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## Estonia

### Trade Policy Monitoring

### Estonian CAP Implementation

### 2006

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**Report Highlights:** This report highlights developments in Estonia's CAP Implementation from 2000 through 2005.

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Since its independence from the USSR on August 20, 1991, Estonia has undergone an efficient and extensive economic transformation. Estonia's innovative policy changes and accession into the European Union (EU) in May 2004 has propelled the small Baltic state to a leader among the transition economies of Europe.

### **An Economy in Transition**

The collapse of the USSR presented Estonia with an opportunity to seek international integration and support in the form of unilateral free trade. Its economic reforms were swift: internal price liberalization in October 1990; a currency board established in 1992 setting the Estonian Kroon (EEK) at a fixed rate to the German Mark and later the Euro; and elimination of nearly all tariffs and the abolishment of agricultural protection by 1993.

Estonia's unilateral free trade agenda adversely affected its agricultural industry. Following independence in 1991 the level of agricultural production plummeted and agriculture's share of Estonia's GDP drastically declined. This was due, in part, to losses in what had traditionally been its main export market—the USSR—and also because agricultural goods from other nations, primarily subsidized products from the EU, became available at lower cost within the domestic market.

Prior to 1991, Estonia consisted of large communal farms. However, in its pursuit of a free market economy Estonia privatized agricultural lands. Unfortunately the government used land ownership patterns that existed prior to 1940. By reverting to smallholder agriculture, it became difficult for Estonian farmers to compete in a world market based on modern economies of scale.

#### **I. Preparations for Accession<sup>1</sup>**

In preparation for EU accession, Estonia began to shift away from unilateral free trade and move more towards multi-track free trade consisting of bilateral (Estonia-Ukraine Free Trade Zone), multilateral (WTO and EU accession), and regional trade (Baltic Free Trade Zone) agreements. Also, its policy of zero tariffs was eliminated in 2000 and tariffs on agricultural goods from countries not covered by multi-track trade agreements began.

In 2000, Estonia adopted legislation including the Rural Development and Agricultural Market Regulation Act (RDAMRA) and the Horticultural Products Act (HPA) paving the way for Common Agricultural Policy (CAP) implementation. The RDAMRA sets most of Estonia's agricultural policies, including support measures, and enabled the establishment of agricultural support programs mimicking those of the EU. In addition, the RDAMRA saw to the administrative development of Estonia's Ministry of Agriculture (MoA), the establishment of the Agricultural Registers and Information Board (ARIB) and the process of handling national and EU support programs. Estonia's European Union Common Agricultural Policy Implementation Act finalized the administration and establishment of CAP instruments.

Because of the wealth effects resulting from EU accession, international interests have begun to take advantage of agricultural prospects within Estonia. Mainly Finnish interests have acquired agricultural lands and have also invested in production facilities within the

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<sup>1</sup> Please note that monetary figures are presented in Euro (EUR) with United States Dollars (USD) in parenthesis. Most figures were converted originally from Estonian Kroons (EEK) to EUR (EEK is pegged at a rate of 15.6466 EEK : 1 EUR). Conversion rates of EUR to USD were based on annual average rates. For those monetary figures presented with respect only to one year, respective annual average rates were used. For all other figures, the conversion rate utilized was the average annual rate for 2004. Rates of EUR to USD: 1:1.24 (2004), 1:1.29 (2003), 1:0.94 (2002), 1:0.89 (2001).

dairy sector. The agricultural sector is changing in Estonia as industry shifts to large-scale production, despite the Ministry of Agriculture's rural development programs.

### **The Agricultural Registers and Information Board (ARIB)**

The establishment of ARIB on July 20, 2000 set the agency apart as the entity that had oversight of programs under the CAP. Officially an institution under the control of the MoA, ARIB was responsible for 18 different state support schemes, five SAPARD investment support schemes, and the formation of the Estonian milk quota system prior to accession. Today, ARIB employs over 200 people with 15 regional offices and is responsible for accepting applications and allocating funds under Estonia's various agricultural and rural development programs in conjunction with responsibility for agricultural registers.

### **The Special Accession Programme for Agriculture and Rural Development (SAPARD)**

The EU authorized the program for Estonia on June 19, 2001. Applications for programming funds were accepted in July 2001 with the first SAPARD payments being paid out in September 2001. This first year saw few applicants but through education by the MoA, the last two years of SAPARD saw nearly a six fold increase over the inaugural year.

Among the many objectives of the SAPARD program are investment in agricultural holdings; improvement in the processing and marketing of agricultural and fishery products; improvement of structures for quality, veterinary and plant-health controls in the interests of food quality and consumer protection; promotion of agricultural production methods designed to protect the environment and maintain the countryside; development and diversification of economic activities and establishment of relief and management services for farmers.

Estonia's SAPARD program enabled efficiency gains in agricultural production through investment support for mechanization and bringing the agro-food chain into line with EU health and sanitary requirements. SAPARD also acquainted agricultural producers and processors with the level of bureaucracy needed to oversee the CAP in member states and provided institutional knowledge to those the programs were designed to reach.

Over the course of SAPARD (2001-04), a total of 1620 applications for support were received and 83 percent were approved resulting in EUR 68.2 million (USD 84.8 million) which contributed towards EUR 145.7 million (USD 181.2 million) in investments. The majority of applications and funds were in support of agricultural mechanization, primarily the purchase of farm machinery.

### **Establishment of Milk Quotas**

Estonia chose to implement milk production quotas in two periods. Estonia's first production quota period for milk spanned the period of 1 April 2003 until 31 March 2004. During this first period of implementation, Estonia's system did not assess any penalties against producers for overproduction and production quotas were not transferable amongst producers.

The pre-accession quota system was primarily designed to introduce producers to the EU milk quota system before its full implementation in Estonia. During this time, their national quota was set at 900,000 tons—90,000 tons of direct sales and 810,000 tons of deliveries. Quotas were granted to producers that were defined by the ARIB as being entrepreneurial having been registered with them as of the end of 2002. Quotas were assigned to

producers based upon their operations' head of dairy cattle multiplied by 5,591 kg. Of the applicants, 2,666 producers received quotas (98 applications were refused because of a lack of timely livestock registration with the ARIB) for a total of 110,964 head of dairy cattle resulting in 645,675 tons allocated through production quotas.

Of the quota allocation, 617,000 tons and 28,000 tons comprised the delivery and direct sales quota, respectively. Quota increases were granted to 725 producers resulting in an increase of 114,000 tons. 1,432 producers accepted their allotted quota, while 509 producers requested a reduction of their quota. A total of 4,356 cattle producers did not apply for milk quotas during Estonia's initial period of milk quota implementation. During this period, the amount of milk produced fell below the national quota and in certain counties producers exited the industry at a greater rate than in others.

## II. Estonia's CAP Implementation (Post Accession)

Estonia's CAP implementation took a holistic approach paying particular attention to the areas which were emphasized under SAPARD and are the main focus of CAP—environmental stewardship, increased production quality and efficiency, and rural development—following the 2003 reforms to the policy. Estonia's *National Development Plan for implementation of Structural Fund measures—the Single Programming Document 2003-2006* (NDP/SPD) and the *Estonian Rural Development Plan 2004-2006* (RDP) govern Estonia's current CAP implementation and the continuation of some of those programs carried out under SAPARD.

### CAP Funding

In addition to state funds, the European Agricultural Guidance and Guarantee Fund (EAGGF) supports the funding of the CAP within Estonia. The EAGGF is divided into two funding sections—guarantee and guidance sections. The Guarantee Section funds support direct supports, export supports, and other market regulation measures. Additionally it funds the RDP, which includes the CAP complimentary measures of agro-environment, less-favored areas, and afforestation of agricultural lands. The Guidance Section supports those elements of Estonia's CAP implementation included in their NDP including agricultural investment support and advancement of extension services.

### Direct Support Payments

Estonia's Accession Treaty established a per hectare payment scheme and a total hectare area for the CAP's direct payment mechanisms. Until 2007, these figures will not be amended. The reference yield for Estonia was set at 2.4 t/ha for cereal crops (durum wheat, oilseeds, protein crops, linseed, flax and hemp grown for fiber, and grass silage and set aside) with a base area established at 362,827 ha.

Estonia's Direct Aid Payment Levels Received from the EU in Relationship to EU-15 Member States										
Percentage of Payments in EU-15	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	25%	30%	35%	40%	50%	60%	70%	80%	90%	100%

**Single Area Payment Scheme:**

NMS were allowed to choose between implementing the Single Area Payment Scheme (SAPS) or the Single Farm Payment Scheme (SFPS).<sup>2</sup> Estonia along with seven of the other NMS implemented the SAPS. As per Estonia's agreements for accession made in regards to CAP, Estonia began receiving EU funding for direct payments at 25 percent of the level paid in the EU-15 states in 2004, with full 100 percent payment expected to be phased in by 2013. Estonia may, however, begin in 2007 to hasten its direct payment timeline's reaching of the 100 percent level by increasing direct payment levels to be 30 percent

higher than the original timeline which could amount to 70 percent of the EU-15's direct payments for Estonian producers in 2007, bringing Estonia to a full 100 percent of the EU's direct payment levels by 2010. By 2008, Estonia must shift to the CAP's flat rate SFPS. Like other NMS, however, Estonia is allowed to put in place top-up or complementary national direct payments (CNDP) to further fund direct payment supports over the phasing-in period of EU financing.

In 2004, 18,954 applications were received for SAPS, Of those, 98 percent were approved resulting in payouts at a rate of EUR 26.46/ha (\$ 32.91/ha) for 803,700 ha. In 2005, a total of 847,720 ha. has been applied for.

**Complementary National Direct**

**Payments (CNDP):** For the period of 2004-2006, top-up payments may be subsidized by using the EU's national rural development allocation to Estonia. By 2007, all complementary or top-up payments must be financed by Estonia's national budget. At present, Estonia has a total of four CNDP programs: CNDP for Growing Crops, CNDP for Certified Seed Growing, CNDP for Cattle Breeding and CNDP for Ewe Breeding.

In 2004, Estonia funded arable crops, bovine animals, suckler cows, and ewes at the rate of 44, 55, 55, 55, and 55 percent of the EU-15 level, respectively. 7,849 producers received support for crop farming for 324,300 ha at a rate of EUR 40.44/ha (USD 50.30/ha); of

<sup>2</sup> See GAIN Report E34044 for more detail.

<b>Estonian SAPS and CNDP Entitlements &amp; Application Rates</b>		
	<i>Entitlement</i>	<i>Applied for in 2005</i>
<b>Total SAPS Area</b>	800,000	847,720
<b>Arable crops</b>	362,827	
<b>Seeds</b>	757	348,327
<b>Bovine Animals</b>	132,613	91,236
<b>Dairy Cows</b>		113,424
<b>Suckler Cows</b>	13,416	5,545
<b>Ewes</b>	48,000	26,022

Crop area figures are presented in hectares, while animal figures are in headage.

<b>Direct Support Funding in Euros</b>		
Funding Source	2004	2005
<b>EU Budget</b>	<b>19,384,400</b> (USD 24,113,000)	<b>27,908,300</b> (USD 34,716,300)
<b>State Budget</b>	<b>5,549,450</b> (USD 6,903,180)	<b>13,020,700</b> (USD 16,197,000)
<b>Rural Development Funds</b>	<b>12,800,000</b> (USD 15,922,400)	<b>9,290,200</b> (USD 11,556,500)
<b>Total</b>	<b>37,733,900</b> (USD 46,938,700)	<b>50,219,200</b> (USD 62,469,700)

**Direct Support Ceilings & Actual Funding Rates**

	2004		2005	
	Total	Ceiling	Total	Ceiling
<b>Arable Crops</b>	44	55	43	60
<b>Bovine Animals</b>	55	55	65	75
<b>Suckler Cows</b>	55	55	50	60
<b>Ewes</b>	55	55	60	60

Figures are in percentage of EU-15 funding rate.

6,397 applicants, 6,254 cattle breeders received support for 132,829 cattle totaling EUR 4,908,414 (USD 6,105,770); and 729 producers received support for ewe breeding at a rate of EUR 13.93/ewe (USD 17.33/ewe) for 18,945 ewes.

In 2005, the funding for arable crops and suckler cows decreased, with increases in bovine and ewe payments. A majority of the 2005 rates are below the national ceilings allowed for by the CAP. The MoA expects a decrease in the amount of direct support funds in the Estonian state budget for 2006, which may result in decreased funding rates—lower per acreage and headdage payments.

### Supply Management Programs

#### *Potato Starch*

The potato starch annual production quota is 250 tons, and Estonia will be guaranteed quantity of flax fiber in the amount of 30 tons and 42 tons.

#### *Milk*

Upon accession, Estonia's milk quota levels were set at 624,483 tons for 2004 and 2005. In 2006, the addition of a reserve quota of 21,885 will bring the total available quota to 646,368 tons. The trend over the last three years has been for producers to exit from agricultural production throughout Estonia. The dairy quotas have gone unfilled, only utilizing 85 percent of the national quota. As an incentive, the ARIB, allows producers who have produced 90 percent of their quota to increase their quota.

<b>Estonian Production Quotas</b>	
<b>Milk Quota</b>	<b>Tons</b>
Deliveries	537,118
Direct Sales	87,365
Reserve Quota (Beginning in 2006)	21,885
Total Milk Quota (2004-05)	624,483
Total Milk Quota (2006)	646,368
<b>Potato Starch Quota</b>	<b>Tons</b>
Total National Starch Quota	250

### III. Single Programming Document

Under the Single Programming Document (SPD), Estonia's focus is placed on 12 agricultural measures along with other domestic issues including:

- investment into agricultural holdings (1)
- investment support for improving the processing and marketing of agricultural products (2)
- diversification of economic activities in rural areas (3)
- integrated land improvement (4)
- renovation and development of villages (5)
- local initiative based development projects—LEADER (6)
- forestry (7)
- support for setting up and provision of farm advisory and extension services (8)
- regulation of the fishing capacity of the fishing fleet (9)
- modernization and renewal of the fishing fleet (10)
- investment support measures for fisheries production chain (11)
- and other fishery related measures (12)

The various programs of the SPD tend to overlap, as well as, complement each other. Estonia's Ministry of Finance (MoF) is the managing authority of the structural funds utilized in the MoA's NPD programs, being the intermediary body responsible for agricultural and

rural development issues, with funds being allocated and programs being administered by the ARIB.

The SPD budget for agriculturally related measures for 2004-06 totals EUR 97.1 million (USD 120.79 million). During 2004, 57 percent of that figure was applied for and 41 percent was allocated.

### **Investment into Agricultural Holdings**

For 2004-2006, EUR 32,175,965 (USD 40,025,000) is budgeted to invest in agricultural holdings. The focus of the investment support is to allow for a more competitive agricultural sector at the producer level that meets EU standards and any relevant investment that may increase Estonia's competitiveness. Funds will be allocated utilizing the European Agricultural Guidance and Guarantee Fund (EAGGF) monies and will be allocated based upon different categories.

As of October 2005, 463 applications, totaling EUR 23,049,806 (USD 28,672,600), had been received for the measure. Of these 93 percent were approved resulting in 202 finished investment projects. From the funded projects, 64 percent was for plant production with funding going towards the purchase of farm equipment and livestock, construction and reconstruction of farm facilities, plant protection, and milk production.

### **Investment Support for Improving the Processing and Marketing of Agricultural Products**

For 2004-2006, EUR 11,366,850 (USD 14,139,700) is budgeted to improve Estonian food processing in order to adjust to consumer demands and EU requirements. The main aims of the support program are to improve processing facilities and increase production efficiency, provide agricultural producers with a consistent market for their goods, promote and insure environmental and energy conservation requirements, improve the functioning of marketing channels, and the expansion of markets for Estonian agricultural products through marketing programs.

As of October 2005, 49 applications for a total of EUR 8,698,740 (USD 10,820,700) had been received. Of these, 40 were approved and there are now finished investment projects to report. The projects funded were in the areas of meat, milk, vegetables, berry and cereal processing.

The largest share of the appropriations have been made towards the construction and renovation of meat product handling facilities which accounts for roughly EUR 1,981,261 (USD 2,464,570) and for the purchasing and installing of meat and meat products handling equipment for roughly EUR 11,342,144 (USD 1,669,550).

### **Diversification of Economic Activities in Rural Areas**

EUR 8,698,740 (USD 10,820,700) has been budgeted to elevate the economic welfare of rural workers by supporting locally based enterprises. Specifically, those enterprises engaging in non-agricultural activities that create or maintain jobs and those which utilize local resources and/or materials or offer services in rural areas qualify to receive funding.

As of October 2005, 103 applications for a total of EUR 6,844,997 (USD 8,514,770) had been received. Of these applications, 75 were approved and there is one finished investment project to report received resulting in 79 percent of the measure's budget being allocated in the first year of the programming period. Of those projects funded, 46 percent

was for buildings necessary to render tourist services, 43 percent for service enterprises, 10 percent for small craft enterprises, and one percent for preparatory work.

### **Integrated Land Improvements**

Estonia's agricultural productivity and arable land base is directly linked to existing and planned land improvement systems because of significant drainage issues. In order to maintain the agricultural productivity of lands within Estonia, grants for land improvement systems and development of rural infrastructure will be made. Those eligible for such grants are entrepreneurs in rural areas, civil law partnerships, and non-profit organizations that were formed for the specific goals related to the projects. Under the program, funds in addition to those for land improvement measures will be allocated for the development and improvement of agriculturally related infrastructure including agricultural access roads.

For 2004-06 EUR 10,259,686 (USD 12,762,700) is budgeted for this measure. The measure was not launched until 2005, and as of October 2005 48 applications had been received for a total of EUR 4,473,815 (USD 5,565,160). Although such funding mechanism is seen to be rather important, there has been little if any allocations of funds under the mechanism as of yet. The main reason being that most producers have lacked personal financing for investment in such areas.

### **Renovation and Development of Villages**

In order to combat low-income levels, poverty, and static economies in rural Estonia, grants will be available for community development. The allocated funds are designed to encourage local entrepreneurship and community cooperation. In order to build a stronger social structure the EU co-finances community development projects that include the construction of community buildings. Grants under this measure will be made to NGOs and local entrepreneurs.

For 2004-2006, EUR 6,402,664 (USD 7,964,530) is budgeted for this measure. As of October 2005, 306 applications for a total of EUR 7,312,599 (USD 8,096,430) had been received. Of these, 40 were approved and there are now finished investment projects to report. Of the funds allocated, 86 percent was for buildings, facilities, and furnishings; seven percent for musical instruments, sporting equipment, and folk costumes; and six percent was for public information centers.

### **Local Initiative Based Development Projects—LEADER**

For 2004-06, EUR 1,843,804 (USD 2,293,580) is budgeted to increase human and social capital and the ability of individuals to be leaders in their local communities. Specifically, the aim of the measure is to support local initiatives that may result in the creation of new jobs, diversified/new incomes, and general economic activities in rural areas. Support is granted under the program to developing and implementing local development strategies, as well as, knowledge transfer programs within rural areas and between different rural areas within Estonia and internationally.

### **Forestry**

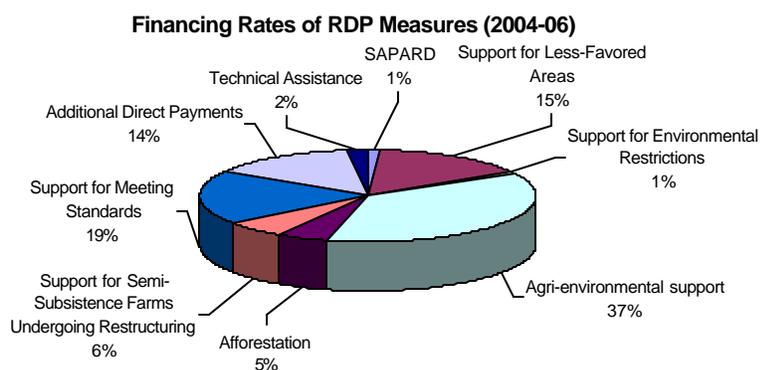
The measure is designed to help retaining and developing the importance of forests to communities in relation to economic, ecological, and social factors. For 2004-06 EUR 3,736,605 (USD 4,648,110) is budgeted for this measure. This measure has yet to be implemented and is scheduled for implementation in 2006.

### Support for Setting up and Provision of Farm Advisory and Extension Services

The measure is designed to help establish farm advisory and extension services that are common throughout the world. Specifically, funding is made available to state extension centers in addition to private individuals who provide professional services in the field of agricultural advisory, extension, and training. For 2004-06 EUR 3,298,555 (USD 4,103,200) is budgeted for this measure.

### IV. Rural Development Plan

The RDP focuses on nine different areas of funding, some are complements to AP measures and others focused on rural and community development. The measures are aimed at supporting: less favored areas and those with environmental restrictions; agri-environment; semi-subsistence farms; afforestation of agricultural land, technical assistance to producers and policy measures to comply with EU standards. The total RDP budget for 2004-06 is EUR 188.1 million (USD 234 million) 80 percent, of which are EU funds. For 2004, 94 percent of the budget was allocated through the various programs.



### Support for Less-Favored Areas

The measure is meant to insure continuous land use in less-favored areas of which there is approximately 465,000 ha of agricultural land in Estonia. Agricultural producers and landowners can apply for funds, which were planned to be at the rate of EUR 25/ha (USD 31.10/ha). The applicant in turns agrees to maintain the land in agricultural productivity for a minimum of five years after the first support payment. In addition, they must maintain Good Farming Practices (GFP) as defined by the MoA and meet the necessary requirements of agricultural production practices.

By the end of 2004, 8568 applications were received for a total of 308,759 ha or EUR 7,718,975 (USD 9,601,940) with 400,000 ha being set as the maximum funding level. Within 2004 alone, 71 percent of the 2004-06 budget for the measure was utilized.

### Agri-Environmental Support

The measure is meant to facilitate the adoption, implementation, and continuous use of environmentally friendly agricultural production methods. The resulting sub-support measures are designed to “preserve and promote biological and landscape diversity and increase the income of farmers who operate in an environmentally sustainable manner.” As

such, the agri-environmental support measures cover a wide array of activities including the Environmentally Friendly Production Scheme (EFPS), additional activities, special activities, and detailed agronomic calculations.

The EFPS is designed to raise agricultural producer awareness of environmental issues including the understanding of how agriculture impacts the environment. In addition, the EFPS is focuses on supporting the use of environmental planning by producers in hopes of reducing water pollution, decreased soil fertility, and increasing the aesthetic value of agricultural holdings. In order for producers to receive funds, they must prepare an Environmentally Friendly Production Plan (EFPP) that consists of two documents—a Nutrient Management Plan (NMP) and a Crop Sequence Plan (CSP).

The agri-environment supports of environment-friendly production, organic farming, and support for the raising of Estonian native horse were implemented in 2004. In 2005, the establishment, restoration, and maintenance of stone walls was implemented and the support for raising an animal of an endangered breed was extended to supporting the raising of the Tori horse and Estonian heavy draught and Estonian native cattle.

5,761 EFPS applications for roughly 462,000 ha were funded through the agri-environmental supports in 2004 totaling EUR 16,617,028 (USD 20,670,670). A total of 779 producers applied for support for organic production for 40,000 ha and EUR 3,067,759 (USD 3,816,110) was paid out.

#### **Support for Semi-Subsistence Farms Undergoing Restructuring**

The objective of supporting semi-subsistence farms undergoing restructuring is to help reduce the share of land abandoned and land potentially excluded from agricultural production by giving small agricultural holdings temporary income support to help increase their economic viability through gross revenue enhancement. Applicants must be sole proprietors engaged in agricultural production whose gross revenue lies between EUR 2,000-18,000 (USD 2,488-22,390). The proprietors must be able to prove the economic viability of their operation and the ability to see revenue growth by at least 12 percent by the end of the third year after support is received. The maximum number of beneficiaries under the program is 3,840 producers. In 2004, 2,249 producers applied for support under the program 98 percent of which received grants totaling EUR 2,236,907 (USD 2,782,580).

#### **Support for Meeting Standards**

Under the measure livestock producers are assisted in upgrading and building new manure storage facilities to comply with EU environmental and water requirements. In order for producers to qualify for the measure they must have a minimum of 10 livestock units (LU) of cattle, pigs, sheep, or goats. The MoA has noted that support under the measure is not sufficient to cover the costs of renovation and construction of all manure handling facilities. As a result, applicants have the capability of receiving funding through this measure and may seek additional support funding for investments not supported under the measure through the SPD under the measure of *Investment into Agriculture Holdings*.

In 2004, 760 cattle breeders applied for support to upgrade their manure storage facilities in order to comply the EU requirements. EUR 6,391,164 (USD 7,950,220) was paid out mainly for manure storage handling facilities, with very few if any lagoon or constructed wetland storage/disposal facilities being funded.

### Support for Afforestation of Agricultural Land

The measure is designed to reduce the amount of abandoned agricultural lands through the planting of trees on land that is arable. A variety of requirements govern application procedures and grant rates, including the requirement that applicants must apply for at least 0.3 ha of land which they own to be afforested and a variety of biological and environmental requirements. Tree plantings that are not supported include tree monocultures, foreign tree species, and Christmas trees or fast growing tree species.

Support will be paid out at a rate of EUR 805/ha (USD 1001.37/ha), with a rate of EUR 77/ha (USD 95.78/ha) available in maintenance support. In the case that 25 percent of the trees planted do not survive, a one-time payment of EUR 128/ha (USD 159.22) will be allowed. Funding for the program is set at a rate of EUR 4.3 million (USD 5.4 million) annually for the period of 2005-06 and is financed by EU funds.

### V. State Agricultural Schemes

Estonia has fourteen different state aid schemes due to a lack of funding full implementation has taken place. Their support schemes were legally established with their RDAMRA and are:

- Interest rate support
- Agricultural insurance support
- Training support
- Practical training support
- Support for farm relief services
- Joint economic activity support for agricultural producers
- Market development support
- Support for the liming of agricultural land
- Maintenance support for a land improvement system
- Support for land improvement associations
- Support for the breeding of farm animals
- Wild oat control support
- Natural damage support
- Information support

Not all of the schemes have been funded or implemented those that have been funded include support for: dairy and native cattle breeding, farm animal breeding, the liming of agricultural land, and maintenance for a land improvement system. Funds for the various state supports come from the Estonian state budget.

### Support for the Breeding of Farm Animals

This state aid scheme is broken into separate measures for the allocation of funds including support for the breeding of dairy and Estonian native cattle as well as farm animals.

*Support for Dairy Cow Breeding and Estonian Native Cattle Breeding:* In 2004, 2,673 applications for a total of 102,100 dairy cattle were received (449 being for Estonian native cattle). 2,627 applications for 101,144 head were funded including 397 head of Estonian native cattle. Support for non-native dairy cattle was at a rate of EUR 68.06/head (USD 84.66/head), while Estonian native cattle were funded at the rate of EUR 166.17/head (USD

206.71/head). Of those producers receiving payments, most were small-scale operators with only six owning more than 1,000 head, and one owning above 2,000.

*Farm Animal Breeding Support:* Eligibility of applicants requires them to be either recognized breeders associations, operators involved in performance testing, and those working to preserve endangered breeds who wish to accomplish various breeding objectives. In 2004, a total of 11 applications were received for a total of 139,765 animals—74 percent being cattle—resulting in eight applications being funded for a total of EUR 958,674 (USD 1,192,530).

#### **Support for the Liming of Agricultural Land**

Meant to assist farmers with increasing soil fertility by deacidifying soil, support for the liming of agricultural land has been funded since 2001.

2001	EUR 1,041,759	(USD 1,295,890)
2002	EUR 1,022,586	(USD 1,272,040)
2003	EUR 1,022,586	(USD 1,272,040)
2004	EUR 0	(USD 0)
2005	EUR 958,674	(USD 1,226,120)

#### **Maintenance Support for a Land Improvement System**

Since 2003, funding under this measure is designed to help alleviate the costs of maintenance work on land improvement system construction when such is on profit yielding land or on land belong to residential lots which is used for the production of agricultural products. In its initial year there was EUR 1,003,412 (USD 1,248,180) allocated for the measure but funding decreased to EUR 575,204 (USD 715,519) by 2005.

#### **Market Intervention**

The CAP, even with its 2003 reforms, is designed to allow member states to take part in supply management of agricultural goods. In the case of Estonia, barley is purchased by the state in order to achieve market regularity. Recent purchases held in storage of barley in the Estonian market are approximately 22,000 tons. In the case of wheat, no such action has been taken on account of the market price being higher than the intervention price.

Member states are still allowed to extend support for agricultural producers that are coupled, the extent of the funding has yet to be decided. Their decision must be based on the EU framework which allows member states to retain up to 25 percent arable crop area payments, 50 percent sheep and goat payments, 100 percent slaughter premium for calves, either up to 100 percent suckler cow premium and 40 percent slaughter premium for bovine animals or up to 100 percent slaughter premium for bovine animals or up to 75 percent special male premium.

#### **VI. Estonia's Agricultural Situation and the CAP**

The Estonian government has been successful in establishing a framework in order to comply with the CAP. However, full implementation has not taken place due to constraints in funding. The funding received by the EU's EAGGAF for direct agricultural payments is insufficient. The model used to determine the funding level used 1995-99 as a base period. The late-90's was an economic low point in Estonian agriculture. Now Estonia's agricultural employment levels and percentage of GDP is comparable to most developed nations.

In order for Estonia to complete its economic transition and full CAP implementation, increased funding is needed. The MoA hopes that the increased productivity shown by farmers since 1999 will justify additional funds. Without the addition it is questionable whether the Estonian government can supply agricultural producers with sufficient funds. Several of the SPD and RDP program funds intended to last for three-years were exhausted within the first year. It is clear that a higher level of support for investment measures is needed in order to enhance agricultural production and rural development within Estonia.

### **Problem Areas**

Much of the initial funding under the SPD and RPD was used to by producers for short-term needs such as farm machinery and buildings. Little was done to improve land irrigation or rural infrastructure. The rural development programs, which are part of their National Development plan, are designed to assist rural populations involved in agricultural pursuits. However, small-scale production and producers' unwillingness to cooperate has limited the profitability of specialty products, such as organic crops and livestock. This problem also speaks to an apparent lack of market coordination in some areas of Estonia's agricultural industry, a problem that the MoA hopes to alleviate.

### **Planning for the Next Programming Period**

As part of the next planning period, the MoA's Rural Development Department is altering the SPD and the RDP. In order to benefit the small-scale producers, some of the expected changes are increased levels of support for market coordination, development, and promotion within Estonia. In addition, the RDP plans to provide added incentives for cooperation.

Some of the MoA programs have been called into question by agriculturalists and others such as efforts to promote small-scale and organic production as well as improving prospects for young farmers to enter the agricultural sector. Under the SPD measures, a heightened level of support is allowed for young farmers. However, this support is governed by the EU. The MoA maintains that incentives for new farmers must be increased.

### **Estonia's Agricultural Future**

Many political leaders in Estonia see high technology as the key for economic success. Consequently, the MoA has little support when attempting to appropriate additional funds. Nevertheless, there are two strong Estonian agricultural unions working to expand support for the agricultural sector. One of the farmer's unions is focused on large farms and the other on small-scale operations.

The MoA's perception is that trade liberalization has negatively impacted Estonian agriculture. Nonetheless, researchers at the Estonian Research Institute of Agriculture (ERIA) believe that Estonia's agriculture may be able to survive in the long run, using the Czech Republic, Eastern Germany, and Hungary as examples. In addition, the emergence of carbon sequestration markets may be able to offer Estonian agriculturists an opportunity to generate additional revenue streams on land areas that are becoming marginal with regards to crop production.