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THE IMPACT OF LITHUANIA'S INTEGRATION INTO THE EU ON THE DEVELOPMENT OF NON-FOOD PLANTS AND POSSIBILITIES TO GROW THEM IN THE SET-ASIDE AREA

Summary of the final report

The study was commissioned by the European Committee under the Government of the Republic of Lithuania in the framework of the Programme on co-ordination of the Negotiations with the EU, Lithuania's participation in the activities of the EU institutions, and socio-economic impact assessment of Lithuania's integration into the EU. The study was co-financed by the Local pre-accession assistance programme of the Danish Ministry of Foreign Affairs

Objectives of the study were to analyse general impact of the set-aside (mandatory and voluntary) requirement under the EU Common Agricultural Policy on agricultural practices in Lithuania and to assess opportunities for Lithuanian producers provided by EU regulation 2461/1999.

The study covers the following issues:

- Impact of the set-aside (mandatory and voluntary) requirement;
- The most promising plants and their products for non-food usage;
- Markets for such Lithuania produced plants;
- Possibilities for additional income for farmers from such plants and products;
- Recommendations for implementation of EU regulation 2461/1999 in Lithuania for policy makers and farmers.

Results

Comprehensive set-aside scheme was introduced with the CAP reform in 1992 with the aim of controlling grain overproduction of in EU. Environmental improvement was the second aim of this scheme. The obligatory set-aside percentage was set up at 10% for the period of 2000-2006, however, the European Commission has adopted a proposal to reduce the compulsory set-aside rate from 10% to 5% for the marketing year 2004/05. Small farmers have no obligation to set-aside land, but they may do so on voluntary basis. The maximum limit of voluntary set-aside land is defined by the member states themselves.

Farmers can grow crops for non-food purposes on set-aside land and receive direct payments. This possibility was an important factor for expanding areas of industrial crops in EU. "Mid-Term Review Proposals" proposed abolition of the non-food regime on set-aside land. However, new Council Regulation (EC) 1782/2003 of 29 September 2003 provides farmers, using set-aside land for the provision of materials

for the manufacture within Community of products not primarily intended for human or animal consumption, with exemption from set-aside obligation.

Grain sector is one of the major agricultural sectors in Lithuania, with great economic and social importance. In 2002, grain production accounted for 23,9 percent of the total value of agricultural production. Incomes from grain accounted for 17 percent of farmer incomes from marketable agricultural production.

Compulsory set-aside requirement can affect 4–4,5 thousand of farmers, 750 thousand hectares of arable crops. It can have a marked negative influence on grain production in Lithuania. Estimations show that grain production can be reduced by 130–250 thousand tones, farmers can lose 50–100 million Litass, which equals to 600-1200 jobs.

Lithuanian negotiations with the EU resulted in 1146 thousand ha base area for compensatory payment for arable crops, which includes set-aside. The decision has been made to introduce Single area payment scheme in Lithuania.

In order to introduce the non-food scheme in Lithuania some national legal acts must be harmonised. Implementation of non-food scheme will require some additional efforts and competence, especially on local level of administration and advisory services.

Traditionally, Lithuanian farmers leave black fallow in order to exterminate weeds or grow plants for green manure in order to maintain soil fertility. This traditional fallow management practice is only partly compatible with the basic requirements for set-aside land. Farmers need more information and training on set-aside management.

Requirement to set-aside land will affect:

- Large producers of grain, by reducing area of main arable crops;
- Some negative effect on land consolidation processes is possible;
- State budget will require some additional costs in order to prepare institutions for effective control of set-aside land;
- Taking into account increasing yield level in Lithuania, allocation of part of land for set-aside, has no significant negative impact on the country's grain supply-demand balance.

Taking notice of current and short term grain and oilseed rape prices forecast, it can be expected, that interest of farmers to produce non-food crops on a set-aside land will be high. However, strong link of industrial crop production to the set-aside rate can create a problem for the development of this sector.

In Lithuania there are processing capacities for biodiesel production from oilseed rape, ethanol production from grain and other carbohydrate crops. Limited quantities of specialty crops can be processed into etheric oils. Several herbs can be grown on set-aside land, but interest probably will be not as high as in the case of oilseed rape.

The promotion of industrial crops, resulting from introduction of non-food regime on set-aside land, can produce in Lithuania some non-market benefits, such as reducing harmful emission from fossil fuels.

Lithuania, as a EU member state, will be required to take measures necessary for the protection of environment, by linking direct payments to respecting certain environmental and Good Farming Practice requirements. Such requirements will apply also for non-food crops grown on set-aside land.

General and site-specific requirements for set-aside land in Lithuania will depend on designation Natura 2000 sites and Implementation plan of “Nitrate” Directive 91/676 (EEC) of 12 December 1991. Higher connection of set-aside requirements with “Nitrate” Directive than with Natura 2000 can be foreseen, taking into account geographical distribution of larger farms, which will be subjected to compulsory set-aside requirement. Negative effect of non-food plant growing can be expected in those farms where the oilseed rape will have very high share in crop rotation.

Requirement to set-aside land will affect:

- large producers of grain – by reducing area of main arable crops;
- state budget expenditure, because additional costs will be required for administration of this measure;
- income of growers, rural employment.

In Lithuania, if obligatory set-aside percentage will be set up at 5 instead of 10 percent, exports of wheat and barley grain must to increase, as domestic market cannot absorb all the grain, notwithstanding tendency of price reduction. In the case of higher alteration of triticale price, domestic consumption of it will increase and even will affect barley consumption (relatively reducing it). Lower fodder grain price will increase (slightly however) their share in fodder rations.

Proposals for implementation of Commission Regulation (EC) No 2461/1999 of 19 November 1999 in Lithuania

Application of rules provided by the Regulation (EC) No 2461/1999 regarding the use of the set aside land for production of raw materials in Lithuania can reduce efficiency of set-aside as a method of grain market supply control, to increase costs of administration. However, it will have a positive effect on growers income, on rural employment, and will promote realisation of Lithuania’s international obligations to Kyoto agreement on reduction of emissions. For these reasons it is expedient to introduce in Lithuania the rules provided by the Regulation (EC) No 2461/1999 simultaneously with the support system for producers of certain arable crops according Council Regulation (EC) No 1251/1999 of 17 May 1999. In order to successfully implement the rules provided by the Regulation 2461/99, the following measures must be taken:

- To transpose into Lithuanian legal framework provisions of the Regulation 2461/1999, regarding the use of land set aside for the production of raw materials;
- To permit farmers to grow hemp varieties with tetrahydrocannabinol content not exceeding than 0.2 percent, for fibre and oil. With this purpose it is necessary to strengthen chemical laboratories, organise training of staff of institutions in charge of control;

- To permit farmers to use rape harvested on set-aside fields for own production and use as bio fuel in there farms;
- To prepare methods for grain and rape yield prediction, which can be used for establishing representative yields;
- To pay national aid in order to compensate part of the costs associated with establishing of multi annual crops intended for bio-mass production on set-aside land (Council Regulation 1782/2003).
- To organise education and training of farmers regarding growing of non-food crops and management of set-aside land. It is expedient to separate channels of information: growing of plants which needs contract with collector or processor, and plants, which can be grown without contract,
- To prepare a comprehensive information booklet about plants, which can be successfully grown in Lithuania and can be used for production of products other than for human consumption;
- To import know-how of production of non-food crops on set-aside land from current EU member states through pilot project;
- To introduce the subject on non-food crops into the training programs under the SAPARD program.