Chapter 6

Agricultural policy in Estonia

This chapter provides an overview of the agricultural policy framework and instruments, focusing on EU Common Agricultural Policy (CAP) measures and their implementation in Estonia. It also reports trends on the level and composition of payments to producers and expenditure on general services to the sector. Finally, it discusses the likely policy impact on structural change, innovation, productivity growth and sustainability performance.

6.1. Agricultural policy framework

Estonia is a member state of the European Union (EU) since 2004. Therefore, the main agricultural policy framework is strongly related to the EU Common Agricultural Policy (CAP). Numerous agricultural and food sector and sub-sector strategies have been used in setting policy priorities regarding the implementation of CAP measures for 2014-20, given the flexibility offered by the CAP framework.

CAP programmes and funding are laid out in two pillars. Pillar 1, which is funded by the European Agricultural Guarantee Fund (EAGF), includes market measures under the common market organisation (CMO), and Direct Payments.[1] Pillar 2 includes rural development support which is implemented according to the national Rural Development Programme (RDP) for Estonia.[2] This plan defines Estonia's choice of measures addressing different objectives and funding levels, within the EU framework. Estonia elaborated a national RDP. Pillar 2 measures are co-financed by the European Agricultural Fund for Rural Development (EAFRD) and EU member states. In addition to the RDP, EU and national measures are mobilised in Estonia under various national development plans and strategies to address specific issues (Box 6.1).

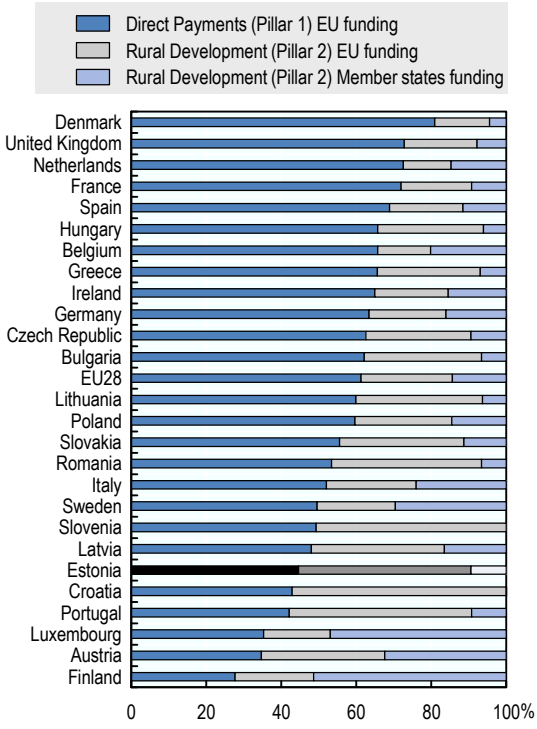
For the 2014-20 programming period,[3] the National ceiling of Direct Payments in Estonia is EUR 897.2 million (Table 6.1). Estonia decided to transfer funds from Pillar 1 to Pillar 2, up to the maximum allowed by the EU framework.[4] [5] The remaining Pillar 1 Direct Payment budget is about EUR 800 million, while the indicative budget of the Estonian RDP in 2014-20, which includes both EU and national co-financing, is about EUR 993 million. Thus, Estonia is one of the few member states where Pillar 1 payments account for a smaller share of total EU and national CAP funding — 45% versus 61% on average (Figure 6.1). This reflects Estonia's choice to transfer funds from Pillar 1 to Pillar 2, but also lower Direct Payments compared to the EU28 average.

Within Pillar 2 funding, national payments in Estonia account for a small share — less than 10% — of total CAP and national co-financing, compared to 14% for the EU28 average. This reflects higher EU co-financing rates in "less-developed regions" such as Estonia, but also the fact that the funds transferred from Pillar 1 to Pillar 2 do not require any national co-financing. Logically, EU co-financing of Pillar 2 accounts for a larger share of all payments than the EU28 average — 46% versus 24% (Figure 6.1).

When the sum of EU and national funding for Direct Payment and RDP measures over 2014-20 is divided by the number of years (seven) and by the Utilised agricultural Area (UAA) in 2015, the average annual payment rate in Estonia is lower than the EU28 average (Figure 6.2), however it is close to that in other Baltic countries, Bulgaria, Romania, but also the United Kingdom and Spain. It should be noted, however, that according to the convergence provision, annual payments increase gradually in Estonia over the period 2014-20.

On the other hand, when annual CAP and national support over 2014-20 is related to the value of agricultural output in 2014-16, it is higher in Estonia (33%) than the EU28 average of 16%, but lower than in Finland (close to 50%), as farmers receive additional regional payments, and in Latvia (38%) (OECD, 2017a, Figure 2.2).

Figure 6.1. Share of CAP and national payments by EU member state, 2014-20



Countries are ranked according to Direct Payments (Pillar 1) EU funding levels.

Source: Figure 2.1 in OECD (2017a), *Evaluation of Agricultural Policy Reforms in the European Union: The Common Agricultural Policy 2014-20,* http://dx.doi.org/10.1787/9789264278783.

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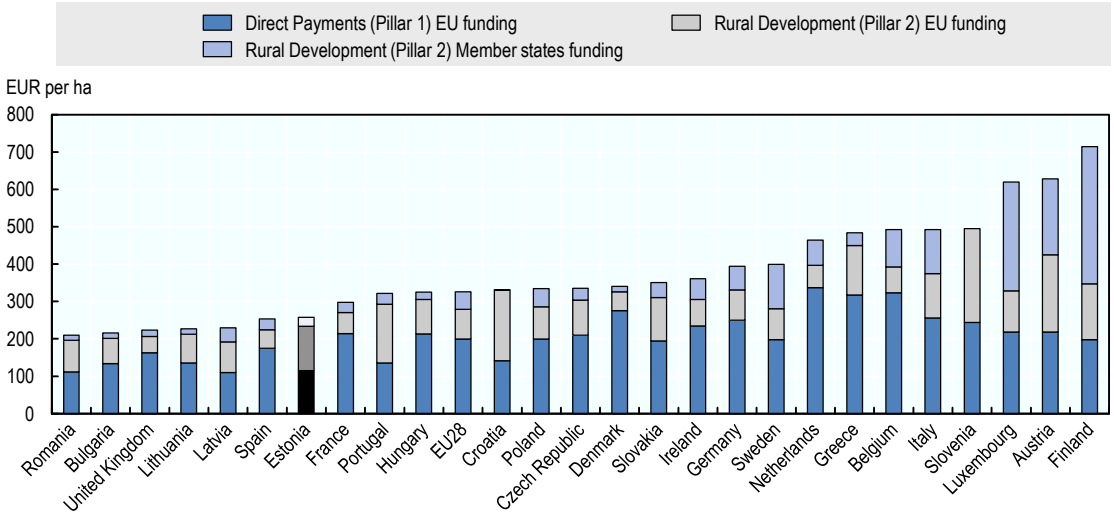
Figure 6.2. Average annual payment rate per ha over 2014-20



Source: Budget data calculated in OECD (2017a), http://dx.doi.org/10.1787/9789264278783, divided by the number of hectares of utilised agricultural area from Eurostat.

StatLink http://dx.doi.org/10.1787/888933654655

Box 6.1. Sectoral development plans and climate change strategy

Sectoral plans

The Estonian Dairy Strategy 2012–20 is the first strategic approach covering the whole dairy chain that was initiated by dairy sector representatives already in 2009. The strategy was issued in 2012 and it consists in analysing the situation in the Estonian dairy sector, outlining problems and identifying measures and actions to address these problems. The main goals of the strategy are to increase the volume of dairy production (to at least 1 million tonnes) and processing, to ensure the developmental capabilities of the Estonian dairy sector, to increase: dairy products export value (especially value-added products), small-scale dairy production and processing preservation; organic production, joint promotion activities, and dairy consumption. The strategy was an important input for Estonian RDP 2014–20.

The **Estonian Organic Farming Development Plan 2014–20** covers production, processing, catering, distribution and consumption, scientific studies and applied research, training, consulting and dissemination of information and legislation and supervision. The strategic goal is to improve the competitiveness of organic farming and to promote the consumption of local organic food. The plan also includes operational goals in every domain and a list of measures and actions to reach them. The main goals are to increase the net value added per labour unit in organic farming from EUR 12 400 in 2013 to EUR 20 500 by 2020, and to increase the proportion of regular (weekly) organic food consumers in Estonia from 8% in 2013 to 20% by 2020. Organic agricultural area is expected to increase from 153 400 hectares in 2013 to 180 000 hectares by 2020 and the number of organic processing facilities from 90 in 2013 to 220 by 2020. By 2016, the area of organic land had already reached 185 000 hectares and there were 1 753 organic farms in Estonia. There were 314 registered organic processing and marketing enterprises in Estonia, and about half of them were food processors.

The **Development Plan of Seed Business 2014–20** aims to increase the competitiveness of the seed and seed potato sector and to increase the use of certified seeds. Some activities are financed by the Ministry of Rural Affairs (MRA) and others by the seed sector, in addition to CAP and other measures.

The **Estonian Cereal Sector Development Plan 2014–20** covers Estonian cereals, oilseeds and legume plants. It assesses the sector's current situation and lays down the measures and actions to be taken to fulfil the established objectives for further development of the sector. The main objective of the development plan is to increase and maintain cereal production at a minimum of 1.5 million tonnes a year by rising yields to 4.5 tonnes per hectare in 2020, which will increase production and is expected to double the volume of Estonian grain exports.

The Estonian Development Plan of the Horticultural Sector for 2015–20 aims to increase the level of self-sufficiency of vegetables grown in Estonia from 58% to 75%, and the fruits and berries self-sufficiency level from 10% to 15% by 2020. It also aims to increase value-added and the share of the horticultural products of Estonian origin in consumers' food baskets and to broaden the horticultural sector. The development plan provides several actions to contribute to the long-term sustainability of Estonian horticultural sector. The main ones are to provide advice to producers and conduct surveys.

The **national development plan Estonian Food** has been implemented since 2016 to increase the competitiveness of local food products and to promote the Estonian food industry. The strategic document **Estonian Food 2015–20** was signed in December 2014. The aim of the programme is to create and develop the image of Estonian Food both in Estonia and abroad, to enhance the co-operation of food sector parties and to develop new export opportunities for Estonian food sector enterprises. Activities cover both Estonian and foreign markets. Pre-school and school children are also considered as an important target group. Projects are financed from the state budget. Activities (mostly organised through procurements) are related to food culture and improving the image of Estonian food. They include the creation of the webpage (www.estonianfood.eu) as a part of improving the image of Estonian food; the participation in international fairs, the organisation of the Estonian Food Month (in September), and other events.

The **Vision paper for Estonian beef sector 2016-20** was jointly developed by representatives from the Estonian beef sector and the Ministry of Rural Affairs (MRA). The main jointly-agreed goals are to promote export sales, achieve a uniform quality of beef meat, increase beef meat consumption, increase the involvement of research and development institutions and promotion in cooperative activities.

Climate change strategy

In addition to other sectors, **international and the EU climate change** policies and targets also cover agriculture. For instance, Estonia, as a member of the European Union, has taken a commitment to reduce greenhouse gas (GHG) emissions. Regarding Decision (EC) No 406/2009 of the European Parliament and of the Council on the effort of member states to reduce their GHG emissions, Estonia has undertaken an obligation to keep the increase of GHG emissions from non-Emission-Trading-System (ETS) sectors (including agriculture) below 11% of 2005 emissions. According to the 2030 policy framework for climate and energy, Estonia has to reduce its GHG emissions from non-ETS sectors at least by 10% from the 2005 level by the year 2030. Estonia also subscribes to the **adaptation** objectives initiated by the European Commission in 2009.

Estonia also has several **national policies** to lay out climate change priorities. In 2016, two strategic documents related to climate change were adopted in Estonia: **General Principles of Estonian Climate Policy till 2050**, which focuses primarily on climate change mitigation, and **Estonian Climate Change Adaptation Development Plan 2030**. Key measures in reducing the GHG emissions from agriculture are the following: manure management, biogas and biomass production, efficient use of fertilisers, management of peat lands and increasing carbon stock in soils. The main adaptation measures are consulting and information distribution, plant breeding, mitigation of changes in water regimes, insurance against damages caused by climate change, observation of the spread of pests, plant and animal diseases and implementation of necessary protection measures.

6.2. Broad-based measures

Pillar 1 Direct Payments are broad-based as they apply to all hectares or animals when they are specific to some sectors. In Estonia, 96% of Direct Payments are paid as a flat-rate per-hectare payment. As in the rest of the European Union, recipients need to be active farmers but except for a small share of payments for specific commodities, they are not required to actually produce to receive payments. Payments are, however, conditional on the respect of regulations and the adoption of specific farm practices. Pillar 1 payments include:

- The basic payment is implemented in Estonia as a flat-rate per hectare payment under the Single Area Payment Scheme (SAPS) and comprises the main part (65.5%) of Pillar 1 Direct Payment budget (Table 6.1). It is conditional on maintaining agricultural land in good agricultural and environmental conditions (See Box 6.2 on cross compliance conditions).
- The greening payment, which accounts for 30% of Pillar 1 Direct Payments, rewards agricultural practices beneficial for the climate and environment and is also implemented as a flat rate payment per hectare. The greening farming practices are annual measures that go beyond cross-compliance and are based on crop diversification, maintenance of permanent grassland and the establishment of ecological focus areas (Box 6.2).
- Voluntary Coupled Support (VCS), which can be granted to specific sectors or regions, accounted for 3% of Pillar 1 in 2015 and 2016, and benefited dairy, beef, sheep meat, and fruit and vegetable producers. VCS accounted for 5% of Pillar 1 in 2017, and from 2017, they only concern the dairy, and fruits and vegetable sectors.
- The Young Farmers' Scheme (YFS), which is a top-up payment for young farmers, accounts for the remainder (Table 6.1). The annual payment for young farmers is calculated as 25% of the per-hectare payment multiplied by the number of eligible hectares, limited to 39 ha (Parliament of Estonia, 2014).

Table 6.1. Breakdown of CAP Pillar 1 Estonian National ceiling, 2014-20

EUR million

	2015	2016	2017	2018	2019	2020	Total 2014-20	
							Amount	% of Pillar 1
Basic payment (SAPS)	75.5	75.6	80	87.2	94.2	111.9	524.3	65.5
Greening	34.3	34.4	37.1	40.2	43.2	50.8	240	30.0
Voluntary coupled support (VCS)	4.2	4.2	6.1	6.1	6.1	6.1	33	4.1
Young farmers' scheme (YSF)	0.3	0.3	0.4	0.4	0.5	0.6	2.6	0.3
Total Pillar 1 direct payments	114.3	114.5	123.6	133.9	144	169.4	799.9	100.0
Transfer to Pillar 2	7.5	19.1	21.8	23.5	25.4	0	97.3	
National ceiling	121.9	133.7	145.5	157.4	169.4	169.4	897.2	

Source: compiled on the basis of Regulation (EU) No 1307/2013, European Parliament (2015), and communication from MRA.

In 2015-16, VCS in Estonia was paid to farm households with a maximum of 100 dairy cows; for those with a maximum of 25 suckler cows and heifers of up to 8 months of age; for ewes and sheep in herds with 10-100 ewes or she-goats that are at least one year old; and for growing fruits and vegetables on at least 1 ha of land (MRA, 2015a).[6] The support rates of direct payments are relatively modest by EU standards (Table 6.2; Figure 6.2).

Within the EU framework, due to the difficult situation in the milk farming sector, the MRA increased the payment rate for farm households that have a maximum of 100 dairy cows for the period 2017-20, and to introduce a payment for those that have between 100 and 400 cows. VCS for suckler cows and heifers, and for ewes and sheep were abolished in 2017 (MRA, 2016b).

Estonia is one of the EU member states allowed to pay transitional national aid (TNA) in addition to the EU National ceiling. However, in 2014-16, the Government decided not to utilise this opportunity. The new government that took office in November 2016 paid TNA in the maximum amount, starting from 2017 (Government, 2016).

Table 6.2. Support rates of direct payments, 2015 and 2016

Direct payment scheme	Unit	2015	2016	% change
Single area payment scheme (SAPS)	EUR/ha	79.00	79.64	0.8
Payment for agricultural practices beneficial for the climate and environment (greening)	EUR/ha	36.14	36.20	0.2
Young farmers scheme (YFS)[1]	EUR/ha	19.87	19.91	0.2
VCS[2] for growing fruits and vegetables	EUR/ha	572.86	526.97	-8.0
VCS for dairy cows	EUR/cow	130.80	123.19	-5.8
VCS for suckler cows	EUR/cow	91.32	75.90	-16.9
VCS for ewes and goats	EUR/animal	15.88	14.13	-11.0

1. Limited to 25% of the SAPS on the first 38 ha. 2. Voluntary Coupled Support

Source: ARIB (2015), www.pria.ee/et/toetused/valdkond/taimekasvatus/pindalatoetused_yld_2015/; ARIB (2017), www.pria.ee/et/toetused/valdkond/taimekasvatus/pindalatoetused_yld_2016/.

Box 6.2. Conditions for receiving CAP support

Most CAP payments are conditional on the respect of **cross-compliance** requirements, which include:

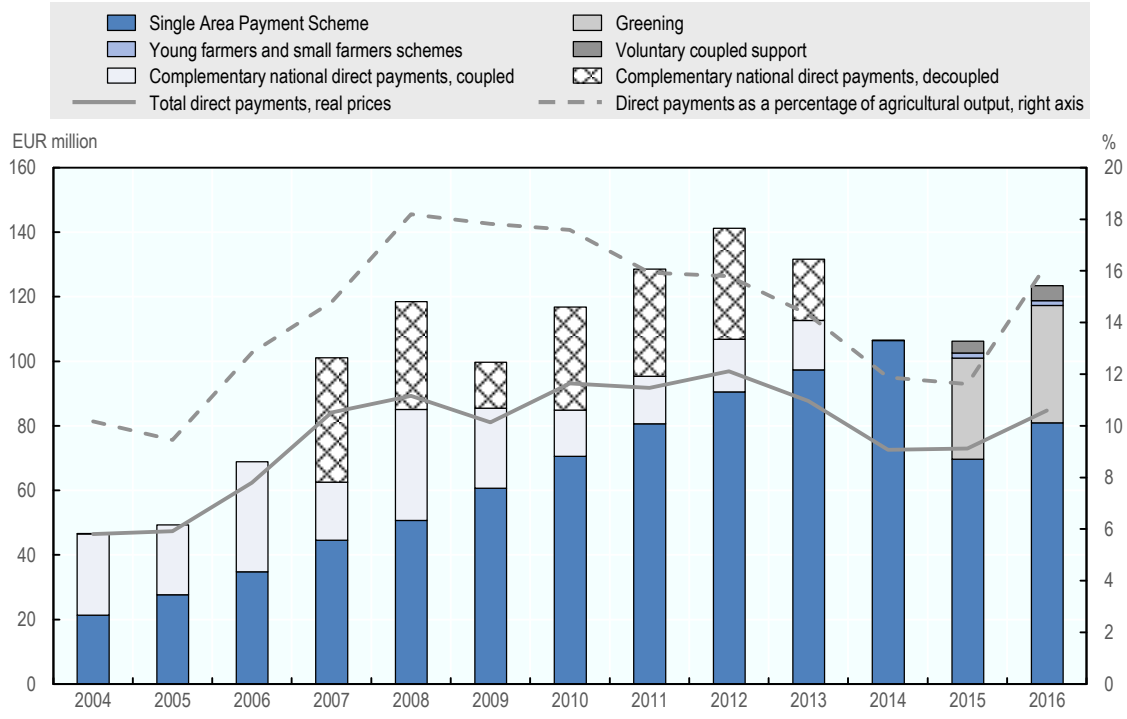
- Statutory Management Requirements (SMR), related to the respect of EU regulations, including prevention of nitrate pollution in a nitrate-sensitive area; conservation of wild birds, natural habitats, fauna and flora; food and feed safety, the use of hormones in livestock farming, animal identification and registration; transmissible spongiform encephalopathy (TSE), use of plant protection products, minimum standards for the protection of calves, minimum standards for the protection of pigs, the protection of livestock; and
- Good Agricultural and Environmental Conditions (GAEC), including water protection, soil and carbon conservation, preservation of landscape features and minimum level of maintenance.

Moreover, since 2015, Estonian farmers claiming support under the single area payment scheme (SAPS) have to meet additional 'greening' conditions, attached to the greening top-up payment that makes 30% of Direct Payments.[1] These requirements cover agricultural practices related to crop diversification, the maintenance of permanent grassland and the establishment of ecological focus areas, which are beneficial for the climate and the environment. The regulation foresees that if the greening payment conditions are not fulfilled the green payment is disrupted and penalties may apply).

1. All EU member states implement the Greening payment, whether they receive the Basic Payment Scheme, or the SAPS like Estonia.

Direct payments to Estonian farmers increased over the period 2004-12, as EU payments gradually increased during the transition period following accession, and with the introduction of complementary national direct payments in 2004 (Figure 6.3). In 2009, however, when economic recession was deepest, the amount of direct payments was lower than in the two previous years. Between 2012 and 2015, the annual amount of total EU and national direct payments decreased and fell below the 2007 level in real terms in 2014 and 2015. It was first due to lower complementary national direct payments in 2013. From 2014, the main reason was the government's decision not to pay TNA, and to transfer some funds from Pillar 1 to Pillar 2 from 2015. However, direct payments increased again in 2016 as planned by the EU external convergence mechanism under which payment differences between member states will gradually narrow over 2014-20. The value of Pillar 1 direct payments as a percentage of agricultural output (in current prices) has declined from 18.2% in 2008 to 11.6% in 2015, and increased again to 16.3% in 2016 (Figure 6.3). The amount of direct payments received by Estonian farmers will increase further with convergence and with the introduction, from 2017, of TNA up to the maximum amount allowed (Government, 2016).

Figure 6.3. Developments in direct payments in Estonia, 2004 to 2016



Source: Communication from MRA, Statistics Estonia (2017), www.stat.ee.

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Pillar 1 also includes funding for market support measures. The following EU market regulation measures were applied in Estonia in 2016 (MRA, 2017):

- School milk support scheme — Estonia started subsidising milk for school children in 2001 before it implemented the EU scheme after accession in 2004. Expenditures for this programme in Estonia increased from EUR 1.52 million in 2015 to EUR 1.65 million in 2016, of which EUR 0.86 million national co-financing and EUR 0.79 million EU funding).
- School fruit and vegetables scheme — the EU scheme provides support to fruits and vegetables for schools with 10% national co-financing. Since implementation in 2009/10, the scope of the programme has expanded and expenditures in Estonia reached EUR 0.98 million in 2015/16.
- EU intervention mechanisms remain for some cereals and dairy products — while in 2014/15, no purchase of cereal or dairy products were made for intervention storage, the mechanisms were triggered the following year for dairy products as producer prices fell below intervention prices leading to the purchase of 672 tonnes of skimmed milk powder for a monetary value of EUR 1.18 million between February and July 2016.
- EU private storage aid — as EU average market prices for pig meat fell below the reference threshold, the temporary removal of pig meat was supported for a few months in both 2015 and 2016. The total amount of private storage aid for pig meat in Estonia was EUR 0.16 million in 2015 and EUR 22 million in 2016.
- Export refunds — in 2015 and 2016, no export refunds were paid in the European Union.
- A specific programme for honey production and market development is co-financed by EU funds. It supports technical assistance to beekeepers, measures for combating beehive invaders, and measures to support laboratories for the analysis of apiculture products.

- A number of programmes fund information provision and agricultural products promotion measures for Estonian fresh fruits and vegetables, dairy products and grass-fed beef, under Pillar 1. In 2015 and 2016, expenditures amounted to less than EUR 0.5 million annually.
- Production quotas — since the EU milk quotas expired on 31 March 2015, no production restrictions apply, as Estonia does not produce wine or sugar.
- Exceptional aid to milk producers and the pig sector — with the deterioration of market conditions starting from 2014, the European Commission granted EUR 7.6 million exceptional aid to Estonian dairy and pig meat producers in October 2015, which was complemented by EUR 7 million of national support. An exceptional adjustment aid of EUR 16.2 million was paid in 2017, co-financed 50-50 by EU and national funds.
- The EU milk production reduction scheme was launched by the European Commission in July 2016 in response to the milk crisis. By March 2017, EUR 0.57 million were granted to Estonian milk producers agreeing to voluntarily reduce their production in the last quarter of 2016 and in January 2017.
- Exceptional aid to the horticulture sector — since the beginning of the Russian Federation ban in August 2014, the European Commission granted a series of exceptional support measures to producers of certain fruits and vegetables, which included Estonian beneficiaries. They include market withdrawals, notably for free distribution, and compensation for non-harvesting and green harvesting. Expenditures for this programme are very small.

6.3. Domestic measures targeting specific issues

General characteristics of the Estonian RDP

Measures under successive RDPs respond to priority areas defined at the EU level. The four thematic axes guiding the implementation of the RDP for 2007-13 have been replaced by six priority areas for the period 2014-20:

1. Fostering knowledge transfer and innovation;
2. Enhancing competitiveness of all types of agriculture and the sustainable management of forests;
3. Promoting food chain organisation, including processing and marketing, and risk management;
4. Restoring, preserving and enhancing ecosystems;
5. Promoting resource efficiency and the transition to a low-carbon economy; and
6. Promoting social inclusion, poverty reduction and economic development in rural areas.[7]

The EUR 992.8 million planned budget for the Estonian RDP over 2014-20 was allocated to these priorities through the implementation of 14 measures, as indicated in Table 6.3. Investment support (Measure 04) is related to all RDP priorities and comprises close to 30% of the Estonian RDP budget. Environmental measures (Measures 10), which is related to the Ecosystem management priority 4 accounts for about a quarter of the total. The third measure receiving the highest funding (12.3%) is measure 06: Farm development, which is related to several priorities: Competitiveness, Resource efficiency and climate change, and Social inclusion and local development. It is followed by the LEADER measures addressing social inclusion and local development in general (9%).

Regarding allocation by priority, Ecosystem management comes first with close to 37% of total funds, as support for organic farming and Natura 2000 areas are expected to contribute to this priority in addition to agri-environment and climate measures. The competitiveness priority follows with close to 30% of total RDP funds.

Table 6.3. Indicative budget of Estonian RDP, 2014-20

Measures	Priorities[1]						Technical assistance	Total	% of total
	1. Knowledge transfer and innovation[1]	2. Competi-tiveness	3. Food chain	4. Ecosystem management	5. Resource efficiency and climate change	6. Social inclusion and local development			
01 Knowledge		2.3	3.2	4.6	1.9			12.0	1.2
02 Advisory		5.4	0.2	0.7	0.4	2		8.7	0.9
03 Quality schemes			1.0					1.0	0.1
04 Investments		212.0	50.0	2.5	8.0	17		289.5	29.2
06 Farm development		52.1			3.0	67		122.1	12.3
08 Forest				1.0	9.0			10.0	1.0
09 Producer groups			6.0					6.0	0.6
10 Environment				244.9				244.9	24.7
11 Organic				77.7				77.7	7.8
12 Natura				32.7				32.7	3.3
14 Animal welfare			40.6					40.6	4.1
16 Cooperation		11.7	4.0	1.5	1.5			18.7	1.9
19 LEADER						90		90.0	9.1
20 Technical assistance							38.9	38.9	3.9
Total		**283.5**	**105.0**	**365.6**	**23.8**	**176**	**38.9**	**992.8**	
% of total		28.6	10.6	36.8	2.4	17.7	3.9		

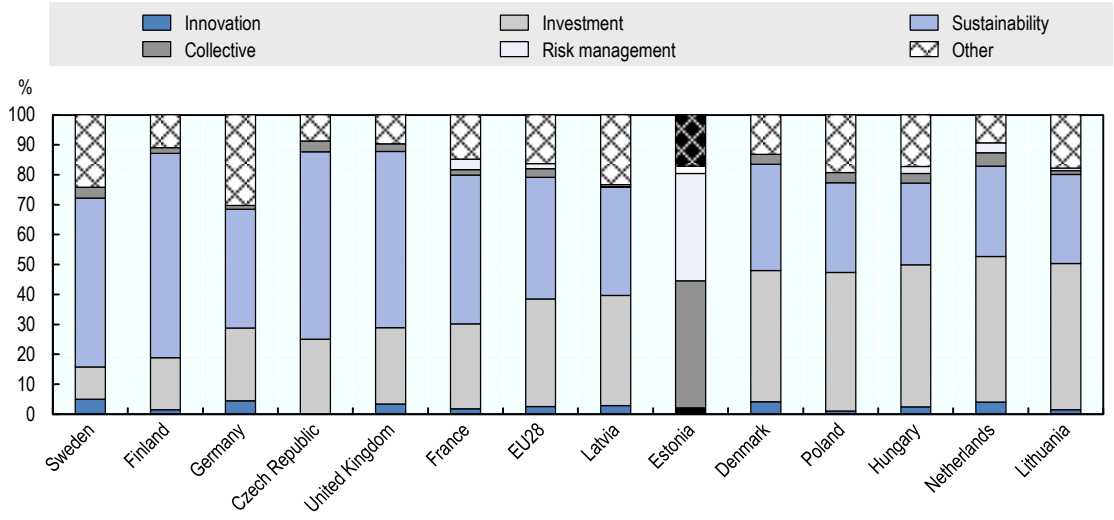
1. Priority 1 is attributed throughout all priorities.

Source: European Commission (2015), http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/ee/factsheet_en.pdf.

Compared to the EU28 average, Estonia's RDP includes a higher share of funds for investment, reflecting needs for further modernisation to improve competitiveness, and efficient use of resources at the farm level and in the whole food chain (Figure 6.4). Forestry investments are also included, but in Estonia they are minor compared to agro-food ones. The share of payments for improving sustainability (Measures 10 to 13) through better ecosystem management is lower than the EU28 average, but is close to that in other Baltic countries. In many other EU member states, payments for the environment include specific payments for areas facing natural constraints, which can be high in some countries, but which Estonia did not include in its RDP.

The results of various analysis and impact assessments were considered in developing the Estonian RDP 2014-20 (Box 6.3). For example, it includes sub-measures 'Innovation clusters' and 'Long-term programmes of knowledge transfer' where applicants should form a consortium consisting multiple partners from Research and Development (R&D) institutions, agricultural producers, food processors, advisory system, vocational education institutions and other stakeholders. In addition, the advisory system was reformed, and the coordination role was given to the Rural Development Foundation. Young farmers are now supported from both CAP pillars 1 and 2, and measures that target the food processing industry receive larger funding than in the previous RDP.

Figure 6.4. RDP 2014-20 choices by selected EU member states



Countries are ranked according to Investment levels.
Innovation includes Measures 01 and 02; Investment is the sum of Measures 04, 05, 06 and 08; sustainability is the sum of Measures 10, 11, 12, 13 and 15; Measures supporting collective actions are 09 and 16; and risk management is Measure 17.

Source: European Commission (2015), http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/ee/factsheet_en.pdf.

StatLink http://dx.doi.org/10.1787/888933654693

Box 6.3. Evaluation of RDP agricultural policy measures

During the programming period of the Estonian RDP 2007-13, an ongoing evaluation was carried out for the first time. It provided analyses and feedback on the implementation and results of the RDP. During the development of the Estonian RDP 2014-20, an *ex ante* evaluation was carried out, as planned by EU procedures. In parallel, a strategic environmental evaluation was done. Several recommendations of the strategic environmental evaluation were implemented in designing the measures of the RDP 2014-20. The results of the ongoing evaluation were used as input in the process of *ex ante* evaluation. The monitoring and evaluation system of the RDP will be explained in Chapter 7.

In the SWOT analysis section of the RDP 2014-20, among others, the following conclusions were drawn in relation to innovation, structural change and sustainable use of resources:

- During the period 2005-12, labour productivity increased markedly in primary agriculture, by 53.3%. This growth was mainly due to structural changes, improvement in efficiency and intensification of production.
- Insufficient communication of R&D results and lack of cooperation between different parties in innovation activities hinder knowledge transfer from science to practice, as well as awareness of scientists of the practical problems of enterprises. In the longer term, this could hinder the competitiveness of agriculture. Therefore, promotion of cooperation between research groups, agricultural producers, entrepreneurs and advisors is needed.
- In the fields of agriculture and the rural economy, various training and knowledge transfer activities should include, among others, the themes related to management, maintenance of agricultural land, and agri-environment. In the programming period 2007-13, there were not enough training activities on themes important to the state, such as climate change and water protection.
- In developing the advisory system, the advisory centres should increase cooperation between themselves, and with the coordinating centre, R&D institutions and various specialty organisations.
- Hiring and training of new advisors is necessary, especially in the fields of adaptation to climate change and innovation.
- In terms of land improvement, efficient use of 55% of the agricultural area requires well-functioning drainage systems. Most of the drainage systems are more than 30 years old and require renovation and reconstruction. Over 2004-13, 15% of required reconstruction and 25% of required renovation was done with support from RDP funds.
- Considering the positive results of support measures for young farmers, but acknowledging the insufficient share of young farmers, the entry of qualified and experienced (in agriculture) younger farm managers' generation should be supported (from both Pillar 1 and Pillar 2 measures).

Box 6.3. Evaluation of RDP agricultural policy measures (cont.)

- While organic production has developed and 15% of agricultural land is organic,[1] more attention should be paid to developing the supply chain to ensure that more correctly labelled organic products reach final consumers.
- The food processing industry needs to reduce exports of raw materials or low value added products and increase exports of high value added products. The range of export partners should be expanded in order to reduce risks.
- In addition to insufficient investments into fixed assets, the Estonian food processing industry lacks the capacity to make the production process more knowledge intensive.
- Several recommendations have been made in relation to biodiversity and landscapes (farmland birds, landscape elements, local breeds and varieties, semi-natural habitats, Natura 2000 agricultural land, high nature value agricultural land), water protection and management (use of pesticides, nutrient leaching, manure storage and spreading, manure spreading equipment, nitrate vulnerable zone, organic production), soils (loss of organic matter, low K and P reserves in soils, reduction of cultivation on peat soils, liming of soils, water erosion), energy efficiency (more efficient use of motor fuels), renewable energy and use of residues, reduction of GHG emissions (biogas production, more efficient use of Nitrogen fertilisers, climate-friendly cultivation techniques, environmentally friendly management of peat soils, manure storage and application, improve CO_2 sequestration).
- Availability and quality of high speed internet connection should be improved in rural areas.

1. Agricultural land under organic practices further increased to 18% in 2015.

Source: MRA (2015b), www.agri.ee/sites/default/files/content/arengukavad/mak-2014/mak-2014-kommunikatsioonistrateegia.pdf.

Detailed RDP measures

Box 6.4 provides the list of detailed measures implemented under the 13 EU measures retained in the Estonian RDP. These measures are implemented gradually. In 2016, EUR 187.29 million was committed and in total EUR 115.04 million was paid out.

Box 6.4. Detailed 2014-20 RDP measures in Estonia

1. Knowledge transfer and information actions

1.1 Arrangement of training activities

1.2 Arrangement of demonstration and information activities

1.3 Arrangement of visits to enterprises and study groups

1.4 Long-term programmes

2. Advisory services, farm management and farm relief services

2.1 Support to individual advisory services

2.3 Support for training of advisors

3. Quality schemes for agricultural products, and foodstuffs

3.2 Information and promotion activities of products produced in the framework of Union and nationally recognised quality schemes

3.3.1 Support to bioenergy

4. Investments in physical assets

4.1 Investment in improving the performance of farm holdings

4.2 Investments into processing and marketing of agricultural products

4.3 Investments into development and maintenance of agricultural and forestry infrastructure

4.4 Support for the restoration of stonewalls

5. Restoring agricultural production potential damaged by natural disasters and catastrophic events and introduction of appropriate prevention actions

5.2 Restoration of the agricultural production potential damaged by harmful plant pests and animal diseases

Box 6.4. Detailed 2014-20 RDP measures in Estonia (cont.)

6. Farm and business development

6.1 Setting up of young farmers
6.3 Development of small farms
6.4 Support for the diversification of rural economy towards non-agricultural activities

8. Investments in forest area development and improvement of the viability of forests

8.3 Prevention and elimination of damages to forests and restoration of damaged forests
8.6 Improving the viability and economic value of forests

9. Setting up of producer groups and organisations

10. Agri-environment-climate

10.1.1 Support for environmentally friendly management
10.1.3 Regional soil protection support
10.1.4 Support for environmentally friendly horticulture
10.1.5 Support for growing plants of local varieties
10.1.6 Support for keeping animals of local endangered breeds
10.1.7 Support for the maintenance of semi-natural habitats

11. Organic farming

11.1 Conversion to organic farming
11.2 Maintaining of organic farming

12. Natura 2000 and Water Framework Directive payments

12.1 Natura 2000 support for agricultural land
12.2 Natura 2000 support for private forest land

14. Animal welfare

16. Cooperation

16.0 Innovation clusters
16.2 Development of new products, processes and technologies
16.4 Short supply chains and the development of local markets

19. Support for LEADER local development

19.2 Implementation of local development strategies
19.3 Cooperation
19.4 Animation of the territory and operation of local action groups

Source: MRA (2017), Communication to OECD on agricultural policy implemented in Estonia in 2016.

Measures for improving adoption of innovation

Adoption of new technologies is supported through investment support in RDP measures 4 and 6. In addition to enhancing productivity and income, investment support is also used *inter alia* to purchase technology enabling more efficient use of farm inputs, including natural resources, and management of livestock manure, leading to improved sustainability performance. Both measures support investment for adding value along the food chain and for the diversification of activities on the farm, which can contribute to more optimal allocation of farm household labour and thus higher farm labour productivity.

Measures 1 and 2, which support technology transfer and advisory services, aim to facilitate the diffusion of new knowledge and practices (Chapter 7). Moreover, innovation is the focus of RDP measure 16 that supports cooperation activities in innovation clusters; the development short supply chains and local markets; and the development of new products, practices, processes and technologies. These measures aim to support the cooperation of farms, food processing industry, R&D institutions and other actors in finding innovative solutions relevant for the whole agricultural and food sector or sub-sector, or individual enterprise or group of enterprises.

Instruments for supporting variable input use

As part of State Aid measures,[8] the main instrument related to variable input use in Estonia is a fuel excise tax exemption for agricultural producers for using diesel fuel in the machinery used in the process of agricultural production. The exemption amounted to EUR 48 million in 2016 (Chapter 4).

A subsidised insurance programme was introduced in 2008, also as a State Aid measure. The subsidy covers 65% of insurance premiums for agricultural crops, agricultural animals, poultry and bees in small and medium sized agricultural enterprises (SMEs). The purpose is to offer a sustainable solution to agricultural producers to manage the losses caused by adverse weather conditions, climate disasters and animal and plant diseases or pest infestations. The total amount of support paid in 2015 and 2016 was EUR 0.01 million. In practice, only insurance products covering animal diseases were offered. The regulations also allow support to crop insurance schemes but there are no crop insurance products on the market in Estonia.

Measures facilitating structural adjustment in the food and agricultural sector

In the farming sector, the main measure facilitating structural adjustment is support to young farmers, both under Pillar 1, and under RDP measure 6.1, which provides investment support to young farmers, with the aim to facilitate the transfer of farm management to younger and well-prepared managers.

In the food sector, the creation of producer groups is supported via RDP measure 9. In addition, the RDP includes support to large projects, i.e. large-scale investment (with support EUR 2-15 million) in processing facilities. This measure is only eligible to applicants, in which producer cooperatives own a majority of shares.

The clarification of property rights during the transition period also facilitated land transfers and investment.

Agri-environmental measures

Under Estonia's RDP, Estonian farmers are eligible for payment for **voluntary** agri-environmental commitments. As environmental protection for water, soil and biodiversity are key priorities of the RDP, voluntary commitments have a strong environmental emphasis. In particular, the RDP supports sustainable agriculture in Estonia through the environmentally friendly management (EFM) scheme, now under Measure 10: agri-environment and climatic measures (AECM). In 2016 the EFM scheme covered 447 065 ha, or close to 45% of agricultural land in Estonia (ARC, 2016).

The EFM basic scheme requirements are as follows (ARIB, 2016a).

- To ensure crop rotation, the same crop or vegetable is grown in the same field for up to two consecutive years (for cereals, up to three consecutive years; for cruciferous crops, every fourth year).
- Leguminous crops are grown on at least 15% of the land subject to support either in pure culture, in a mixture with gramineous grasses, or in a mixture with other agricultural crops used as green fertilisers. Under-sowing of legumes is allowed.
- At least 30% of the land subject to support is under winter vegetation from 1 November to 31 March the following year.
- At least 15% of cereal crops are sown with certified seed (in spring and winter in total).
- The application of glyphosates is prohibited from the time of emergence and planting of cultivated plants and vegetables until harvesting. It is also prohibited on green fallows and grasslands used as green manures and on fields where the pastures for bees are established with the help of EFM support.

- The applicant arranges the collection of soil samples at least once during the obligation period and sends the soil samples to an accredited laboratory.
- The applicant draws up a fertilisation plan by 15 June for the whole UAA.
- The applicant or his/her representative must participate in the EFM basic training by 1 December of the first year of the obligation period and in an EFM extension training by 15 June of the fifth year of the obligation period.
- If the area of arable land (under crops or vegetables or unplanted fallow) is larger than 20 ha and borders with a public road, the applicant must leave or establish a 2–5 metre wide grassland strip with perennial vegetation or other kind of landscape element between the field and public road.

The **EFM support rate** varies according to measures undertaken. The basic requirements package is EUR 50/ha. Additional support for implementing additional water protection activities and for creating "bee pastures" is also provided (ARIB, 2016b; ARIB, 2016c). Since 2015, support for soil protection has also been offered to encourage the sustainable usage of eroded and peaty soils on the fields that are not covered with other area payments under RDP support.

Farms in Natura 2000 areas receive a subsidy of EUR 27/ha under Measure 12 in an effort to compensate the additional costs incurred or income not received due to restrictions (RT I, 26.04.2016, 13).

Support to organic farming

Support is available in the form of payments per hectare of agricultural area to farmers who convert to, or maintain, on a voluntary basis, organic farming practices and methods defined in Council Regulation EC No 834/2007. Payments aim to compensate for all or part of the loss of income and the additional costs associated with the implementation of organic practices and methods. Payment rates depend on agricultural land use and range from EUR 25/ha to EUR 660/ha in Estonia. Payments for organic farming are also part of a wider plan to develop the Estonian organic agro-food sector (Box 6.1).

The number of Estonian enterprises engaged in organic production, the area under organic practices and the size of organic farms have increased in the last decade (Box 2.1). As the number of hectares under organic practices rose from 46 000 ha in 2004 to 171 000 ha in 2015 and 185 000 ha in 2016, support to organic farming increased from EUR 3.2 million in 2004 to EUR 12.9 million in 2015 and EUR 13.3 million in 2016.

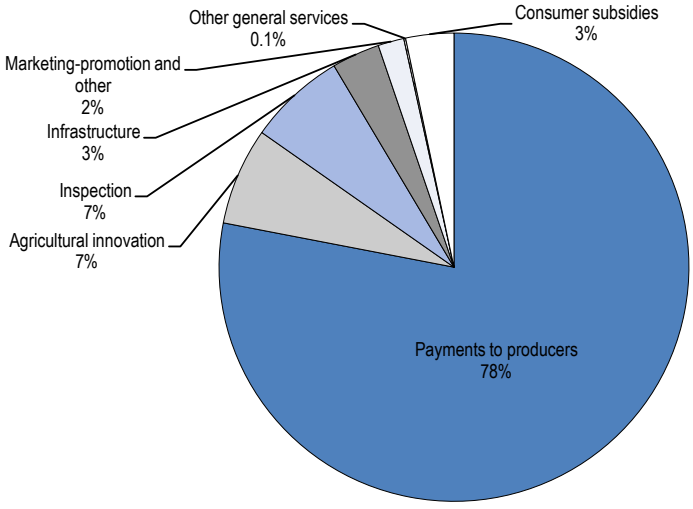
The number of organic enterprises increased to 1 629 in 2015 (and 1 753 in 2016), and the number of organic support recipients increased from 1 335in 2014 to 1 450 in 2015 (ARIB, 2016a). This would indicate that some producers farm organically without support.

FADN data show that the value of organic crop production increased over the period 2010-14, while organic livestock production remained rather stable. Although the land productivity of organic farming has improved over the past five years, the value of livestock production per livestock unit has declined (FADN, 2016).

General services to the food and agriculture sector

The food and agricultural sector also benefits from general services, which are mainly supported by the Estonian budget. According to the OECD General Services Support Estimate (GSSE), total spending on general services to food and agriculture amounted to EUR 54 million in 2014-16. This represents a quarter of payments to farmers (Figure 6.5). Of these total expenditures, the agricultural knowledge and innovation system and inspection and control services accounted for most funding, with 36% of the total each. The development and maintenance of infrastructure accounted for 18% of all expenditures on general services, marketing and promotion for 10% and public stockholding for less than 1%. All these expenditures are expected to facilitate innovation for improved productivity, safety, and sustainability performance.

Figure 6.5. Composition of support to food and agriculture, 2014-16



Source: MRA (2017), Communication to the OECD of EU and national expenditures in Estonia.

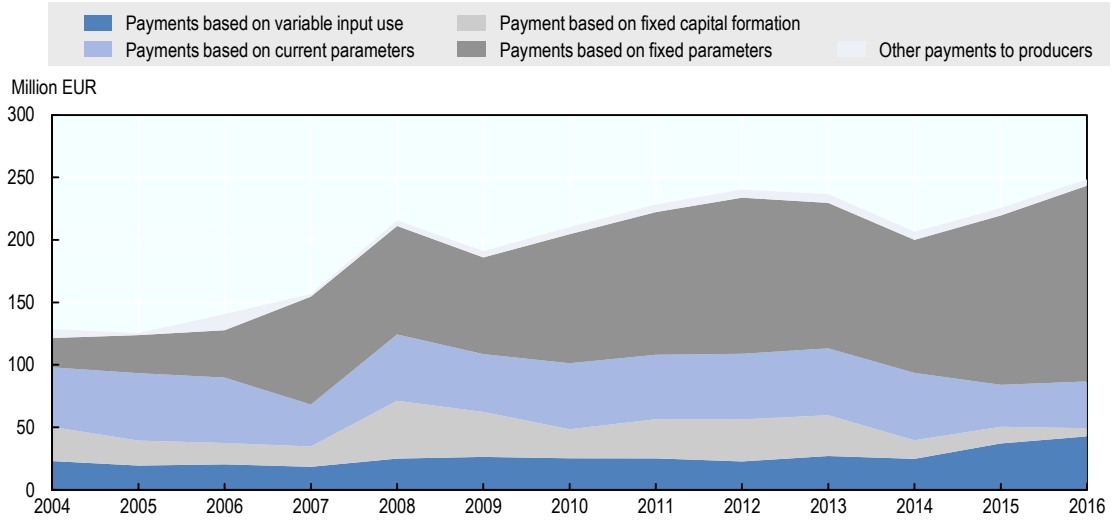
StatLink http://dx.doi.org/10.1787/888933654712

6.4. Developments in agricultural support

Since Estonia became an EU member state in 2004, payments to farmers almost doubled to reach EUR 248 million in 2016. At the same time payments have become increasingly decoupled over time, with the share of payments based on fixed parameters representing almost two-thirds of payments in 2016 (Figure 6.6). Payments based on current parameters, mainly hectares and animal numbers, have been relatively stable until they started to decline in 2014, when Estonia decided not to grant additional payments to specific sectors. Developments in payments based on variable input use mainly reflect the recent increase in the fuel tax rebate reflecting higher general tax levels. Investment support, classified as payments based on fixed capital formation, has decreased in recent years, but that may reflect delays in implementing the recent RDP.

Expenditures on general services to food and agriculture have been multiplied by 3.5 over the period 2004-16, which partly reflects a methodology change in 2013 (Figure 6.7). As a result, they were equivalent to 22% of payments to producers in 2016, compared to 12% in 2004. The highest increase was for innovation-related expenditures on research and development, extension and agricultural education, which increased ten-fold. Support for the marketing and promotion of agricultural products, which benefit from EU support, also increased strongly. Support to inspection services for pest and disease control and farm inputs was also reinforced.

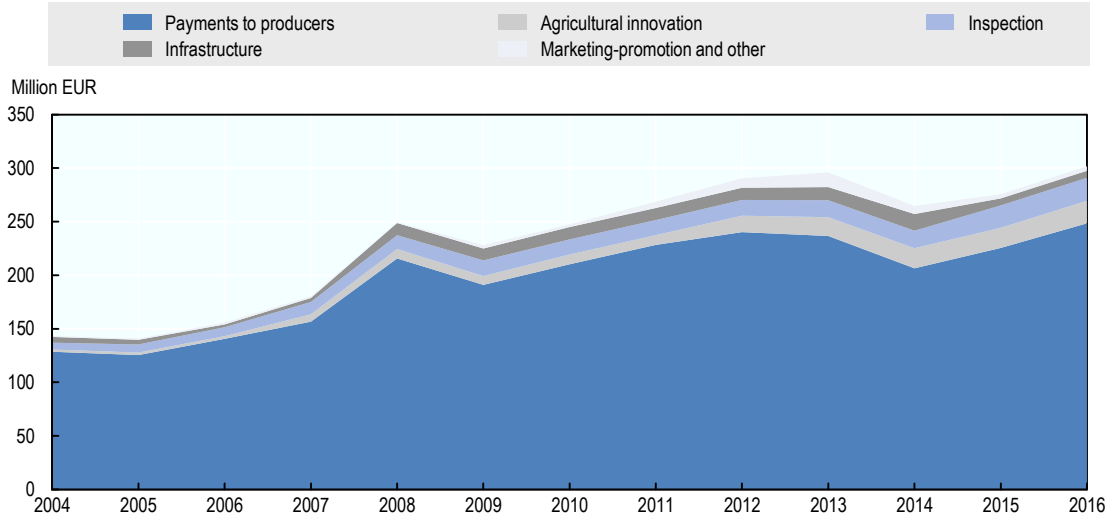
Figure 6.6. Developments in payments to producers, 2004 to 2016



Source: MRA (2017), Communication to the OECD of EU and national expenditures in Estonia.

StatLink http://dx.doi.org/10.1787/888933654731

Figure 6.7. Developments in Estonian agriculture-related expenditure on general services, 2004 to 2016



Source: MRA (2017), Communication to the OECD of EU and national expenditures in Estonia.

StatLink http://dx.doi.org/10.1787/888933654750

6.5. Extent to which agricultural policies are supportive of productivity growth, sustainably

Agricultural policy measures affect farm investments and practices through a variety of instruments, with different intended and unintended impacts on structural change, natural resource use and innovation. A policy instrument will affect business decisions by changing the relative prices of inputs and outputs. For example, investment support lowers the price of land and capital and could thus facilitate structural change and investment in new technologies. The path of productivity growth and sustainability outcomes will then depend on both market and other policy incentives and disincentives.

Sustainability outcomes are linked to the way natural capital, which is the source of service flows entering the production process, or ecosystem services, is being priced and used. In cases where public policy is deficient to address these market failures in pricing natural assets, which often have a common pool, externality or public good characteristics, there is a risk that innovation systems and productivity growth in agriculture follow a non-sustainable pathway, leading to progressive depletion of natural assets, which may not be substituted by other forms of capital or by labour. In such cases, there would be a trade-off between productivity growth in the short- and long-term.

Estonia being an EU member state, EU border protection, and market price support (MPS) mechanisms apply. When they maintain domestic prices above world prices, these measures distort markets and reduce producers' incentives to use production factors more productively. As such, they hinder structural adjustment and discourage producers to innovate to become more competitive. These distorting measures can maintain resources in the sector that would otherwise be reallocated to more productive uses; they can encourage more intensive production, sometimes on marginal or fragile land; and they can encourage production practices that do not always take adequate consideration of longer term environmental sustainability. In the European Union in general, and thus in Estonia, the support they generate has decreased over time, although some commodities continue to receive significant MPS (OECD, 2017b, Chapter 2.8). In the Estonian case, MPS concerns mainly beef, and poultry meat, as Estonia does not produce any rice or sugar.

Since the EU milk quotas expired in 2015, production restrictions no longer apply in Estonia, which does not produce any wine or sugar. According to Viira et al. (2015), the withdrawal of EU milk quotas, which was announced in 2008, led to a 7% increase in EU production volumes from 2008 to 2014. Although production quotas restricted dairy production, farm consolidation resulted in significant resource reallocation in dairy farms, leading to higher productivity (Kimura and Sauer, 2015).

Support to variable input use may encourage intensive and unsustainable production practices by lowering farm input costs, such as energy, fertiliser and pesticides. In Estonia, the only distorting measure is the fuel excise tax exemption for agricultural producers, which pay about 27% of the full tax. As it lowers fuel cost, tax exemption does not encourage a reduction in fuel consumption, which would benefit the environment.

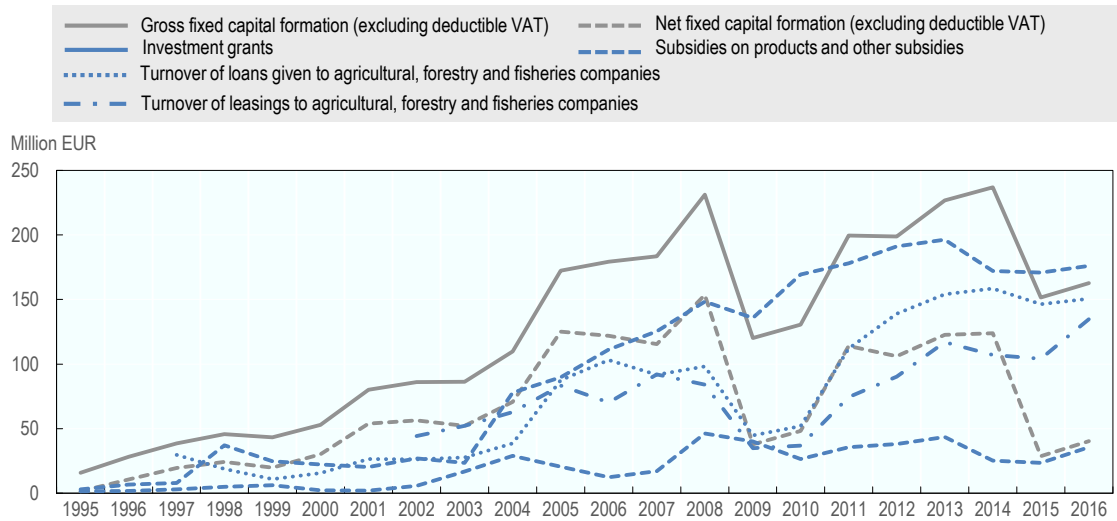
A large share of support to producers is granted as a broad-based payment per hectare mostly decoupled from commodity production. This is a more effective way to transfer income to producers and thus increase their capacity to invest and innovate. It also leaves more flexibility to producers to undertake new activities and switch to new products. However, even if decoupled from production choices, as most Pillar 1 payments in Estonia, broad-based income support slows the structural adjustment needed to facilitate economies of scale, attract new entrants and thus foster innovation and productivity growth. As payments are conditional on the adoption of environmentally-friendly practices, they are expected to ensure a minimum degree of sustainability in resource use on a broad-scale. However, as environmental problems vary locally, they are unlikely to be best fitted in all situations. In addition, one of the greening conditions, which requires maintaining the permanent grassland area, may not be adapted to the situation of Estonia. The large areas under grassland do not reflect an economic or environmental optimum, but result in part from past history. In the 1990s, support to agricultural producers was very low if not negative, and large areas of agricultural land were idle. After the implementation of the SAPS in 2004, parts of this idle land have been put into use – some for crop production, some as permanent pasture kept in GAEC.

In transition economies, agricultural producers often faced budget constraints that hindered the investment for farm modernisation. In Estonia, agricultural, land and ownership reforms were carried out in the beginning of the 1990s. At the same time, a liberal trade policy with zero tariffs was applied. This opened the Estonian market to cheap imports and led to low farm-gate prices and negative market price support for a short period (Viira, 2014). It was thus difficult and expensive for agricultural producers to obtain credit in the 1990s, which resulted in low investments in the agricultural sector. Direct payments were first implemented in 1998, capital (credit) subsidies at the end of the 1990s. To compensate for the "lost decade in agricultural investments", agricultural policy in Estonia has paid attention to supporting investments in modernisation of agricultural holdings. The EU pre-accession programme SAPARD launched in 2001, and successive RDPs

2004-06, 2007-13, and 2014-20 included a significant amount of investment support to agricultural producers for modernisation of their technologies. Figure 6.8 shows that, according to the classification of the economic accounts of agriculture (EAA), investment grants, subsidies on products and other subsidies have clearly affected investments (gross and net capital formation) into agricultural holdings.[9] As discussed in Chapter 2, the agricultural production indices have significantly increased since the beginning of the 2000s, suggesting that the policy decisions and farm investments have markedly affected the production and (partial) productivity development.

Investment support has also greatly contributed to adjustment, by facilitating investment in modern technology or additional inputs needed to increase economies of scale, and thus productivity. While it is not specifically targeted to the purchase of innovative or more sustainable technologies in Estonia, market and policy incentives, including compliance to EU regulations, guided investment in these areas. An area for further investment identified in RDP evaluation, however, is the upgrading of drainage systems (Box 6.3). If done in a sustainable way, this is expected to improve long-term land productivity.

Figure 6.8. Investments, subsidies and credits in Estonian agriculture, 1995 to 2016



Source: Statistics Estonia (2017), Economic Accounts of Agriculture, www.stat.ee; Bank of Estonia (2016), www.eestipank.ee/en/publication/estonian-competitiveness-report/2016/estonian-competitiveness-report-2016.

StatLink http://dx.doi.org/10.1787/888933654769

Some agricultural policy measures aim to facilitate resource allocation within and across sectors. In response to the recommendations drawn from the evaluation of former measures, Estonia chose to boost support to new entrants using Pillar 1 payments and investment support from Pillar 2. It is important to attract a new generation of well-trained managers in the sector. Investment support also contributed to farm consolidation and the diversification of on-farm activities.

Agricultural producers face risks, which result in variation in outcomes. Support for risk management can be considered as reducing the cost of risk for farmers. Risk management is essential to improve adoption of innovation and more sustainable practices that could increase risk exposure. In the European Union, trade protection and CMO measures for some products act as a safety net by limiting price falls. Pest and disease control measures, including compensations for the culling of animals, contribute to limiting pest and disease risks. Livestock farmers can use a subsidised insurance scheme to manage some risks, but it is hardly being used, and Estonia did not take advantage of EU RDP funds to develop risk management instruments. Rather *ad hoc* support compensates farmers for income losses. It should also be noted that Direct Payments provide income support that cushions market-based income variations. The need for targeted risk management tools should be explored, when investigating the failing of the insurance scheme.

Agricultural measures that **support innovation** directly are likely to create stronger incentives and capacity for innovation among agricultural producers and will help structural change. In addition to funding agricultural research, development and education, a number of RDP measures support innovation in Estonia. These include investment support, which facilitate the adoption of new technologies in farms and food processing industries, but also new support to national technology transfer and advisory activities and services, aiming to facilitate the diffusion of new technologies and practices. The strengthening of advisory systems was a recommendation from the evaluation of the previous RDP. Moreover, RDP support to cooperation activities facilitates the cooperation of farms, food processing industry, R&D institutions and other actors in finding innovative solutions for the food and agricultural sector. Sectoral and strategic development plans include support for the development or the diffusion of innovation with a view to reaching the objectives (Box 6.3). The seed development plan in particular aims to improve the competitiveness of Estonian seed companies and increase the use of certified seeds, with enhanced performance.

Agricultural policy instruments that support explicitly the adoption of more sustainable technologies or practices (agri-environmental measures) or measures to adapt and mitigate climate change, are often associated with regulation and market-based mechanisms. They are likely to steer farmers towards innovative sustainable practices more effectively. In the long-term, they are also likely to guide the content of innovation in the direction of sustainability. Estonian farmers and food industries have to comply with EU environmental regulation. Investment in technology needed to comply can be supported by EU and national funding. Farmers also have to respect cross-compliance conditions for receiving EU support (Box 6.2). In addition, support is available for farmers, who engage in voluntary environmentally-friendly practices.

Current support schemes are associated with several positive trends in environmental impacts and farm management practices. For instance, the risk of point source pollution from farms has decreased as a result of subsidy-supported investments into manure storages and other farm technologies, as well as the establishment of an integrated environmental permit system. Moreover, the 2011 ARC survey revealed that 77% of farmers applying for the RDP support followed all of the Codes of Good Agricultural Practice, compared to 57% of farmers who were getting only SAPS payments (ENR, 2016). Changes in the soil fertility indicators of EFM and SAPS producers indicate that more attention has also been paid to achieving the nutrient balance through a variety of agro-technological methods (crop rotation, fertilisation). As fulfilling GAEC and environmental regulations is a pre-requisite for receiving direct payments, the incentives to comply are high. Still, the ongoing education of producers is necessary to ensure proper implementation. For instance, the results of inventories have revealed shortcomings of silage storages, as well as waste water handling, especially in farms with older technological systems (ENR, 2016).

The Estonian organic farming development plan aims to increase the production and consumption of organic products. The target for increasing the organically-farmed area by 2020 has been reached. However, the productivity of organic livestock farming remains low. While this does not affect sustainability through land use changes in Estonia, where land is relatively abundant, care should be taken that organic livestock farms manage manure in a sustainable way.

Overall, within the EU CAP framework that allows EU member states some flexibility in implementing payments, Estonia made choices that limit market distortions across commodities, and traditionally placed strong priority to investing in modern technology, upgrading facilities in farming and agri-food companies, and facilitating structural adjustment. More recently, more emphasis was given to attracting new entrants, improving advisory services, and responding to agri-environmental and climate change challenges.

6.6. Summary

- The EU Common agricultural policy provides most of the support to Estonian farmers. Unlike most EU member states, Pillar 2 funding exceeds Pillar 1, and the national contribution to Pillar 2 is lower than EU average.
- Most Pillar 1 Direct Payments are implemented as flat-rate per-ha payment (SAPS and greening). This ensures there is no distortion among commodities, but may reduce incentives to productivity.

Commodity-specific payments are limited to less than 5% of the total envelope. Payment rates are lower than in most EU member states, although they are expected to increase with convergence and the introduction of a national complement (the Transitional National Aid, TNA), after two years without TNA. This will increase farmers' income but may give them the wrong signals about the long-term profitability of their operations.

- Cross-compliance ensures minimal requirements on sustainable farm practices covering all agricultural land. The greening requirement constraining the conversion of grass land into crop production, may prevent moving to more efficient production, without significant benefits for the environment, as grassland is already abundant for non-agronomic reasons and crop production is extensive in Estonia.
- Market measures such as intervention purchase were used to limit price declines during the recent dairy crisis, thus acting as a safety net. Milk quotas no longer restrict production choices.
- Policies provide support for a range of risk management tools but there has not been widespread uptake. First, the offer of insurance products on the market is limited to coverage of animal disease risk, second the annual budget for insurance schemes is rather small (EUR 10 000). The need for targeted risk management tools should be explored.
- RDP choices reflect the traditional government emphasis on investment support in food and agriculture since the beginning of the transition period, where it was most important to acquire up-to-date technology, leading to sustainable productivity growth. Investment support also facilitated farm consolidation and the emergence of technically efficient farms. It is also expected to attract a new generation of well-trained managers. Regarding infrastructure investment needs, upgrading on-farm drainage systems sustainably would help increase further productivity and profitability.
- Support for organic farming and market signals have contributed to the expansion of land farmed organically and organic production over the last decade.
- Estonia relies on a number of domestic policy instruments to encourage sustainable technologies and practices; preliminary evidence suggests positive impacts on agri-environmental indicators in recent years. For instance, environmental taxes are used to encourage the efficient use of environmental resources and pollution reduction in Estonia. Moreover, Pillar 1 Direct Payments are subject to cross-compliance requirements and greening. Under Estonia's RDP, Estonian farmers are also eligible to receive payments for voluntary agri-environmental commitments. Current support schemes are associated with several positive trends in environmental impacts (such as point source pollution, soil fertility) and the adoption of good agricultural practices.

Notes

1. At the EU level, CMO measures account for about 4% of all CAP funding for the period 2014-20 (OECD, 2017a).

2. Some EU member states chose to develop regional RDPs.

3. Most CAP 2014-20 measures started to be implemented in 2015.

4. Transfers from Pillar 1 to Pillar 2 vary over time as a percentage of the national ceiling: 0% in 2014/15, 6.1% in 2015/16, 14.3% in 2016/17, 15.0% in 2017/18, 14.9% in 2018/19 and 15% in 2019/20. They represent 10.8% of the National Ceiling on average over the period.

5. EU member states below 90% average Pillar 1 payments/ha may transfer up to 25% of their RDP envelope from Pillar 2 to Pillar 1, http://ec.europa.eu/agriculture/sites/agriculture/files/direct-support/direct-payments/docs/direct-paymenst-financial-mechanisms_en.pdf.

6. RT I, 22.04.2015, 30; RT I, 22.04.2016, 2

7. This last priority is also identified as LEADER (from the French Liaison Entre Actions de Développement de l'Économie Rurale).

8. Article 107 of the Treaty on the Functioning of the European Union (TFEU), defines State aid as "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods […], in so far as it affects trade between Member States" (OJ, 2012). For more information on state aid in the agricultural sector, see Box 2.1 in (OECD, 2017a).

9. However, as shown in Figure 6.2, the gross capital formation declined significantly in 2015, compared to 2014. This decline is related to the crisis in milk (Russian import ban, withdrawal of EU milk quotas) and pig (outbreak of ASF) sectors, as well as a decline in the total amount of direct payment rates in 2014 and 2015.

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