OVERVIEW OF THE HUNGARIAN AGRICULTURAL SUPPORT SYSTEM IN OPERATION

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SUMMARY

During the past decade before the EU accession the necessary harmonisation processes have been carried out to facilitate Hungary's EU membership. Probably the most important adaptation was necessary by the agriculture, and agricultural support system. Agricultural producers in the EU member states have several possibilities to apply for financial support besides direct payments, in order to increase effectiveness of production. Hungarian farmers and agricultural entrepreneurs faced a new support system in the frame of Pre-accession Funds; they experienced the support system of Structural Funds and the Cohesion Fund. This paper should give an overview and summary of the ruling support system, with special aspects of the Single Payment Scheme. An accurate and suitable registration system is required from the farmers both in case of direct payments and in case of project applications from the Structural Funds. To be able to sustain a long time-viable farm it is very important for the farmers and also for the country to take advantage of chances of the Common Agricultural Policy.

INTRODUCTION

At present the *EU support* practice primarily focuses on ensuring the proper income level of the producers with direct supports. This support system was introduced in 1992 in the frame of the McSharry reform. Concerning plant production producers receive support for the production of certain crops (cereals, oils seeds, protein and fibre crops). In order to calculate the amount of support the *reference yield* is needed in case of each member state. Reference yields were calculated on basis of the average cereal yields between the 1986/87 and 1990/91 economic years, using three years data excluding the lowest and the highest values. The basic amount of support is a crop-specific multiplier that is continuously revised by the Committee. The multiplication of these two numbers results the exact amount of support per hectare. Concerning animal husbandry *animal premiums* are paid on basis of animal density and number, but only in case of certain species and utilization directions (beef cattle, sheep, goat). The Hungarian direct payments are summarized in Table 1.

After the EU-negotiations were over it became evident that the newly accessing countries will not receive the same support amounts that are in force in the EU15 (2003); in the year 2004 only a quarter of this amount was available for the new member states, and in 2005 30 % of total amount. As a reaction to this agreement the Hungarian government insisted on establishing a complementary national direct payments form. The share of *EU and national support* beginning with the year of accession is indicated in Table 2.

Table 1

Direct payments and quotas for agricultural producers in Hungary (2004)

		Quotas			**2004**	
	Support.	quota	100 % (EUR)	55%	25%	30%
	(EUR)				*(EU)*	*(complementary national direct payments)*
Plant production						
Regional yield (t/ha)		4,73				
Base area (ha) *		3.487.792	1.040.546.449	572.300.547	260.136.612	312.163.935
Durum wheat traditional (ha)	344,500	2.500	861.250	473.688	215.313	258.375
Durum wheat(ha)	138,900	4.305	597.965	328.880	149.491	179.389
Rise (ha) - 3,1 t/ha reg. yield	163,215	3.222	525.186	288.852	131.297	157.556
Hemp, flex (t)	90,000	2.061	185.490	102.020	46.373	55.647
Other pulses (ha) chick-pea, lens, vetch	181,000	1.954	353.674	194.521	88.419	106.102
Tobacco total (t)	2307,000	12.355				
- Tobacco Virginia (t)	2980,000	5.768	17.188.640	9.453.752	4.297.160	5.156.592
- Tobacco Burley (t)	2334,000	6.587	15.374.058	8.455.732	3.843.515	4.612.217
Seed-corn (t)	321,437	7.235	2.325.600	1.279.080	581.400	697.680
Hop (ha)	480,000	36	17.280	9.504	4.320	5.184
Plants total			**1.077.975.592**	**592.886.575**	**269.493.898**	**323.392.678**
Animal husbandry						
Cattle (pcs) **	198,000	94.620	18.734.760	10.304.118	4.683.690	5.620.428
Cow (pcs)	200,000	117.000	23.400.000	12.870.000	5.850.000	7.020.000
Slaughter (pcs)	65,000	235.998				
- calf (pcs)	50,000	94.439	4.721.950	2.597.073	1.180.488	1.416.585
- full-grown (db)	80,000	141.559	11.324.720	6.228.596	2.831.180	3.397.416
cattle complementary support (EUR)			2.936.076	1.614.842	734.019	880.823
Sheep (db)	21,000	1.146.000	24.066.000	13.236.300	6.016.500	7.219.800
Sheep complementary support(EUR)			1.211.510	666.331	302.878	363.453
Animal total			**86.395.016**	**47.517.259**	**21.598.754**	**25.918.505**
The whole support (EUR)			**1.164.370.608**	**640.403.835**	**291.092.652**	**349.311.182**
The whole support (HUF) * **			**282.359.872.500**	**155.297.929.875**	**70.589.968.125**	**84.707.961.750**
Milk premium 2005	5,750	1.947.280	11.196.860			
Milk premium till 2006	11,490	1.990.060	22.865.789			
Milk premium after 2007	17,240	1.990.060	34.308.634			

* 27.135 ha (in base area, planting area in 2001) protein plants are calkulated as follow: 72,5 EUR X regional yield.
** Calculated expected support in Hungary
*** According to the official rate of Ministry of Finance (2004 - 242,5 Ft/EUR; 2005 - 241,0 Ft/EUR; 2006 - 237,5 Ft/EUR).
Source: Ministry of Foreign Affaires, 2004 (http://www.eu2004.hu/index.php?op=csatlakozas_kozossegpolitika&id=19)

Table 2

Rate of EU payments with the complementary national direct payments in % (Payments for the EU15 (2003) countries = 100 %).

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU compensation payments	25	30	35	40	50	60	70	80	90	100
EU payments + 30 % national source	55	60	65	70	80	90	100	100	100	100

Source: Ministry of Agriculture and Rural Development 2003

SINGLE AREA PAYMENT SCHEME (SAPS)

During the summer of 2003 the government decided to apply a *single area payment scheme* in Hungary (SAPS) for the *community and complementary national direct payments* (CDNP). The decision was basically influenced by the planned reforms of the Common Agricultural Policy and the fact that the Hungarian Integrated Administration and Control System (IACS) could be fully established later as planned.

The single payment scheme divides the amounts of the *national envelope* for the whole agricultural area of the country. (National envelope means the total amount of possible payments in Hungary, calculated on basis of the reference yield.) The minimum size of arable land and pastures is 1 hectare, in case of orchards and vineyards 0,3 hectare. Smaller areas are excluded from the area-based support. Regarding the 30 % complementary national supplement the following elements should be mentioned:

♦ the complementary national direct payments are based on national decision, but it should be approved by the EU;

♦ the rate of support cannot exceed 55 % neither on national, sector or producer level;

♦ only those sectors could be supported that also receive support in the EU Common Agricultural Policy; therefore no support is available for field vegetable, potato, sugar beet production, for vineyards and orchards, and for the pig and poultry sector.

Single payment scheme will be in force for three years after the accession, but on basis of request it could be prolonged for additional 2x1 years.

The *single payment scheme* also requires the strict registration and control of farmers, and also animal registration should be complete. Besides these requirements arable land should be cultivated considering environmental regulations, keeping the "*good agricultural condition*". These conditions are indicated in Table 3. Area-based support is only available after the actually cultivated land; the Integrated Administration and Control System (IACS) is nominated to control this. The primer objective of the IACS is to filter out unauthorized or double support requests. A basic characteristic of the system is the automatic administrative control of the support request, using the efficiency of the applied informatics systems.

Cross-controls are based on the *Agricultural Plot Identification System (APIS)* in Hungary. Data of this system could exclusively be used at the support requests. Agricultural plot (or agricultural table) is a piece of land used for agricultural purposes, where one producer (grower) grows one type of crop (e.g. maize, silage corn and seed corn should be indicated separately). The agricultural table is the basic unit of identification concerning area-based agricultural supports.

Table 3

Characteristics of Good Agricultural and Environmental Conditions

	Requirements	Standards
Areas exposed to soil erosion	Proper soil protection	♦ Minimum soil cover for the winter on sloping areas and soil cover throughout the year concerning the whole agricultural farm ♦ Production technologies ♦ Production limits ♦ Treatments ♦ Maintenance of terraces ♦ Weed level of soil
Ensuring the proper organic matter content of the soil	Maintenance and insurance of the organic matter content of the soil with applying the proper crop rotation and production technology elements	♦ Crop rotation, re-ploughing of crop residues ♦ Stubble treatments on the arable land, standards of burning ♦ Renewal regulations of permanent grasses
Soil structure	Maintenance of good soil structure with proper machine use and yield control	♦ Proper machine use (tyre pressure, tracks, type and timing of activities) ♦ Definition of maximum yield in order to avoid the damage of the soil structure
Minimum level of cultivation (treatments)	Insurance of the minimum level of cultivation and to avoid the damaging of the agricultural land	♦ Minimum animal density and/or proper conditions ♦ Protection of permanent grasses (pastures), maintenance of limiting regulations concerning the change of utilisation ♦ Maintenance of area borders and the landscape characteristics ♦ Avoid the setting of bushes on the agricultural land

Source: Chamber of Agriculture, 2003

The most important characteristic of the agricultural plot is that regarding support questions it does not belong to the owner, but to the producer, to the user of the land. Agricultural area is also identified by the so-called physical block that is a larger unit than the agricultural table.

The expression *physical block means the following*: it might include several agricultural tables that belong to several farmers, it is bordered by relatively permanent elements that are easy to detect on the surface (e.g. roads, railway, canal, dam, forest border), it is mainly cultivated the same way (e.g. arable land, grassland, plantation, forest), and it holds a separate identification number. Physical blocks were defined and created on the whole area of the country by the Institute of Geodesy and Remote Sensing, on basis of assignment from the Ministry of Agriculture and Rural Development, and the Agricultural and Rural Development Office. Blocks and the borders of the inner separate parts were registered with the application of satellite and aerial photos and on-spot data registration.

Block maps are necessary for the support applications, and these maps are part of the support form packages. Farmers are required to indicate the cultivated land on these maps. The

Agricultural and Rural Development Office is to control every support request in order to filter out the unauthorized or multiple requests.

In certain cases the single area payment scheme requires more; in some cases it expects less from the farmers. The *advantages and disadvantages* of the system are summarized in Table 4. Of course advantages and disadvantages might be different in case of the different sectors. At the present level of preparation for the accession the lack of information is a general disadvantage.

Table 4

Advantages and disadvantages of the single area payment scheme

Advantages	Disadvantages
♦ simpler payment and control ♦ independent from production ♦ support based on quotas or reference yields ♦ no obligatory set-aside ♦ smaller risk of payback	♦ the amount of support per hectare is smaller in case of cereals, oil seed, protein and fibre crops ♦ it affects the position of each sectors differently (e.g. tobacco, cattle) ♦ the complementary national direct payments could only be distributed on basis of the EU approval, it cannot be applied to other crops or animals ♦ it could be applied for 3 (+2) years

Source: Baintner F. (2003)

Hungary has elaborated five operative programs in the *National Development Plan* to support the economical and social situation of the country. Among the five programs one is entirely devoted to the support of agriculture and rural development.

The *Agricultural and Rural Development Operative Program* (ARDOP) – according to the basic support principles and practice of the European Union – is closely connected to the national strategy defined in the National Development Plan in order to assist the development process of agriculture and rural development, with paying special attention to long-term rural development programs that are connected to agricultural development. This program is a continuity of the former national agricultural support system in some cases, keeping the EU conform elements and also considers the former pre-accession programs (PHARE, SAPARD, ISPA) and development possibilities. Besides considering the national priorities the program adjusts to the objectives of the CAP, and also focuses on the Community's international obligations, primarily on the WTO negotiations and regulations concerning agriculture. The priorities set in the operative program cover the support possibilities of the Orientation section of the European Agricultural Orientation and Guarantee Fund (EAOGF) and meet the general regulations of the Structural Funds.

CONNECTION WITH THE NATIONAL PROFESSIONAL POLICIES, STRATEGIES AND DOCUMENTATION

The evaluation of the present situation described in the National Development Plan was widely used at the elaboration of the Agricultural and Rural Development Operative Program. Besides the SWOT analysis of the present situation the following elements were considered:

Act No. CXIV. (1997) on the Development of the Agricultural Sector; the Act defines the long-term objectives of agricultural production and development:

The Program of the Government and the agricultural strategy of the government,

Regulations of the Ministry of Agriculture and Rural Development concerning

the use of budgetary sources for agricultural purposes,

Regulations of the Ministry of Agriculture and Rural Development and the Government on the utilisation of the rural and regional development objective sources [104/2001. (VI. 21.); 89/2001. (VI. 15.) Government regulations; 50/2001. (VII. 20.) MARD regulation],

Government decision No. 2253/1999. (X. 7.) on the National Agro-Environmental Program and on the necessary measurements to the introduction and application of the program,

Agricultural and rural development chapters of the accession treaty.

The Hungarian agricultural support system has held several instruments – and the necessary sources – to help a more balanced regional development, to diminish the disadvantageous situation at rural areas, to modernize agricultural production and to assist the implementation of structural changes since many years.

These instruments could be divided into three groups, on basis of the budgetary act (approaching from the sources):
– agricultural supports,
– rural development objectives,
– regional development objectives.

CONCLUSIONS

The single payment scheme is a *test* for the CAP reforms.

It is important to emphasize that agricultural supports only take a part of the economical issues of agricultural production, as farmers would have to face the largest and most sensitive changes not regarding agricultural supports, but mainly concerning the transforming economical environment and the fact that they are a participant of the common market.

It is not the support system in force is the most important element; farmers should be fully aware of the operation of the system, they should understand and accept the obligations, get acquainted with the support practice as these factors together affect the whole operation of the Hungarian agriculture.

- The most important task is the use of the agricultural supports as much as possible; this might contribute to the establishment of the stable agricultural situation and provision of rural population with the suitable living circumstances.

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