

IMPACT OF EU COMMON AGRICULTURAL POLICY 2014-2020 IMPLEMENTATION ON AGRICULTURE IN SLOVAK REPUBLIC

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Abstract

The paper aims to analyze the implementation of CAP 2014-2020 on development of agriculture in SR. Based on the findings we can evaluate that the CAP 2014-2020 measures implemented changes mainly in I. pillar. The most significant changes include reassessment of direct payments, greening, a new tool in I. Pillar, which is intended to pay for environmental services. Greening can be understood as a suitable tool for Slovak farmers to increase the possibilities for additional payments. As other positive measure for Slovak farmers is the payment for young farmers, which is being applied in SR for the first time. For young farmers in Slovakia (0,02% share on total EU young farmers) is supposed to be such a measure crucial for reaching competitiveness for their farms and even to increase the number of young farmers. As a negative impact of CAP reform for Slovak agriculture is the expiration of milk quota, which may negatively impact the livestock production. The II. Pillar remains unchanged and allows SR to focus on its specific priorities in rural development with new measure to realize flood control measures. According the evaluation of main economic indicators of Slovak agricultural farms we can state still negative economic development. Implementation of CAP and realization of EU financial support for agriculture in Slovakia represents main financial support and the support of Slovak government and national funding needs to be revised and increased.

Key words: agricultural efficiency, Common Agricultural Policy, farm, financial support, payments, rural development

INTRODUCTION

The reform of the Common Agricultural Policy (CAP), adopted in 2013 introduced significant changes in the implementation of the CAP in the period 2014-2020, especially in the area of market support. The most important changes include a reassessment of direct payments in the first and second pillars, including the flexible transfer of resources between the pillars, the completion of the quota system and other forms of market support, with emphasis on the environmental aspects of agriculture and the revitalization of the agricultural sector [6]. CAP reform was applied from the year 2014 based on four main legislative texts – consecutive regulations; Regulation 1305/2013 covering rural development, Regulation 1306/2013 for horizontal issues regulating funding and controls, Regulation 1307/2013 regulating direct payments and Regulation 1308/2013 adapting market measures [9]. The CAP

remains on the system of two pillars while compared to the previous programming period is an evident increase of connectivity between the pillars, changes in the CAP decision-making system, in which the decision-making process was divided between the EU Council and the European Parliament in the frame of the ordinary legislative procedure. CAP for 2014-2020 remains at the set targets, but with a smaller budget, but nevertheless pursue the reform process relating to the transfer of product support to producer support and to the approach that takes more into account the requirements of the country.

Application of the CAP in the Slovak Republic is implemented in accordance with the Concept for the Development of Agriculture for the years 2013-2020 [4], where is defined the vision of Slovak agriculture, which aims to support the development of productive and competitive agriculture, ensuring economical use of agricultural land, sufficient production

capacity of agriculture of Slovak Republic in main agricultural commodities, food safety and accessibility for the population and ensuring sustainable forest management. In this respect, it is intended to promote resource efficiency for smart, sustainable and inclusive growth in agriculture and rural areas. In agriculture are therefore supporting the following objectives:

-increase production performance in supporting agricultural commodities to levels 80% of the current consumption of the population in Slovakia;

-rural development and improving the living conditions and employment of the rural population, in particular by supporting sectors that are potential sources of employment.

MATERIALS AND METHODS

The paper focuses on the assessment of the possibilities of CAP support in the years 2014 - 2020 in the Slovak Republic. In the paper were used data and results of research conducted by the project KEGA no. 025SPU-4/2015 titled Agricultural and Environmental EU policy, secondary data sources, professional literature, EU information sheets. Evidence base for the research were the SR Rural Development Programme 2014-2020 and the Annual Progress Report on the RDP in 2014. By the paper processing were used mathematical and statistical analysis, comparison method, analysis and scientific abstractions. Method of scientific abstraction refers to the whole paper as well as the theoretical and analytical part.

RESULTS AND DISCUSSIONS

CAP in the period 2014-2020 focuses on market orientation by providing income support and creating a safety net mechanism for producers with regard to the requirements of environmental protection and improved support for rural development across the EU. It is important to highlight the primary role of the CAP, and to provide a policy framework that will encourage farmers to fulfill objectives of the CAP: improving competitiveness of the agricultural sector,

improve the sustainability of natural resources in the longer term, increasing efficiency and ensuring a balanced territorial development [3]. CAP 2014 - 2020 continues on the system of the two pillars. Pillar I, financed by the European Agricultural Guarantee Fund covers market measures (direct payment, payments for good agricultural practices, redistributive payment, scheme for young farmers, small farmer's scheme and the voluntary coupled support) and CMO. The measures of the first pillar, in addition to market-based measures, are mandatory for Member States and do not require co-financing. Pillar II, funded by the European Agricultural Fund for Rural Development, provides resources to farmers, food producers and foresters through the Rural development program measures. Measures under II. pillar are voluntary and co-financed from the national level.

Changes in the financial support involve direct payments which are the main source of support. The most significant changes include greening, a new tool in I. Pillar, which is intended to pay for environmental services. It refers to payments for good agricultural practices. Farmers should be rewarded for the services they provide in the context of development (landscaping, biodiversity, climate stability). Greening or green direct payment means that in addition to the basic payment scheme/the single payment scheme gives each farm and additional payments per hectare in respect of certain agricultural practices that are beneficial for the climate and the environment. The work [1] states that the majority of farms in Slovak republic already fulfill good agricultural practices by utilizing the land. Greening is understood as a legitimate public demands to fulfill the role of agriculture in the issue of dealing with environmental problems, but this measure is associated with increased costs, thus enabling such a payments for this purposes, is considered as a benefit for farmers.

In the implementation of direct payments, the Member states agreed on the redistribution of direct payments in the EU - 15 and the completion of the single payment scheme in the EU-10 by 2020. A payment for young farmers is paid on the basis of the so-called

small farmers scheme, which is based on a simplified system of aid paid to entities of primary agricultural production with maximum support to 1 250 EUR and may be supplemented by a start-up support within II.pillar. The reason for the application of this payment is the age structure of farmers and the pursuit of generational change in agriculture, since only 14% of farmers in the EU (in SR 0.02%) are younger than 40 years. SR implements this measure for the first time since the membership in EU and the government aims to support mainly young farmers producing fruit, vegetable, legumes and livestock. The obligation of cross-compliance and advisory system in agriculture persists in the program 2014 - 2020 strategy. Member States have the possibility for better orientation of direct support through compulsory schemes, which includes redistributive payment in order to give decoupled payment for the first 28 hectares of arable land (28 ha is a average acreage of farms in Slovakia, respectively the applicant in SR) to constitute up to 65 % average payment per hectare in support of small and medium-sized enterprises, additional payments which may be up to 5% of the total amount aim for the less favoured areas. To reduce differences in the level of direct payments between Member States was introduced a minimum average national direct payment per ha by 2020.

Additional tools to secure efficiency and competitiveness of the CAP include changes in the context of market-based measures (such as expiration of the milk quota system (2015) and sugar (2017)). It is possible to state that for Slovak republic in case of expiration of milk quotas is this agreement disadvantageous and will have negative impact on farm competitiveness in SR and does not constitute aid for farmers. Stabilization in the sector of milk based on milk quotas and also re-motivation of farmers to breed cattle, pigs and poultry are the objectives of the Ministry of Agriculture and Rural development. The effort of the Ministry seeks to satisfy the 80% food self-sufficiency, which is included in the medium-term Concept for the Development of Agriculture in SR for the years 2013-2020 [4].

Because so far, applying EU economic instruments supported production of energy crops at the expense of livestock. Based on the analyses of situation in livestock production in SR, the expiration of milk quota will have negative impact on fulfilling these aims of Slovak Ministry of Agriculture and rural development.

Among the instruments in place to promote the efficiency and competitiveness of farms within II. pillar are included measures for restructuring and modernization of farms, help for young farmers implementing the agricultural production as a business, farm advisory system, education and innovations. Those instruments are designed to help the agricultural sector to adapt to new trends and technologies. In the case of forestry measures, the forest managers in Slovak republic will be also able to use funds from the Rural Development Programme to realize flood control measures.

Rural Development policy 2014-2020 remains unchanged and is implemented through national/regional Rural development programs for the 7 year period. Support under II. pillar is implemented in Slovakia through the Rural Development Programme for the years 2014 - 2020 [8], which was approved by the European Commission in February,13 2015 and includes priorities of Slovakia. by the use of 2 077 million EUR for the period 2014-2020, of which 1 545 million EUR is from the EU budget and 532 million EUR of national funding, what allows Member States to better focus on their specific priorities.

The priorities of rural development in the Slovak Republic include:

- P 1: Knowledge transfer and innovation in agriculture, forestry and rural areas
- P 2: Strengthening the viability of farms and the competitiveness of all types of agriculture and promote innovative types of technologies and sustainable forest management
- P 3: Promoting food chain organization, including the processing of agricultural products and their marketing, animal welfare and risk management in agriculture
- P 4: Restoring, preserving and enhancing

ecosystems related to agriculture and forestry

P 5: Promoting resource efficiency and supporting the shift towards a low carbon economy and climate resilient in the agriculture, food and forestry sectors

P 6: Promoting social inclusion, poverty reduction and economic development in rural areas

The main priorities include following sub-measures:

- Innovation
- Enhanced measures for agricultural advisory services
- Restructuring/modernization of agricultural holdings and investment
- Young farmers: grants to start a business (up to 70 000 EUR) general investments in tangible assets, training and consulting services,
- Small farmers assistance to start a business up to 15 000 EUR for a small farm,
- Less Favoured Area support
- Agri-environmental measures
- Non-agricultural activities: grants for start-up and development of micro and small enterprises
- Basic services and village renewal
- LEADER.

The main priorities include sub-measures as innovation, enhanced measures for agricultural advisory services, restructuring/modernization of agricultural holdings and investment, young farmers: grants to start a business (up to 70 000 EUR) general investments in tangible assets, training and consulting services, small farmers assistance to start a business up to 15 000 EUR for a small farm, Less Favoured Area support, agri-environmental measures, non-agricultural activities: grants for start-up and development of micro and small enterprises, basic services and village renewal and LEADER.

We suppose that the assistance of the Rural Development Programme will continue to support innovative projects that will bring new products, technologies, techniques or ways of working. The program continues to support the protection and preservation of high nature value agricultural and forest areas

aimed at sustainable use of soil and water, creating opportunities for high-quality food production and provision of rural tourism activities and diversification of products and services not covered by the agricultural sector. One of the options for them at the moment, as stated [5], is the introduction and subsequent use of biomass energy, which is significantly supported by the European Union. The introduction of the cultivation of energy plants in Slovakia can be regarded as one of the most important innovations of plant production and an important part of the agricultural sector. The current status of agriculture in Slovakia offers extensive cultivation of energy plants. Growing energy crops is one of the possibilities to use temporarily respectively unused agricultural land. Positively is to be understood that the program continues in the Leader approach in order to improve the quality of life in rural areas and creating new jobs. For the rural areas in Slovakia was the Leader program main financial source to secure rural development during the period 2007-2013. From a financing perspective (Fig.1) is a main priority of Rural Development Programme in SR for the years 2014-2020 restoring, preserving and enhancing ecosystems related to agriculture and forestry.

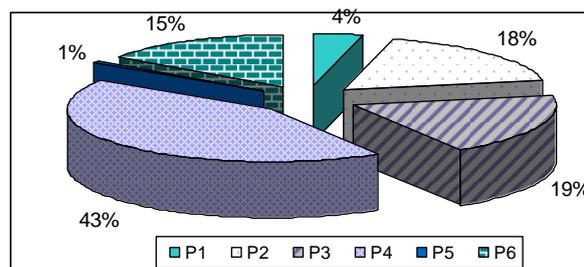


Fig.1. Redistribution of financial support in SR for the years 2014-2020 (%)

Source: Author's calculation based on VÚEPP data,2015

To finance the CAP is from the EU multiannual financial framework for the period 2014-2020 intended for agriculture 408,31 billion EUR, representing about 38% of the total EU budget. Within the I. Pillar is for market support related expenditure and direct aid allocated 312,74 billion EUR and for II.pillar was allocated 95,58 billion EUR.

Taking into account the current economic situation in the EU, the volumes of funds indicates the continued strong support of the EU agricultural policy. Most CAP funds among Member States is destined for France (20%), Germany and Spain (13%), Italy (11%) and the UK (9%). For Slovak Republic were approved 5,35 billion EUR [11], equivalent to 1.3% of the total EU budget for the CAP. The total financial support for agriculture and rural development for the Slovak Republic increased in 2014-2020 up to 7% compared to 2007-2013 (Table 1).

Table 1. Redistribution of EU financial support for SR (EUR)

	2007-2013	2014-2020
I.pillar – market support	1,944,059,000	3,054,205, 654
II.pillar – Rural development	2,597,053,717	2,076,757,259
<i>EU co-financing</i>	<i>1,996,908,078</i>	<i>1,544,699,346</i>
<i>SR co-financing</i>	<i>600,145,639</i>	<i>532,057,913</i>
Common market organization	105,000,000	105,000,000
<i>EU co-financing</i>	<i>84,000,000</i>	<i>84,000,000</i>
<i>SR co-financing</i>	<i>21,000,000</i>	<i>21,000,000</i>
State aid	327,010,305	114,258,134
TOTAL	4,973,123,022	5,350,221,046

Source: Data from Ministry for Agriculture and Rural development in Slovak republic, 2015.

In the programming period 2014-2020, Member States have the possibility of EU funding flexibility between pillars, the Slovak agriculture has the possibility of transferring up to 25% of funds from II. pillar to I. pillar. This transfer should ensure the stabilization of Slovak agriculture and help to create a suitable business environment for stabilizing the animal production and special crop production and keep employment rates in excess of productivity growth. Financial support should serve to fulfill the objectives of the Slovak Republic in the years 2014-2020, with an emphasis on increasing the share of land ownership in the total assets of agricultural entities, as the share of own utilized land in Slovakia in total is very low in comparison to EU countries (representing only 10%). The trend in Slovakia is long-term, despite the measures of Slovak government it was not able to optimize the

functioning of the land market in Slovakia. As reported [2] and [10] the main production factor in Slovak agricultural the land is still averaged only about 5% of the total property holdings. This means that the Slovak farmer leases in an average of more than 90% of agricultural land of they farm. Compared to other EU countries is this disadvantage, since the land as one of the main components of property holdings and in other EU Member States makes up about 50%. This imbalance is the less favorable the higher the average acreage on which agricultural entity farms. Average farm area in Slovakia represents more than 500 ha, which is the highest average farm area across the EU. The rent for agricultural land was in the range of € 6.50 to 120.00 EUR.ha⁻¹ causing the increase the farm costs.

Based on evaluation of the main economic indicators in agriculture in Slovakia (Table 2) it can be stated that because of the decline in the economic performance of Slovakia from year 2011, which was affected by a decline in agricultural output in value terms (6%), with a significant decline in livestock production (12%) and a slight decline of plant production (1.2%) and the predominant crop structure (51.8%) and livestock (41.6%) production is in Slovakia's interest to support the growth of competitiveness of Slovak agriculture especially pig, poultry and cattle, vegetable and fruit growing through national aid.

Table 2. Main economic indicators in agriculture in SR (in EUR, 2015)

	2012	2013	2014
GDP (at constant prices in bilions EUR)	71,5	65,0	75,2
GDP growth rate (%)	1,2	1,8	2,2
Inflation rate (%)	3,6	1,4	-0,1
Foreign trade balance (billions EUR)	-0,4	-0,6	-1,0
Number of workers in agriculture (thousands person)	2 219	2 329	2 363
Average nominal monthly wage (EUR)	805	823	858

Source: Processed based on data NPPC VUEPP, 2015

The share of agriculture on total GDP increased. The foreign trade balance in

agriculture in Slovakia is clearly focused on the EU Member States. The negative and significant increase in the negative balance was due to a significant year-on-year reduction in the value of exports of agricultural and food products from Slovakia to the EU-28 to (14.9%), while in the same period decreased the value of imports and prices of agricultural commodities. A positive trend can be seen in the growth of average nominal monthly wage, but still continued to persist, wage disparity between the economies of Slovakia and its sub-sectors of agriculture and food industry.

As shown in (Fig.2) we can positively evaluate slight increase in amount of gross agricultural production, what was supposed to have positive effect on farm efficiency, but still the farm efficiency measured thus profit or loss is still in loss. Also the decrease of added value has negative influence on the situation in Slovak agriculture.

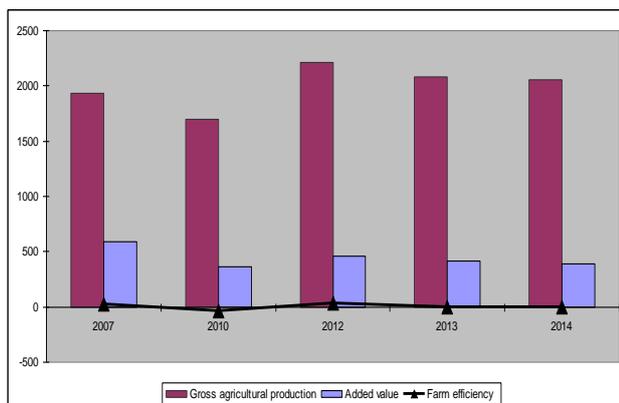


Fig.2. Development of main agricultural indicators in SR 2007-2014, processed based on NPPC – VUEPP, 2015.

The farm efficiency was also influenced by several factors, mainly by faster decline in revenues (2.7%) than costs (2.6%), increase in revenues from sales of own products (2.0%) under the influence of an increase in sales of plant products (5.6%) and a decline in sales of animal products (2.2%). As well as significant regressive price developments of agricultural products (7.8%) and plant products (15.0%), mainly cereals (18.1%) and oilseeds (11.1%) and animal products prices (0.7%). The negative impact on farm efficiency had the decrease in support policy, especially direct

payments as an important part of revenue and provision of loans, because the support to agriculture in the total volume decreased by 7.9 million EUR. The decrease was caused due to the depletion of funds from the Rural Development Programme 2007 - 2013 [12] and slower payments from the initial use of the new Rural Development Programme 2014 - 2020 as well as a drop in support from the national budget of the Slovak Republic.

According to the evaluation of main economic indicators of Slovak agricultural farms we can state still negative economic development. The implementation of CAP and realization of EU financial support for agriculture in Slovakia represents main financial support the support of Slovak government and national funding needs to be revised and increased.

CONCLUSIONS

CAP continues the reform process in the light of new challenges and goals. The economic challenges are food safety, globalization, price volatility, pressure on production costs due to rising input prices, and the worsening position of farmers in the food chain. Dominant environmental challenges are to achieve the efficiency of natural resources, maintain soil and water quality and threats to the natural environment and biodiversity [7].

The most significant changes in the CAP include better orientation of support through a review of direct payments to farmers. Other measures include an agreement by the end of the quota system and other forms of market support; more emphasis is placed on environmental aspects of agriculture and strengthening rural development.

Changes related to direct payments, which are in most EU member states based on the historical principle, will gradually be replaced by a minimum national average payment per hectare by 2020, to ensure a more equal redistribution of payments between Member States. Since 2003 used historical principle caused significant payment differences between MS and were replaced by a fairer system based on territorial lines. But even after twelve years of Slovakia's EU membership and the adoption of EU CAP was

not the direct payment support in Slovak agriculture equal to the level of the EU-15 countries what caused continuous disadvantage for Slovak farmers.

Based on realized research, we consider that the main goal of SR in the frame of agriculture to increase the labor productivity in agriculture to a level of 70% of the EU average will not be fulfilled, because labor productivity in the Slovak Republic in 2014 reached 46% in agriculture and in food industry 39% of the EU average and the evaluation of main economic agricultural indicators shown negative development trend. Similarly, we believe that the objective of increasing the level of diversification of agricultural production and non-agricultural activities of farmers will not be fulfilled due to the significant decline in the financial allocation for the programming period 2014-2020 for that measure. For the Slovak Republic was approved 5,35 billion EUR, equivalent to 1.3% of the total EU budget for the CAP. Based on the evaluation of RDP 2007-2013 the highest percentage of contracting was reached by measures on reconstruction and community development and support under the measure Leader (100%). Among the most demanded measures were also the measures connected to the modernizations of agricultural holdings, adding value to agricultural and forestry products, education and diversification into non-agricultural activities (89-98% contracting). For the rural areas in Slovakia was the Leader program main financial source to secure rural development during the period 2007-2013.

Instead of this fact we agree that the reform of the CAP should be more in favor of less productive and less intensive regions. Evaluating the rural development policy we assume that the territorial challenges relate to a positive impact of economic, social and demographic developments on rural areas, deceleration, falling population and location of economic activities in rural areas should in arranged way have positive impact on rural areas in Slovakia.

For the future of EU agriculture is necessary to increase the production of quality and safe

food while protecting natural resources and creating a competitive and viable agricultural sector providing for the proper functioning of the supply chain, which helps the sustainability of the rural economy.

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