

## MEASURES FOR THE IMPROVEMENT OF ECONOMIC EFFICIENCY AND COMPETITIVENESS OF AGRICULTURE IN SLOVENIA AFTER ACCESSION TO EU

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### ABSTRACT

Measures taken by Structural Policy and Rural Development Policy which directly influence the improvement of economic efficiency and competitiveness of agriculture are presented. The introduction contains description of the development of measures taken in the pre-accession period and their implementation during the SAPARD programme. In the second part of the paper, measures after the accession to EU carried out through Single Programming Document 2004-2006 are described. Data were gathered from the Slovenian legislation and the Ministry of Agriculture, Forestry and Food.

### INTRODUCTION

Agriculture and forestry in Slovenia contribute 2.2 GDP and employ 10.5 % of employees. Small average size of agricultural holdings (6.3 ha UAA) and natural conditions relatively unfavourable for an intensive agricultural production (more than 80 % LFA areas) are the two main reasons for the low level of productivity and specialisation in agriculture. A big problem is also the unfavourable age and education structure of farmers running the agricultural holdings and lack of other employment opportunities in the rural area which influences directly the lagging of the rural area development [4].

Slovenia defined its basic goals of agricultural policy by adopting the Strategy on Development of Slovenian Agriculture (1993) [6]. One of the basic goals is a permanent increase of the competitiveness of agriculture. The current paper presents measures taken to affect directly the improvement of competitiveness and economic efficiency of agriculture. Measures of structural policy in the period 1993-2005 are presented while the main stress is laid upon measures taken in frame of the pre-accession support by SAPARD Programme and continued after the accession in the form of Single Programming Document. Measures which are still completely funded from national budget are also presented. The government, by its measures of rural development policy, improves the efficiency and competitiveness of agriculture, prevents the gradual abandoning of agricultural production and the overgrowing spreading of forest towards agricultural land and preserves the settlement of rural areas. The measures taken by the Rural Development Policy are divided in compensatory allowances and development subsidies. Among the compensatory allowances the increase of competitiveness and economic efficiency of agriculture are influenced by the following ones:

- Subsidies to early retirement of farmers and
- Meeting of EU standards

And among the development subsidies:

- Subsidies to investments and restructuring of agriculture,
- Subsidies to restructuring of food-processing industry and cooperatives,
- Programmes of development of rural areas and
- Other measures of the structural policy.

### METHODS

In the descriptive analysis of the measures taken, relevant strategic and programme documents of the Ministry of Agriculture, Forestry and Food were used. Emphasis is given to the three key periods of time:

- 1<sup>st</sup> period: Period of implementation of Strategy on Development of Slovenian Agriculture(1993-2002)
- 2<sup>nd</sup> period: Pre-accession programme SAPARD
- 3<sup>rd</sup> period: Structural policy measures after EU accession

All data were acquired from the databases of Agricultural Institute of Slovenia and Ministry of Agriculture, Forestry and Food.

#### STRUCTURAL POLICY MEASURES IN THE PERIOD 1993-2002

Subsidies paid for investments and restructuring of farms were the most important part of structural policy in the period after Slovenia gained its independence. They were allocated in the form of non-refundable financial support and interest-rate subsidies. The greatest share fell to the Programme of Investments in Agricultural Holdings, Land Operations and Renewal of Permanent Plantations. Subsidies paid for the restructuring of food-processing industry and cooperatives were devoted to the improvement of marketing, storage and processing of agricultural products. This form of help was very important in the years 1997 and 1998 when larger investments were made into cooling rooms for fruit. A great part of financial support was dedicated to the restructuring of cooperatives. The Programmes of Development of Rural Areas were based on the programs of integrated development of rural areas and renewal of villages (CRPOV). They were designed on the basis of local development initiatives and exploitation of endogenous development potentials. In that period the majority of money was devoted to development of rural economies, renewal

of villages, building of agricultural infrastructure and economic diversification of the rural areas. Among Other Structural Policy Measures those stimulating marketing and association of agricultural producers were carried out.

SAPARD PROGRAMME (2002, 2004)

The SAPARD Programme was an EU pre-accession programme for the candidate members intended as a special aid for agriculture and rural development. The goals of the SAPARD Programme were the following:

- Creation of a competitive agricultural sector,
- Preservation of rural population and
- Implementation of the EU legal system.

Implementation of the SAPARD Programme was a good preparation for the performance of measures of structural funds (EKJUS, FIUR) which were introduced in 2004 in frame of the Single Programming Document.

Based on the analyses and development options of agriculture and rural area in Slovenia and on the expected volume of EU aid, two development priorities were determined [2].

- Improvement of productional and marketing structures in agriculture and food-processing industry within which the measures Investments in Agricultural Holdings and Investments in Food-Processing Industry were carried out.
- Economic diversification and improvement of rural infrastructure in frame of which the two measures Economic Diversification on Farms and Development and Improvement of Rural Infrastructure were carried out.

The main goal of the measure Investments in Agricultural Holdings was to encourage the competitiveness of agricultural economy by considering ecological and hygienic standards and standards of animal welfare. This measure can contribute primarily to the improvement of farming efficiency, increase the diversification of agricultural activities and improve the market orientation of agricultural holdings. The investments were allocated for the purpose of new buildings or reconstruction of premises, purchase of equipment and agricultural machines and the first purchase of livestock on a farm. The measure Investments in Food-Processing Industry was intended for the enhancement of competitiveness. In frame of this measure investments were encouraged into adaptation of productional premises and modernisation of equipment, and introduction of new technologies which helped the companies to harmonise with the norms required by EU and rationalise their production processes.

The main goal of the measure Economic Diversification on Farms is the improvement of the efficiency of work input on farms and the insurance of additional sources of employment and improvement of income. The investments were intended for the construction or renewal of premises and purchase of equipment serving for tourist activities and crafts on agricultural holdings.

Development and Improvement of Rural Infrastructure was the fourth measure in frame of the SAPARD Programme intended for the increase of life quality in the rural areas. For this purpose financial support was allocated in order to improve road infrastructure, supply of drinking water and planning and construction of thematic paths (walking tours, cycling, educational paths).

With the accession of Slovenia to EU the making of contracts from the SAPARD Programme was completed, but the payments and reports will have been concluded by the end of 2006. At the time of programme implementation, 561 projects in the total value of more than 42 million € were endorsed. The greatest interest was directed towards the purchase of new agricultural machines while the food-processing industry invested primarily in the modernisation of technological equipment and introduction of new technologies.

## STRUCTURAL POLICY MEASURES AFTER THE EU ACCESSION

After the accession of Slovenia to EU the majority of measures continued within the Single Programming Document. The Single Programming Document 2004-2006 (SPD), together with the Programme Amendment of the Republic of Slovenia for the period

Table 1: Projects and funds approved according to individual measure in the SAPARD Programme

Measure	Number of contracts made	Number of completed projects	Funds approved (million €)	Funds paid (million €)
Investments in agricultural holdings	406	397	15,358	15,313
Investments in processing and marketing of agricultural and fish products	32	31	17,267	16,725
Economic diversification on farms	86	67	5,889	5,750
Development and improvement of rural infrastructure	36	35	5,291	4,875
Technical assistance	3	3	0,099	0,099
<b>TOTAL</b>	<b>563</b>	<b>533</b>	<b>43,904</b>	<b>42,763</b>

Source: MKGP

2004-2006, defines the way in which Slovenia – in accordance with its long-term strategy and goals – will spend the finances available from structural funds, cohesion fund and national budget [1].

The agriculture in SPD is discussed in frame of the third priority task Restructuring of Agriculture, Forestry and Fishery which has a total of 49.513 million € at its disposal in the period 2004-2006. The priority goals are the following:

- To increase the competitiveness of agricultural-food, forestry and fishery sector;
- To create conditions for the reaching of equivalent level of income of agricultural population;
- To preserve the settlement patterns and to restructure economically the rural area;
- Sustainable use of natural resources;
- Protection of rural environment and preservation of natural resources.

The agricultural structural measures in SPD 2004-2006 are partly co-financed from the guidance section of the EU Agricultural Fund and partly from the National Budget. The share of public finance ensured by Slovenia is 50%. They are allocated on the basis of public tenders invited by Agency of the Republic of Slovenia for Agricultural Market and Rural Development.

In frame of the third priority task entitled Restructure of Agriculture, Forestry and Fishery, seven measures are performed in the period 2004-2006. One measure refers to forestry (investments in forests in order to improve their economic and ecologic value), two measures refer to fishery (modernisation of the existing watercrafts and small-scale inshore fishing; fish farming, processing and marketing), and the following four measures refer to agriculture:

- Improvement of the processing and marketing of agricultural products,
- Investments in agricultural holdings
- Diversification of agricultural activities and activities close to agriculture,
- Marketing of quality agricultural and food-processing products.

A novelty among the already established measures is Marketing of Quality Agricultural and Food-Processing Products the purpose of which is to encourage the producers and processors of special top quality products and foodstuffs (products with origin label, geographic label, certificates of special character, higher quality products) to offer their products on the market. These funds are devoted to the preparation of documentation and registration and certification of special agricultural products and foodstuffs of top quality, founding of new producers' groups and introduction of quality assurance programmes.

In the first two years 277 projects in the total value of more than 21 million € were approved. Almost one half of all the projects were Investments in Agricultural Holdings which cover mostly the sectors of milk production, fruit and vine growing. The majority of applications were intended for the purchase of agricultural machines (80) followed by investment in premises (26) and planting of permanent plantations (23).

They are followed by investments in Diversification of Agricultural Activities in which the majority of applications were intended for the development of tourism and investment in production.

The measure Improvement of Production and Marketing of Agricultural Products is devoted to food-processing industry. The number investments approved was 28 and 45 % of all the approved funds were spent.

In frame of the Programme of Development of Rural Areas in Slovenia 2004-2006 two measures are being carried out influencing directly the improvement of efficiency and competitiveness of agriculture. They are [5]:

- Support to early retirement of farmers
- Meeting EU standards

Table 2: Funds devoted to agriculture in frame of the third priority task Restructuring of Agriculture, Forestry and Fishery in SPD 2004-2006 in the years 2004 and 2005 (millions of €)

Measure	2004		2005	
	Approved applications	Approved funds	Approved applications	Approved funds
<b>Investments in processing and marketing of agricultural and fish products</b>	10	3.729.441	18	5.966.920
<b>Investments in agricultural holdings</b>	68	3.295.001	62	2.880.156
<b>Diversification of agricultural activities</b>	32	1.823.701	66	3.462.215
<b>Marketing of quality agricultural and food products</b>	7	153.017	14	213.318
<b>TOTAL</b>	<b>117</b>	<b>9.001.157</b>	<b>160</b>	<b>12.523.107</b>

Source:MKGP

Table 3: Total number of applications and the number of claims according to standards; 2004 and 2005

	2004	2005
<b>Nitrate directive</b>		
- investments (adjustment to standard)	8.483	260
- animal husbandry (carrying out of standard)	13.917	18.308
- plant production (carrying out of standard)	77	364
<b>Sanitary protection of plants (carrying out of standard)</b>	11.431	13.099
<b>Safety and health at work (carrying out of standard)</b>		
- first worker	4.923	2.083
- second and next	2.054	3.929
<b>Total number of applications (for one or more standards)</b>	<b>25.733</b>	<b>26.286</b>

Source:MKGP

The measure Early Retirement of Farmers is a novelty in the Slovene agricultural structural policy. The basic purpose of the measure is to improve the age structure of holders of agricultural holdings and to improve the social status of older farmers who decided to transfer their agricultural holdings to younger farmers and/or to enhance the structural and organisational changes on farms. In the first year (2004) ARSKTRP received 199 applications of which 184 were approved. The total area of comparable agricultural land transferred was 1.840 ha. In 2005 the application for the transfer of agricultural holdings was put in by 111 farmers.

The measure of Meeting EU Standards on agricultural holdings is an aid intended for the adjustment of agricultural holdings to the EU standards in the field of environmental protection, plant health and protection at work. Beside measures taken in frame of PRP, SPD and SAPARD Programme, measures completely financed from national budget are carried out which have an impact on the increase of competitiveness and economic efficiency. The following measures are performed:

- help to the young holders of farms,
- land operations (land consolidation, irrigation, maintenance of melioration systems),
- Support association and marketing.

## CONCLUSION

It may be concluded that the measures of structural policy in Slovenia have been carried out continuously since the national agrarian policy was started. Throughout the period, Measures were performed which encouraged the increase of efficiency and competitiveness of agricultural sector and food-processing industry, only the priorities and the type of measures were changing. With the SAPARD Programme of the pre-accession aid a concept of the present system of measures was set up which allowed Slovenia to prepare for the drawing of finances from the EU structural funds. It can be observed that the measures have been complementing throughout the period and they are more and more target oriented.

In the new programme period 2007-2013 the measures that encourage the competitiveness of agriculture, food-processing and forestry will be carried out in frame of the first development axis of Rural Development Programme [6]. They will be oriented primarily towards the modernisation and restructuring of agriculture, rise of value added and quality in the production of agricultural, food-processing and forestry products and in the increase of employment possibilities in agriculture, forestry and food-processing industry considering the principles of sustainable development and ecological standards. To this purpose, about 300 million € will be devoted in the entire programme period, which shows the readiness and importance of agrarian policy at the creation of a competitive and efficient agricultural sector.

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