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COMMON AGRICULTURAL POLICY 2007 – 2013 VS. 2014 -2020**RAŠOVSKÁ, ADRIANA****Introduction**

Joining the European Union in 2004, Slovakia has accepted the rules of support to the agricultural sector, what means adapting the same support mechanisms as those used in the EU and the gradual increasing of farmers contributions from the EU budget until 2013. However, there is a significant difference between the Slovak and European agriculture.

The Slovak agriculture is considerably less productive, despite a high concentration of farms (up to 95.1% of the utilized agricultural land is farmed by large farms). Not only is Slovakia on the first place among 24 European countries due to its size of farms, but farms hire the majority of land that they farm (up to 93.5% of agricultural land is not owned by entities who work it).

The role of agriculture could be traditionally perceived as a food production, but agriculture significantly shapes the face of the country, affects the quality of the environment and also helps to increase the potential of tourism development. It is therefore evident that the industry will continue to benefit from public support. To make a right decision in allocation of this support, it is necessary to become familiar with its advantages and disadvantages especially in Slovak agricultural conditions.

Materials and Methods

Study of domestic and foreign literature explaining the views of leading authors describing the issues of agricultural policy, agri-food industry and the impact of CAP on domestic economic factors is followed by collecting the data needed for statistical analysis.

Article combines practical skills with statistical software Gretl and creating correlations key indicators demonstrating the dependence of the Common Agricultural Policy reform on selected agricultural factors in Member States of the European Union.

Data sources are:

- Slovak Agricultural Library in Nitra
- Statistical Office of the Slovak Republic
- agricultural magazine AGROMAGZÍN
- Internet resources EUROSTAT, OECD, FAO
- and other Internet resources dedicated to the analyzed issue

Results and Discussion

Common Agricultural Policy

The Common Agricultural Policy could be easily identified as a system of European subsidy programs, representing the largest community financial policy in the European Union. Opponents would say with irony that this policy costs each taxpayer “only” 30 cents a day.

In the last years, the agricultural policy had to respond to the accession of the new member states, increasing demand for high quality food, climate change, volatile food prices on world markets and the unbalance in the food chain in the EU. From the European Parliament point of view, there must be provided the public goods by means of food security and secondly the protection of the environment.

The main purpose of the Common Agricultural Policy is to help a stable and efficient production of high-quality foods that are competitive on world markets and made environmentally sustainable manner. It also aims to promote economic activity in rural areas and prevent the depopulation.

Marušinec, J. – Škriečka, M., in analyse of the agricultural support, pay attention on the financial framework dedicated to period 2007 – 2013. Expenditure on the Common Agricultural Policy can be found in the expenditure chapter - *Preservation and management of natural resources* – where CAP’s budget is given at volume of 418,125 mld € (table 1).

Table 1: Financial framework 2007 - 2013 (million €)

Expenditure chapter	2007	2008	2009	2010	2011	2012	2013	2007 - 2013
1. Sustainable growth	54 405	56 736	59 197	61 144	63 601	66 640	69 678	431 401
2. Preservation and management of natural resources	58 351	58 800	59 252	59 726	60 191	60 663	61 142	418 125
2.1 Market expenditures and direct payments	45 759	46 217	46 679	47 146	47 617	48 093	48 574	330 085
3. Citizenships, freedom and security	1 273	1 362	1 523	1 693	1 889	2 105	2 376	12 221
4. EU as a global partner	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
5. Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095	56 225
6. Compensation	445	207	210	-	-	-	-	862
Total	128 091	131 487	135 321	138 464	142 445	147 075	151 886	974 769

Source: *Analysis of the support system in agriculture*, Marušinec, J. – Škriečka, M., 2009

The development of CAP’s expenditures in the examined period 2007 – 2013 decreased from the 45.6 % (58 351 billion €) to 40.3 % (61 142 billion €) – figure 1. CAP’s expenditures represents the major part of the financial framework till the year 2009, after

this year the expenditure chapter *Sustainable growth* comprehensive of "Competitiveness for growth and employment" and "Cohesion for growth and employment" leads with 0.9% difference (1 418 billion €).

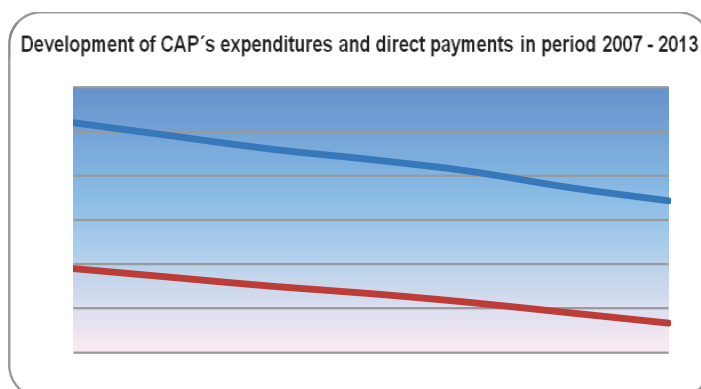


Figure 1: Comparison of the development of CAP's expenditures (red line) and direct payments (blue line) in years 2007 – 2013, source: MF SR

Common Agricultural Policy 2007 – 2013 in Slovak Agriculture

The role of agriculture consists not only in food production, but also it significantly shapes the face of the country, affects the quality of the environment and helps to increase the potential of tourism development. It is therefore evident that the industry will continue to benefit from public support. To make a right decision in allocation of this support, it is necessary to become familiar with the agriculture development.

Agriculture of the Slovak Republic in 2007 – 2013

Agriculture, forestry and fishery GDP

The share of agriculture in the created gross domestic product (figure 2) has oscillated from 3.6% in 2007 (2233.53 million €), through 2.56% in 2010 (1685.82 million €); to reach 3.32% in the year 2012 (2375.8 million €).

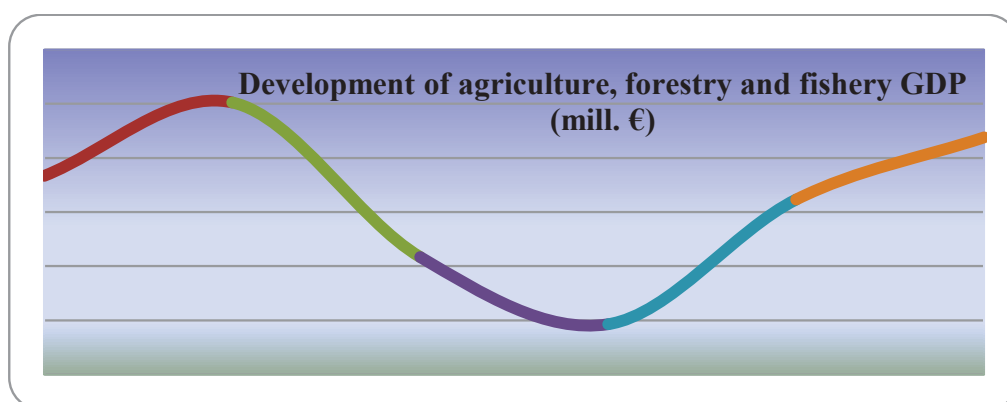


Figure 2: Overview of the agriculture, forestry and fishery GDP in examined period (million €), source: ŠÚ SR

The quarterly growth of agriculture gross production (figure 3) is defined using the logarithmic transformation of the exponential function:

$$\ln y_t = \ln b_0 + x \ln b_1 + \ln u_t$$

and based on it following conclusions can be made:

Multiple R = 0.3762...low leakage power dependence between y and exogenous variables

R Square = 0.1415...14. 15 % of the variability of the endogenous variable is explained by given regression function (model)

Significance F = 0.0338 ... < 0.05, i.e. model as a whole is statistically significant (+)

Parameter b_0 is statistically highly significant, since the P-Value (4, 13E-41) < 0, 01 (++)

Parameter X_1 is statistically significant, since the P-Value (0, 0338) < 0, 05 (+)

$b_0 = 954. 4478$... In the zero period time, the gross output of agriculture is in the amount of

954. 45 units (million €).

$b_1 = 0.007091$... 0.709059 Quarterly growth rate of agriculture gross production is **0.71%**

2.836236 The annual growth rate of agriculture gross production is **2.84%**

Regression function form: $y_i = 6,861 + 0,007x_1$

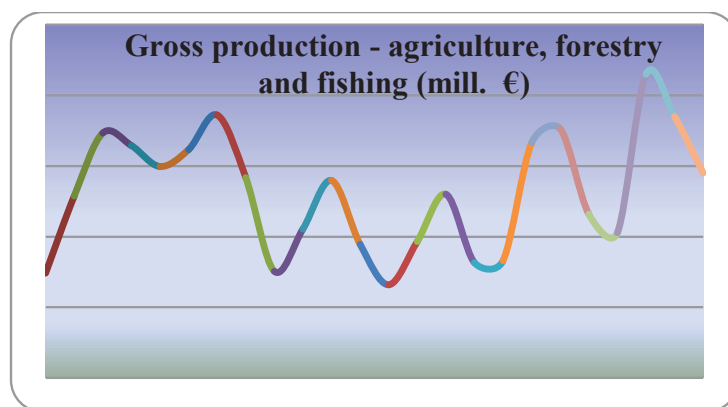


Figure 3: The quarterly growth of agriculture gross production (million €), source: ŠÚ SR

The economic production rate of agriculture and food processing

The economic profit of agriculture and the food processing (figure 4) reaches two important points in the examined period:

1. year 2007 – the revenues obtain their maximum value (4 264.3 million €) by costs of 4 169,8 mill. € → profit: 94.5 million €
2. year 2009 - the revenues obtain their minimum value (1 965.9 million €) by costs of 2 078,7 mill. € → profit: -112.8 million €

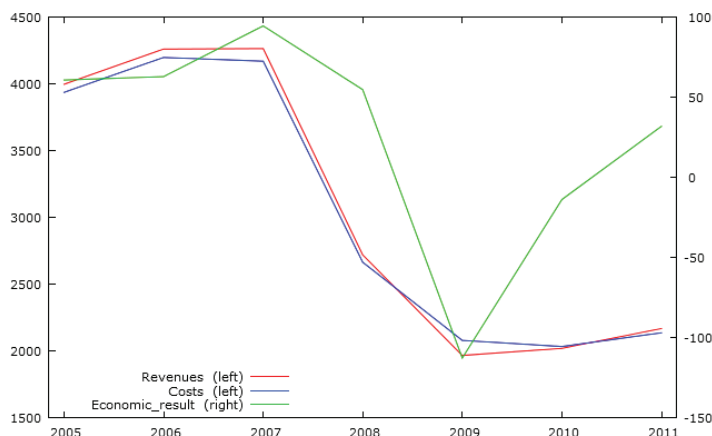


Figure 4: Development of the revenues (red line), costs (blue line) and economic profit (green line) in the Slovak agricultural production (million €), source: ŠÚ SR

The economic agricultural account (figure 5) describes the ratio in which the crop production and the animal production create the total amount of agricultural production. The highest value of agricultural production can be noticed in year 2008 (2333.37 million €). Paradoxically, in the following year, the lowest agricultural production can be remarked (1740.14 million €). This interannual loss represents decrease by 593.23 million € on amount 1740.14 million €.

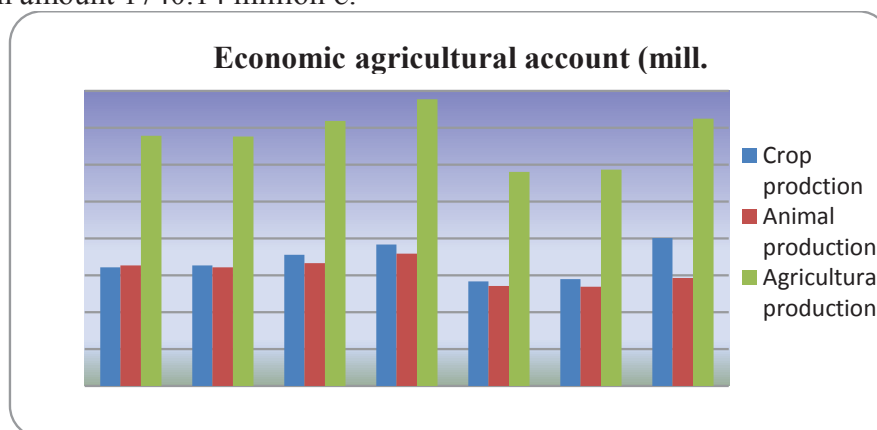


Figure 5: Development of the crop production, animal production and the agriculture production, source: ŠÚ SR

Employment

Employment in the agricultural sector (figure 6) has declining character; since the beginning of the examined period the number of employees in the crop production decreased by 35.07%

(- 3 076 employees) and the animal production employment decreased by 38.95% (- 5 193 employees).

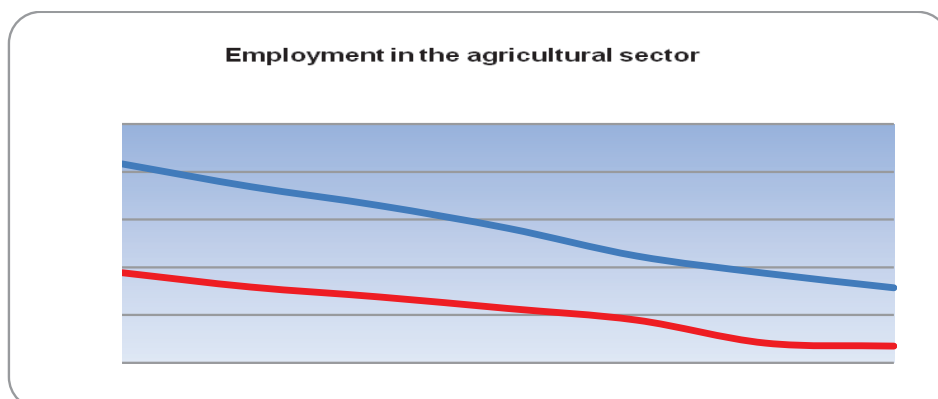


Figure 6: Average number of employees in the animal (blue line) and crop production (red line),
source: ŠÚ SR

The land use

In Slovakia during the examined years, the ratio between utilized agricultural area and permanent meadows and pastures is stabelazed (3.7 : 1). There are only minimal changes between years values:

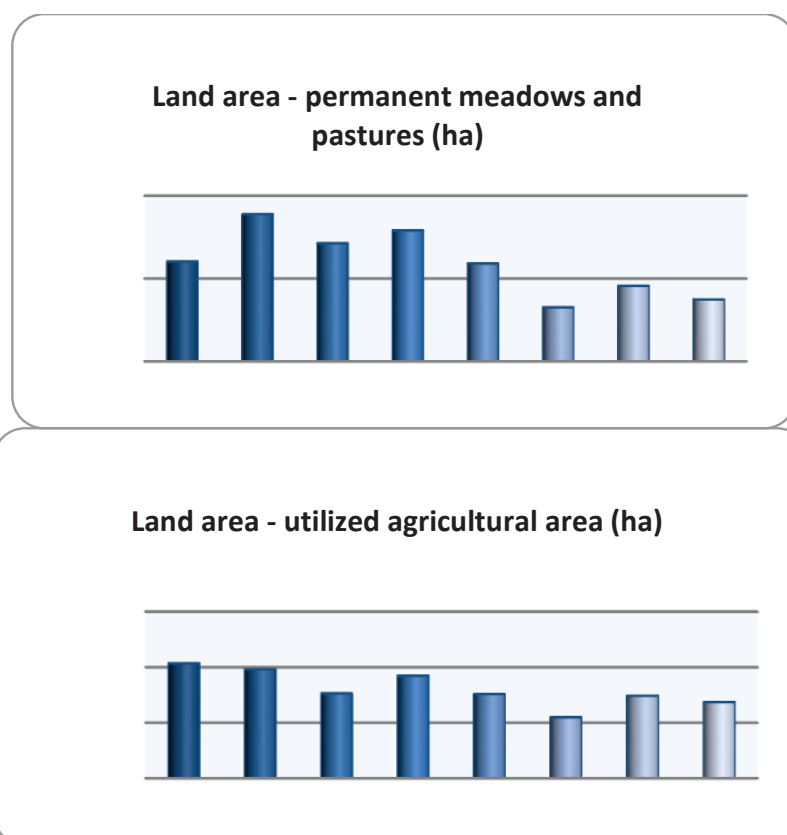


Figure 7: Utilized agricultural area vs. permanent meadows and pastures (ha),
source: ŠÚ SR

Common Agriculture Policy in Slovakia 2007 – 2013

After the Slovak Republic became a member state of the European Union, the agricultural support received a new dimension in form of CAP's expenditure patterns implementation. In Slovakia, following instruments are used by CAP:

1. Direct payments
2. Rural development
3. Market-oriented expenditures

Market-oriented expenditures' task is to support the export of agricultural goods in the areas outside of the EU, but also e.g. National programme of beekeeping and the Programme of school milk support.

Financing thru the rural development focuses on the agro-environmental support, investments in the agricultural companies, improving of the agricultural products' processing and merchantability, agricultural proceedings' diversification, forestry and also support of farms with partly self-supplying, education, counselling and fish system.

Direct payments are the most important source of finance in terms of volume of funds. They are composed of two parts:

- a) resources of the EU (the volume is given by the regulation of Council)
- b) national equalization payments - co-financing from the state budget (volume is given by law on the state budget)

A significant dynamic growth in terms of the total amount of additional public funds flowing into agriculture can be noticed since the Slovak Republic became a member of the European Union. Detailed overview of the resources flowing into Slovak agriculture is shown in the table 2:

Table 2: Financing of the Slovak agriculture

	2004	2005	2006	2007	2008	2009	2010	2011
Direct payments	245.47	233.25	251.01	360.78	223.93	364.1	337.6	365.2
- Direct payments (funds of ES)	153.49	164.94	152.82	213.84	213.84	227	243.7	278.4
- co-financing (Slovakia)	91.98	68.31	98.19	146.95	10.09	137.1	93.9	86.8
Rural development	148.91	176.89	201.75	178.25	402.91	433.5	483.1	408.5
- Rural development (funds of ES)	119.00	141.37	154.92	138.78	309.80	331.8	369.3	313.4
- co-financing (Slovakia)	29.91	35.52	46.84	39.47	93.11	101.6	113.8	95.1
Market-oriented expenditures	26.49	37.87	37.68	37.68	39.00	39.8	13.6	13.1
- Market-oriented expenditures (funds of ES)	26.49	37.87	37.68	37.68	37.68	37.6	10.9	9.9
- co-financing (Slovakia)	0.00	0.00	0.00	0.00	1.33	2.2	2.7	3.2

Source: MF SR

One year after joining the European Union, Slovakia was given the minimum support from the European and Slovak funds (215.22 million €). Figure 8 provides a brief overview of the development of direct payments paid to Slovakia in previous years. The

highest sum of support can be noticed in year 2008 (370.41 million €), followed by year 2011 with amount of support 365.2 million €.

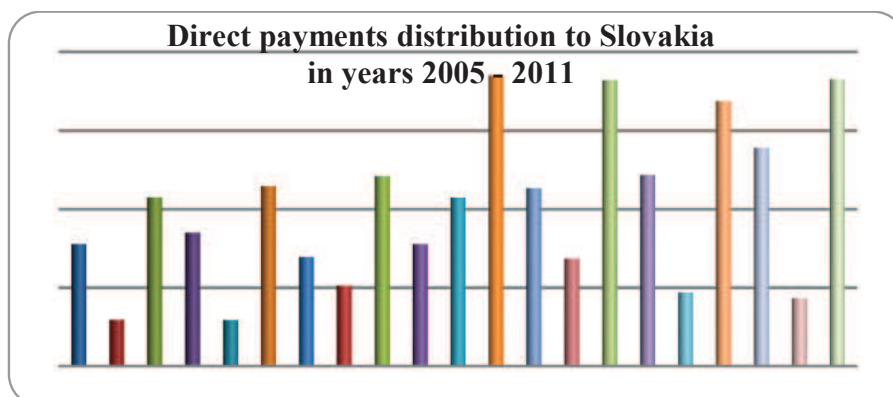


Figure 8: Comparison of direct payments development in Slovakia (€/person),
source: MF SR

Reform of the Common agricultural policy 2014-2020

The long-awaited European Commission's proposal of the Common Agricultural Policy reform has become the target of criticism, mainly of the central Europe countries. Its opponents argue that it does not sufficiently pay attention on a fairer distribution of funds, increasing the competitiveness of the sector and the promotion of green farming practices. However, the positive or negative consequences of it cannot be taken into consideration without a deep analysis. To demonstrate CAP's advantages / disadvantages, it will be needed to go through several factors reflecting the impact of EU decisions on the Slovak agriculture development, as a representative country of V-4.

Problematic provisions of the draft reform of view CAP:

- **Distribution of support** among the EU member states
- **Capping** - setting the upper limit of support for big companies
- **Terms of greening** and their close relationship to capping direct payments

Direct payments

Implementations of the direct payments strengthen the idea of flat-rate market reforms enhancing the competitiveness of the agricultural sector by encouraging farmers to adapt to the market conditions. The European company's needs - basic income and basic public goods - are now supported by the uncoupled direct payments.

European Commission identifies the role of the future redistribution of direct payments as a dual one - support for income and provision of public goods by ensuring a better fit between these policy objectives and the budgetary means available. There are several options for redistribution of direct payments envelopes between EU Member States taken into consideration:

EU flat rate – direct payments distribution on the total potentially eligible hectares across the European Union Member States with volume 267 €/ha of potentially eligible area (PEA).

As shown in Figure 9, there are considerable differences in payments between member states such as Malta, Belgium, Nederland, Italy, Greece, Cyprus, Denmark, and Slovenia – with higher direct payments and member states like: Latvia, Estonia, Lithuania, Portugal, Romania, Slovakia, Bulgaria, and Poland - with lower payments.

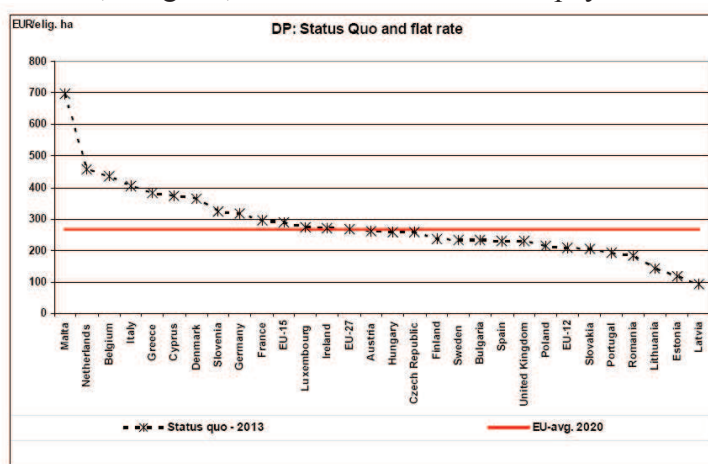


Figure 9: Direct Payments redistribution using EU flat rate, source: DG AGRI

Choosing the option EU flat rate would mean to redistribute a sum of 4,394 million €. While Malta, Belgium, Nederland, Italy, Cyprus and Denmark would remark losses; EU flat rate would produce substantial gains to Latvia, Greece, Lithuania and Romania. This option would be most beneficial for Romania, Poland and Spain; on the other hand Italy, Germany and France would loose the most.

“A flat rate payment across the EU would fail to reflect differences in the economic and environmental situation in the Member States, since a given level of payment does not have the same effect on income and each hectare does not equally contribute to the provision of environmental public goods.” European Commission

Considering, almost 90 % of the land is concentrated in 20 % of the holdings in the EU-25, EU flat rate can not solve the problem of an unequal direct payments distribution between farms. Distribution proposed this way would be a strong rejection of support compensation to new member states and to the old ones.

pragmatic approach – Member States are given the EU wide minimum level of per hectare payment based on a share of the EU average.

In the pragmatic approach, the direct payments distribution is solved by dividing it to all Member States at the level at least 80% of the EU average per hectare (figure 10).

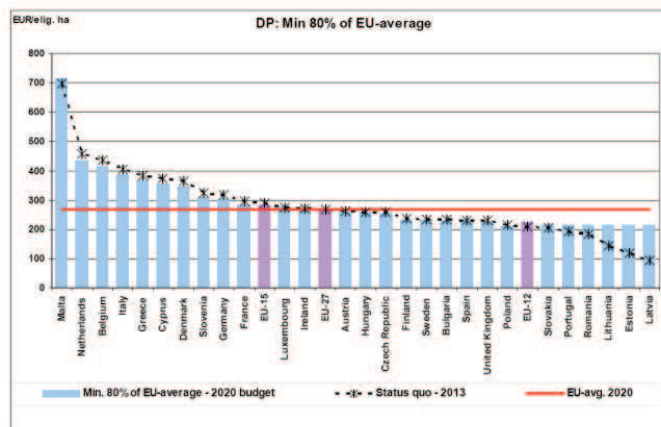


Figure 10: Direct Payments redistribution using min 80% of EU-average, source: DG AGRI

The amount of redistributed payments would be a sum of 847 million € by this option. Romania, Latvia and Lithuania would remark only positive impacts; France, Germany and Italy would remark the biggest losses in this case.

“This option would allow addressing the situation of Member States which are significantly below the EU average while mitigating the impact of redistribution on those above the EU average.” European Commission

This means that, to lift the per hectare payments of Member States to 80 % of the EU average (213 €/ha), it would be needed to cover this cost on a proportional basis by the Member States that are above the EU average → payments to the Member States to 80 % of the EU average would be required by a reduction of their envelopes, while the envelopes of those Member States who belong between 80 % - 100 % would remain unchanged.

the use of objective criteria - the EU flat rate is adjusted by objective criteria based on economic, physical and/or environmental indicators

“Objective criteria that reflect the dual role of direct payments in providing income support and public goods and would thus ensure a more equitable and efficient use of budgetary resources.” European Commission

The use of objective criteria should ensure a more equitable and efficient use of budgetary resources - higher direct payments/ha would be given to the Member States with higher GDP/capita (expressed in PPS) as well as to the Member States with higher GVA/AWU.

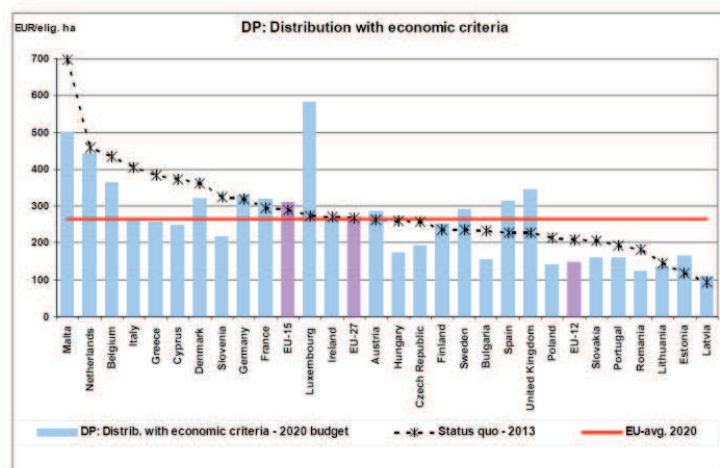


Figure 11: Direct Payments redistribution using Economic objective criteria, source: DG AGRI

combination of a pragmatic approach and objective criteria

The common agricultural policy is built on two pillars (it's maintaining is supported by the Commission proposal and the European Parliament's position too):

1 st pillar: Direct payments and markets	317. 2 billion € (76%)
2 nd pillar: Rural development	101. 2 billion € (24%)
Total:	418. 4 billion € (100%)

In addition to the CAP budget, another 17, 1 billion Euros should be redistributed:

- 5. 1 billion € - Agricultural research and innovation
- 3. 9 billion € - Reserve for crises in the agricultural sector
- 2. 5 billion € - Food safety
- 2. 8 billion € - People in poverty
- 2. 8 billion € - European fund for globalisation adjustment

Table 3: Comparison of direct payments resources in the actual CAP

	2007	2008	2009	2010	2011	2012	2013
Financial cap for the EU's part of direct payments	40	50	60	70	80	90	100
Possible national supplementary payment (Slovakia)	30	30	30	30	20	10	0
Total	70	80	90	100	100	100	100

Source: VUEPP

The new structure of direct payments within the 1st pillar of the CAP will be for the first time established - multicomponent structure of direct payments:

- Basic Payment Scheme (50%, will replace the currently applicable payment SAPS)
- Ecological payment (mandatory, 30%)
- Coupled support (optional, 10%)
- Payment of LFA (optional, 5%)
- Young farmer (mandatory 2%)

Capping

The European Commission's intention is to put into practice a cap for subsidies for the largest agricultural companies that receive a disproportionate measure of direct support of incomes from the CAP. Implementation of a progressive capping on payments should start at 150 000 € - the maximum amount of support for a farm for one year would be limited to 300 000 €. This progressive capping would be in force only from moment, when the costs of social security and wages would be deducted from the total sum.

After the vote in the European Parliament, the amount of capping per farm stays at sum of 300 000 € and since

- farms are given 250 000 € → 30% of unit subsidies would be paid per hectare
- farms are given 200 000 - 250 000 € → 60% of unit subsidies would be paid per hectare
- farms are given 150 000 – 200 000 € → 80% of unit subsidies would be paid per hectare

Due to the historical development large farms can be found especially in Slovakia, Czech Republic and East Germany. These farms were excluded from the plan of capping. CAP funding will be provided only to active farmers who are able to demonstrate tangible action. Because the Commission's definition of an active farmer is very broad; support is likely to be given even to those farmers whose annual income from agriculture represents only 5%. 2% of CAP resources should help to entice young people to farming and farmers to 40 years should receive 25% bonus on direct payments during the first five years; and in this case the cap on the size would be unified on 50 ha (no individual based on the average size of farms among the Member States).

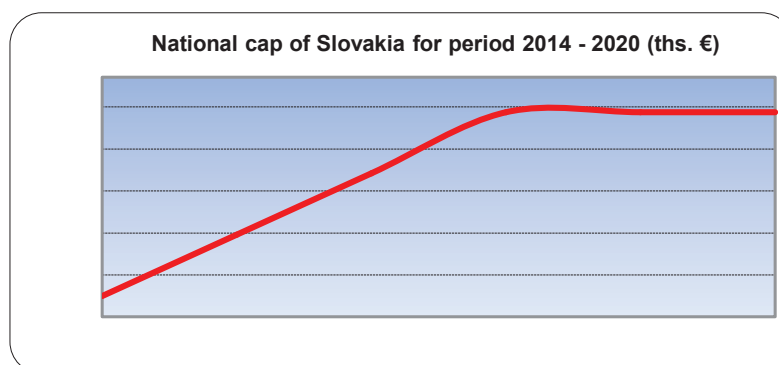


Figure 12: Capping directions for years 2014 - 2020, source: DG AGRI

Additional national payment on livestock units (figure 13) represents the support of animal production given to Slovak agriculture from year 2007. Its decreasing character responds to decline in animal production (figure 14). The most enormous drop can be noticed in year 2008, when the animal production decreased by 263.88 million € in 12 months.

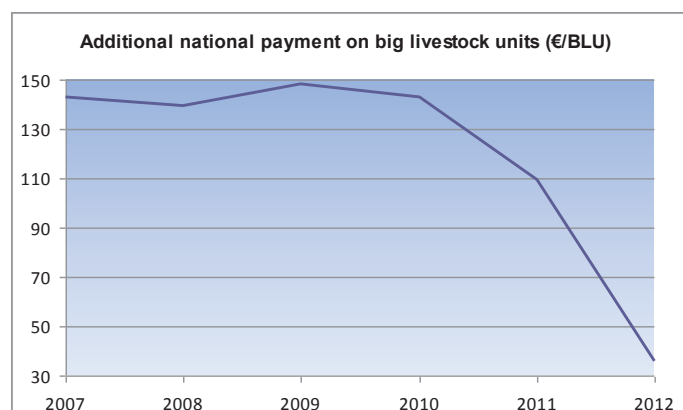


Figure 13: Additional national payment on big livestock units (€/BLU) 2007-2012, source: ŠÚ SR

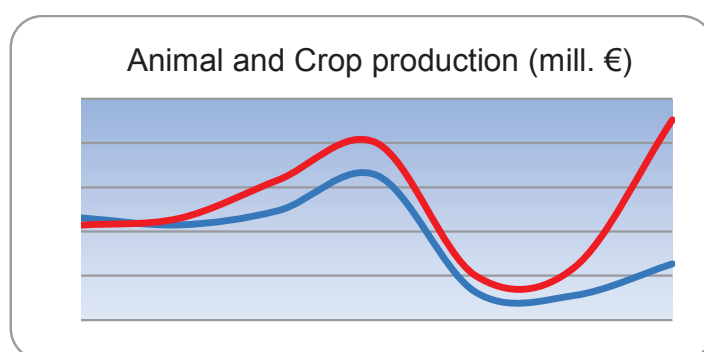


Figure 14: Animal (blue line) and Crop production (red line), source: ŠÚ SR

To demonstrate the task of capping as a part of the CAP reform – the downward trend of employees in the animal production has to be remarked. The primary objective of capping is to increase the downward nature of employment in animal production, or at least to maintain its current state (figure 15). This support should help to spread the animal production and ensure the position of animal farms in Slovakia, as well in Czech Republic and Germany.

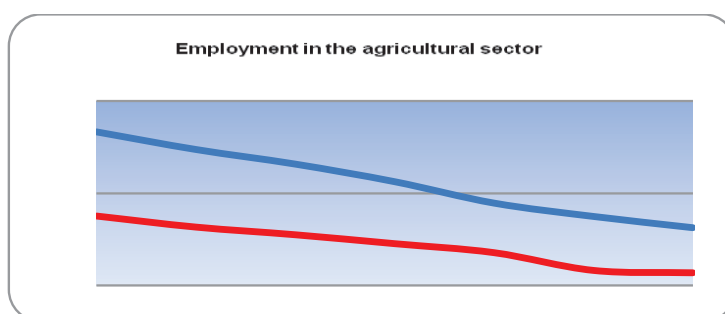


Figure 15: Average number of employees in the animal (blue line) and crop production (red line), source: ŠÚ SR

SAPS (Single Area Payments) are paid to farmers whose minimum size of the cultivated area is 0.3 hectares and the minimum size of the economy overall is 1 ha. These payments proceed from the European Agricultural Guarantee Fond (EAGF). In Slovakia,

their progress is continuously growing what helps to keep the volume of crop production in a positive way (figure 16). The average number of employees in the crop production decreases only in year 2008, what can be caused by the financial crisis outbreak. But the overall development of employment in the crop production can be characterized as a growing one due to the efficient influence of SAPS.

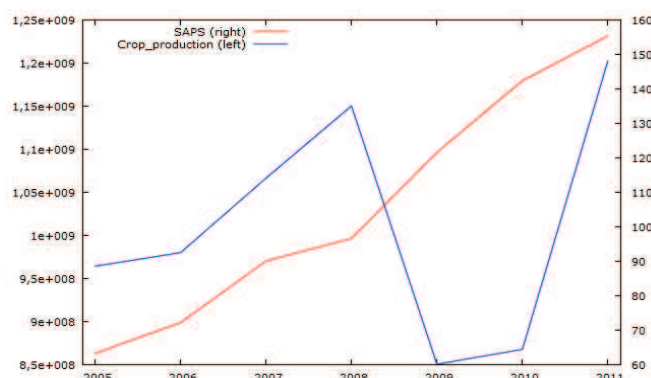


Figure 16: Development of SAPS (€/ha) and crop production (million €), source ŠÚ SR

Greening

A short overview of the implications of greening based on the amount of farms and a reduction of direct payments is shown in table 4 – differences in variants between examined years are followed:

- Variant 30% : + 0.39 % of direct payments in 2020
- Variant 20% : + 0.47 % of direct payments in 2020
- Variant 10% : + 0.49 % of direct payments in 2020
- Variant 0 : + 0.55 % of direct payments in 2020

The European Commission's suggestion is to make a condition on the allocation of 30% of direct payments based on three *green rules*:

- *Maintaining of the permanent pastures*
- *Diversification* - farmers will have to grow at least three kinds of crops on their arable lands; while one crop can occupy at least 5% and maximum 70% of the total area
- *Maintaining the "ecological landscape"* - at least 7% of the area, other than permanent pastures, must be used on balks, hedges, trees, outfield, the landscape features, biotopes, interference guard bands and forested areas.

Table 4: The implications of greening based on the amount of farms and a reduction of direct payments

Year	Parameter	% of farms in classes					Direct payments	
		150 - 200 (ths. €)	200 - 250 (ths. €)	250 - 300 (ths. €)	300 > (ths. €)	% of farms together	Decreasing (mil. €)	% of reduction compared to the claim
2014	Variant 30%	0.34	0.21	0.17	0.21	0.94	1.24	4.26
	Variant 20%	0.51	0.34	0.17	0.43	1.45	2.2	5.74
	Variant 10%	0.64	0.51	0.3	0.55	2	3.62	7.27
	Variant 0	1.49	0.51	0.34	0.9	3.24	5.57	8.76
2020	Variant 30%	0.3	0.21	0.26	0.21	0.98	1.46	4.65
	Variant 20%	0.6	0.38	0.17	0.47	1.62	2.58	6.21
	Variant 10%	0.85	0.55	0.3	0.68	2.39	4.21	7.76
	Variant 0	1.92	0.55	0.38	1.02	3.88	6.45	9.31

Source: *Impact of the CAP reform on the agricultural organizations in the Slovak Republic*, Semančík M., 2012

Based on the complaints from farmers' organizations and some Member States, the European Parliament decided to remove some small farms from the green rules. An exception should receive even those producers who fulfil the national environmental certification conditions.

The paradox is that the former idea of the European Commission was giving the exceptions to farms that operate in the organic way. Farms with less than 10 hectares of cultivable land will automatically receive an exception; companies owning 10 ha – 30 ha area can apply for this exemption → the exceptions will refer to 82% of European farms.

Slovakia identifies with the Austrian proposal to consider the cultivation of soybeans and legumes as an option in "greening" the 7% of agricultural land. For Europeans, it would be an interesting proposal, because huge amounts of soybeans are imported from the United States. Another reason, why Slovak Ministry of Agriculture agrees with this suggestion is fact that increasing the land intended for growing pulses was a perfect idea especially in dry periods (i.e. year 2012 marked with huge droughts).

Table 5: Crops of soybeans

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Harvested area (ha)	10 983	8510	10898	12036	7795	5408	9286	13976	19667	21889
Production (t/ha)	12 210	13511	18964	20553	11029	11379	15379	24045	36922	41832
Total crop (t)	1.11	1.59	1.74	1.71	1.41	2.1	1.66	1.72	1.88	1.91

Source: ŠÚ SR

The pressure on agricultural products' prices will rise as a result of new given criteria of greening. This would cause:

- reduction in the competitiveness of Slovak agricultural products
- increase of food expenditures
- growth of food import
- reduction of potential output growth
- increased costs in crop production
- use of arable land will decrease mainly the lowland regions of Slovakia
- foothill and mountain areas → pressure on increasing the green areas
- acreage of cereals and oilseeds in all areas of production will decline
- the reason for increasing the forage areas will not be the growth in livestock feed consumption, but maximizing of income including the CAP subsidies → growth of green areas on arable land
- in case of a larger volume of direct payments and their tying on the BLU and dairy cows; a significant attenuation of these negative development is likely

Conclusion

Slovakia is perceived as a leader among the European countries due to its size of farms. Despite of a high concentration of farms - up to 95.1% of the utilized agricultural land are farmed by large farms - the Slovak agriculture is considerably less productive.

The reform of Common Agriculture Policy tries to develop not only the traditional role of agriculture, a food production, but shapes the face of country, affects the quality of environment and also helps to increase the potential of tourism development through the cooperation of direct payments system, capping and greening.

To make a right decision in allocation of this support, it is necessary to become familiar with its advantages and disadvantages especially in Slovak agricultural conditions:

Direct payments system – the use of objective criteria would ensure a more equitable and efficient use of budgetary resources in comparison to e.g. EU flat rate, where Slovakia is paid with lower direct payments than the other Member States. Objective criteria reflect the dual role of direct payments in providing income support and public goods.

Capping - The primary objective of capping is to increase the downward nature of employment in animal production, or at least to maintain its current state in Member States like Slovakia, Czech Republic or Germany, where the biggest farms are located due to the historical development. In previous years, the animal production has been forgotten regarding to higher payments paid to the crop production. This unbalance could be changed by reform of Common Agriculture Policy.

Greening – opponents of green rules, which should ensure the maintaining of the permanent pastures; diversification and maintaining the "ecological landscape" highlight their possible negative impacts like reduction in the competitiveness of Slovak agricultural products; decrease of potential output growth; increased costs in crop

production; etc. But one of its indisputable advantage hides in the opportunity to spread the crop of soybeans and pulses that could be a rewarding alternative of possible farms losses in these increasingly hotter summers.

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