

The support of farming and revenues of enterprises located in less-favoured areas in Slovakia

Podpora hospodárenia a dôchodkovosť podnikov v horších prírodných podmienkach Slovenska

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Abstract: The complex solution of farming in worse natural conditions and exploitation of land fund result from the successive transformation of agricultural policy and the preparation of agrarian sector for the accession of Slovakia into the European Union. The character of this policy will have the immediate impact on economy mainly of enterprises farming in less-favoured areas (LFA). In the study, we present the actual data about the allocation of agricultural land and agricultural farms into the LFA using the database of information system on land and the soil quality database which is managed by the Research Institute of Agricultural and Food Economics.

Key words: less-favoured areas, land price, land area, support of farming

Abstrakt: Komplexné riešenia podpory hospodárenia v horších prírodných podmienkach a optimálneho využívania pôdneho fondu vychádzajú z postupnej transformácie poľnohospodárskej politiky a prípravy agrárneho sektora na vstup Slovenska do európskej únie. Charakter tejto politiky bude mať bezprostredný vplyv na ekonomiku hospodárenia najmä podnikov v horších prírodných podmienkach. V príspevku sú prezentované aktuálne údaje o zaradení poľnohospodárskej pôdy a poľnohospodárskych podnikov do horších prírodných podmienok s využitím údajovej základne informačného systému o pôde a bonitačnej banky dát, ktorá je v správe Výskumného ústavu ekonomiky poľnohospodárstva a potravinárstva.

Kľúčové slová: menej priaznivé oblasti, cena pôdy, výmera pôdy, podpora hospodárenia

INTRODUCTION

At present, there are many arguments heard and presented by the supporters of the current amount and even further increase in agricultural subsidies and by their opponents, who insist that, on the contrary, the subsidies and their use in agrarian sector must be reduced. Also, an ongoing and intense discussion is now taking place on the elimination of agrarian surplus, on the issues of continuing disintegration and transformation of agricultural enterprises, and the current need for restructuring of their animal and plant production, especially under marginal and sub-marginal conditions. In addition, the environmental and economic issues of grassing certain parts of arable land are now being discussed, as well as the transfer of certain portion of agricultural land (slopes, eroded, contaminated or otherwise devastated land) back to the Forest Fund, or, in some cases, transfer back to aquaculture. These discussions and arguments are often accompanied by considerations on whether or not it is economically viable to leave fallow certain parts of agricultural land. Such discussion result in comparing the achieved natural revenues for field crops, number of herds and efficiency of livestock, production costs and efficiency for individual agricultural products; and also in comparing the production potential for the agricultur-

al land fund, both in economic and administration terms, and on the national or international scale.

METHODOLOGY

Differentiation of agricultural area by means of land price groups (SCP) and gross annual rent effects (HRRE)

For the purposes of differentiation of agricultural area in Slovakia, a total of 20 SCPs was set, ranging from SKK 120 000/hectare to SKK 5 000/hectare. Table 1 lists maximum and minimum values of land price, as well as the computed gross annual rent effect for each SCP. In setting up the values, the environmental and natural criteria were taken into consideration, in addition to economic and production criteria. The amount of HRREs for each valued land and environmental unit (BPEJ), as the smallest units of valuation for the production ability of agricultural land, represents the basic economic quantity, by the capitalisation of which the prices of agricultural land were computed. The minimum amount of computed HRRE in SCP 1 is SKK – 1 071/hectare, while the maximum amount is SKK 7 143/hectare in SCP 20. HRRE amount is increasing for higher SCP numbers and SCP 9 is the break

Table 1. Land price groups (SCP) and gross annual rent effects (HRRE)

SCP	HRRE		Price		SCP	HRRE		Price	
	min	max	min	max		min	max	min	max
1	-1 071	-1 000	5 000	6 000	11	394	714	25 501	30 000
2	-999	-929	6 001	7 000	11	394	714	25 501	30 000
3	-928	-857	7 001	8 000	13	1 144	1 464	36 001	40 500
4	-856	-786	8 001	9 000	14	1 465	1 893	40 501	46 500
5	-785	-714	9 001	10 000	15	1 894	2 343	46 501	52 800
6	-713	-643	10 001	11 000	16	2 344	3 214	52 801	65 000
7	-642	-357	11 001	15 000	17	3 215	3 929	65 001	75 000
8	-356	-36	15 001	19 500	18	3 930	4 643	75 001	85 000
9	-35	71	19 501	21 000	19	4 644	5 357	85 001	95 000
10	72	393	21 001	25 500	20	5 358	7 143	95 001	120 000

Source: Valuation databank in the VUEPP

point where HRRE values turn from negative to positive. The last SCP for less favoured areas is the SCP 15, with the values of HRRE ranging from SKK 1 894/hectare to SKK 2 343/hectare. It is the limit value fluctuations around the Slovak average that are subject to numerous discussions both among experts and in general public. The controversial opinions are often presented, as to whether or not the SCP 15 (HRRE value is higher than Slovak average) should be included in the less favoured agricultural areas. However, in future, the primary role will be played by the average value of HRRE in Slovakia amounting to SKK 1 494/hectare. This value will gain a critical importance, especially for gradual implementation of the EU criteria in Slovakia, in compliance with the EC Council Decision No 1257/1999, which included among the less favoured areas also the cadastral areas with production ability or rate of revenues for the agricultural lands, expressed in HRRE, below 80% of the national average.

Allocation of cadastral areas to less favoured agricultural areas

The Decree of the Slovak Ministry of Agriculture of 18 December 2000 No 3809/1/2000-100 stated the cadastral areas, which belong to the less favoured agricultural areas. This decree specified in detail the less favoured agricultural areas with regard to the results of valuation of the agricultural land fund. Also, the decree specified the explicit amount of subsidy, as well as the criteria for granting such subsidy.

The basic criteria for allocating the cadastral area into the less favoured agricultural areas, in compliance with the above Decree, is the average price of agricultural land in the respective cadastral area (KU). Based on the price, KU will be allocated to the land price group (SCP), in order to specify the rate of subsidy per 1 hectare of arable land (OP) and permanent grasslands (TTP). The average

price of land in cadastral areas allocated to the less favoured areas is ranging from SKK 5 000/hectare (SCP 1) to SKK 52 800/hectare – SCP 15. If a subject farms only at certain part of land in KU, while the whole land is not allocated to the less favoured agricultural areas; and the average price of the land part used by the subject is lower than SKK 52 800/hectare, then this whole land belongs to the less favoured agricultural areas. This part will be added to SCP and the rate of subsidy will be computed on the basis of specified rates. As a result, for several subjects farming at the same KU, one or more subjects could be allocated to the less favoured agricultural areas, while the subjects whose land price computed from the users acreage is higher than SKK 52 800 per hectare are not included in the less favoured areas.

Computation of subsidies granted to the agricultural land in the Slovak Republic by land price groups

The land valuation for the farming subjects is updated on a regular basis by the Research Institute of Agriculture and Food Economics in Bratislava, in cooperation with the Research Institute of Soil Science and Land Protection, as part of the valuation databank update. The land price data are updated mainly due to the changes in land acreage of the users, legal form of farming, or changes resulting from the revision of land fund. Table 2 shows the acreage and subsidies per hectare and total subsidies for each SCP. The maximum amount of subsidies in the Slovak Republic, worth SKK 3 988 million, represents a quantity computed under the so-called optimum conditions. This quantity could materialise if all the subjects farming under worse natural conditions for SCP 1 to 15 meet all the criteria specified by the Decree of the Ministry of Agriculture, with the sufficient volume of subsidies. In practice, however, this condition is not achieved, and the actual amount of subsidies in 2000 represented SKK 3 364 million. .

Table 2. Subsidies per hectare of land and breakdown of total subsidies by SCP

SCP	Subsidies in SKK/hectare		Acreage in hectares			*Subsidies in SKK		
	ttp	op	ttp	op	PP total	ttp	op	total
01	3 700	1 850	55 170	4 033	59 202	204 127 668	7 460 699	211 588 367
02	3 650	1 825	67 026	7 365	74 391	244 646 616	13 441 089	258 087 704
03	3 600	1 800	78 239	12 440	90 679	281 661 372	22 391 334	304 052 706
04	3 550	1 775	60 108	15 541	75 649	213 383 258	27 584 849	240 968 107
05	3 500	1 750	61 884	21 573	83 456	216 593 265	37 752 120	254 345 385
06	3 450	1 725	47 275	16 672	63 946	163 097 129	28 759 114	191 856 242
07	3 400	1 700	152 938	80 964	233 902	519 987 704	137 639 140	657 626 844
08	3 350	1 675	91 130	84 317	175 447	305 284 696	141 231 310	446 516 006
09	3 300	1 650	25 613	29 981	55 594	84 523 527	49 468 997	133 992 524
10	3 100	1 550	64 991	95 990	160 981	201 471 976	148 783 896	350 255 872
11	2 950	1 475	41 358	82 175	123 533	122 005 186	121 208 214	243 213 399
12	2 700	1 350	41 958	128 016	169 974	113 286 573	172 822 248	286 108 821
13	2 150	1 075	21 125	93 904	115 029	45 417 933	100 947 004	146 364 937
14	1 650	825	17 488	105 597	123 085	28 854 722	87 117 830	115 972 552
15	950	475	9 294	105 697	114 990	8 828 863	50 205 857	59 034 720
16	0	0	7 141	136 909	144 050	0	0	0
17	0	0	3 968	109 805	113 774	0	0	0
18	0	0	4 047	137 484	141 532	0	0	0
19	0	0	3 731	172 251	175 983	0	0	0
20	0	0	2 146	75 645	77 792	0	0	0
TOTAL	*	*	856 629	1 516 360	2 372 989	2 753 170 486	1 146 813 698	3 899 984 184

Source: the VUEPP valuation databank

* maximum amount of subsidies for the total acreage of agricultural land in case of meeting all the criteria specified by the Decree of the Ministry of Agriculture of the Slovak Republic No 3809/1/2000-100

ttp = permanent grass land, op = arable land, PP = agricultural land

Subsidy to offset the lower rent due to less favoured natural conditions for the farmed arable land

This subsidy may be granted to entrepreneurs who in the current year achieved the specified amount of earnings on the agricultural production per 1 hectare of arable land, without special permanent crops. If an entrepreneur fails to achieve earnings on the agricultural production in the current year, the subsidy will decline in proportion to the actual earnings.

SCP	Performance of the earnings in SKK			
	100%	90%	80%	70%
a) 1-7	3 001	2 701	2 401	2 101
b) 8-12	4 001	3 601	3 201	2 801
c) 13-14	7 001	6 301	5 601	4 901
d) 15	12 001	10 801	9 601	8 401

The support of farming in productive areas only applies to certain parts of OP acreage, mainly in marginal areas of Bratislava, Trnava and Nitra regions (Figure 1). The overall amount of subsidies in the above regions represents SKK 149 614 000, or SKK 190/hectare. The highest portion of subsidies to OP has been granted in the Košice region: SKK 265 210 000, i.e. SKK 1 223/hectare, due

to specific conditions of farming in the Eastern Slovak lowland (extremely heavy and low-priced land).

Subsidies granted to maintain the soil quality in the landscape provided by grazing and mowing

A subsidy to maintain the soil quality may be granted to entrepreneurs farming on the land in less favoured agricultural areas (see Table 2) per 1 hectare of permanent grasslands with adequate number of livestock (hereafter referred to as the "major livestock unit").

The subsidy may be granted to an entrepreneur who kept by 31 March of the current year:

- at least 35.0 major livestock units per 100 hectares of permanent grass lands; to 100% extent of the subsidy;
- from 30.1 to 35.0 major livestock units per 100 hectares of permanent grass lands, to 80% extent of the subsidy;
- from 25.1 to 30.0 major livestock units per 100 hectares of permanent grass lands, to 70% extent of the subsidy.

Subsidies granted to TTP in productive areas of Bratislava, Trnava and Nitra region amount to SKK 69 792 000 i.e. SKK 1 396/hectare (Figure 2). In less productive areas of Žilina, Banská Bystrica and Prešov region, the overall volume of subsidies represents SKK 2 112 million, i.e. SKK 3 617/hectare, since the farming in

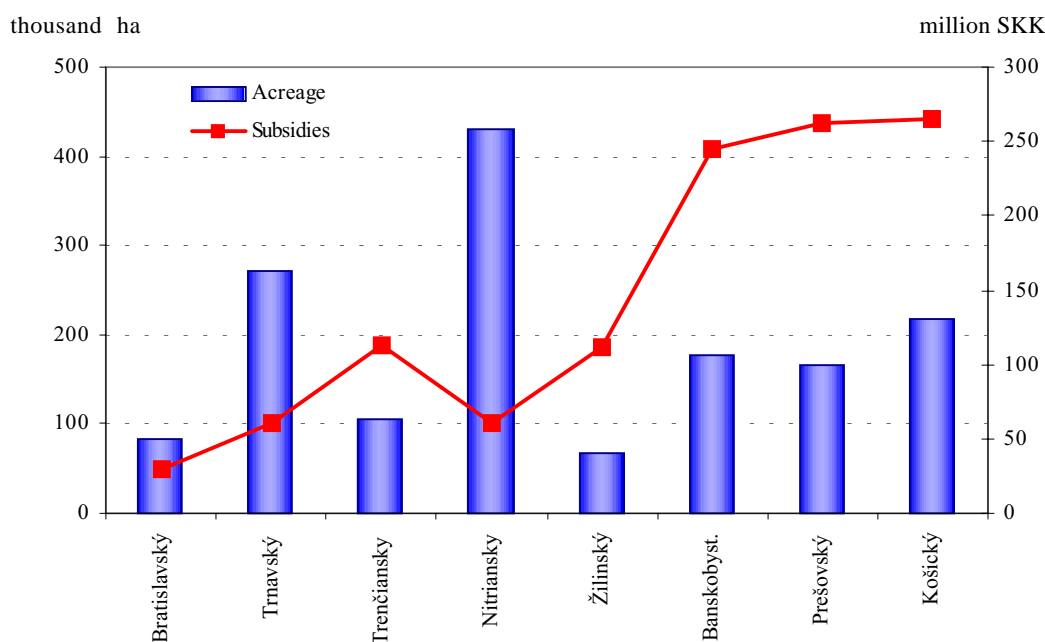


Figure 1. Arceage and subsidies of arable land by groups of land prices in the regions of the Slovak Republic, in 2001

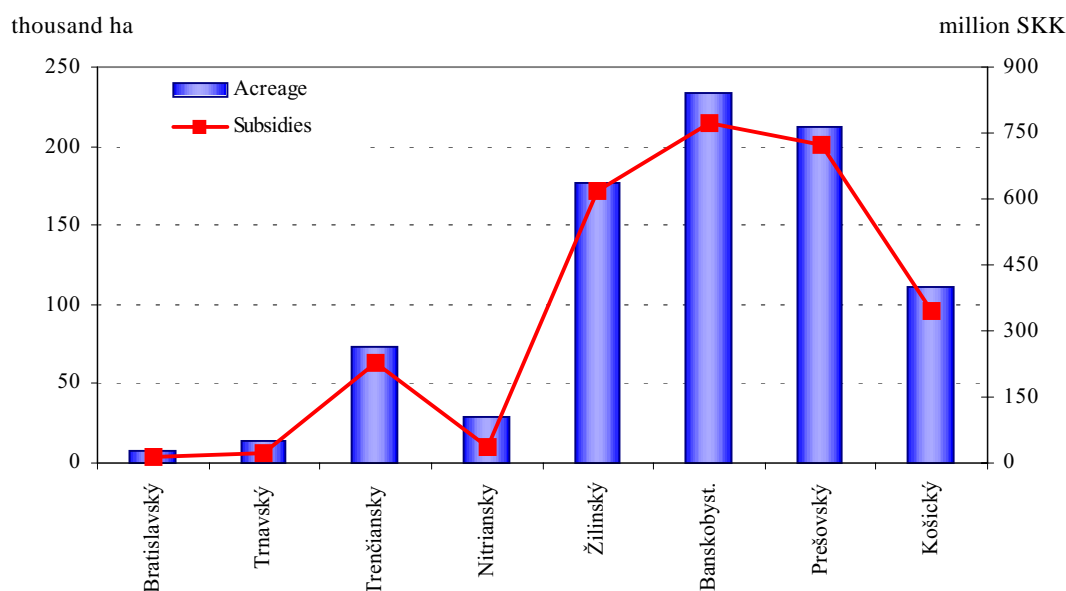


Figure 2. Arceage and subsidies of permanent grassland by groups of land prices in the regions of the Slovak Republic, in 2001

mountainous areas prevails in these regions, with high portion of TTP.

Basic economic indicators by groups of land prices

The results of farming by land price groups (SCP) are affected by natural conditions and the production and commercial activities of individual entities. The basic economic indicators calculated per hectare of agricultural land have shown major differences in the land price groups No 1–15, i.e. under worse natural conditions (HPP), compared to groups No 16–20 – under better nat-

ural conditions (LPP). The entities in land price groups No 1–15 achieved worse farming results represented by revenues, economic performance and generated added value. Compared to 1996, when the profit was generated under better natural conditions, in 2000, the enterprises produced loss, with a decline in the share of profitable enterprises from 72% to 50%. A reverse trend could be observed for enterprises farming under worse natural conditions, where the loss decreased by 59% in 2000, compared to 1996 and also the share of profitable enterprises rose to 54%.

Under LPP, the revenues were by 65.82% higher than under HPP. There were also major differences in the

Table 3. Basic economic indicators by groups of land prices

Indicator	SCP 16–20					SCP 1–15				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Revenues	39 249	44 160	43 084	40 636	42 449	22 525	25 097	24 642	23 372	25 599
Costs/SKK 100 of revenues	99.70	98.28	101.14	101.37	101.10	105.61	102.91	102.73	103.01	102.01
Economic performance	119	759	–490	–557	–467	–1 266	–730	–673	–704	–515
Value added	13 167	13 549	12 738	12 042	8 868	4 790	4 831	4 646	4 176	3 343
Number of entities	309	341	328	314	332	861	875	887	860	843
% of profitable ones	72.17	78.01	59.45	61.00	50.00	45.53	51.01	52.87	50.00	54.00
% of loss producing ones	27.83	21.99	40.55	39.00	50.00	54.47	48.99	47.13	50.00	46.00

amount of generated value added. The amount of generated value added under LPP was 2.65 times higher than under HPP.

CONCLUSION

The detailed analysis of economic results by individual SCPs has shown that even under the same natural conditions, there are substantial differences in results achieved. This shows the quality differences between corporate managements.

The current categorisation and definition of worse natural conditions based on the land price will be subject to change, especially in the process of implementation of the EU criteria. In the long run, this is to prevent the inefficient support being provided to the agricultural enterprises, which generate a long-term loss. The first positive results were achieved already in 2001, when land price was revised in line with 7-code BPEJ.

The subsidies will continue to perform the important task of maintaining the adequate rents and balanced regional development. The amount of subsidies, obviously, will depend on the amount of generated resources and particular attention should be paid to the criteria of their

distribution, both on regional as well as on the corporate level.

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