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BULLETIN
of the Szent István University

SPECIAL ISSUE

PART I.

Gödöllő
2008

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ISSN 1586-4502

Megjelent 380 példányban

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**AGRICULTURAL AND RURAL DEVELOPMENT AND
INTERNATIONAL VIEW**

AGRÁR- ÉS VIDÉKFEJLESZTÉS, NEMZETKÖZI KITEKINTÉS

SOME PROBLEMS OF SOCIAL AND ECONOMIC DEVELOPMENT OF AGRICULTURE

BIELIK, PETER – RAJČÁNOVÁ, MIROSLAVA

Abstract

Slovak Republic was among ten new members joining European Union in May 2004. Since then the EU accession has influenced the social and economic aspects of life in the country and still continues to do so. The main purpose of this article is to present several problem areas of socio-economic development of Slovak agriculture. In details, we will focus to the position of agriculture in the National economy, development trends of Slovak Agriculture and transformation process, entrepreneurial structure and use of land, economic situation in Agriculture and the development of selected socio-economic indicators in agriculture. Finally, we will mention about the present situation and priorities of the Slovak Agricultural Policy.

Key words: agriculture, economic and social development, transformation process

Introduction

Slovakia is one of the 27 members of European Union. EU accession in 2004 was connected with great expectations. However, most of them were not completely fulfilled. As stated in Kadlecikova (2006) the most positive results from the EU accession are as follows: Due to the CAP the income of the farms increased significantly, since the EU financial funds have been engaged. After the years of transform process, the agriculture became profitable in almost all sectors. The accession meant joining a system which provides more protection and more support. The price of agricultural products increased on the internal markets. The products of the new member countries appeared on the markets outside of EU as EU products. The land prices and land lease fees increased. The trade barriers within the EU-25 have been eliminated (quotas, subsidies). Adoption of export tariffs (e.g. rice, bananas. Decline: alcoholic drinks, rape). Significant increase of export from the new member states (Hungary: 11%, Poland: 42%). The increase of export proves the competitiveness of the agricultural and food products of the new members. The agricultural production, the environment, the food safety and animal welfare have more importance within the new circumstances. The awaiting queues disappeared from the internal borders. The situation of the food industry turned out better, than it was expected. More support is given to the environmentally sound agricultural methods. The less positive experiences of the new EU members after the accession are as follows:

- The direct financial supports do not seem to solve the problems of rural development and the development of agricultural infrastructure.
- The new EU members are eligible to get EAGGF subventions, but the access to this support requires a lot of administrative duties from the farmers and producers as well as from the public administration.
- The significant increase of the number of employees at the paying agencies was not avoidable.
- The free trade between the new and former EU member countries activated the trade, but due to the higher competitiveness of the "old" members, the main flow of export oriented more to the new countries, except the case of Poland.

European Union accession predominantly influences agriculture as the agricultural sector has been strongly regulated by the Common Agriculture Policy (CAP). Accession involves both changes in agricultural support level as well as support instruments used.

The most controversial was the discussion about level of direct payments. The European Commission claimed that subsidies decoupled from production have not influence on production neither on competitiveness and at the other hand high level of subsidies will hinder branch transformation. However, the direct payments are not efficient decoupled from production. The direct payments should not have any impact on the farmer's behavior in the perfect markets. (Pokrivčák et al., 2004), (Banse et al., 2000).

The CAP with support instruments is supposed to eliminate the regional differences. On the other side is necessary to notify that the farmers should contribute with configuration of their expense and producing structure and marketing strategy. The CAP does not create in new members states conditions for loss compensation as a consequence of ineffectively production. (Blaas – Božík, 2002)

Material and methods

To analyze the social and economic development of Slovak agriculture we used the indicators constituted by the Research Institute of Agricultural and Food Economics as the share of agriculture in GDP and total employment, agricultural production in fixed prices, input's and output's prices in the agri-food complex, investment in agriculture and farm profitability. All the indicators used will shed a light on the economic development of Slovak agriculture.

Another goal of our analysis is to evaluate the effects of changes in the Slovak agriculture onto the social development. We evaluated the share of average wages in agriculture to average wages in Slovakia and educational structure of employees. The last part of the paper deals with the changes in the support scheme to agriculture through the comparison of negotiated and real support from DP - CAP in Slovakia

Results

Main development in the Slovak agriculture in the pre-accession and post-accession period

Slovak economy is in the present the open economy with small internal market. From this reason the Slovak economic efficiency and mostly efficiency of agro-business sector is sensitive to external environment, it means to global trends in the world economy and the development in the European economic space. Most of the indicators of the Slovak economy reach comparable values with the average of the EU.

Slovak agriculture had to pass through a difficult development after 1990, when it had to adapt to conditions of the market economy. During this period there appeared the decrease of the relative importance of agriculture in SR. While in 1960 agriculture employed 33,7 % of active labour force, in 1980 it was only 14,5 %. The development after 1989 is shown in the chart. The decrease of the share of agriculture in GDP appeared also in another countries affected by the demand barrier on the one hand and the economic transformation on the other hand. The share of agriculture in the created gross domestic product has oscillated around 4% in recent years.

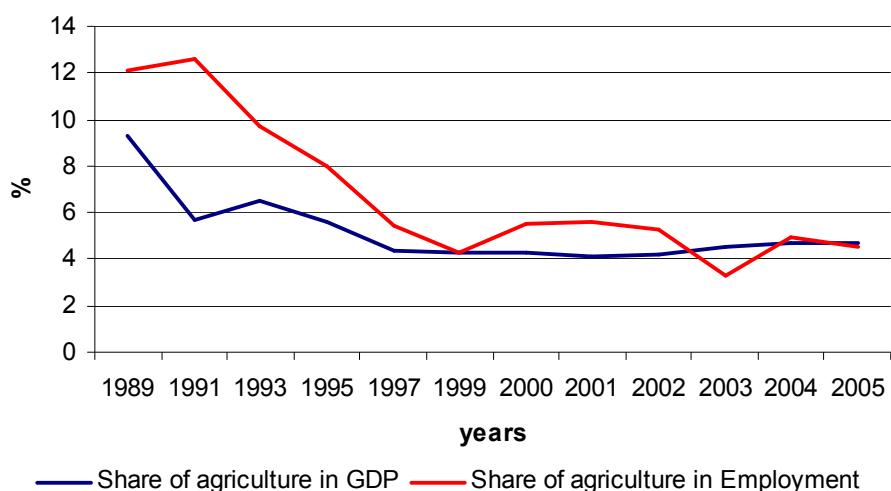


Chart 1: Share of agriculture in GDP and total employment (in %)

Source: www.mpsr.sk

Development of agricultural production

Until 1989 the agricultural production had an increasing tendency. Since 1990 to 1999 the agricultural production decreased by 35 %, crop production by 30 % and animal production by 40 %, in the animal production this trend is still continuing. The decrease of agricultural production was influenced by more factors – weather extremes, transformation of agricultural sector, non-clear property rights...



Chart 2: Long-term Development of Agricultural Production (fixed prices)

Source: www.mpsr.sk

Macours and Swinnen (2000) estimate that more than 45 % of the decrease of agricultural production was caused by the development of relative prices in Slovak agriculture. The other factors influencing the decrease of agricultural production were the decrease of subsidies to agriculture, loss of the competitiveness of some products, high costs and so on. The decrease

of agricultural production together with other factors caused that the Slovak agriculture has gained since 1989 negative economic results.

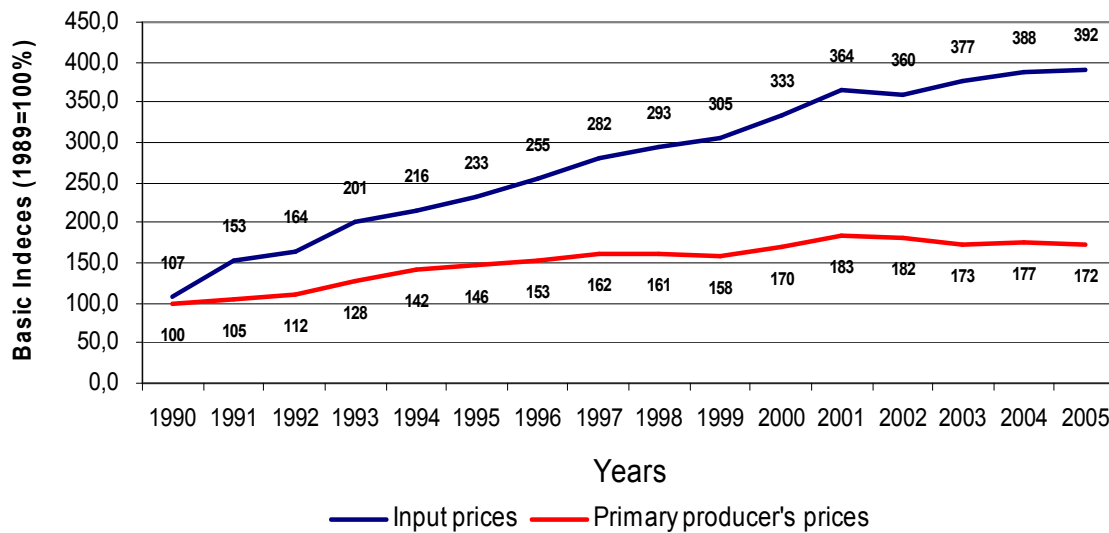


Chart 3: Input's and Output's Prices Disparities in the Agri-food Complex
Source: www.mpsr.sk

Development of profitability of agricultural enterprises has showed great variability over time years 1998 – 2005. The first positive value of economic result in agricultural enterprises was reached in 2001. Profitability has decreased considerably in the in the 2003, which was due to the negative influence of climate conditions. In the first year (2004) of accession of Slovakia to the EU and introduction of new agricultural policy had a positive influence on economic situation. But the year 2004 was specific due to very good climate condition as well. These two positive factors (change of agricultural policy and good climate conditions) involved the unexpected high economic profit for agricultural enterprises. In 2006 the CAP employment through the application of direct payments changed the farming regime and the agricultural sector gained again positive economic result.

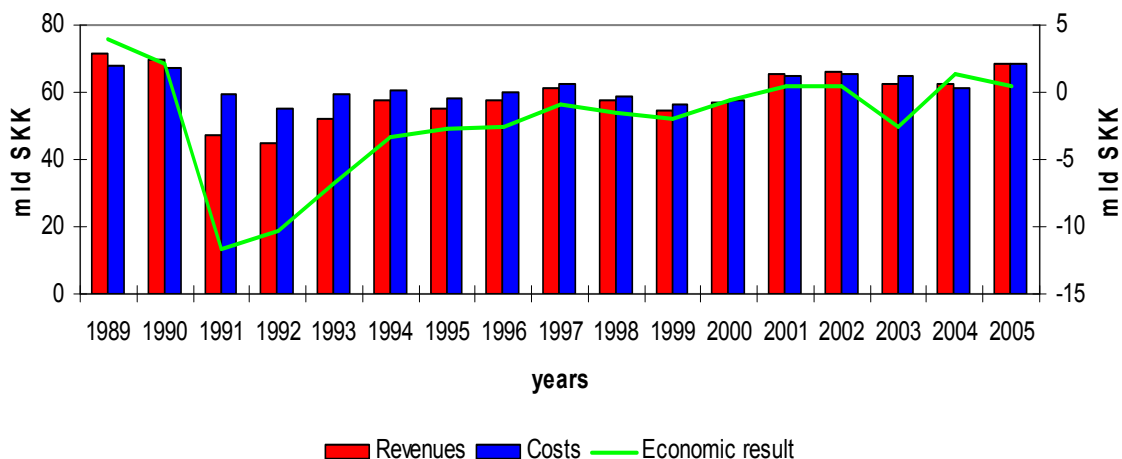


Chart 4: Development of Farm Profitability including subsidies (mld. SKK)
Source: www.mpsr.sk

Agricultural inputs

Hard economic conditions together with the decrease of relative agricultural prices caused the decrease of using the agricultural inputs – labour force, land and also capital. The decrease of total investment into the Slovak agriculture was influenced by negative economic results causing the depreciation deepening of inputs especially mechanization. During the last years, the renewal of the agricultural machinery has a positive tendency but it is still not enough to the change of technical base in agriculture, which requires long-run renewal. The average age of the agricultural machinery, has simultaneously raised after 1990 and affected the raise of production costs in agriculture.

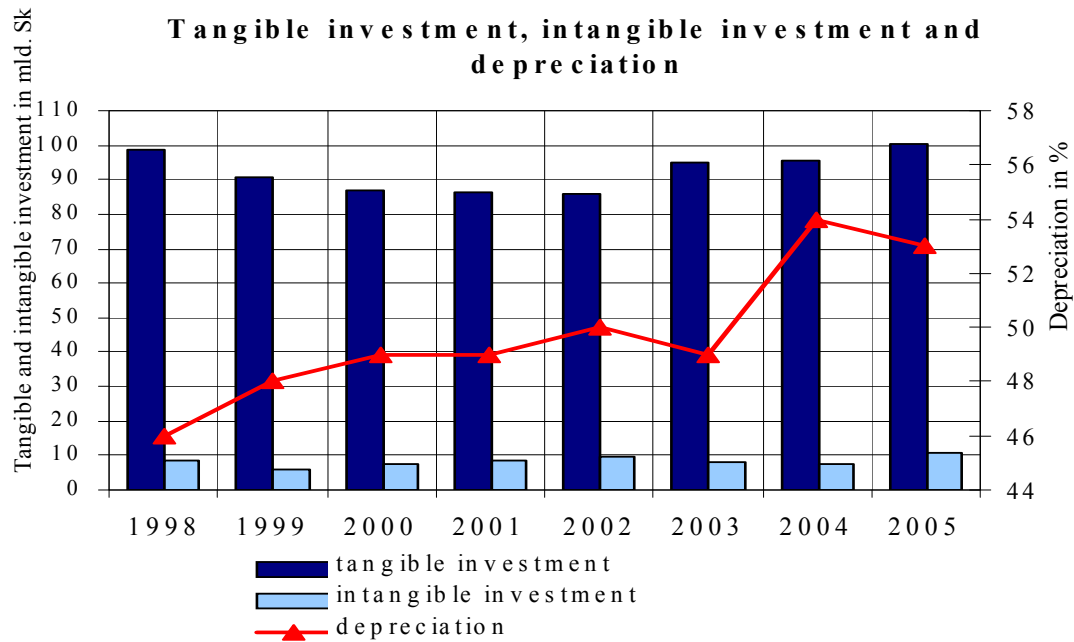


Chart 5: Development of total investment to agriculture

Source: www.mpsr.sk

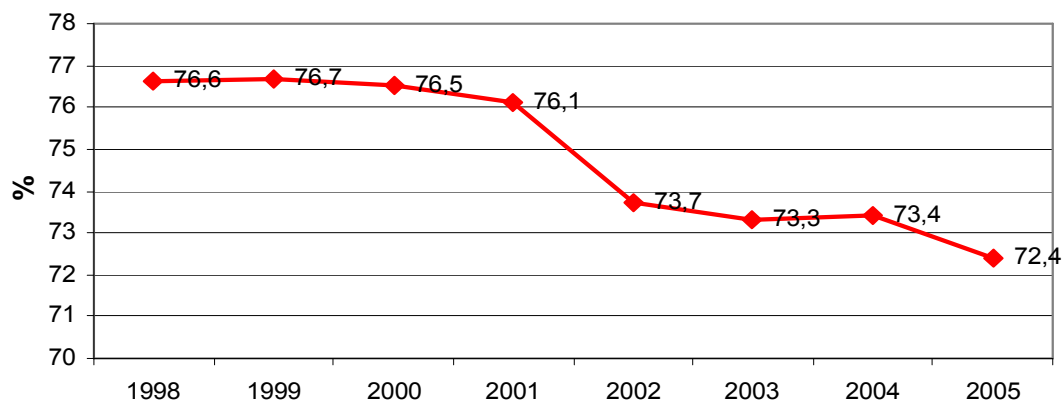


Chart 6: Share of average wages in agriculture to average wages in Slovakia

Source: www.mpsr.sk

Due to insufficient reproduction of machinery after 1990, the average age of machines has increased, thus causing an increase in the direct costs of crop production. Compared to 2004, as well as to the entire previous period, the reproduction of machinery has grown in 2005. Despite positive changes in machinery reproduction they still failed to bring about a substantial improvement in the condition of agricultural machinery, which needs fundamental upgrade in the long run. The decline in the total number of machines and increased number of new machines in 2005 has reflected in the average age. Beside the decrease of agricultural investment, there appeared also the decrease of using other agricultural inputs as a labour force. The pressure on leaving most of the employers from agriculture was caused because of the decrease of relative wages in agriculture as shown in the next chart.

The average nominal monthly wage in the Slovak national economy increased in 2005 to SKK 17,274, (\$ 699) representing 9.2% increase against 2004 (according to the quarterly statistics report, taking into account the statistical estimate of non-registered wages). In real terms, the wages increased by 6.3% which was the largest increase in the past three years (6.6% increase in 1997). The average wage in agriculture has been slightly above 70% of the average value in the national economy. In 2005, the average monthly wage in farming sector in organizations with more than 20 employees increased by 7.0% to SKK 13,311(\$ 540) This represents a decline from 73.4% to 72.4% of the average wage in the national economy.

Beside the changes in the number of workers and their relative wages, there appeared also the changes in the age structure of agricultural workers. These are characterised by progressive decline in the number of workers below 35 years. Compared to the previous year, the largest decline in absolute terms was recorded in the categories of employees aged 40-44 and 45-49 years. The largest number of employees was found in the age bracket of 50-54 years (23%) and their number increased by almost 3,000 (4.7 pts) year on year. Compared to 2004 the percentage off employees in post productive age (over 65 years of age) has slightly increased by 0.5 pts. Educational structure of employers is one of the main factors influencing the increase of the production efficiency. We can see from the chart the slight increase of educational structure in the agricultural employment. But this development could be distorted by large proportion of other employees with higher educational level.

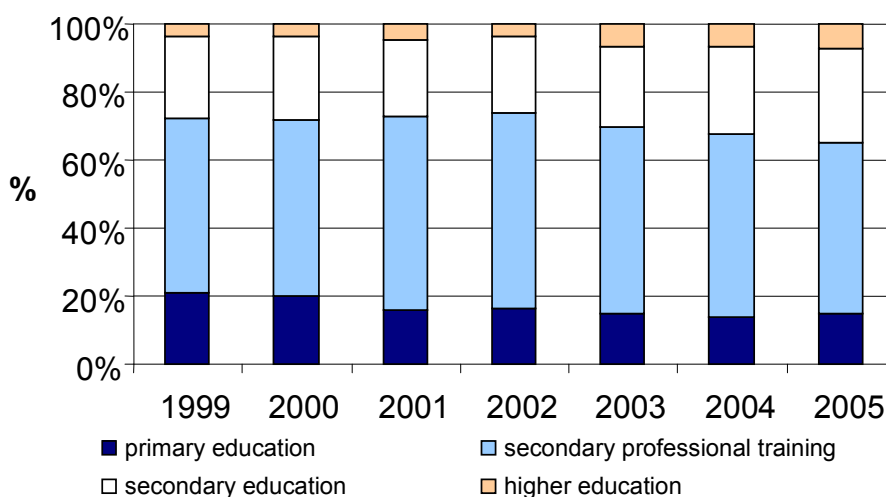


Chart 7: Educational structure of employees in agriculture

Source: www.mpsr.sk

The structure of agricultural sector

As You can see, until 1990 the cooperatives played the most important position in the agricultural structure. The average acreage of agricultural cooperatives was approximately 2 500 – 2 600 hectares. It means the cooperatives played the most important position from the share of the total agricultural land point of view. The state farms accounted the position number two, but their average acreage has been larger – more than 5000. Share of state farms varied from 14 to 15 %. As it is evident from the picture state farms, which controlled 15% of the land in 1989, have virtually disappeared. The share of agricultural co-operatives declined from 69% of land in 1989 to 46% in 2001. A new category of corporate farm has emerged since 1992. Former socialist cooperatives and state-owned companies have been transformed into private business companies and co-partner cooperatives. These legal persons farm on the majority of used agricultural land, while cooperatives farm on 49% of land and business companies (private limited companies and joint stock companies) on 37%. The remaining land is cultivated by independent farmers (12.4 %). Cooperatives farm on land of an area amounting to 1600 hectares on average, while business companies use 930 hectares on average.

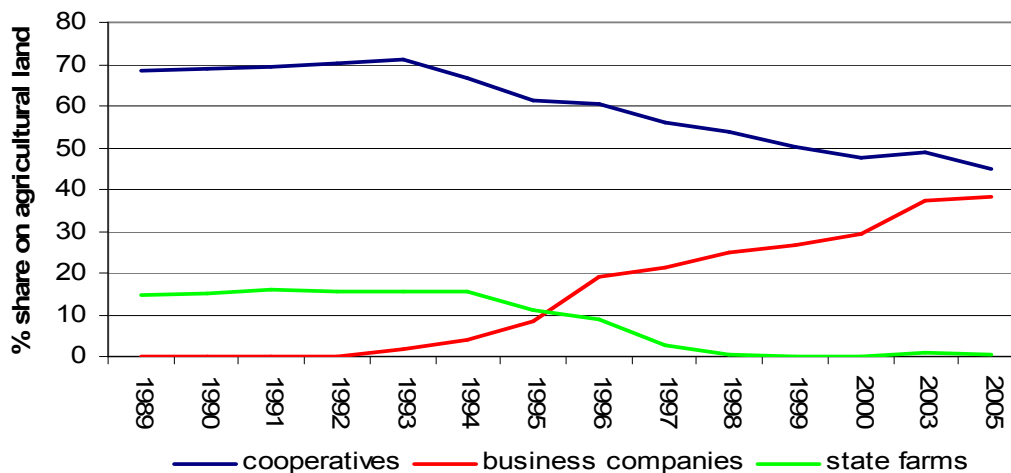


Chart 8: Legal forms according to the share on total agricultural land

Source: www.mpsr.sk

In general cooperative farms operated in better natural conditions than state farms and individual farms. In comparable conditions cooperatives were more efficient than state farms in spite of the fact they were receiving lower subsidies. But even subsidized agricultural production in cooperative farms was not very much profitable. It caused those farms began to operate non agricultural activities mostly in the sector of services, wood processing and small machinery production and services. Non-agricultural operations were more frequent in cooperative farms than in state farms. In 1988 non-agricultural activities represented about 24 % of sales and 75 % of profit at co-operatives.

Comparison of farm profitability's among agricultural cooperatives and business companies is displayed in the chart 9. Development of profitability has showed great variability over time years 1990 – 2005. During whole investigated period better financial position of business companies compared to cooperatives is evident. The first positive economic result of agricultural co-operatives was reached in 2001. Profitability of both legal forms has decreased

considerably in the in the 2003, which was due to the negative influence of climate conditions.

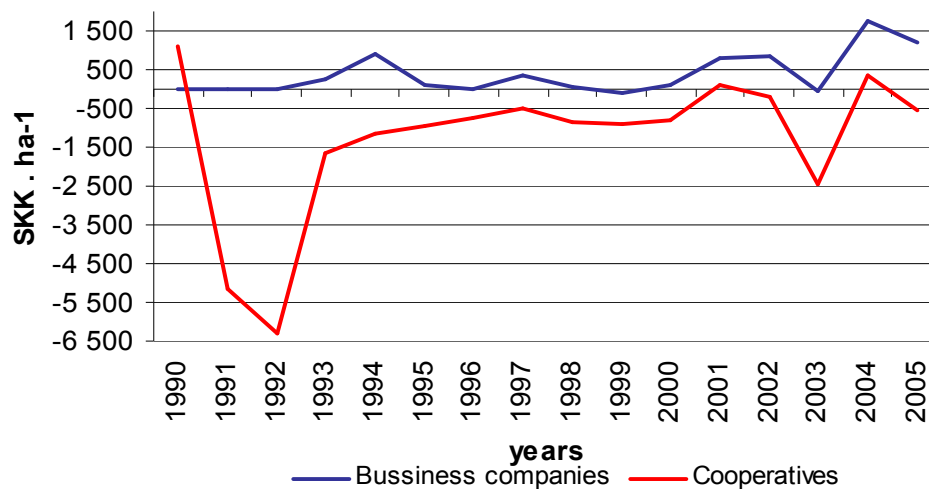


Chart 9: Development of Farm Profitability including subsidies (SKK per hectare)

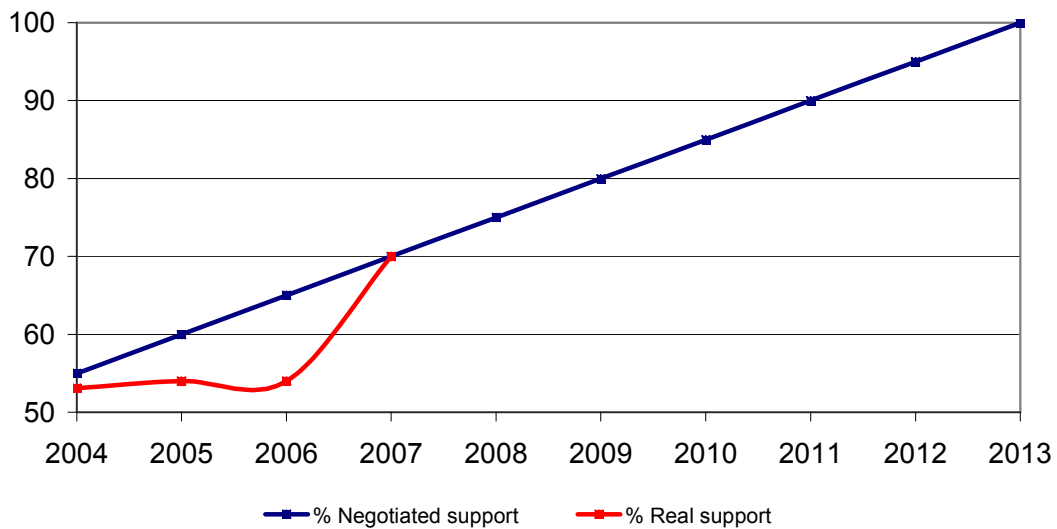
Source: www.mpsr.sk

Another interesting point of the analysis are the changes of farm profitability distribution in the period (of three years 2000, 2003, 2005). For all three Years we can see similar distribution of farm profitability but at the same time also some differences. The common feature of all distribution is the largest share of farms, which is concentrated between 0 – 0.5 thousand SK per farm. The pick of distribution high is in the last year - 2005. The variability of farm profitability is large on the left and right side also. The share of farms with the negative values of profitability is decreasing in period (from 2003 to 2005) and it's slowly shifting to the positive values. The distribution is more kurtosis, as well

Changes in the support scheme to agriculture

Among the most important changes brought by our entry to EU belong the changes in the system of subsidies. Since 2004 the agricultural businesses in Slovakia receive support in compliance with the rules of Common Agricultural Policy of the EU and respective regulations. This includes support to the domestic and foreign market, direct payments and subsidies to rural development measures. Additional national specific payments are provided and these are not supported by CAP EU. The agro-sector in Slovakia is subsidized from national funds and from the sources of EU.

While 2004 saw an atypical performance in direct payments due to accession in 2004 of Slovakia to the EU, the payments throughout 2005 were regularly completed in terms of Common Agricultural Policy in the EU. In 2004 top-up payments of up to 55% from domestic sources were allowed to be added to the direct payments. The budgeted direct payments including national top-up payment were to achieve 52.5% of direct payments in the old EU countries, including transfer of 20% of funding from the Rural Development Plan. However, this amount was then adjusted to 53.1% due to new financial allocation from the EU (increase from EUR 80.81 million to EUR 85.72 million) and 5% transfer from the Rural Development Plan. In 2005, direct payments achieved 54% of the EU level (with potential increase up to 60%).



Source: Slovak Ministry of Agriculture (2006)

Chart 10: Comparison of negotiated and real support from DP - CAP in Slovakia (%)

Despite the fact that these payments were provided from national sources during the pre-accession period; one of the eligibility conditions for the applicants was to register with the Single Area Payment Scheme - SAPS which was applied after accession into the EU. Since May 2004, the types of subsidies also include the Single Area Payment Scheme, "SAPS" which is provided for verified agricultural land and which is funded to the full extent from the European sources. However, in accordance with the EU law the starting date for making direct payments was rescheduled to December of the given year upon completion of all administrative controls and on-site inspections. 30 April 2005 has been set as the final date for completion of direct payments made in 2004 (since 2005, the payment deadline was scheduled to 30 June of the following year). EU allocated EUR 85 720 000 to Slovakia under SAPS scheme for 2004. When converted to Slovak crowns at the established exchange rate (SKK 40,3374/EUR), this amount totalled to SKK 3 457,7 million. At the maximum guaranteed area of 1,955,000 hectares, the resulting payment amounted to SKK 1,768.65 per hectare. By the end of 2004, APA was able to complete SAPS payments in the total amount of SKK 3 061,3 million.

Another portion of direct payments is represented by payments for crops grown on arable land (CAL), at an established rate of SKK 1 764,83/hectare for the total guaranteed area of 1 004 700 hectares of arable land. These payments were co-financed from the EU sources and from the national budget of the Slovak Republic. In total, SKK 3,596.3 million were paid by the end of 2004, of that, SKK 1,142.1 million were paid from the European sources.

Each agricultural business had to apply for single area payment and for CAL subsidy by 15 May 2004. In total, 12,399 applications for single area payments were received at the regional offices/contact points of APA, and 10 030 applications for CAL subsidy. Based on the results of inspections, about 5% of farmers who applied for direct payments were paid less or nothing at all (Agricultural policies in OECD countries: Monitoring and evaluation 2006, Report for the Slovak Republic).

Conclusions

Slovak agriculture passed through a difficult development after the year 1990, when it had to adapt to conditions of the market economy and restrictions of public support. During this period agricultural production decreased and in this way adapted to a domestic demand influenced by the lower purchasing power of population and by changes that occurred in the structure of consumption and in consumer behavior of the population. Since the year 1995 the level of production has stabilized. Former socialist cooperatives and state-owned companies have been transformed into private business companies and co-partner cooperatives. Structural changes which are being carried out in Slovak agriculture have led to a decrease of the share of cooperatives in the total number of farms, and to an increase in the number of business companies. The number of independent farmers increased in the first years of the transformation, and has stabilized at present. However, concentration of the use of land in these farms is distinct. The strategic objective of the agricultural and food policy for the years 2004 to 2013 is preserving agriculture in all production conditions within the scope justified by the ability to produce competitive products and by the need to ensure more effective use, protection, regeneration and permanent reproduction of natural sources, as well as by the need to preserve balanced environment, cultural, country and rural settlement. During whole investigated period over years 1998 – 2005 better financial position of business companies compared to cooperatives is evident. In the first year (2004) of Slovakia accession in the EU and introduction of new agricultural policy had a positive influence on economic situation of both legal forms. But year 2004 was specific due to very good climate condition. These two positive factors (change of agricultural policy and good climate conditions) involved the unexpected high economic profit for both legal forms of agricultural enterprises. The share of farms with the negative values of profitability is decreasing in period (from 2003 to 2005) and it's slowly shifting to the positive values. There is still not enough data to analyze the impact of the changes in subsidy system on the agricultural enterprises, as the time is short.

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