

**The Role of State in Market Regulation**  
***The Case of Estonia***  
***Governments Agricultural and Rural Policies During the Regained***  
***Independence***

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1. *The role of state* in market economy is to create the necessary environment and framework conditions to allow the market to perform. The most important preconditions are:
  - private ownership of land and other assets
  - transparent rules of transfer of ownership
  - rules for competition and consumer protection
  - rules for state support
2. *The transition* from command economy to market economy can vary by speed. In Estonian case the quick option has been chosen. In some aspects this could be interpreted also as shock option. It is hard for the people, but introduces new conditions faster.
3. For *privatization* the concept of restitution has been applied widely. It means, that land has been returned to the previous owners who owned the land in 1939. For other assets people were entitled to get compensation.
4. *Land reform* was mainly based on restitution and was therefore very slow. The circle of the entitled heirs of the previous owners was set relatively wide. It resulted in numerous in-family debates about the distribution of the respective shares. As rules were changed several times the process lasted very long. Another aspect was the low level of state support to agriculture: people realized that it was very difficult to gain anything from this activity. In the beginning of 2000 only 53% of the total land area had been privatized (910 000 ha restituted, 370 000 ha privatized). From agricultural land the privatized share is even smaller: only 48 %.
5. *The privatization of other assets besides land* was based on compensation for previous owners and certain vouchers for the employees of agricultural enterprises during the soviet period. This process was relatively quick and was mainly completed already by 1998. In some cases this process caused long lasting economic difficulties for the enterprises that had to pay compensations to previous owners on cost of their assets.
6. *The privatization of processing industries* was based on an open tender. Only the co-operatives of raw materials producers have got certain preferences in the tender, but in case of the best and biggest enterprises the majority of the shares were sold to core-investors as co-operatives were short of means and wouldn't have been able to do the necessary new investments. This process was also fast and was completed by 1996.
7. For the *transfer of ownership*, clear rules of bankruptcy and administrative procedures are necessary. The law on bankruptcy was passed in 1993 and so far hundreds of enterprises had been bankrupted.
8. As a result of privatization in principle two *types of enterprises* emerged: family farms (51 thousand by 01.01.2000 with average size 21 ha) and bigger enterprises with shared ownership and several employees (705 by 01.01.2000 with average size of over 500 ha??). The majority of family farms is not very active in

agricultural production, only 12 thousand applied for support in 1999. In the enterprises of shared ownership concentration of ownership is occurring. After privatization in this type of enterprises co-operatives with more than 100 owners prevailed. In most of the enterprises the number of owners has decreased to less than 10 or even 5 by now. Several enterprises are owned by processing enterprises due to vertical integration.

9. Structural adjustment is important for both producing and processing enterprises. So far the government has shown little initiative to influence production. Financial support and support in other forms has been equally accessible to all types of farms. Certain conditions are maybe slightly favoring bigger enterprises. For some support measures a minimum size of the farm for defined (10 ha, 5 cows etc.). It was also required, that farms and animals were properly registered. Only some tax exemptions favored smaller farms. Even if the number of family farms is big most of the marketed production is produced in the bigger units. Two thirds of the total number of cows (data from 1998) belong in the herds with 100 or more cows, the share of this group is even bigger in the marketed milk - more than 75%. On the other hand half of the total number of producers currently has 10 ha arable land and two cows. As a result of the government modest intervention in the process of structural development the general trend in structural adjustment is concentration of production to the technologically and economically optimal size of 200 ha for crop production and 100 cows for milk production.
10. Structural development in the processing sector has been one of the bottlenecks in development of profitability. Most of the processing enterprises are in need of new investments. At the same time the number of processing units is by far bigger than necessary. For instance in the milk processing sector there are still about 40 enterprises. The concentration coefficient C-4 was 58% in 1998 (91% in meat sector, 53% in fish-processing). On the background of the recent concentration in the neighboring Scandinavian countries 2 or 3 enterprises would be enough for the amount of milk. As the government has not intervened in this process, the concentration is occurring through market competition. This process takes time and is costly as many enterprises do unnecessary investments. The government has set certain hygiene standards to be met, but the enterprises still have a few years to overcome this burden.