

POLICY BRIEF

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The future of the dairy sector in Latvia

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Dairy production in Latvia has deep historical traditions, given the suitability of the geographical and climate conditions of the country for cattle breeding. The sector is fragmented, and two groups of farmers can be observed. Majority of farms are small, with low efficiency and few future opportunities. The remaining farms are huge, demonstrating high productivity and equipped with modern technologies. The overall productivity of the sector has been increasing during the years, however, it remains significantly lower than EU's average. Despite the low productivity, Latvian self-provision with milk exceeds 135 %, and dairy products are a crucial export product. Latvia is among the top three EU countries that export the highest share of domestically produced milk. This, however, makes the sector more sensitive to dynamics in external markets. The farmers have been struggling to harness market power and thus are heavily dependent on the decisions of other market actors. This has forced experts to ask the following questions – is there a place for very small dairy farms in Latvia's dairy sector and what is the optimal size of the dairy farm; how to support smaller farms; how to increase farmers strength to negotiate the price they receive for their product; and what markets the dairy sector should target.

This brief has been developed from research conducted as part of the H2020-funded project, Sufisa. Its main focus has been to access the perspectives of the dairy farmers themselves, together with a range of stakeholders which have a direct interest in the dairy sector in Latvia. To that end a series of interviews, focus groups and workshops were conducted between March 2016 and May 2018. Further details are available from <http://www.bscresearch.lv/>, as well as the main project website: <http://www.sufisa.eu/>.

This research is based on data that has been collected for three years. In this period, the dairy sector has gone through significant challenges associated with market and demographic processes and political decisions. Furthermore, the sector itself is going through a substantial restructuring. In this turbulent period for the dairy farmers, this brief is less concerned with offering a state-of-art illustration of the sector. It is instead focusing on conclusions related to dynamics and farmers' strategies that have helped them to overcome the challenges.

Key messages

- If compared to other sectors – the dairy sector lacks clear leaders farmers would be willing to rally behind.

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- More centralized cooperation is typically identified as a way to boost the sector's capacity for steering and managing itself under the conditions of crisis. Still, competitive cooperatives with few exceptions remain a wishful option, with farmers mostly opting for individualistic responses to sector-wide challenges. In short-term the individual strategies often prove to be quite effective. However, they do not generate any security for the future.
- The main argument to explain poor cooperation in the sector is farmers distrust in these organisations. However, taking into account the number of farmers who have been or are involved in some sort of joint ventures it seems that it is not the distrust, but rather a lack of viable, opportune and strong proposals that is hampering the role of cooperatives. Meanwhile, the sector is dominated by processors.
- To improve their situation, farmers representing the small and medium farms are urged to change – to modernise and grow. However, there are institutional (limitations posed by previous investments, financial literacy, difficulties to access funding), discursive (beliefs and attitudes) and demographic (farmers age, lack of successor) barriers hampering change. On top of that, there seems to be a systematic communicative gap between the actors expected to support farmers and farmers.
- In the turbulent context, leaving the sector is one of the common strategies the small and medium farms choose. However, more often owners of small farms first choose to internalise costs and cover the losses by unpaid work. This strategy can be a productive short-term solution (and as such, it has proven to be quite efficient). Still, in long-term, it might influence the quality of produce, the efficiency of the farm and have considerable impacts on farmers health.
- The hopes of the sector are mainly lying with lucrative foreign markets. The government has been desperately looking for competitive products to export and have held to the belief that robust dairy processors could come up with such products. Some brands have managed to build awareness and trust in the local market and thus have successfully ensured local outlet markets. These brands are feeling the overall depopulation that raises questions regarding the future of these brands.
- Penetrating/ creating niche markets is seen as a strategy that could help especially the smallest farms to achieve greater financial stability. Stakeholders are well aware of possibilities that could come either from direct interaction with consumers or by switching to organic farming. Some of the farms are also starting to produce their artisan products. Still, most farmers have not even tried these options expressing scepticism regarding their possibilities to implement them. It seems to be a consequence of the lack of good examples.

When you are fighting a crisis and constantly feel financial pressure, there is a change in how you interpret what it means to be sustainable... if you can pay all the bills that you have for today and manage to survive until the evening – then you are sustainable.
