

Synthesis and assessment of the public debate on the reform of the CAP after 2013

Country report: SLOVENIA

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LIST OF ABBREVIATIONS

AAMRD	Agency of the RS for Agricultural Markets and Rural Development
A-E	Agri-environmental measures
AWU	Annual Working Unit
CAF	Chamber of Agriculture and Forestry
CAFE	Chamber of Agricultural and Food Enterprises
CAP	Common Agricultural Policy
CEFTA	Central European Free Trade Association
CMO	Common Market Organisation
CUS	Co-operative Union of Slovenia
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guarantee and Guidance Fund
EFTA	European Free Trade Association
ERDF	European Regional Development Fund
ESF	European Social Fund
ESU	European Size Unit
IACS	Integrated Administrative and Control System
ICT	Information and Communications Technology
IRSNC	Institute of the Republic of Slovenia for Nature Conservation
LAG	Local Action Group
LFA	Less Favoured Areas
MAFF	Ministry of Agriculture, Forestry and Food
MESP	Ministry of Environment and Spatial Planning
RDP	Rural Development Programme
SAPARD	Special Accession Programme for Agriculture and Rural Development
SPD	Single Programming Document (2000-2006)
SRDA	Slovene Rural Development Association
UAA	Utilised Agricultural Area
VAT	Value-added tax
WTO	World trade Organisation

1 Implementation of CAP instruments in Slovenia¹

1.1 Introduction: long-term objectives of agricultural policy, evolution of agricultural policy mechanisms in 1990s

Soon after starting to exercise sovereignty in the field of agricultural policy, Slovenia set forth its long-term goals in the Development Strategy for Slovene Agriculture (MAFF, 1993). These goals refer to: (i) stable production of quality food at reasonable prices and food security; (ii) preservation of population density, of cultural landscape and agricultural production potential, protection of agricultural land and water from pollution and misuse; (iii) permanent increase in competitiveness; and (iv) guaranteed parity income for agricultural producers.

Apart from these stated goals, Slovenia committed to implement the EU-like agricultural policy with the similar objectives, instruments and understanding of the role of agriculture in the society. A protectionist concept of agricultural policy was adopted, which assured a relatively high level of support to agriculture throughout the entire transition and pre-accession period as well as after accession to the EU. Changes in agricultural policy instruments and measures have been gradual and were following the EU Common Agricultural Policy (CAP) pattern, characterised by the reorientation from market price support to direct income support.

In the first years of independence and during most of the transition period, Slovenia maintained fixed state prices for basic agri-food products (wheat, sugar, milk) in combination with price aids (per tonne payments) to producers and/or consumers and operated state monopolies for trade in wheat and sugar. In the sugar and wheat chains, the system of administrative pricing was dismantled in 1998 and 2000 respectively, while fixing of the farm gate price for raw milk remained in force up to as late as 2001.

In addition to direct price regulation, border measures have always been an important instrument of producer protection. In 1994, Slovenia acceded to the WTO and introduced a new tariff schedule. In addition to *ad valorem* tariffs, specific import duties were fixed for many important agri food products. Specific tariffs provided extra protection from external competition, which was particularly high for most sensitive agricultural commodities (milk, beef, live cattle, sugar). In the years that followed, Slovenia signed various free trade agreements (1995: EFTA; 1995 and 1997: CEFTA; 1996: EU, Macedonia; 1997: Estonia, Lithuania, Latvia; 1999: Israel; 2000: Bosnia Herzegovina, Turkey), which altogether led to a gradual opening of agricultural markets especially for wheat (1998) and meat (2000) while some other markets remained highly protected (milk, sugar, wine).

Another important instrument supporting agricultural markets was the system of export subsidies, which was primarily targeted to reduce the excess supplies from the domestic market. Such support was regularly given to milk processors as well as to some other sectors (i.e. meat, wine, apples). Among other indirect price regulation measures the interest rate

¹ Findings of this chapter are largely recapitulated from Volk and Erjavec, (2009).

subsidies to food processors that purchase and storage agricultural products played a considerable role.

At the onset of Slovenia's independent agricultural policies reduction of input costs remained an important type of agricultural market and income support. In this context, seeds, breeding animals and interest rates for short run loans were subsidised. However, by 1999 all these subsidies were abolished and replaced by other support measures.

In the mid-1990s, agricultural policy started to introduce and increase direct producer support in the form of area and headage payments. Payments per animal started to be paid for beef cattle (suckler cows and some other specific cattle categories; from 1995), sheep and goats (from 1995) and horses (from 1997). In the crop sector, per hectare aids were allocated to seeds (from 1996), hops (from 1998), sugar beet (from 1998) and wheat growers (from 1999).

In the field of rural development, in the transition period agricultural policy was re-oriented more towards family farms. Alongside the removal of limitations on private land ownership and use, improving production structures and enhancing the competitiveness of domestic producers became more important. In this context, programmes for support of farmers in less favourable areas (LFAs) and on farm investments were broadened.

The importance of LFAs for achieving economic and environmental goals resulted in increasing the support to these areas. The form of support was changed from payments per kg of output to payments per animal (from 1996: dairy cows, sheep and goats; from 1997: sheep, goat and horse meat; beef meat still per kg). In 1999 also first agri-environmental payments to producers were introduced (for integrated fruit production, organic farming). Investment support consisted of interest rate subsidies on long-term loans and capital grants. In the transition period the most important agricultural investment programmes being implemented were: (i) a land improvement programme (consolidation, irrigation, etc.); (ii) general on farm investment programme; and (iii) a programme for the renewal of permanent plantations (vineyards and orchards). Special rural development measures were foreseen within a framework of small-scale programmes of integrated rural development and village renovation and also within programmes of regional development.

Considerable changes in agricultural policy occurred only with launching of an agricultural policy reform in 1999, which in its essence meant a gradual transformation from the policy of price-related support to the policy of support based on budgetary payments, all with the goal of increasing the role of the market and achieving structural adjustment of agriculture. Preparations for accession to the EU and the start of negotiating process contributed greatly to the decision to launch agricultural policy reform and for its successful realisation. These new agricultural policy guidelines were formalised in the Programme of Agricultural Policy Reform and the National Development Programme for Agriculture, Food, Forestry and Fisheries 2000-2002, issued thereof. The reform went in the direction of adapting the types, forms and levels of measures comparable to that of the CAP, with the goal of bringing the policy in line with the EU even before the actual accession.

1.2 Agricultural and rural development policy in the pre-accession period

The last years before the accession to the EU (2000-2004) were marked by the final preparations for Slovenia's membership of the EU with further alignment of regulations, instruments and measures with the CAP.

In 2000, a new law on agriculture was adopted. This law was a legal base for CAP-like market support measures adopted within the next few years (2000-2002) for all important agricultural commodities, main policy instrument being coupled area and headage payments. Reform of market support measures resulted also in the introduction of CAP-compatible intervention mechanisms; however, only few of them have been implemented in practice (intervention buying-in) or remained modest in terms of funds (storage aid, consumption support). Despite several free trade agreements (see previous section), foreign trade protection and export refunds remained the most important agricultural policy instruments for supporting agricultural markets. Export subsidies even gained in importance especially as regards milk, meat, wine and fruits.

In 2001, the administrative price control in the milk chain was abolished, meaning that no direct price support measures were in force any more. Price support measures were replaced by different forms of direct support to producers, in the form of area and headage payments. Direct payments started to align more and more with CAP. By 2003, Slovenia had already introduced practically all main types of direct payments as foreseen in the Common Market Organisations with some small exceptions (suckler cows, energy and protein crops, nuts, olive oil). Differing from the CAP, no limits in terms of set aside, reference quantities or quotas were put in place.

Table 1: Direct payments to producers implemented in the period 2000-2003

	Unit	2000	2001	2002	2003
Direct payments for crop products:					
Wheat, rye, buckwheat	EUR/ha	263.37	248.64	269.64	246.04
Corn maize, other cereals, protein crops	EUR/ha	131.69	138.13	185.66	246.04
Rapeseed	EUR/ha	131.69	324.61	311.64	246.04
Other oilseeds (including oil pumpkin seeds)	EUR/ha	131.69	138.13	185.66	246.04
Sugar beet	EUR/ha	204.85	193.38	247.54	239.62
Hops	EUR/ha	575.52	543.32	334.18	357.29
Seeds	EUR/ha	(1)	(1)	(1)	(1)
Direct payments for livestock products:					
<i>Beef and veal</i>					
Specific payment for calves	EUR/head	73.16	92.09	-	-
Specific payment for extensive beef production	EUR/head	97.55	-	-	-
Slaughter premium for adult bovines	EUR/head	-	-	59.68	59.05
Slaughter premium for calves	EUR/head	-	-	-	36.80
Additional payment for adult bovines	EUR/head	-	-	-	21.82
Suckler cow premium	EUR/head	87.79	115.11	148.08	147.62
Beef premium	EUR/head	87.79	115.11	154.71	154.04
Steer premium	EUR/head	87.79	115.11	110.51	111.25
Heifer premium	EUR/head	-	115.11	-	-
Extensification premium	EUR/head	-	-	-	74.03
<i>Sheep and goats</i>					
Premium for (heavy) sheep and goats	EUR/head	12.19	15.65	15.47	15.40
Premium for (light) sheep and goats	EUR/head	9.75	12.52	12.38	12.41
Additional premium for sheep and goats in LFA	EUR/head	-	-	-	5.13
Additional payment for sheep and goats	EUR/head	-	-	-	0.73
<i>Horsemeat</i>					
	EUR/head	87.79	115.11	110.51	107.00

(1) including seed potato; specific (different) amounts
Source: MAFF

In 2003, the level of direct payments reached 75% of the comparable level of individual payments in the EU (according to the standard scheme under Agenda 2000). Besides, in 2003 some country specific direct payments were still in force (for sugar beet, oil pumpkin seed, seed potato, horsemeat, beehives) and temporary (exceptional) aid to stabilise the pig market (in the form of a payment per slaughtered animal) was paid out.

Input subsidies which had lost importance in the transition period have become important again with the introduction of VAT (1999). Regulations provided for a 50% refund of the excise duty paid for fuel used for agricultural and forestry machinery.

Among other direct producer support instruments, assistance to farmers for mitigating the effects of unfavourable weather conditions (to alleviate the consequences of various natural disasters) was the most important in terms of funds.

The reform of agricultural policy in 1998/99 brought fundamental changes in instruments and measures not only in agricultural market policy, but also in rural development policy. Together with strengthened budgetary resources, rural development gained in relevance, main emphases being given to investment support to increase the competitiveness of the agri-food sector and to encourage the rural economy. Some part of these measures was implemented with the financial support of the pre-accession financial mechanism for agriculture and rural development SAPARD 2000-2006. In fact, the Rural Development Plan 2000-06 (SAPARD) comprised of four measures: 1) investment in agricultural holdings, 2) investment in processing and marketing of agricultural and fisheries products, 3) economic

diversification on farms, and 4) development and improvement of rural infrastructure. Together with technical assistance, SAPARD programme provided for a total funding of EUR 39.9 million for the period 2000-2003, of which the contribution by the EAGGF Guarantee Section was EUR 26.6 million (two-thirds of total funding). Implementation of the programme started in 2002. By the end of April 2004, all the available funds were allocated, although payments were made up to the end of October 2006 (N+2 rule).

Nevertheless, SAPARD was only a part of a wider framework of structural and rural development measures in the country. In fact, nationally funded policy effort on rural development was more ambitious than SAPARD, both in terms of the scope of supported activities, and in terms of the budget. Nationally funded measures for increased competitiveness of the agri-food sector targeted some specific sectors (such as investment support for restructuring of fruit, vine and olive plantations, some additional support for restructuring of food-processing), establishment of different forms of producer groups, and support for food marketing and promotion programmes.

Since 2000, the implementation of support to agricultural producers in less-favoured areas (LFA) has gradually been aligned with the CAP rules and procedures. In 2000, LFA payments have taken the form of payments per hectare of utilised agricultural area (UAA). In 2003, agricultural holdings were classified into various LFA types in accordance with the EU legislation.

In 2001, Slovenia adopted the Agri-Environmental Programme 2001-2006. The agri-environmental package was targeted at decreasing the negative impacts of agriculture on the environment (mainly through reduction of nutrient and pesticide input), protection of the cultural landscape and preservation of genetic resources and biodiversity with special attention to maintenance of protected environmentally sensitive areas. The programme included 22 different measures. In 2001, 10 measures from this programme package were introduced, complementing a few previously existing environmental aids. By 2003, the number of agri-environmental measures increased to 13. Since the adoption of the Agri-environmental Programme, area under agri-environmental measures has been increasing steadily. In 2003, about 25% of the total UAA was included under the agri-environmental programme, up from less than 1% in 1999. In the same period, agricultural areas under organic farming (together with the areas in conversion) increased to almost 4% of UAA.

Before accession to the EU, all important instruments and measures were put in place and more or less adopted to EU requirements and practice.

1.3 Outcomes of the accession negotiations, first three years of CAP in Slovenia

1.3.1 Accession negotiations

Expectations about quotas and reference quantities were very high and attracted a lot of publicity in Slovenia. In its first proposal from January 2002, the Commission put forward levels that were much lower than those stated in Slovenia's negotiating positions. However, final levels were in no case lower than the actual production at that time and some additional development reserves have also been constituted. The finally agreed levels were even more

important in the view of the fact that they served as a basis for calculation of the CAP reform national envelope of direct payments.

Table 2: National reference quantities and quotas according the Treaty of Accession²

Plant products	Unit	Reference quantities / quotas / values	Livestock/Dairy products	Unit	Reference quantities / quotas
Arable crops	000 ha	125.2	Slaughter of adult bovine animals	000	161.1
Nuts	000 ha	0.3	Slaughter of calves	000	35.8
Sugar	000 t	72.6	Suckler cows	000	86.4
Olive oil	000 t	0.4	Beef and veal	000	92.3
Hops	000 €	993.3	Sheep and goats	000	84.9
Seeds	000 €	280.0	Milk	000 t	560.4 (576.6)

Slovenia did not apply for the single area payment scheme (SAPS), but chose to implement all direct payments according to the pre-reform Agenda 2000 scheme.

According to the Accession Treaty, the level of direct payments should be rising gradually from 25% in 2004 to 100% in 2013 in all acceding countries with the possibility of complementing (top-up) direct payments from the national budget. Underpinned by the results of a study showing that the economic position of Slovenian agriculture would deteriorate considerably in the case of lower level of top-up payments, Slovenia was allowed to start topping up payments as from the level of payments reached in 2003, which stood at 75% of the level applied in the EU-15 Member States. In 2004, Slovenia was allowed to raise this level by 10 percentage points and in the following three years by another 5 percentage point each year. Thus in 2007, a possibility of 100% level of direct payments was given. This was no doubt a favourable negotiating outcome for Slovenian agriculture; however it went at the expense of the national agricultural budget.

According to the provisions of the Regulation ES/1257/99, the EU Rural Development Policy in the programming period 2000-2006 was financed partly from the Guidance section of the agricultural budget (EAGGF), and partly from the Guarantee section. This resulted in the negotiations on the financial terms of the accession in the field of rural development policy taking place within two distinct Accession negotiation Chapters. Rural development measures financed from the EAGGF Guarantee Section (eg. LFA compensatory allowances, agri-environmental measures, compliance with EU standards, early retirement and young farmers' schemes, support for semi-subsistence producers) was a part of the accession negotiations under Chapter 7 (Agriculture). Rural development measures financed from the EAGGF Guidance Section (eg. investment support in agriculture, food processing and marketing, forestry, farm diversification, as well as measures such as rural infrastructure, village renewal) formed a part of the Chapter 21 (Regional Policy and coordination) negotiation package. The majority of the candidate countries focused their negotiation effort on agricultural market policy (Chapter 7) and Cohesion policy (Chapter 21), whereas the political importance of rural development policy was regarded smaller. In contrast with this, Slovenia based its negotiation positions strategically on rural development policy. Prospects for a successful implementation of CAP Pillar II (Rural Development) in Slovenia were

² For fuller reference, please consult Annex II AA 12/03 of the Treaty of Accession, Official Journal L 236, 23 September 2003.

favourable both in terms of allocated budget (and thus ability of own co-financing), and in terms of absorption rate (CAP-compliant measures were already put in place and functioning).

At the end the negotiating outcome in the area of structural and rural development funds for the period 2004-2006 could be assessed as favourable for Slovenia at least for the EAGGF Guarantee part of the policy. Slovenia was entitled to funds amounting to around EUR 249.8 million (1999 prices) for Guarantee measures, which was comparable with total funds earmarked for structural and regional policy, where budgetary appropriations amounted to EUR 236.8 million for Structural Funds (EAGGF Guidance, ERDF, ESF, FIFG), and to EUR 168.6 million for Cohesion Fund. Rural Development measures (financed from EAGGF Guarantee) thus represented the largest share in the distribution of funds from the EU budget to Slovenia.

However, favourable negotiation outcomes had an adverse effect on the earmarked funds for implementing Rural Development financed from EAGGF Guidance. As a result of the 'internal' negotiation, only about 10 per cent of the Structural Funds budget was allocated to these actions.

The split of rural development support between two financial sources (EAGGF Guarantee and Guidance) in the period 2004-2006 increased administrative complexity of the policy (preparation of two programming documents, implementation under different implementing provisions and financing procedures), and thwarted flexibility of choice between the rural development measures. Allocated funds under the heading 'Rural Development Policy' could in fact be used only for CAP accompanying measures (e.g. compensatory payments for LFAs, agri-environmental measures, support for compliance with EU standards, Early Retirement) and measures designed for new member states (e.g. support for semi-subsistence farms and Producer Groups). All investment-related support and support for 'non-agricultural' rural development measures were subject to financing from the Structural Funds. Since the outcomes of financial negotiations in Slovenia were more favourable within the heading 'rural development policy', this meant that only about 10 per cent of rural development public expenditure in Slovenia were available exclusively for measures tackling competitiveness of agricultural and food sector, economic diversification, or quality of life in rural areas. This resulted in an unbalanced structure of public expenditure on rural development, skewed disproportionately towards environmental and countryside payments (i.e. LFA and agri-environmental measures).

1.4 First years of EU membership: 2004-2006

1.4.1 CAP Pillar I: Introduction of CAP Direct Payments, national top-ups

Full adoption of the CAP brought some important changes to the agricultural trade and policy routine. Changes in trade regimes caused by accession caused a sharp fall of export refunds. On the other hand, the importance of market intervention measures has increased. This was slightly due to the introduction of measures targeted to increase consumption and only partly due to the specific market support measures. An exception was the year 2006 when the intervention buying-in of sugar took place. However, generally the market interventions have not had a significant impact on Slovenian agricultural sector if compared with direct payments.

In the first years of EU membership, Slovenia implemented all direct payments according to the pre-reform Agenda 2000 scheme. Since the majority of CAP-like direct payments had been put in place already in 2003 these meant only minor changes in policy implemented. After the accession area payment for sugar beet and headage payment for horsemeat producers was abolished and payments for protein and energy crops, nuts, olive oil and additional suckler cow premium were introduced along with milk premium which was new in all member states. For seeds, payments per hectare were replaced by payments per tonne. In addition to regular CAP measures some specific national direct payments remained in force as state aid (oil-pumpkin seed, seed potatoes).

In line with the agreement on topping up of direct payments from the national budget, the majority of direct payments rose from 75% of the comparable level of payments in the EU-15 in 2003 to 85% in 2004, to 90% in 2005 and to 95% in 2006. Exemptions were payments for protein and energy crops, nuts and olive oil where initial level of top-up was lower.

Reference quantities, set-aside and quotas have not imposed serious restriction (limitation) on producers in any market. In the period 2004-2006 the share of unused premium and quota rights in total national envelope ranged from more than 20% (slaughter premium, beef premium) to about 10% (suckler cow premium, milk) and only in some sectors this share was close to 0% (arable crops, sheep and goats, sugar). About 85% of agricultural holdings (over 60,000) have applied for direct payments in Slovenia every year.

Compliance conditions for receiving payments were introduced gradually over the 2005-2007 period and implemented in the same way as in EU-15 Member states. In 2005, conditions for maintaining land in good agricultural and environmental condition and animal identification were adopted, and in 2006 – conditions for maintaining human, plant and animal health. The conditions regarding animal welfare were put in place in 2007.

Table 3: Direct payments to producers implemented in the year 2003 and after accession to the EU

	Unit	2003	2004	2005	2006	2007	2008
Direct payments for crop products:							
Arable crops	EUR/ha	246.04	281.65	297.71	314.31	-	
Protein crops	EUR/ha	-	30.62	33.34	36.12	38.89	44.45
Energy crops	EUR/ha	-	24.70	27.00	29.25	31.65	45.00
Oil pumpkin seeds	EUR/ha	246.04	240.73	240.70	239.98	-	
Sugar beet	EUR/ha	239.62	-	-	(1)	-	-
Hops	EUR/ha	357.29	408.78	432.00	456.00	120.00	
Nuts	EUR/ha	-	30.13	72.45	78.49	84.52	96.60
Olive oil	(2)	-	(2)	(2)	(2)	-	
Seeds	(3)	(3)	(3)	(3)	(3)	(3)	
Direct payments for livestock products:							
Milk							
Milk premium	EUR/t	-	6.94	14.67	23.27	-	
Additional milk premium	EUR/t	-	(4)	(4)	(4)	-	
Beef and veal							
Slaughter premium for adult bovines	EUR/head	59.05	67.88	72.00	76.00	-	
Slaughter premium for calves	EUR/head	36.80	42.31	44.89	47.39	-	
Additional payment for adult bovines	EUR/head	21.82	(4)	(4)	(4)	-	
Suckler cow premium	EUR/head	147.62	169.70	180.00	190.00	-	
Additional suckler cow premium	EUR/head	-	20.48	21.73	22.94	-	
Beef premium	EUR/head	154.04	177.21	188.02	198.52	136.50	
Steer premium	EUR/head	111.25	127.27	135.00	142.50	97.50	
Extensification premium	EUR/had	4.03	84.85	0.00	5.00	-	
Specific payment for extensive suckler cows rearing	EUR/head	-	-	-	-	161.00	196.00
Sheep and goats							
Premium for (heavy) sheep and goats	EUR/head	15.40	17.72	18.80	19.85	10.50	
Premium for (light) sheep and goats	EUR/head	12.41	14.26	15.13	15.97	8.40	
Additional premium for sheep and goats in LFA	EUR/head	5.13	5.91	6.27	6.62	3.50	
Additional payment for sheep and goats	EUR/head	0.73	(4)	(4)	(4)	-	
Horsemeat							
	EUR/head	107.00	-	-	-	-	
De-coupled area payments:							
Single area payment for arable land	EUR/ha	-	-	-	-	332.00	
Single area payment for permanent grassland	EUR/ha	-	-	-	-	108.70	
Individual historical payment for milk producers	EUR/ha					(5)	
Individual historical payment for bovine producers	EUR/ha					(6)	
Individual historical payment for sugar beet producers	EUR/ha					(7)	

(1) transitional payment in the framework of sugar CMO reform

(2) 2005: 793.50 €/t; 2006: 567.00 €/ha

(3) different amounts; in 2003 payments per ha, after accession payments per tonne; since 2007 seed potato only

(4) set as national envelope per year

(5) 80% of full amount of all milk premiums calculated on the base of individual quota on 31.3.2007

(6) 30% of all premiums for beef sector on the base of individual rights in 2006

(7) 100% of payments on the base of individual area under sugar beet in 2006

Source: MAFF

Beside direct payments in recent years also input subsidies have become quite an important instrument of direct support to producers. Apart from refunds of excise duty paid for fuel used in agriculture, in 2006, a new programme of insurance subsidies was launched to help minimising risks in agriculture starting with a 30% premium subsidy for crop insurance. In 2007, livestock sector has been included in the scheme as well.

Like in the pre-accession period, among other direct producer support measures, the most important programmes in terms of payments provided was assistance to farmers to compensate losses caused by natural disasters in 2004, 2005, 2006 and 2007.

1.4.2 CAP Pillar II: Two-tier programming and implementation (RDP 2004-2006, SPD 2004-2006), unbalanced structure of expenditure

After the EU-accession, structural and rural development policy more or less continued with similar measures but under different programmes and with greater funding. LFA payments and the program of agri-environmental measures became part of a new, Rural Development Programme (RDP) 2004-2006. The classification of LFAs introduced already in 2003 was approved by European Commission with minor changes only. From the Slovene agricultural environmental programme containing altogether 22 sub-measures 21 measures were approved as well. In addition, the RDP introduced a new aid for early retirement and an aid for compliance with the EU standards. Together with technical assistance and compliments to SAPARD and direct payments, the programme provided total funding of EUR 353.1 million of which EUR 281.6 million (80% of total funding) from the EAGGF Guarantee Section. After accession, the level of payments per hectare for LFAs virtually doubled (from about EUR 65 per ha on average in 2003 to about EUR 138 per ha in 2004-2008). About 45,000 agricultural holdings (close to 60% of the total number) receive LFAs compensatory payments covering about 310,000 ha of utilised agricultural area (more than 60% of the total UAA). Besides, in 2005 and 2006 a transitional LFAs payments from national budget was provided to farmers in areas covered by the LFAs support under the national criteria (effective before the accession), but not included in the list of eligible areas under the RDP 2004-2006. The agri-environmental programme was extended by the last 8 measures which were not implemented before the accession although formed a part of the 2001 agricultural environmental programme. The payments per unit increased considerably compared to 2003 (it varied by measure). The share of area where at least one agri-environmental measure was implemented in the total utilised agricultural area rose from about 25% in 2003 to 50% in 2008 and the number of agricultural holdings involved in agri-environmental programme increased to about 25,000 (over 30% of the total number).

In addition, Slovenia used the opportunity to carry out a 'transitional measure for New Member States' for granting funds predominantly to solve the problems on agricultural holdings regarding the basic requirements of the EU Nitrate Directive. In the framework of aid for compliance with the EU standards farm support for the construction of manure storage facilities for 123,600 livestock units, representing nearly 30% of the total livestock number in Slovenia was provided. The response of farmers was over all expectations. A part of obligations (more than EUR 7 million) needed to be paid out from national budget as state aid and a large part (EUR 40.4 million) was transferred to the Rural Development Programme 2007-2013.

As regards support for early retirement the measure proved to be interesting for farmers as well although in terms of number of farms and funds it was less important than other three RDP measures. Along with the support for early retirement also a support for setting-up of young farmers was introduced, however, not in the framework of RDP but as a national (state aid) measure.

The agricultural structural policy measures, which were in the pre-accession period implemented under SAPARD programme and under the national part of the structural

policy programme, have largely continued under the Single Programming Document 2004-2006 (SPD). Under the SPD, five measures were implemented through the EAGGF Guidance Section: 1) improving processing and marketing of agricultural products, 2) investments in agricultural holdings, 3) diversification of agricultural activities and activities close to agriculture, 4) investments in forests to improve their economic and ecological value, and 5) marketing of quality agricultural products. The plan for these five measures provided for a total funding of EUR 47.1 million, of which the contribution by the EAGGF Guidance Section amounted to EUR 23.6 million (50% of total funding). The first public calls for tenders for all SPD measures were published in 2004. By the end of 2006, all the available funds were allocated, although payments were made up to the end of 2008 (partly from RDP 2007-2013 funds).

Apart from RDP and SPD after accession two specific CAP programmes took over similar national measures implemented previously. One is the restructuring of vineyards, entirely financed by the EU as a part of wine CMO. Another specific programme concerns support for beekeepers, with 50% co-financing from the EU. This program is a part of CMO for honey and provides support to increase the economic viability of beekeeping (including vocational training, information, extension services, quality analysis of honey, and disease eradication). Both programmes are managed as a part of first CAP pillar but should be regarded as rural development support. In addition to EU co-financed measures some national structural policy measures were still in place (land management operations, marketing and promotion, etc.).

1.5 Implementation of CAP within the current policy framework (2007-2013)

1.5.1.1 CAP Pillar I: Single Payment Scheme, CMO reforms (sugar, wine), Health Check

In 2007, the Single Payment Scheme in the context of the 2003 CAP reform was introduced. The reform has been implemented on the basis of the regional and historic model. The single payment consists of two components: a basic flat rate per hectare, uniform across the country (different amounts for arable land and permanent grassland), and a specific supplement based on farm historical entitlements. The latter absorbs 100% of sugar payments, 80% of dairy premiums, and 30% of all premiums for the beef sector. Of the production-coupled payments Slovenia retains 65% of the special beef premium, 50% of the sheep and goats premiums and 25% of the hop premium. A 10% of the envelope for beef sector was used to support extensive systems of quality beef production, namely extensive rearing of cows and heifers for meat. In 2007, complementary national payments (top-ups) increased the value of the national envelope for direct payments (together with EU funds) nearly to the maximum 100% of the EU-15 level.

The main issue of the CAP reform of specific sectors (Mediterranean crops, sugar, fruits and vegetables, wine) was the sugar reform. Due to expected worsening of the economic position and financial benefits from the discontinuation of the production the owners have closed the sole sugar factory in Slovenia. The sugar production was stopped in the market year 2007/2008 with significant regional effects on production structures in North-Eastern part of Slovenia. The sugar beet producers were compensated by relatively high level of

historical payment rights according to the reference areas in the last year with sugar beet production (2006). Besides, comprehensive EU funds for both, sugar beet producers and sugar factory have been available for restructuring and adapting to the new conditions.

The CAP wine reform was also intensively discussed in Slovenia. However, the economic impact of the reform was not so significant due to the fact that there were no distillation interventions before the reform and also the national envelope for the support programme brought additional funds for the sector.

As for the changes resulting from the 'Health check' of the CAP, Slovenia has taken a relatively conservative approach. The direct payment system was changed mainly according to the mandatory requirements (abolishment of remaining production-coupled payments) and some new production-oriented measures for sectors dealing with special problems ('Article 68 measures') were introduced. Modulation had only a minor effect on CAP Pillar II funds.

The most relevant change related to implementation of the CAP Health check is removal of the remaining coupled support and their shift to the Single Payment Scheme by 2012. The main characteristics and changes of the payment scheme are:

- continuation of existing single farm payment scheme (regional flat rate payments in combination with individual historical additions for milk, sugar and beef producers);
- transfer of coupled payments to single payments allocated to individual agricultural holdings based on historical rights under the support scheme for: (i) hops as from 2010, (ii) sheep and goats as from 2010, (iii) protein crops and nuts as from 2012, (iv) male bovine animals as from 2012.
- 10% of available national envelope according to the Article 68 (Regulation 73/2009) retained and used (i) to support extensive rearing of female cattle (continuation of existing production-coupled aid), (ii) to support milk production in mountain areas (production coupled aid based on dairy quota), (iii) to support livestock production on grassland (historical rights based on grassland area).

1.5.1.2 CAP Pillar II: Rural Development

As it is often the case in rural development policy planning, the structure of public expenditure in Slovenia is highly dependent on previous programming documents and financial commitments from the previous programming periods. In Slovenia, this is even more pronounced due to a somewhat specific outcome of financial negotiation on rural development for the first period after accession (2004-2006). Obviously, introduction of a relatively generous system of environmental and countryside payments through multiannual (5 years) financial commitments in 2004-2006 transferred financial commitments into the next programming period 2007-2013, and increased pressures towards policymakers to continue with a strong 'Axis 2' expenditure.

The Rural Development Programme for the period 2007-13 was approved by European Commission in July 2007. The RDP envisages total public funding of about EUR 1,159 million over the seven-year period, of which EUR 900 million (78%) is the contribution from the European Agricultural Fund for Rural Development. About 33.3% of the total budget is destined for raising competitiveness of agriculture and forestry (Axis 1), reflecting the growing developmental and restructuring needs and a lack of competitiveness in these sectors. Another 52.2% is to be allocated for maintenance of cultural landscape and environmental protection (Axis 2) and for support of the multifunctional role of agriculture. 11% is budgeted for improvement of quality of life in rural areas and economic diversification (Axis 3), 3% – for the LEADER activities (Axis 4) and the remaining 0.5% – for technical assistance.

Altogether, 21 RDP measures (plus additionally since 2009, measure 321) are being implemented of which beside LEADER only three of them are really new (training costs for persons engaged in agriculture and forestry; adding value to forestry products; support to the creation and development of micro enterprises). Other measures are more or less modified measures from the previous programming period or transferred from national programme and upgraded.

Not surprisingly, the RDP for 2007-2013 has brought only minor changes in the concept of rural development policy in Slovenia. Compared with previous years, more emphasis is given to increasing of competitiveness of the agri-food sector (axis 1) and to improving the rural economy (axis 3 and 4) and less (in terms of funds) to improving the environment and countryside (axis 2). With implementation of RDP 2007-2013 only a few measures remained financed exclusively from national funds. The majority was transferred to RDP (i.e. young farmers, land infrastructure, producer groups). Altogether, more funds are available per year than in previous programming period.

Table 4: Measures and activities of the RDP 2007-2013 by axes and available public funds

Code	Measure	Available funds (EUR mill.)
Axis 1: Improving the competitiveness of the agricultural and forestry sector		399.5
111	Training for persons engaged in agriculture and forestry	13.6
112	Setting up of young farmers	35.3
113	Early retirement of farmers	38.1
121	Modernisation of agricultural holdings	82.3
122	Improving the economic value of forests	24.9
123	Adding value to agricultural and forestry products	93.2
125	Improving and developing infrastructure related to the development and adaptation of agriculture	43.6
131	Support for meeting the EU standards (commitments undertaken in PRP 2004-06 only)	40.4
132	Participation of farmers in food quality schemes	18.6
133	Supporting producer groups for information and promotion activities under food quality schemes	6.6
142	Supporting setting up of producer groups	2.9
Axis 2: Improving the environment and the countryside		587.6
211;212	Preserving agriculture in less favoured areas	282.4
214	Promoting environment friendly agricultural practices	305.3
Axis 3: Quality of life in the countryside and diversification or rural economy		132.0
311	Diversification into non-agricultural activities	31.5
312	Support for the creation and development of micro enterprises	55.5
322	Village renewal and development	30.3
323	Conservation and upgrading of the rural heritage	14.7
Axis 4: Implementation of the LEADER approach		33.8
41	Implementing local development strategies	23.6
421	Promoting inter-territorial and transnational cooperation	3.4
431	Running local action groups, skills acquisition and animating the territory	6.8
Total Axis 1, 2, 3, 4		1,152.9
511	Technical assistance	6.0
TOTAL RDP 2007-2013		1,158.9

Source: MAFF - Rural Development Programme of the Republic of Slovenia 2007-2013

Implementation of the Rural Development Programme 2007-2013 sought some considerable changes in 2009. Under the Axis 1, additional funds (about EUR 7.7 million) was made available for supporting investments related to mitigate adverse impacts of climate change, water savings, manure storage facilities, biogas production and investments related to dairy sector. Under the Axis 2, two new agri-environmental measures were introduced: payments for conservation of steep vineyards, and support for conservation of extensive Karst pastures. Under the Axis 3, a new measure aimed at supporting basic services for rural population, namely investments in broadband ICT infrastructure in rural areas was introduced with additional funds available (about EUR 3.8 million). For some measures under Axes 1 and Axis 3, the financial provisions were slightly changed.

2 Institutional framework of agricultural and rural policies in Slovenia

2.1 Governmental level

Ministry of Agriculture, Forestry and Food (MAFF) is responsible for drafting, public consultation, preparation of national positions to the legal proposals of the Common Agricultural Policy (CAP) for the budgetary period 2014-2020, and negotiation of the document with the European Commission (DG Agriculture and Rural Development). MAFF can therefore be considered as the central institution dealing with agricultural and rural development policy in Slovenia.

Division between strategic and implementing tasks concerning CAP is clearly delineated **within MAFF**. Strategic and coordination tasks are carried out by the **Minister's Office** and by the **EU Coordination and International Affairs Service**. The latter is responsible for internal and external coordination of tasks dealing with CAP. As for the technical and implementing aspects of the CAP (eg. CMO, Direct payments, Rural Development Policy, Horizontal provisions), the tasks are allocated to various services within the **Directorate for Agriculture** (Sector for agricultural Markets dealing with CAP Pillar I issues; Sector for Sustainable Agriculture and Sector for Structural Policy and Rural Development dealing with the prevailing part of CAP Pillar II). Other two directorates (Directorate for Forestry, Hunting and Fisheries, Directorate for Food Safety) are involved in CAP-related issues to a more limited extent, dealing with individual aspects of Rural Development Policy.

As for the actual implementation of CAP, MAFF is responsible for designation of implementing provisions of CMO and CAP Direct Payments, and in case of Rural Development measures, also for preparation of public calls (i.e. designation of eligibility and project selection criteria), communicating these to potential beneficiaries and general public, establishment and maintenance of the monitoring system, and for reporting on RDP implementation.

Responsibility for all tasks concerning implementation of CAP are given to the **Agency of the RS for Agricultural Markets and Rural Development (AAMRD)**, a body affiliated to MAFF, whose main mission is the effective, precise and quick implementation of agricultural policy measures, and transparent execution of payments to final recipients. Simultaneously, the AAMRD is also in charge of the IACS system, it follows the market developments and operates the milk quotas.

Several ministries and other governmental institutions are represented in the inter-governmental consultation process on the future CAP. They are formally entitled to comment and propose changes and/or amendments to the proposals drafted by MAFF. The key institution for coordination of activities related with European policies is the **Government Office for Development and European Affairs**. Apart from them, the list of government stakeholders included in the inter-governmental consultation on CAP includes the following institutions: **Ministry of Finance, Ministry of Environment and Spatial Planning, Ministry of Economy, Ministry of work, Family and Social Affairs, Government Office for Local Self-Government and Regional Policy, Government Office for Climate**

Change, the Institute of the Republic of Slovenia for Nature Conservation (IRSNC), Institute of Macroeconomic Analysis and Development, and Statistical Office of Slovenia. However, only few of these institutions have exercised their right to participate actively in the consultation process with their proposals, or discussing about the appropriate implementing provisions on individual aspects of CAP.

Among governmental bodies participating in public consultation on the future CAP, the **Ministry of Environment and Spatial Planning (MESP)** can probably be pointed out as the most active institution. Obviously, their role is the most pronounced in discussing the environmental and spatial aspects of agricultural and rural development policy. To illustrate, in the actual programming period (2007-2013), MESP was active in designation of the RDP Axis 2 measures (especially agri-environmental measures dealing with protection of nature, biodiversity and protected areas).

Discussion on the future CAP is inevitably linked with discussion on horizontal issues (eg. Multiannual financial framework of the EU), and other Community policies, especially the Cohesion Policy. Two governmental partners can be pointed out with respect to the reconciliation of national positions towards EU policies: **Government Office for Development and European Affairs**, and **Government Office for Local Self-Government and Regional Policy**. Coordination on these issues can be regarded as relatively intensive and fruitful.

As Slovenia has a relatively centralised governance system (there is no administrative governance level between the national and local levels), there are no trajectories to accommodate regional and local development interests directly into the public consultation on the contents and implementation of CAP. Among the institutions representing the interests of local governance in the public consultation, two representative associations can be pointed out: **Association of Municipalities**, and **Community of Municipalities**. Their role in public consultation on the future CAP has so far been negligible. Regional development interests were taken aboard only indirectly through the consultation with the Government Office for Local Self-Government and Regional Policy. Up to some extent, it could be expected that local development interests would be represented by the LEADER **Local Action Groups** (in the current programming period, there are 33 LAGs in Slovenia, covering almost entire national territory). However, as the prevailing part of LAGs (25 out of 33) is presenting their common interests through the activities of the **Slovene Rural Development Association (SRDA)**, which should be – according to its organisational structure and membership³ - regarded as NGO.

³ Slovene Rural Development Association (in Slovene: “Društvo za razvoj slovenskega podeželja, DRSP” gathers interested individuals and organisations involved in the development of the Slovenian countryside. It aims at effective cooperation and mutual assistance among individuals and organizations in rural areas and the effective representation of rural interests and the flow of information between government departments and NGOs. With 27 (out of 33) LAGs actively participating in the association, SRDA is recognised as a representative stakeholder for LEADER-related issues, Web site of the association is <http://www.drustvo-podezelje.si/>.

2.2 Other stakeholders

Between non-governmental institutions, the most important role in public consultation on all agricultural and rural development issues in the country, therefore also the discussion on the future CAP, is attributed to the **Chamber of Agriculture and Forestry (CAF)** with affiliated regional branch offices. CAF is the largest non-governmental institution representing interests of agriculture and forestry in Slovenia (membership in CAF is obligatory for all physical and legal persons above certain size threshold engaged in agriculture and/or forestry). With its network of agricultural extension service available for agricultural producers, and regional branch offices offering professional support (e.g. selection of crop varieties, breeds of domestic animals, testing agricultural machinery), CAF is the most influential mediator of knowledge transfer on one side, and of farmers' interests on the other. As the CAF management is elected between its members, it also has a strong political weight. Owing to this, MAFF acknowledges CAF the leading role in public consultation on agricultural policy issues, therefore also in the case on the issues on future orientation of the CAP and corresponding legislative proposals. As a member of the **Council for Agriculture and Rural Development of the Republic of Slovenia**⁴ CAF has participated actively during all key stages in formulation of the national positions on the future CAP. The Chamber of Agriculture and Forestry can be regarded as the most intensively consulted non-governmental institution.

Another important non-governmental institution dealing particularly with competitiveness of agri-food sector is the **Chamber of Commerce**, or better **its affiliated body, Chamber of Agricultural and Food Enterprises (CAFE)**. CAFE provides professional support and represents interests of a significant part of agricultural production the prevailing part of its upstream sector, i.e. food processing. Activities of CAFE within RDP are limited mainly to issues dealing with support for food processing and marketing.

Apart above mentioned institutions, there are other agricultural and rural NGOs taking part in decision-making on the contents and implementation rules of RDP. Between more active ones in the process of consultation on the future CAP, three of them can be pointed out: the **Farmers' Union**, **Association of Rural Youth**, and **Rural Development Association of Slovenia**. As for the latter, the organisation is recognised as the organisation that represents the interests of LAGs in Slovenia.

Other representatives from this sphere of interest are: **Association of Rural Women**, **Association of Beekeepers** and **Association of Tourist Farms**. Although they were participating at the key events that put landmark to the public consultation process, their contribution in the public consultation on CAP reform has so far been rather limited.

⁴ Establishment of the Council for Agriculture and Rural Development of the Republic of Slovenia is a consultation body envisaged by the Agriculture Act (Official Gazette of the Republic of Slovenia, 45/2008). It is a consultation body that gives opinions on the actual issues concerning agriculture and agricultural policy in the country. The following institutions nominate one representative to the Council: the Chamber of Agriculture and Forestry, the Chamber of Commerce, Association of Cooperatives, Agricultural Institute, Agricultural faculties (2 representatives), Agricultural secondary schools and colleges, Association of beekeepers, Farmers' trade union, trade union representing workers in agri-food sector.

Environmental interest groups are involved in the public consultation process on the future CAP less than it could have been expected in relation to previous processes like, for instance, drafting of Rural Development Plan for Slovenia 2007-2013 (RDP). In contrast to RDP 2007-2013, where environmental interest groups acted jointly within a 'Sustainable Development Coalition', reconciling its views on RD policy and agricultural policy in general, and preparing collective comments and proposals to the RD Strategy and RDP drafts. This is not the case in the actual case. Environmental organisations are rather inert in the public consultation process and defend their interests more or less individually. The following environmental NGOs have the most pronounced interest in agriculture and agricultural policies: **DOPPS – Bird Life Slovenia, Association of Organic Farmers and Eco-social Forum.**

Research and higher education institutions dealing with agriculture and rural development can be considered as another influential group of stakeholders. Partly, this is through their participation in the public consultation process (membership in the above mentioned Council for Agriculture and Rural Development). However, their role is more pronounced due to their role of public opinion-makers, and probably even more through their work carried out as MAFF contractors in tasks dealing with preparation of national positions on the future CAP (impact analysis, research projects dealing with different aspects of agricultural and rural development policy options and scenarios). Between research and higher education institutions most actively involved in this process, the following can be pointed out: **Biotechnical Faculty** (member of the University of Ljubljana), **Faculty of Agriculture and Biosystems Engineering** (member of the University of Maribor), and **Agricultural Institute of Slovenia.**

3 CAP 2020: Public consultation and events

3.1 The public consultation process on CAP towards 2020 – landmarks and key findings

3.1.1 Setting the scope of the consultation process, main events

The Commission blueprint, outlining contours of the Common agricultural policy after 2013, became subject of public consultation in Slovenia immediately after its release in November 2010. The public consultation took place in two forms: (i) on-line presentation of the Commission proposals and gathering of written opinions/reflections, and (ii) a public conference marking completion of the public debate. The final conference took place on 28 February 2011 in the premises of Biotechnical Faculty in Ljubljana.

With respect to the Commission blueprint, the Ministry of Agriculture, Forestry and Food (MAFF) as the initiator of public consultation, invited the stakeholders and general public to provide written reflections to the following questions:

1. Does the European Commission Communication identify key strategic objectives of European agriculture and the Common Agricultural Policy (CAP)?
2. Do the proposed changes to the system of direct payments (introduction of the basic payment scheme, green component) reveal appropriate direction of the future CAP?
3. Who should be the recipients of direct support to agriculture and how should we identify active farmers?
4. What is a small farm? Do they need policy support and if yes, with which policy tools?
5. Are the proposed market measures appropriate to tackle the projected market conditions?
6. How to achieve greater transparency and efficiency of the whole food supply chain?
7. Should the competitiveness and innovation, environmental protection and climate change, as proposed by the European Commission, be the key priorities of the new rural development policy?
8. What do you think about integration of the (income and production) risk management tools to the system of CAP support?

Until February 2011, 27 institutions and individuals posted their reflections to the MAFF, which made them publicly available on the MAFF website.⁵ The structure of respondents is following: 8 individuals; 7 agricultural and rural non-governmental organisations; 4 environmental non-governmental organisations; 7 public institutions (ministries, institutes, higher education institutions), and one response from an industrial association.

The conference organised at the end of the public consultation on the Commission Communication on Common agricultural policy after 2013 (Biotechnical Faculty, Ljubljana, 28 February 201) summarised the key findings of the consultation process. These findings were discussed within three workshops: a) Direct payments – income and environmental aspects; b) food supply chain, market measures and risk management in agriculture, and c) rural development.

The impetus for public consultation has been decreasing after a relatively long period between the Commission blueprint on the future CAP, and between the legal proposals. Key stakeholders were acquainted with the progress of the reform process, events (eg. impact analysis), and informal information about the solutions ‘on the discussion table’. In the meantime, the administration was drafting contours of the national positions, key stakeholders being informed about the process.

The position of Slovenia on the legal proposals of the CAP after 2013 was drafted on 20 October 2011 and made available to the general public. This stirred another round of public consultation process, which was shorter and less formalised. The main event of this round of

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http://www.mkgp.gov.si/si/splosno/vstopna_stran/aktualne_teme/javna_razprava_o_skupni_kmetijsk_i_politiki_do_2020/prispela_staliska_in_mnenja_s_strani_zainteresirane_javnosti/

public consultation was a Conference held at the Faculty of Agriculture and Biosystem Sciences in Maribor on 18 November 2011. National positions and key findings of the consultations are recapitulated in Chapter 4 of this report.

3.1.2 Strategic objectives of the future CAP: generally in accordance with national priorities, some additional emphases proposed

The public consultation process revealed a relatively wide agreement with the proposed strategic orientations of European agriculture and EU Common Agricultural Policy (question 1 of the public consultation). Some critical thoughts were outlining that the EC Communication was still rather vague, too general, without a reference to the financial framework. Various specific concerns were also pointed out.

Agricultural stakeholders and other discussants representing farmers' interest expressed the following concerns::

- the budget (national envelope?) should be maintained at least the same level or even slightly increased;
- further 'greening' of the CAP may hamper competitiveness of agriculture and increase administrative burden;
- the EC Communication does not give the appropriate weight to the issue of agriculture in areas with aggravated conditions for agriculture;
- a stronger reference should be given to the stabilisation of agricultural prices, food security and farm incomes;

The focus of comments from stakeholders representing primarily environmental interests and integrated rural development was somewhat different. Some typical comments are listed below:

- greater emphasis on environmental conservation and rural development is required;
- greater emphasis should be given to sustainable management of natural resources in agriculture, especially organic agriculture; promoting ecosystem services of agriculture;
- stronger protection of higher (environmental, animal welfare etc.) standards attached to EU agricultural and food production;

The discussion was open also for expression of particular interests. Two typical comments are reflecting this:

- greater emphasis should be given on rural youth;
- a stronger focus on forestry, especially within the second pillar of the CAP (improvement of the economic value of forests, agri-environmental measures in forestry).

3.1.3 The future organisation of CAP direct payments: conservative approach prevailing, some contrasting views, though

With respect to the second question of the public discussion, referring to the proposed future organisation of the CAP direct payments (introduction of the basic payment scheme, green component), the answers were in general supportive. There were some critiques in

terms of (un)availability of the analytical justification of the proposals, increased administrative burden, and proposals to apply a transitional period. Agricultural stakeholders (most notably the Chamber of Agriculture and Forestry, and the Co-operative Union of Slovenia) were primarily concerned about the financial implications of the Commission proposal on single 'basic' payment. The critical views were pointed out:

- single income payment should not entail the same level of payments for all Member States;
- the level of payments should reflect the particular objectives of economic, natural and structural characteristics of agriculture and the historic aspect of the individual Member States;
- it is necessary to ensure equitable distribution of support between different types of farms;
- a strong support for continuation of production-coupled payments (eg. conservation of the payments for extensive breeding of beef).

There was also a comment on the issue of degressive scale of direct payments. One of the individual discussants proposed that, limitations should apply for the largest agricultural holdings, the basis for determining their magnitude would be economic size of a farm.

Views on the 'greening' of the CAP direct payments in the consultation process were abundant and provided contrasting views particularly among agricultural and environmental stakeholders. This is reflected from the summarised reactions listed below. We start with three characteristic views from agricultural stakeholders:

- The green component should remain in the CAP II. pillar, as the I. pillar should pursue the strategic objective of long-term food security;
- 'excessive greening' of direct payments in the I. pillar and transfer of agri-environmental component from the Pillar II. To Pillar I., without providing additional funds, is not acceptable;
- green component should not impair the income situation of farmers, increase the administrative burden, or affect the competitiveness;

A part of interested public, clustered mainly around environmental NGOs, is in favour of a more fundamental approach towards 'greening' of the CAP. Their views are listed below:

- division of CAP payments in two pillars is artificial and superfluous; CAP payments should be organised within one pillar, with common approach towards co-financing; in case of maintaining two pillars structure, agri-environmental measures should have higher co-financing rates;
- additional support should be granted to organic farming, recultivation of derelict land with the aim of self-sufficiency with food and seeds at the local community level;
- direct support should be spent primarily on payment for ecosystem services, and higher standards of animal welfare.

3.1.4 CAP payments to (country-specifically defined) active farmers

The public consultation about the final recipients of CAP expenditure and definition of an active farmer (question 3 of the MAFF questionnaire) revealed a broad consensus among

the participants of the public consultation. Most of the respondents appear to be keen to maintain the current conditions of eligibility for payments. A number of respondents were also supportive to the idea of maintaining a wide circle of beneficiaries of CAP support, regardless their size or status. The following typical statements and proposals with respect to the conditions for direct support beneficiaries can be pointed out:

- support should be limited to active producers only; the definition of an active producer should not be too harsh, should be flexible enough;
- farmland owners not engaged in agricultural production, thereby merely renting agricultural land, should not be eligible for CAP support,
- payment of CAP support should be fair and balanced, and should take into account specific conditions for agricultural production.

There appears to be a consensus, at least in general terms, about the definition of an active farmer (question 4 of the MAFF questionnaire). The definition should reflect specific structure and conditions of agricultural sector in a Member state. Different approaches were proposed with respect to the definition of an active farmer, for instance:

- all farms regardless of size, market orientation, status, as long as they preserve agricultural land in function, or;
- total work input in agriculture should equal at least 0.3 AWU;
- farm holdings with total input at least 0.5 AWU that market a certain percentage of products (50%);
- farms that operate on at least 3 hectares of agricultural land, and to whom farming represents a certain source of income;
- CAP payments at a degressive scale, the amount of support decreasing in proportion to the size of farms;
- payments conditional on production (growing food, caring for the countryside and provide public goods).

3.1.5 Supportive positions towards special scheme for small farms

The public consultation brought supportive views towards special schemes for small farms. Small farms are considered to make an important contribution to the cultivation of agricultural land, maintaining the population and prevent abandoning of agricultural land. The prevailing opinion is that the definition of small farms (criteria for lower and upper threshold) should be flexible enough and under the responsibility of a Member State. With regard to the definition of small farm, three different alternatives were proposed.

- Minimum farm size 5 hectares of agricultural land⁶
- Definition based on the economic size, small farms correspond to an order of magnitude from 1 to 8 ESU;
- Definition based on employment status: small farms are those (ie. no supplementary activities) that provide full employment in agricultural production to less than one person.

According to the consulted stakeholders' views, the proposed special scheme for small farms should not result in a reduction of support for small farms and should introduce

⁶ Author's remark: average farm size in Slovenia is 6.4 hectares.

simplifications to the administrative requirements. Small farms should continue to receive publicly-financed extension services. In addition to the payments under the special scheme for small farms, these farms should be also eligible for certain forms of production-related payments, support for organic agriculture and support for areas with natural handicaps and protected areas (Natura 2000, LFA). Some views were also that small farms should receive proportionally higher support rates, investment support for development of supplementary activities, expansion and modernisation of production, provided that these activities result in (additional) employment on agricultural holding.

3.1.6 Conservative position towards market measures, emphasizing efficiency of (balanced and shorter) food supply chains

The issues linked with Common market organisation (question 5 of the MAFF questionnaire) did not stir much attention in the public consultation. This can be attributed to the 'technical' character of the issues discussed, and also to the fact that significance of these measures for agricultural producers in Slovenia is lower than in the case of direct payments or rural development measures. One of individual respondents also expressed the opinion that market support measures are effective in the old EU Member states, less so in the new ones. Some views were pointing out the need to strengthen the existing market measures in terms of efficiency and responsiveness. Dependence on the specific implementing regulations was pointed out as well, stating that there should be more flexible triggering mechanisms. Agricultural stakeholders were mainly exposing doubts about the abolition of milk quotas. With respect to the increasing volatility of agricultural markets and increased presence of agricultural commodities on financial markets, some proposals were pledging for stricter control and – if possible - limitation of speculative trade on agricultural commodities. There were also some proposals to put stricter limitations to the introduction of products that do not meet EU standards (quality, safety, animal welfare).

As regards the transparency and efficiency of food supply chain (question 6 of the MAFF questionnaire), there were several strongly expressed calls for a greater transparency in price formation. Establishment of standards or codes of fair practice was proposed, to regulate the contractual relationships between the partners along the food supply chain. The co-operative union has reiterated that the interconnection between farmers, cooperatives, and food processing firms should be increased by the establishment of producer organizations, and inter-branch networks. There was also a wide consensus about the importance of further stimulative measures towards development of short food supply chains, with particular emphasis on local food supply.

The problem of late payments stood out strongly in the public discussion; one of the proposals stated that the payments should be executed within a period, which is not larger than twice the durability of a food product. Individual proposals highlighted also advertising schemes and the introduction of quality labels and consumer awareness

3.1.7 Rural development: towards 'green growth'

Regarding the Rural development policy priorities (question 7 of the MAFF questionnaire), the views of the consulted stakeholders were unanimous. The proposed themes (competitiveness and innovation, environmental protection and adaptation to climate changes) are actually the key future directions of rural development policy. Four interesting issues emerging from the public consultation process can be pointed out. The first two are coming from environmentally concerned stakeholders, the third one from an association of extensive livestock breeders, and the last one from the Slovene Rural Development Association:

- competitiveness, knowledge and innovation for 'green growth' (need for investment in further restructuring of the sector with balanced support between investment in agriculture and agri-food industry; a better integration and linkages between the food processing industry and agricultural production; investments should respect the key principles of environmental protection, innovation and climate change ("ecology as a long-run economy"); a special accent given to the young, educated population;
- active policy towards provision of environmental goods (distinction between actions with purely environmental effects, and measures that encourage the introduction of environmentally friendly agricultural practices; encourage environmentally more neutral and scientifically justifiable practices in animal husbandry; more emphasis on measures for the conservation of natural resources, biodiversity, soil fertility and traditional cultural landscape);
- Maintaining the vitality of rural areas (continuing the transition to the new LFA system with more emphasis on production intensity of agricultural production; a greater focus on supplementary activities related to agriculture;
- Integrated approach towards rural development (better co-ordination between different policies affecting rural development; proposal for regionalisation of rural development policy⁷ in Slovenia in order to address better the local needs).

3.1.8 Risk management tools as a part of the future CAP?

The Commission consultation brought afront also a novelty within the CAP instrumentary by proposing risk management tools. In general, views towards introduction of tools to protect from income and production risks (question 8 of the MAFF questionnaire) were positive, but at the same time expressing negative experiences with the current system of public co-financing of insurance premiums in agriculture in Slovenia (increased premiums, lack of effectiveness of the measure). Necessity to achieve acceptable conditions for small farms was underlined, primarily due to their specific and diversified production. Some views were supportive towards the establishment of a mutual insurance system supported by state funds.

⁷ Proposals on this matter accentuated that 'regionalisation' does not have to coincide with administrative boundaries of regions, but should rather be problem-oriented.

The motives for establishment of an integrated risk management system in Slovenia are growing. Risks associated with agricultural production are growing. This is attributed to various factors, most notably by the redistribution of farm revenues due to the reform of direct payments. Increased pressure on competitiveness, increased production risks due to unstable and changing climatic conditions are factors that a factor of climate change. Announced possibility of co-financing of risk management tools from the future CAP budget increased the attractiveness of the idea to develop a policy tool designed to manage production and income risks in Slovenian agriculture (eg. mutual insurance system). However, several problems need to be addressed in order to make this idea feasible. The first one has to do with the (lack of) appropriate farm-level accounting data, which aggravates planning, and operation of insurance schemes and other risk management tools. Notwithstanding this problem, preliminary analyses carried out by MAFF reveal that yearly, about every fourth or fifth holding in Slovenia would need reimbursement for loss of income for more than 30%. According to European Commission estimates, the average amount of compensation from loss of income (greater than 30%) in Slovenia amounted to € 42 million annually.⁸ Assuming a 40% co-financing rate, national budget would thus need to contribute an annual average of around 16 to 17 million EUR for income insurance only. Given these reservations, it becomes obvious that a decision about introduction of an integrated risk management system, eg. mutual (production and income) risk insurance scheme will be made after a thorough analysis of various alternatives. With regard to the scale of the problem (and costs associated to it), it is more likely that in the next programming period, development of less ambitious risk management tools are more likely, such as mutual insurance fund for management of production risks⁹.

⁸ Author's remark: this is about one third of the projected envelope for rural development policy in Slovenia.

⁹ Author's opinion.

4 Position of Slovenia on 'the CAP towards 2020' proposals

4.1 General orientation of the CAP reform

4.1.1 Slovenia: draft position¹⁰

The Republic of Slovenia consistently highlights the **strategic importance of sustainable agriculture**. Therefore, the Republic of Slovenia considers it important that the future CAP will continue to contribute to the stability of income and mitigate farm income fluctuations. The future CAP should continue its activities to boost competitiveness of the agricultural sector and to increase its share in the structure of the value added along the food chain. This should go in hand with encouragement of green growth through innovation, development and adoption of new technologies and products, and through improvements in the production processes.

In addition to this, the future CAP should be able to **intensify implementation of the measures that address climate change** and mitigate its negative consequences (drought, floods or other harmful effects of water, hail, storms), and further enable the **implementation of measures that contribute to a cleaner environment and preserved nature**. In order to achieve a **territorially balanced development of rural areas**, the CAP should promote rural employment, especially in the context of diversification and thereby to maintain the social fabric of rural areas and diversification of agricultural structures. To a large extent, the future CAP should also contribute towards development of small farms, strengthening of local food supply chains and maintenance of the identity of rural regions.

The Republic of Slovenia **supports the strategic objectives of the future CAP** proposed by the Commission, particularly those supporting viable food production and conservation of the potential for food production across the EU and thereby ensuring long-term food security at national, European and global level. It also supports the role of the CAP in promoting sustainable management of natural resources and achievement of a balanced spatial development. By pursuing these objectives, the CAP will also significantly contribute to the achievement of the *Europe 2020* targets.

¹⁰ The text summarises the draft position of the Republic of Slovenia to the set of legal proposals on 'CAP towards 2020'. The preamble states that the draft position is reconciliated with the following authorities: Ministry of Finance, Ministry of Economy, Ministry of Environment and Physical Planning, Ministry of Health, Statistical Office, Government Office for Local Self-Government and Regional Policy, Government Office for Development and European Affairs, Office for Macroeconomic Analysis and development. The position of has been consulted with local communities, professional associations, chambers of commerce, trade unions and other representatives of civil society. Full text (in Slovene) is available at http://www.mkgp.gov.si/si/splosno/vstopna_stran/aktualne_teme/skupna_kmetijska_politika_do_leta_2020/

The Republic of Slovenia therefore welcomes the fact that the EU continues to see CAP as a key instrument in implementation of the Europe 2020 Strategy. However, Slovenia is expressing **concerns over the planned decrease of the CAP budget** within the multiannual financial framework 2014-2020, which may thwart the achievement of the objectives of the CAP. This is particularly true in the field of Rural Development policy, where the Republic of Slovenia has expected a higher allocation of funds under the new financial framework 2014-2020. Increase of funds for Rural Development policy is needed to continue the restructuring of the agri-food sector, promotion of sustainable management of natural resources and territorially balanced development of rural areas.

The Republic of Slovenia **supports the maintenance of the current two-pillar structure of the CAP**, with common rules at EU level and the necessary volume of appropriations, assuming that the first pillar of the CAP will continue to address the issue of security and stability of farm incomes, taking into account provision and public goods and services related to agriculture, such as environment, public health, animal health and plant health and animal welfare. Rural development policy under the second pillar is expected to enable Member States to provide sufficient flexibility to deal with their specific problems related to the promotion of competitiveness, management of natural resources and development of rural areas.

In this context, efforts should be made for further **simplification of the CAP** and reduction of administrative burden for both, agricultural producers and public administration. Therefore, the Republic of Slovenia can not accept the Commission's proposals to shift the decision-making on the implementing provisions of the future CAP to the level of delegated acts. In relation to the latter, Slovenia considers it important that the Commission presents in a greater detail its plans on implementing provisions, which will be subject of delegated acts.

The Republic of Slovenia points to the **urgency of timely adoption of the CAP reform** package of legislation to allow for adequate preparation and timely implementation of the CAP in the new budget period.

4.1.2 Stakeholders' comments

The prevailing position of the farming community in Slovenia is probably best reflected through the opinions of the Chamber of Agriculture and Forestry (CAF). As a starting point, CAF underlines that all farms regardless of the type of production, sector or region shall have **equal access to resources of the two pillars of the future CAP**. CAF expects that the future CAP will enable Slovenia to implement policy adapted to structural conditions of agriculture in Slovenia, building on good experience from the previous budgetary periods, and enabling a stable food production in Slovenia also in the future. When introducing the reform proposals into practice, according to CAF Slovenia must take into account the existing support rates to various sectors, the distribution of payments among regions. Policy mechanisms should allow for a gradual transition and should mitigate possible discrepancies between old and new payments to individual farms.

With respect to the legislative proposals drafted by the Commission, the Chamber of Agriculture and Forestry (CAF) expects that the final solutions will offer enough **flexibility for adapting CAP measures to the specific structural characteristics and needs** of agriculture in Slovenia. The future CAP should be able to implement in a way to minimise negative effects of redistribution between regions, sectors and farms. Implementation of CAP should not cause any administrative, financial and administrative burden on farmers. The key challenge of the rural development policy (supported by direct payments) in the future is to improve the structure of Slovenian agriculture and improve the economic situation of farms.

CAF is expressing **concerns over the financial volume of the national envelope** for CAP Pillar I, as only 35% of the national envelope is allocated to the basic payment per hectare. CAF notes that, according to their estimates, a farmer can reach the current amount of direct payments only if they are implementing green practices, they are farming on the natural restricted areas, farms are operated by young holders, and producing commodities with production-coupled support.

Furthermore, CAF is expressing concerns over the possibility that introduction of new schemes and equalisation of payments for arable land and grassland will result in a **redistribution of direct payments between different farm types**. By doing so the direct payments are, according to CAF, losing their primary function of provision of income support for farmers and thus jeopardising the provision of sufficient quantities of food at reasonable prices.

CAF is also sceptic over the expected **decrease of administrative burden** by the reformed CAP. The following arguments are listed to underline their scepticism: (i) maintaining the system of payment rights and new distribution of these in 2014; (ii) gradual transition to a single level of payment rights in the country; (iii) introduction of the monitoring system of wages in order to limit the amount of payments to large farms; (iv) definition of active farmers on the basis of the (not yet existing) monitoring system of the total revenue from non-agricultural activities; (v) complexity of the introduction, implementation and control of the 'greening' component; (vi) designation of areas with natural or other specific restrictions; (vii) new cross-compliance rules; (viii) implementing rules and regulations on the basis of delegated acts; (ix) strategic framework and planning and preparation of the Rural Development Programme, and (x) introduction of thematic sub-programmes in rural development programs.

In its general statement about the orientation of the future CAP, the position of the Co-operative Union of Slovenia (CUS) does not depart from the proposed national position. They are welcoming the changes that include better **targeting of direct payments**, greater conditionality of those to environmental benefits and, above all, enhanced policy tools to promote **producer organisations**. On the other hand, CUS shares concerns, that the projected decrease in resources for the common agricultural policy can impede these ambitious targets, particularly in the area of improving the competitiveness and sustainable use of natural resources. CUS particularly supports the view that, in the future distribution of funding for

rural development policy among the Member States, the level of funding allocated throughout the program period should be taken into account, and not just in 2013.

CUS agrees with the view that the unification of direct payments across the EU in the financial period after 2021 can be decided only on the basis of an assessment of the effects of the period 2014-2020, and wonders whether it is possible to ensure stable conditions in agriculture, farm income security, and provision of public goods associated with agriculture, if the redistribution of direct payments between Member States reduces **national envelope for Slovenia**.

The Rural development association of Slovenia (RDAS) presents its expectations from the future CAP from a wider (and more abstract¹¹) perspective. In their opinion, the future CAP should contribute to the following objectives: (i) the conversion from monocultures on biodiversity; (ii) provision of safe, tasty food; (iii) fair prices for agricultural producers worldwide; (iv) revival of village and rural areas; (v) nurture rural heritage and recognise the economic and social role of small-scale farming. RDAS opines that the frame of reference of the CAP reform proposals is broad enough to accommodate these objectives. They underline however, that the result depends crucially on our ability to surpass the 'cabinet' approach (with lobbies and politics leading the policy formulation process) by build a **partnership in the formulation of future CAP**.

RDAS is also expressing concerns over the **CAP reform proposals** for their somewhat **conflicting ambitions** (greening vs. intensification (competitiveness); rural jobs vs. limited natural resources; agriculture vs. climate change) and undefined criteria (eg. maintenance of public goods). They outline the following key long-term challenges of the CAP: (i) how to recruit and modernize agriculture at the same time? (ii) how to keep young people in rural areas; and simultaneously with previous two, (iii) need to use resources in a sustainable manner.

More concretely, RDAS suggests that the CAP should strive towards a '**real greening**' of **agriculture**. Stronger requirements of the CAP (eg. in crop rotation) should force farms to more sustainable farming practices. With respect to the environmental resources managed by agriculture in Slovenia, regulation (and correspondingly, compensation) of agricultural use of Natura 2000 sites and areas with specific handicaps is seen as particularly important. RDAS also laid stress on the objectives of the Action Plan of Organic Agriculture (slov. abbr. ANEK), accepted by the National Assembly in 2005, which sets the objectives for 2015: 15% of organic farms, 20% of agricultural land under organic production and, 10% of food consumption deriving from organic production¹².

¹¹ Author's comment

¹² Author's comment: currently, these goals are far from realisation; there are about 2.5% of organic farms, managing about 5% of agricultural land, while organic consumption is well below 1%.

4.2 Direct payments

4.2.1 Slovenia: draft position

Slovenia recognises the fact that the stated objective of more **equitable distribution of direct payments** will bring some reallocation of resources between Member States. Nevertheless, it is important that the new allocation of national envelopes takes into account the existing allocation of resources. Maintaining the level of national envelopes to the highest possible extent is important to ensure stable conditions in agriculture, income security for farmers and the continued provision of public goods associated with agriculture. The Republic of Slovenia supports the use of a pragmatic approach in determining the national envelopes for direct payments in the Member States. The final position of Slovenia to the proposed allocation key for determining national envelopes will be established only when the volume of the CAP Direct Payments budget will be known.

In principle, the Republic of Slovenia supports the modifications of the existing system of direct payments towards a more uniform level of payments to countries or regions. However, Slovenia does not support the proposals that the direct payment levels should be standardized across the EU after the financial period 2014-2020. It is premature to make any decision on the structure and principles of the direct payment system after the year 2021. Discussion on this matter should be opened only after a thorough assessment of the effects of the 2014-2020 regulation.

The Member States should be given sufficient **flexibility to determine payments** at the level of Member States or even individual regions in order to be able to tackle specific problems related to redistribution of transfers between different sectors, farm types or regions. This flexibility should include the possibilities of (i) a longer transition period, and (ii) only a partial unification direct payments level with differentiation according to land use (absolute grassland vs arable land). Immediate radical changes in the volume of direct payments would lead to a destabilization of the situation in agriculture. Particularly larger farms and those with intensive livestock or dairy production would be affected.

Slovenia considers the proposed greening of direct payments acceptable and in principle supports the proposed actions in this respect. However, Slovenia considers it important that Member States are given sufficient flexibility to take into account the specific natural and structural conditions in Member States, without thereby increasing the financial and administrative burden for farmers or administration. The following issues need to be defined in a clearer way:

- crop rotation when more than three crops are included;
- the definition of permanent grassland and
- defining the areas characterised by high nature value farming, and definition of the appropriate farming practices.

As for the environmental dimension of the CAP, Slovenia considers it more appropriate to be further upgraded within the agri-environmental measures under the rural development policy. This is argued by a need to address specific objectives of environmental

policy with targeted measures (eg. measures for ensuring good status of surface and ground water, conservation of biodiversity, protection of soil, etc.)

The proposed additional schemes to the direct payments system, ie. young farmer scheme, a special scheme for small farms and the introduction of (voluntary!) additional payments in areas with specific natural constraints are regarded positive. The Republic of Slovenia supports the scheme for small farms under the condition that the simplification of implementing procedures will not mean an increase in environmental pressures. In order to achieve synergies, it is necessary that these farms have a similar status (ie. Simplified procedures) also in the implementation of rural development measures.

Slovenia strongly supports the possibility of introducing (or maintaining) production-coupled payments in the future direct payments system. This is considered as a key element to properly resolve specific problems related to specific sectors or regions in difficulties, facing with risks of reduction or even cessation of production. Slovenia is in favour of flexible provisions, which means that the introduction of such payments is not conditional on the implementation of similar measures in the previous period, and that these types of support are not restricted only to specific types of farming, or to agricultural sectors with specific problems, or to sectors with particular economic and / or social importance.

The proposed definition of active farmer does not meet the expectations of Slovenia, as it does not tackle appropriately the basic task of the 'active farmer' principle, ie. better targeting of support only to those agricultural holdings that actually produce agricultural goods and non-commodity outputs linked to agricultural production. The proposed definition is also very demanding in terms of its administrative implementation.

4.2.2 Stakeholders' comments

4.2.2.1 Implementation of CAP direct payments – general principles

As to the **general provisions of the legal proposals on CAP direct payments**, the Agency for Agricultural Markets and Rural Development (AAMRD, popularly referred as the Paying Agency) is **reserved to the proposed 'fragmentation of the existing system of direct payments** in several partial systems', as this would increase operating costs of paying agencies. They suggest that it is more appropriate to implement some of the newly introduced schemes ¹³ within Rural Development measures, which are more similar in terms of substance and implementing provisions.

On the contrary, the Chamber of Agriculture and Forestry (CAF) is **supportive towards the intended gradual approach towards a single level of payments for payment rights**. CAF also welcomes introduction of payment rights to vineyards.

The Chamber of Agriculture and Forestry (CAF) **underlines the importance of production-coupled agricultural support**. Their proposal is to allow Member States to implement production-coupled schemes according to their specific needs, allowing public

¹³ Authors remark: probably this applies to the proposed 'greening' component of Direct Payments.

expenditure on these measures up to 15% of the national envelope. Pork and horsemeat sectors should be included to the list of eligible sectors.

The position of the Cooperative Union of Slovenia (CUS) towards production-coupled support is similar. They consider it an important tool to ensure flexibility of support, which should provide for a gradual adaptation to change and avoid potential negative effects on output.

With regard to the **definitions that accompany the proposed changes to the Direct Payments system**, CAF, CUS and AAMRD are all pointing out the problems linked with the definition of active farmer. CAF underlines the vagueness of the proposed procedures to determine the status of active farmer (total incomes, active management of agricultural land). AAMRD is concerned over the administrative burden that goes along with limitation of direct payments only to active farmers. Information on the total revenues will need to be acquired for farm households receiving more than 5000 EUR of direct payments in order to check eligibility for this policy instrument. This brings an additional burden to paying agencies in administrative checks and cooperation with national tax authorities. As for the latter (limitation of direct payments for large recipients) the Chamber of Agriculture and Forestry (CAF) is drawing attention to a complex system of subtracting labour costs. The scale of deductions is regarded as too coarse. As the number of farms potentially affected by the reduction of direct payments is low, CAF also puts under question whether such limitations would be meaningful in Slovenia. The Co-operative Union of Slovenia (CUS) suggests a thorough analysis of the consequences of introduction of such a definition of active farmers in the Republic of Slovenia.

The Commission proposal for introduction of a **special direct payment scheme for young farmers** is regarded with some reserve by the national paying agency (AAMRD) for two reasons: due to additional administrative burden, and due to legal issues (unequal treatment of beneficiaries).

Equally, certain reservations appear with respect to the proposed **introduction of a scheme for small farmers**. The Paying Agency (AAMRD) points out that implementation of such scheme would require administrative effort in terms of monitoring of the register of agricultural holdings; this would be needed in order to prevent circumventive practices (eg. splitting-up of farms just to satisfy the eligibility criteria).

The Chamber of Agriculture and Forestry (CAF) has another reservation over the scheme for small farmers. They see the establishment of this scheme as very advantageous in terms of simplification, but they fear that the scheme may adversely affect the structural changes¹⁴ in the future.

The position of agricultural and forestry cooperatives, outlined in the position of the Co-operative Union of Slovenia (CUS) towards the small farmers scheme is somewhat different.

¹⁴ Author's remark: the likely interpretation of the term 'structural change' in this context has to do with withdrawal of marginal producers and consequent strengthening of size and scale of the remaining agricultural holdings.

To their view, the common agricultural policy should ensure adequate income, and other options for carrying out agricultural activities to a wide group of farmers who are in a large number of members of cooperatives, while minimizing administrative burdens. In this regard, they welcome the envisaged simplification, including the option of direct payments scheme for small farmers. This position should also be considered in determining the minimum area or value of direct payments, and the definition of active farmers, which should include all individuals engaged in agricultural activities, regardless of their full-time or part-time status.

As for the **payments for areas with natural handicaps**, the Chamber of Agriculture and Forestry (CAF) is supportive towards this scheme. They see these payments favourable as they are additional to the LFA payments from the RD Regulation. The Co-operative Union (SUS), on the other hand, underlines that At least the determination of areas with natural constraints should be carried out carefully, based solely on biophysical criteria.

Equally supportive is CAF towards additional **direct payment incentive for young farmers** under the age of 40 years. To their opinion, this scheme should be complemented by the concurrent introduction of appropriate support from the RDP.

Amendments to the Commission proposals are proposed with respect to the issue of **national reserve**. The Institute of the Republic of Slovenia for Nature Conservation (IRSNC) points out the problem of the status of abandoned and overgrown farmland. In case that these areas are cleaned and restored in terms of agricultural use, they are not eligible for direct payments since no payment rights are allocated to reclaimed agricultural land. For these areas (typically these areas are in extensive grassland use), systemic solutions need to be found. According to IRSNC view, assignment of payment rights from the national reserve would be one of the possible solutions.

4.2.2.2 The 'greening' component of CAP direct payments

On the issue of the **greening of direct payments**, there were several reactions. The Co-operative Union of Slovenia (CUS) feels that the introduction of compulsory set-aside in relation to the greening of direct payments is not appropriate with respect to the situation on the world market, the need for food vulnerable population groups, not only in the world but also in the EU, as well as the need for a greater level of self-sufficiency in Slovenia's food production -, and in promotion of short food supply chains.

With respect to the proposed 'greening' component of direct payments, the Ministry of Environment and Spatial Planning (MESP) points out that the mandatory crop rotation might cause an increase in environmental pressures on Natura 2000 sites and areas designated under the Water Framework Directive. Due to a relatively high demand for maize (about 16,000 hectares of arable land in Slovenia is usually planted with corn), there will be additional pressures on permanent grassland in Natura 2000 areas and in areas designated under the Water Framework Directive. This is contrary to the intentions of greening. It might be worth considering allowing an exemption from compulsory crop rotation in areas which are not in any of the above protected areas.

Institute of the Republic of Slovenia for Nature Conservation (IRSNC) supports the intended upgrade of direct payments with the 'greening' component. However, IRSNC reiterates the need to build appropriate agri-environmental schemes in the context of rural development policy. In the upcoming programming period, IRSNC pledges for an upgrade of the existing agri-environmental measures to underline their environmental and nature-protection aspect.

IRSNC also asks for further explanation concerning the part of the 'greening' component dealing with high nature value farming. It is unclear whether it is essential that the farmer allocates 7% of the area from the existing arable land, or this percentage can be also taken from areas which were until now excluded from the graphical units of land use (eg, groups of trees, hedges, small water bodies). IRSNC supports the second option. It is not supportive to the proposal that this measure would be implemented at the national level, since the analyses show that some areas in Slovenia preserved a sufficient proportion of landscape elements. However, the landscape elements are not evenly distributed across the country, in some areas nature conservation landscape elements are hardly represented. In these areas, the high nature value measure it is an important policy tool to improve the situation.

DOPPS – Bird Life Slovenia gives a warning that for the farmers undertaking the greening measure, it is not clear what the penalty would be for failing to meet its requirements (loss of a part of the greening payment, loss of all CAP payments, or legal recourse?).

As for the **high nature farming areas**, the Chamber of Agriculture and Forestry (CAF) opens another set of questions concerning the farms with limited possibilities (or none) to establish high nature farming areas. CAF proposes to include only those high nature farming areas that actually exist at the farm, and that the 7% rule should be met only at the state level.

With respect to the **implementation of the greening component**, the Chamber of Agriculture and Forestry (CAF) is detecting some potential problems with the upper ceiling on farms with predominantly livestock production, and with the lower limits in the cases of (i) agricultural holdings growing more than three crops; (ii) agricultural holdings growing vegetables, or (iii) agricultural holdings operating (tree, vine) nurseries on arable land.

With respect to the **payments from the greening components**, CAF points out that equal payment for the three proposed measures would not be acceptable. The payments should pay regard to the complexity of the types of environmental compliance and practices.

DOPPS – Bird Life Slovenia opposes to the proposal that the requirement for **high nature value area** is for arable farms only. They argue that this requirement also be applied to permanent grassland areas, too. This could facilitate environmental improvements in intensively managed grassland areas.

DOPPS – Bird Life Slovenia interprets the Article 29 of draft Direct Payment Regulation that the greening will not apply to organic producers or farmers in the small farmer scheme, which means the coverage of the measure is restricted. In their opinion, although organic farms in general deliver benefits for the environment and wildlife, this is not always the case and a requirement to deliver the greening measure could have been an effective safety net. The same observation applies also to small farms.

DOPPS – Bird Life Slovenia further points out that it is unclear whether there will be additional controls to protect permanent grassland from being ploughed to avoid the proposed new requirements at the holding level, over and above the current cross-compliance mechanism. This mechanism, which was introduced in 2003 to encourage the maintenance of existing permanent pastures, applies to land which was under permanent pasture in a reference year (2002, 2004 or 2007), and operates at the Member State or regional level. Additionally, DOPPS - Bird Life Slovenia warns that the definition of permanent grassland (Article 31) fails to distinguish permanent grassland from pastures that are regularly reseeded. According to them, also wooded pastures are at risk from abandonment and further clarity is needed on how this definition will be applied.

Another reservation refers to the proposed partial exemption from the greening component for farmers managing land (partly or entirely) within the Natura 2000 sites. The Institute of R Slovenia for Nature Conservation (IRSNC) considers exemption of the greening component within the Natura 2000 not acceptable for Slovenia. In contrast to the Member States, where agricultural land use in Natura 2000 is determined by site-specific Management Plans, use of agricultural land in Natura 2000 sites in Slovenia is bound to non-site-specific sectoral management plans. Farmers within the Natura 2000 are currently not bound to implement any additional requirements compared to those outside the Natura 2000 sites.

4.3 Common Market Organisations

4.3.1 Slovenia: draft position

The Republic of Slovenia supports the **retention of the existing market measures** in the form of safety nets as well as their adaptation and modernization in order to increase their efficiency and prompt responsiveness. Market support measures will retain their importance for ensuring stability of agricultural markets and farming incomes.

In this context, Slovenia welcomes the **extension of the scope of the CMO** to (i) measures to remedy the market disruptions, (ii) contingency measures in case of animal diseases and loss of consumer confidence and (iii) measures to solve specific problems. Slovenia is proposing an extension of the emergency measures to all products included in the Common Organization of Markets (COM).

As for the **standard market support instruments**, Slovenia is expressing a need for more ambitious approach towards designing of measures that would stabilise agricultural

markets. With respect to this, Slovenia proposes to examine the proposed reference price values to enable their adjustment in a way to the economic situation of a specific commodity market, or sector.

With respect to the **individual market organizations**, Slovenia is supporting the proposal of the **sugar quota** elimination in 2015, expecting that this would result in improved long-term supply of sugar in all Member States, including those which have abolished sugar production.¹⁵

On the **Common Market Organisation for wine**, the Republic of Slovenia proposes to maintain the current system of planting rights for vineyards, as an element which contributes significantly to stabilizing the market in this area.

The Commission proposals to further strengthen the **school fruit and school milk schemes** are regarded as positive especially in terms of promoting healthy dietary habits. Furthermore, Slovenia suggests this principle to be extended to honey.

Same holds for the Commission proposal for extension of the rules for the producer and interbranch organizations in all sectors. This proposal is regarded positive especially in light of improving the functioning of the food supply chain in terms of strengthening the position of the primary agricultural production. In doing so, a revision of the rules in terms of simplification of producer organizations and interbranch organizations is proposed.

4.3.2 Stakeholders' comments

As it is explained in a greater detail in the Section 1.4.1, market interventions have no significant impact on Slovenian agricultural sector, especially compared with direct payments. Therefore, it is hardly surprising that the CMO **did not attract much attention in the public consultation process**. Only two groups of stakeholders expressed their views on this matter: the Co-operative Union of Slovenia (CUS) and the Paying Agency (AAMRD).

The Co-operative Union of Slovenia (CUS) welcomes efforts to support better and more effective organization, particularly those in the proposed CMO Regulation based on **producers' organizations**, their associations and branch organizations, followed by support to producer groups within the proposed rural Development Regulation. However, it appears that the proposed regulation remains at the halfway. General provisions on the recognition of producer organizations in the proposed regulation remain at rather general level. The essential substantive issues relating to membership, a minimum volume and value of production, membership, outsource, and the other for practical establishment and operation of the OP relevant issues, are left to the delegated acts. Such an approach makes it impossible to accurately assess the potential of this measure in practice and to develop a more concrete suggestions and comments at this stage. One might also ask, what is the point of recognition, if the organization is not eligible for assistance. It is questionable whether it is realistic to

¹⁵ As a result of the 2007 reform of the sugar sector, Slovenia ceased with sugar production on its territory. More on this in Section 1.5.1.1.

expect that granting recognition to OP-s as a moral stimulus will actually lead to a further growth and integration.

CUS proposes to take into account the different levels of organization in the individual Member States, as also the existing OP-s can, with minor contributions of public funds achieve significantly larger and longer-term effects. They are warning from harmful effects of ignoring, or even breaking down the existing structure and their replacement with new organizational structures, whose survival time would not exceed the period of public support. CUS therefore proposes that the provisions on producer organizations in the legal proposals should be amended and should not be left to definitions and modifications through the delegated or implementing regulations. The conditions for OP recognition should be flexible enough to allow recognition of the already functioning cooperatives and other producer organizations, in order to improve the actual long-term negotiation and market position of primary producers.

The Paying Agency (AAMRD) points out that position of Slovenia does not mention the important CMO aspects, **such as external trade, milk quotas and competition rules**. AAMRD opines that the Commission proposals bring more clarity to the competition rules and therefore can be regarded as beneficial in terms of administrative burden for the Member states.

AAMRD agrees with the arrangements for **emergency reserves** proposed by the Commission. Equally positive is their position to the new arrangement of the emergency measures and their funding from the EU budget.

From the implementation point of view, AAMRD pointed to the problems in implementation of the **cross-compliance controls**, especially in the wine sector. With respect to this, AAMRD emphasizes that detailed arrangements of these rules are essential for the smooth functioning of the paying agencies.

AAMRD is supportive towards the measures that will be adopted by the Commission as **delegated acts**. This is regarded as a positive step towards improving quality in certain sectors, and promoting better organization of production, processing and marketing. Improvements can be expected also in a better monitoring record of market trends and projections.

AAMRD is reserved to the draft position of Slovenia concerning **the reference price for sugar and the sugar quota**, as Slovenia currently does not exercise these measures. Notwithstanding this, AAMRD proposes to allow implementation of aid for private storage of sugar.

AAMRD supports the proposal to explore the possibility of introducing the scheme for honey in a similar way as the **school fruit and school milk schemes**. In addition to this, they propose the extension of the school fruit scheme also to the vegetables. The Co-operative Union of Slovenia (CUS) supports the view to **extend this scheme to honey**.

The Co-operative Union of Slovenia (CUS) continues with **more detailed comments to individual CMOs**. First, with regard to the **Organisations of Producers (OP) in fruit and vegetable sector** (Art. 30-36 of Draft Regulation). The proposed Regulation on the common organization of agricultural markets limits the EU financial support for OP in fruit and vegetable sectors at 4.1% of their revenues and a maximum of 50 or 60% of actual costs (Article 32). This is the same level of funding than under the previous regime, which is regarded as too low, especially regarding the fact that the conditions for the measures to be funded from the operational fund are now significantly more demanding. It should be noted that operational funds must comply with the new requirements for agri-environmental payments from the Rural Development Regulation. In addition to this, preparation of a national framework for environmental action is required, and further, the national strategy for sustainable operational programs in the fruit and vegetables has to be adopted by each Member State in which at least one OP is recognized (Article 34 of the COM Regulation).

As for the issue of contractual relations and negotiations in the **milk and milk products** (Articles 104 and 105 of proposed CMO Regulation) the CUS points out that the legal proposals allow Member States to prescribe certain elements of the contractual relationships in the field of buying milk, such as : (i) formal requirements in terms of the time of conclusion of contracts, (ii) (written) forms and (iii) contents (the way of setting the prices agreed amount and duration of the contract, including possibility for indefinite period contracts). All other elements are freely negotiated between the parties. These are items that are well established in Slovenian practice and certainly contribute to greater transparency in contractual relationships, but in CUS opinion, cannot significantly offset the bargaining power, so far as they are distributed differently in the individual participants. If the milk is collected through the collectors, forming of contracts should be subject to the obligation for each phase of supply, where the collector is defined as a company that transported the milk from farmers to other collectors, or processors of raw milk. In this context it should be noted that in Slovenia some co-operatives organize the collection of raw milk, although transport from farmer to processor is organized by a dairy. One might also question whether it is necessary to enter into such contracts in the agricultural cooperatives, which are not dealing with milk production or transport.

Cooperative Union of Slovenia welcomes the proposed negotiating regime of the recognized producers' organizations, because it is an important service that cooperative can implement for its members. However, it is questionable whether the provisions of the Commercial Register of the recognized organization of producers actually will be able to verify whether any member thereof is a member of another organization of producers, which is one of the reasons that the organization should not be negotiated (Article 105 (2) (c) of the Draft CMO Regulation).

4.4 Rural development

4.4.1 Slovenia: draft position

Generally, Slovenia welcomes the proposed amendments to rural development policy. In Slovenia, the CAP Pillar II measures implemented within the multi-annual programming

framework, continue to provide policy mechanisms to strengthen the competitiveness of the agri-food sector and rural areas, while providing the flexibility needed to address specific needs at regional and national level.

Slovenia considers it essential that in the next financial perspective, the process of restructuring of the agri-food sector, further diversification of rural economy, environmental protection and conservation of agricultural production continues throughout the EU. Having this in mind, Slovenia underlines that the **allocation of national envelopes for rural development** policy among should be based on the volume of Rural Development Policy expenditure for the whole programming period (2007-2013), and not just for 2013. Without prejudice to the positions of Slovenia in the context of negotiations on a new multiannual financial framework of the EU, a greater reduction of the national envelope for rural development for the Republic of Slovenia is not acceptable because it would be in stark contrast with the objective of ensuring sustainable impact on rural development.

With respect to financial provisions, referring to the share of EAFRD funding, Slovenia expects the Rural Development policy should follow similar provisions than those along the lines of Cohesion Policy; a special status should be granted to the regions that will no longer have the status of less developed regions in 2014-2020, but whose GDP per capita for the period 2007-2013 did not exceed 75% of the average EU-25. Proposal for transitional arrangements is argued by the fact that the territorial development is a long-term process that requires gradual approach, both in terms of introduction, and in terms of elimination of the financial provisions of public support.

In terms of greater consistency and better synergies in terms of financing the Rural Development Fund and other EU structural financial instruments, the Republic of Slovenia agrees that the EAFRD in the new programming period should be included in a common strategic framework. It is important that the introduction of the new approach will not create obstacles to the preparation of individual programs and their implementation (eg. decision-making on measures being conditional on their macroeconomic impacts).

Slovenia agrees with the **proposed RD policy priorities**, which are expected to significantly contribute to the achievement of the *Europe 2020* strategic objectives. This includes the possibility of introducing schemes that will address specific situations in Member States, particularly in young farmers, small farms, mountain areas and short/local supply chains. The latter is underlined in Slovenia as a key activity to establish consistency between the actions of the first and second pillar of the CAP. In addition, Slovenia underlines the importance of the contribution of the instruments of rural development policy to active management of Natura 2000 sites, other (formally) protected areas, areas of permanent grassland, and to making the integrated water management with emphasis on achieving good status for all waters.

The proposal to merge some of the Rural Development measures from the current programming period to more consistent and rounded thematic sections is considered as positive. It is expected that this could improve the effectiveness and efficiency of Rural Development expenditure, and will contribute to a more successful pursuit of horizontal

objectives of this policy such as promoting innovation and contribution to climate change mitigation and adaptation.

Introduction of a new **risk management** toolkit to the Rural Development policy is regarded as meaningful. Still, Slovenia reiterates that some modifications will be necessary to enable a successful implementation of these measures.

4.4.2 Stakeholders' comments

Public consultation on the Rural Development policy issues raised less controversy than the one on direct payments. In fact, stakeholders' comments are **generally supportive to the proposed national positions** for this policy area.

The Chamber of Agriculture and Forestry (CAF) states that the EU legislative proposals on support for rural development create opportunities that are wide enough to accommodate the rural development priorities, such as: promoting knowledge transfer in agriculture and forestry, increasing the competitiveness of agriculture and farm viability, encouraging the organization of the food chain and risk management in agriculture, conservation and strengthen ecosystems that depend on agriculture and forestry and to encourage efficient use of resources and the transition to a low carbon economy, exploit the potential of job creation and development of rural areas.

The Rural development Association of Slovenia (RDAS) suggests the following focal points of the future rural development policy: (i) development of short supply chains; (ii) local development based on local development strategies and better synergy with Structural Fund actions; (iii) increase of appropriations for implementation of local development strategies.

The Paying Agency (AAMRD) supports the Commission proposal to allow greater flexibility in terms of shifting funds between measures, and grouping of measures. This will ensure greater transparency and simplification of administrative procedures. On the other hand, AAMRD is expressing some concerns about the organisational, institutional and administrative efforts, and risks of low absorption going along with the proposed introduction of new policy areas and new measures.

Furthermore, AAMRD underlines that lower **EARDF co-funding rates** in the areas losing the status of less developed regions will most likely result in reduction of Rural Development expenditure. In this respect, the Co-operative Union of Slovenia (CUS) suggests introduction of specific transitional mechanisms for the regions losing their status of less developed regions.

Nevertheless, public consultation brought also some concerns over the **stated priorities** of the future Rural Development Policy. DOPPS - Bird Life Slovenia refers to the priorities of the EU Rural Development policy outlined in the legal proposals. They find the Priorities 5a

and 5b¹⁶ questionable as they could be implemented in a way that focuses on competitiveness while bringing no wider environmental benefits, or even causing harm (eg. 'efficiency in water use' could be interpreted as 'more irrigation', while 'efficiency in energy use' could include increasing the size of livestock housing blocks).

AAMRD is reserved over the abolition of the measure **early retirement**. To their opinion, the measure contributes to favourable structural developments in agriculture in terms of age and tenure structure of farms. This is especially important for Member States and regions with unfavourable structural conditions.

With respect to the **agri-environmental measures**, the Chamber of Agriculture and Forestry (CAF) points out that in the past Slovenia has built a diversified system of agri-environmental payments; they propose a rather conservative approach by retaining most of the existing Agri-environmental (A-E) measures. To CAF, designing new A-E measures to accommodate some of the new policy priorities (eg. climate change) may bring un-necessary risks.

On the other hand, a set of comments is referring to the **future organisation of agri-environmental measures**. The Institute of the Republic of Slovenia for Nature Conservation (IRSNC) points to the need to improve the methodology for designation of future A-E measures and calculation of A-E payments. The measures should be that measures should be better targeted, more ambitious and financially evaluated according to their complexity. All future E-A measures should have more clearly expressed nature conservation component.

DOPPS – Bird Life Slovenia is concerned over the 25% minimum spend which includes the measure for 'payments to areas facing natural or other specific constraints'. To their judgement, this is not explicitly an environmental measure and these payments may not bring any environmental benefit. There remains a risk that some Member States may significantly reduce the amount they spend on A-E schemes.

DOPPS - Bird Life Slovenia further state that the fact that the minimum spend requirement is only in the pre-amble might put into question how mandatory it is. No concrete proposals are provided on how to evaluate progress towards environmental priorities. They also underline that the approach towards Natura 2000 remains negative as it is substantiated by compensation for disadvantage, rather than paying for the public goods that these sites can provide. Their concern also goes to the fact that the Natura 2000 measure is not compulsory and that there is no link to management plans or any specific management prescriptions.

Questions linked to the **competitiveness of the agri-food** sector did not attract much attention in the public consultation process. Stakeholders are concordant that Slovenia continues to need a strong support for investment in technology upgrading and restructuring of agri-food sector. There were no particular critiques or comments to the EU

¹⁶ See Article 3 of the Draft Regulation, which states the EU priorities in the area of Rural Development. Priority 5a refers to 'efficiency in water use' and Priority 5b to 'efficiency of energy use in agriculture and food production'.

legislative proposals on this subject. In this case, this can probably be interpreted that the stakeholders are mainly supportive to the Commission proposals.

The only exception here is the Co-operative Union of Slovenia, which has alternative proposals to rural development measures dealing with support to producer groups, and with knowledge transfer support.

With respect to the support to **producer groups**, the Co-operative Union of Slovenia (CUS) opens the question about the difference between the terms "producer organization" (CMO Regulation) and "producer group" (RD Regulation). From a comparison of functions of producer organizations and producer groups, it appears that both types of associations have similar functions relating to marketing of agricultural products. To the CUS opinion should, producer groups should – similarly than producer organisations – be recognized by Member States through submission of a business plan. The RD Regulation proposal suggests that 'producer groups' in virtually all agricultural and forestry sectors are eligible for public support. The new producer groups could thus be engaged in same activities as the existing co-operatives in Slovenia.

The Regulation proposals mentions only support for setting up of producer groups. CUS considers that the existing producer groups should also be taken into account. They suggest that eligibility to public support should be extended also to the existing producer groups for activities such as eg. increase of membership in the existing producer groups, development of new products and services, consolidation of producer groups, and similar. CUS also puts under question the clause that limits temporary co-financing of start-up costs only to SMEs. They consider this not logical as the producer organisations face major industrial and commercial organizations on the market. If such a limitation is set for the protection of competition, this goal could be achieved also by limiting support on a case-by-case basis, rather by a flat provision.

In order to increase the efficiency of forest management and marketing of forest products and biomass, the Forestry Act encourages the voluntary association of forest owners in associations. CUS suggests extending this principle also to forest owners' cooperatives.

With respect to the **support to forestry sector**, whose economic significance is substantial especially in the mountainous areas of Slovenia, the Chamber of agriculture and forestry (CAF) states that in the draft Regulation on support for rural development, the forestry sector is represented broadly enough to accommodate the needs and development potentials of the forestry sector in Slovenia.

The Co-operative Union of Slovenia pointed out the issue of **transfer of knowledge and information**, extension services, support services and farm management services for the provision of farm relief (Article 15 and 16 of the RP). To their view, information and knowledge transfer are key factors for efficient operation and development of cooperatives. Since the transfer of entrepreneurial skills and experience is explicitly mentioned only in a temporary support for the establishment of producer groups, CUS believes that it would be useful to improve knowledge transfer on business and organizational skills. In this respect, a

focus should be given to the cooperatives and producers' organizations in the broadest sense, including cooperative associations and other associations of these organizations.

On the issue of **Cooperation** (Article 36 of the RD Regulation proposal), the Co-operative Union of Slovenia views its importance in terms of collaboration between agricultural and forestry cooperatives, especially in their horizontal cooperation, and vertical co-operation with other entities in the supply chain. CUS expects that detailed acts of the Commission and the rural development program will allow full participation of the agricultural and forestry cooperatives in developing new forms of cooperation, new technologies, and collective approaches to environmental protection and mitigation of climate change.

The **LEADER approach** is seen positive also in the environmental context. The Institute of the Republic of Slovenia for Nature Conservation (IRSNC) underlines that LEADER programmes have a good potential to successfully implement the objectives of nature conservation. They suggest that stakeholders from the nature protection sphere should be more intensively involved in newly established LAGs.

CAF reiterates the importance of the **agricultural advisory system** for successful implementation of rural development policy. This system should be able to provide advice in terms of the: (i) requirements and standards that fall within the scope of cross compliance; (ii) requirements to be considered for direct payments to agricultural practices with positive impacts on the environment and the conservation of agricultural land elements in relation to climate change adaptation and mitigation of their consequences; (iii) biodiversity; (iv) protection of water, (v) reporting of animal and plant diseases, and (vi) developments, innovation and sustainable economic activities of small farms. The EU legislative proposals are judged to give the appropriate framework conditions for development of these services. The Chamber of agriculture and forestry (CAF) underlines that its extensive network of public service FAS can provide a quality service in this respect.

4.5 Horizontal provisions

4.5.1 Slovenia: draft position

Slovenia supports the proposals to consolidate the key provisions of the CAP, coupled to the control and punitive mechanisms and a clearer definition of the conditions for payments under shared management. According to the Slovenia draft position, this would improve the transparency of CAP expenditure, simplify its implementation, and reducing the risk of CAP payments.

The proposed provisions related to the review of the legality and regularity of the CAP payments, in particular, **sound financial management** by the certification bodies are assessed to reflect in a disproportionate increase in costs, which Slovenia considers as not acceptable. Slovenia supports the proposal to decrease the percentage of mandatory controls in areas where low level of errors and low level of risk. The intensity of controls, including external audits, should take into consideration the amount of funds paid.

Due to the high costs of implementation of the measures to protect the financial interests of the Community, the Republic of Slovenia can not support the proposed reduction in the proportion of **retained recovery** from 20% (25%) to 10%, and suspension of the 50/50 mechanism for repayment of funds recovered after four (eight) years to the EU budget. Within the current national provisions regulating this issue, introduction of the obligation to pay default interest in case of transgressing the due date brings a risk of establishment of double rules.

As regards rural development (EAFRD), Slovenia points out that adaptation to the **common rules for all the Structural Funds** (CSF Regulation) to the established system of supervision and control of EAFRD may introduce additional provisions that could lead to an increase in controls and unproportionate financial consequences.

The rules related to the cross-compliance are considered as relatively clearly defined, however, is at a stage when certain standards were not yet final (November 2011), Slovenia could not accept the final position on the proposed changes.

Slovenia supports the introduction of a **monitoring system** for CAP Pillar I. As it is experienced in the case of CAP Pillar II, the system of performance monitoring can provide relevant information for measuring the set objectives and for planning of future actions. However, measurement of complex objectives of the reformed CAP needs development of complex monitoring systems. Their introduction is justifiable only if the benefits justify the costs.

4.5.2 Stakeholders' comments

Expectedly, horizontal provisions have not attracted much interest in the public consultation process. The only set of comments came from the Paying Agency (AAMRD) with some technical proposals. The first is dealing with the Commission proposal that the payment of the default interest from the national budget in cases when Member State fail to accomplish payments to beneficiaries in due time. AAMRD is pointing out that this would mean a deviation from the current practice, and may create additional pressures on the national budget.

AAMRD supports the Commission proposal to allow some flexibility to the Member States in terms of shifting the appropriations between CAP Pillar I and CAP Pillar II.¹⁷

AAMRD also supports the Commission proposals to reduce monitoring activities in the regions with good performance record.

¹⁷ Author's comment: although this was not stated in their comment, it can be expected that AAMRD was more positive towards shifting the funds from Pillar II (Rural Development) to Pillar I (mainly direct payments). This option was available to Slovenia already within the RDP 2004-2006.

5 Comparative Analysis

5.1 General position towards agriculture, agricultural and rural policies in Slovenia

Looking at the position of Slovenia and its attitude to agriculture and agricultural policy, it can be described as relatively conservative. This is particularly observable on the domestic policy arena, where the obsolete productionist rhetoric (eg. increase in self-sufficiency in food production) is combining with modern policy concepts (eg. sustainability) and policy tools (eg. support for short supply chains). Within the EU common agricultural policy framework, Slovenia has adopted (and the agricultural system got adapted to) a concept of agricultural and rural policies with relatively high level of direct payments, extensive set of environmental (A-E measures) and spatial payments (LFA support), and accessible investment support schemes. The agricultural policy process is seeking consensus with agricultural stakeholders (especially the Chamber of agriculture and Forestry, to some extent also the Co-operative union of Slovenia and other interest groups) in early stages of the policy process, which adds to the explanation of the conservative position towards agricultural policy in Slovenia.

Opposite to this orientation, other governmental bodies (eg. Ministry of Finance, Government Office for European Affairs and Development, Government Office for local self-government and Regional Policy) have often revealed different positions towards the questions that affect agricultural and rural policy at least indirectly (eg. EU budgetary review). These views have often been more in favour of a more fundamental CAP reform, connecting policy objectives and instruments with public goods provided by agriculture, opposing historical rights for direct payments and asking for more equity in direct payment distribution across the EU. In the early stages of the latest CAP reform discussion, a part of the national administration took a more reformist stance being in favour of co-funding of direct payments from national budget which could endeavour the abolishment of British rebate. This leads to a somewhat paradoxical fact that the process of inter-governmental reconciliation of positions towards agriculture and agricultural policy is more demanding and controversial than the process of consultation with non-governmental stakeholders.

At the EU level, the position of Slovenia towards the common agricultural policy can be described as pragmatic. Slovenia is rarely exposing its views and can be only exceptionally found on headlines of agricultural policy news. Official positions of Slovenia are usually close to the European Commission positions, looking for room for manoeuvre within the commonly adopted policy framework, searching for pragmatic solutions and striking ad hoc coalitions. However, when conditions get strained (eg. crisis in the dairy sector), and in discussions on long-term vision of the common agricultural policy (signatory to the France position paper on CAP reform), the position of Slovenia is closer to the conservative bloc

Also in the future, it is expected that the sentiments of Slovenia in the CAP reform debate will be closer to the more conservative side. This position has been underlined by the adoption of the *Resolution on strategic guidelines for the Slovenian agriculture and food processing industry by 2020*, early in 2011. The Resolution is a result of intensive and broad discussion about the situation and objectives of the agri-food sector, and the underlying tasks of the

State to serve these objectives. The Resolution brings no radical changes to the existing policy priorities, objectives and instruments. Rather, it consolidates the current policy priorities and objectives to the mid-term time frame. The focal point of the resolution are topics like food security, importance of production on family farms, protection of available agricultural land for production and liability to more targeted support to particular sectors (Vlada RS, 2011).

5.2 Position of Slovenia towards the 'CAP after 2013' proposals: synthesis and arguments

As discussed in a greater detail in the Section 2 of this report, the Ministry of Agriculture, Forestry and Food (MAFF) is the Government body responsible for preparation of the position of Slovenia to the legal proposals for the CAP after 2013. The inter-governmental consultation process is being conducted through formalised procedures. MAFF has established also extensive consultation channels with non-governmental stakeholders, enabling reconciliation of positions in early stages of drafting national positions. It is thus not surprising that the official national positions are in concordance with the positions of key stakeholders (particularly agricultural ones). The public consultation process has opened some contesting views only on rather detailed technical aspects of CAP legal proposals, or on issues addressing particular interest groups. The latter applies particularly to environmental (governmental and non-governmental) stakeholders.

Positions and arguments are synthesised as suggested in the Terms of Reference for preparation of this Country report:

5.2.1 General orientation of CAP reform

In principle, the **strategic objectives of the future CAP** seem to be in line with the prevailing priorities and expectations in Slovenia. This applies particularly to the objectives targeted at viable food production, conservation of the potential for food production and thereby ensuring long-term food security. There also seems to be a wide consensus in Slovenia about the role of the CAP in promoting sustainable management of natural resources and achievement of a balanced spatial development.

On the other hand, concerns exist over the expected **national envelope** for the multiannual financial framework 2014-2020 with foreseen reductions due to a likely decrease of the overall CAP budget. Stakeholders' expectations remain high both with respect to the CAP Pillar I and Pillar II revenues. It is therefore not surprising that the prevailing opinion in Slovenia is not supportive towards a more equitable distribution of EU expenditures between old and new member states. Furthermore, concerns exist that introduction of flat rate area payment (ie. equalisation of payments for arable land and grassland) would bring large redistribution of direct payments between different farm types. Agricultural stakeholders are maintaining pressure on policymakers to find solutions that would offer enough flexibility to minimise negative effects of redistribution between regions, sectors and farms.

Another set of concerns about the financial implications of the future CAP budget for Slovenia departs from the fact that a part of the country (NUTS-2 region Western Slovenia) is likely to lose the status of Convergence region, reducing the available CAP Pillar II funds, and increasing the required co-financing rates. Similarly than in the case of Cohesion policy, Slovenia is negotiating a **transitional status for Western Slovenia**.

In its official position, Slovenia is supportive towards the maintenance of the current **two-pillar structure** of the CAP. Opinions differ about the balance of funds between the two pillars, and targeting of CAP expenditure. Non-agricultural stakeholders are calling for 'greener' and more development-targeted expenditure.

There also seems to be a unanimous view in Slovenia that further simplification of the CAP and reduction of administrative burden for both, agricultural producers and public administration should be put in place. However, several stakeholders are expressing their concerns that some solutions outlined in the legal proposals lead just in the opposite direction.

5.2.2 Direct payments

With respect to the issue of national envelopes for CAP direct payments, Slovenia remains clearly pursuing the objective to maintain the level of national envelopes to the highest possible extent in order to ensure stable conditions in agriculture, income security for farmers and the continued provision of public goods associated with agriculture.

Although Slovenia is in principle supportive towards the modification of the existing system of direct payments by bringing down the differences in the level of payments to countries or regions, the proposals that the direct payment levels should get standardized across the EU are not seen acceptable. Use of a pragmatic approach is preferred in determining the national envelopes for direct payments, giving sufficient flexibility to tackle specific problems related to redistribution of transfers between different sectors, farm types or regions. It is regarded that immediate radical changes in the volume of direct payments would lead to a destabilization of the situation in agriculture in Slovenia. These demands go in hand with requested continuation, or even increase of production-coupled schemes according to the specific needs of regions and/or sectors facing problems, allowing public expenditure on these measures up to 15% of the national envelope.

As regards the eligibility for CAP direct payments, a widely shared opinion in Slovenia is that similar conditions of eligibility for direct payments should stay in place as it is currently, limiting the payments only to active producers. Various alternatives were proposed in the public consultation process about the criteria for definition of active farmers. However, they all have in common the view that the criteria should remain country-specific in order to take into account specific conditions for agricultural production.

The issue of greening of direct payments in Slovenia remains controversial. Agricultural stakeholders are expressing concerns over increased technological burden and limitations for

agricultural production, and increased administrative complexity. With respect to the payments from the greening component, agricultural stakeholders opine that the payments should pay regard to the complexity of the types of environmental compliance and practices. Environmental stakeholders, on the other side, consider that, rather than a step towards awarding environmental public goods, the greening component is merely window-dressing of the existing policy awarding conventional agricultural practices. The official position of Slovenia towards the proposed greening of direct payments regards as acceptable, but considers it important that 'sufficient flexibility is left to take into account the specific natural and structural conditions, without increasing the financial and administrative burden for farmers or administration'. This position appears to be closer to the agricultural stakeholders' perspective. Implicitly, this position reveals that the policymakers' are in favour of retaining additional environmental services of agriculture in Slovenia within CAP Pillar II.

With respect to the definition of the areas characterised by high nature value farming, and definition of the appropriate farming practices, the public consultation identified some reservations at both (pro-agricultural and pro-environmental) sides of argumentation. From the agricultural producers' perspective, establishment of high nature farming areas is often not feasible. Given the structural conditions of Slovene agriculture, there should be no problem of achieving the proposed 7% of high nature value farming areas at the national (or even regional) level. From the environmental stakeholders' perspective, on the other hand, not only arable areas, but also absolute grassland should be subject to the binding establishment of high nature farming areas.

There appears to be a general consensus over the proposed simplified procedures of direct support for small farmers in Slovenia.

5.2.3 Market measures

Slovenia is a small net contributor to gross agricultural output of the EU-27 with a negative agricultural trade balance. The Common market organisations and other market measures are usually not high on agricultural policy agenda in the country. Slovenia is exercising its interests more explicitly on those markets that are represented highly in its agricultural output (eg. milk) or with regard to the issues regarded as potential comparative advantage (eg. quality labels). Apart from some detailed proposals (eg. extending school fruit and milk schemes to honey), the position of Slovenia has always been close to the Commission proposals.

5.2.4 Rural development

Rural development policy has been regarded as a priority of agricultural policy in Slovenia. This has to do with pronounced policy needs in all spheres of rural development policy: (i) agricultural and food sector competitiveness (low labour productivity, high demand for consolidation of farm sector and its modernisation, need for improved performance of food processing and marketing); (ii) sustainable management of natural resources (three quarters of agricultural land located in less favoured areas, prevalence of

grassland in land use, extensive coverage (34% of national area) with Natura 2000 sites); and (iii) quality of life and economic diversification of rural areas (importance of other gainful activities on farm holdings in Slovenia, vibrant rural communities). In addition to this, since its accession to the EU in 2004, Slovenia had a strong record in implementation of rural development measures.¹⁸

In Slovenia, both policymakers and stakeholders agree with the rural development policy priorities outlined in the Commission blueprint on 'CAP after 2013' and elaborated in greater detail in the legal proposals. In its official position, Slovenia welcomed especially the possibility of establishing thematic subprogrammes for young farmers, small farms, mountain areas and short/local supply chains. The latter is underlined in Slovenia as a key activity to establish consistency between the actions of the first and second pillar of the CAP. In addition, Slovenia underlines the importance of the contribution of the instruments of rural development policy to active management of Natura 2000 sites, other (formally) protected areas, areas of permanent grassland, and to making the integrated water management with emphasis on achieving good status for all waters.

Concerns over the future implementation of rural development policy in Slovenia relate to the financial provisions, which will be impossible to meet the 2007-2013 figures. The perspectives for retaining the national envelope at the 2007-2013 level are not good, given the size of the overall EU rural development budget for 2014-2020, and given the fact that it will be hard for Slovenia to retain one of the highest levels of rural development funding among the EU-27.¹⁹ Additional problem can emerge due to the fact that Western Slovenia will have to increase the national co-financing rate for the Western Slovenia NUTS-2 region. This implies a need to increase the financing from the national budget, which will be hard to achieve in under tightened macro-fiscal conditions. Inability to provide matching national funds may thwart traditionally good absorption rate of EARDF in Slovenia. In the forthcoming programming period, policymakers will face a challenging task to deliver more rural development²⁰ with lesser funds.

At the measure level, the profoundest changes can be expected among the agri-environmental measures. In the actual programming period, the prevailing part of A-E expenditure has been allocated to beneficiaries that implement 'soft & shallow' environmental services, such as crop rotation, integrated production, and extensive livestock breeding. With the greening component entering CAP Pillar I and possible tightening of GAEC standards (cross-compliance), some of the activities presently financed under the A-E measures²¹ will become preconditions for direct payments. Thus, the present system of A-E measures will inevitably have to change in terms of better environmental targeting, more demanding conditions and increased complexity of A-E measures.

¹⁸ See more on this in sections 1.4.2 and 1.5 of this report.

¹⁹ Comparison of national envelopes 2007-2013 for rural development policy in relative terms (eg. EUR/hectare UAA) reveals that Slovenia ranks the second highest (only records for Malta are higher).

²⁰ New policy priorities (eg. Combating climate change), new policy tools (eg. management of production and income risks in agriculture).

²¹ Eg. crop rotation, green cover of arable areas in winter

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²² Numerous documents are contained in the following link: from (updated) national position on legal proposals for 'CAP after 2013', stakeholders' written statements to the moderated public consultation process, materials from the workshops, etc.