AGRICULTURE

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INTRODUCTION

During the course of 2004, Slovak agricultural enterprise experienced dramatic economic and legislative changes. Slovakia's accession to the European Union (EU) and its adoption of Common Agricultural Policy (CAP) has res ulted in an array of legislative changes. Some of the new legislation has increased regulations and provided greater subsidies for agribusiness from the national and EU budget.

The comprehensive changes realized in 2004 justify a positive outlook for the future economic performance of Slovak agriculture. While the overall outlook remains positive, the increase in subsidies creates potential risks. Some of the risks include: Corruption, inefficient fund allocation, and non-transparent decision making in the allotment of subsidies.

Although the consistent application of administrative controls and the CAP framework may eliminate certain possibilities for non-transparency and corruption, the potential for problems still exists.

In order to present a comprehensive evaluation of the Slovakia's agriculture sector for 2004, it is necessary to analyze economic, natural, and climatic indicators that determine the overall economic performance of individual farmers. Such an exhaustive analysis exceeds the space limitation of this chapter, and is not our principal objective. Rather than presenting comprehensive analysis, this report aims to present an account of all relevant events and legislative measures that will affect the agricultural sector's future economic performance.

ECONOMIC PERFORMANCE OF THE AGRICULTURAL SECTOR

A composite evaluation of the agricultural sector's economic performance is based on a number of economic indicators that account for specifics in the various braches of agricultural production. The principle economic indicators in the agricultural sector include: data on the costs and revenues per production unit (i.e. ton, hectare, etc.), the production volume of particular commodities (in vegetable production it is the average yield per acre, in animal production it is data on the amount of meat, milk, and other commodities), the volume of production inputs (own funds as well as subsidies disbursed from public funds), price development, and other less important indicators.

After the cost of capital and overhead expenses, the primary costs associated with vegetable production are: the purchase of energy, water, and fertilizers, the protection of crops, and ensuring the quality. In livestock production primary costs are derived from: the purchase of quality feed and the protection of livestock health.

Differences in the soil quality and climate have substantial impact on the type of agricultural production in a given region. Slovakia's accession to the EU and the harmonization of prices over a large geographic area are likely to increase the correlation between weather and a farm's profit.

The Ministry of Agriculture issues an annual comprehensive analysis of the agricultural sector's economic performance in its *Report on Agriculture and Food Economics in the Slovak Republic*, also known as the green report. The green report is compiled by the Research Institute of Economics of Agriculture and Food Economics (VÚEPP). After its approval by the cabinet and parliament it is published in the second half of the following year.

According to the green report for 2003 (*Správa o...*, 2004), the agricultural sector's overall importance to the Slovak economy continued to strengthen when measured by the gross domestic product (GDP) and added value in consistent prices. The sector's share of the GDP increased primarily due to a substantial reduction in intermediate consumption. Although the sector demonstrated an overall growth in terms of the GDP, its share of overall employment declined.

An important indicator of the agricultural sector's economic performance is the consumption of fertilizers per hectare of agricultural land. According to this indicator, Slovakia was 50 percent below the EU average in 2003, ranking among the worst of all countries examined except Romania. Slovenia was the only post-communist country that recorded industrial fertilizer use above the EU average. Based on year-to-year comparison however, Slovakia ranked among the countries with the highest growth in the consumption of industrial fertilizers.

Analysis of agribusiness costs and revenues for 2003 demonstrate continuous growth compared to previous years. This represents a change from the previous two years where the average costs of agribusiness exceeded the average returns. According to the green report, the previous two years of economic losses were primarily caused by unfavorable weather conditions during the growing season.

The 2003, figures confirmed that the economic results of individual farmers who usually cultivate smaller plots are typically better than those of corporate entities that cultivate larger areas of land. As in previous years, trading companies continued to show better long-term economic results than agricultural cooperatives. The disparity appears to stem from agricultural cooperatives inefficient use of property which results in a long-term decline in production. The agricultural cooperatives propensity toward "social hiring" also contributes to lower productivity compared to trading companies.

Data on the agricultural sector's economic performance is continuously analyzed and published during the course of the following year. VÚEPP's commodity situation and prospect reports (*Komoditná situačná...*, 2004a-e) analyze the production of various agricultural commodities throughout the year; the reports confirmed that production of most commodities was heavily influenced by weather during the growing season. According to these reports, per hectare yields recorded in the 2003 – 2004 season were lower compared to the previous two years. The outlook for the 2004 – 2005 season is positive. This applies to a majority of important foodstuffs, such as cereals and potatoes. The outlook for livestock continues to be affected by a decline in the total number of pigs and cattle in combination with a dead weight of livestock that is below the EU average.

Economic indicators for the first three quarters of 2004 (Chrastinová, 2004) suggest the following conclusions:

- Agriculture produced an overall loss worth approximately 1.4 billion Sk;
- Only 36% of all agricultural businesses produced a profit;
- Total returns decreased by almost 2 billion Sk as a result of the changed system of agricultural subsidy disbursement;
- Total costs declined due to a reduction in the sector's consumption intensity;
- Positive development was recorded in added value, which increased due to a decline in intermediate consumption rather than a growth in production.

Table 1
Overall economic results of farms – comparison of 2003 and 2004

Indicator	*1Q – 3Q 2003*	*1Q – 3Q 2004*
Revenues total (million Sk)	39,581	37,566
Expenditures total (million Sk)	41,016	38,922
Overall economic result (million Sk)	-1,435	-1,356
Share of profit-making companies (%)	37	36
Share of loss-making companies (%)	63	64

Source: Chrastinová, 2004.

The negative economic return was primarily the result of changes in the system of financing the agricultural sector. The use of advance payments was discontinued in favor of disbursing payments at the end of 2004 or the end of the 2004 fiscal year (end of March 2005). This change in payments resulted in a substantial financial deficit in farmers' income in 2004. Other reasons for a negative return include: unfavorable price developments of agricultural products and inputs and insufficient financial reserves as a result of losses sustained during 2003. Favorable weather conditions during the growing season and additional income from subsidies disbursed at the end of 2004 should put farmers' year-end profits well into the black, with profit estimates at 2.99 billion Sk.

The primary factors affecting the economic performance of agribusiness include: the legal structure of enterprise, the area of cultivated land, and other regional factors.

Compared to the original EU member states, the overall economic performance of Slovakia's agricultural sector is well below the average. Most newcomers to the EU, with the exception of Slovenia, are at a similar level. Overall indicators of economic performance place Slovakia in the middle group of the new member states.

LEGISLATIVE TOOLS OF AGRARIAN POLICY

Over 100 pieces of agrarian legislation, including 13 bills, were submitted for debate in the course of 2004. A year before, 152 legal rules including 12 bills were initiated (author's calculations based on http://www.mpsr.sk). The following legal rules submitted during 2004 are most noteworthy because they are important from the viewpoint of improving the agrarian sector's economic potential, or because they sparked intense public debate:

- Bill on viticulture and wine industry (submitted to debate on August 23, 2004, rejected in 2004);
- Bill that seeks to amend the Law No. 42/1992 Coll. on Regulation of Ownership Relations and Settlement of Ownership Claims in Agricultural Cooperatives, as amended, and the Law No. 566/2001 Coll. on Securities and Investment Services that Alters and Amends Certain Laws (also known as Securities Act), as amended;
- Bill on restitution of some real estate property to churches and religious associations (passed in parliament but vetoed by the president and referred back for further deliberations);
- Bill on hydro-meliorations and establishing Hydromeliorácie, a. s. that seeks to alter and amend certain laws (submitted to debate on July 30, 2004, rejected in 2004);
- Bill on forestry (submitted to debate on May 14, 2004, rejected in 2004);
- Bill on ecological agricultural production (Law No. 421/2004 Coll.);
- Bill on fish farming that seeks to alter and amend the Law No. 139/2002 Coll. on Fishery (submitted to debate on April 8, 2004, rejected in 2004);
- Bill that seeks to alter and amend the Law No. 330/1991 Coll. on land adjustments, arrangement of landed property, land authorities, available land assets and land societies, as amended;
- Bill on hunting;
- Bill that alters and amends the Law No. 136/2000 Coll. on Fertilizers (Law No. 555/2004 Coll. on Fertilizers).

Restitutions

In 2003, the parliament passed Law No. 503/2003 Coll. on Restoring Land Ownership, which alters and amends Law No. 180/1995 Coll. on Certain Measures to Arrange Landed Property. The law entitles individual citizens who did not lodge their restitution claims before the deadline stipulated by the Law No. 229/1991, to do so before December 31, 2004. In summer 2004, a group of deputies created a proposal to amend the law, arguing that the law discriminated against churches and religious associations by making them illegible to lodge restitution claims under the extended deadline. The cabinet rejected the proposal and requested that the agriculture minister elaborate on the cabinet's own version of the bill (*Uznesenie...*, 2004). The Ministry of Agriculture prepared a bill that stipulated a specific description of eligible real property, as well as the conditions for processing restitution claims.

Despite the cabinet's disapproval, the parliament discussed the proposal and passed it along with the amendments incorporated by the Parliament's Agrarian Committee (see Box 1).

BOX 1

The bill on restitution of real estate property to churches and religious associations triggered a controversy in parliament after the Agrarian Committee recommended passing the bill with one significant amendment. According to legal experts, the amendment may set a new precedent because it contradicts the previously applied principle that only property that had not been confiscated after World War II on grounds of treason and collaboration with the Nazi Germany may be eligible for restitutions. The point was brought up by Miroslav Maxon (HZDS), Chairman of the Agrarian Committee, who said: "Acting on a proposal by Richard Hamerlík, a deputy for the SMK, the committee passed by the margin of one vote the requirement to return churches or cemeteries to the Reformed Evangelical Church". Maxon pointed out that the property in question was allegedly confiscated back in 1946 on grounds of treason and collaboration with the Nazi Germany.

Source: TASR news agency, September 7, 2004.

Immediately after the law passed, President Ivan Gašparovič sent it back to parliament for further deliberation.

The issue of restitution also resonated with respect to the still valid Law No. 503/2003 Coll. on Restoring Land Ownership. The law stipulated that if the government is unable to satisfy individual citizens' ownership claims pertaining to original land it must allot an alternate plot of land to the claimant. However, as of August 2004, the Slovak Land Fund (SPF) failed to allot a single alternate plot of land despite registering 71 valid decisions on various claimants' right to replacement land (*Sme* daily, August 4, 2004).

According to SPF Director František Hideghéty, the primary dilemma was that area land authorities that decided the individual citizens' restitution claims did not supply a single expert opinion on the value of original land. Thus, the fund was unable to allot any alternate land or disburse compensation. The 2003 law failed to stipulate who should provide expert opinions on original or alternate plots of land. The Ministry of Agriculture prepared an amendment that was supposed to remedy the defect (Law No. 217/2004 Coll. from May 2004), but the amendment did not take effect because it lacked a methodical guideline (*Sme* daily, August 4, 2004). It was assumed that the law would take effect by the end of 2004.

Cooperatives

With respect to agricultural cooperatives, the most important legislative initiative in 2004 was a bill that sought to amend the 1992 Law on Ownership Relations and Settling Ownership Claims in Agricultural Cooperatives (*Návrh...*, 2004a).

The Ministry of Agriculture drafted the bill after several agricultural cooperatives failed to fulfill their legal obligation to issue cooperative participation certificates to members. Under the proposed bill, if an agricultural cooperative fails to issue participation certificates for the properly calculated ownership stake, this stake can be claimed by the eligible participant. If an agricultural cooperative fails to carry out its legal obligations, the claimant may file a motion to liquidate their respective stake. Parliament passed the bill in December 2004.

Viticulture and wine industry

Viticulture and wine industry in Slovakia are currently regulated by the Law on Viticulture and Wine Industry that took effect in 1997. The law stipulates conditions and requirements pertaining to viniculture and wine production including: trading in wine, labeling, marking and packaging of wine, and the registration of vineyards according to the technical regulations and guidelines of the European Union. In August 2004, the Ministry of Agriculture submitted a new bill on viticulture and wine industry. The main goal of the new bill was to further incorporate into law the regulations and recommendations the EU has passed since 1997, with focus on the Council Regulation (EEC) No. 1493/1999 on Joint Organization of the Wine Market (*Návrh...*, 2004b).

In October 2004, the Cabinet's Legislative Council ordered the Agriculture Ministry to revise the bill and eliminate some EU regulations that were already incorporated into Slovak legislation (*Komuniké...*, 2004).

Forestry

In 2004, the preparation for the transformation of the Slovak Forest state enterprise and the drafting of a new Forestry Act brought increased public attention to the forestry sector.

Forestry Act

In May 2004, the Ministry of Agriculture submitted the initial draft of the new Forestry Act for debate. The new act envisaged an amalgamation of two existing forestry laws; it proposed that the Law on Forests and the Law on Forestry and State Forestry Administration, become a single law (please see Box 2).

BOX 2

The initially published draft virtually restores the pre-1989 strategy that is based on the philosophy that the government should have concentrated and extensive power over the management and supervision of forestry. The draft stays true to this philosophy by: stipulating various obligations for forest owners (e.g. the obligation to pay for professional forestry administration and observe forestry economic plans), introducing restrictions to forest utilization (particularly through defining the ways of forest utilization, introducing limits to forest exploitation and bans on certain activities in woodlands, etc.) and other restrictions of ownership rights (for instance the right to financial compensation for free picking of forest crops).

A very controversial point of the initial proposal was a provision to ban the future privatization of forest ownership of the Slovak Republic. Forestalling the possibility of extending private ownership of forests is the result of lobbying on the part of the administrators of state-owned forests that make up almost 44 percent of total woodland area in Slovakia. Preventing future privatization increases the difficulty of managing forests in an economically efficient fashion. As recently as in 2002, the Slovak Forests state enterprise was struggling with huge deficits and facing numerous allegations of corruption. Another result of undesirable lobbying is a provision that stipulates the creation of a forestry research institute that would receive an extensive state budget to finance forestry research. Similar research institutes have already been abolished or transformed into other institutions.

Another negative feature of the bill is the strengthening of state control over other woodland activities. Most of the bill is a description of forest owners' obligations with respect to state administration and the state's power to approve activities, award exceptions, impose sanctions and issue bans. The initial draft gives the Agriculture Ministry exclusive discretionary power to create up to 18 additional regulations not included in the law (i.e. the one approved by the cabinet and parliament). This power would allow the Agriculture Ministry to set guidelines that: regulate the methods of clearing woodland fund land (e.g. changing woodland into arable land), restrict the use of woodlands, delineate forest categories, and create economic plans crucial for forestry business. The bill also fails to address the long-term conflict of interest between forest owners and forest crop pickers who are still entitled to exploit their property for free.

Source: Kazda, Domino Fórum, No. 28/2004.

Although the initial draft of the new Forestry Act was submitted for debate in May 2004, it still hadn't reached the cabinet or parliament by the end of 2004. It is very likely that the Ministry of Agr

Transformation of state-run Slovak Forests

In 2003, the Ministry of Agriculture reacted to claims of poor economic management of Slovak Forests by submitting to public debate its concept for transforming Slovak Forests into a joint stock company. The cabinet obliged Agriculture Minister Zsolt Simon to submit deliberations and a detailed transformation plan before the end of 2004 (*Uznesenie vlády SR č. 1084/2004...*).

In September 2004, Simon presented the plan for the restructuring and transformation of Slovak Forests into a joint stock company. The project proposed the transformation of the state enterprise currently administering 55 percent of Slovakia's forests into a joint stock company. Even after incorporation, the 34 billion crowns in forestry assets will continue to remain in state hands. The plan proposes that the joint stock company will cultivate forestry according to the directives of state forestry authorities. The actual labor of cultivation will be outsourced to external firms. Under this plan the areas to be harvested will be selected by experts at the state forestry authority, while the profits and costs of the venture will be realized by the joint stock company. Separating the two units should allow the joint stock company to keep a permanent and objective account of all costs and revenues from the activities within its jurisdiction. The proposed organizational structure will reduce the number of daughter enterprises from 26 to 15 (*Roľnícke noviny* daily, September 24, 2004).

BOX 3

During deliberation, the transformation project was met with strong resistance from the Slovak Association of Timber Producers. The association's leaders proposed that Slovak Forests shouldn't remain a monolithic corporation, but be divided into several companies whose jurisdiction would replicate the boundaries of regional self-governments. Timber producers reasoned that the creation of multiple companies would increase competitiveness, arguing that Slovak Forests sold timber to domestic producers at prices higher than the export prices. The Ministry of Agriculture rejected this proposal (*TASR* news agency; *Roľnícke noviny* daily, September 3, 2004).

The timber lobby that proposed decentralization of Slovak Forests received the support of the SDKÚ from Ján Golian, the State Secretary at the Ministry of Agriculture and a former member of the timber industry. The dispute within the ruling coalition lingered until the end of 2004. In November 2004, the parliament ordered the cabinet to immediately halt the transformation and restructuring of the Slovak Forests state enterprise. The cabinet was required to submit to parliament a transformation plan and legislation that aimed to establish the Slovak Forests State Joint Stock Company.

Source: TASR news agency, November 2, 2004.

Agricultural self-governance

An important event in the field of agricultural self-governance was an amendment to the Law on the Slovak Chamber of Agriculture and Food Processing (SPPK). The amendment stemmed from the need to comply with the *Principles of Amending Legislation Regulating Professional Chambers* approved by the cabinet in 2003. In an attempt to reduce the excessive number of professional chambers, the document proposed that only chambers of regulated professions with mandatory membership may be established by law (*Zásady činnosti...*, 2003).

The proposed amendment sought to abolish mandatory membership of the SPPK. The SPPK would then be categorized as a professional association with optional membership, whereby increasing its sociopolitical influence.

AGRICULTURAL SUBSIDIES

The total volume of agricultural subsidies disbursed to producers continued to increase in 2004. The sustained increase was primarily the result of Slovakia's accession to EU and its Common Agriculture Policy (CAP). The Agricultural Payment Agency (PPA) became the primary

Agricultural payment agency

The PPA was established in October 2003 by the Law No. 473/2003 Coll. on Agricultural Payment Agency and Supporting Agricultural Enterprise. It was officially incorporated on December 1, 2003, as a budgetary organization. The SAPARD agency merged with the PPA and the Intervention Agrarian Agency was abolished, making the PPA its legal successor. Effective January 1, 2004, the regional departments of the Agriculture Ministry were eliminated and their 256 employees were incorporated into the PPA. According to its organizational statutes, the PPA should have 581 employees in 2004. The PPA has eight regional headquarters and 28 contact points that were established by transforming the Ministry's former regional departments (*Informácia o stave...*, 2004).

Direct payments

During 2004, the Agricultural Payment Agency disbursed the following types of direct subsidies in compliance with CAP rules:

1. *Single area payment system* (SAPS) – disbursed from the Guarantee Section of the European Agricultural Guarantee and Guidance Fund (EAGGF); designed to support farmers who are registered in the applicable registry.
2. *Support of crops grown on arable land* – disbursed from funds transferred from the EAGGF Guarantee Section's Plan of Rural Development; designed to support select crops subsidized by the CAP and grown on arable land.
3. *Support of structural agricultural changes and increasing competitiveness of agricultural products on the market* – disbursed from the national state budget prior to Slovakia's EU accession, i.e. before May 1, 2004; designed to support select crops (e.g. crops on arable land, hops, and tobacco) and certain breeds of animals (e.g. milk cows, sheep, and goats) based on the Agriculture Ministry's Order No. 152/2004-100.
4. *Compensatory allowance for less favored areas* – forming part of the Plan of Rural Development (Measure No. 3), allowances are disbursed from the EAGGF Guarantee Section; the payment is disbursed per hectare of land.

Support to projects – Sectional Operating Program

The PPA also offers financial assistance based on the Sectional Operating Program of Agriculture and Rural Development. In 2004, the following activities were eligible for support (http://www.mpsr.sk/apa/):

- Measure No. 1.1: Investments in agricultural businesses
- Measure No. 1.2: Improving the processing and sales of agricultural products

- Measure No. 2.1: Sustainable development of forestry
  - Sub-measure No. 2.1.1: Investments in improvement and rationalization of forest growing and forest protection, exploitation, primary timber processing and sales of timber and other timber products – profit-making investments
  - Sub-measure No. 2.1.2: *Pro bono* investments – non-profit investments
- Measure No. 2.2: Fish farming – financed through Financial Instrument for Fishing Guidance (FIFG)
  - Sub-measure No. 2.2.1: Processing fish and promotion of fish products
  - Sub-measure No. 2.2.2: Aquaculture
- Measure No. 2.3: Support of adjustment and development of rural areas
  - Sub-measure No. 2.3.2: Diversification of agricultural activities
  - Sub-measure No. 2.3.1: Land adjustments
- Measure No. 2.4: Education

Support to projects – Plan of Rural Development

In 2004, the PPA also supported farmers through the Plan of Rural Development:

- Measure No. 1: Investments in agricultural businesses
- Measure No. 2: Education
- Measure No. 4: Fulfillment of Community standards
  - Sub-measure No. 4.1: Fulfillment of measures
- Measure No. 5: Agro-environment and living conditions of animals
- Measure No. 6: Improving the processing and sales of agricultural products
- Measure No. 7: Forestry
  - Sub-measure No. 7.1: Investments in improvement and rationalization of forest growing and forest protection, exploitation, primary timber processing and sales of timber and other timber products – profit-making investments
  - Sub-measure No. 7.2: *Pro bono* investments – non-profit investments
- Measure No. 8: Deforestation of agricultural land
- Measure No. 9: Land adjustments
- Measure No. 10: Diversification of agricultural activities
- Measure No. 11: Supporting half-subsistence farms
- Measure No. 12: Producers' sales organizations

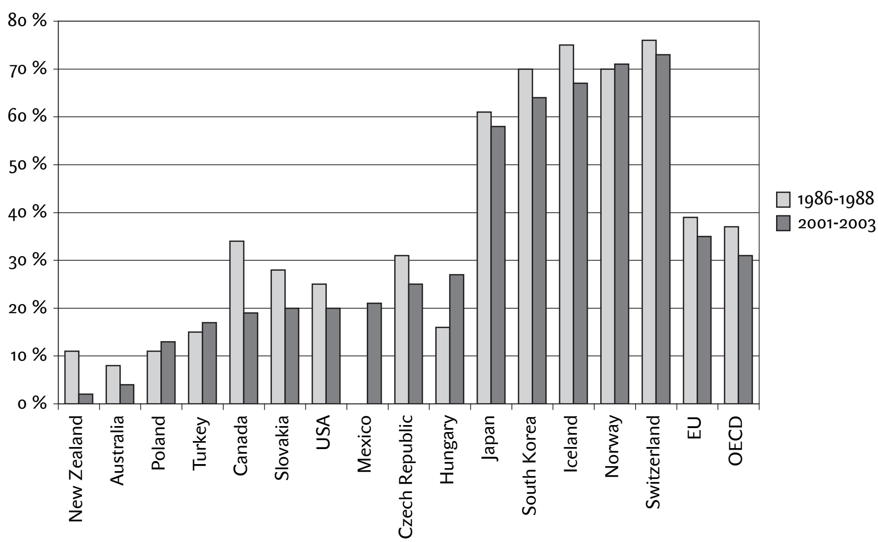
Producer support estimate

Agricultural subsidies form an important part of national budgets in most economically developed countries. The primary differences in subvention policies are the different types of subsidies they offer. Following its EU accession, Slovakia is likely to harmonize its subvention policy with other EU member states. Harmonization will introduce common rules for subsidizing, subsidy management, and subsidy control.

The system of agricultural subsidies is evaluated by the OECD and its outputs are applied as the standard when analyzing the character of individual countries' subvention policies. The producer support estimate (PSE) is defined as the indicator of annual value of gross transfers from consumers and taxpayers to support agricultural producers (*Producer and…*, 2003).

Comparative analysis conducted by the OECD suggests that Slovakia's mid-term agricultural subsidies are below the OECD average (please see Graph 1).

Graph 1
Producer support estimate (PSE) according to OECD: a comparison of average PSE in 1986 – 1988 and 2001 – 2003



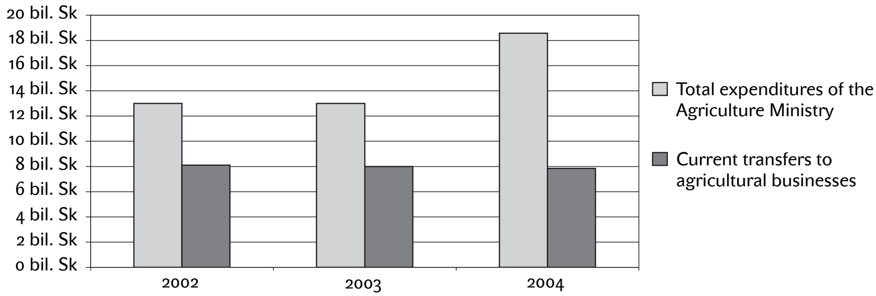
Note: For Slovakia, Czech Republic, Hungary and Poland, the table features data for 1991 – 1993 instead of data for 1986 – 1988.
Source: OECD, PSE/CSE database 2004.

Subsidies and agriculture budgetary chapter

The Agriculture Ministry's budget grew in 2004 due to the increase in agricultural subsidies from the European Union's Common Agricultural Policy.

Graph 2

Total budgetary expenditures of the Agriculture Ministry and current transfers to agricultural business subjects



Source: State Budget of the Slovak Republic, 2002; 2003; 2004

Table 2
Total transfers into agriculture and food processing between 2001 and 2003

Sources	*2001*	*2002*	*2003*
Budgetary sources	10,722.7	10,786.5	11,237.4
Support of development programs (revenues)	8,979.7	7,568.1	8,128.2
Program implementation (transformation of ŠFOZPPF)	635.0	577.0	130.0
IPA SR	1,260.6	0.0	502.5
Guarantees and loans drawn through SZRB	–	620.0	580.0
General services (directly through budgetary chapter)	1,108.0	2,021.4	1,896.7
Non-returnable sources outside state budget	3,208.6	3,298.4	2,266.5
Transformed ŠPFPP	166.0	958.0	24.3
Ministry of Finance (tax allowances)	1,564.0	1,200.0	1,215.0
Foreign sources (PHARE and educational programs)	218.0	282.4	142.7
Returnable sources outside state budget	2,845.5	2,278.5	1,487.9
Loans provided by the IPA	1,916.5	2,045.2	1,483.0
Loans from the ŠPFPP	930.0	233.3	4.9
Sources total	*16,776.8*	*16,363.4*	*14,991.8*
Sources minus loans, guarantees and credits	*13,931.3*	*14,084.9*	*13,503.9*

Source: Report on Agriculture and Food Processing in the Slovak Republic, 2002; 2004
Notes: ŠFOZPPF - State Fund for Protection and Enhancement; IPA SR - Investition and Agriculture Agency of the Slovak Republic; SZRB - Slovak Guarantee and Development Bank; ŠPFPP - State Support Fund for Agriculture and Food Industries.

Financing direct payments

Direct payments were the most controversial item in the Agriculture Ministry's budgetary chapter in 2004. Based on negotiated terms of EU accession, Slovakia is allowed to compensate its farmers from domestic coffers (so-called national compensatory payment) so that their level of subsidies may reach 55, 60, and 65% of the EU-15 average in 2004, 2005, and 2006, respectively. The country is projected to reach the 100% level by 2011. In its initial draft of the state budget, the Ministry of Finance proposed that compensatory payment be partially covered from rural development funds (maximum 20% of the government's total annual commitment) and state budget expenditures. In the official draft of the 2004 state budget, the Finance Ministry proposed compensating Slovak farmers up to 40% of the EU-15 average or 5.424 billion Sk. Compensation would be partially financed from funds originally allocated to rural development (1.257 billion Sk) and from state budget expenditures (4.167 billion Sk).

The draft budget provoked strong criticism from farmers' self-governance bodies and resulted in a petition calling for an increase in the national compensatory payment to the maximum level (55%). The petition was discussed in parliament, and it was recommended that the cabinet maintain direct payments to Slovak farmers at 55, 60, and 65% of the EU-15 average in state budgets for 2004, 2005, and 2006 (*Uznesenie NR SR č. 273/2003*).

The parliament eventually accepted a compromise and allowed for direct payments to equal 52.5% of the EU-15 average. In actual terms, this meant that Slovak farmers would receive 340 million Sk less than the allowed maximum (*SITA* news agency, December 14, 2004).

The Ministry of Finance proposed further cuts in direct payments in its 2005-2007 draft budget. The ministry proposed that farmers be compensated 40% of the EU-15 average, even though the EU approved direct payments of 60% for 2005. Following debate, the Finance Ministry agreed to slightly increase payments to 42.6%. The proposal met strong resistance from the Agriculture Ministry and farmers' professional associations.

Shortly before the cabinet's discussion of the 2005 state budget, the Agriculture Ministry accepted a compromise with the Finance Ministry to raise the total level of direct payments to 54% of the EU-15 average (*SITA* news agency, October 12, 2004).

From a cash-flow transparency standpoint, agricultural subsidies are a tricky element of the government's subvention policy. The structure of the CAP itself is a precarious component of the EU payment system. This was corroborated by the findings of a report elaborated in 2003 by the European Court of Auditors which identified problems in the way the classification system applied support to less favored areas (*Information Note…*, 2003). A report from 2004 concluded that between 1971 and 2002, EU farmers used agricultural subsidies worth over €3.1 billion (approximately 123.8 billion Sk) in ways that failed to comply with rules stipulated by the Union (*Special Report…*, 2004).

Misused subsidies are a substantial problem. According to the report, Italy and Germany have the most difficult time of all EU states in reclaiming misused subsidies. The two countries were able to reclaim only 10% of the total subsidies farmers had misused. France received the highest agricultural subsidies during the examined period. Approximately €159 million were misused, but the government was only able to reclaim €58 million (36%) from its farmers (*Národná obroda* daily, September 22, 2004).

CONCLUSION

In 2004, Slovakia's agricultural policy became increasingly intertwined with the European Union's Common Agricultural Policy. The year was very important for Slovak agriculture because of the great amount of powers transferred to EU organs and the gradual harmonization of legislation regulating agricultural enterprise, the volume of subsidies given to agricultural producers, and the changes in the way subsidies are disbursed and supervised.

During the first eight months of its EU membership, Slovakia gradually harmonized its mechanisms for allotting agricultural subsidies with those of the EU by establishing and accrediting the Agricultural Payment Agency at the end of 2004. It is still too early to determine the impact of EU accession on Slovak agribusiness. It is clear however, that 2004 was a turning point that led to substantial increases in the financial resources available to the agricultural sector.

The system of agricultural subsidies in the European Union contradicts the Union's purported goal to liberalize world trade in agricultural commodities and reduce state intervention in the economy. Other problems borne out the system of subsides include an inherent vulnerability to non-transparent practices. Regards of disadvantages, Slovak agriculture has accepted the concept of being subsidized. The agricultural sector repeatedly demonstrates strong opposition to any proposals to restrict the volume of subsidies, including those that affect the government's own fiscal capacity (i.e. national compensation of direct payments).

The initial draft of the Forestry Act prepared by the Ministry of Agriculture and the bog down in the transformation process of Slovak Forests had a negative overall impact on the economic potential of Slovak forestry. The process of drafting and adopting other important legislation (e.g. the bill on hunting or the bill on viticulture and wine industry) also slowed during 2004.

The decision to weaken the previously dominant position of the Slovak Chamber of Agriculture and Food Processing by eliminating its compulsory membership and the endeavor to tackle the complex issue of hydro-meliorations both deserve praise. Most of policies pursued by the Ministry of Agriculture in 2004 however, did little to increase the agricultural sector's economic potential.

After 15 years of a vacillating attitude toward reforms, Slovak agriculture entered a new era of development in 2004. The liberalization of agricultural enterprise has brought with it positive and negative features. Regardless, 2004 was a year of truly independent policy decisions at the national level. Slovakia's recent EU integration means the country must adopt the complex, unwieldy, and inefficient features that define the Union's Common Agricultural Policy. The next year will demonstrate the impact of integration on the future development of Slovakia's agricultural sector.

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