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# Agriculture

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# INTRODUCTION

The year 2005 was the first full year in which Slovak agriculture was subordinated to the Common Agricultural Policy (CAP) of the European Union (EU). The change showed up particularly in new legislative standards that regulate and limit the conditions for doing business on farmland, as well as in a dramatic change in the method of allocating public funds to agriculture, and a substantial increase in the volume of these funds.
A complex evaluation of the current condition of Slovakia's agricultural sector and expectations regarding its future requires the analysis of a great number of important economic indicators related to the supply and demand of various commodities, as well as to the CAP, which actively influences market processes, the development of input prices and the cost structure of farms, and, finally, the soil and climatic characteristics of the farming season. For reasons of space, it is impossible to present and analyze detailed information on particular developments in the agrarian sector, which includes agriculture, food processing, hunting, forestry and fishing. All the necessary data can be found in the *Report on Agriculture and Food-Processing in the Slovak Republic*, which is annually published by the Research Institute of Economics of Agriculture and Food-Processing, and the *Report on Forestry in the Slovak Republic*. Both reports are annually approved by the cabinet and the parliament.
The principal goal of the present chapter is to provide a basic analysis of the current state of Slovakia's agricultural sector and its future from the viewpoint of the most important factors that affect it:

- The changing structure of farm costs and revenues and their effect on agriculture;
- The effects of subsidies on agriculture;
- The effects of market regulations (i.e. legislative changes) on agriculture;
- The impact of agrarian policy on public finances.

Since most statistics regarding prices and the structure of farm costs and revenues are processed in the course of the following year, our evaluation of basic trends in Slovakia's agriculture is based mostly on statistical data from 2004.

# ECONOMIC PERFORMANCE OF THE AGRICULTURAL SECTOR

## THE STATUS OF AGRICULTURE IN SLOVAKIA'S NATIONAL ECONOMY

The impact of all agrarian industries on Slovakia's economic performance is falling in the long term. In 2004, the share of agricultural production on gross domestic product (GDP) was 4.7% in fixed prices, a slight increase compared to recent years. The share of the production of food, beverages and tobacco on GDP was 0.94% in fixed prices (*Správa o poľnohospodárstve…*, 2005), whereas the share of forestry on GDP was 0.54% in fixed prices (*Správa o lesnom…*, 2005). The total share of agrarian industries on Slovakia's GDP reached 6.18% in 2004.

The share of agriculture on total employment in Slovakia was 5.14% in 2004; the share of the food-processing, beverage and tobacco industry was 3.15% and the share of forestry was 0.69% (*Správa o poľnohospodárstve…*, 2005; *Správa o lesnom…*, 2005).

## CHANGES IN THE STRUCTURE OF FARM COSTS AND REVENUES

Primary agricultural production ranks among those branches of business that have little chance of becoming highly profitable. This is due to a great variety of factors depressing the prices of commodities purchased from primary producers.

The most important of these factors is that agricultural products are supplied by a large number of producers whose individual market share is very low. This causes high competition, which has only increased since Slovakia joined the EU, and thus strong downward pressure on the prices of agricultural commodities. Another important factor pushing prices down is the presence of international department store chains that are the main customers of primary producers. Finally, the growth in prices of agricultural commodities is limited by the fact that most have a wide range of substitutes, i.e. products that may satisfy demand if prices increase excessively, in the way that consumers may temporarily choose pork or poultry when beef prices are high.

As a result, agriculture is a branch of business with extremely low influence over the pricing of its products. In fact, agriculture is at the opposite pole with respect to industries whose market position is monopolistic or almost monopolistic and supply goods that do not have many substitutes (e.g. "network industries" that provide energy, water, etc).

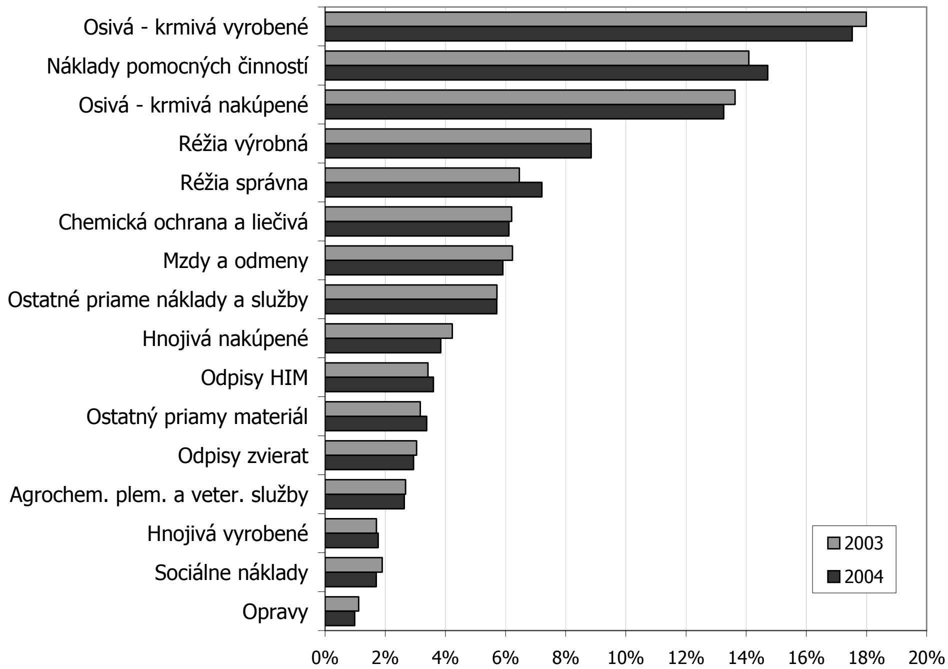
On the other hand, these attributes are among the hallmarks of the agrarian market and do not restrict entrepreneurs' access to the market or the agricultural sector's potential for economic growth. That potential depends primarily on the ability of producers to react flexibly to price developments, diversify their income sources, pursue an active trade policy with respect to other players on the European market, optimize the extent and form of their business, etc.

A far more important non-market factor affecting developments in the agricultural sector is government intervention through its subsidy and pricing policies, as well as legislative tools that regulate the conditions of doing business in this area.

The *Report on Agriculture and Food-Processing in the Slovak Republic 2005* observes that the share of agriculture on the country's GDP increased in 2004, that labor productivity within the industry exceeded the average productivity of labor within the national economy, and that the prices of agricultural products and foodstuffs helped contain inflation. The long-term trend of the agricultural sector's declining share on total employment continued in 2004. The combined economic result of Slovakia's agricultural sector improved by almost Sk4 billion compared to 2003, with five in six agricultural firms (84%) producing a profit. The sector's economic performance was significantly affected by EU subsidies, the total volume of which

was 20% higher than the subsidies it had received from the Slovak state budget in 2003. Other factors behind the improved economic result included a 5% reduction in costs and reducing the share of animal production (*Správa o poľnohospodárstve…*, 2005). Generally speaking, these results may positively affect the future of agriculture in Slovakia.
In terms of forms of agricultural business, individual farmers and farmers cultivating smaller areas (these two categories overlap significantly) continued to achieve better profits than trade companies and agricultural cooperatives.
The increase in the total volume of subsidies sparked an increase in the purchase of transport means (27.1%) as well as machinery and appliances (2.6%); on the other hand, Slovak farmers consumed less industrial fertilizer, chemical protection agents and fodder.
As for the structure of farm costs and their share on total production costs, Graph 1 shows that the costs of agricultural businesses are very diverse, with no item exceeding 18% of overall costs. The most costly items include buying seed corn and fodder, chemical protection agents and medicines, wage costs (including operating costs) and buying fertilizer. On the other hand, the wide range of inputs helps cushion the effect of fluctuation in the prices of particular items on total production costs.

**Graph 1**
**Structure of select farm costs and their share on total production costs**



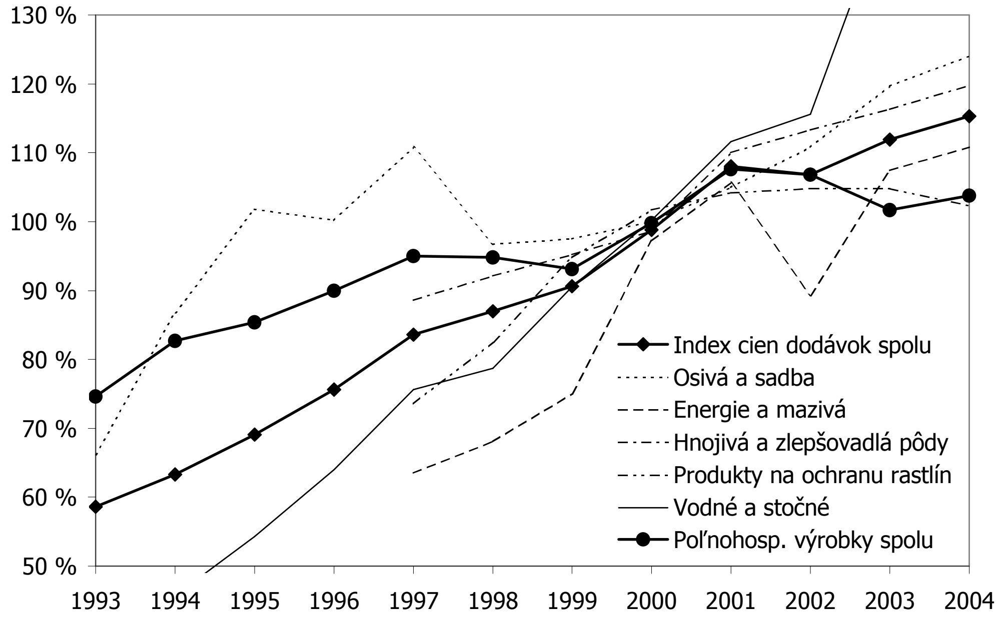

- Seed corn and fodder produced
- Cost of auxiliary activities
- Seed corn and fodder purchased
- Manufacturing expenses
- Operating costs
- Chemical protection agents and medicines
- Wage costs
- Other direct costs and services
- Fertilizer purchased
- Property depreciation
- Other direct material
- Animal write-offs
- Agrochemical, breeding and veterinarian services
- Fertilizers produced

- Social costs
- Repairs

**Source:** Research Institute of Economics of Agriculture and Food-Processing (based on data supplied by 107 businesses); graph by author.

A far more serious problem in the country's agricultural sector is the long-term widening of the price gap, i.e. faster growth in input prices than output prices. The *Report on Agriculture and Food-Processing in the Slovak Republic 2005*, also known as the Green Report, observes that the growth in the sale prices of agricultural products was slower than the growth in the prices of agricultural inputs (2.1% and 3.0%, respectively) in 2004. There are several reasons for this unfavorable development. Some are related to the negative legacy of the socialist economy before 1990, as most primary producers in Slovakia are financially undernourished and therefore unable to invest into increasing their output. Another important factor is the inadequate flexibility of Slovak farmers in reacting to price developments. A comparison of the price indexes of goods supplied and services provided to farmers and the price indexes of agricultural products (see Graph 2) shows a substantial increase in the prices of many important items in the cost structure of Slovak farms (see Graph 1), such as seed corn, fertilizer, water and sewage charges, energy and other items.

**Graph 2**
**Comparison of price indexes of goods supplied and services provided to agriculture and price indexes of agricultural products (indexes from 2000 = 100%)**

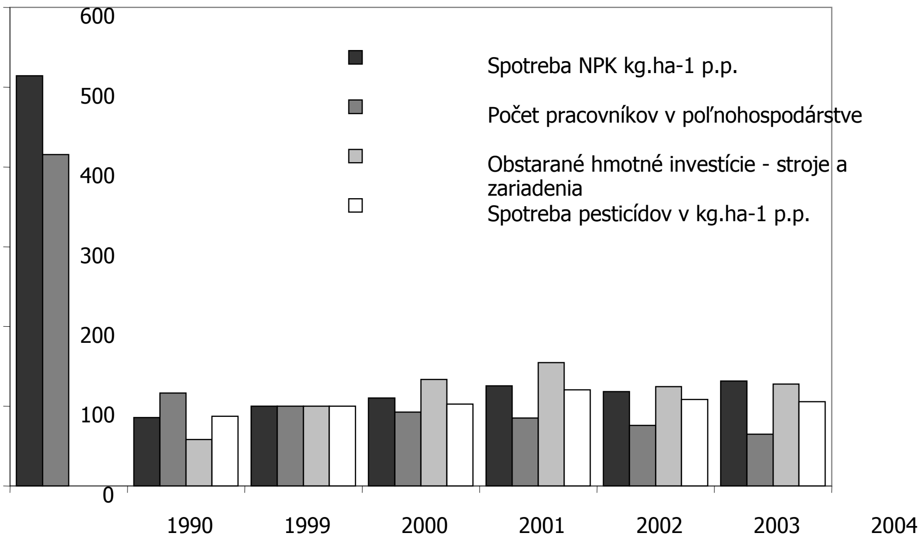



- Total price index of supplied goods and provided services
- Seed corn and seedlings
- Energy, fuel and lubricants
- Fertilizers and soil additives
- Plant protection products
- Water and sewage charges
- Total price index of agricultural products

**Source:** Slovak Statistical Bureau; graph by author.

The lower growth in the prices of agricultural products compared to the prices of agricultural inputs has a particularly negative impact on loss-making farms or farms with lower profits. The overall economic result of most farms is primarily affected by their ability to pursue active trade policies, increase production efficiency and achieve a volume of production whereby sales are able to make up for the increase in costs.

**Graph 3**
**Indexes of select farm expenditures (indexes from 2000 = 100%)**




- Consumption of NPK fertilizers (kg/ha)
- Number of employees in the agricultural sector
- Investments into equipment (machinery and appliances)
- Consumption of pesticides (kg/ha)

**Source:** *Green Report* for 2000 – 2005, Slovak Statistical Bureau; graph by author.

An important indicator of the general direction Slovak agriculture is moving in is the changing structure and volume of combined farm expenditures (see Graph 3). In this sense, Slovakia’s agricultural sector is experiencing slow but positive changes. The most positive trend from the viewpoint of increasing the efficiency of agricultural production is the sustained decline in the total number of people employed in agriculture; the decline remains far more dramatic than the decline in the total area of farmland or the total volume of agricultural production. Following a substantial decline in the consumption of pesticides and fertilizers after 1990, Slovak farmers are gradually increasing their spending on these intensification factors. The total volume of investments into equipment is also rising, particularly into transport means, machinery and appliances, although Slovak farmers have not yet been able to reverse the long-term overall ageing of their machinery.
Since the total volume of agricultural subsidies continued to increase in 2005 and the growing season saw relatively favorable weather conditions, one might expect to see a further improvement in the profitability of Slovakia’s agricultural sector in 2005. Unfortunately, this was not the case, mostly because the natural volume of production declined by 10% (in producer prices) compared to 2004, while farm prices were 97.4% of the previous year’s level (*Ekonomický účet…*, 2005). The economic result of Slovakia’s agricultural sector for 2005 is thus expected to be worse than in 2004.

# AGRICULTURAL SUBSIDIES

The policy of supporting agriculture has long been a controversial tool to defend a broad spectrum of public interests, especially stabilizing agricultural production, preserving the area of cultivated farmland, and maintaining employment in rural areas via general government expenditures. Following EU accession, Slovakia's agricultural policy was subordinated to market organization rules set by the Union's Common Agricultural Policy (CAP). The basic tools for organizing the Union's agricultural market include support policy and regulation. Support policy is pursued through an extensive system of agricultural subsidies, i.e. financial transfers from the EU budget and the national budgets of member states to individual farmers under strict conditions.

In 2004, the Agricultural Payment Agency allocated Slovak farmers the following types of direct subsidies in compliance with CAP guidelines and regulations (*Podpora poľnohospodárstva v SR…*):

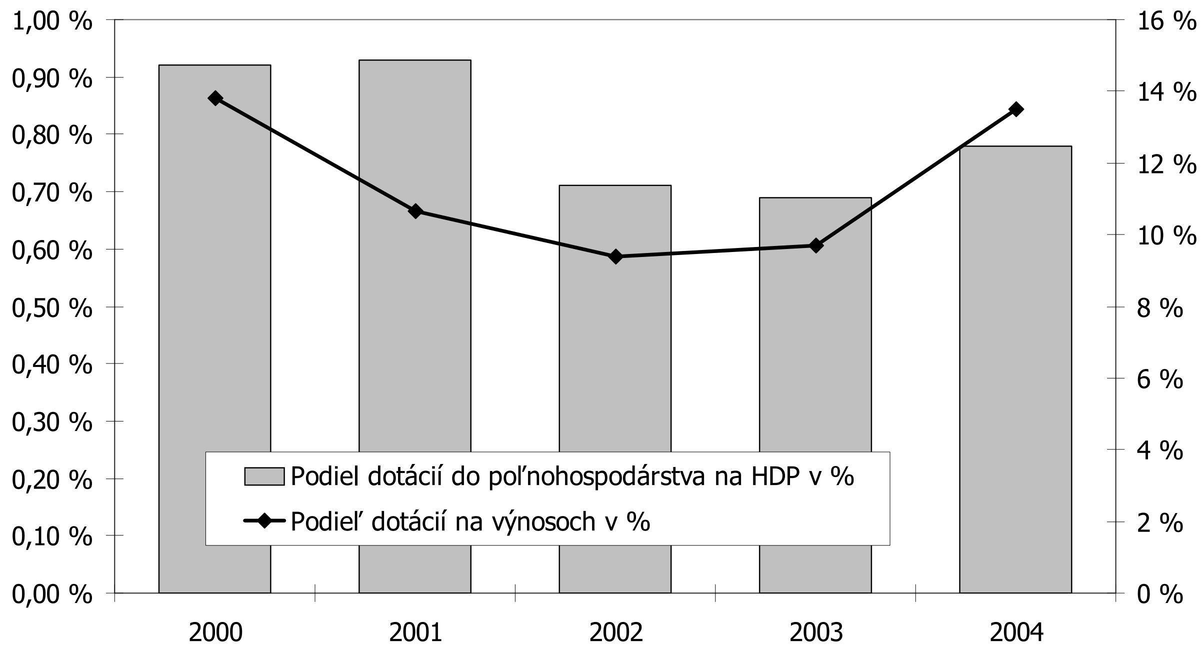
1. Single area payment system (replacing direct payments allocated during the transition period):
   - 1st payment disbursed per hectare of cultivated farmland;
   - 2nd payment disbursed per hectare of arable land;
   - 3rd payment designed to support the breeding of cattle, sheep and goats;
2. National subsidies;
3. Subsidies from the 2nd pillar of the CAP earmarked for supporting rural development:
   - disadvantaged areas;
   - agro-environmental support;
   - semi-subsistence farms;
   - support to help farmers comply with EU standards, etc.
4. Subsidies disbursed via EU structural funds (based on projects submitted):
   - investments into agricultural firms;
   - improvement in processing and marketing of agricultural products;
   - landscaping and land cultivation;
   - diversification of agricultural activities, etc.

Each year, agricultural subsidies consume several billion crowns from Slovakia's state budget. Although their overall share on the country's GDP is lower than 1% in the long term, these subsidies represent a significant proportion of public finances that is comparable to funds allocated to support of trade and investments or to the developments small and medium-sized enterprise. Even more importantly, agricultural subsidies have negative effects on the agricultural sector's economic performance, especially in the following areas:

1. **Distorting the effects of competition.** In a free market environment farmers are exposed to competition, which helps to increase the efficiency of the economic management of farms and to reduce the prices of commodities. Direct payments disbursed per hectare of farmland are a significant and stable part of farm income that does not take into account the actual economic performance of particular farms. This government intervention may actually be compared to a welfare benefit that smoothes out differences in the economic performance of farms and artificially prolongs the lives of businesses that otherwise would forced either to leave the market or improve their economic performance.
2. **Deformation of comparative advantages.** The prosperity of agricultural enterprises is largely based on their ability to capitalize on comparative advantages such as the natural characteristics of the land and area (e.g. soil quality, topography, altitude, climate conditions, etc.). Following the most recent EU enlargement round, the single European market has discovered some new comparative advantages caused by significantly lower

labor cost and prices of some other inputs of primary agricultural production (e.g. price of land, energy, etc.). The CAP has introduced a variety of subsidies to support disadvantaged areas or investment projects, which clearly suggests that the EU believes it is in the public interest to support the agricultural use of natural resources even in unfavorable production conditions. Despite several attempts at reform, the CAP continues to prevent free market forces from guiding agricultural enterprise on EU territory. As a result, it deforms the natural comparative advantages of businesses and replaces them with other advantages, such as the ability of farm managements to navigate the complexities of the subsidy system. In general, the CAP has a negative impact on the economic performance of the Union's agricultural sector.

**Graph 4**
**Share of agricultural subsidies on GDP and total farm income**




- Share of subsidies on GDP (%)
- Share of subsidies on total income (%)

**Source:** *Report on Agriculture and Food-Processing in the Slovak Republic* for 2000 – 2004; graph by author.

After 2000, the share of subsidies on the total income of Slovak farms declined moderately; however, since the country joined the EU in May 2004, the total volume of subsidies to the agricultural sector began to increase again (see Graph 4). On the other hand, the overall volume of subsidies depends on the ability of businesses to draw financial aid from EU structural funds based on the projects they submit. The largest item in the structure of subsidies are direct payments, i.e. single area payments disbursed to farmers depending on the area of cultivated farmland or arable land. In 2005, the negotiated terms of accession allowed Slovak farmers to receive subsidies equaling 60% of the subsidies disbursed to farmers in original EU-15 member states; half of that amount was financed from the EU budget and the remaining half was covered by the national budget. Based on the approved state budget for 2005, Slovak farmers received subsidies worth 54% of the subsidies disbursed to their EU-15 colleagues, i.e. 6% lower than they were entitled to receive.
The government also increased the volume of funds earmarked for market-oriented expenditures to support exports of agricultural products outside EU territory, from Sk798

million to Sk1.141 billion. The approved budget also raised the volume of funds allocated to financing pre-accession funds from Sk608 million to Sk1.85 billion. The total amount of subsidies earmarked for structural funds grew from Sk1.15 billion to Sk2.035 billion; however, the disbursement of these subsidies involves a complicated approval procedure and requires co-financing from the applicants' own resources. Overall, the budgeted amount of funds allocated to the agricultural sector grew by 16%; this amount also included the increase in funds earmarked for rural development from Sk4.486 billion in 2004 to Sk5.329 billion in 2005 (Lettrich, 2004).

# REGULATION

## MARKET REGULATION

Besides subsidy policy, an important tool of market organization in the EU is regulation of the agrarian market primarily by measures that conform to market principles, i.e. intervention purchasing, sale, storage, withdrawal of products from the market, etc. In Slovakia, this regulation is executed by the Agricultural Payment Agency (http://www.mpsr.sk/apa). Other tools of agrarian policy include price regulation (i.e. setting minimum purchase prices), setting commodity production quotas for individual EU member states, and the tax policy of individual EU member states.

Market regulation (especially sustaining the high purchase prices of commodities) distorts prices and is the reason that consumer prices in EU member states are much higher than in countries outside the EU. Simultaneously, the high revenues generated by sales of subsidized commodities help many farms stay on the market that under deregulated conditions would be forced to leave.

In 2005, the problem of excessive purchase prices escalated with respect to sugar beet suppliers and sugar producers; eventually, the EU was forced to agree on a partial reform of the sugar market to reduce the price of sugar by 36% (http://www.agris.cz). Although the proposed reform is not sufficient, every effort by the EU to curb its support of farmers should be applauded.

Market regulation represents a serious barrier to the development of agriculture within the EU; however, reforming it depends almost entirely on negotiations at the highest level of the EU and the World Trade Organization, respectively.

## LEGISLATIVE REGULATION

An important factor affecting the agricultural sector's future economic growth is legislative regulation, which sets conditions for doing business in primary agricultural production, food processing and forestry. The most negative effects of the government's activity here include excessive administrative barriers that restrict free enterprise (e.g. the tardiness of land registry offices, complicated requirements regarding financial reporting, etc.), as well as inefficient state ownership and support services that compete with the private sector or try to replace its role (this applies mostly to state enterprises and state-subsidized organizations).

In 2004, the Ministry of Agriculture drafted 16 legislative bills and over 100 proposed regulations, decrees, orders and other rules. In 2005, the ministry drafted more than 80 legal rules, including 9 bills:

- the bill on the National Stud Farm in Topoľčianky;
- the bill on registering varieties of cultivated plants and releasing their seeds on the market;
- the bill that seeks to amend the Act No. 152/1995 on Foodstuffs, as amended, and several other laws;
- the bill that seeks to amend the Act No. 491/2001 on the Organization of the Market in Select Agricultural Products, as Amended;
- the bill on growing genetically modified plants;
- the bill that seeks to amend the Act No. 488/2002 on Veterinary Care, as amended, and several other laws;
- the bill that seeks to amend the Act No. 473/2003 on the Agricultural Payment Agency and Supporting Agricultural Enterprise, as amended by the Law No. 546/2004;

- the bill that seeks to amend the Act No. 330/1991 on Land Adjustment, Arrangement of Landed Property, Land Authorities, Available Land Assets and Land Societies, as amended, and several other laws;
- the bill on irrigation and the founding of the Hydromeliorácie joint stock company;

In 2005, parliament also passed the long-awaited Forestry Act.
Most of the legislative initiatives sought to introduce cosmetic changes that are not likely to have a major impact on the future economic development of agriculture. In the following sections, we will discuss only those legislative changes (or proposals) that represent important legislative regulation of agricultural enterprise.

**Forestry**

The Ministry of Agriculture initially submitted a draft Forestry Act in May 2004. The bill envisaged the amalgamation of the two original forestry acts, namely the Forest Act and the Act on Forestry Management and State Forestry Administration, into a single law.
According to the Ministry of Agriculture, the main reasons for a new Forestry Act included: increased demands on the non-productive functions of forests; the need for a balance between the public interest and the demands of forest owners; the need to find a method of indemnifying and compensating owners for restrictions of ownership rights; creating financial conditions for sustainable forestry management; rationalizing and improving the performance of the state in the supervision of forestry management; and finally, harmonizing Slovak legislation with applicable EU legislation (*Dôvodová správa…*, 2005). The new Forestry Act was approved by the cabinet in February 2005 and by parliament in May 2005; after the president vetoed the law, parliament passed it again in June 2005.
From the outset, the drafting of the new Forestry Act provoked criticism from both environmentalists and private forest owners. The main problem was the provisions regulating the application of the public interest and the rights of forest owners and managers. Environmental associations criticized the new law for allowing owners to increase timber cutting by as much as 30 percent and to exceed cut limits stipulated by annual forestry management plans. Forest owners are also now entitled to bar citizens from entering forests where cuts are being prepared or are underway (*Parlament pripravil…*, 2005). According to the environmentalists, this provision amounts to "a direct ban on entering most forests in Slovakia because the law defines forests as large, extensive areas covering several dozen hectares (§ 31) while cut zones are much smaller" (*Nový lesný…*, http://www.wolf.sk/lesnyzakon.php).
Owners of private forests, for their part, pointed out that the new law failed to tackle several problems related to the exercise of their ownership rights. Most importantly, they criticized the law for ignoring their demands regarding balanced state support for the non-commercial uses of forests and the issue of the public use of forests (*Lesný zákon…*, 2005). In Slovakia and the Czech Republic, restrictions on the ownership rights of forest owners in forestry legislation are among the highest in Europe, and include an obligation for forest owners and managers to abide by annual forestry management plans, bans on more flexible forms of forest reconstruction (e.g. clear-cutting), extensive state supervision of forestry management, the obligation to employ professional foresters, and legislative guarantees of the non-productive functions of forests. The owners of private forests were also critical of the fact that the new Forestry Act failed to define how restrictions on ownership rights would be compensated. At the same time, the new law contains a provision conserving the state ownership of most Slovak forests by banning any future transfers of currently state-owned forests into private hands (*Nový lesný…*, http://www.wolf.sk/lesnyzakon.php).

In Slovakia, forestry is a battlefield where private ownership clashes with the public interest, inspiring the government to enact various restrictions, especially to protect those who suffer from the exploitation of forests, to safeguard the environmental value of forests, and to allow the public to enter forests freely and enjoy some of the benefits they provide. The principal contradiction between these two approaches is likely to determine the character of laws regulating forest enterprise for many years to come. Although the new Forestry Act introduced a number of changes to forestry legislation, it did not essentially reduce the scope of the public interest.

## Irrigation

After the Ministry of Agriculture in 2004 suspended the legislative process aimed at adopting a new Irrigation Act, it drafted new versions of the law in 2005; the most recent bill was submitted to cabinet in September 2005 but was subsequently knocked off the cabinet's agenda. The ministry's irrigation policy has unclear intentions, particularly on the future administration of irrigation plants. Initial legislative proposals prepared by the ministry envisaged the establishment of "irrigation cooperatives" that would operate alongside a state-run joint stock company, Hydromeliorácie, as the principal administration authority; however, the most recent bill leaves both ownership and administration with the current administrator, the Hydromeliorácie state enterprise. Unlike previous proposals, the most recent bill does not even envisage the privatization of irrigation plants. At the same time, the ministry drafted an order to provide subsidies to maintain the operational condition of irrigation property in state hands to cover administration costs related to maintenance and repairs at irrigation plants as well as the liquidation of defunct irrigation assets (*Návrh výnosu…*, 2005).
Symptomatic of the ministry's ambiguous strategy on irrigation was the appointment of a new director for the Hydromeliorácie state enterprise, which administers most irrigation property in Slovakia with equity capital of over Sk4 billion. The appointment of Ervín Bankó to the post provoked suspicions of tender rigging, as the winner had the poorest professional and managerial abilities of all the candidates (*Nezvyčajný…*, 2005). Several days after winning the job, Bankó quit, and the ministry had still not appointed a new director by the end of 2005.

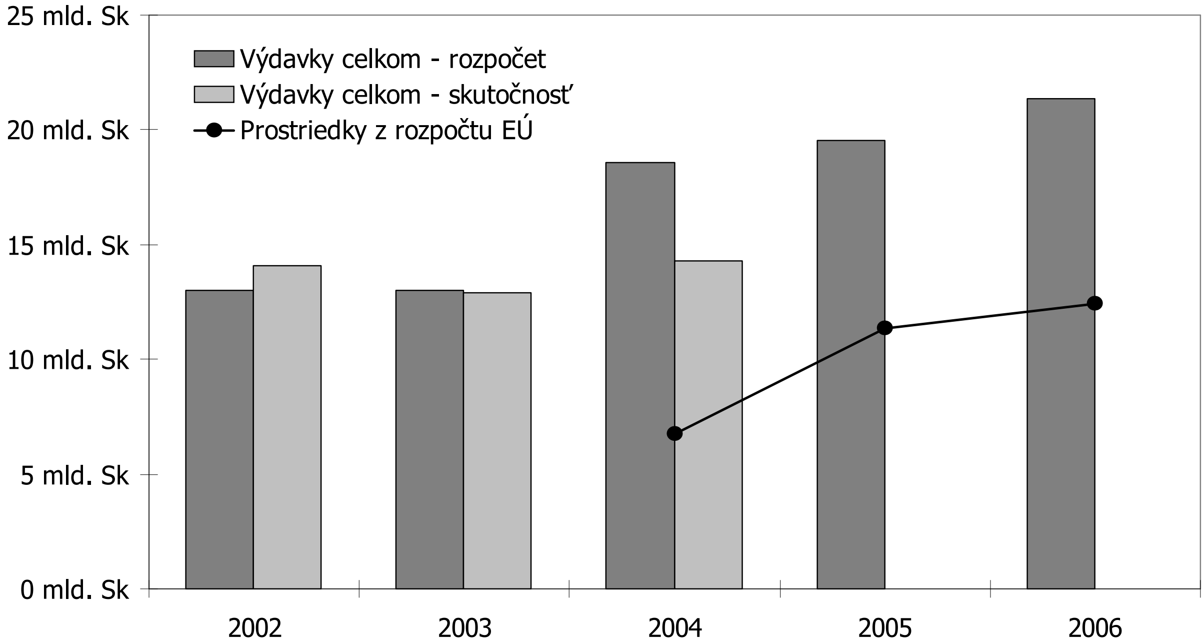
## Genetically modified plants

At its final session in 2005, the cabinet approved a bill on cultivating genetically modified plants (GMP) in agricultural production. The bill seeks to regulate the process of cultivating GMP in agricultural production and to create conditions for the future coexistence of GMP with conventional methods of cultivation and ecological farming. At the same time, the bill defines the method of labeling genetically modified agricultural products from primary producers through their processing and marketing, and sets other obligations for farmers who cultivate GMP (*Dôvodová správa…*, 2005).
The bill outlines farmers' obligations towards supervisory organs and users of adjacent land when growing GMP, as well as the rights of supervisory and inspection organs. Given what is currently known about the environmental effects of GMP cultivation, the bill does not introduce excessive barriers to enterprise in the field of GMP, and provides adequate environmental protection.

## THE AGRICULTURE MINISTRY AND PUBLIC FINANCES

An important indicator of the effectiveness of the government's agricultural policy is the status of the Agriculture Ministry from the viewpoint of drawing public funds.
In 2004, state budget expenditures allocated through the Ministry of Agriculture totaled Sk14.28 billion, or 4.57% of total state budget expenditures. The ministry's budgeted expenditures, including EU funds, totaled Sk18.58 billion in 2004. For 2005, the state budget allocated Sk19.54 billion to the Ministry of Agriculture (see Graph 5).

**Graph 5**
**Budget and expenditures of the Ministry of Agriculture**




- Total budgeted expenditures
- Total actual expenditures
- Funds from the EU budget

**Source:** *Draft National Account of the Slovak Republic* for 2002, 2003 and 2004; *State Budget Draft* for 2005 and 2006; graph by author.

Current transfers to businesses (i.e. subsidies to farmers) represent the largest part of the ministry's expenditures, exceeding Sk10 billion each year. Due to the aforementioned negative effects of agricultural subsidies on the competitive environment, the pricing of agricultural products and corruption, the need to revise subsidies is becoming more and more urgent. Following Slovakia's accession to the EU, however, the power to decide on the allocation of public funds to this area is gradually being transferred to the Union's CAP. After Slovakia is fully incorporated into the system in 2013, reducing the total volume of subsidies will depend entirely on decisions within the EU and especially on trade liberalization agreements at the WTO level. Market liberalization is an extremely important tool for enhancing the economic growth of world agriculture; in the case of Slovakia, it would also force the country's agricultural sector to make better use of its comparative advantages. Therefore, Slovakia must be an active advocate of liberalizing the agrarian market.
Another sizeable chunk of public funds is channeled to state-funded organizations in the form of state budget transfers. In 2004, the Agriculture Ministry allocated Sk2.47 billion to various

organizations under its wings. These organizations frequently lack a reason for existence, as they often provide services that are effectively provided by the private sector, such as in counseling and education. In other areas, Agriculture Ministry organizations inefficiently duplicate other ministries' activities, especially in soil research, where the ministry supports several research stations. Furthermore, most of these organizations are overstaffed.

In an attempt to improve the efficiency of these organizations, the cabinet in 2004 initiated a bill on budgetary rules for general government that sought to distinguish between market and non-market entities; the law introduced an eligibility criterion, stipulating that only organizations whose turnover covered less than 50% of their production costs may continue to be qualified as state-funded organizations. The idea was to force ministries to get rid of all institutions that did not depend exclusively on the state budget.

The Ministry of Agriculture, which administers and financially supports 26 state-funded or "contributory" organizations, also analyzed their financial performance. The result was a proposal to transform five contributory organizations from its portfolio into non-profit organizations, namely the Institute of Science and Technology Information for Agriculture, the Research Institute of Food Processing, the Agro-Institute, the Institute for Education of Veterinary Surgeons, and the State Breeding Institute of the Slovak Republic. The basic problem with the proposal is that the services these institutions provide can either be provided by the private sector or replaced by other (e.g. scientific) institutions outside the Agriculture Ministry. Some of these institutions operate on various markets (e.g. the Agro-Institute, which is in fact a hotel) while enjoying an unfair competitive edge in the form of state budget subsidies (*Simonove…*, 2005). Besides, the ministry's proposal envisages keeping the previous volume of state budget transfers unchanged.

## CONCLUSION

The impact of agriculture on Slovakia's economic performance has been declining since 1990. This is particularly true of primary agricultural production, the largest agrarian industry, which shows a long-term decline in employment as well as the total area of actively cultivated farmland. However, in terms of its impact on the creation of national income, agriculture still remains an important industry in Slovakia's national economy.

Following the country's EU accession in 2004, its agricultural sector may look forward to an increase in the volume of annual subsidies. Despite lingering economic problems stemming from the lack of capital and the widening of the price gap (i.e. where the prices of production inputs are higher than the prices of agricultural products), the agricultural sector is already showing signs of recovery on the back of increased subsidies. In other words, Slovakia's EU accession has had a positive impact on the economic performance of its agricultural sector, which is helping Slovak farmers become gradually more competitive on the EU market.

Agriculture and forestry are specific areas of enterprise that strongly affect the country's landscape as well as the environment. At the same time, both industries are important employers in rural areas. Due to these reasons, governments often resort to extensive administrative and economic regulation of enterprise in the agricultural sector, which in turn has a number of negative effects on the development and prosperity of agricultural enterprise.

Following EU accession, Slovakia's agrarian policy was subordinated to the Union's Common Agricultural Policy, which is based on extensive financial support for farmers and market organization through legislative measures. Negative results of this policy include price distortion, the deformation of the competitive environment, and corruption. The change in the means of supporting farmers and the system of market regulation (i.e. intervention purchasing, minimum purchase prices, protection of the EU market, etc.) transferred a great part of the responsibility for decision-making to EU organs; however, national governments have retained a variety of legislative tools to regulate conditions for agricultural enterprise.

In 2005, the Agriculture Ministry's legislative activity focused on forestry as it finally submitted the long-awaited new Forestry Act; apart from that, the ministry drafted only several minor laws and amendments concerning primary agricultural production. Overall, the ministry did little to improve the efficiency of agricultural industries or support economic growth in the agricultural sector through new legislation in 2005. The ministry failed to spur economic growth in forestry, to solve the problem of ownership relations in irrigation, or to help improve the efficiency of public administration and reduce the public finance deficit.

Nevertheless, from the viewpoint of the future development of primary agricultural production, food processing and forestry, Slovakia's EU membership provides very favorable conditions for increasing the competitiveness of its agricultural sector in the future.

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