <http://www.zm.gov.lv> (last accessed on April 24, 2003).

The average level of unemployment in the country in 2001 was 7.7%, but in rural areas it was 8.9%. Although these figures seem fairly optimistic (the difference between unemployment in rural areas and unemployment in the country as a whole is not particularly pronounced) they do not reveal the true picture,⁴ since unemployment in rural areas is actually much higher.⁵

If the number of persons employed in agriculture is viewed in conjunction with the agricultural sector's value-added share of GDP, this will give an idea of the efficiency of the sector.

In the Central and Eastern European countries that will be joining the EU in this round of expansion, the agricultural sector's value-added share of GDP is 6% (average employment, 18%),⁶ and in the current EU Member States this figure is 1.7% (average employment, 4.3%)⁷. In Latvia, however, it is 4.5%, with approximately 16.7% average employment. These figures show that in Latvia, as in the other candidate countries, this sector is clearly not working efficiently.

Number and profile of farms

As a result of the 1990 land reform, most of the farming in Latvia today is done on small farms.

According to the 2001 Agricultural Census, there were approximately 202,000 farms in Latvia in 2001 – owner occupied or under tenancy – with 1 or more hectares of farmland, or with a production volume valued at 1,000 lats or more in the last calendar year.

⁴ There are various forms of hidden unemployment in rural areas: for example, the percentage of unpaid working family members is 13% in rural areas as compared to 0.3% in cities; the percentage of part-time workers is 22% in rural areas, but only 6% in cities.

⁵ These figures are taken from the Framework Document for Resolution of Rural Problems and Rural Development. The Framework Document was prepared pursuant to Protocol No. 13 §34 of the March 27, 2001 Cabinet of Ministers meeting. Clause 3 charges the Ministry of Agriculture with coordinating implementation of the Latvian Rural Development Program and the Latvian Rural Development Plan for European Union Pre-entry Measures for Agricultural and Rural Development. Clause 6 stipulates that a Framework Document on Long-term Rural Development shall be submitted to the Cabinet of Ministers.

⁶ World Bank 2002 Report on Agriculture in Central and Eastern Europe. <http://www.worldbank.sk/Data/nitra.ppt> (last accessed on April 24, 2003).

⁷ USA Department of Agriculture statistics. <http://www.ers.usda.gov/briefing/EuropeanUnion/basicinfo.htm> (last accessed on April 24, 2003).

The average farm has 13 hectares of farmland.⁸ A comparison between the size of farms in EU Member States and in the candidate countries shows that the average farm in the EU has 19 ha (although the size of farms in the EU Member States can differ greatly: for example, in Greece it is 4.3 ha, and in Great Britain, 69.3 ha⁹), but in the candidate countries, 7 ha.¹⁰

Economic activity

According to the Agricultural Census, 68% of the farms consume rather than sell their produce. 9.4% sell more than 50% of their produce and, of these, only 1.2 thousand farms or 0.6% of the total number of farms sell all of their produce.¹¹

Income

The income level of the rural population and of those employed in farming is significantly lower than the country's average. In 2000, those employed in farming earned only 78.4% of the country's average monthly net wage.¹²

31% of the country's population lives in rural areas. 16.7% of the total number of employed persons, or 37% of the economically active rural population, are employed in farming. This means that although a relatively high percentage of persons are employed in farming, they receive only 78.4% of the average monthly net wage.

On the average, farms have 13 hectares of farmland. 68% of the farms do not sell their produce, and only 0.6% of the total number of farms sell all of their produce. This means that farms are relatively small, and farming is primarily a way of life and not the main source of income. The agricultural sector is generally inefficient – the sector's value-added share of GDP is low, but the number of persons employed is high.

⁸ Provisional results of the 2001 Agricultural Census. <http://www.csb.lv/Satr/lskzin.htm> (last accessed on April 24, 2003).

⁹ USA Department of Agriculture statistics. <http://www.ers.usda.gov/briefing/EuropeanUnion/basicinfo.htm> (last accessed on April 24, 2003).

¹⁰ http://europa.eu.int/comm/trade/goods/agri/index_en.htm (last accessed on April 24, 2003).

¹¹ Provisional results of the 2001 Agricultural Census. <http://www.csb.lv/Satr/lskzin.htm> (last accessed on April 24, 2003).

¹² Ministry of Agriculture and Central Bureau of Statistics data.

2. Main problems

Rural communities in Latvia have a number of common problem sectors. These are fairly precisely defined in the Framework Document for the Resolution of Rural Problems that was prepared by the Ministry of Agriculture:

1) Lack of employment

The rural economy is currently dependent primarily on farming as the main form of employment, but the number of persons employed in farming is declining.

Government support for agricultural development (subsidies, SAPARD, tax privileges, trade policy, etc.) is aimed at modernization of the agricultural sector and improvement of competitiveness, which will further reduce the number of jobs, and other sectors of the rural economy are not able to guarantee stable incomes for those who leave farm jobs. So far, such persons were usually employed in the forestry and wood processing industries, but the forestry sector can no longer absorb those who lose their farming jobs inasmuch as the future development of this sector also depends primarily on increased efficiency and productivity.

Accession to the EU will further reduce the number of farming jobs because in a common economy it will be impossible to maintain a three or more times higher number of persons employed in the agricultural sector than is normal in the EU countries.

According to calculations of the Ministry of Agriculture and the Latvian State Institute of Agrarian Economics (LSIAE), 34,000 full-time jobs are needed in rural areas in addition to farming jobs. As the agricultural reform process continues, in the next 2–3 years the total number of jobs needed will increase to 50, 000.

2) Increase of poverty

The incomes of the rural population are low. According to surveys of household budgets, in the period from 1996 to 2000 the real income of the rural population has declined from 56.9 lats to 52.1 lats (2000 prices). As already pointed out, the wages of persons employed in farming are approximately 20% below the national average.¹³ The prognosis for the year 2003 is an average of 785 lats (65 lats/month) per person employed in the agricultural sector. Although this is more than in 2001, it is still far from enough to attract qualified workers.¹⁴

¹³ Ministry of Agriculture and Central Bureau of Statistics data.

¹⁴ The 2003 Agricultural Development Program. http://www.zm.gov.lv/data/zmprog_081002.doc (last accessed on April 24, 2003).

The discrepancy between the incomes of rural and city populations is increasing. In 1996, the income of rural households was 92.6 % of the national average, but in 2000, it was only 75.3%.

3) Decline in population

Limited job and income opportunities, social depression, reduced mobility of the population, an inadequate and uncoordinated rural support policy are factors that bring about the migration of economically active, highly qualified and young people to the cities (especially Riga), thus limiting rural development opportunities.

As poverty increases, social life in rural communities becomes inactive, i.e., cultural events and sports decline; people allocate practically all disposable income to satisfy basic needs.

4) Deterioration of the social and economic infrastructure

The existing economic and social infrastructure has gradually deteriorated. Maintenance of the infrastructure in rural areas with sparse population and economic inactivity has become comparatively expensive.

Furthermore, in view of the trend towards declining rural populations with declining incomes, the maintenance of both the economic and the social infrastructures will cost even more. In 1999, 88% of township local governments received money from the Local Government Financial Compensation Fund. This suggests that these local governments were unable to carry out their official functions, among them maintenance and improvement of the infrastructure, from revenues in their own territories.¹⁵

5) Insufficient and fragmentary financing

More than 80% of direct foreign investments and non-financial investments end up in seven of the country's cities. Investments in rural areas are four times smaller than in the cities.¹⁶

6) Deterioration of the landscape

Due to the decline in agricultural production, the areas of farmland that are no longer being used for farming and are left to overgrow have increased. In 2000, 19% (443.4 thousand ha) of total farmland was not used for farming. According to studies carried out by the Latvian State Institute of Agrarian Economics, the areas of land used for farming will

¹⁵ Ministry of Agriculture data. See the ministry's homepage <http://www.zm.gov.lv> (last accessed on April 24, 2003).

¹⁶ Latvian Central Bureau of Statistics data.

continue to decrease following accession to the EU. What will happen to this unused land is already apparent. Overgrown farmland can be seen in rural areas throughout Latvia.

7) Insufficiently coordinated support for rural development

No guidelines have been established for either a rural development policy or institutional mechanisms, according to which priority support measures could be determined and the appropriate instruments coordinated.

The rural economy is dependent on farming as the main form of employment, but the number of persons employed in farming is declining and will continue to decline following accession to the EU. The migration of young people to the cities continues. The areas of farmland not being used for farming are increasing.

3. Possible consequences

Increased social tensions

The agricultural sector currently has one of the lowest income levels and the highest number of unpaid family members (wages and social insurance are frequently not paid in family enterprises), and this will rapidly aggravate social tensions in rural areas. People who reach retirement age will receive no pensions or very small ones (due to low pre-pension incomes) and will be forced to “live off the land.”

Social tensions will also be aggravated by restructuring of the agricultural sector, which will cause a further loss of farm jobs. According to some prognoses, in the next 3–5 years, the number of persons employed in farming could decline by up to 40,000.

Migration of the economically active part of the population and the consequences

Migration of the economically active part of the population from underdeveloped rural areas to cities, especially to the central part of the country – to Riga and the Riga District – will promote development of “economic vacuums” and depopulated areas in outlying parts of the country.

Social changes in rural areas

Stratification of society, limited mobility, social and economic problems will increase social depression in rural areas. A gradual, but steady aging of the rural population and radical social segregation will take place.

Underpopulation, limited job opportunities and comparatively low incomes in rural areas will result in an inability to ensure the maintenance of social and economic infrastructures. The quality of these infrastructures will deteriorate, in many places to the point where they practically no longer exist.

If rural problems are not dealt with early on, social tensions in rural areas will increase because people who reach retirement age will receive no pensions or very small ones and will be forced to “live off the land.” The number of persons employed in farming will decline as will the rural population. In individual territories, this can lead to “economic vacuums.”

4. Problems and recommendations in an EU context

PROBLEM 1 – Farming alternatives

Implementation of all EU standards and norms, as well as production aid and quotas, will inevitably lead to a situation where many farms are no longer able to maintain current income levels with their present way of farming.

In order to continue production, many farmers will have to make the decision to increase output and specialize.

On many farms, however, farming is more a way of life than an intensive production process, and many farmers would like to keep it this way.

It can not be denied that even now this “way of life” does not guarantee adequate incomes, and that farmers often find themselves living close to the poverty level.

What can be done to ensure that farmers who do not wish to become part of the intensive farming system can still continue farming as a way of life, but increase income from their farms?

There are several possible solutions.

One solution to this problem is to promote organic farming – to allocate additional financial resources to the development of organic farming, and to interest, inform and educate farmers about the opportunities that organic farming can open up. Promotion of organic farming also requires resources for educating and informing consumers about the advantages of organic products.

The situation that makes it necessary to consider this option.

Organic farming would not only allow farmers to continue farming and keep their land – which would preserve and protect the countryside – it would also put high-quality, healthy products on the market.

Although this has already been defined as a promising farming sector that should be supported, it is still in the early stages of development. In 2001, only 219 certified farms were farming organically on 10,500 hectares of land. Organic products currently occupy only 1% of the market for food products. This is why this form of farming needs special attention and support.

Why should this be carried out?

There are a number of reasons why a special organic-farming policy would be successful.

1. Organic farming has already been identified as a branch of farming that has good prospects.

Since 2001, organic farmers have been receiving support from the government's subsidy program. In 2001, support was also granted for development of an organic seed-production system. In November 2002, the Cabinet of Ministers adopted Regulations on the Procedure for Organic Product Commerce and Certification¹⁷ and prepared a draft for Regulations on Registration of Persons Involved in Organic Product Commerce and Government Supervision and Control of Organic Products, which will be endorsed in the near future.¹⁸

¹⁷ Cabinet of Ministers regulations adopted on November 26, 2002, in force since December 4, 2002. *Latvijas Vēstnesis* No. 176, December 3, 2002. For a full text of the regulations see http://www.likumi.lv/doc.php?id=68961&rel_doc=on#REL_DOC (last accessed on April 24, 2003).

¹⁸ *Lauku Avīze*, October 22, 2002.

2. Organic farming would make it possible to retain farm jobs. This means that such a policy would have public support.

3. Organic farming trends in Europe and elsewhere in the world indicate that organic farming has good prospects.

In the developed countries, the market for organic products is growing by 10–15% each year. In 1997, the total market value of organic products sold all over the world was 10.5 billion USD. By 2000, it was 18 billion, but last year the total market value of the products was estimated to be 21.2 billion USD.

Of this total, approximately 7.7 billion USD worth of organic products were sold in Europe and 8 billion in the USA. Sweden has the fastest growing market, but the leading markets for organic products are considered to be the USA, Japan, Switzerland and the EU Member States.

One of the EU's agricultural development objectives is to achieve a situation in which 10% of total farmland is used for growing organic products.

4. Organic farming does not have a negative effect on the environment, and organic food products are healthier than traditionally grown food products. Thus, support for organic farming would at the same time be support for protection of the environment.

In the old EU Member States, a gradual reduction in the number of large farms is already under way because the negative effect of intensive farming on the environment can practically not be recompensed.

What could hinder implementation of this recommendation?

First of all, products that have been grown organically are relatively expensive.

Organic farming requires greater human resources. This is both good and bad, since production that is less intensive raises costs per unit. That is one of the reasons why organically grown products are more expensive than traditionally grown products. For comparison, it could be mentioned that the average price in the EU for organically grown crops is 50–100% higher than the price asked by traditional producers. Organic potatoes cost 50–500% more, and organic meat products cost 8–36% more.

Before this recommendation is implemented, a market survey should be carried out to determine whether there is a demand for organically grown produce in Latvia.

Attention and resources should also be dedicated to informing consumers about the advantages of organic products.

One way of making organically grown products more competitive is to lower the VAT rate for such products. This would reduce consumer prices and increase demand.

To compensate for the losses that the national budget would incur from these VAT amendments, taxes could be raised on pesticides and fertilizers.

Even so, from an economic aspect, changing tax rates can be a risky measure that does not always produce the desired results.

However, not all farmers are prepared to switch to organic farming.

At present, there are not enough jobs in rural areas apart from those in traditional agricultural production. The number of persons employed in farming is declining and will continue to decline because, following accession to the EU, many farms, for one reason or another, will have to halt agricultural production. It is estimated that employment will decline by 8% per year in the coming years.¹⁹ In the current situation, other sectors of the rural economy are not able to guarantee stable sources of income for those leaving the agricultural sector. This means that the government must apply the political and economic instruments at its disposal to create new jobs in rural areas – apart from those in traditional agricultural production. A targeted government policy would allow farmers who wish to do so to continue growing produce for their own use, but to obtain their main income from other activities.

The Finnish example

Following accession to the EU, in Finland:

- agricultural production volumes have not significantly changed in comparison with consumption and are close to full self-sufficiency;
- the proportion of large farms has increased. The number of farms with 1–5 ha of land has dropped from 99,964 in 1995 to 76,319 in 2001. At the same time, the number of farms that are larger than 50 ha has doubled to 11,483 (11%). The average size of farms in 2001 was 29.07 ha;

¹⁹ 2003 Rural Development Program. See Ministry of Agriculture homepage.

- there has been a significant increase in the number of farms that – in addition to agricultural production and forest work – also engage in some other form of entrepreneurship. These are 40% of the total number of farms, and for 28% of them agricultural production is no longer the main source of income.

The important thing in the context of diversification of rural job opportunities is that the main alternative form of business and source of income for farm enterprises is the provision of different types of services (machinery rental, transportation services, road maintenance, etc.).

The second most popular alternative is connected with the production of energy (sawdust and sawdust briquettes, organic fuel, peat, etc.).

The third largest group has devoted itself to tourist accommodation and the organization of leisure activities.

Comparatively fewer farms have chosen food processing, wood processing, crafts, or trade as alternative ways of earning an income.

Opportunities such as these have possibly prevented people in Finland from migrating away from rural areas. Each year, 1.2 % of the population leave the countryside and move to the city, but 1% move in the opposite direction – from city to countryside.²⁰

One positive development in Latvia should be mentioned here. In order to promote non-agricultural entrepreneurship and improve job opportunities in rural areas, in the first half of 2002 the Ministry of Agriculture drafted the Non-Agricultural Enterprise Development Program (NEDP),²¹ which the Cabinet approved on October 14, 2002. Seven million lats have been anticipated for implementation of the program, but so far 5.2 million have been granted, of which 3 million are budget funds.²²

The program supports a range of entrepreneurial activities: industrial production; consumer, tourism, leisure and other services (with the exception of financial transactions, real estate operations, public administration and security, and trade); building; craftsmanship; programming and computerization; aquaculture; hunting.²³

²⁰ *Agropols* No. 5, 2003. <http://www.lvaei.lv/apskatrakstureg.php3?raksts=4747>

²¹ For a full text of the Non-Agricultural Enterprise Development Program see the Ministry of Agriculture homepage <http://www.zm.gov.lv/country/index.php?id=6323&searchtxt=nelauksaimnieciskās> (last accessed on April 24, 2003).

²² *Latvijas Vēstnesis*, December 11, 2002. http://www.lvaei.lv/zinas_nuwin.php3?zina=5326 (last accessed on April 24, 2003).

²³ NEDP <http://www.zm.gov.lv/country/index.php?id=6323&searchtxt=nelauksaimnieciskās>

PROBLEM 2 – Increase in household expenses

1. To approximate Latvia's tax system to EU requirements, a new 9% VAT rate is being introduced.

Starting January 1, 2003, a new VAT rate is being introduced for products and services that were previously not taxed.²⁴ In the future, 9% VAT will be applied to:

- veterinary drugs and supplies;
- veterinary services;
- baby supplies;
- mass media (with the exception of erotic and pornographic publications);
- public water supplies;
- sewage services;
- collection, transportation and disposal of waste.

In 2003, the 9% VAT rate will still not be applied to drugs, medical equipment and supplies, and original literature.

From 2005, VAT will also be imposed on central heating and hot water.

2. The introduction of EU's CAP will probably lead to a gradual increase in food product prices.

2.1. EU prices for food products are generally higher than prices in Latvia. This allows the assumption that in the long term prices will converge, and in Latvia food prices will rise (due to the impact of a common market and free competition, and increasing raw material, manpower and other production-related costs, for example, the price of fuel and electricity).

²⁴ However, there are exceptions – cases where the 9% VAT rate is lower than the rate that was previously applied. One exception is, for example, guest accommodation.

Figure 2.

Food prices in euros, in other European cities (Sept. 2002)

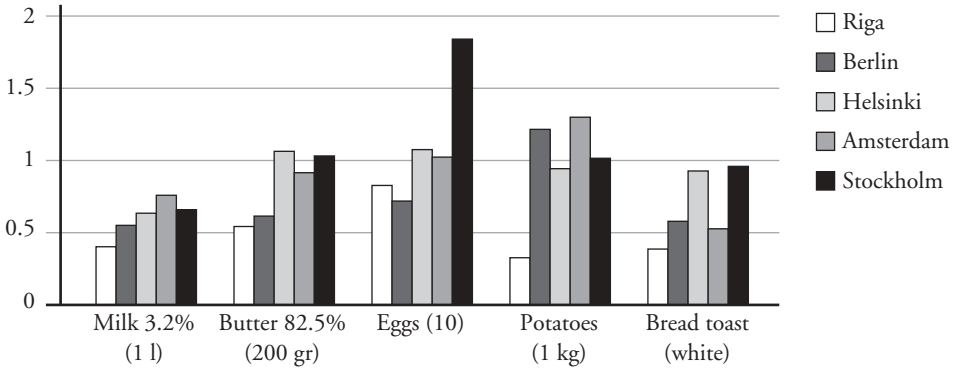
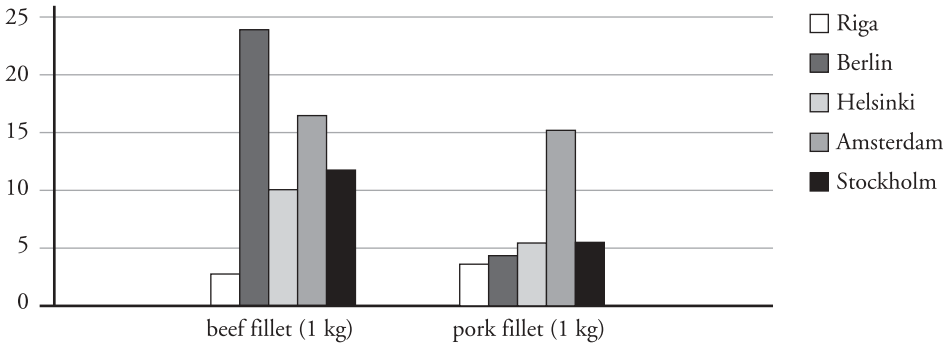


Figure 3.

Meat prices in euros, in other European cities (Sept. 2002)



2.2. Costs related to the introduction of EU sanitary standards (for example, slaughterhouses that meet EU standards) will raise the price of meat products.

2.3. Cheaper food products, which do not meet EU standards, will no longer be available on the market.

2.4. Following implementation of EU's CAP, EU-level intervention prices will be introduced in Latvia for various product groups (EU's CAP guarantees prices, which are maintained with the help of price intervention. For example, the EU price for milk

is 1.5 times higher than the average wholesale price in Latvia.²⁵) EU's CAP reform plans anticipate an increase in intervention prices, which would also raise retail prices.

3. The price of products subject to excise tax will increase.

3.1. Prices for a number of excised products will increase (beer, cigarettes, oil products). This means that fuel prices will probably also increase, which, in turn, could raise public transportation prices and other prices for services and products.

3.2. Fuel prices will also be affected by the need to meet EU quality standards, to introduce environmental and safety standards for gas stations and oil terminals, and to build up national oil reserves for emergency situations.

All of the above factors suggest that household expenses will increase in three main categories:

- public utilities (due to the introduction of VAT on water;²⁶ sewage;²⁷ waste collection, transportation and disposal; and the anticipated VAT on heating);
- food products (Production costs will increase as a result of price convergence and other factors. Many experts think that accession to the EU will, sooner or later, result in higher salaries as well. However, higher salaries and wages will also indirectly affect the price of food products, due to higher labor costs.);
- transportation.

Why are these seemingly small price increases so important for Latvia's population? (The biggest price hike will certainly be for tobacco products, but the Ministry of Foreign Affairs has called the resulting decline in the number of smokers a positive effect.²⁸ The prices for other products and services could rise by a few centimes per unit, which at first glance might seem inconsequential.)

²⁵ If, in 2005, milk producers were to receive 5 centimes more for 1 liter of milk than they do today (the most likely price increase), the retail price for milk would increase by 6 centimes. This means that the price of milk with 2.5% fat content could go up from the present 22–24 centimes to 30 centimes. If, however, in 2004, Latvian dairy farmers receive just as much as West European dairy farmers (17 centimes/liter), the retail price of milk could go up by 10 centimes.

²⁶ 1 m³ of water will cost 3.6 centimes more (*Diena*, January 15, 2003).

²⁷ This service will cost 5.8 centimes more per month (*Diena*, January 15, 2003).

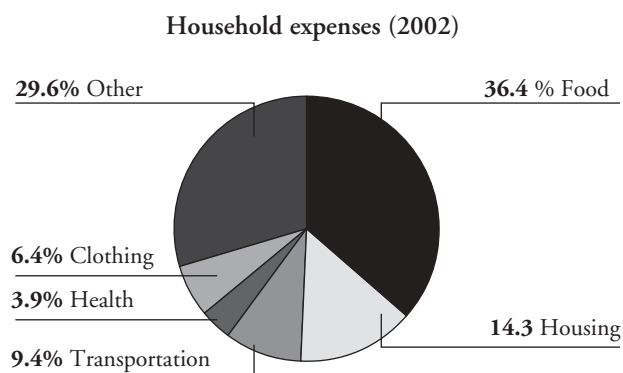
²⁸ <http://www.am.gov.lv/lv/index.html?id=3297>

Mainly because households spend the greater part of their income on food, housing and public utilities, and transportation.

The structure of household expenses is one of the indicators that fairly accurately shows not only consumer priorities, but also the extent to which public needs are satisfied. The priorities of households in Latvia are:

- food (36.4%),²⁹
- housing and public utilities (14.3%),
- transportation (9.4%).³⁰

Figure 4.



What is the solution?

In view of the fact that price increases are expected in all of the above product and service groups, the logical conclusion would be that, at least in the first period following accession to the EU, the purchasing power of the population will decline. Of course, incomes will also eventually rise, but there is no reason to assume that this will happen quickly.

This means that the only way to place more money at people's disposal is to cut "compulsory" expenses.

²⁹ The average EU household spends only 17% of its income on food. <http://www.ers.usda.gov/briefing/EuropeanUnion/basicinfo.htm> (last accessed on April 24, 2003).

³⁰ For more information see the Central Bureau of Statistics homepage <http://www.csb.lv> (last accessed on April 24, 2003).

One of the solutions is to lower Value Added Tax rates for food products.

The situation that makes it necessary to consider this option:

1. Following accession to the EU, prices for a number of food products will rise (prices for some other products and services will also rise as a result of the harmonization of tax rates);
2. Incomes in Latvia are already lower than incomes in the EU, so that when prices rise – which will be inevitable – the living standard of the greater part of the population will decline;
3. The changes will particularly affect socially vulnerable groups, whose incomes are close to poverty level or even below (the subsistence level is approximately 88 lats,³¹ the average salary after taxes is approximately 121 lats,³² and the average old-age pension is 58.16 lats³³).

A reduced VAT would:

- lower retail food prices;
- stimulate the domestic food industry;
- have a positive effect on turnover in other sectors as well, since money that is saved on food can be spent on other needs.

Why could this be carried out?

1. A number EU countries have a reduced VAT rate for some food products.³⁴

³¹ <http://www.csb.lv/Satr/rad/D5.cfm?kurs3=D5>

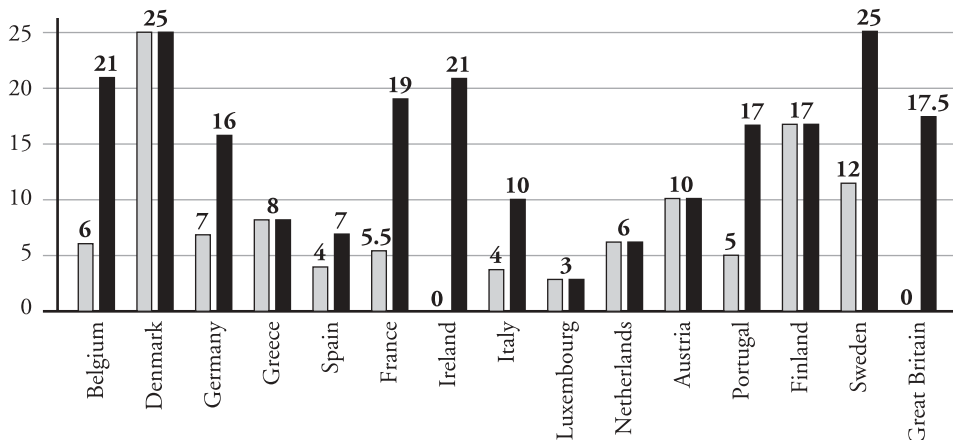
³² The official figures for the 4th quarter of 2002 are not yet available, so that this indicator may change. See <http://www.csb.lv/Satr/rad/E3d.cfm?kurs3=E3d>

³³ 2001 data.

³⁴ VAT rates in EU Member States as at May 2002. http://europa.eu.int/comm/taxation_customs/publications/info_doc/taxation/tva/taux_tva-2002-5-1en.pdf (last accessed on May 10, 2003).

Figure 5.

Lowest and highest VAT on some food products in the EU (2002)



2. This recommendation would be certain to receive public support.

3. To compensate for the losses that the national budget would incur, other taxes could be raised, for example, the gambling tax or the excise tax on alcohol. Of course, this would not entirely solve the problem.

What could hinder implementation of this recommendation?

1. As already pointed out, changing tax rates do not always produce the desired results. Those who benefit from a reduction of the VAT on food products will be not only the socially vulnerable part of the population, but also those who have much higher incomes. A 50% VAT reduction will not necessarily lead to reduction of precisely 50% of VAT on the retail price of food products.

2. Administration of differentiated taxes is more complicated and requires additional investments.

3. Budget revenues from the VAT on food products are quite significant.

In 2002, revenues from the VAT totaled 397,681,427 lats. Keeping in mind that 36.4% of household incomes are spent on food (if 18% VAT is also paid for the other household expenses, which is not so, since there is currently no VAT on public utilities), if the VAT for food products is reduced even by half, the budget will lose approximately 72,378,020 lats. For comparison: in 2002, the total sum planned for national defense, national security and integration into NATO was 90.96 million lats.

The other possible solution to problems related to price increases is a special benefits scheme for lower-income groups.

The advantage of this type of scheme, as compared to a VAT reduction, is that it reaches precisely those for whom it is intended.

The greatest disadvantage of this approach is that the possible source for such payments is the government's social budget, which is already suffering from a shortage of funds needed for resolving other social problems.

In view of the fact that an increase in prices is almost inevitable following accession to the EU, it is necessary to analyze all possible price increases, and the consequences, to precisely identify the social groups that will suffer most from these consequences, and to work out a mechanism for reducing the negative effects of the price increases.

PROBLEM 3 – Financial and legislative support

An analysis of Latvia's preparations for accession to the EU shows that our own policymakers are often the ones who impose high standards on our farmers and processing enterprises, ignoring the fact that 1) the EU often does not demand the introduction of such high standards, and 2) that the high standards and the costs connected with introduction of these standards can jeopardize one of Latvia's few branches of production – agricultural production.

EU's CAP leaves a whole row of options open to its Member States. It is important not only to be aware of these options, but also to act accordingly, both when taking decisions at all levels of administration and when allocating funds from the national budget.

A long-term rural development vision is needed if policies – whether they involve financial support or legislation – are to be consistent and goal-oriented.

Financial support for the agricultural sector

Government support for the agricultural sector is increasing. In 2003, approximately 27.3 million lats were allocated for subsidies. Compared with 2002 (a total of 30.4 million, of which 5.9 were compensation for drought damage), this year support for farmers has increased by 2.8 million.

However, in Latvia's case, subsidies are not just the money that farmers can "plough into their fields." The Ministry of Agriculture will have to continue financing both the Farm Accountancy Data Network (FADN), the Integrated Administrative Control System (IACS)³⁵ and other registries from subsidy funds.³⁶

SAPARD programs will also receive just one million in co-financing, instead of the 4 million that were requested.

So much for the budget. However, although a lot depends on financing, there is another perhaps even more important factor that affects long-term development, and that is legislation.

Although the EU allows Member States to enact their own national legislation, which can impose simpler requirements on farming and processing enterprises producing for national and local markets, Latvia has so far refrained from doing so.

This means that all enterprises must make sure that their production facilities meet all EU requirements.

If national legislation such as currently exists in practically all EU Member States had been enacted in Latvia, enterprises would not immediately have to make huge investments. They would be able to continue operations and make the necessary improvements gradually.³⁷

According to LSIAE expert Ligita Melece, in the process of harmonizing Latvian legislation on agriculture and food production with EU regulatory enactments, EU directives and regulations have sometimes been inaccurately interpreted. The requirements of the Good Practice Code, for example, have frequently been treated as mandatory, although implementation of the code is voluntary, and requirements such as the number of toilets at a place of work are simply recommendations, says Melece.³⁸

³⁵ If IACS is not implemented, farmers will not receive EU payments.

³⁶ <http://www.lvaei.lv/agropolsreg.php3?numurs=299&rubr=69> (last accessed on April 24, 2003).

³⁷ Simplified requirements can be introduced for infrastructure and constructions of an enterprise and for implementation of a self-inspection system. However, the current requirements have been drafted without consideration for either the size of an enterprise or for whether it will be producing only for the domestic market or exporting to the EU. Currently, Latvian legislation stipulates that all food producers must meet EU requirements.

³⁸ http://www.bode.lv/zinas_view_maker.php3?id_zina=6022 (last accessed on April 24, 2003).

We, ourselves, must carefully consider how we want to see Latvia's rural areas, Latvia's farmers and Latvia's agriculture. And with this long-term vision in mind, we must forge a fitting national rural and agricultural policy. EU's CAP leaves a whole range of options open to its Member States. It is important not only to be aware of these options, but also to act accordingly, both when making decisions at all levels of administration and when allocating funds from the national budget.

The situation that makes it necessary to consider the need for such a vision.

In June 2002, the requirement that, starting January 1, 2003, milk that is intended for sale may no longer be milked by hand, but only with milking machines, was included in Cabinet of Ministers regulations. Following the protests of dairy farmers, this requirement was withdrawn, because EU legislation does not rule out milking by hand. Latvian lawmakers, however, wanted to introduce this as a compulsory requirement.

This kind of situation is unacceptable, but it is possible if we have no idea of how we want to see Latvia's farms and farmers in 10 years.

If we want farms with only one cow to disappear, we must introduce not only the requirement that cows may only be milked with milking machines, but also other requirements that will be just as difficult to meet.

If we want to give small rural enterprises a chance to survive, we must prepare national legislation to cover food-production and processing enterprises that sell their products on the domestic market.

It is particularly important to draw attention to the fact that there is still time to enact national legislation that would make survival possible for small-scale food producers and processors who provide jobs and a living for many rural inhabitants. What is needed for this is the political will and a concept for rural development.

Recommendations for national legislation

1. The experience of other EU Member States should be considered, as well as EU directives and regulations, and CAP trends.

EU directives and regulations that apply to the agro-industrial sector use two different terms: 'registration' and 'recognition' of enterprises.

The EU clearly demands that food producers must be registered. But only those that operate in the common EU market must be recognized.

For example, producers of traditional cheeses do not have to be recognized, only registered. Dairies that supply local markets must also be only registered.

Enterprises that produce and process products of plant origin never have to be recognized, only registered.

These EU conditions apply primarily to small and medium enterprises, and the current regulations clearly define a large-scale and small-scale producer.

On January 1, 2004, new EU regulations on hygiene standards will become effective – both general standards and special standards that apply to animal products and include primary production. All Member States are currently debating the planned changes.

The draft regulations cancel all parts of the vertical regulations that deal with hygiene and keep only part of the information that is included in these sections. There are also common hygiene regulations that lay down general hygiene principles. Even here, the EU has found that the previous vertical regulations restricted producers because they put limits on the use of both modern technologies and traditional ones.

Current legislation allows national requirements for domestic markets, but the new regulations will have simpler requirements for small and medium enterprises in the whole EU economic zone.

2. Latvia's situation and conditions should be considered.

According to the Food and Veterinary Service (FVS), the most frequent violations in food processing enterprises are connected with "implementation of a self-inspection system"³⁹ and with the failure of an enterprise's infrastructure (buildings, facilities, territory) to meet hygiene requirements.

Why could this be carried out?

³⁹ One of the self-inspection mechanisms that many enterprises are currently introducing is HACCP. EU documents state, however, that due to lack of trained personnel and financial resources this is not required of small and medium enterprises, which must follow guidelines drawn up by each Member State. This is why, within 12 months of January 1, 2004, Member States must report to Brussels on the guidelines that they have drawn up. Implementation of HACCP applies only to large enterprises.

EU experience shows that national legislation that allows small enterprises to carry on production and continue to develop, thus guaranteeing jobs and wages, works well in many EU countries.

A good example is Denmark.

Denmark has four large slaughterhouses, which are recognized and which export to the EU. Of the 127 small slaughterhouses, only nine are recognized by the EU and authorized to export to the other EU countries, but they produce 40% of the meat that is sold in Denmark.

The second reason for considering legislative amendments would be the huge amount of support that such an initiative would receive from Latvian entrepreneurs. A survey among members of the Farm Enterprise Cooperation Council shows that many Latvian enterprises would be willing to produce only for local or domestic markets.

What could hinder implementation of this recommendation?

It is possible that public administration lacks the financial resources for working on realistic, long-term development visions that would be accepted by the public.

In regard to national legislation that would allow small enterprises to carry on production, it is possible that such an initiative would be defeated by opposition from larger companies. The majority of these will be able to adapt their production facilities to meet EU requirements and will be able to operate much more freely without competition from smaller businesses.

PROBLEM 4 – Public information

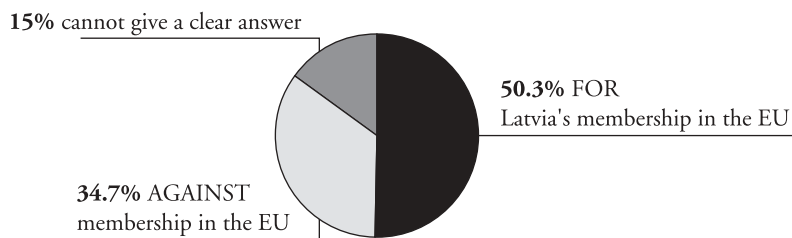
On September 20, 2003, a referendum will be held to determine whether or not the people in Latvia support plans to join the EU.

A poll carried out by *Latvijas Fakti* in March 2003 showed that only 50.3% of the respondents would vote for joining the EU; 34.7% would vote against and 15% had no opinion.⁴⁰ If those with no opinion were to vote against, it is possible that there could be a majority against joining the EU. Since joining the EU is Latvia's most important strategic priority, it is important that those who vote next September have full information on the EU and its consequences.

⁴⁰ EIB homepage <http://www.eib.gov.lv/doc/sabdom/200303.doc> (last accessed on April 24, 2003).

Figure 6.

**Voting results on EU membership if the referendum were held
in March 2003**

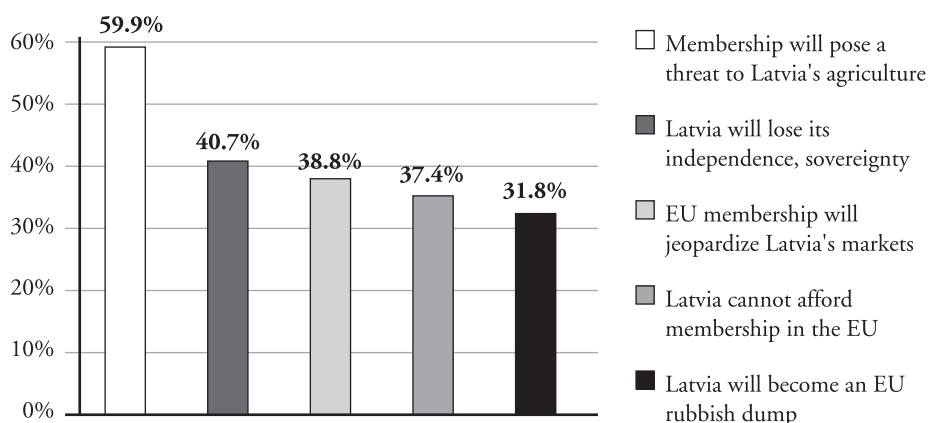


The results of the opinion poll carried out by *Latvijas Fakti* in November⁴¹ show that **the main argument for voting AGAINST Latvia's membership in the EU is that accession is a threat to Latvia's agriculture.** This reason was given by the majority (59.9%) of the eurosceptics as one of the five main reasons for not joining the EU.

The other main reasons (given by over 25% of EU opponents) for voting AGAINST Latvia's membership in the EU were: Latvia will lose its independence, sovereignty; EU membership will jeopardize Latvia's market; Latvia cannot afford membership in the EU; Latvia will become an EU rubbish dump.

Figure 7.

The main reasons for voting AGAINST membership in the EU



⁴¹ EIB homepage <http://www.eib.lv/doc/sabdom/200211.doc>

These results indicate that:

1) Public opinion is often influenced by myths about the EU, and it is precisely these myths that determine how people will vote in the referendum.

One of these is the myth about the threat to Latvia's agriculture. This myth has been created with a good deal of help from the media⁴² with its categorical views on the European Commission's offer to the candidate countries that was made public on January 30, 2002. The second myth is connected with Latvia's prospects of becoming the EU rubbish dump.

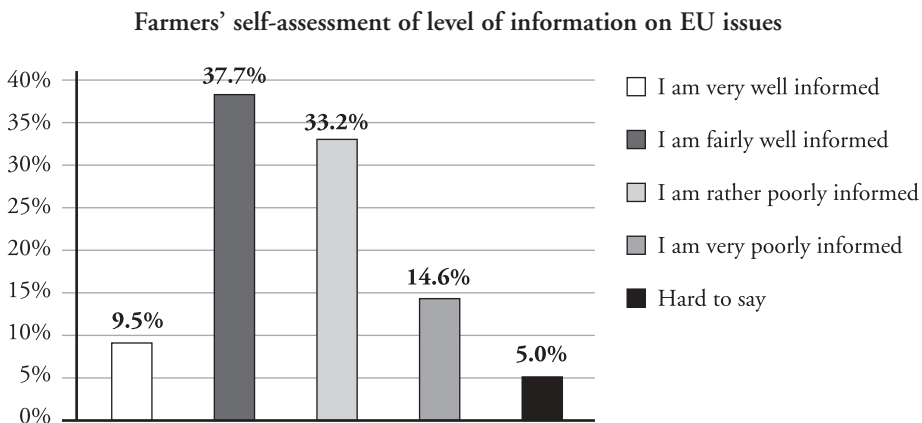
2) There is a shortage of accurate and objective information about the consequences of accession to the EU. One of the areas where this is particularly felt is agricultural development, as well as questions connected with Latvia's independence and sovereignty following accession.

3) There is a lack of public interest about issues connected with EU accession.

If a member of the public wishes to find out more about Latvia's accession to the EU, there are plenty of opportunities to obtain information of different kinds and, unfortunately, degrees of quality.

This is substantiated by the fact that the majority of farmers who were questioned for the survey felt that they were very well or well informed.

Figure 8.



⁴² People in Latvia traditionally trust the media more than they trust the government.

Even more interesting is the fact that:

- none of the farmers under the age of 25 considered themselves “well informed”;
- 51.1% of the respondents in the 26–45 age group considered themselves “very well” or “fairly well” informed;
- 50% of the respondents in the 46–65 age group considered themselves “very well” and “fairly well” informed.

This indicates either that certain age groups are for some reason unable to objectively assess their level of information or that it is possible to find ways of obtaining the necessary information, provided that a person is sufficiently interested.

4) The information channels that have been established to inform the public about issues connected with accession to the EU do not always reach target groups.

Farmers who were questioned for the survey said that their main sources of information about the EU were:

- television (34.9%);
- nation-wide newspapers, especially *Lauku Avīze* (24.1%);
- radio (23.6%).

European Integration Bureau and European Integration Center materials had served as sources of information for only a few of the farmers (0.8% for both). The majority of farmers had not heard of them and had not seen any of the materials distributed by these institutions.⁴³

What hinders the implementation of a well-prepared and objective information campaign?

First of all, there is the fact that the referendum is scheduled for the end of September 2003, which means that there is not enough time to prepare and distribute good and objective information material.

The way in which information is distributed is extremely important. Many of the currently applied distribution channels do not deliver the information to potential recipients. It is

⁴³ Since the above survey was carried out in April/May 2002, it is possible that the situation regarding awareness of the European Integration Bureau and the European Integration Center has changed in a positive direction due to events regularly organized by these institutions.

possible that, in such a short time, it will not be possible to find the best channels for distribution of information.

This is why it is important to examine how different types of information reach the public in Latvia. Identification of the optimal information channels will be useful even after Latvia joins the EU.

A lot of valuable information about EU integration is available on the Internet. However, according to a study that was carried out in Latvia in the first six months of 2002 (from January to June), 18% of Latvia's population aged 15–74 were using the Internet. The last study that was done in the fall showed that the number had risen to 21%.⁴⁴ Although the trend is positive, the Internet does not reach at least 80% of Latvia's voters.

Some recommendations:

Brief information on specific topics should be placed where it is certain to be noticed by target groups. For example, information about agricultural issues could be placed on the packaging of food products. (The label on a carton of milk could say: After accession to the EU, the average retail price of 1l of milk will be 0.30 lats.)

People should be heard on questions of public interest (the Saeima information hotline is an excellent way of helping people find answers to questions about which they are concerned). These questions should be compiled and dealt with in television reports, newspaper supplements, and information booklets on specific issues, which would be mailed to every person living in Latvia.

It is important that the questions and the answers be as specific as possible. For example: what will be the average old-age pension after accession to the EU; will family allowances increase; what will be the retail price of a liter of milk produced in Latvia, etc.? Many people in Latvia are not happy with the answer that everything depends on the rate of economic growth.

In order to carry out a good information campaign, it is necessary to: 1) understand the values, problems, concerns and hopes of specific social groups in an EU context; 2) provide information about the advantages and the losses of specific social groups following accession to the EU.

The survey that was carried for the purposes of this study examines the question: “**What do Latvia's farmers expect from the EU?**”

⁴⁴ <http://www.euronet.lv> (last accessed on April 24, 2003).

A survey of popular trends was carried out in April/May 2002 to establish the attitudes of Latvia's farmers to EU accession and to identify the factors that influence these attitudes.

With the help of a standard questionnaire, 199 farmers in all regions of Latvia – Vidzeme, Zemgale, Kurzeme and Latgale – were interviewed, and 21 semi-structured interviews were carried out among farmers in 9 of Latvia's districts.⁴⁵

The following pages examine whether the hopes that were expressed by the farmers in connection with Latvia's accession to the EU are likely to come true. The main arguments are presented for assuming that these hopes are or are not likely to be fulfilled.

As the previous section showed, the main problems in rural communities are connected with the socio-economic situation, and socio-economic issues are particularly important to farmers in an EU context.

The results of the survey supported this conclusion.

In answer to the questions "Why should Latvia join the EU?" and "Why should Latvia not join the EU?" each respondent was allowed to choose no more than three arguments.

Table 1.

Why, according to the farmers who were interviewed, should Latvia join the EU?	%	Why, according to the farmers who were interviewed, should Latvia not join the EU?	%
Joining the EU will promote Latvia's overall economic development. ⁴⁶	23.3	Latvia's economy will be destroyed by unequal competition.	23.8
Joining the EU will promote Latvia's rural development, because credits will be available.	22.7	Latvia's farmers will not be able to meet EU animal welfare requirements.	20.9
Latvia's security will improve.	22.0	Latvia's farmers will not be able to meet EU sanitary and hygiene standards.	17.0
The population's standard of living will improve.	14.0	The transition regulations offered by the EU are not good for Latvia.	15.7

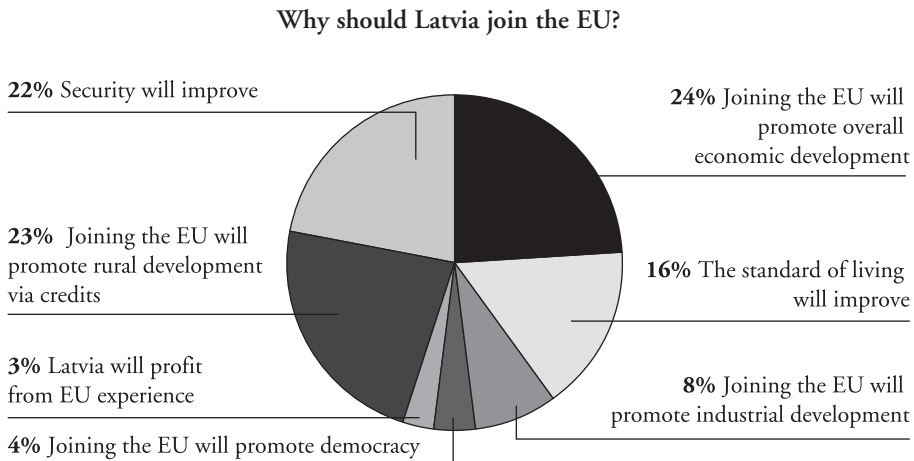
⁴⁵ Computer processing of questionnaires and data with the SPSS 8.0 program was carried out by sociology students at the Riga Stradiņa University Sociology Department. Data was analyzed by the head of the Sociology Department, Dr. Silva Omārova.

⁴⁶ The answers of the farmers who were interviewed.

Joining the EU will promote Latvia's industrial development.	8.0	The Latvian language will lose its importance.	8.1
Joining the EU will promote development of democracy in Latvia.	4.0	Latvia will acquire foreign traditions.	4.7
Latvia will profit from the experience of other EU countries.	3.3	Latvian culture will start to decline.	2.6
Other arguments	2.7	Latvia will be flooded with unskilled workers.	2.6

An interesting observation was made when analyzing answers to the questions “Why should Latvia join the EU?” and “Why should Latvia not join the EU?” Farmers’ arguments “for” accession to the EU were more “national” in character (farmers mentioned arguments such as development of the national economy and improvement of national security), while arguments “against” the EU were much more “personal” (animal welfare and hygiene requirements).

Figure 9.



The main arguments named for why Latvia should join the EU were: Latvia’s overall economic development, Latvia’s rural development and greater national security within the EU.

The following section analyzes the three most frequently mentioned answers to the question “Why should Latvia join the EU?”

The author offers her point of view on each of the farmers’ arguments.

Table 2.

Joining the EU will promote Latvia's overall economic development (24%)⁴⁷	
<i>Which factors will stimulate the national economy following EU accession?⁴⁸</i>	<i>Which factors could prevent the desired positive effect following EU accession?</i>
<p>In the first three years following accession to the EU, Latvia will be entitled to receive 1.638 billion euros (1.03 billion lats). It has been estimated that Latvia is certain to use 879.5 billion euros (554 million lats).⁴⁹</p> <p>Until now, Latvia has used a significant part of its budget to finance goals which, as an EU member, it will be able to finance from EU Structural Funds.</p> <p>Euro-optimists feel that joining the EU will attract foreign investments. There is a very pragmatic reason for this: profits. Return on investments in the candidate countries (the future EU Member States) is usually much greater than in the donor countries and increases at the same rate as economies in the candidate countries grow.</p> <p>Ireland is mentioned as a good example for a country's economic growth following accession to the EU.</p>	<p>Although Latvia will be eligible for large resources following accession to the EU, it is important to use these resources wisely. This is what will determine whether or not joining the EU will stimulate Latvia's economic growth.</p> <p>In recent years (in 2000 and 2001), GDP growth in Latvia was 6.8% and 7.7%.⁵⁰ The EU economy, however, is to some extent going through a recession. Latvia's economic growth rate might slow down once Latvia enters the common EU economic zone.</p> <p>In this round of enlargement, there are nine other European countries with similar economies vying for EU investments. All of these countries will be competing with each other, and the countries that have the most stable economies and the best situation in regard to legislation and workforce will also have the best chances.</p> <p>It should be pointed out that, at the end of the 1950s and beginning of the 1960s, even before accession to the EU,⁵¹ Ireland undertook a series of measures to stimulate the economy. Many analysts find that this was the main reason for the country's rapid economic growth. One of the biggest investors back then was the USA.</p>

⁴⁷ Here and in the following tables, the first line will show the farmers' arguments for or against Latvia's accession to the EU. Data is taken from the survey carried out by Riga Stradiņa University sociologists.

⁴⁸ Here and in the following tables, the author's arguments, which support or refute farmers' concerns or hopes in regard to the anticipated consequences of EU integration.

⁴⁹ According to data provided by the Ministry of Foreign Affairs.

⁵⁰ Latvian Central Bureau of Statistics information. <http://www.csb.lv/Satr/rad/A2.cfm?kurs3=A2>

⁵¹ Ireland joined the EU in 1973.

Table 3.

Joining the EU will strengthen Latvia's national security (22%)	
<i>Which factors will contribute to strengthening Latvia's national security following accession to the EU?</i>	<i>Which factors could prevent the desired positive effect following EU accession?</i>
<p>When the European Union was first created, one of the main arguments was the prevention of another war in Europe. In itself the EU cannot actually guarantee peace, but it is the safest area in Europe. Ever since the EU was established, its Member States have never gone to war with each other.</p> <p>Foreign capital investments in Latvia will increase. It is possible that large industrial companies will eventually build plants in Latvia, and their owners will have a greater interest in the country's security.</p>	<p>A realistic assessment of the international system shows that it is quite predictable, and no one could ever imagine that Belgium might attack Denmark. But the EU can hardly take credit for this.</p> <p>NATO is a far more significant guarantor for security, as was made quite clear by EU's inability to solve the Balkan conflict without NATO intervention.</p> <p>First of all, some sceptics feel that a significant increase in investments cannot be expected, mainly due to fierce competition from the other new members, but also because of Latvia's small market.</p> <p>And secondly, history has occasionally disproved the assumption that security goes hand in hand with investments.</p>

In itself, the EU cannot guarantee security. However, membership in the EU can have a certain indirect impact on Latvia's security level.

Table 4.

Joining the EU will promote rural development (23%)	
<i>Which factors will promote rural development following accession to the EU?</i>	<i>Which factors could prevent the desired positive effect following EU accession?</i>
<p>In 2004, approximately 73 million lats from EU funds will be available for Latvia's rural development. This is three times more than Latvia itself can afford to spend on agriculture.⁵²</p>	<p>Whether or not these resources bring returns depends on Latvia's ability to put them to good use.</p>

⁵² Ministry of Foreign Affairs data. <http://www.am.gov.lv/lv/index.html?id=3300>

Membership in the EU will clearly improve Latvia's rural development opportunities. If, until now, the biggest investments flowed primarily to the cities, following accession to the EU significant financial resources will be diverted to rural areas.

The main arguments mentioned by farmers for why Latvia should not join the EU were that Latvia's economy will be destroyed by unequal competition, Latvia's farmers will not be able to meet EU animal welfare requirements, and Latvia's farmers will not be able to meet EU sanitary and hygiene standards.

Figure 10.

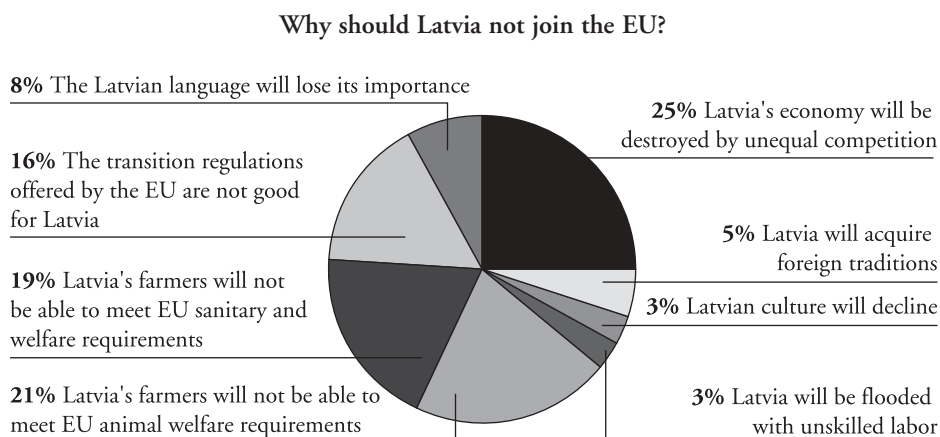


Table 5.

Latvia's economy will be destroyed by unequal competition (25%)	
<i>What suggests that Latvia's economy could be destroyed by unequal competition?</i>	<i>What suggests that Latvia's economy will not be destroyed due to unequal competition?</i>
<p>It is no secret that in many sectors of industry and agriculture EU producers are confronted with the problem of overproduction. Currently, only industrial products can be freely exported to Latvia. Once Latvia has joined the EU, Latvian markets will also be open to EU agricultural products, and at the time when Latvia joins the EU, the producers of these products will be receiving 50% more support than Latvia's producers. This implies unequal competition, which could force domestic producers from the market.</p>	<p>It is fair to speak of unequal competition only in regard to agricultural products. Even now, the market in Latvia is flooded with imported food products. Nevertheless, many consumers choose domestic products. One of the reasons is price. It is important to know that even after accession to the EU the Latvian market will not be flooded with cheap imported food products because prices for the majority of food products in the old Member States are higher than current prices in Latvia.</p>

<p>Competition will increase among producers. Those who are unable to keep up with the growing competition will be forced out of the market. One way of surviving the competition will be to constantly offer the consumer new products. This will require additional expenditures, which many producers will not be able to afford.</p> <p>The new situation will possibly lead to company mergers and optimization of production. This, in turn, will force small-scale producers out of the market and reduce the number of jobs, which will increase unemployment and the government's social expenditures (for unemployment benefits).</p> <p>EU export subsidies are variable. Like many other EU CAP mechanisms, export subsidies distort the market.</p>	<p>Once Latvia has joined the EU, the market will become more predictable.</p> <p>Company mergers and optimization of production will reduce production costs. This will increase competitiveness not only in the domestic market, but in the EU as well. It will be easier for the large enterprises to attract investments and develop production.</p> <p>Latvia's entrepreneurs will be eligible for export subsidies if they export products to non-EU countries. This will help to preserve and stimulate existing markets, and producers will benefit from cooperation with traditional trading partners such as Russia.</p>
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EU membership does not in itself mean either improvement of the economy or decline of the economy. Accession to the EU will offer new Member States the conditions that are essential for economic growth, and unequal competition will exist only in the first post-accession years and only in the agro-industrial sector. An intelligent and farsighted government policy and active entrepreneurship will be the determining factors for rate and level of Latvia's economic development.

Table 6.

<p>Latvia's farmers will not be able to meet EU animal welfare requirements (21%)</p>	
<p><i>What suggests that farmers will not be able to meet animal welfare requirements?</i></p>	<p><i>What suggests that farmers will be able to meet animal welfare requirements?</i></p>
<p>The majority of Latvia's farms are fairly small and at present do not meet EU animal welfare standards.</p> <p>All EU animal welfare requirements are still not available in a single document.</p>	<p>Farms will receive both EU and government resources for adapting their farms to EU requirements.</p>

Although EU animal welfare standards are frequently fairly general, in some areas they are quite explicit, and the improvement of animal buildings to meet these standards will require investments.

Table 7.

Latvia's producers and processors will not be able to meet EU sanitary and hygiene standards (19%)	
<i>What suggests that producers and processors will not be able to meet EU sanitary and hygiene standards?</i>	<i>What suggests that producers and processors will be able to meet EU sanitary and hygiene standards?</i>
According to a number of experts, the problem that Latvia's food producers will be confronted with immediately after accession to the EU will be the inability to meet EU requirements and standards for food production. For this reason, it is conceivable that some of these producers will halt production.	Many enterprises have already started to adapt their production facilities to EU requirements and hope to complete this process by the time that the requirements become effective.

It is true that many food producers and processors, especially the smaller enterprises, will not manage to introduce many of the standards by the time that Latvia joins the EU. For this reason, many farms and enterprises will have to halt activities in the agricultural and agro-industrial sectors.

If, in answer to the first question, the farmers spoke of the country as a whole (although, even in answer to the question of whether Latvia should join the EU, many focused mainly on their personal problems or on problems that affect farmers in general), the second question called for a more personal approach.

The farmers were asked how accession to the EU would affect the lives of farmers.

Two-thirds (66.3%) said that accession to the European Union would have a negative effect on their lives, 9% of the respondents could not answer (had no opinion), and only every fourth farmer (24.1%) felt that Latvia's accession to the EU would have a positive effect on his life.⁵³

⁵³ This survey was carried out in the spring of 2002, a few months after the European Commission had presented its accession scenario to the candidate countries. The crucial points in this scenario were 25% direct payments and very small quotas in several areas that are important for Latvia. It is conceivable that after successful entry negotiations farmers' views would be different.

In the next question, farmers were asked to express their views on the positive and negative changes that farmers would face following accession to the EU. In answer to this question, each respondent was allowed to choose no more than three arguments.

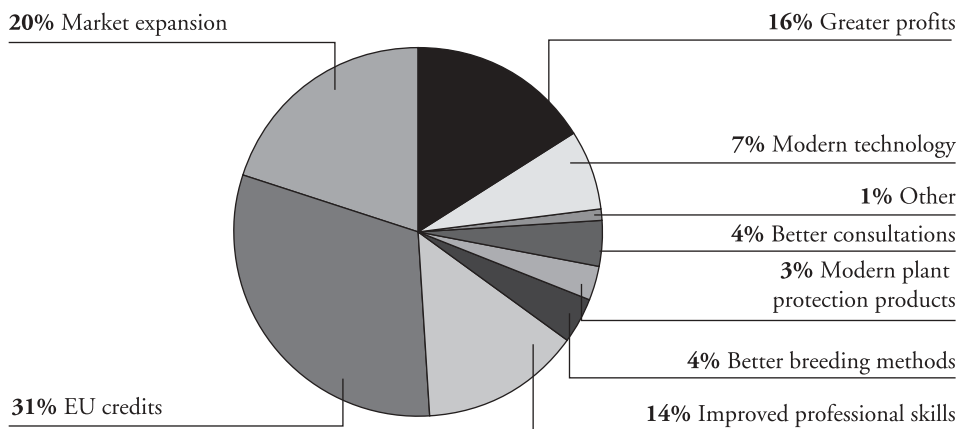
Table 8.

What positive changes will farmers face following accession to the EU?	%	What negative changes will farmers face following accession to the EU?	%
EU credits will become available.	32.4	The Latvian market will be dominated by foreign food products.	22.1
The market for agricultural products will expand.	20.4	Animal welfare standards will require reconstruction of barns and stables, which farmers will not be able to afford.	17.0
Farm profits will increase.	15.7	EU quality standards will be impossible for farmers to meet.	16.7
Farmers' professional skills will improve.	13.9	EU quotas will reduce farmers' profits.	16.1
Modern technology will be more readily available.	6.5	Farmers will not be able to afford modern technology.	9.4
Breeding methods will improve.	3.7	Farmers will be forced to accept foreign farming traditions and methods.	9.4
More substantial consultations will be available.	3.7	EU credits will not be fairly distributed.	6.7
More modern plant protection products will be available.	2.8	Seed prices will be too high for Latvia's farmers.	0.9
Other	0.9	Other	1.5

The main positive changes named by farmers were: accessibility of EU credits (32.4%), market expansion (20.4%), greater profits (15.7%).

Figure 11.

What positive changes will Latvia's accession to the EU bring into your life?



The next section analyzes the three most frequently given answers to the question: "What are the main positive changes that farmers will face following accession to the EU?" As in the previous tables, the first line shows the farmers' views, followed by the author's arguments for and against.

Table 9.

Farmers will have better access to EU credits (34%)	
<i>What suggests that these hopes will be fulfilled?</i>	<i>What suggests that these hopes will not be fulfilled?</i>
Theoretically, the free flow of capital within the EU means that, after accession to the EU, Latvia's farmers will be free to choose banks, investment funds and pension funds in any of the EU Member States. As competition increases, Latvia's banks will be offering cheaper credits	There is no reason to expect that interest rates will drop immediately after accession to the EU. The credit market is not yet sufficiently global, and it is likely that the conditions offered to Latvian entrepreneurs by banks in the "old" Member States will not be the same as those offered by the banks to entrepreneurs in their own countries. ⁵⁴

⁵⁴ According to experts, this has to do with the higher costs that banks in the "old" Member States will have in connection with the assessment of credit risks in the "new" Member States. It is, therefore, likely that, in the first couple of years after accession, credits offered by banks in the "old" Member States will be less or just as opportune as those offered by Latvian banks.

<p>Membership in the EU is likely to improve Latvia's credit rating. Subsequently, interest rates will fall and credits will be more accessible.</p> <p>Since one of the most important "gains of Latvia's farmers from membership in the EU will be a predictable market, stable prices and stable incomes,"⁵⁵ it is likely that banks will be interested in extending credits to farmers and this will make credits more accessible.</p> <p>Once Latvia joins the Euro-zone, basic Euro-bank interest rates, which are lower than inter-bank rates in lats, will also be applied to credits.</p>	<p>Following accession to the EU, Latvia's banks will have greater opportunities to invest in foreign securities. If this is likely to bring greater profits, banks may not lower interest rates for domestic credits.</p> <p>Certain guarantees will still be necessary in order to receive credits. This will make bank credits inaccessible for many farmers, especially small-scale producers.</p> <p>The euro will not be introduced in Latvia immediately after accession to the EU, so that short-term interest rates may not change very much.</p>
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Once Latvia joins the EU, interest rates are likely to fall. However, the drop will not be big enough to say that credits have become much more accessible to the majority of farmers.

Table 10.

The market for agricultural products will expand (20.4%)	
<i>What suggests that these hopes will be fulfilled?</i>	<i>What suggests that these hopes may not be fulfilled?</i>
<p>Once Latvia joins the EU, Latvia's agricultural producers will, theoretically (with a few restrictions⁵⁶), have access to the whole EU market.</p> <p>Customs duties will not be imposed on exports to the EU. Export subsidies will be available for some exports to third (non- EU) countries.</p>	<p>Conquering the EU market will not just require high-quality products at competitive prices (since direct payments will be higher for farmers in the "old" EU Member States, the prices of Latvian products will not always be attractive for consumers in other EU countries). Good arguments will have to be prepared for why consumers should purchase Latvian food products, and this will require both the arguments and the financial resources.</p> <p>In order to sell products in the EU, a producer must not only meet all EU requirements, but must also guarantee sufficient quantities and regular deliveries.</p>

⁵⁵ Ministry of Foreign Affairs information. <http://www.am.gov.lv/lv/index.html?id=3300>

⁵⁶ One of the restrictions will be Latvia's production quotas.

The market for Latvia's products will expand, but this does not mean that there will be a demand for them in the EU.

To create a demand, it is not only necessary to produce the quantities that are demanded by markets in other countries and to sell them at competitive prices, it is also necessary to promote Latvian products – to explain to consumers why they should choose Latvian products. And this is where an appropriate government policy is needed.⁵⁷

Table 11.

Farm profits will increase (15.7%)	
<i>What suggests that these hopes will be fulfilled?</i>	<i>What suggests that these hopes may not be fulfilled?</i>
Since support for agricultural production in practically all sectors will be greater following accession to the EU than current government support, there is reason to assume that farmers' profits will increase. ⁵⁸	Following accession to the EU, a whole row of new standards will be introduced (animal welfare and product quality). In the majority of cases, sizeable investments will be necessary in order to meet these standards. This will slow down the increase in farmers' profits.

In some branches (for example, dairy farming), farmers who are able to adapt their farms to all of the EU requirements will enjoy greater profits. However, there are other branches where sizeable investments will be needed to introduce EU standards, but incomes will not increase quickly enough and neither will profits.

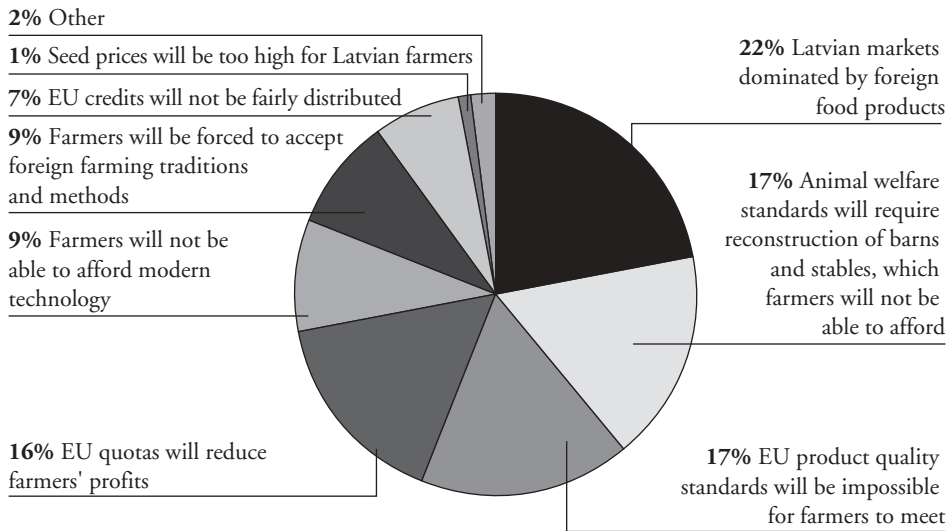
The main negative changes that Latvia's accession to the EU could be expected to bring Latvian farmers were: the Latvian market will be dominated by foreign food products (22.1%); animal welfare standards will require reconstruction of barns and stables, which farmers will not be able to afford (17.0%); EU product quality standards will be impossible for farmers to meet (16.7%).

⁵⁷ Currently Latvian food product exports represent only a small share of total exports. If we want to stimulate the export of food products, a government policy is needed that will include the marketing of Latvian products in other countries. This could be achieved with a widespread network of Latvian Economic Bureaus, which would carry out market research and marketing activities to promote Latvia's products abroad.

⁵⁸ Increase or decline of profits is closely connected with specific farming sectors. The main changes will be examined separately by sector.

Figure 12.

What negative changes will Latvia's accession to the EU bring into your life?



The next section analyzes the three most frequently mentioned answers to the question “What negative changes could farmers face following accession to the EU?” with the author’s arguments for and against.

Table 12.

The Latvian market will be dominated by foreign food products (22.1%)	
<i>What suggests that these concerns could be justified?</i>	<i>What suggests that these concerns may not be justified?</i>
<p>Since the Latvian market will be open to food products from other EU countries, it is certain that these products will enter the Latvian market.</p> <p>Following accession to the EU, prices for Latvian food products are likely to rise, and it will be easier for EU food producers to oust domestic producers from the market.</p>	<p>A significant share of the Latvian market is already dominated by imported food products. The choice is up to the consumer. If the quality and price of Latvian food products satisfy consumers, products imported from other EU countries will not have a negative effect on sales of domestic food products.</p>

The market share of food products produced in other EU Member States is certain to increase. The question is whether and how they will compete with Latvian products.⁵⁹

Table 13.

Animal welfare standards will require reconstruction of barns and stables, which farmers will not be able to afford (17%)	
<i>What suggests that these concerns could be justified?</i>	<i>What suggests that these concerns may not be justified?</i>
<p>The requirements that agricultural producers are being asked to meet will make investments necessary (after accession to the EU, farms will be monitored, and those that do not meet animal welfare requirements will not be allowed to keep livestock). Low production volumes, but high costs make a farm unprofitable.⁶⁰ A certain number of small farms will be forced to give up dairy farming, since it will not be profitable for them to introduce quality standards.</p> <p>LSIAE has calculated that the construction of a new building for 100 cows in accordance with EU quality, environmental and hygiene requirements would cost 2,000 lats per cow.⁶¹</p>	<p>There are plenty of programs for financing farm modernization, both from EU and government funds.</p>

⁵⁹ If we want to promote the development of domestic producers, Latvia's products must be competitive. If the development of Latvia's entrepreneurs is considered to be a national priority, concrete action must be taken to make sure that Latvian products are able to compete in the markets of the "old" EU Member States.

⁶⁰ "A certain number of small farms will be forced to give up dairy farming, since it will not be profitable for them to introduce quality standards." Negotiation results compiled by the Ministry of Foreign Affairs. <http://www.am.gov.lv/lv/index.html?id=3300>

⁶¹ According to Ādaži farmer Gunārs Ziemeļis, in order to meet all EU requirements, he would have to invest at least 1,000 lats per cow. *NRA*, April 29, 2002.

Although EU animal welfare requirements are often fairly general, in some areas they are quite specific, and modernization of animal buildings to meet these standards will require investments. It must be added that even greater expenses will often be connected with the implementation of environmental and hygiene standards.

Table 14.

EU quality standards will be impossible for farmers to meet (16.7%)	
<i>What suggests that these concerns could be justified?</i>	<i>What suggests that these concerns may not be justified?</i>
<p>EU product quality standards are higher than those that are currently being observed by a great number of farmers and processors.</p> <p>The situation is particularly critical in the meat industry. In 2002, only two slaughterhouses in Latvia fulfilled EU requirements.</p>	<p>Various sources of financing will be available to producers and processors of agricultural products for the improvement of production facilities to meet EU quality standards.</p> <p>After accession to the EU, food processing enterprises will be granted a certain period of time to fulfil requirements, since a number of transition periods have been negotiated.</p>

The majority of Latvia’s farmers will have to make sizeable investments in order to adapt their farms to all of the requirements. A large part of Latvia’s food processing enterprises is in the same situation.

Conclusions

The conclusions that were drawn after analyzing the results of the first two stages of the study (survey of farmers and analysis of documents, in order to find answers to the question of how justified farmers’ hopes and concerns may be in regard to the possible consequences of Latvia’s integration into the EU) can be conditionally divided into two parts.

The first part deals with information that was obtained from the results of the survey. The second part, with information on the results of the entry negotiations and the effect that the introduction of EU requirements and quotas and the availability of resources for rural development through the Structural Funds will have on Latvia’s rural areas, agriculture and farmers.

Both the analysis of farmers' attitudes to Latvia's membership in the EU and the analysis of whether or not farmers' hopes and concerns about the consequences are justified lead to the following conclusions:

1. **The attitudes of farmers to membership in the EU are more negative than positive⁶²** and do not always stem from objective information.

2. **Farmers' concerns frequently stem from a lack of objective information.** Many farmers are upset about animal welfare requirements, which, according to the Ministry of Agriculture, are fairly general. Information on all of the animal welfare requirements is not available to farmers in one document, and lack of knowledge gives rise to myths, which, in turn, make it difficult to assess one's own strengths and weaknesses in an EU context.

3. The hopes that farmers pin on Latvia's membership in the EU are expressed in such general phrases as "the national economy will grow," "Latvia's security will improve," or "credits will be more accessible." It is practically impossible to prove or disprove the truth of such arguments with the help of objective facts and figures. Not only Latvia's farmers, society at large, too, must understand that much will depend on the ability of Latvia's government and Latvia's people to adapt to the new situation and take advantage of the opportunities that the EU offers.

4. At the same time, **many of the farmers' concerns are fully justified. For example, many farms will not be able to meet all of the EU requirements and will be forced to halt production.** Not all farms will be able to switch to non-traditional agricultural production (for example, cranberries, mushrooms, organic products) or services (tourist accommodation⁶³). Since there are few jobs in rural areas other than those in agricultural production, an analysis of development prospects from the present position makes it clear that Latvia's accession to the EU will create a host of problems that will be difficult to surmount for many of Latvia's farmers (both those who sell their produce and those who do not) and processors. If agricultural production is halted,

⁶² This survey was carried out in the spring of 2002, a few months after the European Commission had presented its accession scenario to the candidate countries. The crucial points in this scenario were 25% direct payments and very small quotas in several areas that are important for Latvia. It is conceivable that after successful entry negotiations the views of the farmers would be different.

⁶³ Although statistics indicate that rural tourism is picking up, there are many factors that hinder development of the rural tourism industry in Latvia. One of these is insufficient demand (the domestic market is small and incomes in Latvia are low, but foreign tourists either lack information or are not interested in country holidays in Latvia). Another is an insufficiently developed infrastructure (this applies in particular to the quality of roads in rural areas).

incomes will decline because it will be hard to find other jobs. If the small-scale processing enterprises are closed down, unemployment will increase. This will not only reduce the incomes of one part of the rural population (it is no secret that many small and medium enterprises do not pay social insurance for their employees), it will also increase the government's social welfare expenditures.

5. Following accession to the EU, the fate of many farms and that of the people who make their living on these farms will be decided not only by EU directives and regulations, but also by how well the country has prepared itself for membership in the EU. Although entry negotiations have been finished, Latvia can still change its national legislation in ways that benefit both its farmers and processors. Although such legislative amendments are complicated, they are possible. What they require above all is the political will and a clear vision of how we want to see Latvia's rural communities and farms in 10 years. If the vision is clear, there is still time to strengthen the legislative and economic basis for making it come true.

Conclusions about the prospects for agricultural development in Latvia following accession to the EU:

The main conclusion, after analysis of the accession negotiations, is that the results of the negotiations are generally positive for the agricultural sector. However, after accession to the EU, farmers will have to decide whether they want to become agricultural producers or engage in subsistence farming as part of a rural lifestyle.

According to the theoretical calculations of LSIAE experts, if Latvia produces the amount of agricultural products that EU quotas allow in 2004, as a result of price changes Latvia's agricultural revenues could increase by 245 million lats.

In addition, agricultural producers will receive 20 million lats in direct payments. However, such revenues will be possible in 2004 only if agricultural producers are able to adequately prepare for the future. And these preparations will require serious work and investments. In the dairy industry, for example, in order to produce 720 thousand tons of milk in 2006 – increasing milk yields by 5% each year – it will be necessary to increase the number of cows by 170 thousand. Currently, there are an estimated 205 thousand cows in Latvia.⁶⁴

⁶⁴ From a speech made by LSIAE director, A Miglavs, at the conference organized by the Ministry of Agriculture together with the agricultural newsletter *Agropols*, "Latvia's Accession to the EU: How Will We Live in the Future?" http://www.lvaei.lv/zinas_search.php3 (last accessed on April 24, 2003).

It is particularly important to point out that, once Latvia has joined the EU, farmers will have various alternatives:

- if they adapt their farms to all of the EU requirements they will be able to produce agricultural products for the market. In practically all sectors of agricultural production, it will be possible to either maintain current production volumes or even to increase them;
- if they adapt their farms to general EU requirements, they can produce agricultural products for direct sale;
- if they observe general animal welfare requirements, they can continue producing for their own needs.

In the first case, i.e., production for the market, according to LSIAE calculations, if a farm in Latvia is to be considered an agricultural producer it must correspond to one of the following quantitative indicators:

- cultivated area of arable crops – over 50 ha;
- cultivated area of potatoes – over 5 ha;
- number of dairy cows – over 50;
- number of pigs – over 100;
- number of cattle – over 50.

Due to various EU CAP instruments (intervention price for milk, hectare payments for arable crops, support for problem regions), farms of this size will have income levels that are higher than the current ones.

If production volumes are smaller, farms must have other sources of income.

Farmers whose farms do not currently meet these requirements, but who wish to become agricultural producers, will be given the opportunity to develop and increase production. Once Latvia has joined the EU, farmers who now have semi-subsistence farms, and who are either trying to develop their present line of production or are planning a new one, will have both the time and the opportunity to do so, since they will be eligible for support payments. These will be 1,000 euro (635 lats) per year, and will be paid for five consecutive years.⁶⁵

⁶⁵ The purpose of this measure is to grant additional financing for rural development in different sectors in order to ensure higher incomes, provide a greater variety of job opportunities and improve skills. The conditions for receiving support payments and more information can be found in the Farm Policy Newsletter *Agropols*, No. 5, 2003. <http://www.lvaei.lv/apskatrakstureg.php3?raksts=4746> (last accessed on April 24, 2003).

However, as has already been pointed out, there are several ways of keeping a farm without turning it into an intensive farming enterprise:

- production of non-tradition agricultural products (for example, cranberries, mushrooms or organic products);
- development of rural tourism;
- maintenance of intra-farm output (agricultural production for personal use) and additional income from other sources.

Not all farmers will be able to modernize their farms or switch to other forms of production or services. Therefore, before accession to the EU, it is important to have an agricultural and rural development policy which will ensure that producers and processors who are currently unable to adapt to EU requirements suffer as little as possible from the consequences of accession.

As regards the opportunities of Latvia's producers and processors in an EU context, it is clear that those who will have fulfilled all requirements in regard to quality will be able to operate not only on the domestic market, but also on the markets of other EU countries. However, this requires a government-level marketing policy to promote Latvian products in other EU countries. It will be possible to continue cooperation with traditional trading partners in non-EU countries, and to receive subsidies for such exports.

Even now, Latvia's food stores are brimming with products from EU countries, but after accession to the EU, there will be even more.

On the one hand, this means that Latvia's producers, who will probably face higher production costs and subsequently have to demand higher prices, will need additional resources to attract buyers.

On the other hand, a large percentage of Latvia's consumers buy Latvian products because they like them better. Specific brands, which have been popular here for 3 or 4 decades, like Russian and Dutch cheeses (despite the name, they are produced locally or in Lithuania, Estonia or Russia; Dutch cheese is never imported from the Netherlands) will probably still be exported to Latvia only by Lithuania. And other Latvian dairy products – yogurt, cottage cheese, sweet (frosted) cream cheese – have their regular buyers who will most likely continue to choose these products. The conclusion is that there are a number of products whose market position in Latvia will not be seriously contested.

In order to prepare and carry out an effective information campaign, it is necessary to understand the concerns and hopes of specific social groups in regard to the EU. But

it is just as important to know what gains and what losses membership in the EU will bring for these specific groups. On the basis of the information that was obtained from the survey, the following section examines the potential **gains and losses in the main sectors of agriculture**.

Since it was not the intention of this study to produce a "Handbook for Farmers on the Consequences of EU Membership,"⁶⁶ (because every farm is an individual case (advice cannot be universally applied) and both the Ministry of Agriculture and the Latvian Agricultural Consulting and Educational Support Center with its 26 regional bureaus do a very good job of informing farmers), the following section will examine the main ways in which Latvia's accession to the EU will affect some farming sectors in Latvia.

Since one of the major sectors in Latvia is dairy farming, and this was also one of the main issues in the part of the entry negotiations that dealt with agriculture, the main focus will be on dairy farming.

DAIRY FARMING

The current situation

The total number of farms in Latvia that keep dairy cows is over 70 thousand, but only about two thousand farms have herds of 10 and more cows. About 40 thousand farms have only one cow.⁶⁷

Dairy farming is the major farming sector in Latvia. It is also one of the largest sectors (milk makes up 30% of total agricultural end products and 17% of total agricultural and food product exports, with a rising trend). Furthermore, dairy farming receives far more support than any other farming sector (in 2001, dairy farming received over 20% of all agricultural subsidies, and in 2002, even more).

⁶⁶ The intention of the study was far more to convince those whose main argument for voting "against" membership in the EU is that it will be bad for Latvia's agriculture that what the EU has to offer is not at all bad.

⁶⁷ Ziedone Bērziņa, director of the Ministry of Agriculture Department for Development of Agricultural Production and Processing, *Latvijas Vēstnesis*, May 28, 2002.

Latvia's milk quota has been set at 728,648 t. The EU has anticipated that, up to the year 2006, Latvia's quota will increase to 695,400 t, but the additional 33,248 will be granted only if Latvia is able to fill its quota.

The quota⁶⁸ for milk that is sold for processing will be 464 t, which is more than what is currently being produced (403 thousand tons in 2001), and the quota for milk that is sold directly will be 231,400 t.

Regardless of the size of a farm, in order to sell the milk that has been produced either directly or for processing, an EU dairy farmer must have a milk production quota.

Milk quotas will be divided up among all dairy farms, even those who have no more than a few dairy cows – of course, only if the milk is sold to processors, stores, government agencies, or the like.⁶⁹ Milk that is produced for personal use is not included in the quotas. In the near future, the EU milk quota will be introduced with the help of the Milk Producers' Registry. Each milk producer will be granted a quota on the basis of the quantities sold directly and to milk processors in previous years.

For calculating these quotas, Latvia has asked the EU for permission to apply the figures for 2002–2003 for milk sold to processors and the 2003 figures for milk sold directly – if Latvia joins the EU in 2004. Quotas will be granted once only, and then they can be bought, sold, bequeathed, etc. A quota is linked to a specific farm, and if the farm is sold, the quota is sold along with it.⁷⁰

Currently, there are over 50 milk-processing enterprises in Latvia. However, 10 of these enterprises process more than 70% of the total volume of milk that is sold. The remaining 30% process only small quantities.

⁶⁸ What actually is a quota? "None of the quotas forbid production. They simply limit the quantities for which government support may be received. For example, if a farmer has a milk sales quota, he may produce more, but he may not sell more. A sugar producer may produce more, but the quantity that exceeds the quota may not be sold for 360 lats/t, but only for 100–200 lats/t. For arable crops, the quota limits the area for which payments may be received." (LSIAE)

⁶⁹ Ministry of Agriculture, February 2003.

⁷⁰ http://saule2.saeima.lv/elk/lielas_lapas/atbildes.htm (last accessed on April 24, 2003).

Table 15.

Gains	Losses
<p>The intervention price in the dairy sector is 1.5 times higher⁷¹ than the average wholesale price in Latvia.⁷² This means that, once Latvia has joined the EU, dairy producers could receive 1.5 times more for 1 liter of milk – a significant increase in milk revenues.</p> <p>Latvia has been granted a transition period until January 1, 2006 to reach EU quality standards for milk. This will give dairy farmers time to carry out the necessary improvements on their farms.</p> <p>Increasing the size of dairy-cow herds will lead to optimization of production, which will reduce production costs per unit and increase incomes.</p> <p>Farms with a small number of dairy cows will be able to keep their cows, since the small quantities of milk that are produced can go under intra-farm output – used for household consumption or animal feed. These quantities are not regulated or included in the quotas.</p>	<p>If Latvia's dairy farmers want to continue producing milk for processing, they will have to observe certain animal welfare and product quality standards. In the majority of cases, this will require sizeable investments.</p> <p>LSIAE director Andris Miglavs finds that the optimal number of dairy cows for a farm is more than 50. Smaller production volumes mean that a farm must have other sources of income.⁷³</p> <p>The total number of farms that keep dairy cows is more than 70 thousand:</p> <ul style="list-style-type: none"> ▪ just under 2,000 farms have 10 and more dairy cows; ▪ approximately 68 thousand farms have fewer than 10 cows; but 40 thousand of them have only one cow. <p>This means that, being unable to afford huge investments, the majority of these farms will halt the production of milk for sale to processors. The question will then be whether Latvia is able to fill the milk quota that it fought so hard to get.</p>

⁷¹ The minimum – target – price for milk must be prescribed by law, because once Latvia becomes an EU Member State, the EU Council's May 17, 1999 Regulation No. 1255/1999 on Organization of the Common Milk and Milk Products Market will take effect. Section 3 of the Regulation sets the target price for 3.7% milk that is sold to dairies at 30.98 euro /100 kg. This target price has been set for the period from July 1, 2000 to June 30, 2005.

⁷² For individual commodities, the EU has guaranteed minimum prices, which are maintained through price intervention.

⁷³ http://saule2.saeima.lv/elk/lielas_lapas/aktuali.htm

<p>In 2005, the EU will introduce direct payments in the dairy sector. Currently, dairy farmers in Latvia receive subsidies and will continue to do so until the direct payments are introduced.</p> <p>The EU suckler-cow premiums that Latvia will receive could, together with premiums for bovine animals, provide an alternative source of income for farmers who are forced to give up dairy farming.</p>	<p>Producers will be eligible for direct payments (subsidies).</p>
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BEEF PRODUCTION

The current situation

The supply of beef in Latvia does not fully satisfy domestic demand. According to Central Bureau of Statistics figures for 2001, beef producers are able to satisfy only 80% of domestic consumer demand.

There are several categories of support payments that beef producers will receive following accession to the EU: a special premium for bovine animals⁷⁴; a slaughter premium for bulls, bullocks, cows and calves; a premium for suckler cows; a Special Payments Envelope for Bovine Animals.

The special premium for bovine animals

Currently, there are 56,480 animals in Latvia to which the conditions of the special premium for bovine animals apply.

On the basis of the figures submitted by Latvia, the EU has calculated that the regional ceiling for the special premium must be applied to 70,200 animals. This is more than the current total and leaves room for development.

The slaughter premium for bulls, bullocks, cows and calves

Currently, there are 143,340 such animals in Latvia.

On the basis of the figures submitted by Latvia, the EU has calculated the national ceiling for slaughter premiums: 124,320 bulls, bullocks and cows, and 53,280 calves. This

⁷⁴ A subsidy for young bulls older than nine months.

adds up to 177,600 animals. The EU offer exceeds the current total and leaves room for development.

The premium for suckler cows

Payments for suckler cows are closely linked to development of the beef sector and to the milk quota: a certain percentage of today's dairy farmers could eventually switch to cattle farming, where it is easier to meet EU requirements. The figure initially proposed by the EU was only 1,758.

In response to Latvia's argument that this was a new sector in Latvia, which was developing very swiftly, the offer was raised to 19,368, which is significantly higher than the current total. There is great development potential here (in November 2002, there were only 7,647 suckler cows in Latvia).

The premium for suckler cows along with the premium for bovine animals provides an alternative source of income for farmers who will be forced to give up dairy farming.

Special Payments Envelope for Bovine Animals

Latvia's Special Payments Envelope comprises 798,408 lats, corresponding to the number of animals for which the payments have been calculated. Latvia can decide how this money will be distributed among producers. The Ministry of Agriculture has pointed out that these payments will be made together with the slaughter premiums.

Table 16.

Gains	Losses
<p>Latvia has significant development opportunities in all of the above farming sectors.</p> <p>Development of this farming sector will increase the income of those employed here, and this will improve the standard of living.</p>	<p>The introduction of animal welfare standards will require a certain amount of investments.</p> <p>In 2002, there were still no slaughterhouses that meet EU requirements, and the conformity of processing enterprises with EU requirements had not been established. As a result, meat cannot be exported. There are also no slaughterhouses for organically farmed animals. This means that sizeable investments are needed in this sector.</p>

SHEEP FARMING

Although conditions in Latvia are suitable for sheep farming and there is a demand for these products both on the domestic and the EU markets, sheep farming is not one of the most popular forms of farming in this country. Currently, there are 14,600 ewes in Latvia.⁷⁵ The subsidies that the Latvian government pays in this sector are comparatively large (60 lats per animal).

Table 17.

Gains	Losses
<p>The EU offers payments for 18,473 animals. There are development opportunities in the sheep-farming sector. Furthermore, for several years after accession to the EU, Latvia's sheep farmers will be receiving more support than sheep farmers in other EU Member States. In EU countries, production of lamb and mutton covers only 80% of the demand.</p> <p>Following accession to the EU, Latvia will have five years to harmonize payments.</p>	<p>The EU pays less for ewes and applies a different formula for calculating payments. Currently, the EU pays 21 euros per ewe, per year if the herd has 10 or more ewes. Latvia pays 60 lats per year if the herd has at least 30 ewes and the farm has acquired the status of a breeding farm.</p>

PIG FARMING

As of January 1, 2002, there were 428 thousand pigs in Latvia on 56,288 farms.

60% of all animals are found on farms that have more than 10 sows. 31.6 thousand tons of pigmeat were produced in 2001, which is 59.2% of domestic demand. Consumption of pigmeat has somewhat declined in the last three years. In 2001, it was 53.34 thousand tons.

⁷⁵ EU's CAP anticipates a premium for ewes.

Table 18.

Gains	Losses
<p>There is no quota system in pig farming, it is one of the most liberal European systems.</p> <p>EU guidelines on government support allow national subsidies for pig breeding.</p> <p>Intervention prices function as a regulating mechanism for the EU pigmeat market.</p>	<p>There are no EU direct payments for pig farming.</p> <p>At the beginning of 2003, there were only two slaughterhouses that meet EU requirements, and the conformity of processing enterprises with EU requirements had not been established. As a result, opportunities for meat export are limited. If the current government policy is maintained, the small slaughterhouses that do not meet EU requirements will have to close down.</p> <p>There is no single classification system or control mechanism for pig carcasses. As a result, payments are not differentiated according to lean meat content.</p>

POULTRY FARMING

There are currently two separate trends in poultry farming in Latvia: large poultry farms with intensive production, and household plots with small-scale production for a limited number of consumers.

The large poultry farms have been equipped with the latest technology and produce most of the country's poultry products.⁷⁶

Market-oriented farms are those with over 350 heads of poultry. There are 127 or 0.2% such farms in Latvia.

Currently, demand in Latvia is greater than supply – a situation that makes poultry import profitable. More poultry meat is imported than produced in Latvia, but domestic egg production fully covers domestic demand.

⁷⁶ 75% of the poultry products are produced by the Ķekava and BALTICOVO enterprises, which have their own slaughterhouses and processing facilities. These enterprises process only their own poultry and eggs. To avoid the risk of infections, the slaughterhouses do not accept poultry produced on small farms.

ARABLE CROPS

One of the major farming sectors in Latvia is the production of arable crops, with top priority given to cereals and rape.

Cereals

Domestic production of cereals in Latvia has reached the self-sufficiency level and in 2001 even surpassed it. Export volumes reached 100 thousand tons in 2001.

Payments in the arable crops sector represent the largest chunk of EU's direct payments. These are payments that are made to farmers for each hectare of arable crops and which farmers receive in addition to their income from sale of the crops.

Farmers are eligible for direct payments if they fulfil the following conditions:

- a) the total area for cereals, legumes and oilseeds is 15 hectares and more (this condition may be changed);
- b) the area has been sown with certified seed;
- c) the producer has declared crop volume and form of exploitation.

Potatoes

Table 19.

Gains	Losses
<p>Following accession to the EU, growing potatoes for the production of starch could become a profitable business for about 150–170 farms. The 40% direct payments that are currently being offered correspond to 26.09 lats/ton of starch. If the starch content is 17%, it is 5.22 lats/ton of potatoes, which is somewhat more than the subsidies in 2002.</p>	<p>Potato starch is one of the products to which production quotas are applied. After accession to the EU, the quota for potato starch will be 5,776 t, which corresponds to approximately 30 thousand tons of potatoes with 17% starch content.</p>

Sugar

The sugar industry in Latvia is in a serious crisis. It is extremely important to reorganize the sugar market if the sugar industry in Latvia is to survive. It is also important to do this in order not to lose the sugar production quota granted by the EU.

The sugar production volume that is planned for 2003 (66,000 t) corresponds to the quota set by the EU (66,505 t). This means that, after Latvia has joined the EU, neither one of Latvia's two sugar producers -- in Jelgava and Liepāja -- will have to significantly increase or reduce production.

However, the EU quota does not anticipate development of the sugar industry.

Organic farming

Even after accession to the EU, support for organic farming in Latvia will be guaranteed from the EU Structural Funds.

RURAL DEVELOPMENT

Since the rural development measures that Latvia is being offered and the financial support for implementation of these measures are so extensive, this section does not have "gains" and "losses". It is particularly important to underline that there will be no "losses". Although arguments have been heard that the EU will pay Latvia's farmers for "doing nothing" and letting land lie fallow, and for afforestation not cultivation of land, Latvia's rural areas will still receive real money that will not be taken from another sector of the Latvian economy -- and this, it would seem, is a big gain. The main facts on rural development:

1. The gains from resources that will be available for rural development measures will at least partially make up for the losses that Latvia's farmers may incur through the direct payments, which will be lower than those for farmers in the present EU Member States.
2. In 2004, there will be 10 times more resources available for rural development than in 2002. Part of this money will serve as direct financial support paid to farmers for living in the countryside and cultivating the land.
3. Special support will be available for those who wish to develop their farms.
4. Special support has been planned for reclaiming abandoned arable land. This measure is connected with the huge areas of overgrown abandoned land and the spreading of hogweed in Latvia.
5. In 2004, Latvia will be eligible for 53 million lats from the EU for rural development measures. These include:
 - hectare payments for less favored areas (it is likely that, after accession to the EU, 85% of Latvia's farmland will be included in this category, with the exception of Riga and Zemgale);

- agro-environmental projects (payments for preservation of the rural landscape, diversity of the environment, etc.);
- temporary support for semi-subsistence farms (up to 600 lats per farm, per year, for a period of up to five years);
- temporary support in the form of hectare payments (a maximum of 120 lats/ha for a period of up to five years, with gradual reduction) for the implementation of EU standards for food, job safety, hygiene, environment, animal welfare, etc., in the new Member States;
- support for the establishment of producer groups and technical aid, continuing SAPARD projects.

APPENDICES

Appendix 1

Questionnaire

1. Have you considered what accession to the EU will mean for you personally?
2. How well informed are you about Latvia's accession to the EU? What do you know about it?
3. What has been your main source of information on Latvia's accession to the EU (newspapers, television, EIB, EIC)?
4. What information do you lack? What don't you know about Latvia's accession to the EU that you would like to know?
5. Have you discussed Latvia's accession to the EU with family members or friends?
6. What is your current opinion, should Latvia join the EU?
7. What positive changes can people in Latvia expect following Latvia's accession to the EU?
8. And what positive changes can farmers in particular expect?
9. What negative changes can people in Latvia expect following Latvia's accession to the EU?
10. And what negative changes can farmers in particular expect?
11. Do you think that farmers' views on accession to the EU might differ from those of the rest of the population?
12. Do you think that Latvia's accession to the EU could bring significant changes to your (your family's) life? Which of your problems could it help to resolve? Which of your problems could Latvia's accession to the EU aggravate?
13. What do you think could affect your own farm most following accession to the EU – quotas, direct payments, subsidies or some other factor?

Will you be affected by EU animal welfare requirements (i.e., will you be forced to rebuild your stables and barns)?

Are the EU product quality standards higher than those that you currently observe on your farm?

14. Do you think that Latvia is ready to become a EU member?

15. What do you think the outcome of the referendum on Latvia's accession to the EU will be?

16. What would you like to add to what we have already discussed about Latvia's accession to the EU?

17. Have you applied for/received SAPARD funds?

If not, why not? Alternatives: the procedure is too complicated, your farm does not fulfil the criteria, you had no time, you had no need, other.

18. Information about the respondent:

18.1. Farming sector;

18.2. Size of the farm: size of the land, number of animals;

18.3. Size of the family;

18.4. Sources of income – what percentage of your income comes from the farm?

What is your average wage for the job on the farm?

Do members of your family have other sources of income – salary/wages?

Is the respondent the family's sole breadwinner?

Do you currently receive subsidies or other government support?

Would you be prepared to abandon agricultural production (if it were no longer profitable)?

Do you have employment alternatives?

Appendix 2

Stages and methodology of the study

The study was carried out in several stages, with a concrete objective for each stage.

The objective of stage 1 was to examine farmers as a social group, to establish the attitudes of farmers to membership in the EU, their main hopes and concerns in this context.

Methodology:

- analysis of previous sociological surveys;
- sociological survey (199 farmers in all regions of Latvia – Vidzeme, Kurzeme, Zemgale, Latgale – were questioned with the help of a standard questionnaire. The study was carried out by the Riga Stradiņa University Sociology Department.);
- semi-structured interviews (all open questions), carried out by the author. 21 farmers in 9 Latvian regions were questioned.

The objective of stage 2 was to analyze the hopes and the concerns of the farmers in order to establish how justified they were.

To do this, information was compiled on gains and losses in various sectors of agricultural production.

This information together with the interviews with experts revealed a number of major problems that farmers – both agricultural producers and non-producers – as well as processors and consumers of agricultural products will be confronted with when Latvia joins the EU.

Methodology:

- analysis of documents;
- analysis of statistics;
- interviews with experts.

The objective of stage 3 was to prepare and present to policymakers recommendations for dealing with the major problems that farmers – both agricultural producers and

non-producers – as well as processors and consumers of agricultural products will be confronted with when Latvia joins the EU.

Methodology:

- analysis of documents;
- round table discussions with experts.

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TABLES AND FIGURES

Tables

Table 1.	Farmers' answers to the questions: "Why should Latvia join the EU?" and "Why should Latvia not join the EU?"	40
Table 2.	Will joining the EU stimulate Latvia's economic growth?	42
Table 3.	Will joining the EU improve Latvia's security?	43
Table 4.	Will joining the EU improve rural development opportunities in Latvia?	43
Table 5.	Will the Latvian economy be destroyed by unequal competition?	44
Table 6.	Will Latvian farmers not be able to fulfil EU animal welfare requirements?	45
Table 7.	Will Latvian producers and processors not be able to guarantee EU sanitary and hygiene standards?	46
Table 8.	Farmers' answers to the question: "What positive or negative changes will farmers face following accession to the EU?"	47
Table 9.	Will farmers have better access to credits?	48
Table 10.	Will access to markets be improved?	49
Table 11.	Will farmers have greater incomes?	50
Table 12.	Will the Latvian market be conquered by foreign food products?	51
Table 13.	Will animal welfare standards require reconstruction of stables and barns, which farmers will not be able to afford?	52
Table 14.	Will EU product quality standards be impossible for farmers to meet?	53
Table 15.	Gains and losses in dairy farming	60
Table 16.	Gains and losses in beef cattle farming	62
Table 17.	Gains and losses in sheep farming	63
Table 18.	Gains and losses in pig farming	64
Table 19.	Gains and losses in the production of potato starch	65

Figures

Figure 1. Agricultural employment in EU Member States and candidate countries (figures for 2000)	14
Figure 2. Food prices in other European cities (September 2002)	26
Figure 3. Meat prices in other European cities (September 2002)	26
Figure 4. Household expenses (figures for 2002)	28
Figure 5. Lowest and highest VAT on food products in EU Member States (figures for 2002)	30
Figure 6. Voting results on accession to the EU if a referendum were held in March 2003	36
Figure 7. The main reasons for voting against membership in the EU	36
Figure 8. Farmers' self-assessment of level of information on EU issues	37
Figure 9. Farmers' answers to the question: "Why should Latvia join the EU?"	41
Figure 10. Farmers' answers to the question: "Why should Latvia not join the EU?" ...	44
Figure 11. Farmers' answers to the question: "What positive changes will Latvia's accession to the EU bring into your life?"	48
Figure 12. Farmers' answers to the question: "What negative changes will Latvia's accession to the EU bring into your life?"	51

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