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Agricultural Situation

Situation and Outlook

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Report Highlights: Slovene agriculture in the market year 1998/1999 was notable for a series of disruptions, referred to locally as crises, including a hog crisis, milk crisis, hops crisis, and wine crisis. The European Union (EU) accession process was accelerated, and an agricultural and forestry chamber was founded. Preparation was made for introduction of a government agency for agricultural markets and rural development, and preparation of national program for agriculture, food processing, forestry and fisheries.

Includes PSD changes: No
Includes Trade Matrix: No
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General Economic Outlook

In the first half of 1999, price growth continued to slow. The annual inflation rate dropped from 6.5% in December last year to 4.3% in June of this year. In the first half of the year, the average monthly increase in unregulated prices was 0.38%, compared to 0.6% in the same period last year.

Seasonal fluctuations in agricultural product prices were less pronounced this year. At the annual level, fruit and vegetable prices were on average 8.3% and 6% lower respectively. In the first half of the year, services prices, rising by 3.2%, increased more quickly than product prices, which rose by 2.4% on average. Measures implemented under the government's income policy, a fall in industrial production, and a less active government pricing policy (controlled prices only retained their relative shares in the inflation basket) were all favorable to the slowdown in inflation. Factors such as the exchange rate rising above the inflation rate, the rise in fuel prices in global markets, expectations arising from the introduction of value-added tax (reflected mainly in increased consumer spending), and a rise in consumer borrowing did not significantly affect the slowdown in inflation in the first half of the year. Their impact was more pronounced in June. However, it should be pointed out that increased short-term consumer credit usually has a delayed impact on the inflation rate.

On the other hand, the Government attempted to strengthen the credibility of tax reform and reduce its impact on prices by exercising restraint in adopting controlled prices, by advertising, and by means of market intervention (imports of fresh agricultural products in June). In the first half of the year, prices remaining under government control retained their relative shares in the inflation basket. They rose by 2.8% on average, adding 0.4 of a percentage point to the 2.7% six-month inflation rate, and 0.75 of a percentage point to the 4.3% annualized inflation rate.

At the beginning of July, the government liberalized the prices of refined sugar, and froze all controlled prices by an interventionist measure in order to prevent possible disturbances in the market caused by the introduction of the value-added tax.

Agriculture in 1998/1999

In 1998 the trend of agriculture decreasing its share of Gross Domestic Product (GDP) continued. The value of total international commodity trade in agricultural and food products remained at the same level as in 1997. Total agricultural exports rose by 2.4%, and total imports decreased by 1.4%. There was an increase in the exchange with the EU, and a decrease in agricultural trade with fellow member states of the Central European Free Trade Agreement (CEFTA).

The major political event in the agricultural sector was foundation of an agricultural and forestry chamber. The members of the chamber are all owners of agricultural land and forests, whose property is bigger than a defined limit. It is estimated that 350,000 to 400,000 owners of agricultural land and forests, the majority of them not involved in agricultural production, will become members of the new agricultural and forestry chamber.

Grain and Feed

This year production and quality of grain were lower than in previous years. This was mainly because of bad weather conditions just before and around the harvest. The weather was rainy so grain had high moisture content and wheat sprouted.

Table 1: Grain Harvest 1998 and 1999 (units x1000)

	Wheat	Barley	Rye	Corn
Area harvested 1998, ha	40	11	1.3	45
Total production 1998, mt	169	43	3.8	330
Area harvested 1999, ha	31.4	11	0.9	45.6
Total production 1999, mt	120	39	2.4	330 *

* Forecast, not harvested as of publication

Official procurements by the State Reserves were lower than last year -- 130,000 MT were purchased in 1998 versus an estimated 105,000 MT in 1999. Estimated imports for this marketing year are around 120,000 MT of wheat. The majority of imported wheat comes from Hungary, Germany, Argentina and the United States. The U.S. share is about 12%.

Feed production was similar to that of previous years. This year corn for silage as the main field fodder crop was grown on 28,500 ha with an expected average yield of 46 MT/ha. There are 298,000 ha of meadows and pastures. All produced fodder represent about 70% of fodder needs. The rest is imported from neighboring countries, mainly Croatia and Hungary.

Swine

Slovenia normally produces 700,000 hogs for slaughter, which represents 70% of total pork consumption. From this quantity 66% is produced on specialized hog farms and the rest comes from small individual farms. The rest (300,000 pigs) are imported. Most imports come from Poland.

This year hog production fell into serious crisis. Trouble first appeared at the beginning of Autumn 1998, when the import of cheap pork from the EU rose. Due to overproduction and low export prices it was possible to import pork at a price that was only 60% of domestic pork. The government introduced an import levy at the end 1998. This was abolished after intervention from Brussels in mid-January and the crisis resumed. In March pork prices again fall from SIT 225 (an average price for last few years) to SIT 160 and in some cases even to only SIT 130 per kg pork (SIT 174 = \$1.) The government decided to intervene in the market and bought 13,000 hogs for the state reserves at a price of SIT 195/kg, which represented an average of 85% of production costs. The same measure was repeated in May, when additional 10,500 hogs were bought. After that prices rose over SIT 200/kg, but it is expected that the situation will normalize only sometime after the beginning of the new year.

Dairy

The relatively favorable milk prices in recent years have resulted in a steady increase B 10% in 1999 - in Slovene milk production as it is shown in next table.

Table 2: Quantities of Milk Received by Slovenian Dairy Processors in Million Liters

Year	Quantity
1993	346.1
1994	373.8
1995	388.4
1996	383.0
1997	387.0
1998	420.1
1999	460.0*

* forecast

Average domestic consumption is 300 million liters and the rest is exported, 80% to Croatia, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia. But this year, because of the collapse of the Russian market, Far East economic crisis, and war in Yugoslavia, export to these countries decreased and Slovenia is now facing surpluses of butter, cheese and powdered milk. Average domestic consumption is 300 million liters and the rest is exported, 80% to Croatia, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia. But this year, because of the collapse of the Russian market, Far East economic crisis, and war in Yugoslavia, export to these countries decreased and Slovenia is now facing surpluses of butter, cheese and powdered milk.

The positive effect of this surplus crisis is that Slovene dairies are starting to merge. At the moment there are twelve dairies which on average process 33 million liters of milk per year each. The biggest one processes 150 millions liter. By comparison, a middle-sized European dairy processes about 400 million liters per year, which equals one year of total Slovenian milk production.

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In the process of EU accession the milk market will to face some changes. The first is going to be quality standards for milk. At the moment the basic milk variety in shops contains 3.2% fat, and EU standards prescribe 3.5%. The next change is going to be in the marketing order for milk. Slovenia will be assigned a national milk quota and the question is how to divide this quota regionally, without causing major negative impacts on production.

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Miscellaneous Agricultural Products

This year's forecasts of sugar beet production indicate that Slovenia will produce on 10,600 ha from 450,000 to

470,000 tons of sugar beet, resulting in 63,000 to 65,000 tons of white crystalline sugar. The plan for the future is to grow sugar beet on 12,000 ha, which will result in production of 85,000 tons of sugar (equal to Slovenian domestic demand for white sugar.) This quantity also represents the domestic production quota Slovenia would like to get in the EU.

Slovenia's main agricultural export commodity is hops and Slovenia's world market share is approximately 4%. The most widely known variety is Savinjski Golding. Hops are grown on 2,000 ha and average yearly production is 3,500 tons. This year's production is estimated to be around 3,000 tons and of average quality, mainly because of unfavorable weather conditions. The summer was too wet, so the content of alpha acids is lower than in previous years.

In recent years Slovenia is facing surpluses in quality wine. The stocks of wine from previous years are, at the beginning of the new harvest, about 30% higher than normal. At the moment there is a surplus of 18 millions liters of wine. Forecasts for this year are for average harvest with production of about 85 to 90 millions liters wine. The vintage is expected to be good to very good.

Agricultural Policy Reform

The government in October 1998 adopted a program of agricultural policy reform for the period 1999-2002. It is based on the reform of 1993, when the so called "eco-social model" of agricultural production was chosen.¹ This model presumes that Slovene agricultural policy should support the development of agricultural production which is oriented towards preservation of natural environment and also includes strong social components such as parity income for farmers, preservation of rural lifestyles, prevention of encroachment of forests on currently cultivated areas, and maintenance of rural employment. This agricultural policy will seek to support the producers so as to make their employment as agricultural producers more secure.

Analysis showed that those goals were not likely to be achieved with the existing agricultural policy, which was too heavily based on a market-price subsidy scheme. Additional incentives for reform were provided by the framework of the CEFTA market liberalization which started in 1998, the need for restructuring the Slovenian food processing industry, and the incompatibility of existing agricultural policy mechanisms with EU standards. In a nutshell, policy reform was mandated by growing recognition that Slovenian agriculture will face severe disadvantages compared to mainstream EU agricultural producers (such as France) when Slovenia accedes to the EU.

In August 1999 the agriculture ministry presented an operational plan for the implementation of agricultural policy

¹ The eco-social model of agriculture was postulated by the Eco-Social Forum in Austria, which is headed by Josef Riegler, former agriculture minister and foreign minister of Austria and mentor of EU Agriculture Commissioner Franz Fischler. It forms the basis for the European Union's policy of "multifunctional" agriculture, which calls for compensation to be paid to farmers for services they provide to society (e.g., environmental protection, social harmony, scenic landscapes, and so on) which are not captured in prices paid by the free market for commodities the farmers produce. It is viewed in some quarters as a policy of mandating transfer payments to rural dwellers from other taxpayers in order to keep them on the land and engaged in agriculture, even if agriculture is otherwise not a profitable venture.

reform. Some people called it the Slovene Agenda 2000.² For the implementation of this operational plan the required budget for the next year would be SIT 56 billion (approximately \$322 million) and in each successive year it should be increased by SIT 10 billion (approximately \$57.5 million). The main goal of this plan is to make Slovene agricultural policy substantially and organizationally comparable to the EU Common Agricultural Policy.

The action plan foresees a gradual decrease of prices of all agricultural products, and the release of administrative guided markets for certain agricultural products. Compensation for the resultant income deficit will be made through area payments.

Special concern will also be given to environmental friendly and sustainable agriculture. Less favorable areas will also get some special payments for keeping their areas populated and cultivated.

The principal directions of the reform are expressed as:

- Higher goal oriented and balanced agricultural policy,
- Strategically managed income policy,
- Shift from a market-price to a structural policy,
- Introduction of programs for structural aid and a new role for rural areas, and
- Redirection towards support of environmental friendly agriculture.

The new agricultural policy reform is based on four pillars:

- S 1. Market-price policy,
- S 2. SPELAA - Slovene Program for Environmental and Landscape Assistance for Agriculture B Direct Payments,
- S 3. Program of restructuring agriculture and food processing industry
- S 4. Rural Development Program

Market-Price Policy

Reform in this field foresees the liberalization of external trade protection along with preservation of a parity income level for farmers. The role of the market-price policy will slowly decline, although over the next five years it will still be an important part of Slovenian agricultural policy. Slovenia will progressively open its agricultural markets in response to international obligations (WTO, CEFTA, EU Association Agreement, and other bilateral free trade agreements).

The measures in this pillar are:

- S Omission of state monopoly in the bread-making grain market,
- S Restoration of intervention mechanisms on internal market (intervention buying-in and storage of stocks),
- S Introduction of a market order for sugar based on the EU model,
- S Progressive (only partial) liberalization of the market for milk and dairy products,
- S Reconciliation of income policy with foreign trade protection (import duties),
- S Export subsidization of products where Slovenia faces surpluses and the domestic price level is higher than

² Agenda 2000 is the popular name for the European Union's reform plan of the Common Agricultural Policy, adopted this year.

world market prices, and
S Preliminary compensatory payments where the system of foreign trade protection and second pillar can not guarantee attainment of support objectives.

SPELAA - Direct Payments

This pillar represents the most radical change in Slovene agricultural policy. Until now Slovenian agricultural policy officials were not familiar with the system of area payments. This pillar foresees four levels of measures called ECO 0, ECO 1, ECO 2 and ECO 3. These measures are called ECO to stress their market impartiality and redirection of agricultural policy towards natural, environmentally friendly farming. The individual payments have different functions and aims. It will be possible for farmers to combine these payments cumulatively.

ECO 0 - Income Leveling, Settlement

ECO 0 measure foresees direct payments per hectare in varying amounts according to land use (fields, grassland, permanent plantations) in accordance with minimal environmental protection criteria. These direct payments are supposed to be introduced as income leveling mechanisms in connection with price liberalization. They are also meant to be understood as general support to preserve the existing level of settlement of the countryside (i.e., prevention of rural flight) and preservation of the cultivated landscape.³

ECO 1 - Less Favorable Areas

ECO 1 is intended for farmers who are farming in “less favorable areas,” i.e., areas with inferior soil types, steep slopes, or other disadvantageous conditions. These measures are harmonized with EU policy. The basic intention is the leveling of costs because of difficult conditions for production and through this also contributing to the preservation of the existing level of settlement of the countryside and of the cultivated landscape.

ECO 2 - Preservation of Cultural Countryside

ECO 2 is a special program for sustenance and preservation of the cultural countryside. Local communities with typical landscape types (mountain pastures, hillside vineyards) will prepare special programs for supporting the continued existence of these landscape types. Special attention will be paid also to areas with drinking water watersheds, and for national and regional natural parks. All these programs will be certified by the Ministry of Agriculture, Forests and Food. Special attention will be given to the program for prevention of forest overgrowth. All these programs also qualify for SAPARD accession support from the EU.

ECO 3 - Environmentally Friendly Agricultural Production

ECO 3 measures support environmentally friendly agricultural production. They include organic farmers, sustainable agriculture, and preservation of endangered animal breeds. These farmers are entitled to subsidies per hectare or in

³ Landscape preservation is a critical part of multifunctionality and is linked to support of agricultural tourism as an income-generating activity for rural dwellers.

exceptional cases per head of animal. These programs can also qualify for SAPARD accession support from the EU.

Program of Restructuring Agriculture and Food Processing Industry

In the period of preparing Slovenian agriculture for joining the EU not only primary production need to be restructured, but also the existing food processing industry.

The existing small-scale farm structure hinders the formation of efficient farms. Farmers are also too little market-oriented with their production. In this framework the state intends to support:

- the restructuring of agricultural production and processing,
- increase of efficiency and competitiveness of the farms,
- the increase in land tenure and land size structure,
- development of additional activities on the farms,
- the handing over of farms to young successors, and
- development of effective forms of cooperation in the fields of production and marketing.

The programs developed to achieve these goals are:

- S** Program for farm restructuring: investment aids, assistance to young farmers, aid for developing additional on-farm activities,
- S** Land operations: (land consolidation, pasture maintenance and improvement, and irrigation) the main goal is to stress the environmental protection side of the measures, and to increase the economic efficiency of the farms. The main concern will be land consolidation.
- S** Program for market organization of the farmers: (producer organizations, cooperatives, and joint market activities).
- S** Program of modernization and adjustment of the food processing industry: this project is foreseen to help the food processing industry to modernize, merge, increase the level of environmental protection, harmonize standards with EU norms, joint market entry and promotion. These programs qualify for SAPARD support.

Rural Development

Already in the mid-1980's Slovenia started with projects of rural development and village renewal. In this reform it is foreseen that these programs will be remade into more EU-comparable forms of integral regional development. Conceptually, they will be based on structural funds. It is expected that some of these programs will be candidates for co-financing from the EU starting in 2000.

The following programs are foreseen in this pillar:

Program of village renewal: Esthetic appearance of the village, organization of local initiatives, local small scale business projects

Regional program: projects of broader territorial dimension, where the agricultural product and food processing are of primary interest. Those projects can be co-financed by the EU in the framework of the ISPA (preaccession structural

aid) program.

At the presentation of this reform in the middle of August 1999, the authors (Ministry of Agriculture, Forest and Food) planned to start with it in 1999. They planned to liberalize prices for grain and sugar beets and for prices of other products to draw near EU prices. They also want to start with ECO 0 payments for arable land hop yards, vineyards, and fruit orchards. In the framework of ECO 1 they intended to switch from the present program of support to area payments. The plan was also to start with a pilot project of direct payments for ECO 2 and ECO 3 payments.

From the programs of the third pillar, aid for investments and young farmers, started as structural measures in 1998, was planned as an additional financial means for rural development.

For all these measures and other expenses of the Ministry a budget of SIT 58 billion was foreseen, but in the budget debate the Ministry came out with only 31 Billion, which has postponed the start of the reform until 2000. The program is now going to be realized in two steps. The programs and projects where EU co-financing is foreseen (SAPARD program) will have first priority. The other programs will have to wait.

The reform was well accepted by the EU but the time lag was criticized. The EU has especially criticized Slovenia for not having assured the financial means for the rural development programs for the next five years, which is a condition to start use of the SAPARD program aid in the year 2000.

The future of the food processing industry is also dependent on the success of reform. This industry characteristically purchases raw material inputs mainly on the domestic market, it is technologically well developed, and it produces a wide range of products. This branch of industry follows the world trends closely and currently is directed toward production of environmentally friendly, consumer-oriented, and health-food production. Production is directed mainly to the domestic market, with only 10% of it exported. Globally it is the most protected branch of industry, which means it will face difficulties from EU competition as accession gets underway. On average, production costs are 30% higher than in the EU.

After joining the EU economic conditions for the food processing industry will change dramatically, and the only good strategy to prepare is to start linking and merging together to reduce production and transaction costs.

CEFTA

As of April 1, 1998 Protocol 6 of the Central European Free Trade Agreement went into effect, liberalizing trade in agricultural products. The Slovenian government prepared for this with some intervention measures for the products where the greatest impact was expected: wheat, corn, milk and meat. The government introduced strict quality control at import and intervention procurement. These measures were later also implemented, when the government started to procure pigs which farmers were not able to sell to slaughterhouses.

The protocol sets only 15% custom duty for wheat without any other taxes. This has resulted in significantly increased imports of wheat, so that Slovenia set a regular custom duty of 5.3 % and an additional levy of 17.20 SIT per kilo of wheat, which stopped imports from CEFTA member countries. Other CEFTA countries have also realized that they are not prepared for a such level of liberalization, and at a meeting in Prague the members stopped liberalization based on a proposal from Poland.

Table 3: Trade Balance Between Slovenia and CEFTA Countries

	1997			1998			1999 (Jan. – Apr.)		
	import	export	balance	import	export	balance	import	export	balance
CEFTA	705.1	504.1	-201	725.4	588.2	-137.2	264.6	194	-70.6
Czech Republic	233.9	147.4	-86.5	264.1	149.8	-114.3	91	51.2	-39.8
Slovakia	103.3	56.4	-46.9	90.2	73.1	-17.1	27.8	20.2	-7.6
Hungary	292.9	120.5	172.4	244.1	141.4	-102.7	75.3	42.2	-33.1
Poland	58.3	155.5	97.2	78.4	181.1	102.7	34.5	62.5	28.0
Romania	16.5	24.4	7.9	48.7	42.8	-6.7	17.5	10.8	-6.7
Bulgaria	14.9	12.6	-2.3	50.6	19.3	-31.3	18.5	7.1	-11.4

EU Accession

In the field of agriculture Slovenia has completed the screenings.

The following preaccession tasks were defined in the new agricultural policy reform:

- S Harmonization of legislation (translations, expert foundations for new laws).
- S Expert studies for adaptation process support.
- S Agricultural information system.
- S Qualifying of existing and creation of new institutions.
- S Qualifying of Agricultural Advisory Service.
- S Quality policy and qualifying of laboratories.

The absences of functioning market orders and of an agricultural intervention agency were assessed as major issues and the resolution of them was set as a top priority. The Slovene side promised to solve these problems by June 2000, when the Bill on Agriculture is scheduled to be adopted by Parliament. This bill should create the legal grounds for the functioning of an agricultural intervention agency. This agency is supposed to be established from a portion of the present Agency for Commodity Reserves and be under supervision of the Ministry of Agriculture, Forests and Food.

Slovenia has decided to establish only one agency for agricultural markets, which will also handle all 21 market orders, and will also be responsible for managing the import-export regime, marketing information system and be the paying agency for grain subsidies.

Veterinary medicine and plant protection are considered as principal subjects of reform. Here the EU expects the candidate countries to adopt fully as soon as possible their legislation. In this field Slovenia was often criticized for slow adoption of needed legislation. The EU expects the Slovenian government to introduce EU-harmonized standards for health protection of consumers, plants, and animals and simplified internal and external trade with products of plant and animal origin. Slovenia has to introduce new systems for prevention, control and suppression of diseases, as well as for registration, circulation, use and control of plants, animals, and disease control agents.

In the field of rural development and structural funds Slovenia proposed the existing organization of rural development and village renewal programs. It was believed that these programs could qualify for EU aid when prepared according to EU norms. This approach was criticized due to the fact that Slovenia hasn't started to secure the needed financial means for such programs and so to prepare to apply for SAPARD co-financing in 2000.

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In general Slovenia does not intend to seek transition periods for the agricultural issues with the exception of cadastral reform, because the Slovenia wants to become the part of the EU internal market as soon as possible. It will thus try to adopt all EU regulations before joining.