Support for Farmers' Cooperatives

Country Report Latvia

Aija Zobena
Evija Zača

European Commission

The 2011-2012 project „Support for Farmers' Cooperatives" is commissioned and funded by the European Commission, DG Agriculture and Rural Development.

Contract Number: 30-CE-0395921/00-42.

The project is managed by Wageningen UR's Agricultural Economics Research Institute LEI and Wageningen University. Project managers: Krijn J. Poppe and Jos Bijman.

Other members of the consortium are:

- Pellervo Economic Research PTT, Finland: Perttu Pyykkönen
- University of Helsinki, Finland: Petri Ollila
- Agricultural Economics Research Institute, Greece: Constantine Iliopoulos
- Justus Liebig University Giessen, Germany: Rainer Kühl
- Humboldt University Berlin, Germany: Konrad Hagedorn, Markus Hanisch and Renate Judis
- HIVA Katholieke Universiteit Leuven, Belgium: Caroline Gijselinckx
- Rotterdam School of Management, Erasmus University, The Netherlands: George Hendrikse and Tony Hak

How to cite this report:

Zobena, A., E. Zača (2012). Support for Farmers' Cooperatives; Country Report Latvia. Wageningen: Wageningen UR.

Support for Farmers' Cooperatives
***Country Report* Latvia**

Aija Zobena
University of Latvia, Latvia
Evija Zača
University of Latvia, Latvia

Novemb er 2012

Corresponding authors:

Aija Zobena
University of Latvia
Faculty of Social sciences
Lomonosova street 1 A
LV-1019, Riga
LATVIA,
Email: aija.zobena@lu.lv

Evija Zača
University of Latvia
Advanced Social and Political Research institute,
Lomonosova street 1 A
LV-1019, Riga
LATVIA,
Email: evija.zaca@lu.lv

Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in Latvia has been written.

Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The Country Report Latvia is one of the country reports that have been coordinated by Konrad Hagedorn and Renate Judis, Humboldt Universität zu Berlin. The following figure shows the five regional coordinators of the "Support for Farmers' Cooperatives" project.

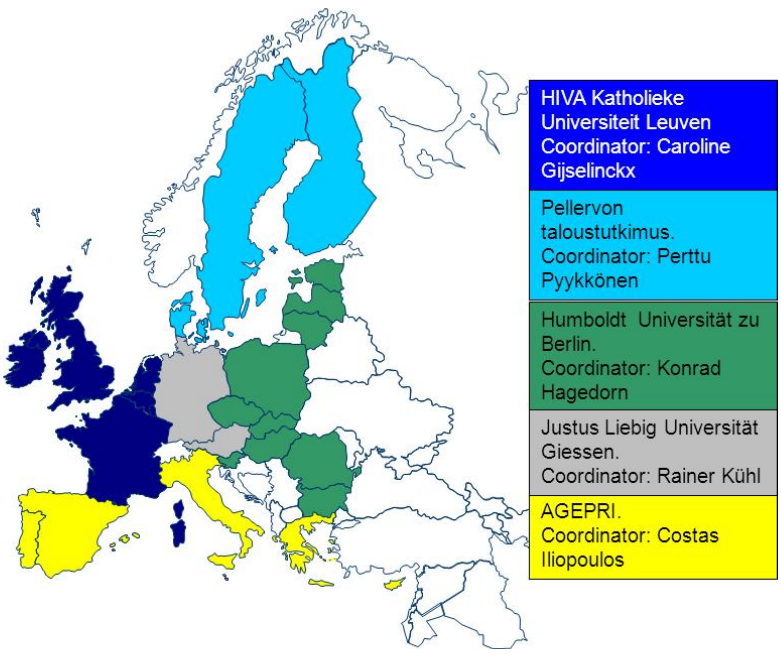


Table of contents

1 Introduction

The objective of this chapter is to give an introduction to the project and the report. There will be also provided definitions for cooperatives (including producer organisations) that rule this study.

1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives", that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Latvia.

In this context, the specific objectives of the project, and this country report, are the following:

First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Latvia. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national levels;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Latvia.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

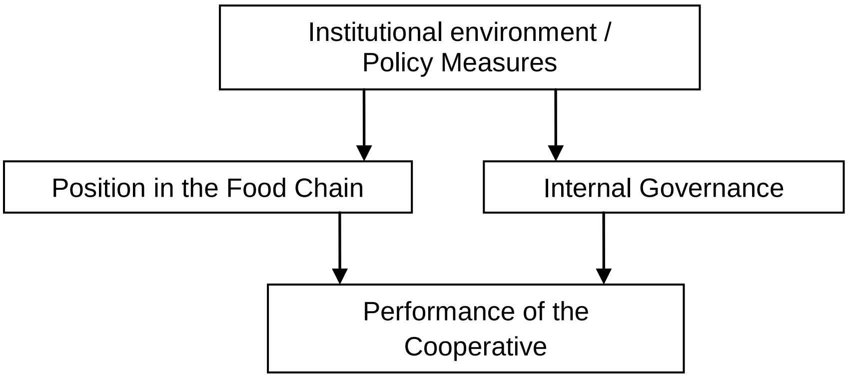


Figure 1. The core concepts of the study and their interrelatedness

1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;
- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;
- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).
Membership in cooperatives and producer organisations is voluntary. Voluntary membership is generally considered as a basic principle of cooperatives (e.g. according to ICA principles).

1.4 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used are Amadeus, FADN, Eurostat and a database from DG Agri on the producer organisations in the fruit and vegetable sector. Also data provided by Copa-Cogeca has been used. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers and board members of individual cooperatives, and academic or professional experts on cooperatives.

1.5 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information. Thought Latvia joined the EU in 2004 so the report more will focus on the post-accession period. This refers to both the factual data that has been collected and the literature that has been reviewed.

2 Fact and figures on agriculture

The objective of this chapter is to give the reader an introduction to agriculture in Latvia (section 2.1) and the evolution and position of cooperatives in Latvia (section 2.2), before we go into the analysis of individual cooperatives in chapter 3.

2.1 Share of agriculture in the economy

A study of farmers' cooperatives can best started at the farmers' side, in agriculture.

Since 1995, there had been a rapid decrease in the share of agriculture in GDP of Latvia (Figure 2). This decrease could be stopped in 1999. While in 1995 agriculture contributed with almost 9% to the GDP, in 1999 its share was less than 4% of the GDP.

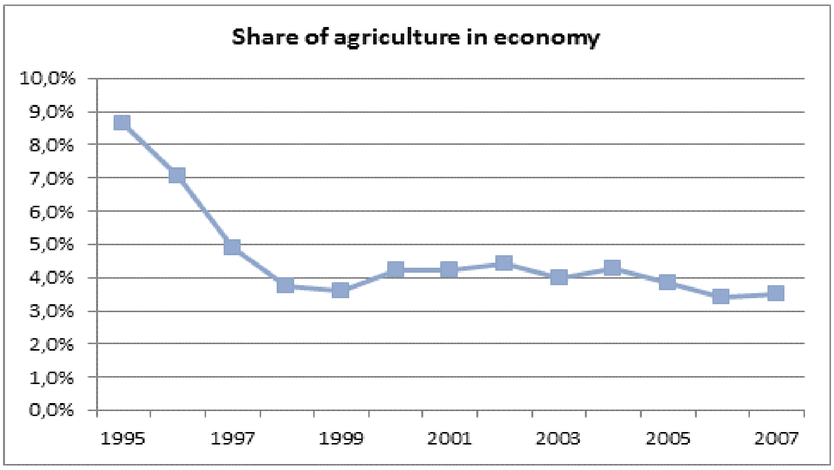


Figure 2. Share of agriculture in GDP. Source: Eurostat Nat. Accounts

Since 1999, share of agriculture in Latvia's GDP has been relatively stable – with small ups and downs it balanced around 4%. Between 1999 and 2002, there was a small increase of the rate, but it is interesting that since year 2004, the year when Latvia joined the EU, the share of agriculture in the GDP again rapidly decreased up to an all-time low of 3.4% in 2006.

2.2 Agricultural output per sector

Within agriculture several sectors exist. Figure 3 provides information on the main sectors in Latvia.

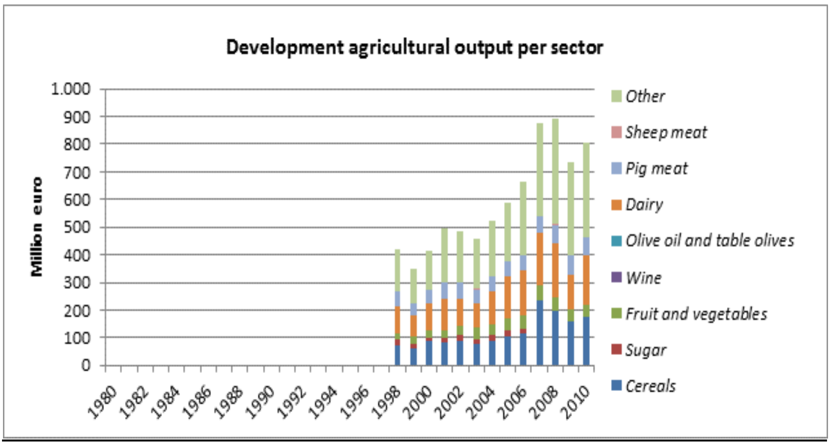


Figure 3. Development of the different sectors in agriculture, value of production at producer prices, in millions of euro. Source: Agriculture Economic Accounts, Eurostat

Currently, Latvia has agricultural production in five sectors. From among the eight sectros covered by this study, there is no production in the sectors of olive oil and table olives, wine, and since 2007 – in the sugar sector.

Until 2006, there was also production of sugar in Latvia. But after internal reforms this sector was eradicated. The farmers of that sector needed to restructure their farms and start producing in other agricultural sectors.

Graph 2 outlines the biggest outputs of overall agricultural production for the years 2007 and 2008. From 2003 onwards, there had been a rather rapid increase of outputs up to the year 2008 when it amounted to 890 million euro.

The biggest increase was yielded in cereal production rising from 72 million euro in 1998 to 234 million euro in 2007. In 2010, the output of cereal production declined, but it still was the biggest output in agriculture next to dairy products (both sectors had an output of 177 million euro). Although dairy production (with little exemptions) has always ranked highest in terms of agricultural outputs, the volume of output has been relatively stable over the years.

Taking a separate look at animal production and at crop production, the outputs of crop production have been bigger than that of animal production from 2001 onwards.

Figure 4 shows the development in outputs for the period 2001-2009, calculated on a 3 year average around 2001 and around 2009.

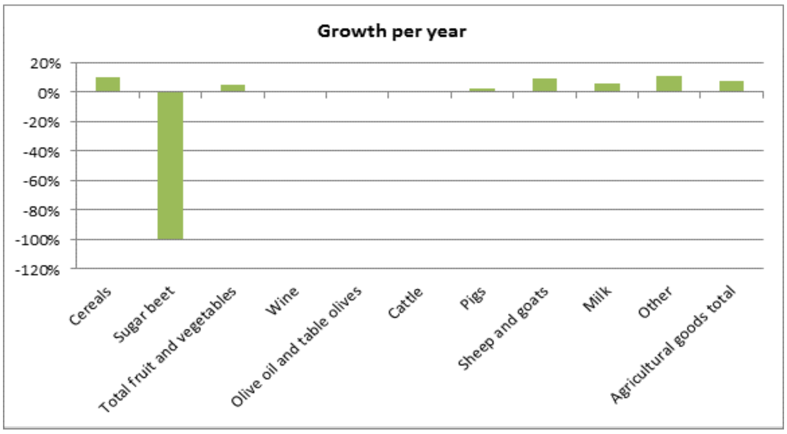


Figure 4. Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

It directly illustrates the situation as described in Chapter 2.1.1. Most remarkable was the 100% decline of sugar beet production up to 2007 when there was practically no sugar beet production any more in Latvia.

As it was concluded before, the biggest increase of outputs by sectors was observed in the cereals sector exhibiting an increase of 10%. The second biggest increase was recorded for the sector of sheep and goats production where outputs rose by 9%.

An increase of 11% can be noticed for the category “Others”. One reason for that trend could be the restructurization of farmers that were formerly producing sugar beets. But there was also an increase in the sector of “Forage plants”. That could be explained by the fact that animal production output has increased since 2001, subsequently raising the need for an increased production of fodder crops. Two other sectors show medium production levels – poultry and eggs with the output for eggs having always been higher than for poultry.

2.3 Development in the number of farms

The number of farms in Latvia is given in Table 1 and Graph 4 that provides the data in graphical format. Table 1 gives the number of farms in total and for the main types (the mapping between sectors and specialist farm types are the numbers in the table). The mapping years are two – 2000 and 2007. The development trend is shown in the last column.

Table 1 shows the biggest increase in number of farms for beef farms. Over seven years, the annual increase amounted to almost 73%. This increase may also have had an effect on the increase of farms that are producing dairy; actually the number of dairy farms increased by annually 19.78%. It underlines the fact that dairy products yielded the biggest output in agriculture over the last ten years.

The third position has already been mentioned as branch with high output and with the biggest annual growth rates – those are cereals and the number of farms producing them increased by an average annual rate of 8.66%.

Table 1. Number of farms

	2000	2007	% change per year
Cereals	3,41	6,1	24320
Sugar	32,74	24,23	-
Pig meat	690	1,15	21002
Sheep meat	12,81	9,04	-4.86
Total fruits and vegetables	3,06	2,9	-0.76
horticulture	200	400	
fruit and citrus fruit	2,86	2,5	
Olive oil and table olives	0	0	
Wine	0	0	
Dairy	6,24	22,08	19.78
Beef	10	460	72.80

Source: Eurostat, Farm Structure Survey.

Although in the previous chapter, it was outlined that the sector of sheep on goat production had the second biggest increase. Table 1 shows that there was the biggest decrease of number of farms for this sector.

In Figure 5, all these changes are illustrated in graphical form. It also makes it easier to see that in total the number of farms had decreased. The total amount decreased by 33 090 farms which makes almost 14%.

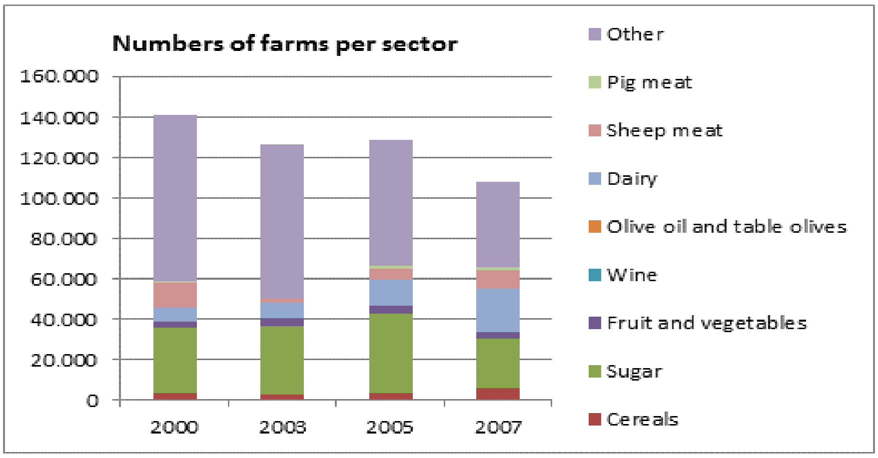


Figure 5. Number of farms 2000 - 2007 with data per specialist type of farming. Source: Eurostat, Farm Structure Survey.

This decrease of farms in total reflects the situation in Latvia, in general. There is the negative trend of a decreasing overall population in Latvia. And besides that, there is a huge decrease of people living in rural areas. The number of Latvian inhabitants declined from 2.38 million people in 2000 to 2.28 million in 2007 (in 2011, the number further decreased to 2.23 million). Likewise the rural population shrank from 0.76 million people in 2000 to 0.73 million in 2007 (in 2011, the number decreased to 0.72). (www.csg.gov.lv)

2.4 Size of farms

Farms come in different sizes from small part-time farms to large exploitations. Figure 6 shows the distribution of farms per size class, measured in European Size Units (ESU).

Graph 5 shows that most of the farms in Latvia are small. Unit one of measurement describes, on average, 60% of all farms in Latvia. Only 0.5% of farms in Latvia belong to the unit of measurement >250. This could be explained by the fact that rather many people living in rural areas are not able to sustain bigger farms. The reasons for that can be small areas of holdings, poverty, other principal work, etc.

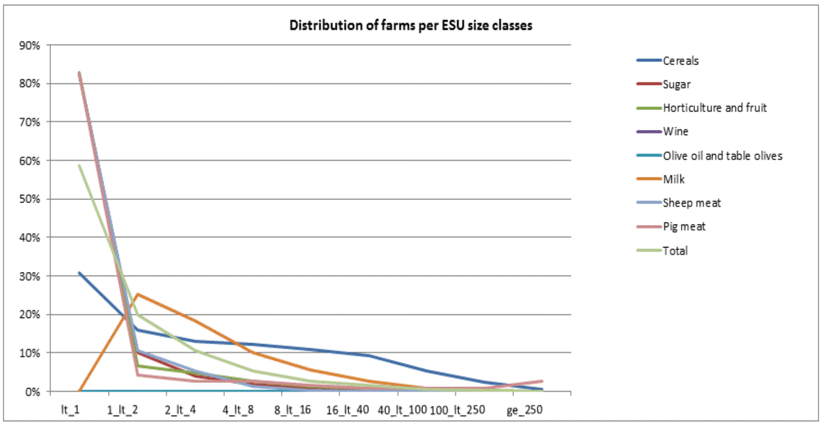


Figure 6. Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.

The most even distribution of farm size is among the cereal farms. Only 30% of farms of this sector could be described as smallest. The reason for that could be the fact that the cultivation of rapeseed comes under the category “Cereals”. In Latvia, rapeseed cultivation is recommended for larger cropping areas because it is cost-effective only when produced in bigger amounts. Furthermore, it is rather expensive to grow this crop, so only wealthy farmers can afford to cultivate rapeseed. Nevertheless, cultivation of rapeseed in Latvia launched the development of a new rather innovative branch – the production of bio-diesel. That is the branch having a progressive image in times of the global discourse about green lifestyle and sustainability of poduction.

The pig meat sector has the biggest percentage of large farms (unit of measurement > 250). There are several big farms that belong to investors from other countries. For example, there is a farm in Aizpute district that belongs to a Danish businessman which fattens about 14 000 pigs per year.

The current situation with most of the farms being very small or small should not be considered as negative. That is the characteristic of Latvian countryside and its economic and also social impacts.

The farm structure does also not adversely affect the work of cooperatives in Latvia as will be shown in the chapter about cooperatives in Latvia. As the practices of cooperatives prove, it does not impose restrictions to cooperate with any farm as long as it provides products of good quality.

2.5 Age of farmers: distribution of farms to age classes

In context of population and its decrease in rural areas, we can also assess the age division. Figure 7 below shows that the age of farmers differs between the different countries of EU.

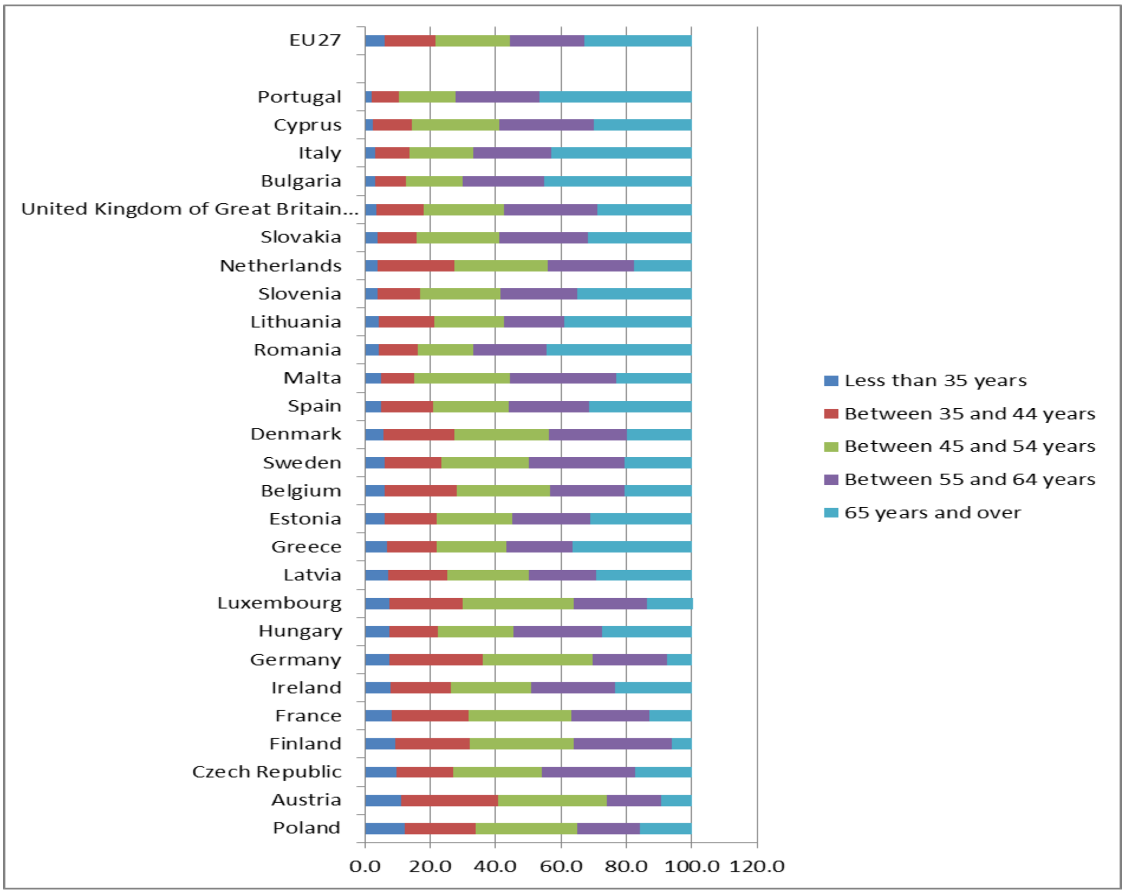


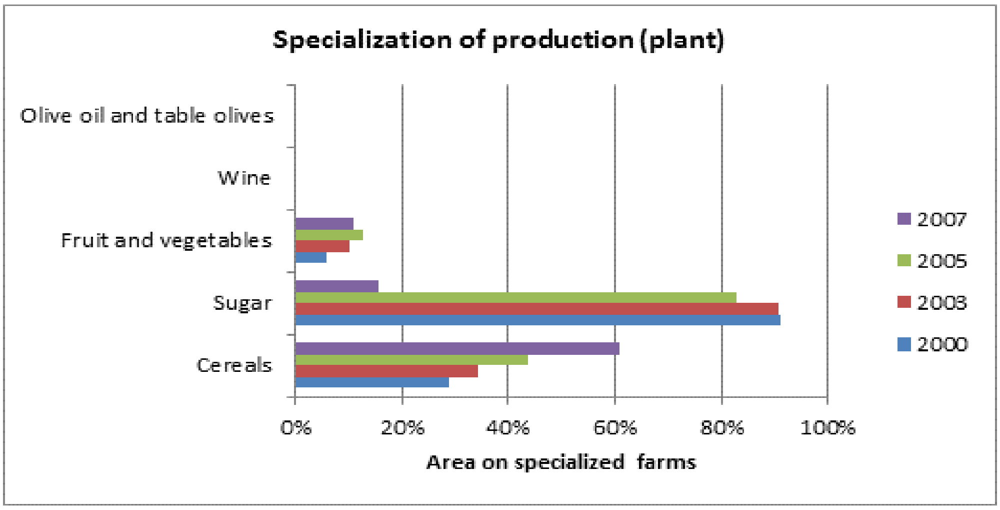
Figure 7. Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top)Source: Eurostat, Farm Structure Survey.

Latvia holds the 10th place according to number of farmers that are aged younger than 35 years – 7.1% of all farmers in Latvia are in this age category. It ranks above the EU average in this catgegory. Regarding the age class "65 years and over", Latvia ranked below the overall EU average with only 29.2% of farmers belonging to this category (the EU average was 32.7%).

The advanges in the age structure of farmers could affect the whole farming system positively because it could mean a higher potential for innovative management as well as for flexibility to global tendencies that exist in all sectors of the economy.

2.6 Specialisation of farm production

Cooperatives might not only have member-farmers with different farm sizes or of different age but also comprise farms of different production and in-put structures. This is even true for specialist farms, where e.g. some so-called specialist dairy farmers also have beef or sheep or sell hay. Additionally, a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is what Figure 8 (split in 8A for plant production and 8B for animal production) shows.



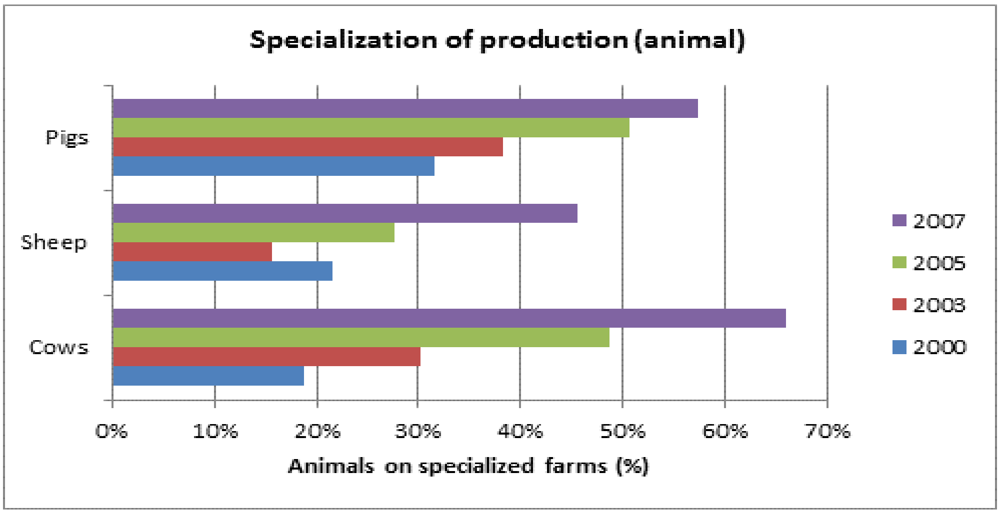


Figure 8 A & B. Heterogenity in farm production: the share of specialised farm types in total production.Source: Economic Accounts of Agriculture, Eurostat.

The comparision of farms specialized either in plant or in animal production shows that the number of specialized farms is higher in the animal sector. At the beginning of the first decade of the 21st century, the sugar sector was the most specialized one. But by the year 2007, the level of specialization had decreased five times. And that was actually also the last year when sugar beets were produced.

A big increase in specialization was observed in the sector of cereals. As mentioned in chapter 2.1.4., cereals include also rapeseed cropping that demands rather big inputs and focus. It may be the main reason for this high specialization.

The lowest specialization is in sector of vegetable and fruit production. This could be explained by the fact that almost every farm produces vegetables and fruits for self-consumption. Hence, the specialized farms of this sector mostly produce vegetables and fruits for the consumers in the cities. As a result of the comparatively low demand in market vegetables and fruits by the urban population only and due to the fact that a big part of vegetables and fruits on the Latvina market is imported, there seems to be no greater need for specialization in this sector.

In plant production, only cereal farms exhibited a constant increase of specialization. In animal production, specialized farms of all three sectors showed a constant increase in specialization (except sheep production which showed a decrease in specialization in 2003). After 2004, when

Latvia joined the EU, specialization rapidly increased in each sector. As a result many small producers left agricultural production and turned their farms in semi-subsistence farms selling only small amounts of agricultural products or left agricultural production.

2.7 Economic indicators of farms

The description of agriculture is concluded with some economic indicators (Table 2). These indicators focus on the net value added and income from farming for farmers as well as the level of their investment. Some of this investment might be in equity of the cooperatives, but far the most will be in farm assets.

Table 2. Economic indicators for farms (2006 - 2008)

	Cereals	Sugar	Fruit and vegetables	Dairy	Pig meat	Sheep meat
Economic size-ESU	28.00	11.07	-	9.63	269.60	4.77
Total labour input-AWU	2.43	2.34	-	2.06	19.72	2.33
Total Utilised Agricult. Area-ha	159.93	49.53	-	46.62	70.63	58.99
Total output €	80,152	33,850	-	27,244	1,008,201	20,366
Farm Net Value Added €	35,172	13,466	-	12,322	192,856	11,447
Family Farm Income €	26,849	9,981	-	11,481	34,148	8,115
Total assets €	183,983	77,506	-	68,482	1,670,793	87,368
Net worth €	102,457	57,397	-	55,353	685,755	60,846
Gross Investment €	37,579	13,743	-	8,806	271,091	8,167
Net Investment €	23,796	8,960	-	4,766	190,975	3,833
Total subsidies-excl.investm. €	29,439	8,093	-	10,254	46,125	15,436
Farms represented	2,700	2,350	135.00	8,370	150	553

Source: DG Agri, FADN.

In general, Table 2 shows how many resources each of sectors requires and how big the output of all these inputs is.

Assessing the outputs of the sectors versus their inputs reveals the pig meet sector to be the most profitable sector in Latvia. In this sector, the outputs exceed the inputs by 3.7 times. The sector that ranks second is dairy production with an input – output rate of 3.1.

The less profitable sector in Latvia is cereal production with input – output rate of only 2.1. Nevertheless, cereal production has the biggest share in the utilized agricultural area. And although the total assets for cereals are second best, the conclusion can be drawn that cereal production in Latvia is rather a hard and capacious business.

3 Evolution, position and performance of cooperatives

Chapter 2.2 gives an overview of the situation of cooperatives in Latvia. The chapter starts with a section on the types of cooperatives that exist in Latvia (2.2.1), not necessarily only in the food chain. Section 2.2.2 describes farmers' cooperatives in the food chain, and – if available – provides data on the market share of the farmer cooperatives and their role in the main sectors covered by this report. A list of the 50 largest cooperatives in the food chain is given in section 2.2.3.

3.1 Types of cooperatives

The first narratives that promoted the idea of cooperatives in Latvia started to occur already in the middle of the 19th century. There was a cattle plague in the year of 1827 in Latvia. In reflection of that desastrous event, an article was published in the second number of the "Latvian Newspaper" ("Latvians Avīze") in 1828 calling for the establishment of a system which would render help to the farmers that had to slaughter their animals. The author of the article developed the idea of a joint emergency funds to which every farmer should make an instalment. The amount of the instalment would depend on the operational result of the farm. In the case of need for the financial support farmers could get it. After that, some further articles were published which proclaimed the idea of cooperation, and most popular articles were written by priests (Kučinskis; 2004).

The next important historical period was the time of the rising Latvian nationalism. After having lived for seven centuries under the authority of different countries (Germany, Russia, Sweden, and Poland), Latvians started to think how to develop their – Latvian – identity and power. That is how the idea about cooperating between Latvians became outstanding.

In 1908, the Co-operators' Association was established in Riga. Its main aims were to render information about the opportunities for establishing a corporation, and to teach different causes in economics and jurisprudence. After the ideas of cooperation had been developed in the 19th century, the first cooperatives were only established in the early 20th century, for instance, the first dairy cooperative in 1909 (Kučinskis; 2004).

After the year 1940 when Latvia became a part of Soviet Union, there were fundamental changes in the system of cooperatives. Under the regime of communistic party, the agrarian cooperatives were destroyed and transformed into new structural units – the so-called kolkhoz (collective) farms. All people in the governing bodies were approved by the communistic party; the voting system was almost completely destroyed, etc.

In the period of transition after the communist regime had broken down and Latvia had become a sovereign state, the cooperatives experienced hard times. The connection with Russia, being the biggest export country for Latvia, became worse. The market was overstocked by cheap import products. At the same time, the consumption rate of the Latvian population declined. Altogether, this led to a situation when cooperatives started to collapse (Kučinskis; 2004). In the year 1991, the law on cooperatives was first written.

The development of the numbers of cooperatives is shown in Figure 9. They comprise the cooperatives that were created but not necessarily legally approved.

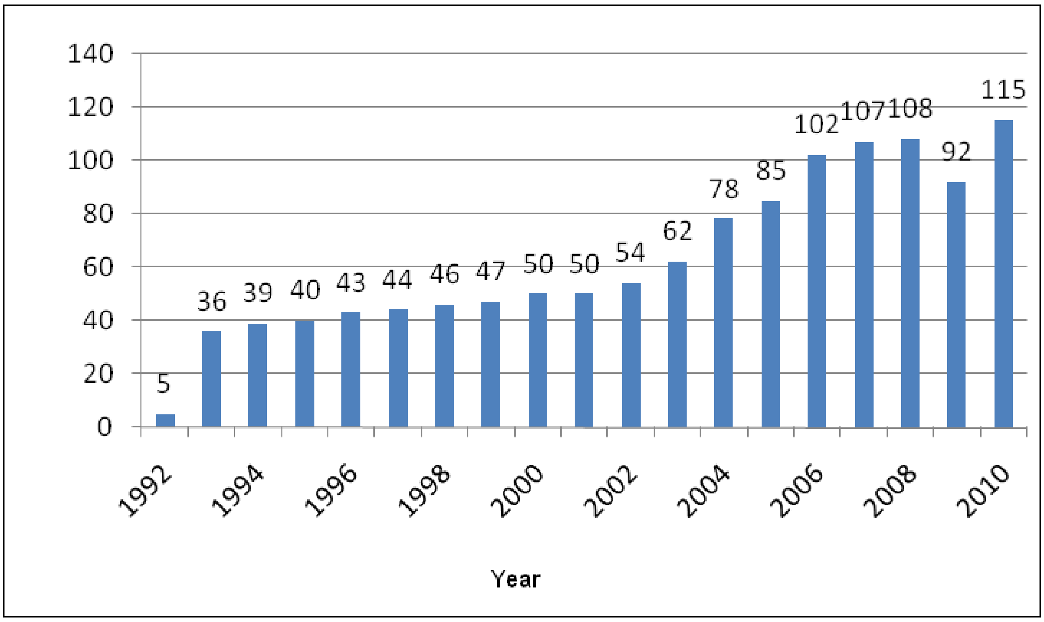


Figure 9. Number of agricultural cooperatives in 1992-2010. Source: Statistical information about cooperatives of agricultural services in Latvia in year 2010

Together with the changes in the number of cooperatives there also can be witnessed the changes of net turnover. Positively can be described the situation, that in 2010 the amount of turnover has been raised again after the economical breakdown in year 2009. (see Figure 10)

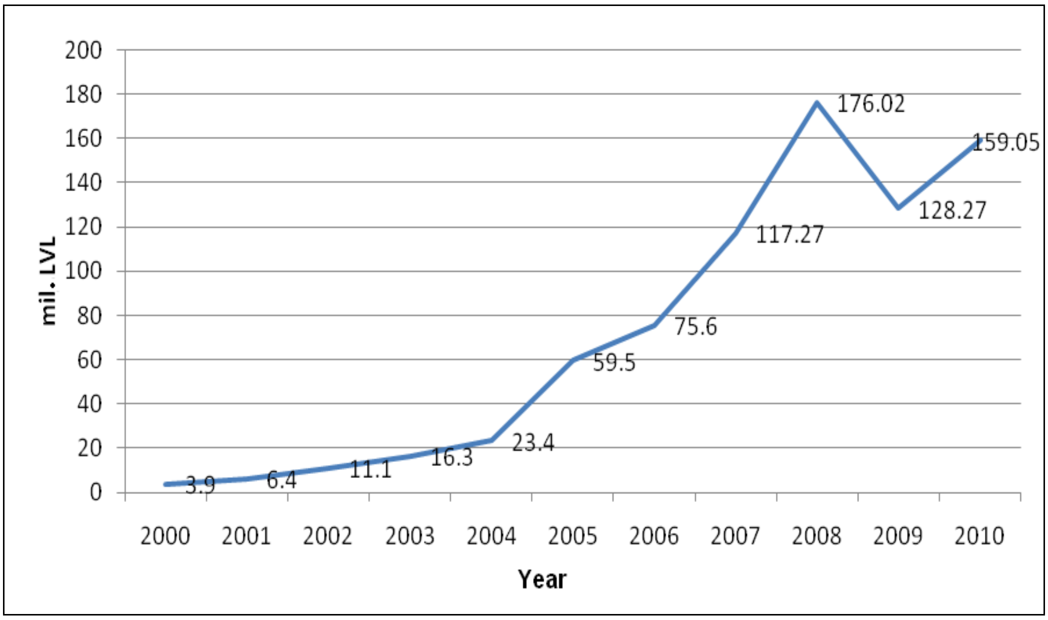


Figure 10. The rise of net turnover of cooperatives in 1992-2010 (million LVL). Source: Statistical information about cooperatives of agricultural services in Latvia in year 2010

Along with the stabilization of the economic situation of the country, Latvian entrepreneurs started to make contacts in other countries.

In 2002, the Latvian Agricultural Cooperatives Association (LACA) was established. The overall aim of LACA has been to promote the development of agricultural cooperation in Latvia. Currently, LACA unites 55 members from all over the country. The objectives of LACA are:

1. To create an environment that is favourable for the development of agricultural cooperation in Latvia;

2. To raise the awareness of the need, the possibilities and the benefits of agricultural cooperation;
3. To promote the sustainable development of farms and the successful integration of the Latvian agricultural sector into the EU common market (www.llka.lv).

There are many types of cooperatives in Latvia, such as agricultural cooperatives, apartment cooperatives, work cooperatives, producer cooperatives, consumer cooperatives, etc.

The three main types of cooperatives are:

1. Apartment ownership cooperative societies. These cooperatives were established for the administration of flats. This type of cooperation is mainly related to apartment houses that had been built in Soviet times (the newest houses have their own managers).
2. Agricultural cooperatives. The cooperatives unite farmers in different sectors of agricultural production. They provide the opportunities for farmers to jointly distribute their production. It also provides various services in terms of education and exchange of experience.
3. Producing cooperatives. The system and idea of these cooperatives are similar to that of agricultural cooperatives. Only the membership of producing cooperatives is not restricted to farmers – they are open to producers of any sector.

In Latvia, cooperatives only operate in four sectors. As shown in Table 3, most of the Latvian cooperatives are similar in their structure, aims and working principles. In the sectors, both local and regional cooperatives co-exist, except for the sheep meat sector where only one cooperative exists which is regional. The biggest, second level cooperatives of the dairy sector constitute an exemption as they include also so-called first level cooperatives.

Table 3. Description of the agricultural cooperatives

Sector	**Cereals**	**Fruit and vegetables**	**Dairy**	**Sheep meet**
Main functions	• Joint production • Processing farm products • Marketing farmer products	• Joint production • Processing farm products • Marketing farmer products	• Joint production • Providing water • Processing farm products • Marketing farmer products	• Joint production • Processing farm products • Marketing farmer products
Diversity of function and products	• Social activities	• Social activities	• Social activities	• Social activities
Position and function in the food chain	• Collecting farm products • Primary processing • Secondary processing • Marketing commodities • Retailing	• Collecting farm products • Primary processing • Secondary processing • Marketing commodities • Retailing	• Collecting farm products • Primary processing • Secondary processing • Marketing commodities • Retailing	• Collecting farm products • Primary processing • Secondary processing • Marketing commodities • Retailing

Type of members	• Primary cooperative / PO	• Primary cooperative / PO	• Primary cooperative / PO • Secondary or federated cooperative / association of POs	• Primary cooperative / PO
Geographical scope	• Local (e.g. municipality) • Regional (e.g. Province, State or Department)	• Local (e.g. municipality) • Regional (e.g. Province, State or Department)	• Local (e.g. municipality) • Regional (e.g. Province, State or Department)	• Regional (e.g. Province, State or Department)
Financial/ownership structure	• Traditional cooperatives	• Traditional cooperatives	• Traditional cooperatives	• Traditional cooperatives
Legal form	• Cooperative	• Cooperative	• Cooperative	• Cooperative

Source: Authors' own data

Operating all under the Cooperative Law, which provides the same rules and requirements for all cooperative business types, cooperatives in Latvia do not show major differenrences, although they represent different sectors.

3.2 Market share of farmers' cooperatives in the food chain

This section provides the reader with information of the importance of cooperatives in the food chain. It excludes cooperatives of various sectors: (agricultural) banks, insurance, flowers, energy, (machine) services, etc.

Table 4. Market Share of Cooperatives

	2004		**2008**		**Comments**
Sector	**Number of members**	**Market Share (%)**	**Number of members**	**Market Share (%)**	
Cereals	9	30	19	37.3	
Sugar	-	-	-	-	There never existed cooperatives in the sector of sugar in Latvia.
Pig meat	-	-	-	-	There is no data available that divides meat sector in specific meat sorts. There is available data about cooperatives in meat industry in general. 2004: Number of members – 1; Market Share (%) – 3.3 2008: Number of members – 3; Market Share (%) – 5.9
Sheep meat	-	-	-	-	
Fruit and vegetables	1	3.3	6	11.8	
Dairy	15	50	17	33.3	
Honey	1	3.3	0	0	
Agricultural services	1	3.3	1	1.9	
Many-branched	2	6.7	5	9.8	

Source: Evaluation of public financing apportioned to cooperatives of agricultural services in Latvia and other EU member-countries since 2004 and suggestions for political changes in rural area support program for year 2007-2013

The table illustrates the increase of cooperatives in the cereal sector in Latvia both in total number and market share. In the dairy sector, the market share of cooperatives decreased between 2004 and 2008 significantly from one half to only one third. A possible explanation may be the decrease of small farms in the milk industry being not able to produce milk at the requested quality and quantity standards.

An interesting phenomenon was the single cooperative of honey producers in 2004. However, the producers in this sector decided to work individually – without any cooperation.

In general, the table shows that the distribution of cooperatives' market shares has become more even, with no particular sector exhibiting dominant market shares of cooperatives any more.

3.3 List of top 50 largest farmers' cooperatives

There are 49 officially registered cooperatives in Latvia. Two of them are non-food agricultural cooperatives. In Table 5, all 47 cooperatives are presented that have registered and active by the year 2011.

Table 5. The 47 largest farmers' cooperatives in the food chain of Latvia, 2011

	Name of the Cooperative	**Sector(s) involved in:**
1	LPKS "Bauņi"	Cereals
2	LPKS "Ezerkrasti-1"	Dairy
3	LPKS "Nadziņi-1"	Dairy
4	LPKS "Latgales ekoprodukti"	Fruit and vegetables
5	LPKS "Pienupīte"	Dairy
6	LPKS "Vecjercēni"	Cereals
7	LPKS "Kurzemes dārzi"	Fruit
8	LPKS "VTT Dārzi"	Fruit
9	LPKS "Saimnieks V"	Cereals
10	LPKS "Latvijas aita"	Sheep meat
11	LPKS "Gatuga"	Fruit and vegetables
12	LPKS "Zaļais grozs"	Fruit and vegetables
13	LPKS "Dagnis"	Cereals
14	LPKS "Sēlijas āres"	Cereals
15	LPKS "Zirņi"	Cereals
16	LPKS "Ērģeme"	Cereals
17	LPKS "Vandzenes agro"	Cereals
18	LPKS "Ošenieku grauds"	Cereals
19	LPKS "Daiva"	Cereals
20	LPKS "Piebalga"	Dairy
21	LPKS "Straupe"	Dairy
22	LPKS "Litenes klēts"	Cereals
23	LPKS "Barkavas arodi"	Cereals
24	LPKS "Sēlpils piensaimnieku	Cereals
25	LPKS "Alači-1"	Dairy
26	LPKS "Atašiene Agro"	Dairy
27	LPKS "Viļāni"	Dairy
28	LPKS "Kuziks"	Cereals
29	LPKS "Sigilo"	Dairy
30	LPKS "Pienene KT"	Dairy
31	LPKS "Pienenīte 1"	Dairy
32	LPKS "Akots"	Cereals

33	LPKS "Avots"	Dairy
34	LPKS "Drusti"	Dairy
35	LPKS "Braslava"	Dairy
36	LPKS "Straume"	Dairy
37	LPKS "Māršava"	Dairy
38	LPKS "Dundaga"	Dairy
39	LPKS "Dzēse"	Dairy
40	LPKS "Izwolta"	Fruit and vegetables
41	LPKS "Durbes grauds"	Cereals
42	LPKS "Kalnmuiža"	Dairy
43	LPKS "Vidzemes agroekonomiskā	Cereals
44	LPKS "Piena ceļš"	Dairy
45	LPKS "Latraps"	Cereals
46	LPKS "Laura"	Cereals/ Dairy
47	LPKS "Trikāta KS"	Dairy

Source: The Ministry of Agriculture

As can be seen from the table, most of the cooperatives in Latvia belong to the dairy sector – 22 cooperatives. A total of 19 cooperatives operate in the cereal sector and four are fruit and vegetables cooperatives. It is a quite remarkable fact that there is only one cooperative in the sector of meat – the Latvijas aita cooperative operating in the sheep meet sector.
There are no olive farms in Latvia because of climatic conditions. As was mentioned before, since 2007-2008 there is no more a sector of sugar beet producers. And although Latvia ranks forth in wine production among Northern countries, the production of wine is so small, that there is no necessity to establish a cooperative.

3.4 List of top 5 largest farmers' cooperatives per sector

As it was mentioned before, there are cooperatives only in four sectors: cereals, fruit and vegetables, dairy and sheep meet. In Table 6, the top 5 most important cooperatives of these sectors are listed.

Table 6. Most important cooperatives in the sectors studied in this project

Sector		**Name of Cooperative**
Cereals	1	LPKS "Latraps"
	2	LPKS "Vidzemes agroekonomiskā kooperatīvā sabiedrība"
	3	LPKS "Durbes grauds"
	4	LPKS "Akots"
	5	LPKS "Sēlijas āres"
Fruit and vegetables	1	LPKS "Zaļais grozs"
	2	LPKS "Kurzemes dārzi"
	3.	LPKS "Latgales ekoprodukti"
	4.	LPKS "Gatuga"
	5.	LPKS "VTT Dārzi"
Dairy	1.	LPKS "Trikāta KS"
	2	LPKS "Piena ceļš"
	3.	LPKS "Dzēse"
	4.	LPKS "Māršava"
	5.	LPKS "Kalnmuiža"
Sheep meat	1	LPKS "Latvijas aita"

Source: Authors' own data

As it will be explained further in the text, it was only possible for many reasons to analyze seven of the cooperatives: LPKS "Latraps", LPKS "Vidzemes agroekonomiskā kooperatīvā sabiedrība", LPKS "Zaļais grozs", LPKS "Trikāta KS", LPKS "Piena ceļš", LPKS "Dzēse", LPKS "Māršava". The other cooperatives in this table were ranked according to the information available on the internet. As a consequence, only the mentioned seven cooperatives were analysed in detail, while the others were evaluated roughly from the online data.

The biggest cooperative not only in its sector of cereals but also among all other sectors is "Latraps"cooperative. In 2009, it had a turnover of more than 101.6 million euro. The second largest cooperative in Latvia is "Trikāta KS" cooperative– its turnover in 2008 was 29 million euro. The third biggest and profitable cooperative in Latvia is "Vidzemes agroekonomiskā kooperatīvā sabiedrība" cooperative.

3.5 Transnational cooperatives

Many cooperatives are active internationally. In most cases the foreign activities of cooperatives are limited to marketing, trade and sales. Usually they do not buy agricultural products from farmers or supply inputs to them. However, there is a growing group of cooperatives that do business with farmers in other EU Member States. These cooperatives are called international cooperatives. They can be marketing cooperatives that buy from farmers in different countries, or they could be supply cooperatives that sell inputs to farmers in different countries. One particular group of international cooperatives is the so-called transnational cooperatives. These cooperatives do not just contract with farmers to buy their products or to sell them inputs; they actually have a membership relationship with those supplying or purchasing farmers. Generally speaking, a transnational cooperative has members in more than one country.

However, there are neither foreign transnational cooperatives nor international cooperatives that are active in Latvia. There are also no transnational and international cooperatives that have their seat in Latvia.

All three Baltic States have signed the memorandum of cooperation on November 25, 2010. The main aim of this memorandum is to develop cooperation between the cooperatives in Latvia, Estonia and Lithuania.

There are also cases when Latvian cooperatives sell their products to producers in other countries. For example, the cooperative "Dzēse" delivers part of its milk production to a processing unit in Lithuania. But this milk quantity is not recorded in Latvia then.

So it can be concluded that up to now there has been no legally established corporation between Latvian cooperatives and cooperatives in other member states.

4 Description of the evolution and position of individual cooperatives

4.1 Data gathering per cooperative

The data for the report was gathered in many different ways:

1. Overview of publications, website of cooperatives;
2. Case studies;
3. Observation of information in mass media;
4. E-mail interviews;
5. Expert interviews.

The biggest problem was to get contact of many of cooperatives because they did not declare even their phone number in the register of enterprises.

Also there were sent eight e-mails to which there were received only two answers, from which only one was quite useful – the other was counter question.

As the result of all these failures in contacting the cooperatives, only seven of 49 are included in the observation.

4.2 Position in the food chain

From the sectoral point of view, there is an interesting pattern of cooperatives in Latvia. Most of the agricultural cooperatives are specialized in dairy production – 21 cooperatives unite dairy producers (one extra cooperative (LPKS "Laura") is specialized both in dairy and in cereals). And alhough meat production (pig and sheep meat as well as cattle) comprise very important sectors, there is only one cooperative that represents meet producers – that is cooperative “Latvijas aita” that unites sheep meat producers.

The lack of cooperatives in this sector can be explained various reasons. As it was mentioned before, a big part of pig meat producers are foreign investors that already have good success in the food chain or produce the meat only for the export. For them it is not necessary to build or join in any cooperative. Although the production of sheep meat has increased, the sector is still not well enough developed in food chain in Latvia.

In Article I, paragraph 1 of Cooperative Societies Law, the cooperative society is defined as a voluntary association of natural persons and legal persons in the aim of providing services in order to increase the effectiveness of the commercial activity of its members. The cooperatives in Latvia conform to this definition.

As it was mentioned in chapter 2.2.1, there are more activities and functions that determine the position of cooperatives in the food chain. Those functions are:

1) Collecting farm products;
2) Primary processing;
3) Secondary processing;
4) Marketing commodities;
5) Retailing.

Almost all cooperatives collect farm products from farmers including also transport and storage. For example, the representative of cooperative “Dzēse” explained in an interview that they try to get to any farmer that is a member of cooperative, no matter in what condition the roads are. Many roads in rural area of Latvia are gravel roads and after rains they can be washed out. Nevertheless, drivers search for ways to get the milk collected and distributed.

Cooperatives are storing the products and some of them are also engaged in primary processing. That especially is true of the milk sector. Cooperatives are distilling milk so that it can be transported to the bigger producers of milk products.

Many of cooperatives are able to proceed in primary processing of product due to support of European Agricultural Fund for Rural Development (EAFRD). For example cooperative "Durbes Grauds" bought a preliminary treatment complex worth 1.6 million. lats (2.25 million euro). Now it is possible to store even 10 000 tons of cereals at once.

The biggest cooperatives also do secondary processing. Cooperative “Latraps” is the innovative pioneer in producing bio-diesel. Since 2009, “Latraps” has produced bio-diesel from rapeseed and is more and more developing this production. The cooperative “Trikāta KS” also produces a rather recognizable brand, where the most popular product is so-called ‘Snow balls’ (cheese product). In 2011, this product got the silver medal in international contest ‘Best product 2011’ at the Prodexpo 2011 exhibition that took place in Moscow.

The fact that some of the cooperatives produce their own brand products indicates that they also have functions of marketing commodities and retailing. Cooperatives sell their products mostly in two ways:

1) Through shop chains;
2) Directly to consumers, for example, on green or mobile markets as well as in their own farm shops.

All these activities prove that cooperatives are not only voluntary organizations that help distributing the products of farmers, but that they are also actively involved in producing the products that are competitive in the market.

4.3 Institutional environment

As it was mentioned before, the history of cooperatives dated back for only hundred years. During this period, there were many changes in the political and economic system. For the last 20 years, the latest historal period of the reestablished Republic of Latvia has also brought many changes for the cooperative sector. In the 1990s, cooperatives experienced a decline as a result of great market pressure. For many farmers the cooperative business also caused emotional pressure as cooperative’s idea was compromised by the Soviet time kolkhozes.

There has still been an ongoing discourse about the nature of Latvians which inhibits the founding of cooperatives. Historically, Latvian farmers heavily relied on their own by living and working on their own and striving for self-subsustence. Still this discourse flares up in many interviews and focus group discussions.

But over the last years, cooperatives became a more popular way of cooperation. Also farmers more and more realize that cooperatives can be the best way of distributing their products.

During the last years, the number of cooperatives flactuated (see Table 7). However, there is rather big number of cooperatives that operate in different regions of Latvia.

Table 7. Number of cooperatives in year 2004-2010

Year	Number of cooperatives
2004	30
2005	52
2006	55
2007	64
2008	51
2009	52
2010	49

Source: The Ministry of Agriculture

Although the number of cooperatives has decreased lately, cooperatives experience a growing popularity and influential position of in the food chain. The main reason of the decrease in the official number of cooperatives may be the fact that smaller cooperatives have merged with bigger ones, thus creating so-called second level cooperatives. The mergers are reasonable as the biggest cooperatives have established already strong brands that are successful on the local as well as on international market (e,g, cooperative "Trikāta KS"). Representatives of cooperatives "Trikāta KS" and "Dzēse" confirmed that some smaller cooperatives have joined them as their members.

Ongoing efforts are made to develop the positive idea of collaboration between cooperatives. Many of these activities can be credited to the Latvian Agricultural Cooperatives Association. There ars also some activities to develop the international collaboration with countries, e.g. the previously mentioned memorandum of cooperation of three Baltic States dated of 2010.

4.4 Internal Governance

As the development of the cooperative sector in Latvia hardly reached the average EU level, there are no specific models of internal governance to be highlighted. At the moment, cooperatives are mostly working according to the regulations of the Cooperative Societies Law.

According to the Cooperative Societies Law, the members of a cooperative society must be persons who utilise the services of the society, recognise and comply with the articles of association of the society and have made an investment in the equity capital of the society in accordance with the procedures specified in its articles of association, as well as make other payments as requested by the articles of association and decisions of the society (articel III, paragraph 17.). The law, furthermore, stipulates that no farmer (if not previously excluded from a cooperative) can be rejected.

Also the stipulations on the equity capital are rather strict and have to be followed by all cooperatives. The equity capital of a cooperative society shall be material and money resources, which are formed by the sum of cooperative share values of all members of the society. The equity capital shall be variable. The equity capital of a cooperative society shall increase or decrease depending on the number of cooperative shares and the face value of cooperative shares as well as on the changes in the face value of cooperative shares introduced in accordance with the procedures specified in the articles of association (article IV, paragraph 24).

The management functions of a cooperative society within the framework of its competence shall be performed by the general meeting of members (meeting of authorised persons), the council and the board of directors. The functions of the board of directors in accordance with the procedures set out in the articles of association of the society may be performed by the director or the manager. While the control and audit institution of a cooperative society shall be the audit commission (auditor) or the sworn auditor (article V, paragraph 37). There are examples that cooperatives hire a professional manager (for example, cooperative "Dzēse" or "Trikāta"), but most of the decisions are made by the board of directors and members of cooperatives.

With regard to the membership in cooperatives and the decision-making process, all cooperatives respect the rule that one member has one vote (article 1, paragraph 3). It means that cooperatives in Latvia match with the definition of cooperatives.

4.5 Performance of the cooperatives

The cooperatives in Latvia have become more and more influential in the sense of market regulation and implementation of farmers' interests.

There was a crisis of milk prices during the years 2008-2009 in Latvia and also in the EU. In that period, the price for one litre milk dropped to 0.17 euro (0.12 lats). After that still in 2010, many farmers had financial problems. After this negative experience, recently more and more milk cooperatives actively push the interests of farmers. Cooperatives try to influence the prices by different lobbies in the Parliament of Latvia.

Another strategy for cooperatives (e.g. "Trikāta KS") is to produce their own products, trying to protect the farmer incomes and reduce bureaucratic burdens to them.

Cooperatives also are building their own production factories. It is reported that, currently, dairy producers cannot handle all the milk that Latvian farmers offer on the market. Therefore, much of the milk must be transported for example to Lithuanian dairy producers. By building own factories for dairy processing it will be possible to utilize Latvian milk in the country.

Another important cooperative in Latvia was already described before – "Latraps" with its innovative bio-diesel production from rapeseed. Although most of the cooperative members are big farmers, "Latraps" also helps small farmers to distribute thier production and, by that, to stabilize their incomes.

It can be concluded that, over the last years, cooperatives have become more important and capable players in the action arena. The cooperatives also made successful efforts to overcome the great heterogeneity in Latvian agriculture as was, for example, still obvious at the beginning of the millennium. This means that cooperatives have established a more common system over the different food production sectors that yield greater advantages to local farmers regardless of their size.

5 Sector analysis

5.1 Introduction

In this chapter we discuss the developments in the eight sectors that are central in this study. We report on trends in the markets, important changes in (agricultural) policy and we try to link this to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation is 2000 – 2010.

5.2 Cereals

Cereal production is the sector where the increase in production has been most evident during the last years. Also the largest cooperative – "Latraps" – is a cooperation of cereal farmers. The main activities of this cooperative are concentrated in the central part of Latvia.

There is one region in central Latvia – Zemgale – which is also called "granary of Latvia". Almost all agricultural areas of the region are suitable for cereal crop growing.

In 2009-2010, also the sales of cereals almost doubled as compared to the previous years (Table 8).

Table 8. Amount of sold cereals, (thousand tons)

Year	Amount of sold production, (thousand tons)
2004	452.3
2005	535.2
2006	470.3
2007	693.1
2008	578
2009	1159
2010	1120

Source: The Central Statistical Bureau of Latvia

Cereals are also exported, but the biggest part of it is utilized in Latvia by bread and other bakeries, beer breweries, and also in the production of animal feed.

5.3 Fruit and vegetables

Four cooperatives were registered in Latvia in 2010 that were involved in sector of fruit and vegetables. This sector has shown the lowest specialization and the lowest growth of outputs over the past years.

One reason for this low performance may be the relatively low demand in products of this sector as compared to dairy or cereal products. This, in turn, may be due to the fact that there are still many small farmers or even just garden owners who cultivate fruits and vegetables for their own consumption.

The use of fruits and vegetables for biological products has become more popular in reent years but this does also not require big-sized and intensive farming. Genreally, the importance of fruits and vegetables in everyday consumption of the population has been continuously high in Latvia.

5.4 Dairy

Statements of almost all the Ministers of Agriculture repeatedly declared the dairy sector the most important sector of agriculture in Latvia.

The realization of milk in the market has been constantly growing as well (Table 9). Only in 2009, the year after so called "milk price crisis", the amount of sold milk had decreased. But already in the next year sales recovered and the amount of sold milk increased which gives evidence of the countinuous growth of the dairy industry.

Table 9. Amount of sold cereals, (thousand tons)

Year	Amount of sold production, (thousand tons)
2004	464
2005	502
2006	592
2007	631
2008	634
2009	595
2010	625

Source: The Central Statistical Bureau of Latvia

The most positive tendency in recent years is the development of milk processing. As mentioned before, the dairy cooperatives are already producing their own branded products.

There are also initiatives by farmers to produce for the market. For example, the farm "Veckūkuri" has started a production of yogurts and sells fresh milk directly to the consumers. That kind of initiatives is possible because of the EU's structural aid.

5.5 Sheep meat

Although there is one cooperative in this sector, the production of sheep meet is still unpopular among Latvian farmers. As was shown in Table 2, gross investment in sheep meet production was 33 times less than into the production of pig meat. Two reasons are mainly recorded for this trend: 1) sheep rearing is a rather complex business with many requirements: specific veterinary care, big grazing areas, etc. and 2) sheep meat has traditionally not got much attraction in the Latvian cuisine.

5.6 Pig meat

As Table 2 showed, the economically most significant sector has been pig meat production. The sector had the biggest total outputs, and the best input - output ratio.

As mentioned in Chapter 2.1.4, there are several big farms that belong to foreign investors which dominate the sector. The national producers have so far not seen the necessity to establish a cooperative or did not have the respective knowhow.

6 Overview of policy measures

6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries- even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g. the EU's common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987) :

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	Transfer money to individuals in return for certain actions
Capacity Building	Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be useful to support farmers' cooperatives. In section 5.2 the relevant policy measures and their potential impact in Latvia are identified. In section 5.3 a number of other legal issues are addressed.

6.2 Policy measures

The table below identifies the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

Table 10. Policy Measure Description

Name of Policy Measure	**Type of Policy Measure**	**Objective of the Policy Measure**	**Target of the Policy Measure**	**Expert comment on effects on development of the cooperative**
Cooperative Societies Law	Mandate (Cooperative legislation / incorporation law)	Attainment of equity or social goals	Specific to cooperatives	The law is very clear and takes into account all aspects of the idea of cooperatives. It is also developed rather detailed. For example, there is clearly defined the order of legacy. Also it is defined by the law that to no farmer can be it forbidden to get into the corporation. The law defines that cooperatives should not pay income tax – income tax should be paid by each member of cooperative individually.
Sugar industry law	System Changing	Correction of market or regulatory failures	Specific to an agricultural sub-sector	Originally the law was accepted in the year 2004, before Latvia entered the EU. But there started the changes in the year 2006, which led up to complete end of sugar industry in Latvia. It is not defined by the law, but since June 2008 'Sugar industry law' has only five paragraphs and three transition rules. Now this law does not declare anything informative that would be in interests of farmers – it has only representative meaning.
Tax law of natural resources	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	This law relates to those cooperatives, producer organisations or privet farmers that are selling their products to consumers. The selling of products requests to pack the product. So this law puts extra financial burden to the producers of any product. Also in some interviews some respondents mentioned this law as burden for their economical activity. But when we think about the sustainability, than we can describe this law as very useful to cut down the pollution with domestic pollution that contains of different packs of products.
Labour law	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	Labour law can be viewed from the business point of view and also cooperatives specifically. The law directly defines all the rules that should be taken into account when people are getting into the relationships employer-employee. These relationships can be related not

				only to business but also to cooperatives where do exist practice to employ some professionals to do particular work. The law also clears all the situations if employee starts work in other country which makes this law referable to the international governance.
Law of legal power of documents	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	This law clarifies all the parameters that need to be followed to structure any document. It is the main reference in case of disagreement between any two sides that are influenced by any type of agreement.
Animal protection law	Mandate (Market regulation and competition policies)	Correction of market or regulatory failures	Specific to an agricultural sub-sector	Animal protection law defines the conditions in which the animals should be held. The law points out also different types of animals, including, farm animals. The law defines that holders of animals cannot abuse animals and they have to ensure the proper maintenance of animals. There are also determined the ways how the animals should be killed. There are defined responsibilities of Food and veterinary service and the Ministry of Agriculture.
Law of animal feeding	Mandate (Market regulation and competition policies)	Correction of market or regulatory failures	Specific to an agricultural sub-sector	The law includes all veterinary approved rules how to feed the farm animals. It is important to farmers and cooperatives that are producing meet or dairy. There are many references to different documents and regulations of European Union.
European Cooperative law	Mandate (Cooperative legislation / incorporation law)	Correction of market or regulatory failures	Specific to cooperatives	European Cooperative law is rather succinct, where are many references to different documents and regulations of European Union. The law clarifies all the procedure when Latvian cooperative wants to broaden the territory of its activities across the border. And also it explains the legal salvation of situation when some European cooperative wants to start its activities in Latvia.
Epidemiologic safety law	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	As the question of different epidemics is significant lately this law clears all the steps that have to been taken to fight against ay epidemic. The law could be taken as a good instruction which defines the ways to

				do needed things and defines the responsible institutions.
Law of business support control	Inducement	Attainment of equity or social goals	Applicable to business in general	As some persons that have farms, start business activities, this law is good support provider to them in the case if they would need some external support. The law defines the circumstances when the support is allowed. It also defines the amount of the support and order of its appropriation. The biggest chance to get the support is to those who plan to create and provide some innovative ideas. So that there would be no waste of money or illegal misappropriation there are defined the system of monitoring in the law that comes after the use of money.
Competition law	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	The competition law relates to both to business in general, and also to corporations. Factors that affect competition – corruption, rise or reduction of prices, other types of unfair competition – covers both business, and corporations. The law strictly defines the unfair competition and what are the sanctions in the case of unfair competition.
Law of agriculture and rural development	Inducement	Attainment of equity or social goals	Applicable to business in general	This law defines that not less than 2.5 percents of annual budget expenses should be spent for development of agriculture. It also prescribes that farmers can claim to long-term credits with easement rules. But this law describes not only possibilities, but also responsibilities of farmers. For example, they have to take care of soil so it would not lose its fertility.
Prohibition law of unfair commercial practice	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	Same as in the competition law, this law defines that there cannot take place any kind of unfair activities that could include defamation of competitors, influence of consumers' behaviour etc.
About the responsibility for imperfection	System Changing	Correction of market or regulatory	Applicable to business in general	This law defines responsibility for producers not only to provide products and services of good quality, but it also defines that producers

of product and service		failures		should provide information on ingredients of product, instructions for use, dates when it was made and until when it should be used. It also provides the information how people should act to get reward for damage and also there are described the cases when reward is applicable.
About tax of immovable property	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	The law defines that no taxes should be preferable to buildings that are used for agricultural production. Thought there is defined the need of extra tax to those farmers that have uncultivated soil. This is a good support for agricultural production and also a motivation to maintain their estate in good condition.
About taxes and dues	Mandate (Market regulation and competition policies)	Attainment of equity or social goals	Applicable to business in general	The tax law does not include any special easement neither to the cooperative nor to the farmers. It only restricts obligations to cooperatives in the order of making and submitting the reports.
Law of turnover of seeds and breeds	Mandate (Market regulation and competition policies)	Correction of market or regulatory failures	Specific to an agricultural sub-sector	There are defined three main institutions at the beginning that are in charge of seeds and breeds turnover regulation. Then there is described the process of producing, packing and selling of seeds so it complies with consumers' needs.
Veterinarian medicine law	Mandate (Market regulation and competition policies)	Correction of market or regulatory failures	Specific to an agricultural sub-sector	This law partly includes the idea of Epidemiologic safety law that described the actions that are required in the cases of epidemics. It also describes what veterinaries should do. Positively can be described the list of things that Food and veterinary service is in charge for. Those are technical things (for example, incubators, transport etc.).

All the laws that were listed in Table 10, except the Cooperative Societies Law, are not directly focused on cooperatives and their integration into the market. Hoever, they are reliable to cooperatives in different ways, among others, by the sectorspecific regulations.

6.3 Other legal issues

In Latvia, the legal business forms for farmers to organize themselves into producer organisations (POs) are: individual businessmen, self-employed persons, and farms. The form most frequently used is farmer. But the national law does not actively stimulate the use of a specific legal business form for cooperatives/POs. The trend may be more the result of the initiative taken by the farmers themselves.

The initial costs of setting up the legal business form in Latvia are as follow:

1) To establish a limited company (Ltd.), 2000 Ls (approx. 2845 €) are needed.
2) To establish a small limited company (Ltd.), 1-1999 Ls (approx. 1.5-2844 €) are needed.
3) To establish a joint-stock company, 25 000 Ls (approx. 35 570 €) are needed.
4) To establish a cooperative, 2000 Ls (approx. 2845 €) with few exemptions where 200 Ls (approx. 284 €) are needed.

Regarding the costs of maintaining the legal business form, there are no strict data for that. It depends on different features of the business forms. But the indirect costs should also be taken into account, which differ between the business forms. There are no definite figures in Latvian statistics.

The Cooperative Law mostly describes the main positions that should be considered. But most of the rules leave scope for the self-responsibility of cooperatives. For example, the law defines that in a general meeting (meeting of authorised persons) each member of the cooperative society has one vote irrespective of the number of the basic cooperative shares owned by him or her. There are also no restrictions to the entrance fee for cooperatives. Thus, some cooperatives do not require this fee.

The main responsibility of each cooperative is the raising of equity. As entrance fees are not binding by law, investments into equity capital can, for example, be made by the creation of reserve capital or buying of debentures. Cooperatives can also define other capitals in their statutes, thus, increasing their autonomy in raising equity.

The rules on profit distribution stipulate that by decision of the general meeting of members (meeting of authorised persons) the profit after taxes and other mandatory payments shall be distributed as follows:

1) For the formation of the reserve capital specified in the articles of association, as well as other capital;
2) For the payment of dividends for cooperative shares in accordance with the procedures prescribed by the articles of association; and
3) For profit refund in accordance with the procedures prescribed by the articles of association.

The remaining profits shall be distributed in accordance with the decision by the general meeting of members (meeting of authorised persons).

There are no direct provisions in the Tax Law that would foster or promote cooperatives/POs. But, for example, paragraph 39, clause 2 of the Cooperative Law stipulates that cooperatives do not pay taxes as these are paid by each of the members individually. It means that the cooperative as a whole does not have to pay taxes, which could be described as an advantage.

In general, Latvian laws do not specifically highlight or support cooperatives as they do not provide any specific measures for stimulating the development of cooperatives.

7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the development of cooperatives in Latvia. In Chapter 2, the basic statistics on agriculture and farmers' cooperatives were provided. Chapter 3 presented data on individual cooperatives, especially with regard to their internal governance, their position in the food chain and the institutional environment in which they operate.

This led to some first impressions in Section 3.5 on the performance of cooperatives in Latvia in relation to their internal governance, institutional environment and position in the food chain.

In Chapter 4, the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 studied in detail how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance). Section 6.1 focuses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specifities) and the institutional environment (including the regulatory framework). In Section 6.2, an assessment is given on which policy measures in Latvia seem to benefit cooperatives and which may have a constraining influence.

7.1 Explaining the performance of cooperatives

This report has presented the historical, economic and even social perspectives in which cooperatives in Latvia have developed so far. After working in kolkhozes during the Soviet times, many farmers have refused to join cooperatives. Up to present, there are many farmers who refuse to cooperate and rather run their own business.

However, cooperatives more and more are seen as really democratic institutions that can help farmers to protect their interests and to distribute their production. It is defined in the Cooperative Societies Law that in a general meeting (meeting of authorised persons) each member of the cooperative society has one vote irrespective of the number of the basic cooperative shares owned by him or her. This means that all farmers are treated alike: Whether they are big ones with, e.g., 250 cows and or small ones with only two cows, they are all equal in the decision-making process.

The biggest amount of cooperatives is in the dairy sector. The reason for that is the popularity of milk farms in Latvia. Moreover, dairy cooperatives welcome also small farmers that have even only one or two cows.

The cooperatives have become more important players in the market. This is due, among other reasons, to a greater engagement in processing of the own produce. The biggest cooperatives are the trendsetters of this development. Cooperatives "Latraps" and "Trikāta KS" already have their factories where they produce their own branded products. Further evidence of this trend is given by a number of new applications for building new factories made to the community authorities. As a result, the national processing capacities will be expanded which will reverse the trend the Latvian farmers must sell their milk to Lithuanians and then Lithuanian producers sell ready-made dairy products to Latvia. Instead, farmers in Latvia can then sell their milk on the national marked and more Latvian ready-made products can be exported

7.2 Effects of policy measures on the competitive position of cooperatives

As it was concluded in Chapter 5, there is still a lack of policy supporting the development of cooperatives. There is the Cooperative Societies Law that clearly defines the foundation, regulation and development of cooperatives. Other laws as well make sometimes reference to cooperatives, but as a special case (see also Chapter 5). Mostly, the legislation on cooperatives is not as encouraging as it could be, particularly in the situation when not all farmers trust in the idea of cooperation.

As usual, legislation is under continuous development with the laws being amended from time to time. Further amendments should take into account that a boost in development and influence of cooperatives has taken place during the last five to ten years. At present, cooperatives increasingly take initiatives to exert active influence on the local, regional and national markets.

REFERENCES

Commercial Law. Effective from 01.01.2002. [Komerclikums "Latvijas Vēstnesis", 158/160 (2069/2071), 04.05.2000]; English version www.likumi.lv]

Cooperative Societies Law. Effecttive from 23.11.2006. [Kooperatīvo sabiedrību likums, Latvijas Vestnesis, 48/49(1109/1110),24.02.1998; English version www.likumi.lv]

Development agency of Vidzeme (Vidzemes attīstības aģentūra) (2009) Evaluation of public financing apportioned to cooperatives of agricultural services in Latvia and other EU member-countries since 2004 and suggestions for political changes in rural area support program for year 2007-201. Final report. (KOPŠ 2004.GADA LAUKSAIMNIECĪBAS PAKALPOJUMU KOOPERATĪVAJĀM SABIEDRĪBĀM PIEŠĶIRTĀ PUBLISKĀ FINANSĒJUMA LATVIJĀ UN CITĀS ES DALĪBVALSTĪS IZVĒRTĒJUMS UN PRIEKŠLIKUMI TUPMĀKĀS ATBALSTA POLITIKAS IZMAIŅĀM LAUKU ATBALSTA PROGRAMMAS 2007.-2013.GADAM IETVAROS. Gala ziņojums.). Pp. 58.

Kučinskis, J. (2004) Kooperācijas attīstība Latvijā un pasaulē (The development of coorporation in Latvia and in the world). Riga: Latvijas Hipotēku un zemes banka: 335.

Latvian Agricultural Cooperatives Association homepage: www.llka.lv

Latvian Agricultural Cooperatives Association. (2011) Statistical information about cooperatives of agricultural services in Latvia in year 2010 (2010.gada statistiskā informācija par lauksaimniecības pakalpojumu kooperatīvajām sabiedrībām (LPKS) Latvijā).

McDonnell, L. M., and R. F. Elmore (1987). "Getting the Job Done: Alternative Policy Instruments" Educational Evaluation and Policy Analysis, 9(2): 133-152.

The Central Statistical Bureau of Latvia homepage: www.csb.gov.lv

The Ministry of Agriculture. The confirmed cooperatives of agricultural services in 2011 (2011.gadā atbilstīgās lauksaimniecības pakalpojumu kooperatīvās sabiedrības). Riga, 2011