

EU accession effects and challenges for agriculture and agricultural policy in Slovenia

Die EU-Beitritts effekte und die Herausforderungen für Agrarsektor und Agrarpolitik Sloweniens

Emil ERJAVEC

Zusammenfassung

Die Transformation der slowenischen Landwirtschaft und die Beitritts effekte zur EU werden erörtert. Der Agrarsektor Sloweniens ist durch ungünstige natürliche und strukturelle Bedingungen geprägt, was seinen Status eines Nettoimporteurs von Nahrungsmitteln und relativ protektionistisch orientierte Agrarpolitik erklären könnte. Das Stützungsniveau der Landwirtschaft ist vergleichbar mit EU-15 und die Politik wurde graduell an die Gemeinsame Agrarpolitik angeglichen. In den Beitrittsverhandlungen Sloweniens wurde eine Vereinbarung über den gleichen Umfang der Direktzahlungen, der auch für EU-15-Landwirte gilt, getroffen. Diese sind aber überwiegend vom nationalen Haushalt zu bezahlen. Erwartungsgemäß soll sich die Wirtschaftslage der slowenischen Landwirtschaft nach dem Beitritt nicht signifikant verschlechtern. Allerdings wird der Beitritt die Frage der relativen niedrigen Konkurrenzfähigkeit verschärfen.

Schlagerworte: Agrarpolitik, EU Erweiterung, Slowenien

Summary

The transition in Slovenian agriculture and effects of Slovenia's accession to the EU are discussed. Agriculture in Slovenia is characterised by less-favourable natural and structural conditions, which explains its status of a net importer of food and relatively protectionist agricultural policy. The level of supports to agriculture is comparable with those in the EU and the policy was gradually brought into line with CAP. In its accession negotiations, the same level of direct payments as received by farmers in the EU was agreed; they will be largely covered from the

national budget. The economic position of Slovenian farmers after accession is not expected to change markedly. However, accession will aggravate the problem of relatively poor competitiveness.

Keywords: Agricultural policy, EU enlargement, Slovenia

1. Introduction

Agriculture and integration into the Common Agricultural Policy (CAP) is a sensitive issue also from the actual enlargement of the European Union. In particular accession negotiations on quotas and direct payments attracted an attention of domestic and international public. It was the decision concerning the level of direct payments for new Member States together with the agreement on the CAP budget for the period up to 2013 that eventually permitted the conclusion of accession negotiations in 2002.

As concluded previously by various authors (ERJAVEC et al., 1998; MÜNCH, 2000, VOLK, 2004), Slovenia is in a specific position compared to other new EU member states. Producer prices in Slovenia were comparable with the prices in the EU, and because of unfavourable natural and structural conditions, Slovenia is a net importer of food with only a small potential for any marked rise in production.

With Slovenia's accession to the EU, a more than 10-year transition of agriculture aimed at meeting the requirements of the market economy is finished. As Slovenia is - because of its history and the relative small size - a less known new member of the EU, the purpose of this paper is to present it to the readers and analyse its path through transition, as well as its prospects after accession.

This article presents first an outline of the characteristics of agricultural policy. The new measures were formed gradually and largely strived to transpose the measures of Common Agricultural Policy. The effects of this policy were seen in an increased protection of agricultural producers and preservation of the income levels in agriculture. Furthermore, the article describes the process and outcomes of Slovenia's negotiations in the area of agriculture. The accession to the European Union means a real challenge for the future development of Slovenian agriculture. The paper will thus be rounded off by a list of possible consequences of this accession.

2. Agriculture and agricultural policy in Slovenia

2.1 Agricultural Situation and Trends

Agriculture is of limited importance for Slovenian economy and its relative weight is decreasing. It only contributes less than 3 % to the gross domestic product and around 6 % of the employed persons work in agriculture. Slovenian agriculture is characterised by unfavourable natural and structural conditions, which also explains its status of a net importer of food and a relatively protectionist agricultural policy (VOLK, 2004).

Unlike in most other Central and Eastern European Countries, in Slovenia all the attempts of "collectivisation" of the agricultural sector failed, so that Slovenia succeeded in preserving the traditional structure of family farming. In the socialist period, more than 99 % of agricultural holdings remained privately owned and agriculture played an important role in the continuity of private ownership and some basic market institutions in Slovenia.

The consequences of transition in agriculture were much less severe in Slovenia than in other Central and Eastern European countries. Slovenia bore much of the burden of the adjustment in the first years of independence. A drop in production in this period resulted partly from the loss of markets of the former Yugoslavia and the changes of the agricultural policy and to a large extent also from unfavourable weather conditions (severe drought in the early nineties). Apart from a considerable increase in production in 1994 (mostly as a result of favourable weather conditions), the volume of total agricultural production does not reveal any marked upward trends (see figure 1). The volume of livestock production has been slightly increasing whilst the level of crop production has been fluctuating, mostly under the influence of natural conditions. Unfavourable weather conditions (drought, stormy weather) have been quite detrimental to agriculture in Slovenia in the last decade.

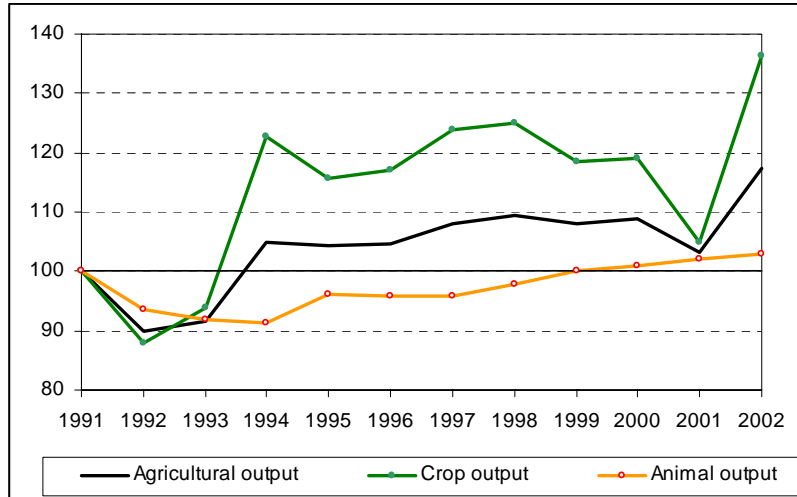


Figure 1: Gross agricultural production in Slovenia (1991=100)

Source: VOLK, 2004

Although privately-owned agricultural holdings were preserved also throughout the post-war socialist system - generally not very benevolent towards private farming - Slovenia today has a very unfavourable size structure of farming. Around two-thirds of farms are situated in less-favoured areas. The production potential of traditional family farms is low, in particular because of the lack of land and capital. The intensity of production is on average below the EU average. An important proportion of agricultural products is either consumed on the farms or sold to consumers directly on farms. The age and education structure of agricultural householders is also unfavourable. Almost a half of labour force on farms is in their late active period or even older (above 55 of age).

2.2 Policy concepts

Before Slovenia's independence, agricultural policy was largely in the domain of the federal Yugoslav government. Slovenian government and the governments of other republics only had powers in the structural policy. The primary objective of the Yugoslav agricultural policy was food security. The federal government administratively set guar-

anteed) the prices of numerous agricultural products. In addition, producers benefited from supports in the form of input subsidies, and grants for investments. Another important policy measure was favourable loans at very low or even negative real interest rates. Foreign trade was largely controlled and was in the hands of regional agro-food enterprises and republics' commodity reserves agencies. Most budgetary supports went to "socially"-owned holdings.

In the first years after the break with former political and economic system in 1990, Slovenia preserved a large part of the measures from the pre-transition period. New policy guidelines were set with the Strategy of Agricultural Development of Slovenia (MAFF, 1993), which set forth the following basic agricultural policy goals: (i) stable production of cheap and quality food and food security in Slovenia; (ii) preservation of population density, cultural landscapes and agricultural land (preservation of production potential in case of interrupted supply), protection of agricultural land and water from pollution and misuse; (iii) permanent increase of competitiveness; (iv) guaranteed parity income for above-average producers. Agricultural policy thus became fully concentrated on family farms. All the restrictions regarding private ownership and the use of land were lifted.

Due to the high production costs and farmers protest, border protection based on import levies became the most important measure in the first period after the adoption of the Strategy. In addition, in the first period of transition, Slovenia preserved the administered prices for some basic agro-food products, state monopoly in the wheat and sugar trade and subsidised the costs in agriculture.

Slovenia's membership of the World Trade Organisation (1994) and the ensuing trade commitments, as well as numerous bilateral free trade agreements concluded in the years that followed, altogether led to opening of agricultural products market and limited the border protection. This in turn also called for a changed agricultural policy. Another important reason behind the required changes of the agricultural policy was the beginning of the process of Slovenia's accession to the European Union, which dictated a gradual transposition of the *acquis* and adaptation of Slovenia's agricultural policy to the Common Agricultural Policy. The processes which later on led to adoption of the main guidelines of the agricultural policy reform (liberalisation of prices, increasing of the agricultural budget) have been under way

since the mid-nineties. These new agricultural policy guidelines were formalised in the Programme of Agricultural Policy Reform (MAFF, 1998) and the National Development Programme for Agriculture, Food, Forestry and Fisheries for the period 2000-2002 (MAFF, 1999) issued thereof.

The general strategic goals of the agricultural policy have not changed because of the reform. The highlights remained the same: "eco-social orientation" of the agricultural policy, taking into account "multi-functional role" of agriculture, principles of sustainable development and protection of the environment. The novelty was in the operative goals, the form and the substance of individual agricultural policy measures. The reform has switched the burden of agricultural support from a consumer to a taxpayer, which means also a changeover from market-price support policy to the policy of budgetary support (direct payments, compensatory allowances, development support). Although the first major steps towards the realisation of the agricultural policy reform were made in 1999, the reform was not officially launched before 2000.

2.3 Agricultural policy measures

Changes in the agricultural policy and different conditions on the market called for a significant rise in the budgetary expenditures for the agricultural policy in the post-independence period (figure 2). The highest increase was recorded after the reform in the late nineties. In the structure of the budget, expenditures for the market-price policy measures prevail, followed by the expenditures for agricultural structural and rural development policies, and the expenditures for general services for agriculture, which also take an important share of the budget.

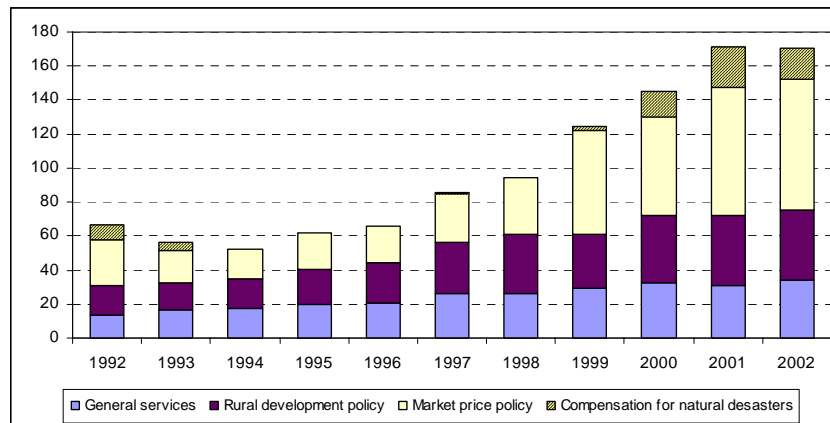


Figure 2: Budgetary expenditures for agriculture in the period 1992-2002 (in EUR million)

Source: VOLK, 2004

Border protection remained one of the most important indirect market-price policy measures. Additionally to the ad valorem tariffs at relatively low level also specific import levies, particularly high for the most sensitive agricultural products, for instance powdered milk, beef, live animals, cattle and sugar, were introduced. Fodder cereals and some important raw materials for domestic processing industry (raw sugar, oil seeds) were exempt from special import levies. Another important indirect measure with the aim of protecting producers were "export promotion" subsidies to food processors, whose purpose was largely to reduce the surpluses on the domestic market. The intervention buying-in and other forms of domestic market interventions were only rarely used.

Administrative setting of prices was one of the most important market-price policy measures used practically until the end of the nineties. It was present in three important food-processing chains: milling, milk and sugar. In the first years after independence subsidising of input costs for agriculture (fuel subsidy, seeds subsidy, breeding animals subsidy, interest rate subsidy for current production) became another important form of direct income support. Gradually, the policy of re-

stricting these measures and reorienting to direct payments prevailed. In 1995, head age payments were introduced in livestock production, in 1998 payments per ha for sugar beet and hops, in 1999 and 2000 also payments per ha for crop production (harmonised with CAP).

Up to 2000, the budgetary expenditures for the market-price policy measures rose mostly on account of expenditures for market regulations measures, especially export promotion subsidies, with the aim of alleviating the effects of unfavourable price movements (figure 3). At the same time, direct payments were progressively increased and various forms of subsidising the use of inputs were decreasing. Thus, the structure of the agricultural budget in its market-price part increasingly resembled the structure of the EU budget. After 2002, direct payments became very comparable - in terms of the level and form of payment - with the CAP direct payments.

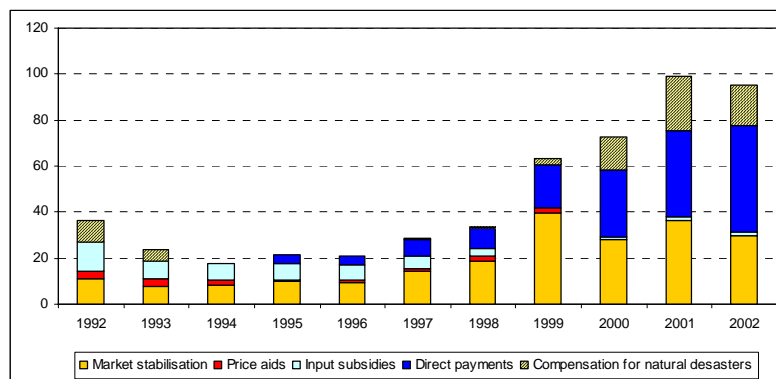


Figure 3: Budgetary expenditures for market-price policy measures in the period 1992-2002 (in EUR million)

Source: VOLK, 2004

The structural problems, mentioned in the chapter 2.1 lead to the governmental decisions that a wide range of measures has been taken within the scope of the agricultural structural and rural development policy. Compensatory allowances for less-favoured areas, similarly defined as under CAP, are the most important of them. CAP comparable agricultural environmental payments have been introduced gradu-

ally and are intended mainly for protection of cultural landscape, for alleviating the negative effects of agriculture on the environment (fertilisers, pesticides) and for preservation of bio-diversity. Marked changes in this area took place in 2001 with the adoption of the Slovenian Agricultural Environmental Programme.

Investment supports had either the form of subsidies for long-term loans' interest rates (subsidised interest rate) or grants. There were four main investment programmes underway: (i) land improvement programme (irrigation, etc.); (ii) programme of investments on agricultural holdings; (iii) a special programme of consolidation of agricultural holdings; (iv) a programme of replanting of permanent crops (vineyards, orchards). The support goes also to the programmes of integrated rural development with a special emphasis on diversification of activities in rural areas, development of infrastructure and village renovation.

In the transitional period, the changes in the level and structure of budgetary expenditures earmarked for agricultural structural policy have been much smaller than those under the market-price policy. There was no marked rise in these expenditures up to 2000 (VOLK, 2004).

2.4 Effects of agricultural policy measures

Despite the opening of agro-food markets and lowering of border protection, the market regulations measures, allows the prices of agricultural products in Slovenia to be preserved at relatively high level in comparison with the world prices (see figure 3). High market-price support (MPS - a difference between prices on the domestic market and reference world prices, OECD, 2002) is the main reason behind considerably higher supports to agricultural produces (PSE) in Slovenia than on average in the OECD members and even higher than in the European Union. The level of producer support in Slovenia exceeds the levels of support in all other Central and Eastern European countries for which OECD provides similar estimates (OECD, 2001, and OECD 2002).

At the beginning of the nineties, the level of support in Slovenia was considerably lower than that in the European Union (OECD, 2001), however, the process of lowering the supports in the EU and increasing the supports in Slovenia brought the two levels together and after 1997 the supports in Slovenia exceeded that in the European Union. The dif-

ferences between Slovenia and the European Union widened not only because of more pronounced falls of prices in the European Union but also as a result of increasing budgetary supports in Slovenia.

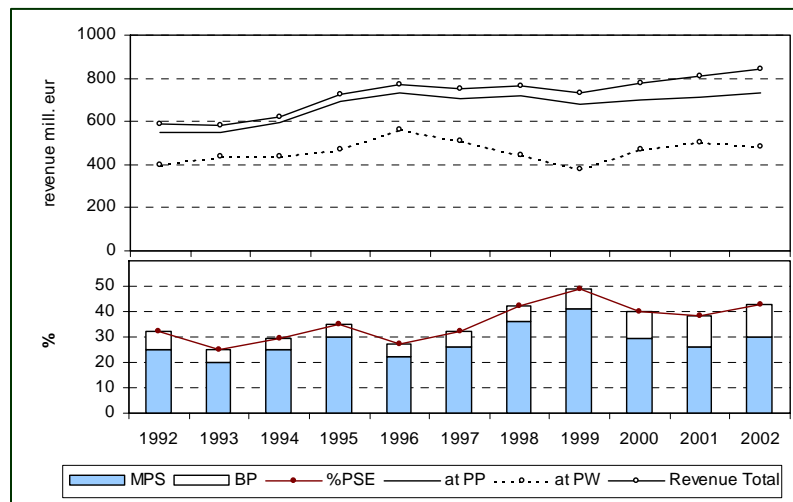


Figure 4: Changes in percentage PSE, market-price support (MPS), budgetary support (BP), revenues at producer prices (PP), at reference world prices (PW) and total revenues of agricultural products

Source: VOLK, 2004

The support is rather unevenly distributed across individual products. The level of support is the highest in sugar, beef, sheep and goats, followed by wheat and milk. On the other hand, maize and poultry sectors receive the least support (VOLK, 2004).

3. The accession negotiations and effects

3.1 Accession negotiations in the field of agriculture

The accession negotiations on agriculture started in September 1998 with the screening of the *acquis* for the first group of candidate countries (the Luxembourg group) in Brussels and concluded with the final agreement between Member States and the candidate countries on 13

December 2002 in Copenhagen. The first EU's negotiating proposal which came out in early 2002 (EUROPEAN COMMISSION, 2002a) was rather unfavourable for Slovenia in all three agricultural package areas: direct payments, quotas and reference quantities as well as in the rural development area. The net payers required that candidate countries received no direct payments, which constitute the largest share of the CAP funds. Besides, the quotas and reference quantities, by using the reference period 1995 – 1999, were lower than aspired for by the candidates. The final outcome of negotiations for Slovenia in the area of agriculture (TREATY..., 2003) can, nevertheless, be assessed as favourable (see table 1).

Table 1: Foreseen CAP payments for Slovenia (in EUR million, at current prices)

	2004	2005	2006	Total
Market interventions	16	39	41	96
Direct payments	0	36	42	78
Rural development	30	63	93	186
Total	46	138	176	360

Source: European Commission (2004), own calculations

In the area of direct payments it has been agreed that the level of direct payments rise gradually from 25% in 2004 to 100% in 2013. Although its prices, protection and budgetary measures were comparable with those in the Member States, Slovenia decided to look for additional possibilities to preserve the economic position of its farmers after accession. Early in negotiations it proposed to complement (top up) direct payments from the national budget. Eventually, the Commission offered this possibility to all candidate countries, however, the level of these "top-up" payments was intensively negotiated. Underpinned by the results of a study (KAVČIČ et al. 2002) showing that the economic position of Slovenian agriculture would deteriorate considerably in the event of lower level of top-up payments, a compromise solution was reached. Slovenia may start topping up payments as from the level of payments reached in 2003, which stood at 75 % of the level applied in the present Member States. In 2004 Slovenia may raise this level by 10 % and in the following three years by another 5 % each year. Thus in 2007 a 100% level of direct payments can be reached. Compared to

other candidate countries, Slovenia was granted the highest level of possible complementing of direct payments. This is no doubt a favourable negotiating outcome for Slovenian agriculture, however it goes at the expense of the national agricultural budget which will have to further increase as from accession and remain high up to 2007, and only then it will start gradually decreasing. This additional burden on the national budget may be justified by the fact that it is only a temporary measure and will assure to Slovenian farmers equal competitive position on the common market.

Expectations about quotas and reference quantities (the amount of funds for individual direct payments) were very high and attracted a lot of publicity in Slovenia. Thanks to carefully conducted technical part of negotiations, final levels are in no case lower than the actual production level at that time and some additional development reserves have also been constituted (ERJAVEC et al, 2003). The finally agreed levels are important in view of the fact that they serve as a basis for calculation of the CAP reform total value of decoupled area payments.

The negotiating outcome in the area of rural development funds for the period 2004-2006 can be assessed as relatively favourable. Slovenia is entitled to funds amounting to around EUR 249.8 billion (at 1999 prices, paid out over a longer period of time), which is comparable with total funds earmarked for structural and regional policy for Slovenia and it represents the largest share in the distribution of funds from the EU budget to Slovenia (Erjavec et al, 2003). Whilst other candidate countries focused their negotiating efforts on direct payments, Slovenian negotiators succeeded in convincing the EU side that Slovenia's primary interest is encouraging sustainable development of agriculture and that it intended to overcome its development problems in this area by means of rural development funds. This is a more modern form of protectionism which uses those income and development supports to agriculture which are socially more acceptable and can also improve Slovenia's position in the negotiations on the next financial perspective.

The agreed rural development funds will, however, only to a lesser extent contribute to solving of structural disparities of Slovenian agriculture. They are tied exclusively to the supports for the less-favoured areas and various forms of environmental supports. The classical agri-

cultural structural measures of development nature, such as investment supports, will only be limited under the regional structural policy.

After the accession, the agriculture-oriented budgetary funds in Slovenia will probably more than double and thus exceed the average level per inhabitant in the EU (ERJAVEC, 2004, table 2). Nevertheless, the average budgetary inflows per agricultural holding will be significantly lower than in most present and future Member States. Slovenian farms are small in size, and this will crucially affect the competitiveness and economic position of Slovenian agriculture also in the future. Despite higher budgetary inflows, Slovenian agriculture will not be much more competitive.

Table 2: Agricultural supports (market-price and direct supports to agriculture - Guarantee Section of EAGGF for 2001)

	€ inhabitant	€/ha UAA	€/agricultural holding
Austria	126	299	4.850
France	153	299	13.248
Portugal	65	166	1.567
EU-15	108	297	5.792
Slovenia (2001)	60	236	1.388
Slovenia (2006)	121	453	2.777

Source: ERJAVEC, 2004

3.2 Expected impacts of accession negotiations

Despite considerable changes and a high level of comparability of Slovenian agricultural policy with CAP, Slovenian agriculture and agricultural policy takers will have to further adapt because of CAP. Becoming part of the common market means abolishing import levies in trade with present and future Member States. Competitive pressures on the domestic market will strengthen and by rising import protection and lowering export subsidies, the export conditions will deteriorate, in particular on the South Eastern European markets (ERJAVEC et al, 2003). The retail prices of food products will in most cases drop, for some products overnight and for some step by step, which means that

also prices of food-processing industry and agricultural products will go down.

Various analyses of economic effects based on the Economic Account for Agriculture (REDNAK et al., 2003), partial equilibrium sector model (KAVČIČ et al., 2003) and general equilibrium model (KUHAR et al., 2003) indicate that higher budgetary inflows will no doubt significantly affect the income position in agriculture and food-processing industry. The economic position of agriculture in Slovenia is not expected to deteriorate on the aggregate level because of accession if topping up of direct payments is assured to the agreed upon level, if farmers are capable of efficiently drawing the rural development funds and if the situation on the world market is not worse than expected (EUROPEAN COMMISSION, 2002b). Quite realistically, even a slight increase in incomes can be expected. Budgetary inflows will compensate for the loss in income resulting from the foreseen drop in prices and will on the aggregate level contribute around a half of the generated income from agriculture (REDNAK, 2003). Considerable improvement may be expected in the activities which have so far been in a worse position (beef, fodder cereals, sugar beet) and deterioration in the activities exposed to fiercer competition and those without direct supports (pig and poultry production). The production chains which have so far been the most protected and isolated from market pressures (milk and wine production) will face the greatest problems after accession.

In general, food-processing industries should be worse off compared to agriculture according to model forecasts (KUHAR et al., 2003). Most food-processing activities will find it impossible to retain their market shares on the domestic market and the conditions on the markets of former Yugoslavia will deteriorate. Moreover, most Slovenian food-processing enterprises and activities are not yet capable of penetrating the saturated markets of the EU Member States. The most problematic will be the activities which enjoy high import protection and export supports, such as milk and wine processing industries, partly also non-alcoholic and other beverages production, as well as food and vegetable processing. Trade conditions will, however, be crucial for the actual impacts of accession.

However, it is in fact rather difficult to forecast the actual effects of accession. In particular, it is difficult to predict the level of prices. The average producer price in the EU has only statistical importance, as

there are considerable differences between the EU regions resulting from the differences in the quality of products and different regional market characteristics. Also, the average level of supports depends on the absorption capacity of a member which, at least in the first years after accession, is expected to be lower in Slovenia than on average in the present Member States. Regardless of all these considerations, the results of several studies allow us to make above mentioned rough conclusions about the foreseen effects of accession.

4. Conclusions and outlook

By its accession to the European Union, Slovenia will have concluded more than a decade of social transition in agriculture, for which membership often meant a formal ultimate goal and the transposition of CAP elements the essence of the national agricultural policy. Slovenia had to drastically change its agricultural legislation, reform its policy and establish the institutions capable of functioning in line with the requirements of CAP. The conditions for Slovenian agro-food sector will change considerably after the accession. Less-competitive agriculture and food-processing industry will be confronted with more efficient structures and more organised market. On the outside, the market will remain protected, but the borders of the internal market will expand. Many former external competitors will emerge (under equal conditions, with no limitations) on the domestic market. But the borders will open also for Slovenian goods. The volume of trade will no doubt increase as well as diversity of supply; however, the pressure on levelling the prices will be high. Agricultural market will transform over night from an excessive demand market to an excessive supply market. Changed market conditions and a different agricultural policy will also dictate technological development and the socio-economic structure of agriculture as well as the economic conditions of the whole agro-food chain.

Agricultural policy will no doubt become less trade distorting and because of a higher share of funds for rural development also relatively reform-oriented. More predictable and stable conditions for development will be established. On the other hand, the government has taken up administratively very demanding and expensive system of pursuing the agricultural policy. By accession to CAP, Slovenia will also

transpose all its weaknesses, such as uneconomical use of budgetary funds and overly narrow orientation of supports to certain productions and types of producers. The development of agriculture will be restricted through quotas and impulses coming more from support levels than the market. The hierarchy of supports will change. Mostly the agro-food chains which today still enjoy the benefits of a relatively protected market will suffer.

A favourable negotiation outcome could be seriously threatened by inefficiently utilised programmes and funds. This holds in particular for rural development measures. If the funds remain unused, Slovenia will find it hard to require the same level of funds in the negotiations on the next EU budget after 2007. The volume of EU funds for rural development policy will depend not only on the available total level of funds but also on the awareness of an individual country that this policy contributes to solving development problems in rural areas. In the future the funds for rural development may serve as a means allowing economically more developed countries with less-intensive and export-oriented agro-food sector to balance their net budgetary positions.

The inflows from Brussels and preserving the income position of Slovenian agriculture cannot be the only explanations of high public finance expenditures for agriculture. Upon accession, the role of agriculture will have to be redefined and justify these high supports. They cannot serve only its own purposes, but have to provide benefits for all in the sense of safe food, preserving the environment and cultural landscape. And it is in this direction that the direct payments scheme should be chosen under the new CAP, as it will largely determine the economic conditions of agro-food sector in the coming decade.

The great debates about supports, which in the end all have a very simple goal, i.e. to improve the income position of farmers, should not neglect the fact that agriculture is in the first place an economic activity. And the degree of competitiveness of the whole agro-food sector will eventually decide whether the accession was a success or a failure. Increased supports may only be a correction factor or an orientation of something that was actually determined by the market and the ability of farmers and industry to compete on this market. And this is what Slovenian agriculture still lacks.

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Affiliation

*Ao.Prof.Dr.Emil Erjavec
Chair for Agricultural Economics, Policy and Law
Biotechnical faculty, University in Ljubljana, Slovenia
Groblje 3, 1230 Domžale, Slovenia
Tel.: +386 1 7217 852
eMail:emil.erjavec@bfro.uni-lj.si*