

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 throughout the years, however, it remains significantly lower than EU's average.

Despite low productivity, Latvian self-provision of milk exceeds 135% in addition to dairy products representing 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. Farmers have been struggling to harness market power and thus are heavily dependent on the decisions of other market actors.

Experts have been forced 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 research is based on data that has been collected over a 3-year time frame. 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. This brief is less concerned with offering an in-depth analysis of the sector, instead focusing on conclusions related to

Key messages

- When 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 the short-term 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, considering the number of farmers who have been or are involved in some sort of joint venture, it seems that it is not distrust, but rather a lack of viable, opportune and strong proposals that are hampering the role of cooperatives. Meanwhile, the sector is dominated by processors.
- In efforts to improve their situation, farmers with 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. In addition, there appear to be systematic communicative gaps between the actors expected to support farmers
- The hopes of the sector mainly rest in lucrative foreign markets. The government has been desperately looking for competitive products to export and maintained the belief that robust dairy processors could come up with such products. Some brands have managed to build brand awareness and trust in the local market and thus have successfully ensured local outlet markets
- Penetrating/ creating niche markets is seen as a strategy that could especially help 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. In addition, some farms are beginning to produce artisan products. Still, most farmers have not attempted these options, expressing skepticism regarding their possibilities of implementation. 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.



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