



Ministry of Agriculture  
Republic of Latvia

## Common Agricultural Policy: Past, Present and Future

### Latvian view and position on Direct Payments and Rural Development financing

Ministry of Agriculture



## DIFFERENCE OF DIRECT PAYMENTS BETWEEN MEMBER STATES SHALL BE REDUCED BECAUSE

- Initial envelopes were calculated based on **worst data** that has ever been recorded in agriculture of Latvia;
- More than **85% of EU direct payments are decoupled**;
- Approximation task to reach **75% of the EU average direct payment level will not be reached in 2020** due to land use changes in EU;
- Differences exist in costs of land and labour although with the minor share in total costs, but **exists also other differences** as higher total costs in Northern countries to create an output, lower incomes in Eastern countries due to remoteness from main export markets, price takers status and small scale of economy;
- **Return of EU funds** to EU economy should be assessed as **1/3** – 1 EUR worth investment aid returns to EU market as 3 EUR worth purchases of agricultural machinery and equipment.

2



## STRUCTURE

1. Why Direct Payments for Latvia are so low?
2. How much Direct Payments does Latvia receive?
3. No justification for low Direct Payments for Latvia!
4. Funding for Rural Development

3



## INTRODUCTION INTO LV POSITION ON CAP after 2020 in context of MFF

- CAP must remain a **strong policy** with **strong funding**
- MFF **categories of basic policies** CAP (and CFP) **to be maintained**
- **Convergence of Direct Payments** between MS
- Direct Payments 100% **EU funded**
- Direct Payments and Rural Development policy – **integral part of CAP**
- Envelope for **Rural Development** for Latvia must be returned to **2007-2013 level** (this period -9%)
- **New challenges** not to be addressed at the cost of Treaty based policies

4



## 1. Why Direct Payments for Latvia are so low?

A little bit from the history...

5



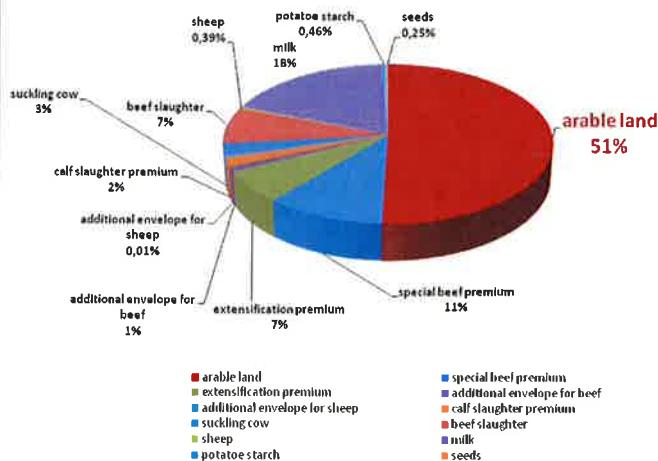
## Calculation of the Direct Payment envelope for Latvia at the time of accession to the EU

- Envelope for Latvia is based on production levels of late **1990ies**.
- These were years:
  - When market of **Soviet Union** was lost;
  - Latvia was in the **transition to market economy**;
  - The **absence of new markets and preferential trade** agreements was reality;
  - **Purchasing power was low** in the domestic market;
- Agriculture in Latvia was at its **lowest point**.
- Since 2003 **Direct Payments were gradually decoupled** from the production.

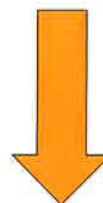
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## How was the Direct Payment envelope composed in Accession negotiations for Latvia?

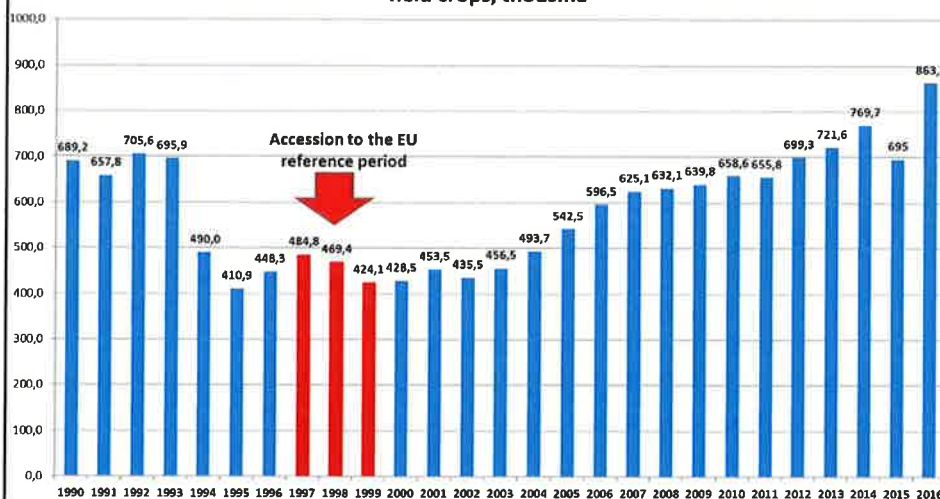
Proportion and weight of the support instruments in % for calculation of the Direct payments envelope for Latvia in the Accession negotiations



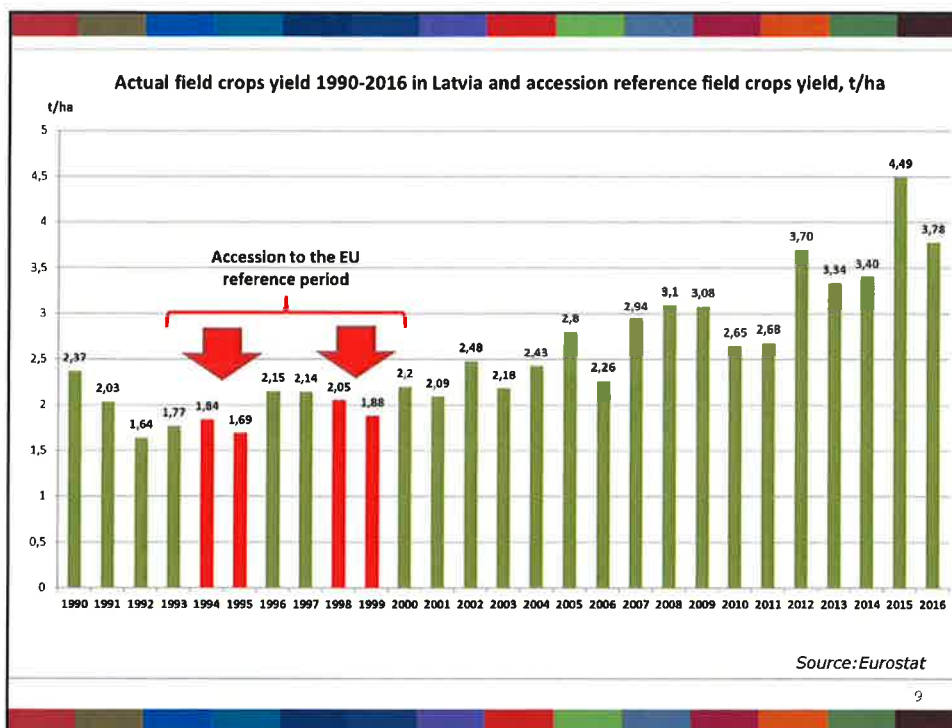
Main part for total Latvia's DP envelope = field crops envelope calculated according to formula:  
 (reference field crops area)  
**443 580 ha X**  
 (reference field crops yield)  
**2,5 t/ha**  
**X**  
**63 EUR/t**  
**= 69 863 850 EUR**



## Area of all agriculture field crops in Latvia (1990-2016) and accession reference area of field crops, thous.ha



Source: Eurostat



## The challenge - to reduce differences between Member states in CAP support

«CAP needs to play its role in following the principles of Equality between its Members, big or small, East or West, North or South», which were recalled by President Juncker in his State of the Union address of 2017.

In this sense, it should reduce differences between Member States in CAP support. Even if the wide diversity of relative costs of labour and land as well as the different agronomic potentials across the EU should be acknowledged, all EU farmers face similar challenges.»

*Future of Food and Farming,  
European Commission,  
29.11.2017*

«Direct payments are still largely determined by historic entitlements  
...»

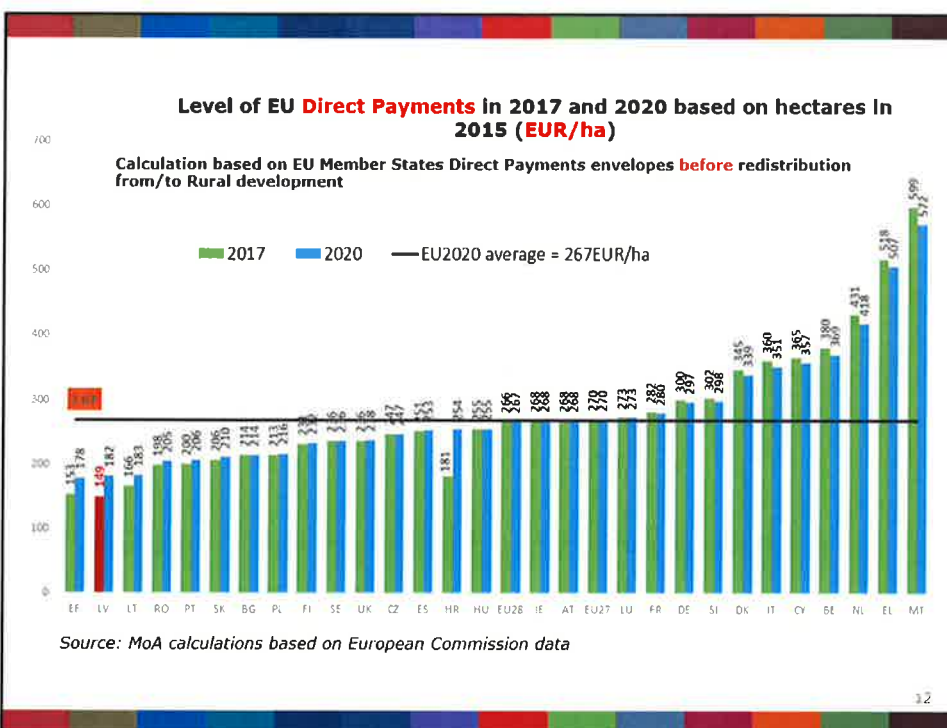
*Reflection Paper on Future of EU Finances,  
European Commission,  
28.06.2017*

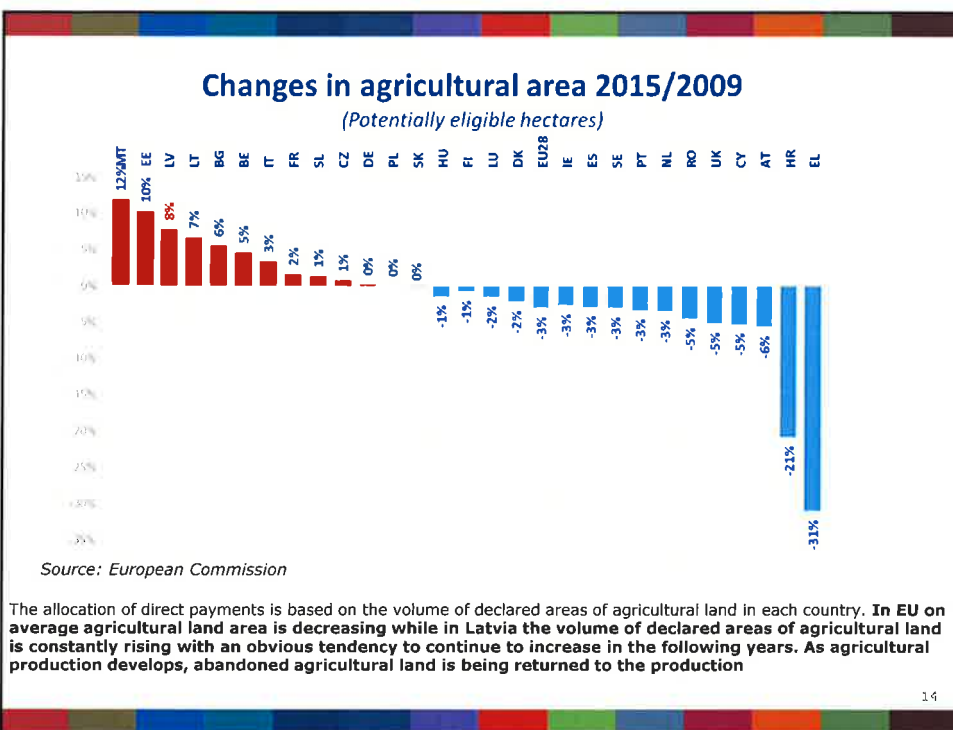
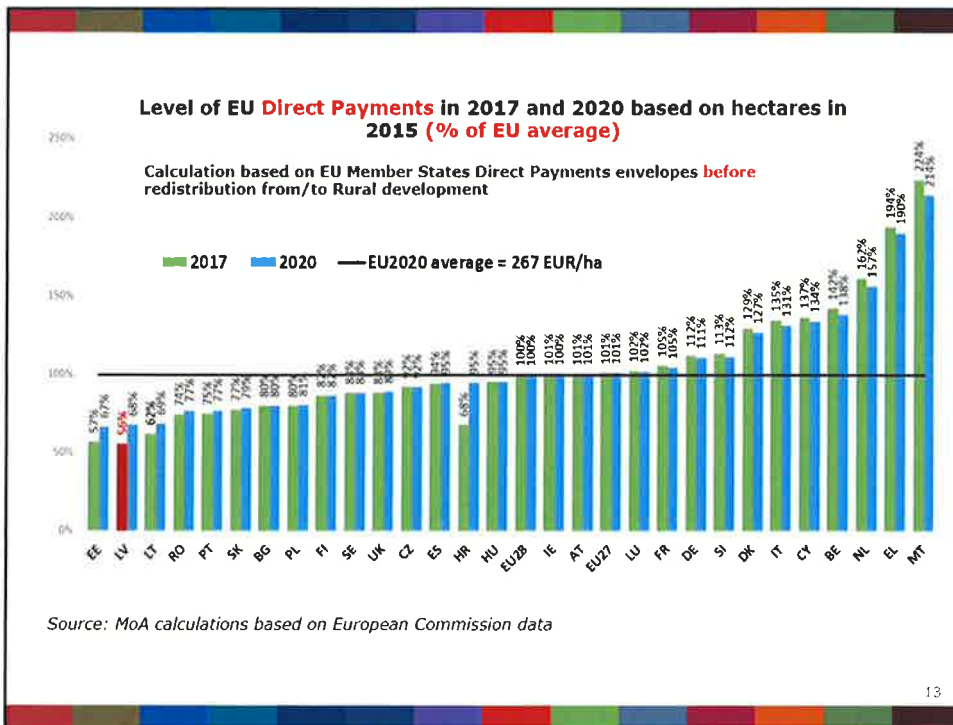


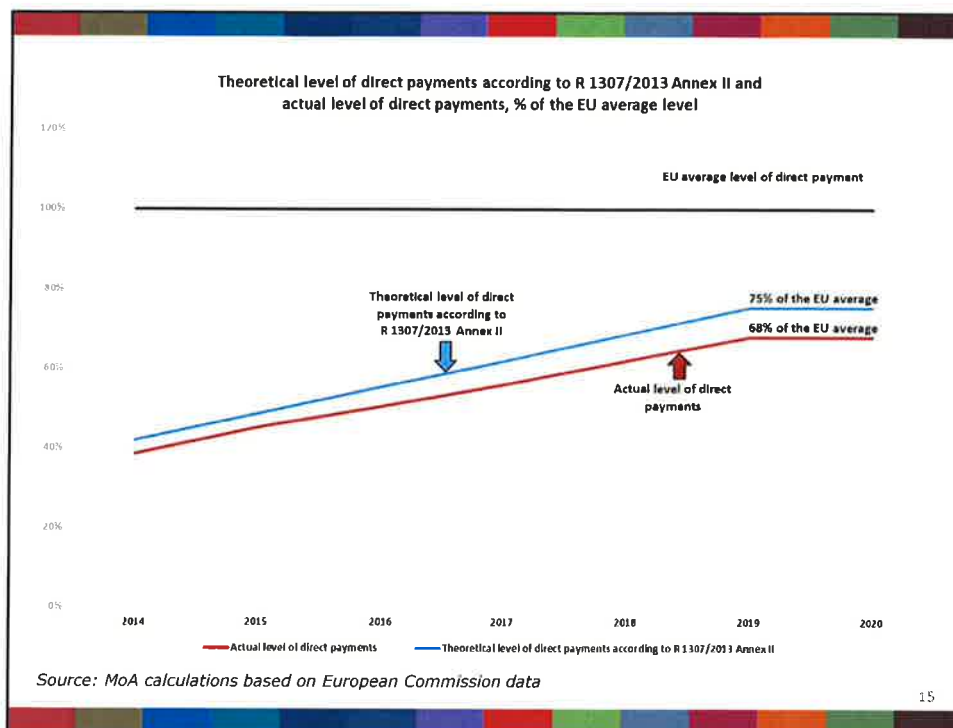
## 2. How much Direct Payments does Latvia receive?

**Lowest EU funding (EUR/ha)  
for the agriculture in the EU**

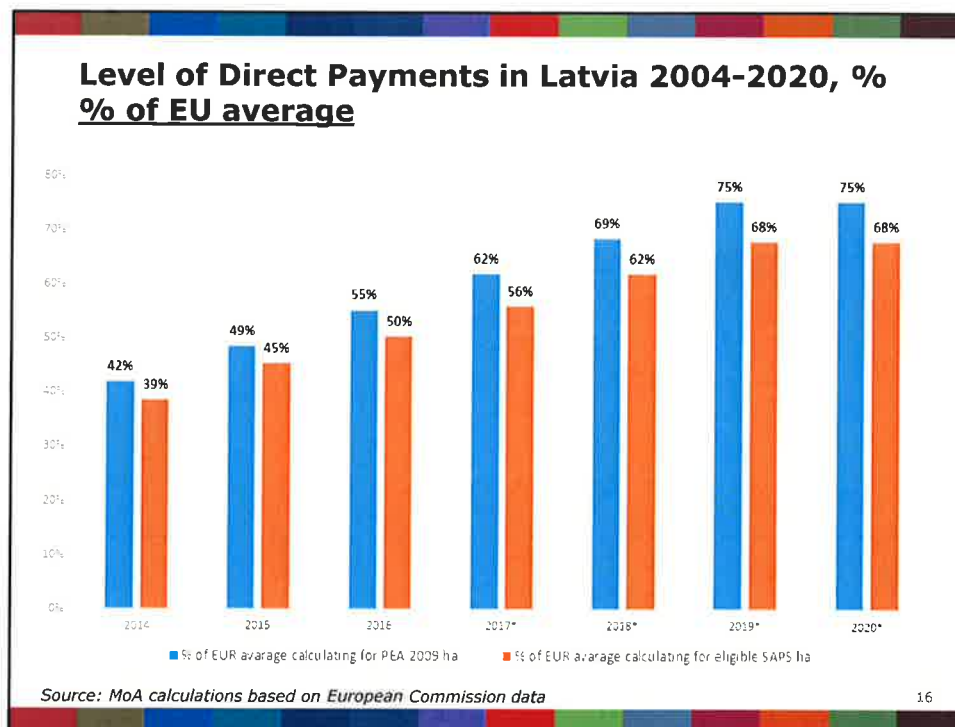
11







15



16



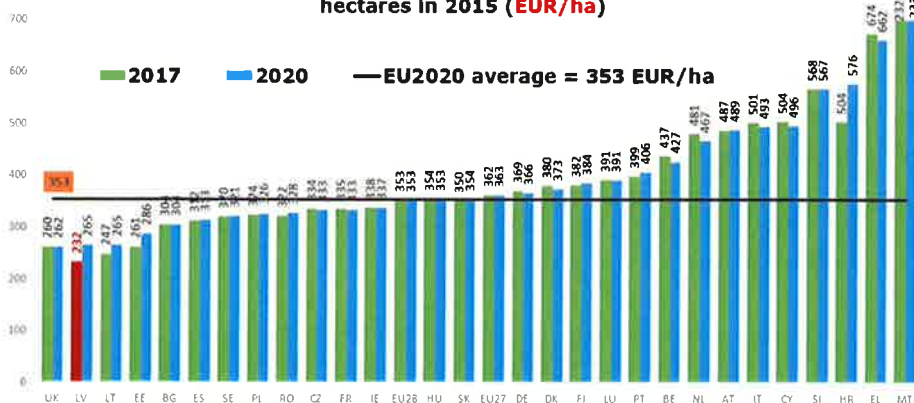


### Latvia receives the lowest CAP funding in the EU

- Latvian farmers receives the lowest direct payment level in the EU
- Taking into account **the total envelope for direct payments and rural development, Latvia still has the lowest funding** among EU Member states

17

Level of EU Direct Payments and RDP in 2017 and 2020 based on hectares in 2015 (EUR/ha)



Source: MoA calculations based on European Commission data

18



**3. There is no justification  
for low Direct Payments  
for Latvia!**

19



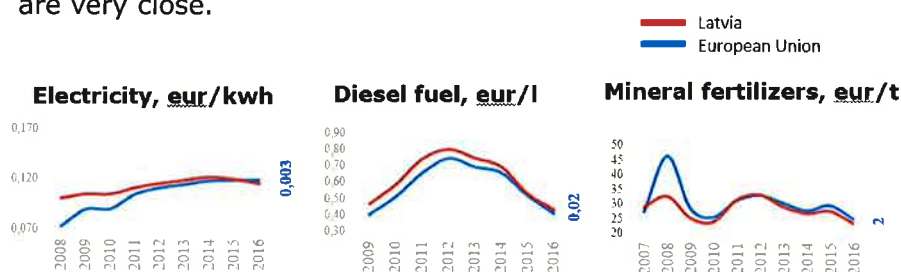
- 1. Historical production references of 1990ties have to be abolished**
- 2. All farmers in EU have the same standards, requirements and challenges**
- 3. It is misleading to assume that farmers in Latvia have more favourable or less expensive conditions for farming than in the other MS**

20



## High input prices for Latvian farmers (1)

Prices for agricultural inputs are close to EU's average level. Prices (2016) for such important input as **electricity (-2%)**, **mineral fertilizers (-7%)** and **diesel fuel (+5%)**, are very close.



Source: Eurostat, Europe Commission, Easy Comext

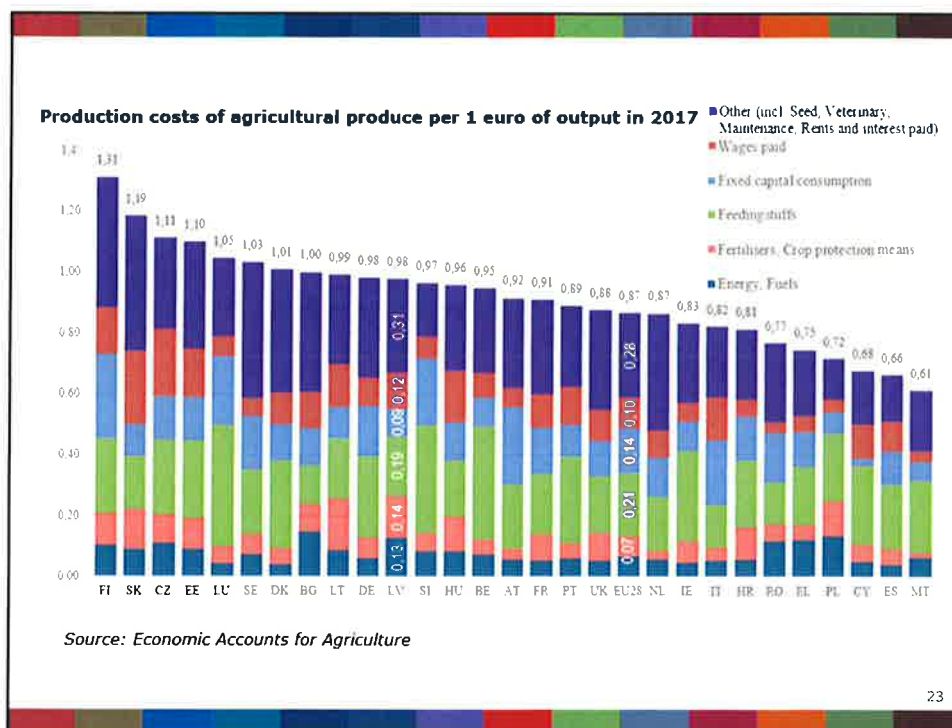
21



## High input prices for Latvian farmers (2)

- The changing and often unfavourable **weather conditions** and short periods of **vegetation** are adding **additional costs** to farmers
- **Costs to create 1 euro of agricultural output in Latvia and in other Northern countries are significantly higher.** It takes **0,98 EUR** to create 1EUR of agricultural output in Latvia (2017). It is the 11<sup>th</sup> highest figure. While in average in **EU 0,87 EUR** are spent to create 1EUR of agricultural output (Italy 0,82 EUR, Spain 0,66 EUR, France 0,91 EUR etc.)

22



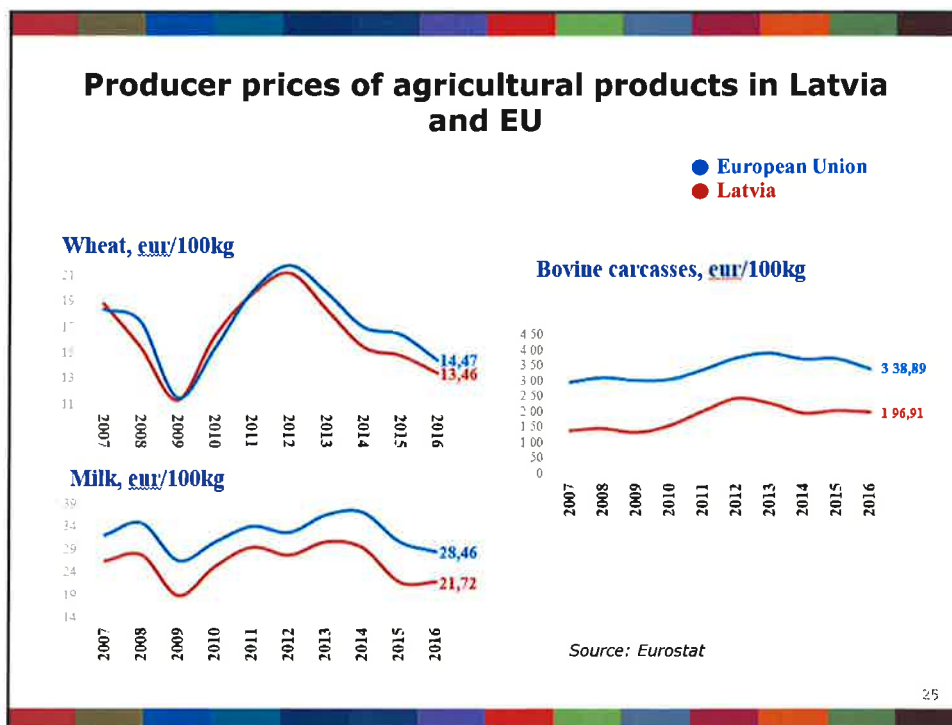
23




## Revenues and producer prices – lower for Latvian farmers (1)

- **Revenues of Latvian farmers will always be lower than the EU average, as export prices in Latvia will always be lower due to the **small scale of economy, remoteness from main export markets and due to price takers status.****
- **Producer prices in Latvia are lagging behind EU's average producer prices. In such major sectors as **dairy farming (-24%), bovine sector (-42%) and wheat (-4%)** prices are significantly lower.**

24



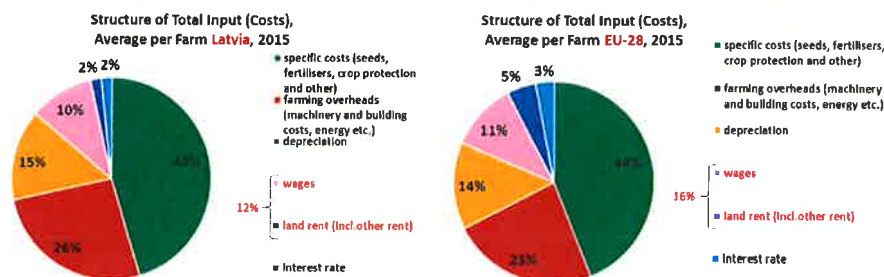


## How significant are differences in labour and land costs?

- Differences between **labour and land costs** in EU are existing. However, the difference is minor in relative terms and the share of these costs indicate that it is not one of the most important inputs. Therefore **differences in Direct Payments can not be justified simply by these costs**
- We do not deny the fact that **costs of agricultural production and maintenance of the landscape by farmers** differ between different regions and EU Member States. However, statistical data prove that **differences between those costs and the levels of Direct Payments per hectare do not correlate** either

26

### Share of Production costs in Latvia and in average in EU-28

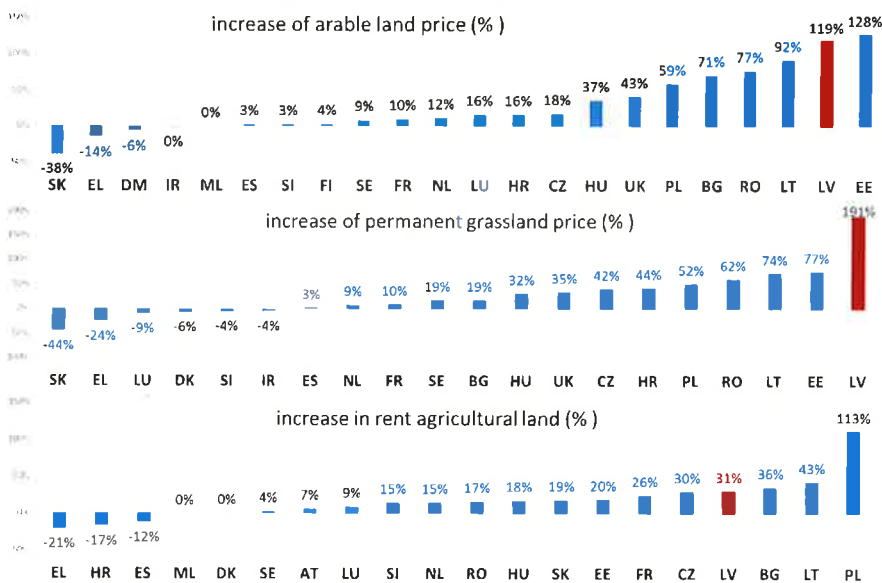


Source: Fam Accountancy Data Network

**It is assumed that differentiated levels of Direct payments can be justified by the differences in costs of labour and agricultural land among MS. However, these two categories constitute only a minor part of Total Costs of farmers.**

27

### Changes in price of arable land, permanent grassland and rent of agricultural land (in period 2011-2014)

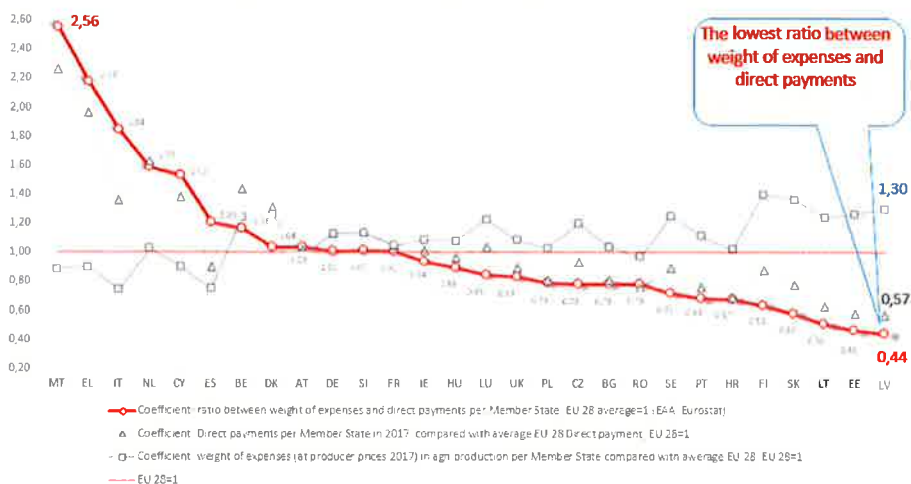


Source: European Commission

28

## Expenses and Direct Payments are not proportional

Ratio between weight of expenses (2017) and direct payments (2017)



Source: MoA calculations based on Economic Accounts for Agriculture (Eurostat)

29

## Support for investments in infrastructure related to development and modernisation of agriculture

2007-2017



EAFRD

264 mln €



+ Latvian Public funding  
+ business co-financing



531 mln €

Latvia's direct contribution to the EU economy



795 mln €



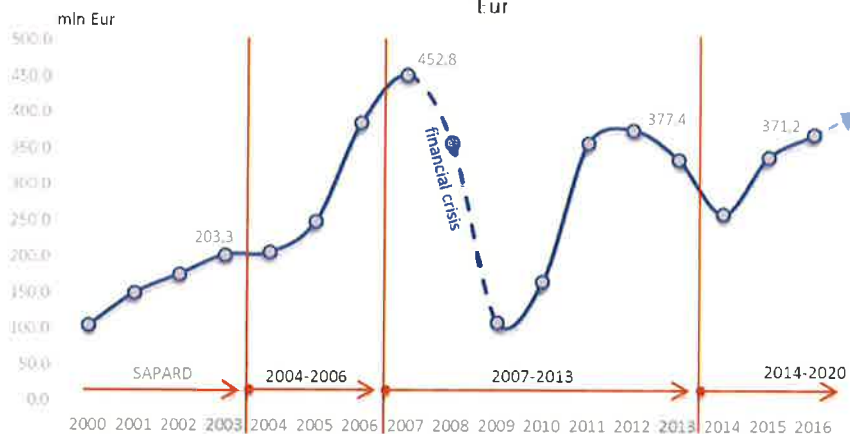
Latvia

Source: MoA calculations

30

### Latvia spends EU money on imports of Agri machinery

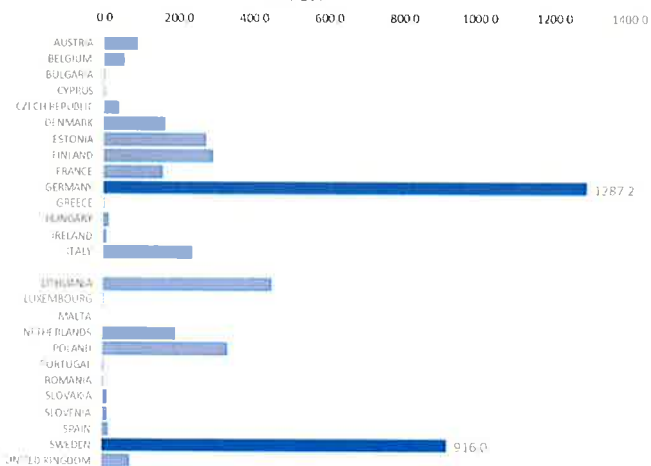
Import of Agri machinery and equipment in Latvia, 2000-2016 (EU Intra), mln Eur



Source: MoA calculations based on Comext (Eurostat)

31

Import of Agri machinery and equipment in Latvia, 2000-2016 (EU Intra), mln Eur



EU financing what Latvia is receiving through EARDF projects is invested in the production modernization by purchasing equipment from other EU Member States as Latvia is not producing such machinery and technique. Therefore with the financial resources what is available for Latvia, the economy of other EU Member States is encouraged as well

Source: MoA calculations based on Comext (Eurostat)

32





## 4.Funding for Rural Development

33



## Financing for Rural Development

The distribution of the EU funding for rural development **must be based on the conditions and criteria that encourage the development of those EU's rural areas that are significantly lagging behind the average level of the EU's rural areas.** Latvia must attain at least the average development level of EU's rural areas

34



## Conclusions

- **There are same challenges for Europe but the main aim of CAP is to provide EU citizens with high quality and safe food**
- **The EU funding (EUR/ha) for the agriculture in Latvia is still the lowest in the EU**, despite the fact that there are **equal requirements and challenges for all EU Member states** (the greening payment in Latvia is 44 EUR/ha while the highest level in EU is 152 EUR/ha)
- **Commission acknowledges** that the CAP needs to play its role in following the principles of "Equality between its Members, big or small, East or West, North or South", which were recalled by President Juncker in his State of the Union address of 2017. In this sense, **it should reduce differences between Member States in CAP support**. Even if the wide diversity of relative costs of labour and land as well as the different agronomic potentials across the EU should be acknowledged, **all EU farmers face similar challenges**
- **EU must finally ensure that conditions for all the farmers within the EU are fair and equal. Therefore, the convergence process of Direct Payments that has been lasting already for 16 years (until 2020) – must be completed as soon as possible in next period.** 267 EUR/ha is the average level of direct payments that must be guaranteed to Latvian farmers as soon as possible in next financial period
- **Fair Direct Payments** will increase the **competitiveness and income stability** of Latvian farmers. It will **rise the support for the EU and the CAP. Convergence** will reassure Latvian farmers that they will not further be left in **uncompetitive and unfair conditions**

35



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