

# Estonian agriculture and rural development – what challenges do they have to face?

Toomas Kevvai  
Deputy Secretary General  
for Rural Development and Fisheries  
Policy

# My brief CV

- 2004 – today Deputy Secretary General - **Rural Development & Fisheries Policy**
- 2000-2004 Deputy Secretary General - **Agriculture and Rural Development Policy**
- Sept 1997- 2000 Deputy Secretary General for **Economy responsible for agricultural policy, food control, veterinary and phytosanitary**
- member of Estonian negotiating team for EU accession, **responsible on agricultural, rural development, veterinary and phytosanitary matters**
- 2003-2004 also the Estonian spokesperson for the Special Committee on Agriculture

# Accession to the EU

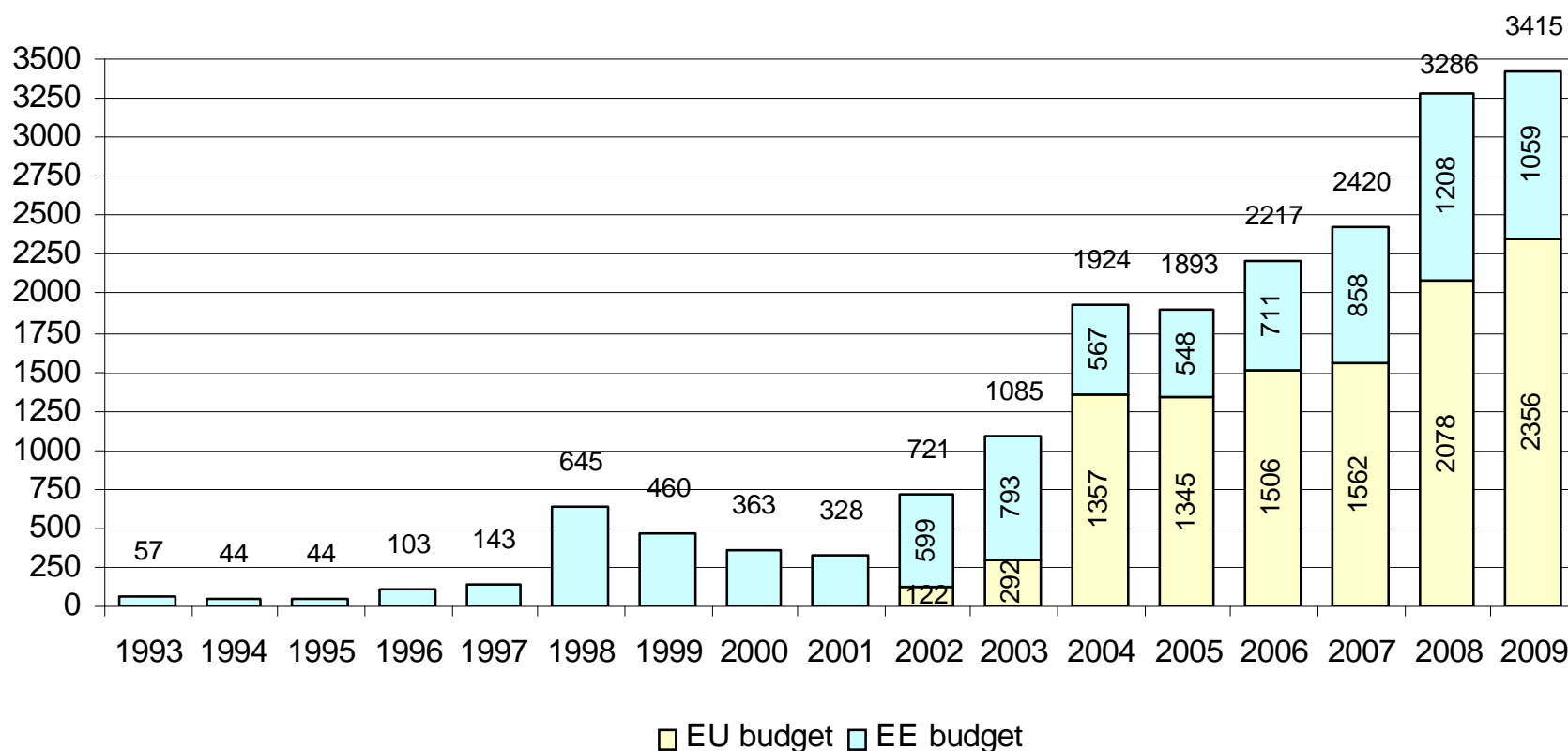
- Estonia joined EU at 1. May 2004
- For agriculture and Rural development it meant full implementation of CAP (transitional period for Direct Payments)
- Full implementation of EU hygiene, animal welfare, plant health and veterinary requirements

# Accession to the EU

- Positive outlook for development in agriculture and rural development
- Estonia became part of the EU common market
- Before joining the EU Estonian national agricultural policy was very liberal – practically no market regulation and low state aid

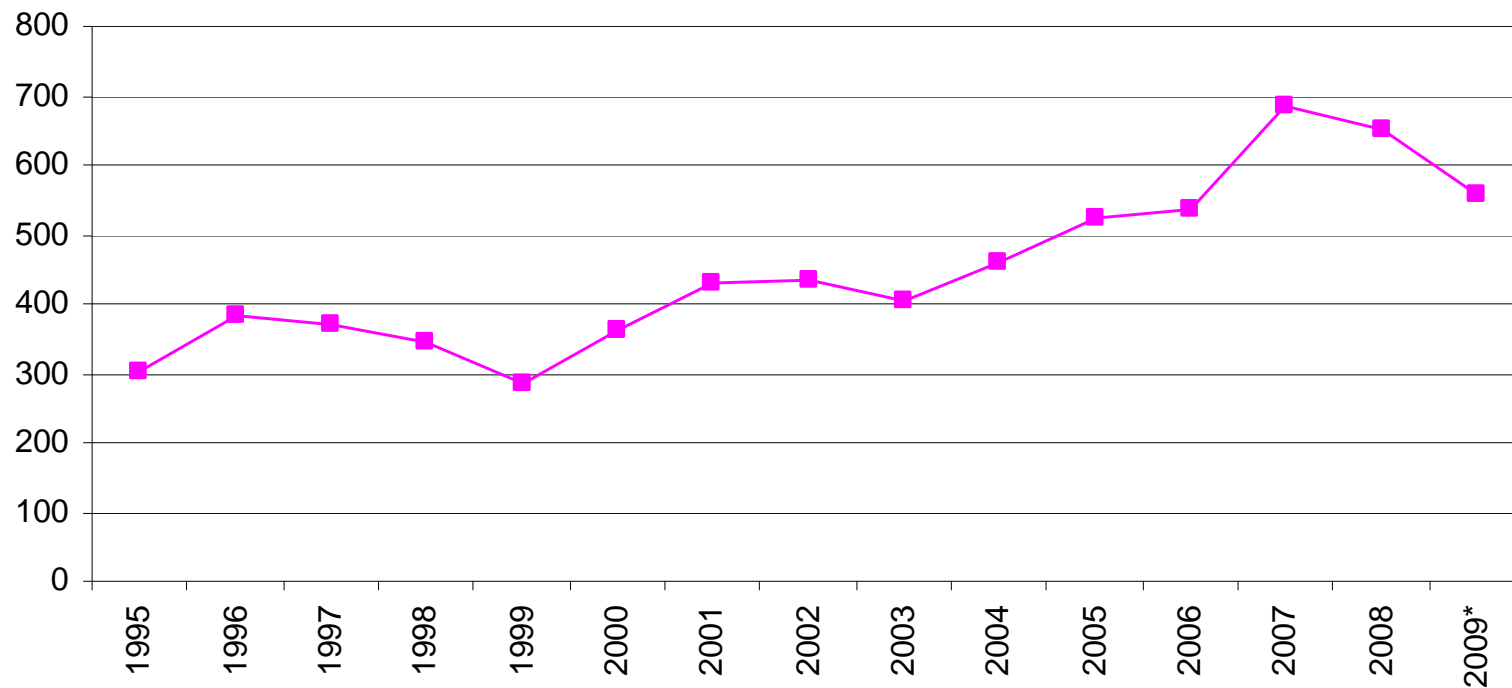
# Effect of the CAP in Estonia – fiscal transfer (from public funds)

**Fiscal transfers to Agriculture, Food Processing and Rural Development 1993-2009, Mio EEK**

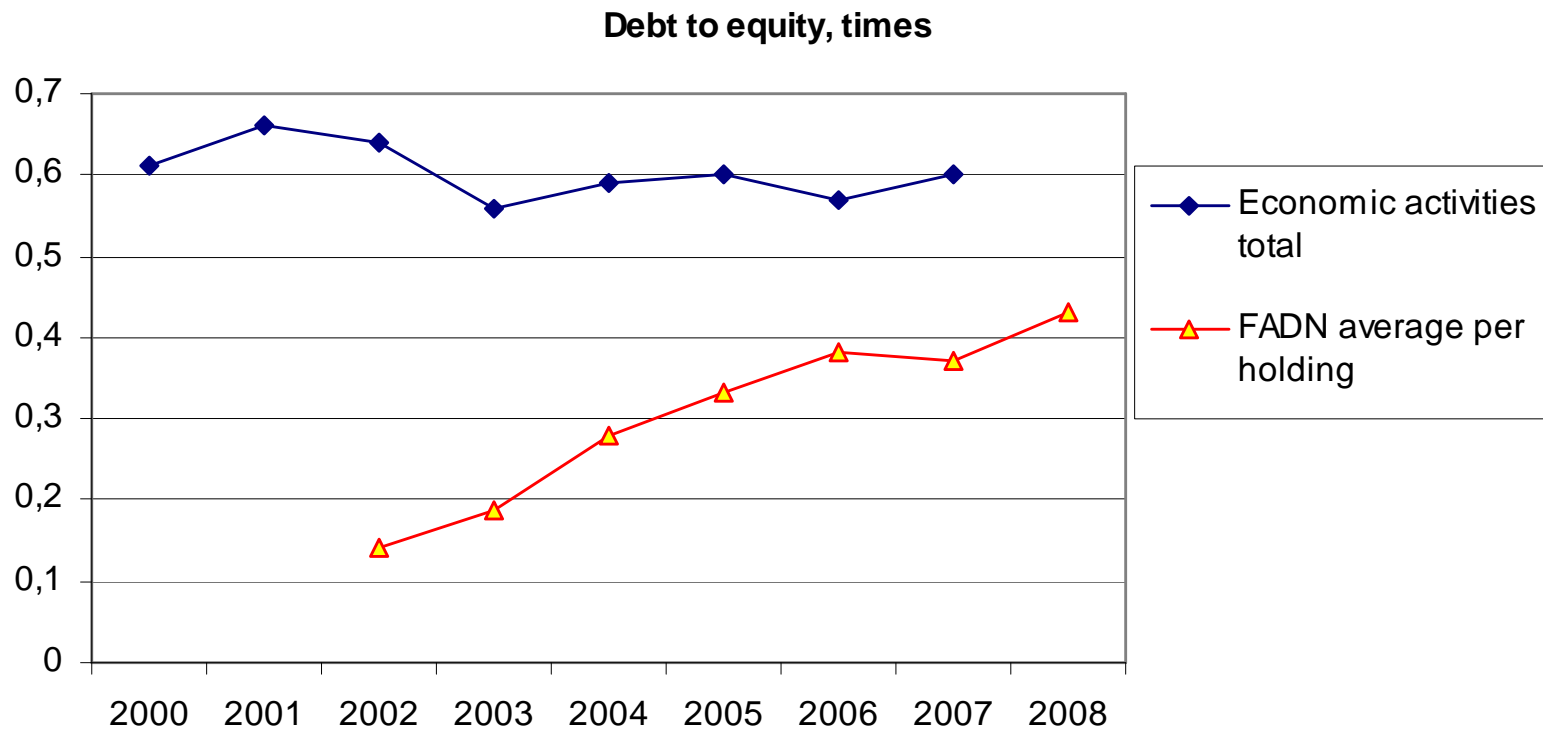


# Output of the Agricultural Industry 1995-2009, Mio EUR

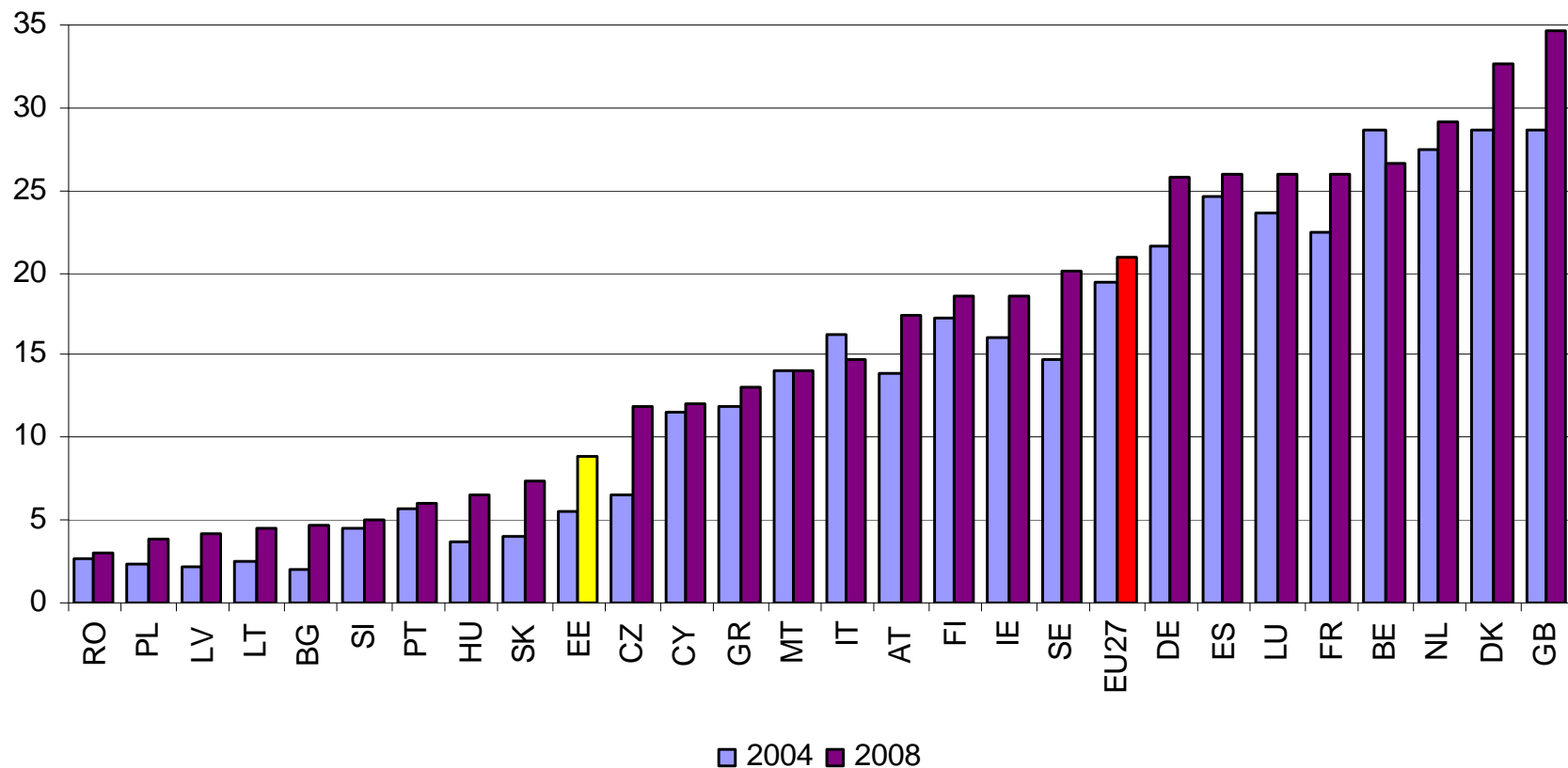
producer prices



# Increased lending



# Factor Income /1000 annual work unit (2004 and 2008)



# Farm structure

- Tendency toward large scale farms  
(appeared already before EU accession)
- Decreasing number of family farms
- Low level of cooperation – but improving  
(thanks to hard times)

There are number of positive  
outcomes

# Effect of the CAP in Estonia – agricultural land

- 850 000 ha of agricultural land in good condition
- More than 450 000 ha environmentally friendly managed
- Organic farming practiced on ca 100 000 ha of arable land
- Maintenance of agricultural activity on 350 000 ha of LFA

# Effect of the CAP in Estonia – agricultural investments

- More than 3000 agricultural holding modernisation projects – ca 7000 economically active farms
- About 200 young farmers
- 50% of cow places reconstructed

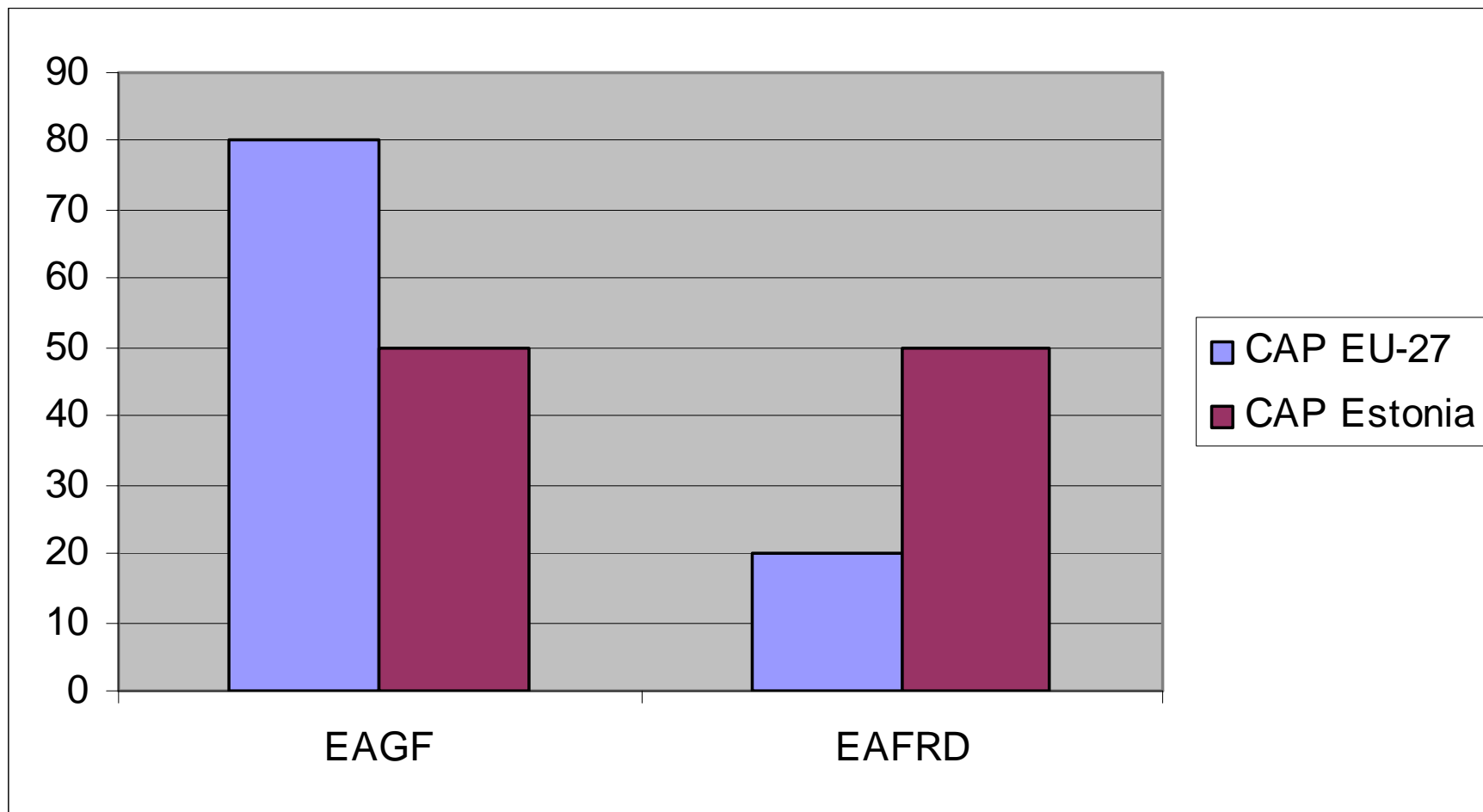
# Effect of the CAP in Estonia – biological diversity and HNV

- Keeping of about 3000 animals of endangered breeds
- More than 20 000 ha of maintained semi-natural habitats (outside SAPS area)
- Compensation for Natura 2000 restrictions on ca 60 000 ha of arable and forest land
- More than 130 km of restored, established and maintained dry stone walls (“diameter” of Estonia is approx 260 km)

# Effect of the CAP in Estonia – diversification of rural enterprise and local initiative

- About 800 diversification projects
- More than 1000 village renewal and development projects (4434 villages in Estonia)
- 26 action groups - 1000 LEADER projects

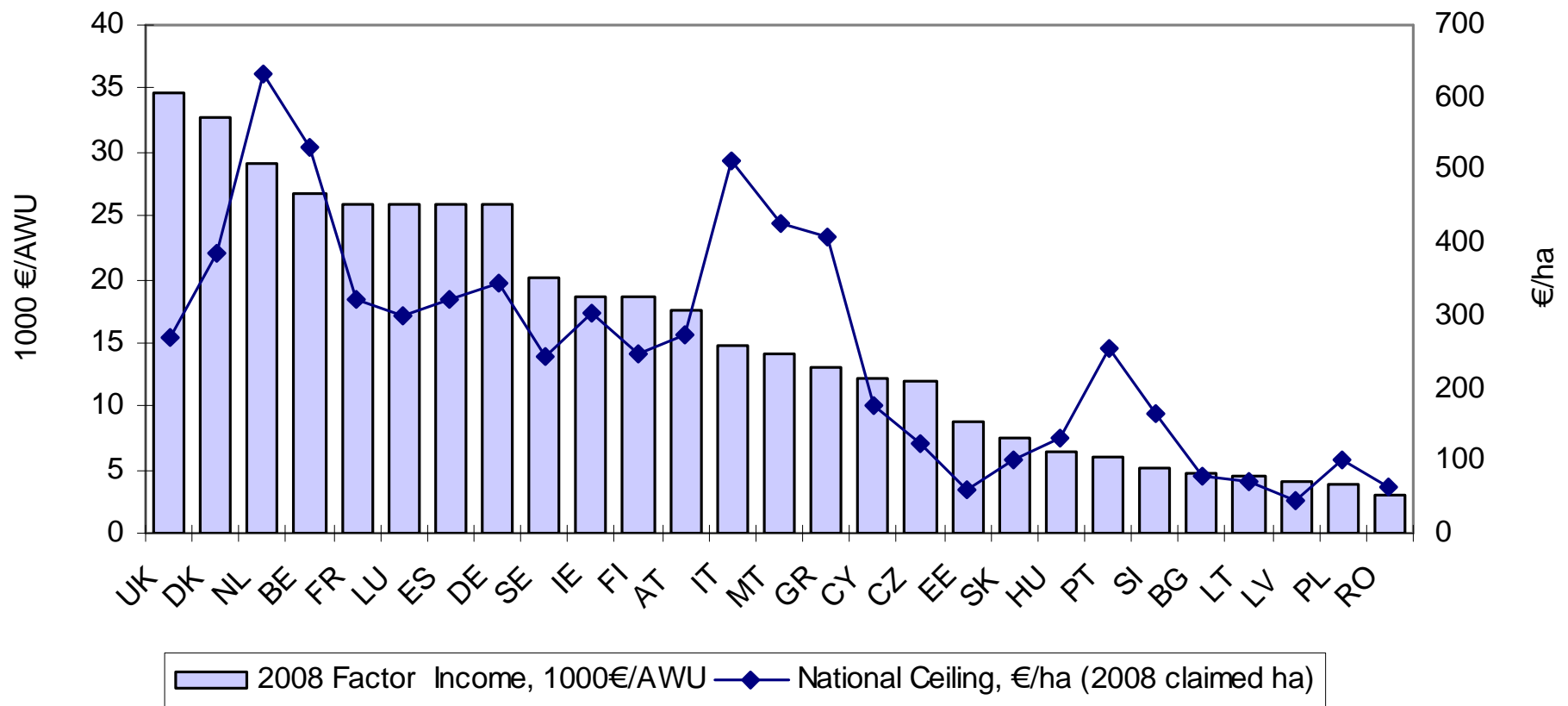
# Budget structure (%)



There are number of positive  
outcomes

But...

# Correlation between Factor Income and national ceiling (SAPS/SPS) (2008 data)

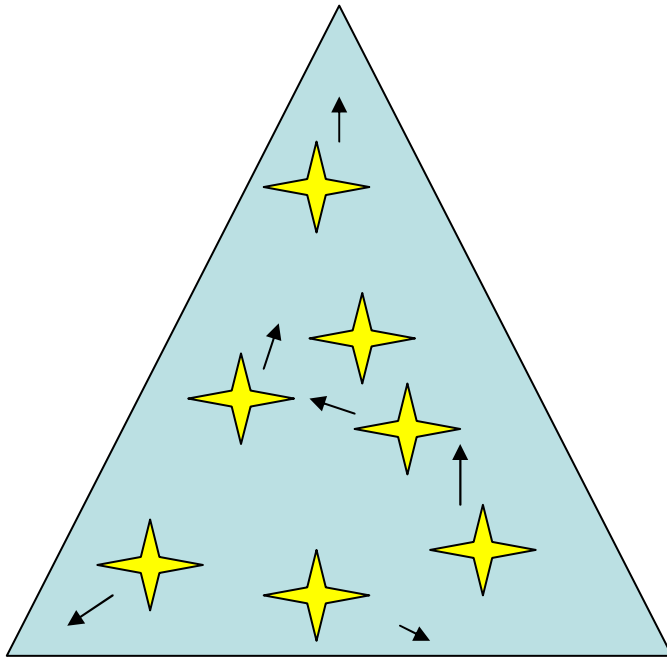


# Conclusion

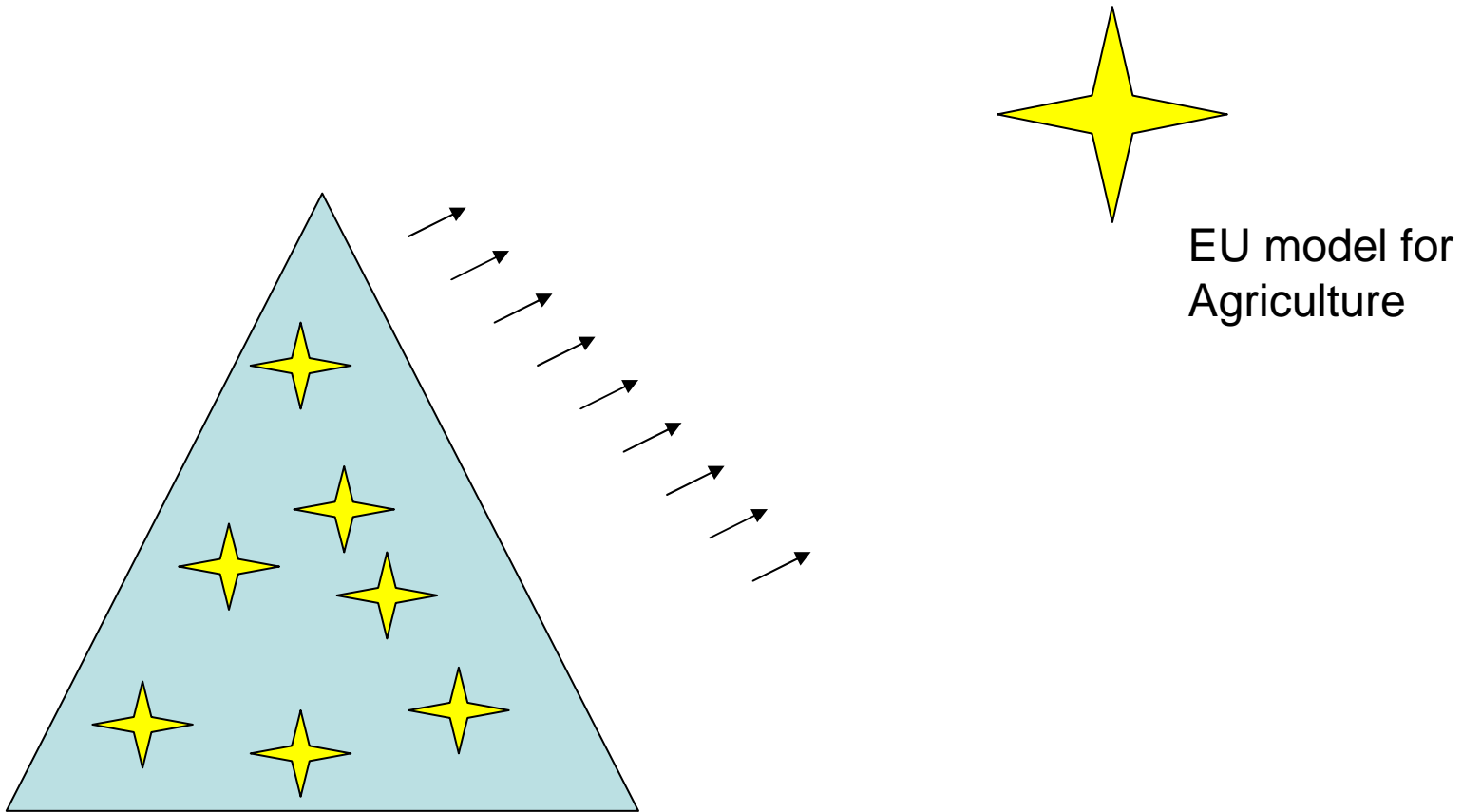
- Implementation of CAP had positive impact to Estonian agriculture and rural development and rural environment
- But – the effect had two components
  - real improvement in competitiveness
  - positive expectations (increased depths)
  - better – **but still unequal balance between member states**

# Estonian preliminary vision for CAP 2013+

# EU non-common agricultural policy?



# EU Common Agricultural Policy?



# The CAP main principles and goals

- Estonia supports the CAP main principles as defined in Treaties (common market, common financing, community preference)
- Estonia is on the position that goals of the CAP must be wider than those defined in treaties, including rural development, food safety and new challenges like climate change, urbanisation, biodiversity etc

# Main positions of Estonia

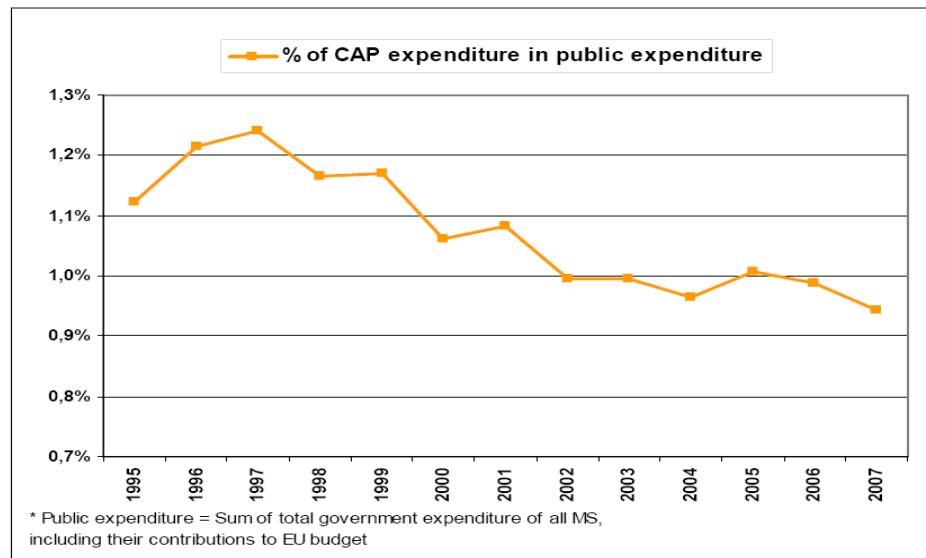
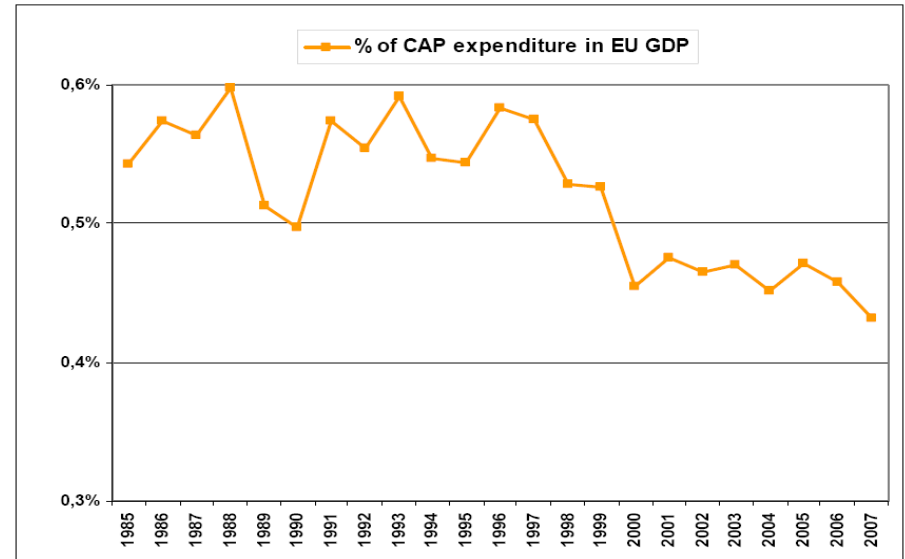
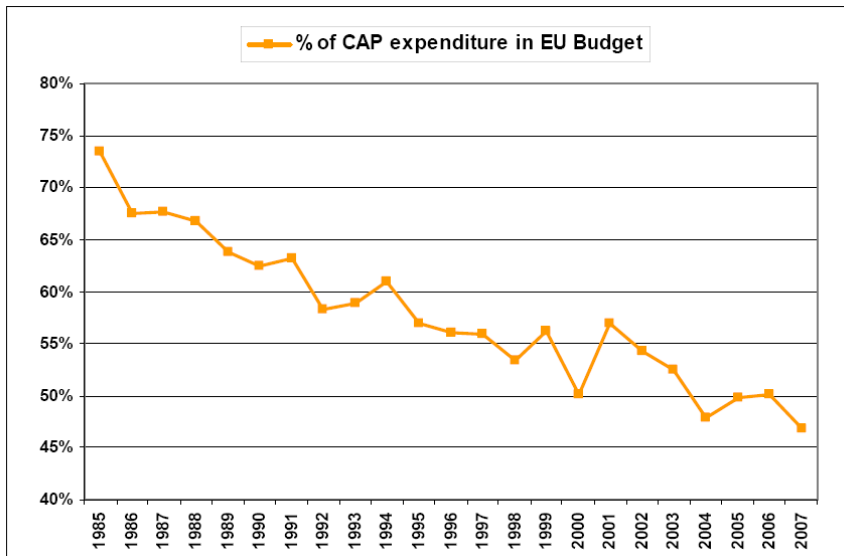
- It is continually important to ensure the safety, high quality and availability of the food and feed produced in the Community.
- To ensure equal competition, food safety standards must be applied on equal terms also to imported feed and food.

# Main positions of Estonia

- The CAP development should continually be directed at the development of the sector of agriculture which is more competitive on the world market and will need less direct payments and market regulation in the long run.

CAP budget

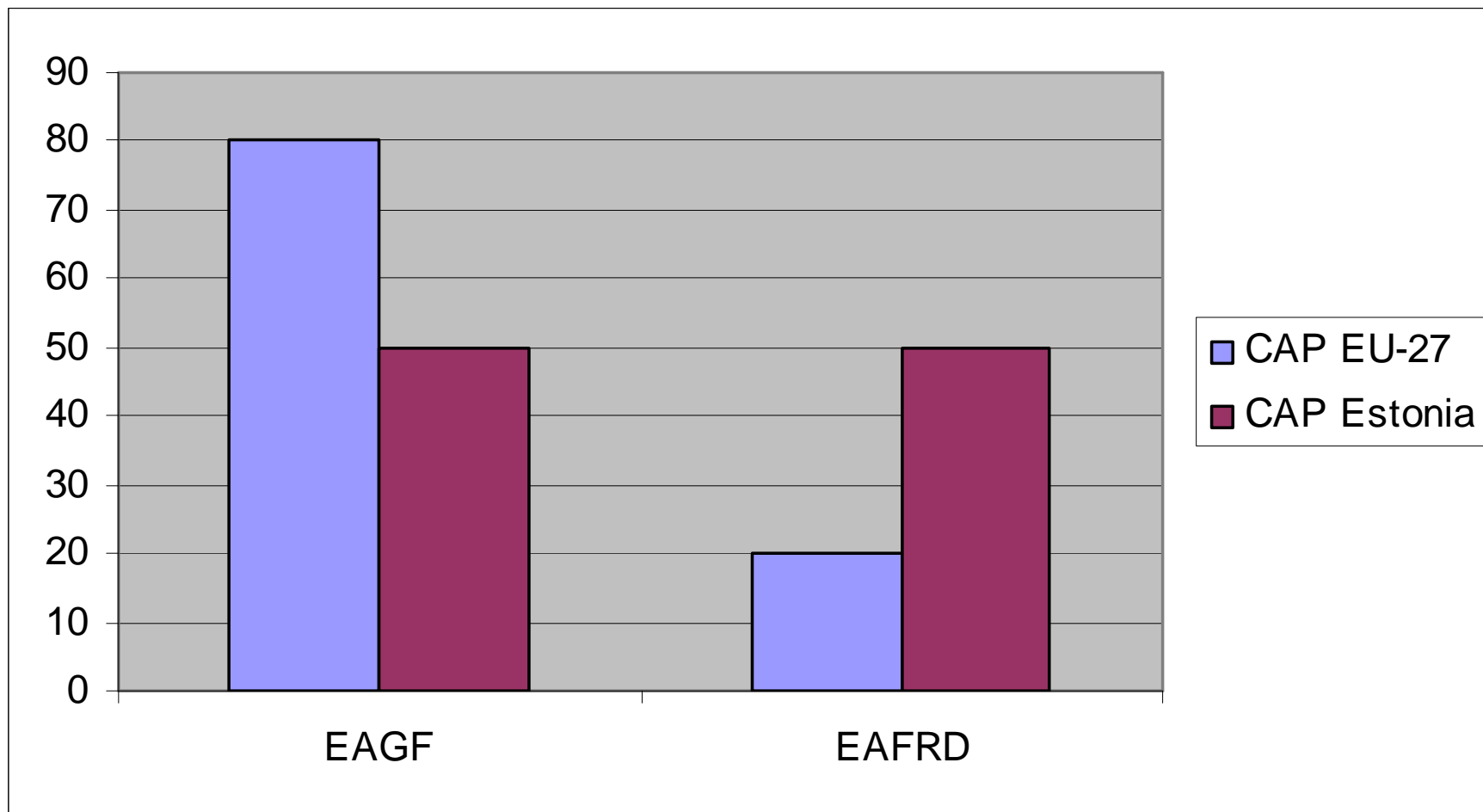
# CAP Budget



# Main positions of Estonia - budget

- Common Agricultural Policy must remain a common policy also with regard to financing.
- Estonia supports the decrease in the importance of direct payments and market regulation measures and the expansion of rural development support measures from released funds – but not through modulation.

# Budget structure (%)



# EAGF vs EAFRD

- EAGF – result – income support + GAEC+ cross compliance – 80% of budget
- EAFRD – competitiveness, public good (environment, biodif, water, HNV), village renewal – 20% of budget – includes even LFA (income support)
- IS THAT THE RIGHT BALANCE what society expects?

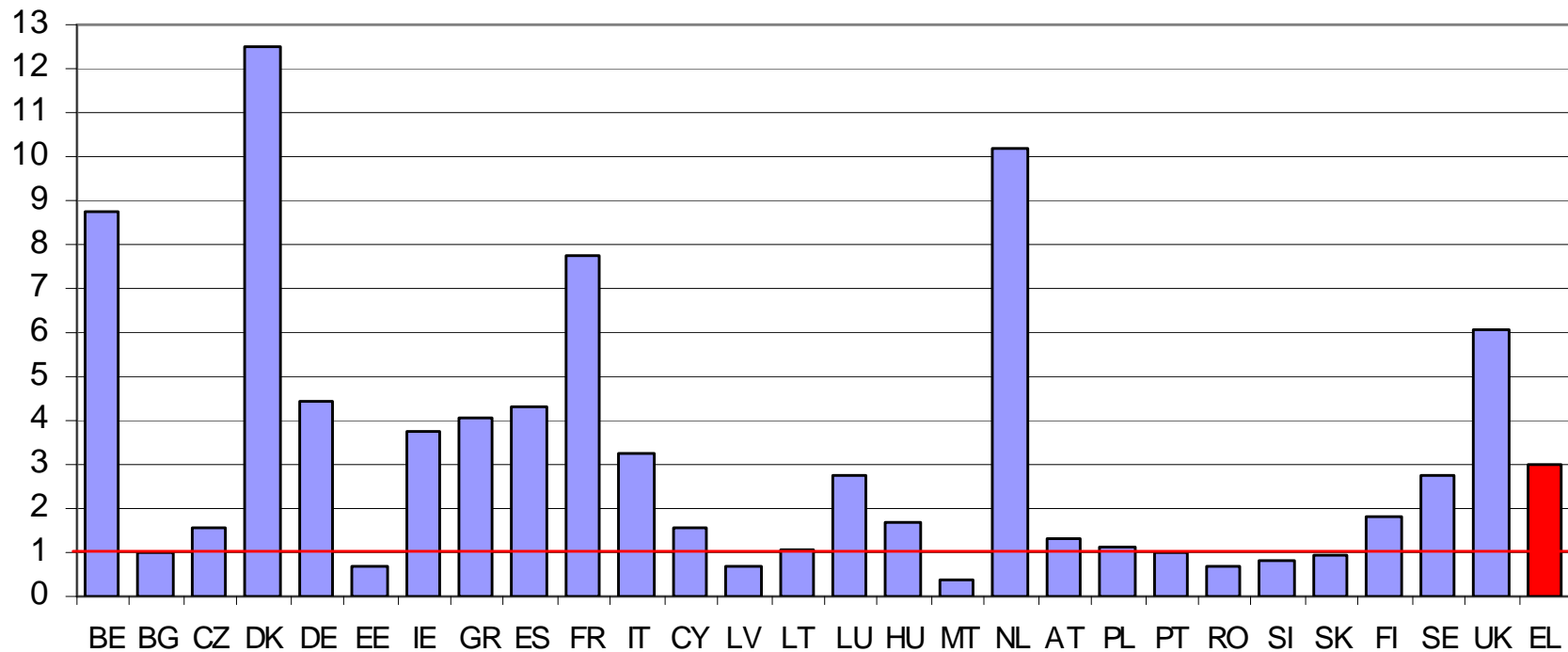
Could the more balanced  
financing of (current) objectives  
of I and II pillar work out as a  
model for EU 27?

- We have strategic approach and programming for pillar II of CAP (20% of CAP spending)
- Do we need strategic approach and programming for pillar I (80% of CAP spending)?

# Main positions of Estonia - budget

- To avoid the excessive increase in the share of state aid and not accepting derogations as much as possible.

# Ratio of pillar I (direct payments) and pillar II support payments from the EU budget (estimated, 2007-2013 average)



# Position of Estonia modulation

- Modulation is:
  - a temporary solution;
  - funds released from pillar I must be divided between member states by the key of rural development;
  - in 2014–2020, new division of pillars I and II should be made on the EU budget level and not through modulation.

Direct payments

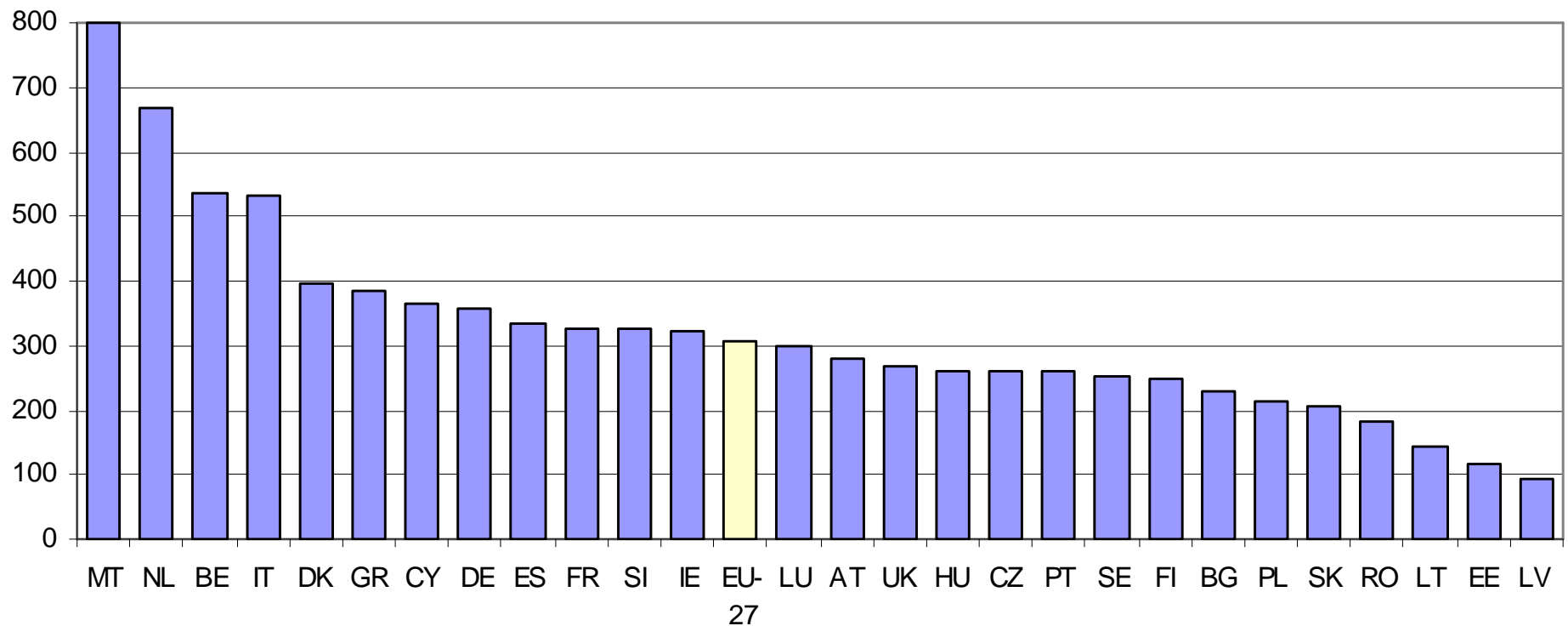
# Direct payments

- Two steps taken
  - De-coupling from production type
  - “Coupling” with GAEC – cross-compliance
- Two steps not taken until now
  - De-coupling from production intensity
  - Coupling with **public good**

# Direct payments and *public goods*

- By member states, the current direct payment envelope depends on the intensity of their agricultural production either in the years prior to 1992 or during the pre-accession period in case of the countries which acceded later.
- Substantively, direct payment volume indicates the intensity of beef, cereals, sheep etc production.
- **Can this base really be directly linked to the public goods offered by agricultural sector in those member states?**

# Direct payment at maximum level (2016) per ha (claimed 2009)



# Estonia



# Holland



An aerial photograph of a rural landscape in Estonia. The scene is dominated by vibrant green agricultural fields. In the center, there is a large, rectangular area containing several dark, rectangular structures, possibly solar panels or industrial equipment, surrounded by some buildings and parking lots. A road runs vertically through the left side of the image, and another road runs horizontally across the middle. The background shows rolling green hills under a clear blue sky.

# Estonia

Public good – 117 €/ha

An aerial photograph of a Dutch landscape. The image shows a mix of green agricultural fields, a large dense forest, and a winding river. The text 'Holland' is overlaid in the upper center, and 'Public good – 666 €/ha' is overlaid in the lower center.

# Holland

Public good – 666 €/ha

# Public goods – in comparison with what?

- For example, in the evaluation of additional environmental commitments, monetary value has been equivalent to additional costs and loss of income resulting from the commitments going beyond the so called baseline criteria.
- What will be the baseline of direct payment calculation in the future? At least it can't be decrease in price support which happened one generation ago.

# Estonian proposal for direct payments related to public good

- 1st component of DP – equal all over European agricultural area – to compensate for maintaining agricultural land in conformity with GAEC
- 2nd component of DP – to compensate for NATURA, HNV and Nitrate directive restrictions
- 3rd component of DP – LFA
- 4th component for active farmers to compensate for higher EU standards (animal welfare for example)

# Market management

# External trade related

- **Licences** – *after several reforms that have taken part in CAP, there is most likely no specific need for licencing and therefore abolition of those schemes will simplify CAP*
- **Export refunds** – *2005 EU has taken commitment to scrap ER by 2013, conditional on WTO deal. Estonia has supported that development.*
- **Custom taxes** – *Community preference in trading with goods must be maintained as principal. There is still need to adjust levels according to recent policy development*
  - **TRQ** – *from simplification point of view there is no specific need in the future for that kind of instrument. Tariff only ideology would be more transparent.*

# Internal market management

- **Production quotas**
  - *Estonia supports abolishment of dairy quota system by 2015*
- **Intervention**
  - *Should be reorganised to safety net system*
- **Private storage**
  - *Should be reorganised to safety net system*
- **Disposal scheme**
  - *Fruit & vegetable, wine – should be abolished*
  - *School milk, school vegetables – should be reorganised to promotion program*
  - *Deprived persons (?)*

# New initiatives

- Insurance
  - Income
  - Crop/produce

*Estonia is not supporting development of compulsory insurance schemes.*

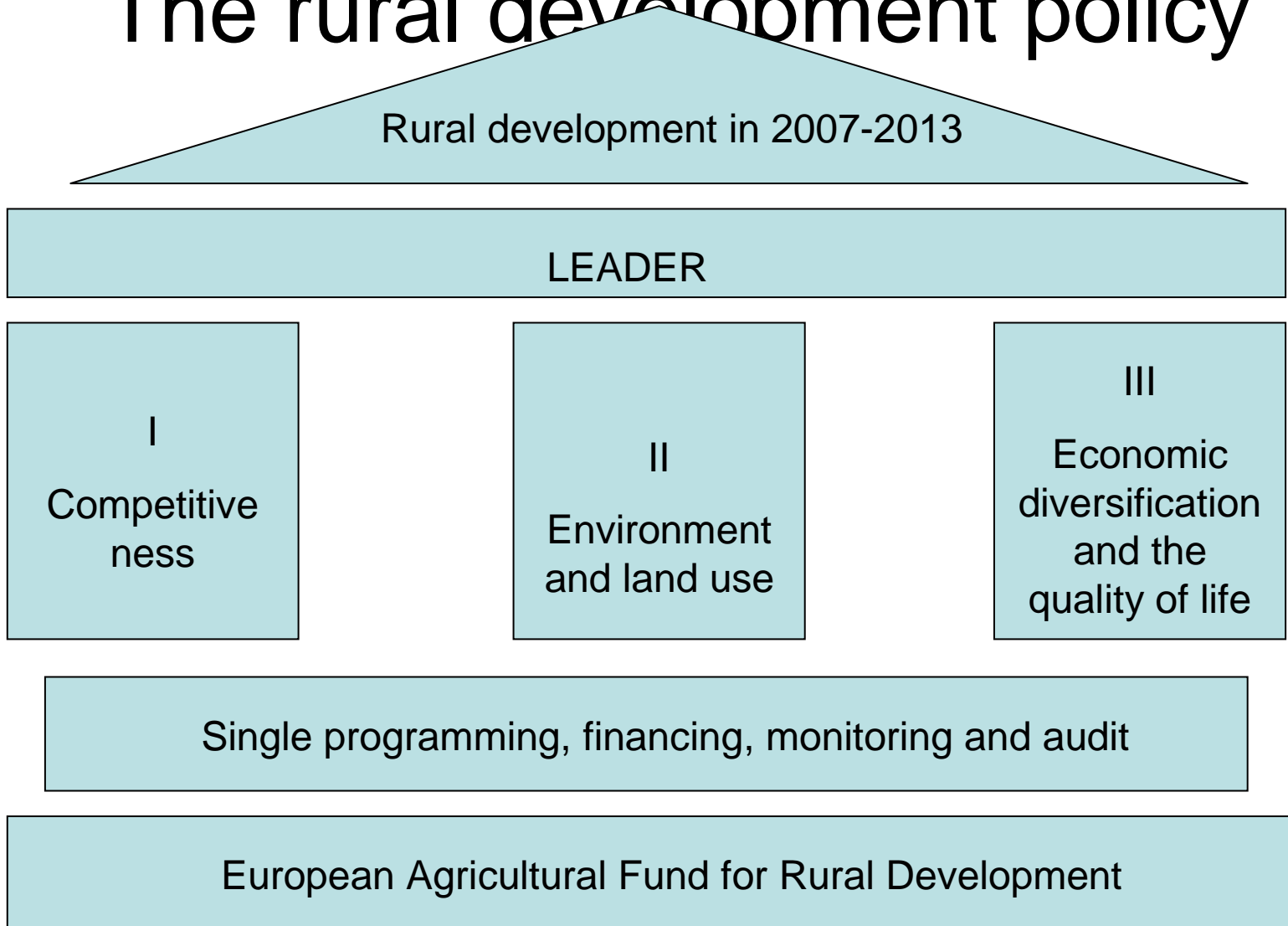
*Because of the state of the world economy, current market measures should be kept until stabilization.*

*- After that common crisis and risk management system has to be designed to address and limit the negative impacts of extreme volatility situations on the world market.*

# Pillar II

# The CAP pillar II

## The rural development policy



# Main positions of Estonia

## II pillar

- CAP II pillar must continue to contribute to the structural adaptation of agriculture, promotion of environmentally friendly activities and of the diversification of economic activities – these objectives of pillar II are and will be still relevant.
- Strategic and axes based approach for rural development has justified itself.
- LFA, NATURA 2000 restrictions compensation and may be some other “static” scheme can be switched to first pillar

# Main positions of Estonia

- New challenges must be reflected in the CAP even stronger than now and as these are mainly addressed in the framework of pillar II, financing of CAP should reflect that.
- We consider the challenges identified in CAP Health Check to be relevant for 2013+ as well.
- Activities directed at adapting and mitigating climate change should be considered as a public good and RD policy and axis 2 as most suitable instrument for tackling it.

# Main positions of Estonia

- Structural problems can be most efficiently tackled in the framework of axis 1 of RD.
- **Research and development** must be directed at the better utilization of the potential of agriculture. More attention must be drawn the introduction of new technologies and to basic research.
- Use of agricultural products for the production of energy is becoming more and more important. In addition to the attainment of energy policy objectives, it enables to diversify rural enterprise and to improve the structure of agricultural production.
- Potential in the agricultural sector lies in cooperation, innovation, product development, quality and niche products.

# Main positions of Estonia

- Competitiveness and efficiency should not come at the expense of environment and intensification of production
- It is important to continue with support schemes that promote using environmentally friendly production methods
- As the measures targeted at environment are in principle social contract through which the society buys a service, it is important to continue compensating the income foregone and additional costs for farmers but also adding incentive component.

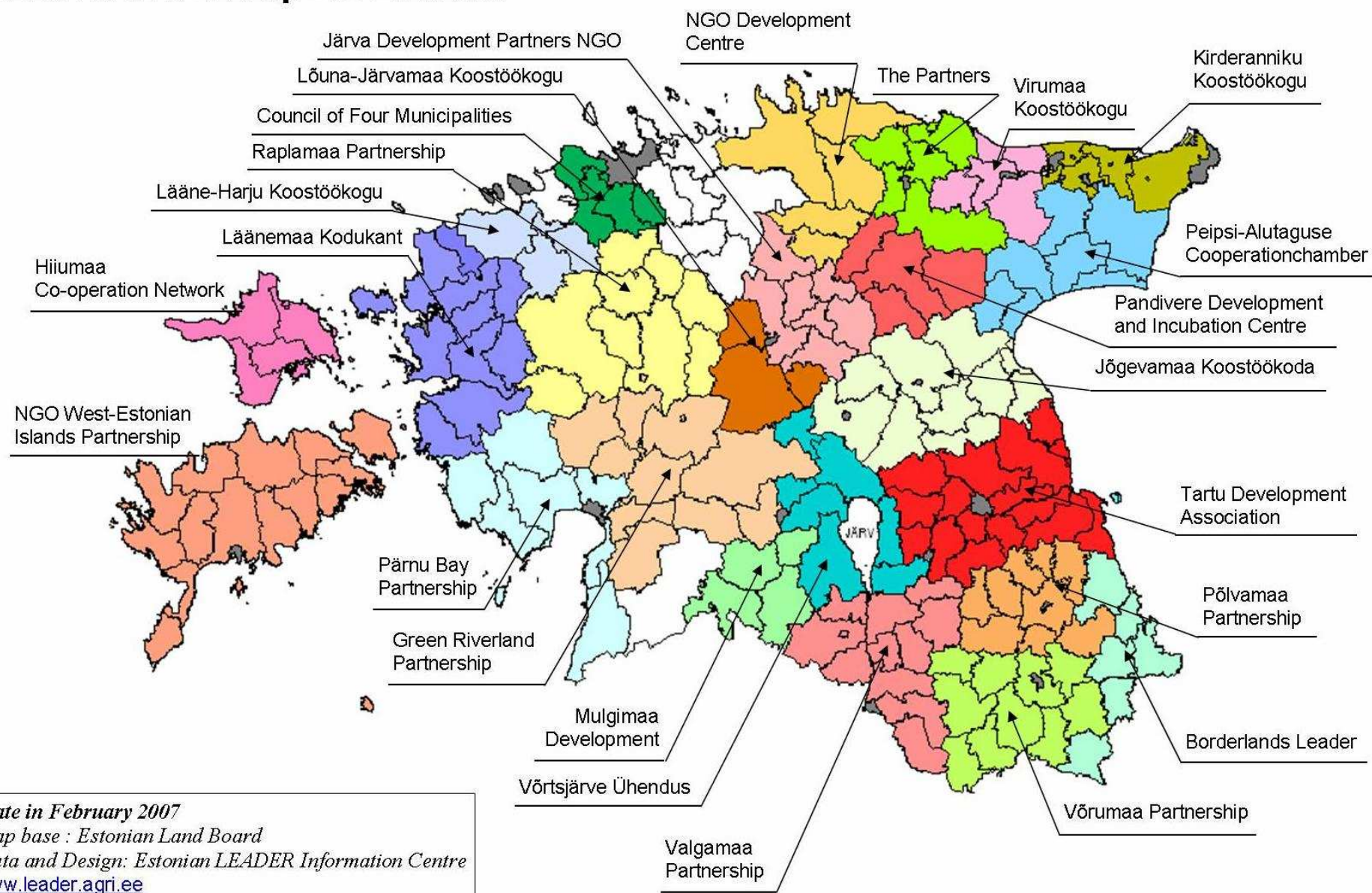
# Main positions of Estonia

- It is important to help to diversify rural enterprise, as it has to compensate the jobs lost due to agricultural restructuring.
- There is need to find a solution for the outflow of the services from rural areas in the context of decrease of inhabitants and low population density.
- .

# Main positions of Estonia

- Particular attention must be drawn to the support to local initiatives. LEADER-approach should be made as broadbased as possible
- But, it requires clearer framework and proportional financing (in Estonia currently 10% from EAFRD envelope)

# Local Action Groups in Estonia



**Thank You for Your attention!**