

Slovak agriculture and the integration into the EU

Slovenské poľnohospodárstvo a integrácia do EÚ

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Abstract: The paper is briefly outlining the expected changes in the economic and financial pre-conditions for Slovak farming during the period after the country's accession to the EU. The starting point of authors reasoning is the current piece of knowledge, saying that the economic performance of individual farms is widely differentiated and the ability of individual farms to meet the future challenges and to use the opportunities is very unevenly distributed among them. Also the competitiveness of a particular agricultural commodity varies. Despite of expectations concerning the price development after accession, not all commodities will be competitive on the single market. The economic situation of farms will considerably benefit from direct payments. Nevertheless, the fact that the Slovak government opted for the Single Area payment Scheme will have some adverse effects on possible gains from payments in productive regions and in farms with high output performance. In order to mitigate these redistribution effects the author is proposing to implement a different scheme of allocation of national top-up is to direct payments. In the final part of his paper the author gives a comprehensive review on payments aimed to promote rural development and payments from the Guidance section of the EAGGF targeted at enhancement of farm re-structuring.

Keywords: direct payments, single area payment, prices, rural development, mountain areas, less favoured areas, structural funds

Abstrakt: Príspevok načrtáva niektoré očakávané zmeny ekonomických a finančných podmienok hospodárenia v slovenskom poľnohospodárstve po vstupe do EÚ. Autor vychádza vo svojej argumentácii zo zistení týkajúcich sa hlbokjej diferenciácie úrovne hospodárenia jednotlivých poľnohospodárskych podnikov a tiež nerovnomerného rozdelenia ich schopnosti čeliť výzvam a využiť príležitosti budúceho spoločného trhu. Aj konkurencieschopnosť jednotlivých komodít je rôzna. Napriek očakávanému cenovému vývoju, na jednotnom trhu nebudú všetky poľnohospodárske komodity kompetitívne. Ekonomickú situáciu podnikov podstatne vylepšia priame platby. Avšak slovenská vláda sa rozhodla pre uplatnenie jednotnej platby na plochu, čo negatívne ovplyvní prínosy priamych platieb pre intenzívne oblasti a vysoko produkčné podniky. Na zmierňovanie týchto redistribučných efektov sa navrhuje uplatnenie odlišného systému vyplácania národných doplnkových platieb. V záverečnej časti príspevku sú podrobne popísané finančné zdroje alokované na podporu rozvoja vidieka a platieb z usmerňovacej sekcie EAGGF na posilnenie štrukturálnych zmien v poľnohospodárstve.

Kľúčové slová: priame platby, jednotná platba na plochu, ceny, rozvoj vidieka, horské oblasti, znevýhodnené oblasti, štrukturálne fondy

INTRODUCTION

The business sector in Slovak agriculture has a point in asking as to how are the financial conditions of farming going to change once Slovakia integrates into the European Union and what exactly will be the impact of this act to the overall economics of their business.

The analysis completed by our Institute has shown major differences in performance of individual enterprises. Therefore, one can be more or less successful in anticipating the change in conditions of the economic environment determined by the price subsidies, subsidies and other institutional factors, however, the impact on in-

dividual enterprises will vary considerably. The different results will be induced by the ability of corporate management to adapt themselves to the potential and conditions provided by the implementation of the Common Agricultural Policy and by the system of structural support.

The result data in 2001 show that the best operating enterprises (one fifth of the total) achieved profit per hectare which is almost 9 times as high as the average of all enterprises and about 20 times as high as the group of enterprises which achieved the worst results, with the operation subsidies being roughly the same for all enterprises. The cost profitability ranged from -8.9% (average for enterprises with the worst performance) to +5.4%

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(240 best performing enterprises), with the total capital profitability ranging from -5.6% to +4.2%.

One can tell for sure that in the competition with manufacturers of other member states, the enterprises with average and better than average efficiency of production factors will be able to exploit the competitive advantage of the economy of scale and capital concentration.

CHANGES IN ECONOMIC CONDITIONS

The development of prices will be an important factor for the business environment when Slovakia becomes an

EU member state. Compared to the year before, we now adopt a more careful approach to the estimate of the impact of changes after integration into the EU. The process of price approximation has been taking place already in the pre-accession period and one also needs to take the demand factor into account. Since we are likely to experience just a moderate growth in the population income, the purchasing power is to become a significant restriction on the growth of prices. The purchasing power was substantially undermined by the current measures adopted by the government in the area of indirect taxes and deregulation of energy prices. The growth of farm prices by the means of market orders is only certain for

Table 1. Outlook for prices of agricultural products

	Unit	I. -VI. 2003	2003*	2004*	2005*	2006*
Wheat (all types)	SKK/t	3 943	4 236	4 575	4 547	4 479
Rye	SKK/t	4 263	4 497	4 168	4 143	4 081
Malting barley	SKK/t	5 199	5 528	5 582	5 548	5 464
Feeding barley	SKK/t	3 793	4 098	4 053	4 028	3 968
Oats	SKK/t	3 996	4 333	3 953	3 893	3 835
Grain corn	SKK/t	3 762	4 419	4 269	4 242	4 179
Leguminous vegetables	SKK/t	6 202	6 254	8 424	8 227	8 103
Rape	SKK/t	8 050	7 947	8 227	7 893	8 087
Sunflower seed	SKK/t	9 661	9 532	9 195	8 821	9 038
Flax	SKK/t		5 130	6 565	6 427	6 330
Sugar beet	SKK/t	996	1 040	1 757	1 730	1 704
Consumer potatoes	SKK/t	6 268	5 415	2 772	2 759	2 775
Industry potatoes (for starch)	SKK/t	2 228	2 547	1 257	1 238	1 220
Hops	SKK/t		123 881	180 472	178 580	178 710
Must grapes	SKK/t	12 828	13 050	18 527	18 487	19 147
Fruits	SKK/t	12 303 ¹	11 258	12 435	12 628	12 938
Vegetables	SKK/t		8 692	8 109	8 626	9 284
Bovine animals, total	SKK/kg	67.03	67.00	87.44	88.22	85.50
Bulls for slaughter, U class	SKK/kg	81.94	81.90	106.88	107.84	104.51
Cow milk	SKK/l	9.42	9.11	11.54	10.87	10.18
Sheep, goats	SKK/kg	47.40	41.84	66.29	66.29	65.29
Pigs for slaughter, U class	SKK/kg	49.80	49.79	55.13	54.31	53.49
Poultry	SKK/kg	28.21	29.56	26.51	26.30	26.17
Eggs	SKK/pc	2.10	2.25	2.60	2.58	2.56

Source: RIAFE, Bratislava

Price indices for agricultural products in the Slovak Republic, Slovak Statistical Office

*forecast, ¹picked apples

Table 2. Comparison of NPC indicator values for selected products in 2002

	Wheat	Corn	Other cereals	Oil seed crops	Milk	Beef and veal	Pork	Poultry	Eggs
EU	1.02	0.78	1.03	1.0	1.85	2.94	1.31	1.56	1.33
Slovak Republic	0.91	0.77	0.85	0.75	1.49	0.93	1.50	1.70	1.24

Source: OECD, Paris

those commodities that are subject to the most stringent controls, such as milk and sugar. We are likely to experience moderate growth in the prices of cereals (except rye) and the price of beef (especially meat of bulls for slaughter) should record a considerable increase (Table 1).

Unless a considerable increase takes place in the prices of production factors (although that is unlikely since the prices of labour and land should only experience moderate increase), our producers should not experience problems regarding price competitiveness. This conclusion could be drawn from the "Nominal Protection Coefficient" (NPC) used by OECD to express the extent of deviation of farmers' prices from global prices in individual countries. If NPC value equals to 1, it means that the price equals the global price. Naturally, the higher the local price than the global price, the less competitive it is. The data in the Table 2 suggest a wide gap between NPC values for most of the commodities in the European Union and in Slovakia. As a result, this will actually mirror in the growth of profit for our producers once Slovakia joins the EU.

Table 2 also shows the products, which are less likely to compete in the EU market, or are likely to sell at a loss, unless the production gets more effective (pigs, poultry).

Direct payments

The Slovak government has accepted a model of direct payments offered in the Treaty of Accession, in the form of "Single Area Payment Scheme".

Next year, the farmers in Slovakia are about to receive almost SKK 3.394 billion under the Single Area Payment Scheme offered by the EU and the national top-up payment, although initially only up to 50% of the average level in the EU-15 (according to the government proposal of the state budget for 2004).

Single Area Payment Scheme – what are the benefits

First and foremost, with the introduction of the Single Area Payment Scheme (SAPS), it is not necessary to

leave aside 10% of the arable land in the basic acreage. This fact for itself will enable an increase in the level of gross agricultural production and higher earnings on plant production for enterprises, once the scheme is applied. The said increase took place when the scheme was applied in the EU-15.

Another important benefit is the simpler administration and SAPS control. This is an important factor for Slovakia because as a result of a certain delay in introduction of the Integrated Administrative and Control System, the full launch of the system before the actual date of the EU integration could be jeopardized.

Furthermore, the application of SAPS is supported by a higher probability that the subsidy funds will be spent. The funds were granted under the negotiated premium rights and quotas. This would not have happened, were the payments linked to actual production.

Drawbacks of Single Area Payment Scheme

In comparison with the complete scheme of direct payments, the application of Single Area Payment Scheme causes a significant regional redistribution of public funds, and, at the same time, it may stimulate the efforts to reduce the land production, especially in marginal areas with low earnings on agricultural activities.

On the other hand, the scheme deprives regions and entrepreneurs of public transfer funds. This happens mainly in those areas with high extent of use of agricultural production resources, where the production input is relatively high, thus providing for effective and competitive production.

In the case of Slovakia, the regional redistribution effects (these are applicable to the same extent also to the enterprises with different production intensity) of Single Area Payment Scheme may be illustrated in Table 3.

In order to alleviate the redistribution effects of Single Area Payment Scheme, we therefore suggest that the support be paid in several components, with each component using a different calculation basis.

In 2004, 25% of the direct EU payments would be paid per 1 hectare of land in good agricultural condition. The

Table 3. Comparison of the volume of payments and per hectare rates, and their regional differentiation in 2004

Option	Regions								Slovak Republic total
	BA	TA	TN	NI	ZA	BB	PV	KE	
Full IACS in SKK million	350	1 285	411	2 083	268	805	654	1 063	6 919
Full IACS in SKK million/hectare	4 170	4 638	2 534	4 898	1 185	2 120	1 870	3 447	3 127
Single payment in SKK million	300	991	580	1 522	808	1 359	1 251	1 104	7 915
Single payment in SKK million/hectare	3 375	3 375	3 375	3 375	3 375	3 375	3 375	3 375	3 375

Source: RIAFE, Bratislava

Note: On condition that the national top-up payment will amount to maximum 55%. Payments per hectare, converted to the area shown by the Structural Census in 2001 (2 212 000 hectares of a.l.)

Regions: BA = Bratislavský, TA = Trnavský, TN = Trenčianský, NI = Nitrianský, ZA = Žilinský, BB = Banskobystrický, PV = Prešovský, KE = Košický

Table 4. Total national top-up payment for plant and animal production in 2004 calculated per hectare of agricultural land (at 30% of top-up payment)

	Regions								Slovak Republic
	BA	TA	TN	NI	ZA	BB	PV	KE	
Option 1	2 699.5	3 093.3	1 841.3	3 126.5	1 053.9	1 491.6	1 332.4	2 212.1	2 108.5
Option 2	2 695.7	3 090.6	1 844.1	3 120.7	1 061.0	1 494.2	1 335.7	2 210.0	2 108.5
Option 3	2 721.5	3 127.6	1 885.1	3 144.7	1 107.9	1 528.2	1 370.8	2 235.5	2 141.5

Source: RIAFE, Bratislava

total acreage of such land as shown by the current verification of lands in land register (ISALP) amounts to 1 901 819 hectares. This suggests the nominal rate per hectare of SKK 1 785.

The national top-up payment would be paid in two instalments: a) as a contribution to crops grown on arable land with basic acreage of 1 003 000 hectares, increased by the acreage used for growing lentils and hops; and b) as a contribution to support keeping of bovine animals and sheep, for a certain number of livestock units.

The basic options are complemented by a number of calculated sub-variants. In plain figures, with this distribution of payments, one hectare of arable land with adjusted basic acreage in 2004 would account for SKK 3 180–3 190, according to the selected sub-variant. The payment rate per livestock unit (bovine animals/sheep) would amount to SKK 1 300–1 400, depending on the selected sub-variant.

In regional terms, the total amount of support would result in better reflection of the differences in production use of land and thereby the amount of production input of individual business entities. With the application of the proposed model, the regional distribution of national support per hectare of agricultural land would look as seen in Table 4.

RURAL DEVELOPMENT

The mountainous and other less favoured regions occupy large areas in the Slovak Republic. At present, these areas are supported by the national supportive policy, which allocated EUR 77.5 million in 2001 as a part of the compensation of the less favoured conditions. Almost 30% (29%) of agricultural land – 700 000 hectares – is situated in mountainous areas, defined according to the EU criteria. This accounts for 14.5% of the total state territory. At present, the total acreage of less favoured areas in Slovakia amounts to 1 700 000 hectares, which makes up for over two thirds of agricultural land. This accounts for 33.6% of the total state territory. Of the total number of workers in agriculture, two thirds (63.3%) work in less favoured areas.

As a result, a substantial portion of production is generated in the mountainous and other less favoured areas. Also, agriculture in these areas has been an important

factor, which maintains the population and community life in rural areas.

Slovakia is largely a rural country. Rural regions make up for over 85% of the entire state territory. Rural population accounts for 43.5% of the total. Most of the rural regions are located in less favoured areas. At the same time, these areas are affected by the decline in industry and other businesses, resulting in what could be described as follows:

- The employment in agriculture in less favoured regions is 2 to 3 times higher than the Slovak average. (Slovak average – 6.3%, the values of typical districts classified as LFA: Sobrance – 18.3%, Kežmarok – 13.9%, Levoča – 14.9%, Medzilaborce – 11.9%, Stará Ľubovňa – 11.4%);
- Unemployment rate in less favoured areas. As of December 2000, the average rate of unemployment in the Slovak Republic stood at 17.9%, although in rural districts the rate reached above 20% and in 3 rural districts it exceeded 30%. The average rate of unemployment in LFA regions stood at 27.6%.
- Typical feature of less favoured regions is out-migration of population. Extreme values of out-migration were recorded in 2001 in the districts of Gelnica – 2.79, and Detva – 2.39 per 1 000 inhabitants. This is a persisting occurrence, which causes reduction of population in rural communities. The out-migration and natural decline affected mainly mountainous areas;
- Population density is substantially less than the Slovak average. While the average population density population stands at 110 inhabitants per 100 sq km, there are only 72 inhabitants per 100 sq km in mountainous areas and 93 inhabitants in less favoured areas.
- Geographical structure of Slovakia is the wealth of natural environment, which must be protected. The protected land areas cover 155 000 hectares, national parks 29 000 hectares and protective zones of national parks cover 116 000 hectares. The protected water zones cover 237 000 hectares, and protected zones of water reservoirs occupy 295 000 hectares.
- Protected land areas are an important home to rare plant species, and protected habitats occupy 11 000 hectares.

All of the above underlines the fact that upon integration of Slovakia into the European Union, important role will be played by support of LFAs and agro-environmental support, as well as additional measures of structural

policy aimed at diversification of economic activities in rural areas and support to employment.

The current Plan of Rural Development (which is likely to change, because it did not account for transfer of 20% of rural development funds into the direct payments) relies on payments for less favoured areas worth SKK 3.375 billion, support to agro-environmental measures totalling SKK 1.117 billion and other measures with lesser amounts. The grand total represents about SKK 11.8 billion, which is much more than in the past years. The withdrawal of agro-environmental support (SKK 1.1 billion), which makes part of the total amount, appears as a risky business, since there is little experience in administration of such funds, and the payment of the amount is associated with a number of conditions.

Following the government decision on reallocation of the EU Structural Funds in favour of basic infrastructure construction, the portion allocated to the Sector Operational Plan of Agriculture and Rural Development dropped down to 17% of the total volume of structural allocations for Slovakia. In real figures, this means that in the period from 2004 to 2006, the EU Structural Funds should allocate EUR 162 million for measures of this program through the Sector Operational Programme for Agriculture and Rural Development. This amount is by EUR 90 million less than originally expected. To that end, agriculture and food industry could use about SKK 1.8 billion (in current prices) in 2004 for investment projects including co-financing by the national budget, as a part of SOP measures: Investments into agricultural businesses (SKK 1.1 billion); Diversification of agricultural activities (SKK 0.178 billion); Improvement in processing and marketing (SKK 0.527 billion). In real terms, the support to investments in agriculture and food industry would remain on the past years' level. The key difference is that the applicants for support will have to pre-finance their projects and the support scheduled for 2004 will be extended for the additional 2 years. The above funds will further be complemented by the resources of horizontal measure of the Rural Development Plan "Meeting the Community Standards" aimed at completion of funding the investment into agricultural enterprises. Such investments will be aimed at reconstructions and modifications striving for compliance with the environmental, sanitary and veterinary standards of the EU. This measure is

100% funded by the EAGGF. In 2004, it will account for SKK 1.384 in current prices.

The economic rationale suggests that the supportive resources allocated from the Structural Funds to the support of measures SOP Investments into Agricultural Businesses and Improvement of Processing and Marketing of Enterprises, will be mainly used by business entities which are able to cover 50% of project funding by their own resources or by loans, that is, economically viable enterprises.

CONCLUSION

In order to complete the picture of next year's agricultural support policy and the implementation of the EU Directives, the respective state administration needs to make further decisions. These include the decision on method of the national top-up payment, which adds up to direct payments. So far, the financial frameworks are determined by the proposed state budget prepared by the government and to be negotiated by the parliament. The anticipated funds scheduled for top-up payments represent up to 50% of the average in the EU-15.

Overall, we can state that the financial situation of businesses in agriculture will improve after integration of Slovakia into the EU.

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