

Utilisation of the direct EU payments in Slovak agriculture after the 2003 Common Agricultural Policy reform

Využitie priamej formy podpory EÚ v podmienkach slovenského poľnohospodárstva po reforme Spoločnej poľnohospodárskej politiky z roku 2003

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Abstract: The paper analyses and compares the EU direct payments in the conditions of the Slovak Republic during the monitored period 2004–2006. The 2003 reform of the Common Agricultural Policy (hereafter CAP) introduces a considerable simplification of the EU producers' support and a general improvement of the market orientation of agriculture. The Slovak Republic has temporarily adopted the system of the Single Area Payment Scheme (SAPS) which is used in the old member states. The Slovak Republic can use this system until the end of the year 2010. The amount of the direct payments in 2004 was 53.1% of the EU average. The prediction for 2007 was 70% of the EU average, provided that the state co-finances 30%.

Key words: Common Agricultural Policy (CAP) reform, direct payments, modulation

Abstrakt: Príspevok analyzuje a porovnáva priamu podporu EÚ v oblasti poľnohospodárstva za obdobie rokov 2004–2006. Reforma Spoločnej poľnohospodárskej politiky (SPP) z roku 2003 predstavuje výrazné zjednodušenie podpory producentov EÚ a celkové zlepšenie trhovej orientácie poľnohospodárstva. Slovenská republika zaviedla dočasne systém jednotnej platby na plochu (SAPS), kým sa prispôsobí novému systému jednotnej platby na farmu (SFP) uplatňovanom v starých členských štátoch EÚ. V roku 2004 dosiahla výška priamych platieb v SR úroveň 53,1% priemeru EÚ, roku 2007 sa predpokladá podpora priamych platieb v SR vo výške 70% priemeru EÚ za podmienky plného 30% spolufinancovania zo štátneho rozpočtu.

Kľúčové slová: Spoločná poľnohospodárska politika (SPP), reforma, priame platby, modulácia

The 2003 CAP reform changed the method of the subsidy division among the EU farmers. The introduced reform brings new characteristics via covering a range of agricultural branches and is paid independently on the type of agricultural production of the particular farmer. The reform provides an opportunity of regular annual supportive sources even for farmers who decide not to realize any agricultural production.

Direct payments in Slovakia are higher after the EU accession than they were before it. Price support and direct payments are two major policy instruments of the CAP. Direct payments adopted by Slovakia and other accessing states are significantly

decoupled, detached from production (Pokrivčák, Ciaian 2004).

Direct payments coming from the budget of the European Union are introduced to the new member states by the gradual system. They start at 25% of the EU level (2004) and consequently increase by 5% until 2006 and by 10% from 2007 till 2013.

New member states may complement direct payments from the rural development funds and from the national budget. They may achieve the level of 30% of the EU level but the overall direct payments must not exceed 100% (Ciaian et al. 2005).

In the framework of the CAP reform 2003, most (15) of the EU member states decided to implement

the so-called direct payment scheme starting from 2005. With the exception of Malta and Slovenia, new member states (NEMS) use the single area payment scheme (SAPS), since 2004. The payments are disbursed per hectare of agricultural land (in average 48 Euro per hectare for 8 mentioned countries), while all 10 NEMS can contribute to it the so-called “top-up” payments from the national budgets as well. This increased support after the accession of the NEMS contributed to the increase of agricultural income in all NEMS except Malta, Slovenia and Cyprus. After a preliminary phase, the NEMS will have to switch from the SAPS to a single farm payment scheme (SFPS) (Bielik et al.2007).

MATERIAL AND METHODS

Material for the paper consists of the following sources:

- Report on Agriculture and Food Industry in the Slovak Republic 2002–2006
- Data of the Agricultural Payment Agency database
- References from Conferences

The paper contains the comparative analysis of financial sources via direct payments during the 2004–2006 period. The detailed analysis is focused on the particular regions of the Slovak Republic.

RESULTS

In June 2003, the ministers of agriculture of the EU Member states agreed on the compromise related to the radical medium-term reform of the EU Common

Agricultural Policy. The reform is defined by key elements concerning certain fields as follows:

- Introducing the system of the Single Farm Payment Scheme to make farmers’ independent on the production while the payment will relate to the legislation regarding environment, food safety, crop and animal health and animal welfare. The payment will be conditioned by the maintained good status of agricultural land from the agricultural and environmental point of view (“cross-compliance”).
- Strengthening the Rural Development Policy by a larger volume of financial sources from the EU, by new measures supporting environment, by animal quality and welfare and by the assistance to farmers while meeting the EU production regulations requirements entering into force in 2005.
- By decreasing direct payments (“modulation”) for larger farms, through which the new Rural Development Policy will be financed.
- Mechanism for financial discipline which guarantees that the agricultural budget designed until 2013 will not be exceeded.
- Revision of the CAP market policy:
 - Asymmetrical decrease of prices in the branch of milk production
 - Reduction of the monthly additional charge in the branch of cereals production while maintaining the contemporary intervention price level
 - Reforms in the branches of production of rice, triticum durum (wheat), nuts, potato starch and desiccated feed.

Based on the stated EU budget allocation for 2007 to 2013, the EU Agricultural Policy expenditures will develop a moderately increasing tendency in absolute terms while in comparison with the EU total budget,

Table 1. The EU Budget proposal for 2007–2013

Appropriations for commitments	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth	54 905	56 736	59 197	61 144	63 601	66 640	69 678
2. Protection and management of natural resources	58 351	58 800	59 252	59 726	60 191	60 663	61 142
Of which: market related expenditure and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574
3. Freedom, security and justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376
4. European Union as global partner	6 578	7 002	7 440	7 893	8 430	8 997	9 595
5. Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095
6. Compensation	445	207	210				
Total appropriations for commitments	128 091	131 487	135 321	138 464	142 445	147 075	151 886

Source: European Commission

their share in the individual years will decrease from 45.55% in 2007 to 40.25% in 2013 (Table 1 and 2).

The system of direct payments after the 2003 CAP Reform

The direct payment system has been preferred by the European Commission as a more transparent tool than the market support via the intervention mechanisms. The direct payment system is considered to be an appropriate tool in order to teach farmers not to use those forms of support which deform the market any more. In several cases, farmers were constantly economically stimulated to maximize production or to continue in that in spite of the fact that market signals indicated the reduction or stop of production.

The CAP is able to eliminate the regional differences. On the other side, it is needed to notify that the farmers should contribute with the configuration of their expense and producing structure and marketing strategy. The CAP will not create in new member states the conditions for the loss compensation as a consequence of the inefficient production (Blaas, Božík 2002).

Direct payments in Agriculture create a significant part of the EC expenditures. They represent a supportive and maintaining tool for agricultural production according to the production quotas defined in advance. Direct payments represent at the same time an essential part of the EU agricultural expenditures. After entering the EU, the Slovak Republic had to implement the principles of the Common Agricultural Policy. The necessary preconditions for drawing the direct payments from the European funds were:

- Existence of the accredited Payment Agency
- Existence of the functioning Integrated Administrative and Control System (IACS).

The agricultural Payment Agency (APA) was established by the Act No. 473/2003 Coll. on Agricultural Payment Agency and the support of agribusiness. In accordance with the Act, the Agency was established on December 1st, 2003 as a non-profit organization of the Ministry of Agriculture of the SR. The Agency was accredited in 2004. Until the end of 2004, there were payments realized from the EU and National Budget sources for the purposes of direct payments and compensation payments for Less Favoured Areas. At the same stage, additional payments complementary to direct payments and market oriented expenditures were realized in the frame of the Rural Development Plan. The Integrated Administrative and Control System (IACS) ensure an effective exploitation of the EC sources and prevent the misuse of the financial sources. The IACS is composed of a number of databases monitoring the agricultural production in the country in details.

The Treaty on Accession enabled new member states to temporarily launch the system of payments in agriculture via the Single Area Payment Scheme (SAPS). By applying the SAPS, New Member States will gradually adapt easier to the new system – the Single Farm Payment (SFP). The system can be used until the end of 2008. The Single Area Payment Scheme (SAPS) is determined in a single amount – as a share of the financial allocation on direct payments and the acreage of agricultural land maintained in good agricultural condition without the duty to produce. The Single Area Payment is provided on the area of the agriculturally used land registered as land blocks with the acreage of minimum 1 ha. This acreage can be composed of more continuous blocks (1 block of minimum acreage 0.3 ha), used by 1 user and maintained in accordance with good agricultural and environmental conditions. In the frame of the functioning system, there is another type of payment – the crop on arable land (POP). The payment crop on arable

Table 2. The EU Budget 2007 – Preservation and management of natural resources

Financial framework Headings 2: Preservation and management of natural resources	Budget for 2007	
	EUR	%
Market related expenditure and direct aids	42 713 661 000	75.9
Rural development	12 371 441 715	22.0
Fisheries and maritime affairs	887 557 321	1.6
Environment	240 620 000	0.4
Other actions and programmes (decentralised agencies included)	36 950 000	0.1
Total	56 250 230 036	100.0

Source: European Commission

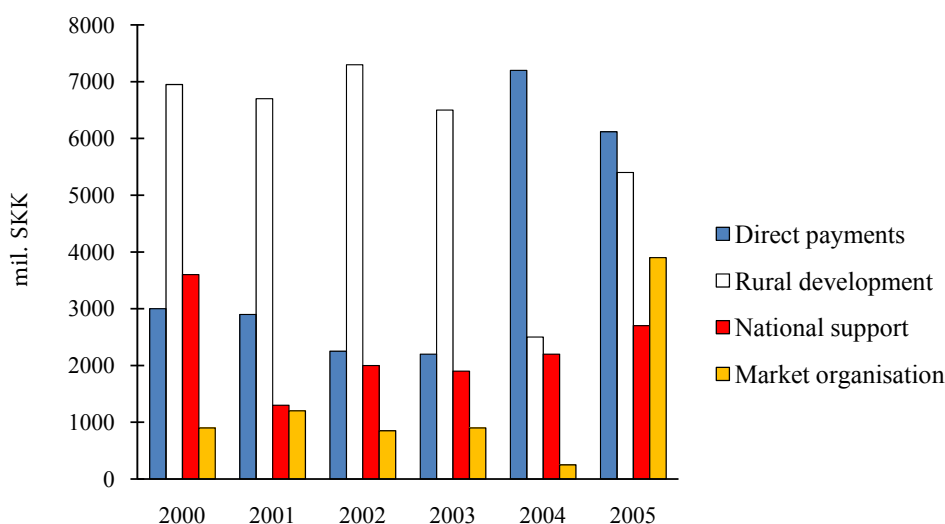


Figure 1. Development of subsidy for agriculture and food industry (in mil. SKK)

Source: RIAE Bratislava

land is conditioned by the selected crop cultivated on arable land of an agricultural plot with an extension not less than 0.3 ha. The list of the selected crops cultivated on arable land which are allowed to be the subject of support is available in the Attachment of the Regulations of the Minister of Agriculture of the Slovak Republic.

The Figure 1 demonstrates the development of the individual forms of agricultural subsidy during 2000–2005.

Before entering the EU, agricultural enterprises were supported through the main plant and animal commodities, potentially through breeding (Table 3). The crucial form of the support was to be the payment per 1 ha of sowing area, 1 litre and 1 unit.

Inter-annual changes in the guaranteed areas and rates per ha (or unit) were reflected into direct payment volume changes. The decrease of direct payments in comparison with 2004 was influenced by

two various approaches while providing them before and after entering the European Union. While the deadline for the definite providing of the direct payment for 2004 was April 30th, 2005, beginning by 2005, the new deadline was determined from December 1st of appropriate year until June 30th of the next year (2006).

In 2004, there was a significant increase of the share of direct payments in the total payments in relation to the application of the single area payment and the national additional payment. There was a choice of certain crops (potato, vegetables, sugar beet) from the nomenclature of the subsidised crops on arable land in comparison with the previous period. In 2005, the subsidies were confirmed after meeting the criteria stated in the Regulation of the Minister of Agriculture, which remained the same as in 2004 (after entering of the Slovak Republic into the EU – 01. 05. 2004).

Table 3. Subsidies during 2000–2003 (in mil. SKK)

Subsidy	2000	2001	2002	2003
Crop production	1 622.0	1 331.1	842.1	991.9
Animal production	1 396.0	1 625.5	1 491.4	1 310.2
Total (crop + animal production)	3 018.0	2 956.6	2 333.5	2 302.1
Subsidy/ha of agricultural land*	1 543.7	1 512.3	1 193.6	1 177.5
Subsidy/ha of arable land**	3 004.0	2 942.9	2 322.6	2 291.4

Source: RIAE Bratislava

Notes: *for the purposes of calculation the total guaranteed area of agriculturally used land for the SAPS payment was used (1 955 000 ha), **for the purposes of calculation the total guaranteed area of arable land for the supplementary payment POP was used (1 004 668 ha)

Table 4. Review of direct payments during 2004–2005 (in mil. SKK)

Type of payment	2004			2005		
	EU	SR	total	EU	SR	total
Single area payment (SAPS)	3 228.6		3 228.6	3 511.8		3 511.8
Additional direct compensatory payments	1 194.8	2 804.5	3 999.3	993.6	1 633.1	2 626.7
– crop on arable land (POP)	1 194.8	2 484.7	3 679.5	993.6	1 299.0	2 292.6
– tobacco	–	71.5	71.5	–	99.3	99.3
– hop	–	3.2	3.2	–	2.4	2.4
– breeding of cash cows	–	114.6	114.6	–	98.6	98.6
– breeding of sheeps and goats	–	130.5	130.5	–	132.8	132.8
Total direct payments	4 423.4	2 804.5	7 227.9	4 505.4	1 633.1	6 138.5

Source: RIAE Bratislava

The acceptance of application forms, the control and realization of direct payments has been carried out via the Integrated Administration and Control System. In 2005, there was a raise of interest in direct payments. 13 779 application forms for the SAPS, 11 505 for the POP, 13 for the additional compensation payments on hops and 67 application forms for the additional compensation payment on tobacco were registered. In 2005, there were no particular payments on sugar within the direct payments realized (Table 4). According to calculations, there was a raise in the SAPS rate, when comparing 2004 and 2006, from 1 768.65 SKK/ha to 2 460 SKK/ha (Table 5).

Table 5. Recalculation of direct payments in SKK/ha

Type of payment	2004	2005	2006
SAPS	1768	2099	2460
POP	1765	2717	2193

Source: RIAE Bratislava

Table 6. SAPS in specific regions of Slovak Republic in 2006

	BA	TT	TN	NR	ZA	BB	PR	KE
SAPS (total in thousands of SKK)	203 031.1	596 892.8	298 501.9	939 765.6	379 010.1	617 902.8	595 571.2	614 775.7
SAPS (average for appl. in SKK)	730 328	344 030	544 712	331 838	371 215	277 959	416 192	290 537

Regions: BA = Bratislava, TT = Trnava, TN = Trenčín, NR = Nitra, ZA = Žilina, BB = Banská Bystrica, PR = Prešov, KE = Košice

Source: Agricultural Payment Agency, own calculation

Most of the subsidies in the frame of the SAPS in 2006 were allocated to agricultural enterprises in the Nitra region, the lowest level of subsidies was allocated to agricultural enterprises in the Bratislava region. The average value of subsidy per farm was the highest in the Bratislava region, the lowest one in the Banská Bystrica region (Table 6).

CONCLUSION

In 2004, there was a potential possibility to raise direct payments by national resources up to 55% of the direct payments level in the old EU member states. This rate was regulated to 53.1% and the difference between the real and the potential subsidy level was 1.9% only. In 2005, this difference deepened and the achieved value was 6%. Neither in 2006 the subsidy rate from the part of the state reached full 30%. The situation for 2007 should have been represented by the share of direct payments 70% of the EU average which is expected to influence positively the amount of subsidies recalculated per 1 ha of agricultural land.

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