

# INTEGRATION OF ENVIRONMENTAL CONCERNS INTO AGRICULTURAL POLICY THROUGH SUPPORT FOR RURAL DEVELOPMENT IN BALTIC STATES

Eglė Stonkutė<sup>1</sup>, Gediminas Radzevičius<sup>2</sup>, Erika Ribašauskienė<sup>1</sup>

*Lithuanian Institute of Agrarian Economics<sup>1</sup>*

*Ministry of Agriculture of the Republic of Lithuania<sup>2</sup>*

The purpose of the paper is to reveal the integration models of environment concerns into Baltic States' agricultural policy. While Estonia, Latvia and Lithuania are still recognized as being countries in transition and with technological and structural gaps compared to old Member States, could be less willing to apply environment oriented measures versus investment support for farming. However, the provided analysis and comparisons of Rural Development Programmes for 2007-2013 in three countries revealed that have chosen different paths for the implementation of their strategic objectives integrating competitiveness and environmental concerns.

*Common Agricultural Policy (CAP), rural development policy, agricultural policy, environment, Estonia, Latvia, Lithuania.*

## Background

Current reform of the Common Agricultural Policy (CAP) marks an active integration of environmental concerns into European Union's (EU) agricultural policy. It occurs at the same time as EU farming experience continuing technological and structural (especially new Member States) changes, increased competition in commodity markets due to globalisation and an apparent increase in public concerns for non-commodity aspects of agricultural production such as animal welfare, environmental impacts and social disruption (SAC, 2006). As well as producing food and fibre, EU agriculture is also now increasingly being required to provide various environmental goods and services, and supplying rural amenities, like attractive landscapes (Parris, 2001).

Environmentally relevant trends in agriculture are driven at least as much by market, socioeconomic and technological factors as by the CAP policy framework. Environmental policy integration under the CAP can be achieved through measures in market policy and rural development policy. However, the achievement of positive environmental effects depends on a successful and targeted implementation of relevant measures in Member States (EEA, 2006).

The CAP is increasingly aimed at heading off the risks of environmental degradation, while encouraging farmers to continue to play a positive role in the maintenance of the countryside and the environment by targeted rural development measures and by contributing to securing farming profitability in the different EU regions (EC, 2003). However, the application of rural development measures while searching for the reconciliation between striving for competitiveness and sustainable resource management (environmental concerns) in new Member States, under economic and social transition, become an ambiguous policy objective.

According H. Grethe (2006), the CAP's rural development instruments being similar and applied across the whole EU, should be critically reviewed.

Except for transitional measures to increase the competitiveness of new Member States it is difficult to see any justification except for environmental measure. H. Grethe argues (2006) that current rural development funding could be shifted to a larger extent to new Member States with technological and structural gaps. This would also serve as an incentive for national policy makers in the new member states to concentrate money on measures which make their agricultural sectors independent from such support instead of distributing compensational rates.

These drivers, environmental concerns of the EU and structural and technological gape between new and old Member States, suggest that Baltic States as new member states of the EU are facing an uncertain and possibly uncomfortable adjustment for their agriculture as environmental concerns being integrated into agricultural policy put pressure on the development of competitiveness of their agricultural sectors still being in transition and restructuring period. While the EU set minimum requirement for Rural Development funding distribution among measures, new Member States set their own priorities and policies with regard to their agricultural sector's characteristics.

It could be drawn from mentioned above, that Baltic States as new Member States would be willing to prioritize competitiveness objective and investment measures instead of the maintenance of environment and focus their attention on measures supporting structural changes in agriculture. To reveal that Rural Development Programmes for 2007-2013 of three Baltic countries (Estonia, Latvia, Lithuania) are compared.

## **Methodology**

Each policy applied is designed to certain policy environment and addresses certain specific issues. From that perspective the current analysis starts with the comparison of agricultural sector in Baltic States. In order to analyze the environment integration into agricultural policies of Baltic States, a comparative analysis of Rural Development strategies and Programmes for 2007-2013 of three Baltic countries is carried out. The analysis focuses on similarities and differences in paths chosen by countries while implementing their agriculture and rural development objectives. Rural development measures chosen to implement strategic objectives in each country are compared with regard to their importance in the total funding.

## **Main findings**

Agriculture has comparatively the biggest importance in Lithuania among three Baltic countries. About 5% of gross value added in the country is created in that sector and more than 10% of country's workforce is engaged in that activity (see Table 1). A big difference between the share of gross value added and the share of workforce engaged in agriculture is also observed in Latvia. There 8.5% of country's population creates only 2.6% of its gross value added in the economy. Estonia is more balanced countries and its indicators reveals greater potential efficiency in ag-

riculture as difference between gross value added and employment rate is quiet close.

Table 1. Main indicators on agriculture in Baltic States in 2005

	Estonia	Latvia	Lithuania
Gross value added (2005) %	2.4	2.6	5.1
Employment (2005) %	3.9	8.5	13.2
Agricultural land mio ha	1.2	2.46	3.2
Utilized agricultural land (2005) mio ha	0.8	1.7	2.55
Less favoured areas %	50	75	43.5
Number of farms (2005)	27 700	133 000	237 000

Source: *Baltic States statistics*.

Lithuania is the biggest country in terms of agricultural land (3.2 mio ha) as well as in terms of utilized agricultural area (UAA) being declared each year and being subject for direct support and subject for the application of other agricultural policy measures. Latvia's farmers declare about 1.7 mio ha of UAA each year while total agricultural area comprises about 2.5 mio ha. UAA in Estonia amounts to more than 0.8 mio ha.

In Lithuania farming society accounts for nearly 200 000 (about 237 000 in 2005) in 2007 farmers while in Latvia there are only 100 000 farmers (133 000 in 2005) in 2006. In Estonia all UAA was managed by 27 700 farms in 2005.

Baltic States agricultural sectors structure is dominated by milk producers. In each country almost the third of their overall agricultural production is milk. At the same time in EU-2005 that specific product composes only for 4% of total production.

In all three countries rural population account for about 30% of total population, while in EU-25 that part of population accounts approximately a half of total population.

In Latvia about 75% of total UAA is classified as being less favoured, while in Estonia – 50% and in Lithuania – 43,5%. After a new methodology of less favoured areas will be applied (excluding social criteria) it is expected that less favoured area in Lithuania will account for 50% of whole UAA. Even if less favoured area will increase due to the application of the new methodology, the share of total UAA classified as being less favoured will be one of the lowest in Estonia and Lithuania among all EU member states (Council of the European Union, 2005). At the same time in EU-25 56.6% of total UAA was classified as being less favoured in 2005. In that respect Estonia and Lithuania are the countries in EU-25 with the share of less favoured area in total UAA being less than the average in EU-25. As for Lithuania, the biggest agricultural producers in EU-25, France and Germany, have bigger share of less favoured areas in their total UAA than Lithuania.

From general EU strategic perspective for 2007–2013, with common strategic documents in mind, it can be assumed that national strategies for rural development can be quite similar. However, the different aspect appears already when looking into overall strategic objectives.

First overall objective reflecting improvement of competitiveness of the agricultural sector has one substantial difference in Estonia's Strategy. Estonia intends to use EU funds to strengthen its agricultural sector in order it would be able to compete in under decreased market support and direct payments. That is in straight line with more market orientation demanded by international agricultural community. In Latvia's Strategy the competitiveness through innovations and learning is stressed out. The most "obscure" is Lithuania's first objective being as broad as it could be without any guidelines on how the competitiveness of the agricultural sector will be enhanced.

Only in Estonia's Strategy competitiveness of the private forestry is indicated as separate objective. Even if in Estonia (2.3 million ha; 52% of total area) and Lithuania (2.1 million ha; 32.5% of total area) forests accounts for a little bit more than 2 million ha and in Lithuania a half of these forests are private while in Estonia – 40%, the competitiveness of private forestry is not so much stressed out (in Latvia 2.9 million ha; 45% of total area; 50% of them are private).

All three countries are concerned about environment and landscape. However, Lithuania stresses the need to stop the decline of biodiversity through sustainable development of agriculture and forestry, in other words, while Estonia and Latvia speak about general attention and support for all activities aimed to preserve environment and natural landscape.

The improvement of quality of life and the diversification of economic activity in rural areas compose an important strategic objective in all three countries. While formulating that overall objective Latvia creates the link between the quality of life and local responsibility. The specific local infrastructure in Latvia will be developed in case the need to do so will be identified by local initiative groups. Estonia and Lithuania indicated the need to promote local initiatives as independent objective.

Strategic overall objectives are covered by Rural Development Programme's priorities and measures grouped into four (without technical assistance) Programme's axis. The improvement of the agricultural sectors' competitiveness has the biggest importance in Latvia as even 48% of total budget is aimed to implement measures developing competitiveness (see Table 2). Moreover, all other objectives in Latvia are covered by comparatively smaller share of total Programme's budget than in other two countries.

The objective to maintain the environment and natural landscape has quiet similar importance in Estonia as well as in Lithuania. About 36% of total Programme budget in these two countries is aimed for the implementation of that objective. At the same time in Latvia the financing of the second axis accounts only for 27% of the total budget. However, in monetary terms, that financing is quiet similar to that of Lithuania. That is interesting while it is known that the biggest share of less favoured areas is classified in Latvia.

Table 2. Total expenditure under Rural Development Programme by axis

AXIS	LATVIA		ESTONIA		LITHUANIA	
	Total Expenditure		Total Expenditure		Total Expenditure	
	in million EUR	%	in million EUR	%	in million EUR	%
I	648,961	47,7	347,610	37,6	930,197	41,2
II	365,040	26,8	334,460	36,2	824,590	36,5
III	259,584	19,1	118,919	12,9	275,614	12,2
LEADER	32,535	2,4	85,759	9,3	136,994	6,1
TA	55,526	4,1	38,115	4,1	92,979	4,1
<b>Total</b>	<b>1361,646</b>	<b>100,0</b>	<b>924,863</b>	<b>100,0</b>	<b>2260,374</b>	<b>100,0</b>

Source: Rural Development Programmes 2007-2013 for Estonia, Latvia and Lithuania.

The third axis aimed in general to improve quality of life in rural areas and diversify economic activities has the biggest importance in Latvia while in Estonia and Lithuania – about 12% of total expenditures under the Programmes.

The support and development of local initiatives have the biggest importance in Estonia where almost 10% of total budget is aimed to support that type activities in rural areas. At the same time Lithuania supports local initiatives by dedicating 6% of the total budget. The absence of specific objective related to the support for local initiatives in Latvia's Programme is reflected well by comparatively small share of overall budget assigned for Leader axis (4% of total expenditures).

It can be said that while Estonia and Lithuania in the current financial period move towards more the environment-landscape oriented policy and seeks for the balance between investment support and compensational support, Latvia remain competitiveness oriented and supports the development of economic activities in rural areas as such maintaining a big part of support being as investment support. However, the conclusions here can't be made as Programmes are still not compared by axis priorities (see Table 2) and measure by measure.

The comparative analysis of Rural Development Programmes by measures reveals that in Estonia comparing with Lithuania and Latvia the variety of measures in quiet modest. The modernization of agricultural holdings is stressed out in overall objectives, priorities and monetary terms in all three countries. However, in Lithuania that measure has comparatively lower importance (17.8% of total expenditures) than in other two countries (in Estonia – 20.5% of total expenditures, in Latvia – 23.4% of total expenditure).

Estonia has no measures designated to support yearly retirement while in Latvia and Lithuania this measure remains relevant for the new programming period. In Lithuania even 7.4% of total expenditure is aimed to support yearly retirement of farmers while in Latvia that share amounts to 3.5 % of total expenditure. However, in Latvia contrary to Estonia and Lithuania support for the restructurisation of semi-subsistent farming is comparatively high and amounts to almost 5% of total expenditure.

Agri-environmental measures are the biggest priority among II axis measures in all three countries with the biggest importance comparatively putted in Estonia (19% of total expenditure) while Lithuania and especially Latvia remain less linked to support agri-environmental objectives. Support for farmers in less favoured areas remain also one of the most important measures and in Latvia and Lithuania almost equals to that of agro-environmental measures. However, in Estonia that support is three times lesser (only 6% of total expenditure). It should be mentioned that Estonia differs also in a big attention given to animal welfare standards implementation while Latvia and Lithuania deals more with forestry development. If in Estonia 6.9% of total expenditure is aimed to implement measures aimed to enhance the forestry development, in Latvia that support accounts for 11.5% and in Lithuania – 13.1% of total expenditure.

Business creation and development as diversification of rural economy is important in Baltic States. However, the greater emphasis is given to that measure in Latvia (9.4% of total expenditure) and Estonia (7.7% of total expenditure) while Lithuania remain quiet modest in that respect (4.3% of total expenditure). In Estonia there is no support foreseen for rural tourism while Latvia and Lithuania intend to support such business type through rural development funds. Only Latvia foresees to implement measures aimed to develop basic services for the economy and rural population in rural areas and gives to that measure 6.8% of total its expenditure. There can be some highlines of the III axis identified: while Estonia stresses out business creation and villages renewal, Latvia focuses its efforts to support business creation and basic services for economy and rural population and Lithuania – on activities diversification into non-agricultural activities, business creation and development of rural tourism.

## **Conclusions**

1. Lithuania's agriculture seems to be the least efficient among Baltic States as discrepancies in its share of gross value added and the share of population engaged are highest. While more than 13% of Lithuania's workforce was engaged in agriculture in 2005, at the same time only 5% of its gross value added was generated by that sector. In comparison, in Latvia more than 8% of its workforce generated about 2.6% of country's gross value added in 2005 while in Estonia only nearly 4% of its workforce was devoted to agricultural activity creating 2.4% of overall country's gross values added.

2. The biggest country in terms of agricultural land and farming society is Lithuania. With agricultural land amounting to 3.2 million ha, out of which 2.55 million ha are eligible for direct payments, i. e. the area meeting good agricultural and environmental conditions, and about 200 000 farms in the country, Lithuania produces a half of Baltic States agricultural production. Latvia's and Estonia's farmers together manage almost the same utilized agricultural area as Lithuania's farmers; however, they are not so numerous (160 700 farmers in Estonia and Latvia cultivate 2.5 million ha).

3. While all three countries supports three common overall objectives as the expression of their rural development caps (improvement of the competitiveness of agriculture, maintaining landscape and biodiversity as well as diversification of rural economy), Estonia stresses the idea to develop its agricultural sector into competitive even with further decreasing support and open agricultural markets after 2013. Latvia at the same put some extra importance to the development of basic services in rural areas and skips somehow overall EU attention given to local initiatives (Leader method).

4. Latvia's priorities in rural development policy are different from those of Estonia and Lithuania. The rural development measures in Latvia aimed to support investments into agriculture and other economic activities into rural areas as well as investments into basic services in rural areas. Contrary to Latvia in Estonia and Lithuania emphasis is given to compensatory payments of all kinds and policy is more environmentally oriented. Moreover, Lithuania's policy is more fragmented than in Estonia as there are foreseen comparatively a bigger amount of various measures with comparatively lower importance.

5. Summing up the said above, Latvia and Lithuania with comparatively low gross value added created in agriculture, big share of workforce engaged in agriculture and disadvantageous structure of farms have chosen different ways to cope with their rural development concerns. While Latvia approaches aims to develop the competitiveness of agriculture and to improve the quality of life in rural areas trough investing into the "hardware" of the sector and rural infrastructure, Lithuania and Estonia put forward compensation based environmentally oriented rural development policy.

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## **APLINKOSAUGOS INTEGRAVIMAS Į BALTIJOS ŠALIŲ ŽEMĖS ŪKIO POLITIKĄ PASINAUDOJANT PARAMA KAIMO PLĖTRAI**

**Eglė Stonkutė<sup>1</sup>, Gediminas Radzevičius<sup>2</sup>, Erika Ribašauskienė<sup>1</sup>**

*Lietuvos agrarinės ekonomikos institutas<sup>1</sup>*

*LR Žemės ūkio ministerija<sup>2</sup>*

### **Santrauka**

Europos Sąjungos (ES) Bendroji žemės ūkio politikoje (BŽŪP), patyrusioje 2003 metais reformą, numatomos priemonės skirtos aplinkos apsaugos problemoms spręsti ir natūralių gamtos išteklių subalansuoto naudojimo skatinimui. Jei senosiose šalyse narėse tokia didelis dėmesys aplinkos apsaugai yra jau palyginti nenaujas reiškinys, tai naujosiose šalyse narėse dėmesys aplinkos apsaugai išaugo prasidėjus naujam ES finansiniam periodui. Žinant, tai, kad naujose šalyse narėse, tame tarpe ir trijose Baltijos šalyse (Estija, Latvija, Lietuva), žemės ūkio sektorius intensyviai restruktūrizuojasi, galima būti manyti, kad kompensacinio pobūdžio aplinkos apsaugos priemonės turėtų būti santykinai mažiau paklausios nei investicinės paramos priemonės, skatinančios ūkių modernizavimą ir ekonominės veiklos efektyvumą. Siekiant iširti aplinkos apsaugos politikos integravimo modelius žemės ūkio politikoje, lyginti pagrindiniai Estijos, Latvijos ir Lietuvos žemės ūkio sektorių struktūriniai rodikliai, lyginti trijų šalių strateginiai prioritetai bei 2007–2013 metų Kaimo plėtros planai.

Tyrimo rezultatai rodo, kad, jei Latvija ir Lietuva yra panašesnės savo žemės ūkio sektoriaus struktūriniai rodikliais, tai jų kaimo plėtros politikos skiriasi gana ženkliai. Jei Latvijoje žemės ūkio konkurencingumo siekiama taikant investicines priemones ir santykinai mažai skiriant aplinkos apsaugos tikslas įgyvendinti, tai Lietuvoje ir Estijoje aplinkos apsaugos priemonių svarba prilygsta investicinei paramai. Be to, Estijoje strateginiai tikslai įgyvendinami taikant santykinai mažai priemonių, t. y. koncentruojant finansinius išteklius, o Lietuvoje taikoma daug priemonių, kurių finansavimas yra santykinai kuklus. Galima sakyti, kad Estijos ir Lietuvos žemės ūkio politikoje yra pasiekta gilesnė aplinkos apsaugos politikos integracija.