

**National Rural Development Plan for the EAGGF
Guarantee Section Measures
2004-2006**

Hungary

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N. C(2006)7301 of 29. 12. 2006.**

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Introduction

Purpose of this Document

The aim of the rural development policy is to improve the quality of life of people living in rural areas, to avoid further growth of the disadvantage of rural regions and to provide opportunities for catching up. The intervention focuses on the provision of appropriate living conditions and operational opportunities for the stakeholders of rural society and economy. Those are the aims of the strategies and the proposed implementation activities prescribed in a set of internally coherent development documents (NDP, ARDOP, NRDP).

The National Rural Development Plan for the EAGGF Guarantee Section Measures (hereinafter referred to as the NRDP) aims to provide a uniform framework for the national implementation scheme for rural development measures to be financed by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (hereinafter referred to as EAGGF). The NRDP sets forth objectives and priorities aimed at the sustainable development of rural regions, and contains the detailed eligibility conditions and rules of implementation of each measure.

The scope of the National Rural Development Plan extends to the accompanying measures financed by the EAGGF Guarantee Section, prescribed in Council Regulation (EC) n° 1257/1999 and its amendment Council Regulation (EC) N° 1783/2003. Thus, its content is narrowed relative to an integrated approach to rural development. Complex rural development is implemented in an integrated way, in coordination with the measures targeting the development of rural areas in the operational programmes of the National Development Plan, in particular the Agricultural and Rural Development Operational Programme (ARDOP).

Legal background of the Plan

The legal basis for the drafting of the NRDP is Council Regulation (EC) n° 1257/1999, amended by Council Regulation (EC) N° 1783/2003 and Council Regulation (EC) N° 567/2004, Commission Regulations (EC) N° 817/2004, N° 141/2004, N° 447/2004, N° 740/2004 and the Accession Treaty.

Links with other development documents

National Development Plan (hereinafter referred to as NDP) and Agricultural and Rural Development Operational Programme (hereinafter referred to as ARDOP)

The basis for NRDP is the situation analysis, SWOT and strategy devised for the National Development Plan and the Agricultural and Rural Development Operational Programme. Both the NDP and the ARDOP objectives include the general aims set in the NRDP, for which resources are provided by the NRDP. The situation analysis and strategy of the NRDP are based on the strategic conclusions of the NDP and ARDOP, furthermore it provides additional details about some elements within the scope of the NRDP, e.g. employment, profitability, state of environment, differences in the production qualities of agricultural areas. These documents provide a strategic basis for the implementation of rural development measures to be financed by the EAGGF Guarantee Section. The strong coherence of these three documents is also ensured by their shared basis.

The rural population has to face several (social, economic and environmental) problems these days. The rural development measures offer solutions to some of them. The ARDOP measures serve the improvement of employment and income-earning opportunities and living conditions and, to some extent, infrastructure. The measure LEADER+ catalyses the above-mentioned processes by increasing the activity of local communities and their internal resources, involving social aspects as well. The measures of the NRDP provide answers primarily to the environmental challenges (agri-environmental management, support of less favoured areas, meeting standards, afforestation of agricultural land) and play a role in solving the economic and social problems caused by the transition (setting up of producer groups, support of semi-subsistence farms undergoing restructuring, early retirement).

National Environmental Programme 2 (hereinafter referred to as NEP 2)

The Government of Hungary has adopted the second National Environmental Programme, whose fundamental objectives are the promotion of sustainable development, the improvement of the environmental conditions of Hungary and the protection of natural assets. The integration of environmental protection and nature conservation objectives into development plans and programmes is a necessary condition for economic development that respects environmental considerations as well.

The support of environmentally friendly, sustainable forms of agriculture and the encouragement of environmental protection and landscape preservation are among the most important objectives of the NRDP. Those objectives are to be achieved directly through the measures entitled “Agri-environment and animal welfare”, “Less favoured areas”, “Meeting standards” and “Afforestation of agricultural land”. The NRDP objectives are in close connection and in conformity with the objectives set forth in the Rural Development Action Programme of the NEP 2, therefore they have positive effects on implementation of the Action Programme.

National Agri-environment Programme

In Government Resolution 2253/1999 (X.7.), the Government of Hungary approved the National Agri-Environment Programme (NAEP) as a sub-programme of the National Environmental Programme. This Programme contains various horizontal and zonal target programmes supporting environmentally friendly farming. The NAEP objectives are in line with NRDP objectives, its target programmes are integrated into the agri-environmental management measure of NRDP.

The SAPARD Plan of Hungary (2000 – 2006) (hereinafter referred to as the SAPARD Programme)

Of the measures prescribed in the SAPARD Plan, the activities involved in the measures entitled “Supporting the establishment of producer groups”, “Protection of agri-environment” and „Technical Assistance” provided the basis for elaborating the corresponding NRDP measures, although the first two measures shall not be launched within the framework of the SAPARD Programme. The chapters on monitoring, controls and evaluation also rely heavily on the relevant chapters of the SAPARD Programme.

National Afforestation Programme

Based on the consideration of agricultural land utilisation concepts, the national long-term afforestation concept was completed in 1996. According to the concept, 778 thousand hectares is a realistic estimate of the quantity of agricultural land suitable for afforestation, and the afforestation of that area would raise the forest rate of Hungary to the optimal level of 27%. Sectorial control institutions have targeted 15 thousand hectares of afforestation per year from 2001 until 2010, approximately 80% of which is to be carried out on agricultural land. This is in line with the afforestation plan proposed in the National Forest Programme of Hungary, which is currently under elaboration, and with the NRDP objectives.

Nitrate Action Programme

Government Decree 49/2001. (IV. 3.) on protection against the nitrate contamination of waters from agricultural sources (hereinafter referred to as the Nitrate Decree) contains provisions in line with Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources.

In a manner similar to the directive, the Nitrate Decree, which came into effect in 2001, contains the list of settlements in nitrate sensitive areas, the rules of “Good Farming Practice in manuring” that farmers are obliged to keep and the time-schedule of implementation in the form of an action plan. The Action Programme was launched on 1 January 2002 and extends to 31 December 2013. Along with nitrate sensitivity, its priorities include the requirements applicable to the manure storage systems of animal keeping sites that use semi-liquid manure technology.

The ARDOP measures aimed at investment in animal keeping facilities are complemented by measure 4.3. of the NRDP, which is also linked to measure 4.1. (Agri-environment) of the NRDP, since the organic manure produced in animal keeping sites and stored in the way defined in the Nitrate Decree can only be utilised by farmers who enter the agri-environmental programme.

Geographical area affected by NRDP

The entire territory of Hungary falls under Objective 1 of the Structural Funds. The NRDP is applicable horizontally to the entire territory of Hungary with identical terms and conditions, except for the following types of support:

- a) zonal agri-environment schemes (HNVA), whose delineated target areas can be found in Annex 8,
- b) compensatory aid to farmers in less favoured areas, target areas can be found in Annex 10.

1. Overview of the current situation

This chapter introduces and analyses the economic, social and environmental relations of agriculture and rural areas primarily in connection with the NRDP measures.

1.1. The general role of agriculture¹ in the national economy

Of the overall territory of 9,3 million hectares, 62,9% (5,8 million hectares) are utilised for agricultural activities (the EU-15 average is 40,6%, that of the EU-27 is 44% and the average of the 12 accession countries is 54,1%). In Hungary, compared to the averages of the EU-15 and the 12 pre-accession countries, a considerably higher proportion of the land is suitable for agricultural production.

Table 1: Comparative data (Hungary – European Union)

Category	Year	Unit	Hungary	EU 15	EU 15=100% ⁽¹⁾
Agricultural area ²⁾	2000	1000 ha	5853,9	130471,0	4,5
from which: arable land	2000	1000 ha	4499,8	73691,0	6,1
plantations ³⁾	2000	1000 ha	201,3	11176,0	1,8
grassland ⁴⁾	2000	1000 ha	1051,2	47203,0	2,2
Ratio of agricultural area in total area	2000	%	62,9	40,3	-22,6
From agricultural area: arable land	2000	%	76,9	56,5	-20,4
Plantations	2000	%	3,4	8,6	5,2
Grassland	2000	%	18,0	36,2	18,2
Forests	2000	1000 ha	1769,6	113567,0	1,6
Afforestation	2000	%	19,2	35,1	16,1
Ratio of agriculture in GDP	2000	%	3,7	1,7	-2,0
Ratio of agriculture and food industry in exports	2000	%	8,4	6,2	-1,8
Ratio of agriculture in investments	1996	%	3,4	2,9	-0,5
Number of employees in agriculture	2000	thousand persons	251,7	6770,0	3,7
Ratio	2000	%	6,5	4,3	-2,2
changes in number (1990=100%)	2000	%	26,4	70,8	44,4
Land supply ⁵⁾	2000	ha/person	23,3	19,3	120,7
Distribution of the number of private farms according to size of land ⁶⁾					
- under 5,0 ha	2000	%	89,9	57,6	-32,3
5,1-50 ha	2000	%	9,3	33,4	24,1
50,1-100 ha	2000	%	0,5	5,5	5,0
over 100,1 ha	2000	%	0,2	3,5	3,3

¹ For the purposes of the NRDP the term "agriculture" includes agriculture, forestry, game husbandry and fisheries (national economic sectors A+B), according to the classification prevailing as from the 1st January 1992.

Distribution of the land of private farms according to size of land ⁶⁾ :					
- under 5,0 ha	2000	%	22,5	5,2	-17,3
5,1-50 ha	2000	%	46,7	31,0	-15,7
50,1-100 ha	2000	%	12,4	20,3	7,9
over 100,1 ha	2000	%	18,4	43,5	25,1
Distribution of the total number of farms ⁷⁾ :					
under 10,0 ha	2000	%	94,1	69,0	-25,1
10,1-50,0 ha	2000	%	4,8	22,4	17,6
over 50,1 ha	2000	%	1,1	8,6	7,5
Distribution of the total farm area ⁷⁾ :					
under 10,0 ha	2000	%	13,9	10,5	-3,4
10,1-50,0 ha	2000	%	14,8	28,1	13,3
over 50,1 ha	2000	%	71,3	61,4	-9,9
Value of agricultural production ⁸⁾	2000	million EUR	4468,7	240120,0	1,9
- from which: value of crop production	2000	million EUR	2298,0	130588,0	1,8
value of animal production	2000	million EUR	2170,7	109532,0	2,0

- 1) The data in per cent show the difference between the EU average and Hungary.
- 2) Data for Ireland from 1999.
- 3) Data for Italy from 1998.
- 4) Data for Greece from 1996, data for Ireland from 1999.
- 5) Average size of agricultural land supply per person employed in agriculture.
- 6) EU data are for all farms and for 1995.
- 7) EU data are for all farms and for 1997; Hungary: aggregate data for economic organisations and private farms
- 8) At current prices, exchange rate: 1 euro (EUR) = 260,04 HUF.

The above table shows that the proportion of arable land in Hungary exceeds that of the EU significantly, while the share of grasslands and forests is below the EU average. Although the high proportion of arable land can partly be justified by the excellent production conditions, in view of the varying production characteristics of the entire productive area, there is reasonable need for arable land – forest, arable land – grassland and intensive cultivation – extensive cultivation conversions.

The importance of agriculture within the national economy has been decreasing in Hungary over the last decade. The loss of economic importance occurred not only in comparison to other economic branches, but also in terms of absolute input-output values.

Table 2: Indicators of the role of agriculture

Year	Agriculture's				
	contribution		Share		
	to GDP	to total added value	from exports (together with food industry)	from investments	from employment
1990	12,5	14,5	23,1*	...	14,2
1991	7,8	8,5	25,1*	...	11,9
1992	6,5	7,2	26,0	...	11,3
1993	5,8	6,6	23,4	...	9,1
1994	6,0	6,7	22,7	...	8,7
1995	5,9	6,8	23,6	...	8,0
1996	5,8	6,6	21,6	...	8,3
1997	5,2	5,9	15,5	...	7,9
1998	4,9	5,5	12,4	5,5	7,5
1999	4,2	4,8	9,6	5,2	7,1
2000	3,7	4,2	8,4	5,0	6,5
2001	3,8	4,3	8,7	6,2	6,3 ^{a)}
2002	3,3	3,7	6,2

* Agricultural Statistics Handbook 1991, National Statistical Office (NSO)

a) Data revised by the National Statistical Office but not yet published.

Source: Agricultural Statistical Yearbook, NSO, 2002, National Accounts of Hungary, NSO, 1999.

Time series of labour survey 1992-2000, NSO 2001.

Regional distribution of (GDP) in 2000 NSO, 2002.

Agricultural Statistics Handbook 2002. NSO, 2002.

In 2002 agriculture contributed 3,7% to the gross added value, while the same ratio amounted to 14,5% in 1990. Its share of the gross domestic product (GDP) decreased from 12,5% to 3,3% between 1990 and 2002. The sector was also unable to maintain its excellent foreign trade position. Agriculture and food industry had a share of 23,1% in 1990, and 8,7% in 2001 in total exports. (Table 2).

Table 3: Comparison of the agriculture of Hungary with that of the accession countries and the EU

	Utilised agricultural land		Gross Added Value in agriculture		Agricultural employment ⁽¹⁾		Alimentary consumption
	thousand ha	percentage of the total area	million EUR	Share of agriculture in the GDP	thousand capita	% of total employment	% of total consumption
Year	2000						1998
Hungary	5865	62,9	1913	3,7	252	6,5	26,6
ACs-12 ²	58808	54,1	18552*	4,5	8950*	22,0	39,1
EU-15	131619	40,6	167197	2,0*	6767	4,3	17,4 ⁽²⁾
EU-27	190427	44,0	185748	2,2	15717	7,9	19,5
Hungary compared to ACs-12 (%)	10,4		10,3		2,5		
Hungary compared to EU-15 (%)	4,4		1,1		3,4		
Hungary compared to EU-27 (%)	3,1		1,0		1,4		

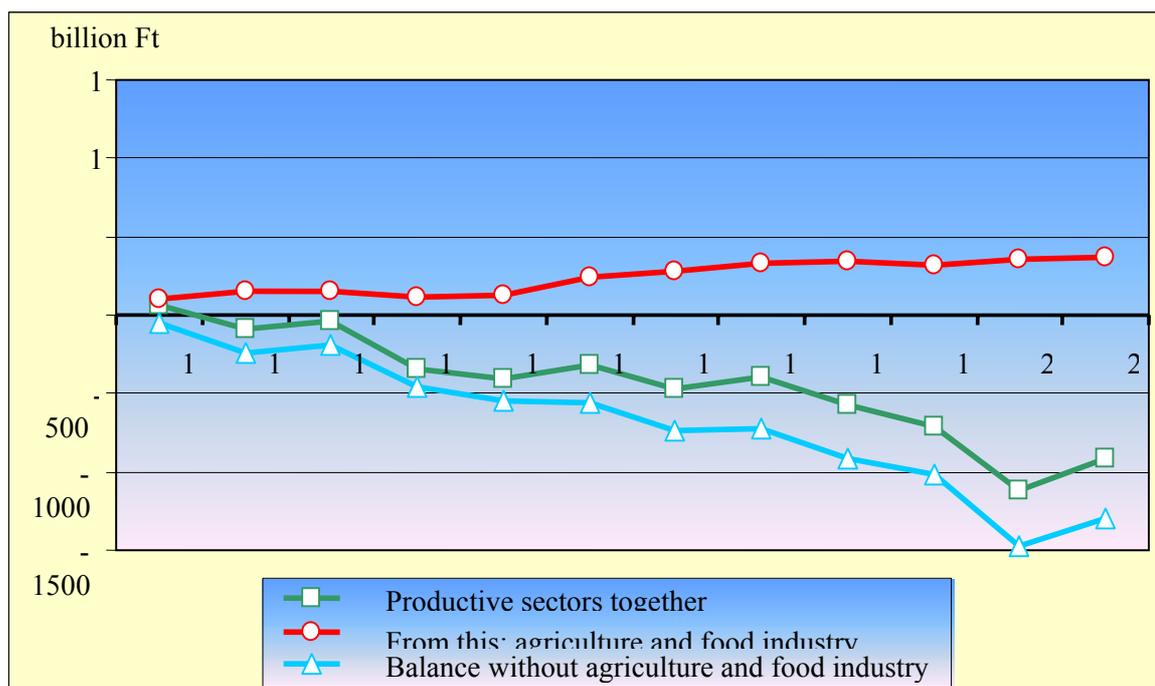
⁽¹⁾ Including forestry, game hunting and fishery; ⁽²⁾=1997; *=estimated

Sources: Eurostat, DG ECFIN, OECD, FAOSTAT, DG AGRI G2

Among the productive sectors it is only the export of food products that has maintained a positive trade balance, although with fluctuations depending on the commodity stock. Taking into consideration the tendencies of the 1990s, agriculture has a very important role in the trade balance.

² Accessing Countries

Diagram 1: Trade balance (1990-2001)



Source: Foreign Trade Yearbooks, National Statistical Office, calculations based on AKII databases

The share of agriculture and food industry in exports still exceeds the corresponding indicators of the EU (6,2% in 2000) and most of the accession countries. The proportion of imports of agricultural and food industry products within total imports is the lowest in Hungary (3,4% in 2000) compared to both the EU Member States (5,7% in 2000) and the accession countries. The trade balance of Hungary as regards agricultural and food industry products is positive (HUF 403 039 million (1 697 million EUR) in 2001). The self-subsistence rate of Hungarian agriculture is 120%.

The employment rate in agriculture dropped significantly, from 17,5% in 1990 (955 thousand people) to 6,2% in 2002 (240,9 thousand people). According to the General Agricultural Census (GAC) in 2000, 20,3% of the total population, that is, 23,7% of the working age population is engaged in some agricultural activity (as a hobby, complementary, subsistence or main employment character). That means that agriculture outgrows its economic framework. It plays a considerable role in preserving the rural values and developing the rural areas, in shaping the rural community, in the subsistence of the non-agricultural rural population and in reducing social problems and regional disparities.

Beside the full-time farmers and employees this high ratio includes a considerable share of part-time or semi-self-subsistence farmers. As regards the people performing agricultural activities in the latter categories, the improvement of their market positions, the profitability of their work and the extension of their opportunities to earn incomes are in the national interest especially in lagging behind areas. One objective of the NRDP is to maintain the level of employment, to improve the level of organisation of producers and to provide assistance to semi-self-subsistence farmers with catching up and strengthening their positions.

Table 4: The development of Gross Agricultural Output (GAO) by volume and by price index, 1990-2000

	1990		1995		2000	
Gross Production Value (at current prices, million HUF, million EUR)	446 285	1 880	709 466	2 988	1 162 657	4 897
Price index (calculated at current prices, %)	100		159		260,5	

Source: Agriculture Statistical Yearbook, EUROSTAT; Hungarian Agriculture Statistical Yearbook, 2001

Gross Production Value of agriculture calculated at current prices has multiplied by almost three in the ten years from 1990 to 2000, although during the period of transition the volume of agricultural production decreased. Between 1994-1997 the greater ratio of the production value of agricultural products (55-59%) came from crop production, while the ratio of animal production was hardly over 40%. In 2001 the production values of the two main branches was nearly in balance (in 2001 crop production: 49,9% and animal production: 50,1%).

Table 5: Production, harvested area and yields of main crops in 2002

Denomination	Area (1000 hectares)	Ratio from agricultural area (%)	Total production (1000 tons)	Yields (t/ha)
Cereals	2975	50,7	11630	-
From which: wheat ^{a)}	1112	18,9	3896	3,51
maize	1238	21,2	6087	5,07
Tobacco	5,4	0,1	11,3	2,01
Sunflower	421	7,2	779	1,86
Potatoes	34	0,6	745	19,580
Lucerne hay	161	2,7	700	4,51
Vegetables ^{b)}	114,6 ^{c)}	2,0	1850	-
Grass	1063	18,1	-	-

Source: Hungarian Central Statistical Office

a)with durum-wheat; b)on arable land; c)harvested area

Agricultural area is mainly occupied by cereals (50,7%). Regarding their ratio in cereal land, the production of maize (21,2) and wheat (18,9) is the most important. The other cereals only have a share of a few percent, the most important of which is barley. From the industrial plants, the area of sunflower is the largest (7,2). Due to the massive decrease in the number of animals, the forage area, which occupied 16-17% in 1990, fell to 5-6% in 2002. This category only includes produced forage crops and does not include natural grassland.. Less favoured areas and grasslands remain to be an important and unutilised forage stock.

The drilling structure of the plant production is basically traditional, depending mainly on the climatic and soil characteristics of the country and less on market needs. Consequently it only changes slightly (maximum by 10-20%) year by year. Traditional crop rotation still does not have a major importance, the crops are rotated mainly according to agrotechnical and phytosanitary considerations. However, single-crop / monoculture farming is not significant in Hungary.

Table 6: Livestock in 2002

Denomination	1000 heads	Stock density, (heads/100hectar)
Cattle	770	13,1
Of which: cows	362	6,2
Pigs	5082	86,6
Of which: breeding sows	381	6,5
Sheep	1103	18,8
Of which: ewes	854	14,6
Hens, cocks and chickens	32206	548,9
Of which:: laying hens	16849	287,2

Source: Hungarian Central Statistical Office

As compared to 1990, there has been a considerable decrease (40-50%) in the livestock of the dominant species. Stock density figures are as a rule below the EU-15 average. The quality of animal products, the conditions of keeping and production are not satisfactory, especially in the small-scale private farms, the ratio of which is growing. The Hungarian support system does not sufficiently motivate the transition of small breeders' livestock with low milk yields to meat production and also modernisation of animal hygiene systems and compliance with animal protection (livestock accommodation) criteria require development resources. (Tables 5 and 6).

The forests covering almost one fifth of the country are situated mostly in areas insuitable or moderately capable for agricultural production. Forestry has a relatively low share of the Gross Domestic Product. However, the forests are important mainly for their ecological, environmental protection and social-welfare functions.

Between 1990 and 2000 the number of agricultural organisations increased more than twelve-fold. The dominant type of business is the ones without legal personality (general partnerships, deposit companies and private enterprises) with a 76% ratio. Agriculture is characterised by the dominance of small organisations: 96% of the enterprises employ less than 20 persons, while the ratio of organisations with over 250 persons does not come up to 1%. Consequently, agriculture is dominated by small (micro) and medium-sized enterprises.

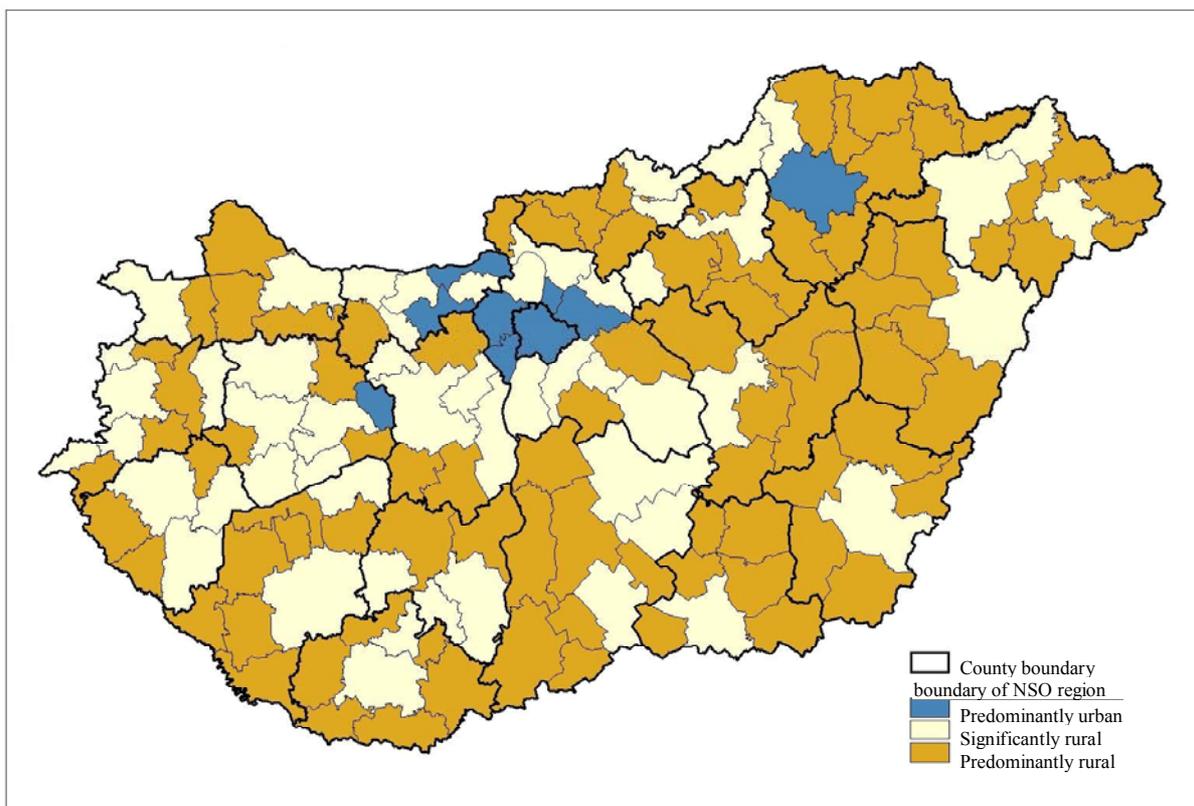
Gross values of salaries in agriculture are generally below the national average (69,0% in 2001). The difference has increased by more than 12% to the detriment of agricultural employees. In order to stop the continuous reduction of the number of people employed in agriculture, the profitability of activities has to be increased and – through this – the standard of salaries has to be improved. The ARDOP, which is one of the operational programmes of the National Development Plan, can achieve this goal by increasing the added value of investments and reducing production costs. The measures of the NRDP aimed at maintaining the level of employment within agribusiness can improve profitability significantly by promoting changes of production schemes and product ranges to match increasing quality requirements and environmental and agricultural conditions, and by establishing market channels based on producer organisations.

1.2. Features of rural regions

1.2.1 General overview

According to the typology used in the European Union 96% of the territory of Hungary is classified as rural areas³ accommodating 74,5% of the population. The ratio of predominantly rural areas is 58,3%, with a proportion of 31,3% in the total population, which is 3,2 times higher than the EU average (9,7%). 35,9% of the total population live in village communities. 54,3% of the villages have a population under 1000 persons, where one fifth of the total population live. According to the Act XLI. of 1999 on the Regional organisation procedure the “title of town” can only be awarded to settlements that meet the requirements of the Act. Such requirements are, among others, that the settlement should have relatively developed infrastructure, adequate economic potential and be able to provide certain services (e.g. health, education) also to the neighbouring settlements.

Map 1: Classification of NSO regions (NUTS IV) according to the OECD typology



Source: NSO TSTAR database

Though endangered in several aspects, the living environment of rural areas is basically healthy and suitable for rest and recreation. Rural areas generally have rich, although

³ Classification of rural areas was done according to the OECD typology as follows:

- **predominantly rural area:** more than 50% of the area's population lives in (rural) communities, where the density of population is under 120 persons/km² ;
- **significantly rural area:** 15-50% of the area's population lives in (rural) communities, where the density of population is under 120 persons/km² ;
- **predominantly urban area:** less than 15% of the area's population lives in communities, where the density of population is under 120 persons/km².

rundown landscape, architectural and cultural heritage. Small settlements (mostly in the regions of Northern Hungary and Southern Transdanubia) and outskirt farm sites (Northern and Southern Great Plain) are in the worst situation. Public utilities, infrastructure and services are usually worse than in the bigger settlements and the transportation and access systems are extremely bad. As a consequence, their chances of economic development are limited. Infrastructure connected to agricultural production (sites of individual farms, agricultural service road network, water supply and drainage systems and modern manure disposal) is neglected, in bad condition and does not adjust to the new land use and ownership conditions. Self-organising abilities and cohesion of rural areas and communities are still weak, initiations for development are isolated. Programming and project planning knowledge of the population is insufficient. Local attachment and environment consciousness of the rural population (especially of the younger ones) is receding.

1.2.2 Demography

In Hungary, the reproduction rate of the population is extremely low, the age composition of the population is adverse and deteriorating, and this is even more typical of rural regions (Table 7a).

Table 7a: Demographic changes (1990-2001)

Population (capita)		Natural increase or decrease (capita)	Ratio of senior citizens	
1990	2003	1990-2001	1990	2001
10 374 823	10 142 362	-232 461	19,1	20,8

Source: CSO

Natural reproduction is decreasing strongly, the age composition of the population is adverse and ageing, population migration from small settlements is significant (mostly among the young and qualified population), the ratio of economically inactive population is high, thus the gradual depopulation of small settlements is a realistic threat. Among the means of slowing down this process the preservation of jobs is to be found both in the NRDP and the ARDOP, while the improvement of rural living conditions is among the objectives of the ARDOP and the other Operative Programmes associated with the NDP.

The age composition of settlements with a population under 1000 is the worst, because here the ratio of the youngest (under 14 years of age) is the lowest and the ratio of the oldest (over 60 years of age) is the highest. In 2002 in villages with a population less than 1000 the ratio of people under 14 years of age was 17,7%, the ratio of people over 60 years of age was 23,8%.

The average population density varies strongly with settlement type. The average population density of rural towns is 206 people per sq km while that of villages is 54 people per sq km. In Hungary, 44,4% of the village population lives in settlements with 1000 to 3000 inhabitants, while 20% live in villages with less than 1000 inhabitants.

In rural regions, the ratio of various social groups with disadvantages or cumulative disadvantages (for example undereducated people or the Roma population) within the total population exceeds the national average significantly. The handling of this problem should be facilitated within the framework of both the NRDP and other development-support programmes.

Of the demographic indicators, the population size has been decreasing since 1981 in all regions. The level of decrease is outstanding not only in Europe, but also world-wide. Since 1990 the size of population has declined by approximately 250 000 person, which is more than 2.4%.

Table 7b: Demographic changes (1990-2001)

<i>Demographic indicators</i>									
	Population 2001	Population density 2001	Natural growth			Migration balance			Changes in population 1990-2001 (%)
			Per 1,000 inhabitants						
			1990	1995	2001	1990	1995	2001	
Central Hungary	2829047	409	-4.0	-4.7	-4.0	4.9	0.9	0.6	-4.6
Out of the above: Budapest	1739569	3312	-5.1	-6.2	-5.7	5.8	-5.9	-8.1	-13.7
Pest County	1089478	170	-1.6	-1.9	-1.1	5.0	13.9	14.7	+14.7
Central Transdanubia	1120610	100	+0.1	-1.7	-2.7	-0.3	0.8	2.0	+0.1
Western Transdanubia	1002959	89	-2.1	-3.3	-3.7	-0.2	1.3	1.7	-0.6
Southern Transdanubia	993466	70	-1.8	-3.7	-4.1	-0.9	-0.1	-0.2	-1.8
Northern Hungary	1296504	97	-1.2	-2.9	-3.5	-4.5	-2.4	-1.6	-1.6
Northern Great Plain	1559073	88	+1.1	-0.5	-1.7	-4.3	-1.2	-1.4	+1.0
Southern Great Plain	1373194	75	-3.1	-4.2	-4.5	-0.4	0.2	-0.8	-1.2
National total:	10174853	109	-1.9	-3.3	-3.5	-	-	-	-1.7
EU-15	377920000	116	+1.5	+0.8	+1.0	+3.1	+2.0	+3.0	+3.7

Sources: CSO, Eurostat

Regional differences in economic development and quality of life induce **migration**. In the end of the 80's, and in the beginning of the 90's the main target area for migration was Budapest, particularly among the young and those with higher qualifications (the rate of migration was 7.3‰ in 1985 and 5.8‰ in 1999). This trend has significantly changed to-date. As a result of suburbanisation and high natural decline, the population of Budapest has decreased significantly, by nearly 280,000 person over the last 12 years, and the rate of migration was 8.1‰ in 2001, while the population of Pest county increased by 14.7‰ in the same year. In the rest of the country, the migration difference is not fundamentally significant. The rate of migration – although to a decreasing extent – continues to be the highest in the less developed regions, primarily in the Northern Great Plain and certain counties of Northern Hungary (primarily in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties), while the western part of the country, primarily Central and Western Transdanubia are characterised by a positive balance of migration (1.7-2‰ per annum).

1.2.3 Changes in economic activity and employment structure

The employment-related socio-economic changes of the 1990s were accompanied by the loss of large numbers of jobs and an increase in the ratio of the economically inactive population:

- the working-age population increased by a quarter of a million between 1990 and 2000 as the result of a demographic wave;
- the number of employees dropped by 1,3 million people;
- unemployment rate below 10%, around 5 to 6%;

- increase in the number of new jobs.

The drop in the number of employed people was accompanied by a mass of the working-age population becoming inactive. In the first years of transition, early retirement and advance pension provisions were quite common among employees approaching the pension age limit (which was 60 years for men and 55 years for women at the time). Many chose the option of disability retirement. Moreover, the increasing number of those losing their positions in the labour market for good and those unable to find a first job also contributed to the growth of the economically inactive groups (*Table 8*).

Table 8: Economic activity of the population by age group (2001)

Age group, years	Total	Employed	Unemployed	Inactive earners	Dependants
	rate, %				
0-14	100	-	-	0,0	100,0
15-19	100	8,3	4,0	2,2	85,5
20-29	100	58,5	8,8	15,1	17,7
30-39	100	70,7	7,7	16,4	5,2
40-49	100	71,4	6,6	17,2	4,8
50-59	100	47,3	3,3	45,7	3,6
60-69	100	4,7	0,2	93,0	2,1
70-74	100	1,3	0,0	96,0	2,7
75-	100	0,8	0,0	96,6	2,6
Total in 2001	100	36,2	4,1	32,4	27,3
Total in 1990	100	43,6	1,2	25,6	29,5

Source: Census 2001, KSH (HCSO), 2002, Chapter 6. Regional data; Chapter 6.21. Summary data

The domestic employment rate and the activity rate are 7 to 9 % below the EU average, the both of gaps measured by the indicators have closed by 1% over the years examined.

The decrease of the number of employed people between 1990 and 1997 by more than 1,3 million (26,7%) was replaced by annual increases of 1 to 1,5% in the number of those in active employment.

Unemployment peaked in Hungary in 1993 (at over 12%); the level of unemployment was 6,4% in 2000 and dropped to 5,6% in 2001.

Almost 250 thousand new jobs were created in the national economy between 1997 and 2001. This resulted in extreme changes in opposite directions in the various sectors of the economy. Among production sectors, industry, construction, and services recorded an increase in labour absorption while labour release from agriculture continued. The number of employees working in agriculture dropped by 48 thousand, yet their share among those involved in agriculture rose by 4,5%.

The level of employment in rural regions falls significantly short of the national average and the picture is increasingly disadvantageous as we move towards settlements of smaller populations that are remote from rural centres. The critical status of rural employment is indicated by the fact that 45,4% of unemployed people are rural residents while only 36,4% of the total population lives in villages according to 2001 figures. The rate of unemployment of villages is more than three times that of the capital and even 3 to 4% higher than in rural

towns. Differences of twice or in some places three to four times may be observed in villages with less than 500 inhabitants, which indicates that the labour market situation of those living in villages is extremely critical. The smaller the size of the settlement is, the higher the unemployment ratio and the worse the living conditions are. The groups with a low standard of education or of older age are in a critical employment position.

With regard to the year 2000, it could be concluded that economic activity was extremely low in villages (30,4% in contrast with the national average of 42,6%) and permanently disadvantageous in the northern parts of the Great Hungarian Plain (former large-scale agricultural area) and in Northern Hungary (former heavy industrial centre). The rate of inactive, essentially dependent population – requiring social or family assistance – is 70% in villages with less than 1000 inhabitants. The rate of inactive working-age women (44%) is 10% higher than that of men. In the background of the phenomenon, besides the reduction of the labour force accompanying the economic transition of the 1990s, the drastic decrease of industrial jobs available through commuting plays a role. The new economic structure usually creates jobs in the bigger towns and cities. The accessibility of these places of work is much worse than it had been for those living in distant small settlements. Unlike previously, only a few employers are willing to cover the cost of commuting, while the level of available incomes means that in most cases employees cannot afford to commute.

Beyond agricultural production, hardly any kind of economic activity is pursued in small settlements, therefore agriculture and related activities along with environmental and landscape management services shall continue to have a fundamental impact on their population retention capacity for a significant period of time.

If no intervention is made, the following problems have to be taken into account in rural areas, especially in the villages and in settlements with a small population:

- unfavourable composition of the population by age and education, migration of the younger generations, which result in the gradual depopulation of the smallest settlements;
- the growing ratio of abandoned lands,
- long-term unemployment, which is several times higher than the national average;
- due to the fundamental lack of economic basis, decrease in the number of jobs and limited possibilities for the establishment of new ones;
- low standard of infrastructure, services and living.

During the public debate it was perceptible that one reason for the outflow of the labour force and reluctant restructuring is the lack of co-operation and organisation within the agricultural population, the farmers' loss of confidence and uncertainty about the future. The roots of the uncertainty are the tight financial resources, the lack of viable, operational economic models, underdeveloped attitudes towards and insufficiently effective communication of present and future opportunities.

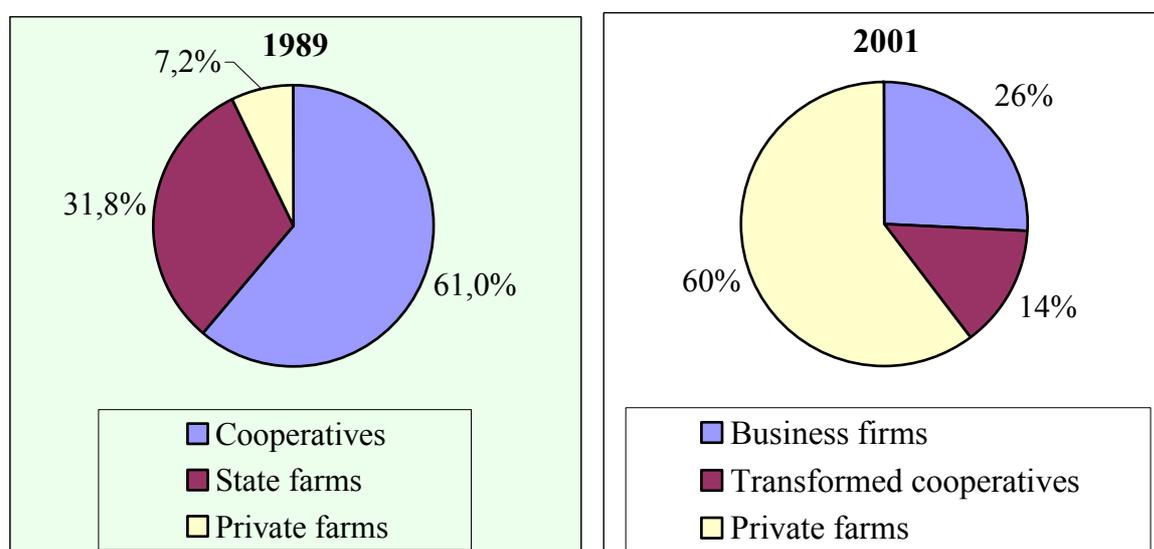
The NRDP provides effective tools for decreasing the uncertainty and for facilitating positive changes. Beyond the financial support it clearly and predictably sets the direction of structural change towards sustainable agriculture and the utilisation of rural areas. As a fundamental precondition of the success of implementation, it encourages the participation of the different target groups of the measures in the development process by wide-ranging and regular information exchange and assistance.

1.3. The role of agribusiness in rural economy

General overview

The economic and social changes of the nineties have radically transformed the organisational and ownership structures of agriculture. Due to the changes of the ownership structure, 86% to 88% of arable lands (and 41% of forests) is now privately owned. Land use, however, has greatly fundamentally changed and separated from land ownership. Private farms cultivate 40,5% of arable land. Land use, which is very comprehensive in its effects and is fundamentally different than before the social and economic transition, considerably hinders the economic results of agricultural production. The composition of land users, as well as their share of the total agricultural land has significantly changed. The changes between 1989 and 2001 are indicated in the following figure.

Digaram 2: Changes in land use



Business firms: Business firms without legal personality are: general (ordinary) partnerships and limited partnerships. Business firms with legal personality are: joint enterprises (ventures), limited liability companies and shareholding companies. This category includes partly State owned large companies as well.

Transformed cooperatives: the legal successors of former cooperatives transformed according to the Act I. of 1992 on cooperatives. The assets remained the property of the cooperative members while the land ownership was restituted to the eligible people defined by the law. In most of the cases the land is leased and used by the cooperatives.

Due to the compensation in nature, the changes in farm structure, the privatisation and the bankruptcy of large farms, after the change of the political and economic system the average farms size significantly reduced and the activity of large farms to integrated small farms receded. Land use is strongly differentiated according to the size and type of farms. According to the General Agricultural Census (GAC) of the Central Statistical Office, in 2000: 40,5% of the total land area used by farms was cultivated by the nearly 925 thousand private owners. The larger part of land (59,5%) cultivated by economic organisations and transformed cooperatives that reach or exceed the economic farm size is leased land.

However, tenancy is also considerable among private farms. Independently of the form of business, lease contracts are characteristically of short duration (3-5 years on the average).

The short leasing period means uncertainty for land users, especially for investments, long-term soil fertility restoration and changing of the production structure, but they also limit reasonable concentration of land. Concerning the NRDP measures this condition causes significant difficulties for the farmers in committing themselves to join support schemes lasting longer than the renting contract or require major and long lasting changes in the production structure and methods (agri-environment, LFA, afforestation). The minimum period of leasing is not prescribed by law, the Land Act to be amended is expected to change the situation.

Land use and the structure of activity of private farms and partnerships have greatly simplified. Production structure is generally characterised by low labour intensity, which has an unfavourable effect on rural employment and the subsistence possibilities in rural areas. This is partly due to that the harmonised activity and product structure of the former large-scale farms and the private (household) farms linked to them through production agreements has broken up as a result of the transformation and new organisations have not been formed yet.

Private farmers mostly lack knowledge about the European Union (market and production regulation, support system, requirements of product quality, animal keeping and environment protection) and professional farm management knowledge, which is partly due to the immaturity of post-school adult education. Because of the before mentioned the farmers' abilities to adjust to the new marketing conditions and to initiate actions is not satisfactory. Services for farmers and the rural population in general are still underdeveloped and so are the services supporting production, processing and marketing. Producers organisations promoting the marketing of high quality agricultural products are immature, their network needs development.

1.3.1. Agri-employment

The release of labour from agriculture, game management, forestry and fishery reduced the share of the sector in employment from 14,2% in 1990 to 6,2% by 2001. The latter figure represents 243 400 agri-employees (*Table 9*). The loss of importance of agriculture in employment and moderate increases in the labour absorption of industry and services characterise all regions. The links of village residents to agriculture are three or four times stronger than what can be observed in urban areas. The employment of women follows a decreasing tendency within agriculture as a whole (143 400 persons in 1992, 65 900 persons in 1999 and 61 400 persons in 2000). The agriculture, fishery, game hunting and forestry sectors employed altogether 60 100 women in 2001. The proportion of women is approx. 25,0% among the total number of people employed in agriculture.

Table 9: Development of employment within agriculture⁴

Year	Agricultural employees								
	total number, 1000 capita	Including							
		employees		co-operative members		entrepreneurs		assisting family members	
		1000 capita	%	1000 capita	%	1000 capita	%	1000 capita	%
1992	460,1	193,4	42,0	176,0	38,2	69,5	15,1	18,9	4,1
1993	349,4	172,7	49,4	101,8	29,1	53,7	15,4	15,9	4,5
1994	327,6	167,0	50,9	80,7	24,6	55,2	16,8	13,8	4,2
1995	295,1	150,1	50,8	66,4	22,5	53,6	18,2	13,1	4,4
1996	302,4	162,0	53,6	60,3	19,9	59,0	19,5	12,9	4,3
1997	287,8	152,2	43,5	50,9	17,7	60,6	21,0	14,5	5,0
1998	278,8	158,6	56,9	42,3	15,2	57,2	20,5	13,1	4,7
1999	270,4	151,7	56,1	34,5	12,8	65,2	24,1	12,2	4,5
2000	251,7	144,1	57,2	29,2	11,6	62,9	25,0	10,0	4,0
2001	243,4 ²	135,3	56,5	22,5	9,4	66,6	27,8	9,7	4,4
2002	240,9								
Rate of change (%) ¹	52,3								

¹ Rate of change as a percentage, this index represents the percentage change between the two extreme years in relevant data 2001: 1992=100%

² This figure has been revised by the HCSO, but it has not been published yet.

Source: Agriculture Statistical Yearbook , KSH (HCSO), relevant volumes

⁴ Employee: any person between the age of 15 and 74 who worked at least one hour providing income as staff, member of cooperative or enterprise, private entrepreneur or assistant family member during the examined week or had a job, from which they were temporarily absent or doing compulsory military service (CSO). Employment statistics show different figures due to the various data sources and methods used, so these data are for information purposes only.

According to employment statistics, the number of agricultural entrepreneurs, which stood at nearly 70 thousand in 1992, decreased by about 2,9% by 2001. However, their share in the total agricultural employment increased by more than 10 percentage points (from 15,1% to 27,8%), and approaches one third of the total population employed in agriculture, which indicates that the agricultural sector has undergone a significant restructuring. During the same period, the number of agricultural employees dropped by 48 thousand, yet their share among those working in agriculture rose by 14,5%. The number of cooperative members dropped to a quarter of the initial value – those figures only include the members, but not the employees of cooperatives, hence it has no overlap with the column of the table showing the number of employees. The number of assisting family members (with a stable share of around 4%) has dropped year after year. In the 1990s, almost 50% of assisting family members left the family business. Thus the figures, irrespective of the form of the enterprise, clearly reflect a moderation in the employment role of agriculture and its restructuring as regards employment status. Following the political and economic transition, more people got their own land. Subsequently, a kind of rationalisation was started, involving the concentration of small parcels, which is also connected to the above-mentioned restructuring. Yet agriculture still engages a great share of the total population. According to the figures of *Table 8*, if not only employment relations but all kinds of relations are taken into account, 23,7% of the active age population does agricultural work. Beside full-time employment, part-time work also plays a definitive role.

The number of registered farms also underscores the economic-employment weight of agriculture. According to the MARD register, the number of registered farms is 228 336 which includes registered economic organizations (5 870), private entrepreneurs (5 964), primary producers (199 276), cooperatives (876), family farms (15 902) and 448 other holdings that do not fall into any of those categories. The sum of the numbers of private entrepreneurs and primary producers shows the number of full-time and part-time agricultural workers (*Table 10*). Accordingly, 62% of the entrepreneurs fulfil their activities full-time, while 38% of them do part-time work. In the case of primary producers, the situation is just the opposite: only 7% of them work full-time and 93% of them work part-time.

Table 10: Numbers of full-time and part-time private entrepreneurs and primary producers in 2003 (capita)

Full-time private entrepreneur	Non full-time private entrepreneur	Full-time primary producer	Non full-time primary producer
3 707	2 257	13 459	185 817

Source: MARD, based on the report on registered farms (2003)

The appearance of the category of so-called “primary producers” was a characteristic phenomenon of economic restructuring. The majority of those primary producers were essentially forced to commence production activities of varying scales by the lack of any other employment opportunity. They produce agricultural and food industry products partly for their own consumption and partly for sale.

The so-called “primary producer” category does not constitute an independent form of farming, but rather a special taxation category, providing tax exemption for people whose annual income from agricultural production does not exceed HUF 400 000 (1 650 EUR). (Government Decree 228/1996 (XII. 26.) on the Certificates of agricultural primary producers entered into force as of 1st January 1997.) It is a significant feature of this stratum that although they have been engaged in agricultural production activities for a long time, due to the changes of the 90s they have not been paying social insurance contributions or they have only been paying them for the last few years. Many of them do not actually conduct agricultural activities, therefore generally the full-time, registered primary producers can be

considered as beneficiaries of the CAP. Most of the measures provide further development possibilities mainly for full-time farmers, though some measures can target those registered farmers who work part-time in agriculture either directly (support for semi-subsistence farms undergoing restructuring) or indirectly (support for less favoured areas).

In line with international trends, the ageing of those employed in the agricultural sector can also be observed in Hungary; indeed, the latest figures from the census indicate the strengthening of this process (*Table 11*). In two decades, middle-aged and ageing groups increased by 10 percent, today, 59% of people working in agriculture fall in those categories. One fourth of employees – the same proportion as 20 years ago – are over 50 years of age, and the age group between 40 and 49 years is also expanding. The ties of the youngest generation with agriculture are the weakest within the sector but also if compared to other sectors (17,8%). Thus the age composition of the agricultural sector is the least favourable. This disadvantage manifests in the approx. 10-percentage-point shortfall in the ratio of younger generations and in the share of seniors in employment at rates 8 to 9 % above other sectors, and in the persistence of this trend.

According to the General Agricultural Census of 2000, the average age of family labour on individual farms is 48 years, while the average age of farmers (farm managers) is 55 years. The age of male farm managers is 53 years on average, while it is 60 years for women. The age composition of family members working on farms is more favourable than the foregoing, the average age is 32 years for men and 46 years for women (*Table 11*). The explanation of this phenomenon is the multi-generation holding structure, where the parents usually lead the holding until they reach retirement age.

Table 11: Labour composition by age group (1980-2001)

Age group	Labour composition by age group %								
	Agriculture			Industry, construction			National economy		
	1980	1990	2001	1980	1990	2001	1980	1990	2001
14-29 years	26,1	23,4	17,8	35,4	28,2	28,6	32,6	27,2	26,8
30-39 years	23,5	31,0	23,1	26,1	30,9	24,4	26,4	31,4	25,1
40-49 years	24,6	27,2	34,1	22,8	26,6	29,9	23,0	26,9	29,7
50-59 years	21,6	17,6	22,4	14,7	14,1	16,2	16,2	13,9	16,9
60-	4,3	0,7	2,5	0,9	0,3	0,9	1,8	0,6	1,6
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Composition by age group calculated on the basis of active earners in the first two periods and on the basis of the number of employed people in 2001.

Source: Development of employment, 1980-1996, Micro-census, 1996, KSH (HCSO), Budapest, 1997

Census 2001, Chapter 6. 21 Regional data/Summary data, KSH (HCSO) 2002

Among those employed in agriculture, the contribution of the 50 to 59 age group remarkably exceeds that in other sectors, while the 14 to 29 age group contributes significantly less than it does in other sectors. Even within those employed in agriculture, the proportion of the 50 to 59 age group is higher than the share of the 14 to 29 age group. It can be concluded that the demographic structure of those employed in agriculture is particularly unfavourable, which may constitute a significant obstacle to the spreading of up-to-date farming methods, further development and creditworthiness. In order to facilitate the improvement of the demographic structure it would be useful to introduce an "Early retirement" measure in parallel with the ARDOP measure "Support for young farmers".

Table 12: Age composition of active population and population engaged in agriculture by region (2000)

Description	Active population (years)						Ratio of those engaged in agriculture, %
	Total number of persons	Including		Population engaged in agriculture*, number of persons	Including		
		15-59	60+		15-59	60+	
		Categories,%			Categories,%		
Central Hungary	2 403 185	76,3	23,7	158 387	70,5	29,5	6,6
Central Transdanubia	914 718	77,9	22,1	188 173	71,1	28,9	20,6
Western Transdanubia	823 370	76,4	23,6	222 595	69,3	30,7	27,0
Southern Transdanubia	808 417	76,0	24,0	259 134	71,0	29,0	32,1
Northern Hungary	1 037 605	75,3	24,7	287 772	69,4	30,6	27,7
Northern Great Plain	1 226 118	77,2	22,8	450 486	72,5	27,5	36,7
Southern Great Plains	1 112 568	75,0	25,0	409 226	70,9	29,1	36,8
<i>Total</i>	<i>8 325 981</i>	<i>76,3</i>	<i>23,7</i>	<i>1 975 773⁵</i>	<i>70,9</i>	<i>29,1</i>	<i>23,7</i>

* not employees

Source: Workforce utilisation of individual farms 2000, KSH (HCSO), Budapest 2001

Besides employees, the category “population engaged in agriculture” includes all persons completing at least one day of agricultural work per year in holdings reaching the holding size. Of that labour force, agricultural producers working in registered private and partnership enterprises, cooperatives, family farms and those working as primary producers can be considered market players: a total of 228 336 holdings that, on the basis of the economic criteria of eligibility for support, can probably be reduced by the number of registered, but not full-time primary producers (185 817 capita). The majority of those people do very little agricultural activity or none at all.

The various measures of the NRDP aim to reach totally different target groups. The target groups of individual measures are described under the title “Scope of beneficiaries” for each measure. The eligibility criteria formulated for each measure restricts the circle of potential beneficiaries further. Common criteria applicable to all the measures include registration of the farm, a commitment to economic viability and compliance with minimal environmental and other requirements (Good Farming Practice, animal welfare, food safety etc.).

1.3.2. Holdings structure, land use

83% of Hungary’s total territory of 9,3 million hectares, that is 7,7 million ha (2001) (*Table 13*) is cultivated land⁶, which has shown a continuous decline since the early 1990s (in 1990, it was 8,2 million ha). Agriculture is the dominant user of land areas, thus it has a significant impact on the state of the environment, the landscape, the soil and water quality.

Agricultural land use is characterised by relative stability. In comparison with the European Union, the ratio of agricultural areas, and especially arable land is much higher, while the ratio of forest areas and grassland is substantially lower. As a side-effect of the property and structural changes in agriculture, the proportion of unused or abandoned lands is rather high even today.

⁵ Out of them 230 000 persons – full time agricultural producers in private enterprises and companies – can be considered as market participants.

⁶ Cultivated area: the sum of agricultural areas, forests, reed areas and fish pond areas

Table 13: Breakdown of land areas by cultivation branches (1992-2001)

	1992		1996		2001		change 1992-2001	
	1000 ha	%	1000 ha	%	1000 ha	%	1000 ha	%
Cultivated land	7 914,9	85,1	8 017,2	86,2	7 729,6	83,1	-185,3	-3,1
Agricultural area	6 135,7	66,0	6 184,5	66,5	5 865,4	63,0	-270,3	-3,4
<i>arable land</i>	4 706,9	50,6	4 712,7	50,8	4 516,1	48,5	-190,8	-2,2
<i>grassland</i>	1164,0	12,5	1 148,3	12,3	1 061,2	11,4	-102,8	-0,9
<i>garden + orchard + vineyard</i>	264,8	2,8	323,4	3,5	288,1	3,1	23,3	-0,4
Forest	1 712,2	18,4	1 764,5	19,0	1 771,7	19,0	59,5	0,1
Reed area	39,9	0,4	41,2	0,4	60,3	0,6	20,4	0,2
Fish pond	27,1	0,3	27,0	0,3	32,3	0,3	5,2	0,1
Area removed from cultivation⁷	1 388,2	14,9	1 285,8	13,8	1 573,8	16,9	185,6	3,1
Total land area	9 303,1	100,0	9 303,0	100,0	9 303,4	100,0	0,3	0,0

Source: Agriculture Statistical Yearbook, 2001

After the restructuring of ownership, land use and production structures are only partly adapted to the characteristics of cultivated areas. Arable land plays a traditionally significant role, while nearly half of the yield of grasslands is unused, and the opportunities offered by special cultivated areas are only utilised to a marginal extent.

88% of arable land is privately owned, 10% is held by the state and 2% is held by cooperatives.

59% of all forests are state- or community-owned, while 41% of the forests is in private hands.

A smaller proportion of state-owned cultivated land is used by businesses owned by the state permanently, while the larger part is used by forestries (19 state forestries) also owned by the state.

The majority of the private owners who became owners of cultivated land during the political and economic transition period let their land, thus land ownership and land use structures differ substantially. It is estimated that approximately 60% of all cultivated land is rented. The number of landowners is 2.2 million with an average cultivated area of 3,65 hectares, 2,14 hectares of arable land per landowner.

Utilisation of the private-owned forests usually appears as a complementary activity. The majority of the actual work, even in the case of state-owned forests, is performed by enterprises that contract with the owners.

Forestry encounters problems due to the scattered property structure. The average forest parcel is less than 2 hectares.

⁷ Area removed from cultivation comprises agricultural and non-agricultural areas registered as not being cultivated such as roads, residential properties, gardens within the administrative limits of settlements.

Table 14: Change in land use* by organisational form (1990-2001)

Description	1990	1995	1996	1997	1998	1999	2000**	2001**
Companies, business ventures								
- land area, 1000 ha	2145,8	2268,8	2294,4	2093,5	2128,5	2318,5	2623,4	2717,7
- share, %	26,1	28,3	28,6	26,1	26,5	28,9	34,0	35,2
Co-operatives								
- land area, 1000 ha	4937,8	2083,6	1900,4	1730,6	1584,8	1412,7	1178,5	854,7
- share, %	60,0	26,0	23,7	21,5	19,7	17,6	15,3	11,1
Economic organisations								
- land area, 1000 ha	7083,6	4352,4	4194,8	3824,1	3713,3	3731,2	3801,9	3572,4
- share, %	86,0	54,3	52,3	47,6	46,2	46,4	49,3	46,3
Individual farmers								
- land area, 1000 ha	1152,1	3658,1	3822,4	4211,5	4322,8	4303,9	3913,6	4157,2
- share, %	14,0	45,7	47,7	52,4	53,8	53,6	50,7	53,7
Total								
- land area, 1000 ha	8235,7	8010,5	8017,2	8035,6	8036,0	8035,1	7715,5	7729,6
- share, %	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

*Data refer to cultivated area.

**For the sake of comparability in the years indicated, previously unreported areas used for non-agricultural purposes (300-400 thousand ha) have been allocated to the different forms of farming in proportion with their shares in land use.

Source: Statistical Yearbook of Agriculture, KSH (HCSO), volumes of relevant years.

By 2001, the share of co-operatives in the utilisation of agricultural areas dropped to less than a fifth of the 1990 level, while that of economic organisations was almost halved. In contrast, the proportion of individual farmers quadrupled. The majority of economic organisations are partnerships that were established as the result of the transformation of ventures that had operated as cooperatives and state farms prior to 1 January 1993. They operate as limited companies or as public limited corporations. Limited companies or deposit partnerships operated by family farms are represented by a smaller ratio. Individual farmers usually operate as private entrepreneurs or full-time primary producers.

The number of agricultural economic organisations increases steadily, propelled by the growing number of micro and small businesses representing family farms. The laws introduced after the political and economic transition of the early 90s (Compensation Act, Transformation of Cooperatives Act, New Cooperatives Act, Land Act) brought about a decisive shift in land ownership, land use and the forms of businesses involved in agriculture.

Table 15: Number and land area of individual farms and farming organisations by holding size, 2000

Description	Farms*		Land area		Average area of a farm, ha
	number ¹	share, %	hectare	share, %	
Private holdings					
less than 10 ha	874 037	94 ,51	890 590	34 ,07	1 ,02
10-50 ha	43 630	4 ,72	916 730	35 ,07	21 ,01
50-100 ha	4 653	0 ,50	324 920	12 ,43	69 ,83
100-300 ha	2 219	0 ,24	360 209	13 ,78	162 ,33
more than 300 ha	249	0 ,03	121 551	4 ,65	488 ,16
Total	924 788	100 ,00	2 614 000	100 ,00	2 ,83
Economic organisations					
less than 10 ha	787	12 ,71	3 067	0 ,08	3 ,90
10-50 ha	1 356	21 ,13	40 640	1 ,06	29 ,97
50-100 ha	593	9 ,65	45 625	1 ,19	76 ,94
100-300 ha	1 101	19 ,51	232 724	6 ,07	211 ,38
more than 300 ha	1 555	37 ,01	3 511 944	91 ,60	2258 ,48
Total	5 392	100 ,00	3 834 000	100 ,00	711 ,05
Farms total					
less than 10 ha	874 824	94 ,05	893 657	13 ,86	1 ,02
10-50 ha	44 986	4 ,84	957 370	14 ,85	21 ,28
50-100 ha	5 246	0 ,56	370 545	5 ,75	70 ,63
100-300 ha	3 320	0 ,36	592 933	9 ,20	178 ,59
more than 300 ha	1 804	0 ,19	3 633 495	56 ,35	2014 ,13
Total	930 180	100 ,00	6 448 000	100 ,00	6 ,93

* with cultivated land

¹ Unpublished data provided by the Agricultural Division of the HCSO

Source: General Agricultural Census, 2000 – Regional Data, KSH (HCSO), 2000

The statistical data indicate that the number of so-called basic agricultural units reaching the minimum size prescribed for classification as a farm has decreased steadily from 1990, reaching 930 180 by 2000 (*Table 15*). Based on the classification of individual farms and farming organisations by size, it may be concluded that the holding structure is essentially bipolar. 56,35% of the total cultivated area (6 448 thousand ha) is cultivated by farming organisations in the holding category 300 ha and above, while 94,5% of the 924 788 individual farms fall in the holding category below 10 ha, but they only comprise 13,8% of the total cultivated area. In the EU member states, farms below 10 ha use 10,5% of the total cultivated area on average, while the same indicator is 13.86% in Hungary. Among those agricultural businesses, finer grained statistics indicating the proportions of farms with areas under 5 ha are available for the farms run by individual farmers (*Table 16*)⁸.

⁸ The Census does not record data for farms run by partnerships with land under 10 hectares.

Table 16: Number and land area of individual farms by holding size (2000)⁹

Holding size	Farms *		Land area		Average area of a farm, ha
	number	share, %	hectare	share, %	
1991					
<5,0	1 388 551	99,5	566 147	88,4	0,4
5,1-10,0	5 556	0,4	36 505	5,7	6,6
10,1-	1 646	0,1	37 647	5,9	22,9
<i>Total</i>	1 395 753	100,0	640 299	100,0	0,5
1994					
<5,0	1 151 283	95,9	610 577	44,2	0,5
5,1-10,0	28 723	2,4	198 303	14,3	6,9
10,1-50,0	18 922	1,6	359 588	26,0	19,0
50,1-	2 087	0,2	214 737	15,5	102,9
<i>Total</i>	1 201 015	100,0	1 382 205	100,0	1,2
2000					
<5,0	831 666	89,9	588 150	22,5	0,7
5,1-10,0	42 371	4,6	303 224	11,6	7,2
10,1-50,0	43 630	4,7	917 514	35,1	21,0
50,1-	7 121	0,8	805 112	30,8	113, 1
<i>Total</i>	924 788	100,0	2 614 000	100,0	2, 8

* with cultivated land

Source: Agricultural small production I. KSH (HCSO), 1993

Individual farming in agriculture 1994, KSH (HCSO), 1995

General Agricultural Census, 2000 – Regional Data, KSH (HCSO), 2000

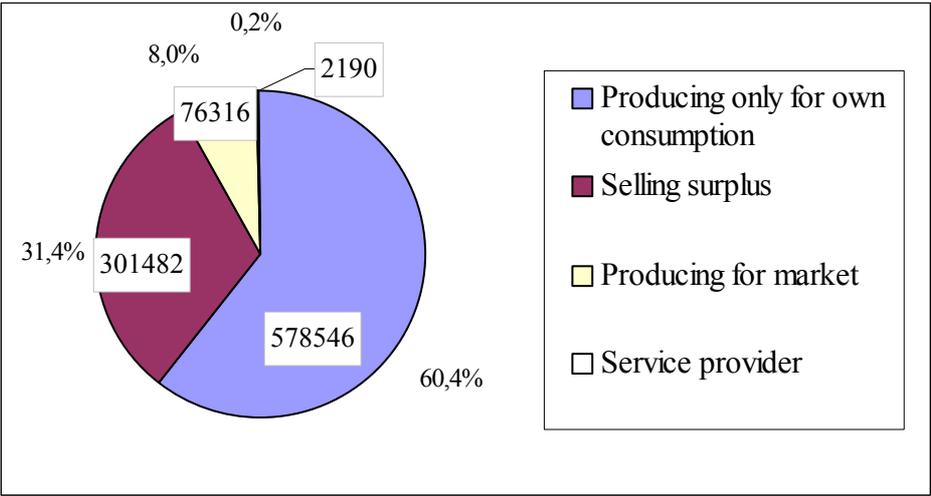
According to the General Agricultural Census of 2000, 6,4 million hectares of land are used by farms engaged in agricultural activities (if the land is less than 0,15 ha per land user then that land user does not qualify as a "farm", therefore such areas were excluded from the survey), 59,5% of this area is used by farming organisations (5 392 organisations) and 40,5% by individual farmers (924 788).

According to the above table, in 2000, the land area of 89,9% of individual farms was below 5,0 hectares. These farms used 22,5% of the land area of individual farms, their average area was 0,7 hectare. These farms, with very few exceptions, are cultivated as a part-time or

⁹ The table only considers individual farms with agricultural land. Animal husbandry sites with no agricultural land are excluded from the data source.

complementary activity, or they may be rented by larger farming organisations. The farms between 5 and 10 hectares make up 4,6% of individual farms, they use 11,6% of the land area and their average operating size is 7,2 hectares. With a conventional system of production, even these are not capable of providing a living for a family, they tend to be suitable only for supplementing their income. Farms between 10 and 50 hectares (43 630 farms, 4,7%) use 35,1% of the land area with an average size of 21 ha. Only 0,8% of individual farms (7 121) are greater than 50 hectares but they use 30.8% of the land area of individual farms with an average area of 113,1 hectares generally, the latter two groups constitute the group of viable individual farms. Those nearly 50 thousand farms, which use 66% of the land area of individual farms are the farms that may have a future as individual farms providing full time employment. A part of the farms with land areas between 10 and 50 hectares (or, in the case of some plant cultures, less) which market a part of their produce may stabilise or improve their market positions using targeted support opportunities.

Diagram 3: Number and ratio of private farms according to the economic objective of farming (2000)¹⁰,



In summary one can consider that a considerable ratio of private farms (60,4%¹¹) is only involved in semi-subsistence farming. This means that the role of agricultural production in the family’s earnings is not negligible, but far from being dominant. A little more than 31% sell their surplus produce, this way they obtain an income supplement.¹² The ratio of farms that produce for market is only 8 % and the ratio of those performing economic services is as low as 0,2%.

The great majority of those individual farms produced in isolation and they are at the mercy of market fluctuations. The extension of cooperation between producers to the widest possible

¹⁰ Diagram 3 includes farms (animal husbandry sites) with no agricultural land as well.
¹¹ The difference among the numbers of *Table 16* and that of *Diagram 3* comes from the fact that data source for table 16 does not consider farms under 1,5 ha as well as service providers, while
¹² These semi-subsistence farms are aimed to be the target group of a specific measure in the NRDP

range of producers is extremely important, both in order to ensure secure incomes for those employed in agriculture and in order to maintain rural employment.

The quality features (composition by age and qualification) of the labour force employed in farms producing for market are much more favourable than those of the subsistence producers.

Among farmers between the ages of 30 and 49, the number of those primarily providing agricultural services or primarily producing for the market is the highest, while the older age groups are characterised by self-subsistence and a small amount of marketed product. The next table shows quite clearly how early retirement could be a solution for the older farmers producing partly or exclusively for self-subsistence by transferring their holdings to a younger generation targeting primarily market-oriented production (*Table 17*).

Table 17: Age composition of family assistants regarding the production target of the private enterprises

	Persons engaged in agriculture	Including			
		producing for self-subsistence	producing partly for market	producing mainly for market	conducting agricultural service
Age, year	total, capita	number of those employed in holdings			
Number according to age groups, capita					
14-19	93 369	49 025	34 182	9 933	256
20-29	252 847	137 362	88 321	26 432	732
30-39	276 160	159 338	89 900	25 957	965
40-49	409 697	230 949	137 213	40 314	1 221
50-59	375 080	212 202	129 673	32 521	684
60-64	175 089	104 646	59 147	11 105	191
65-	400 410	258 798	121 661	19 598	353
Total	1 982 679	1 152 320	660 097	165 860	4 402
Proportions according to age groups, %					
14-19	4,7	4,3	5,2	6,0	5,8
20-29	12,8	11,9	13,4	15,9	16,6
30-39	13,9	13,8	13,6	15,6	21,9
40-49	20,7	20,0	20,8	24,3	27,7
50-59	18,9	18,4	19,6	19,6	15,5
60-64	8,8	9,1	9,0	6,7	4,3
65-	20,2	22,5	18,4	11,8	8,0
Total	100,0	100,0	100,0	100,0	100,0

Source: Labour consumption of private holdings, General Agricultural Census, 2000, KSH (HCSO) 2001

1.3.3. Sectorial characteristics

The weight of different sectors is defined by the comparison of their territorial contribution and production value. As regards the territorial share, agricultural utilisation is dominant (63%), while forestry has 19%, reed areas have 0,6% and fish ponds contribute 0,3%. Within the agricultural area arable land covers 48,5% of the total area (largely wheat and maize), gardens have 1.1%, orchards and vineyards cover 1% each. That area distribution is only partially reflected in the production values of the sectors.

According to 2000-2001 figures of gross production value (*Table 18*) nearly 50% of the agricultural production value (excluding game and forest management and fishery) is created by crop production and horticulture, out of which arable crops (cereals and leguminous plants, industrial crops and fodder) contribute 32%, while the horticultural sector (vegetables, fruit, grapes) contribute 15%. The great production value and great economic significance of arable land and particularly the production of cereals is derived partly from its large territorial contribution and the corresponding large volume of production. The horticultural sectors – due to intensive production – are characterised by great production value generated on a small area.

The production value of animal husbandry is nearly equal to that of crop production and horticulture (3% less in 2000, 0.2% more in 2001). The poultry (16%), pig (18%) and cattle (13%) sectors are dominant, while the others (small animals, sheep) produce much less. The production value of forestry is considerably lower than that of the two main agricultural sectors, even if considered proportionally to its share of cultivated area. In view of their shares of cultivated areas and their area requirements, the results of fishery and honey production are also remarkable.

Table 18: Gross production value of sectors at current price

	2000			2001		
	million HUF	million EUR	%	million HUF	million EUR	%
<i>Crop production and horticulture</i>	598 179	2519	51,4	681 123	2869	49,9
cereals and leguminous plants	269 388	1135	23,2	280 489	1181	20,6
industrial crops and potato	84 458	356	7,0	117 128	493	8,6
fodder crops	26 323	111	2,3	33 328	140	2,4
vegetables	87 400	368	7,5	105 881	446	7,8
fruits, grape	90 099	379	7,7	104 154	439	7,6
other	40 510	171	3,6	40 144	169	2,9
<i>Animal husbandry</i>	564 478	2377	48,6	683 882	2880	50,1
cattle	163 492	689	14,1	178 095	750	13,0
pig	182 792	770	15,7	248 270	1046	18,2
sheep	10 213	43	0,9	13 025	55	1,0
poultry	185 509	781	16,0	218 893	922	16,0
other	22 472	95	1,9	25 598	108	1,9
<i>Game management</i>	3 295	14		4 041	17	
Fishery	6 063	26		5 131	22	
Forest management	69 074	291		No data	No data	
Honey production	5 536	23		5 55	2	

Source: CSO, Agricultural statistical yearbook 2001.

1.3.4. Organic farming

Just like in the European Union, the importance of organic farming has been increasingly appreciated in Hungary in recent years. In addition to the increasing importance of environmentally sensitive farming principles, increasing demand for organic products and new market opportunities justify the significance of organic farming.

Data about Hungarian organic production has been available for nearly a decade. The figures shown are for information purposes only, since neither reporting obligation nor statistical data collection was in place during that period. Until 2000, when the first pieces of ecological legislation were put in force, 7-8 different organisations conducted the control functions, none of which are operating today.

According to the data of Biokultúra Egyesület (*Organic Cultivation Society*) and Biokontroll Kht. (*Organic Cultivation Control Public Benefit Company*) the number of holdings and the quantity of land involved in organic production have developed as follows (estimated figures):

Year	Number of holdings	Size of organic areas (ha)
1995	108	8 232
1996	127	11 397
1997	161	15 772
1998	330	21 565
1999	327	32 609
2000	471	47 221
2001	764	79 178
2002	995	103 672

The volume of animal husbandry has been low for the whole period. Only 83 holdings dealt with organic animal husbandry in 2002, their animal stock consisted of a total of 11855 livestock units.

Organic bee keeping began in 1998, 49 bee-keepers joined with 3400 bee families. Their number has changed as follows since then:

Year	Number of bee-keepers	Number of bee families
1999	76	5 802
2000	165	14 559
2001	207	15 532
2002	193	15 337

The majority of organic products reached Western-European consumers in unprocessed forms, via intermediate traders who charged a commission. Initially, the processing facilities did primary processing occasionally and in leasework (quick freezing, drying of vegetables, fruits, herbs and spices, smashing, etc.). The numbers of retailers and processors registered for control has changed as follows:

Year	Number of processors	Number of retailers
1998	17	2
1999	36	22
2000	36	54
2001	67	72
2002	100	92

It is estimated that since the beginning of the 1990s, approximately 10% of Hungarian organic products were consumed in domestic markets while the rest were exported (mainly to the European Union and Switzerland). Hungary was the first in the Central and Eastern European region to introduce a system for the labelling of organic agricultural products. This method of classification is accepted in the EU member states as well.

1.3.5. Producer organisations

The degree of organisation of producers is currently rather low in Hungary. This is the reason why the agri-governmental measures aimed at strengthening producer positions, eliminating disturbances and developing the market are not sufficiently effective. The measure was also part of the Hungarian SAPARD Plan - although not implemented - for the improving of the co-operation amongst farmers and strengthening of the weak co-ordination of the agribusiness chain.

In accordance with the new, harmonised national legislation (MARD Decree 85/2002 (IX. 18.), MARD Decree 25/1999 (III. 5.)) recognised producer groups may receive support from the national budget. Producer groups must apply every year in line with the stipulations of applicable legislation. It is expected that the intention to form producer groups will primarily characterise individual farms that either exclusively (77 thousand farms) or partly (302 thousand farms) produce goods for the market. The organisation of producer groups is also justified by the income conditions of individual farms. The life of the rural families operating individual farms, most of which are rather small, depends on their income earned from agriculture to a great extent. It should be mentioned in particular in this context that more than half (53,2%) of the family workforce working on individual farms largely producing with a view to sale (166 thousand people) and 57,3% of the people working on farms that market a part of their products do not have any source of income other than farming.

The setting up of producer groups is particularly important for primary producers, since 64,1% of the individual farms producing mostly for sale are run by primary producers, while the proportion of entrepreneurs is 4,4%. However, only 40% of primary producers are registered (including barely 17 thousand full-time primary producers).

In order to encourage and strengthen cooperation between producers it is of extreme importance to introduce the five-year support for the establishment and maintenance of producer groups. Approximately 600-700 cooperatives have been founded so far in the different production sectors. They are the potential beneficiaries of the EU-conform recognition and support of producer groups prescribed in MARD Decree 85/2002. The planned annual sales revenue of such cooperatives is a minimum of 75 million Ft (300 thousand euros), which, at the same time, expresses the potential of these organisations. Since 1999, the recognition of fruit and vegetable producing and marketing organisations set up on the basis of an EU model has been continuous.

As regards privately owned forests, the number of registered groups has risen significantly since 1996. In 2003 the overall number of joint forest ownerships, forest cooperatives and other groups exceeded 12 000, although for the time being cooperation does not extend beyond the production of raw materials.

1.3.6. Efficiency, profitability, support

Table 19: Comparison of some factors connected to agricultural production

	Agricultural employment (million AEU ¹)	UAA ² (million ha)	AEU / 100 ha	GAV ³ (million EUR)	GAP ⁴ (million EUR)	GAV/AEU (EUR)	GAV/UAA (EUR)	GAP/UAA (EUR)
Poland	2 926	18, 2	16, 1	5 178	11 946	1 770	285	656
Hungary	279	6, 2	4, 5	1 956	4 366	7 011	315	728
Czech Rep.	267	4, 3	4, 8	935	2 885	3 501	217	671
Slovenia	103	0, 8	12, 8	509	940	4 942	636	1 175
Estonia	61	1, 0	58, 0	175	358	2 869	168	344
Romania	4 342	14, 8	29, 3	5 152	9 612	1 187	348	649
Bulgaria	795	6, 2	12, 8	1 794	2 973	2 256	289	479
Slovakia	180	2, 4	7, 5	479	1 444	2 661	200	602
Lithuania	336	3, 5	9, 6	560	1 209	1 667	160	345
Latvia	189	2, 5	7, 6	175	461	926	70	184
<i>CEEC 10</i>	<i>9 478</i>	<i>59, 9</i>	<i>15, 8</i>	<i>16 913</i>		<i>1 784</i>	<i>282</i>	
EU-15	6 891	136, 4	5, 0	144 492	263 372	20 968	1 059	1 931

¹ AEU: Agricultural Employment Unit

² UAA: Utilisable Agricultural Area

³ GAV : Gross Added Value

⁴ GAP: Gross Agricultural Production

Source: Competitiveness and profitability of the agri-food sector in Central and Eastern European Countries, 2001 (Alain Pouliquen, 2001)

Having examined the factors indicated in the table it can be concluded that the efficiency indexes of accession countries – and so Hungary – reach only 25 to 30% of the efficiency index value in the EU-15. For Hungary, this figure is 33,4%. This means that significant unutilised reserves are available in human resource development, optimal land use and technical-technological development.

Table 20: Cumulative change of price index (%)

	1995	1996	1997	1998	1999
<i>Poland</i>					
Food prices	100	99	97	92	87
Farm prices	100	97	92	88	81
Price of input materials	100	99	100	99	97
<i>Hungary</i>					
Food prices	100	95	94	94	88
Farm prices	100	104	100	91	83
Price of input materials	100	112	111	103	-
<i>Czech Republic</i>					
Food prices	100	100	96	92	89
Farm prices	100	100	95	87	75
Price of input materials	100	104	102	92	95

EU-15					
Food prices	100	99	98	98	97
Farm prices	100	97	94	90	85
Price of input materials	100	101	100	96	93

Source: Competitiveness and profitability of the agri-food sector in Central and Eastern European Countries, 2001 (Alain Pouliquen, 2001)

The decrease of the price-value of agricultural products is a global phenomenon, although in the Central and Eastern European Countries the price alteration of input materials were more unfavourable than the average of the EU-15. In the European Union, while food prices are relatively stable, input material prices show a slight decrease, but in our region, and especially in Hungary, the fall of food prices was accompanied by the increase of input material prices.

Table 21: Estimated support of producers (%)

	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1999*
Poland	27	-12	1	18	15	18	18	23	22	23	25	20,7
Hungary	35	24	11	16	20	24	14	9	7	13	20	10,4
Czech Republic	53	54	52	31	28	20	12	13	9	21	25	17,5
Slovenia				35	28	32	37	29	37	46	52	44
Estonia	79	71	59	-97	-32	-10	0	7	5	19	5	
Romania	51	28	15	8	16	19	10	12	3	29	18	
Bulgaria	72	72	-39	-45	-4	-27	-25	-54	-10	2	-6	
Slovakia	46	50	35	28	26	23	18	11	13	26	25	
Lithuania	80	72	-262	-124	-37	-15	0	1	3	13	14	
Latvia	82	75	83	-101	-40	6	5	3	4	16	17	
<i>EU</i>	42	45	51	44	44	42	41	35	38	45	49	30,9
<i>OECD</i>	38	38	41	39	38	37	35	31	31	36	40	26

*together with price support

Source: OECD

Due to the lack of a strong national economy the level of support in the accession countries (excluding Slovenia) is half or even less of the European Union support level. In Hungary, the level of support corresponds to 41% of the corresponding EU indicator.

1.4. State of animal keeping sites

The trends in animal husbandry indicate that with the exception of pigs, the number of animals kept has decreased in 2002 (*Table 22*). Due to this fact, excess stabling capacity has appeared, half to two-thirds (depending on the animal species) of the existing capacity is unutilised. The average age of buildings is high, their capacity does not match the current characteristic dimensions of holdings.

Table 22: Development of animal stock (2001 – 2002)

Description	2001	2002	2002 as a percentage of 2001
	1 December (1 000 animals)		
Cattle	783	770	98, 3
out of which cows	368	362	98, 4
Pig	4822	5082	105, 4
out of which sows	343	381	111, 1
Ovine	1136	1103	97, 1
out of which ewes	849	854	100, 6
Gallinaceae	34343	32206	93, 8

Source: KSH (HCSO), 2002

The number of animal keepers typically decreased, the number of animals kept by one animal keeper increased slightly. The average market price of feeds and animal purchase prices have increased (*Table 23*).

Table 23: Animal stock, numbers of animal keepers and their sectorial distribution

Animal species, production sector	Animal stock, thousand items			Number of keepers		
	1999	2000	2001	1999	2000	2001
Bovine total						
Farming organisations	555	543	497	756	927	804
Individual farmers	302	262	286	39 796	45 220	38,616
<i>Total</i>	<i>857</i>	<i>805</i>	<i>783</i>	<i>40 552</i>	<i>46 147</i>	<i>39,420</i>
Out of which cows						
Farming organisations	254	261	238	720	847	743
Individual farmers	145	119	130	32 474	34 079	30 525
<i>Total</i>	<i>399</i>	<i>380</i>	<i>368</i>	<i>33 194</i>	<i>34 926</i>	<i>31 268</i>
Pigs total						
Farming organisations	2408	2483	2398	537	736	623
Individual farmers	2 927	2 351	2 424	496 128	455 914	377 988
<i>Total</i>	<i>5 335</i>	<i>4 834</i>	<i>4 822</i>	<i>496 665</i>	<i>456 650</i>	<i>378 611</i>
Out of which sows						
Farming organisations	200	207	195	486	612	517
Individual farmers	179	141	147	111 815	92 977	93 841
<i>Total</i>	<i>379</i>	<i>348</i>	<i>343</i>	<i>112 301</i>	<i>93 589</i>	<i>93 358</i>
Ovine total						
Farming organisations	146	206	173	158	299	237
Individual farmers	788	923	963	25 000	21 000	21 000
<i>Total</i>	<i>934</i>	<i>1129</i>	<i>1136</i>	<i>25 158</i>	<i>21 299</i>	<i>21 237</i>
Out of which ewes						
Farming organisations	102	153	126	..	270	219

Individual farmers	625	744	723	..	18 302	17 378
<i>Total</i>	<i>727</i>	<i>897</i>	<i>849</i>	<i>..</i>	<i>1 857</i>	<i>1 759</i>
Gallinaceae total						
Farming organisations	10 034	14 335	14 163	109	264	216
Individual farmers	15 856	16 381	20 180	795 245	611 630	618 059
<i>Total</i>	<i>25 890</i>	<i>30 716</i>	<i>34 343</i>	<i>795 354</i>	<i>611 894</i>	<i>6 182</i>
Out of which hens						
Farming organisations	4 290	4 515	4 555
Individual farmers	10 743	9 746	12 050
<i>Total</i>	<i>15 033</i>	<i>14 261</i>	<i>16 606</i>	<i>..</i>	<i>..</i>	<i>..</i>

Source: KSH (HCSO), 2001

The improvement of tools, buildings and technology in animal keeping sites became necessary due to the change of ownership and structure caused by the political transition. Meanwhile, the profitability conditions of the sector did not allow development to proceed at an appropriate pace (see Chapter 1.6. Investment needs).

According to the General Agricultural Census, buildings are mostly located on individual farms. 93% of the 102 thousand cattle barns can be found on individual farms, which possess a total of 90 thousand buildings. Their average capacity, however, facilitates the placement of only 14 cattle. In pig farms, which have around 650 thousand pig sites, the 913 thousand pig stalls would be capable of accommodating nearly 9 million pigs. Individual farms own 99,2% of them with an average stall capacity of only 6,3. 63% of the 11 million m² of poultry capacity was also recorded in individual farms. The average capacity of buildings is only 9,5 m². About 95% of the 23 thousand ovine pens were on individual farms as well, while the fragmentation of spaces is relatively the lowest here. On individual farms, 406 milking houses were recorded in 375 places. This is only 0,4% of farms with cattle barns.

The number of farming organisations in possession of buildings related to animal husbandry is substantially smaller. The number of buildings per organisation and the capacity of buildings, however, exceed those of individual farmers by far.

In 2001, the animal keeping sites surveyed by AKII (Research and Information Institute for Agricultural Economics) – comprising 80% of goods-producing farms – were characterised by the conditions presented in the following tables.

Only 27% of animal-keeping buildings and 31% of the technology at the over 20 thousand sites surveyed did not require renovation. In contrast, 19 percent of the buildings needed urgent reconstruction or demolition. In case of all other buildings, the need for reconstruction must be taken into account in the medium term, although this does not mean immediate intervention (*Table 24*).

Table 24: Technical condition of buildings of animal keeping sites *

Species				
	good	average	poor	total
Pig	1 239	3 582	1 032	5 853
Cattle	1 502	3 175	766	5 443
Ovine	1 407	2 213	1 162	4 787
Poultry	1 272	2 036	914	4 172
Total	5 370	11 006	3 874	20 250

* The ratio of buildings at sites that did not answer this question comprised only 0,8 percent of all the buildings surveyed.

Source: AKII, 2001

The technical condition of technological equipment inside the buildings is just as poor. The proportion of equipment qualified as bad, and thus unsuitable for animal keeping in principle is 19%. Due to the faster ageing of equipment, those qualified as average during the survey must also be replaced soon therefore replacement of technology must be taken into account in nearly half of the sites in the medium term (*Table 25*).

Pig keeping stalls are characterised by a rather heterogeneous technical condition. In recent years, only the most necessary maintenance and most pressing renovation measures were performed. Due to the general lack of income and funds, the necessary renovation was not performed even in the years when the income of the sector could have funded it in principle. Only 22% of pig keeping buildings are in good condition, 61% call for more or less repair and renovation while about 17% are essentially unfit for pig keeping. Only 23% of the technological equipment is up-to-date, while another 23% are unfit for efficient production.

Table 25: Technical condition of the technological equipment of animal keeping sites *

Species				
	good	average	poor	total
Pig	1 229	3 440	1 002	5 671
Cattle	2 138	1 908	784	4 830
Ovine	1 141	2 553	1 025	4 719
Poultry	1 292	1 642	772	3 706
Total	5 800	9 543	3 583	18 926

*The ratio of buildings at sites that answered this question comprised 92,7% of all the buildings surveyed.

Source: AKII, 2001

Poultry keeping is also characterised by heterogeneous technical conditions, although in comparison with other sectors, the technological level of poultry keeping is the best, but modernisation and the establishment of compliance with EU requirements are pressing necessities in this sector as well. 30 % of buildings are in good technical condition while about 50% are in average repair. 18% is acceptable for poultry keeping and barely 2% can be qualified as unfit.

From a technological and technical point of view, ovine rearing facilities are the most outdated. Nearly one quarter of ovine spaces have rather limited technical conditions for profitable production, they require urgent renovation. As regards the rest of the spaces, ovine rearing is still viable but they may not be regarded as up-to-date. With regard to environmental protection, ovine rearing farms generally cause fewer problems, however, manure treatment and placement may cause problems on larger animal keeping farms. This issue must be dealt with in connection with Hungary's accession to the EU. Ovine barns of keepers with less than 300 ewes seem to cause no worries in ovine rearing. Shortcomings in this regard have been indicated in over half of the larger farms.

Environmental conditions of animal husbandry sites

A detailed description of environmental conditions regarding animal husbandry sites can be found in *Annex 13* of the NRDP.

In addition to compliance with product quality and consumer protection requirements, compliance with the environmental protection requirements of the European Union is becoming increasingly important in the food production industry. The limits on the nitrate loading of the environment constitute one of the key requirements of EU regulations and the partially harmonised Hungarian legislation. The application of Council Directive 91/676/EEC (the so-called Nitrate Directive) is prescribed by Government Decree 49/2001. (IV.3.) on protection against the nitrate contamination of waters from agricultural sources. Two important aspects must be emphasised in relation to the operation of animal keeping sites. As regards the protection of the water base, the neutralisation of organic manure is of decisive importance, but protection against air pollution can also present a problem in some locations and cases.

Under the decree, compliance with the provisions that constitute "the rules of good agricultural practice in the interest of preventing and reducing the nitrate pollution of waters" is compulsory in the settlements located in the "nitrate sensitive areas" listed in the decree, and it is also recommended in other areas. It is an important rule – and one that is already in force according to the decree – that the annual amount of nitrogen delivered to agricultural areas with organic manure may not exceed 170 kg/ha. The provisions – with the exception of those governing the compliance of the manure storage facilities of already operating animal keeping sites – have come into force. Compliance shall be compulsory for liquid manure storage facilities of animal keeping sites keeping in excess of 50 adult animals as of 1 January 2006 and for livestock manure storage facilities as of 1 January 2010. Animal keeping sites keeping less than 50 adult animals shall have an additional four years to comply with the requirement. According to the decree:

- **liquid manure, manure water, spill water** may only be stored in leakage free, sealed containers or reservoirs. The material of the storage container or reservoir shall be resistant to corrosion, with a lifecycle of at least 20 years. The storage facility shall be capable of holding at least 4 months worth of liquid manure, manure water and spill water so as to ensure secure storage during periods when the manuring of soil is prohibited.
- livestock manure may only be stored at manure storage sites with insulated foundations and fitted with conduits and canals for the collection of spill water. Spill water may be used in a manner identical to liquid manure, or may be returned to the manure. The storage capacity has to be suitable for at least 8 months worth of livestock manure.
- deep litter manure can be distributed without preliminary storage. If that is prohibited, it is to be treated in a manner identical to livestock manure.

Nitrate sensitive areas were defined on the basis of the sensitivity of waters to nitrate pollution. They include the Balaton, Velence and Fertő lakes with their respective settlements along with the catchment areas of all reservoirs used for supplying drinking water as well as certain karst areas, the protective zones of drinking water, mineral water and medicinal water sources, the vicinity of mine lakes, etc.

In the case of pig keeping sites, compliance with environmental protection requirements is the greatest problem, as the use of the manure produced in traditional soil management – with a view to supplying nutrients – is difficult to establish given the present levels of concentration of animal stock and the manure removal technology generally in use. Manure removal is deficient at 11% of the pig keeping sites surveyed (262 thousand animal spaces), while the placement of manure presents a problem for over 25% of the sites.

More than 40% of the pig farms – 217 facilities with nearly 1 150 000 animal spaces – are situated in nitrate-sensitive areas (*Table 26*). Concerning the NRDP measures this condition causes significant difficulties for the farmers in committing themselves to join support

schemes lasting longer than the renting contract or require major and long lasting changes in the production structure and methods (agri-environment, LFA, afforestation).

Table 26: Distribution of the pig farms surveyed according to the available arable land, relative to potential nitrate-emission

Description	Satisfactor	Not	Without	Total
	y	enough		
	area of plough-land		arable land	
Number of sites	133	79	320	532
out of which on nitrate sensitive areas	55	34	128	217
Sow places, 1000 animal	75	63	196	334
out of which on nitrate sensitive areas	36	20	81	137
Calculated annual N production, tonnes	9 000	7 560	23 520	40 080
out of which on nitrate sensitive areas	4 291	2 433	9 766	16 490
Arable land requirement*, hectare	52 941	44 471	138 352	235 763
out of which on nitrate sensitive areas	25 242	14 310	57 445	96 997
Arable land within own property, hectare	20 905	2 336	0	23 241
Leased arable land area, hectare	217 311	11 469	0	228 780
Total arable land, hectare	238 216	13 805	0	252 021
Total shortage of arable land, hectare		30 666	138 352	169 018
Total surplus, hectare	185 275			185 275
On sites covered by nitrate-sensitive areas				
Arable land within own property, hectare	11 779	1 343	0	13 122
Leased arable land area, hectare	85 124	2 741	0	87 865
Total arable land, hectare	96 903	4 084	0	100 987
Total shortage of arable land, hectare		10 226	57 445	67 671
Total surplus, hectare	71 661			71 661

**/The calculated annual "nitrate production" of animals kept and the area requirement calculated according to Council Directive 91/676/EEC, the so-called "Nitrate Directive".*

Source: dr. Mária Guba – dr. Zoltán Ráki: Az állattartó épületek felmérése (*Survey of animal keeping buildings*) Volume II, AKII, Budapest, calculation prepared on the basis of 2002 manuscript.

Animal protection recommendations suggest that **the keeping conditions of pigs should be adjusted in the direction of using litter. This direction of the modernisation of keeping conditions** would result in a radical reduction in the quantity of liquid manure through the spread of some form littering. If we look at the proposed change of technology from the perspective of litter straw demand, the number of sites which, in theory, would be able to raise their litter straw requirement from the available arable land assuming standard crop patterns is less than 10. All of this also means that the conversion to littering technology is a viable alternative for only a small proportion of pig farms.

The present situation is characterised by the fact that of the 217 sites in nitrate sensitive areas, only 55 sites have sufficient arable land areas for the placement of its potential nitrate emissions, while 34 sites could only place a quarter of the nitrogen they produce on the arable land they have access to. 59 percent of the sites situated in nitrate sensitive areas - representing 60 percent of the total animal spaces - have no arable land areas at all

Of the 217 sites in nitrate sensitive areas, 170 sites use liquid manure technology and 42 sites use littering. Using manure is made even more difficult by the fact that liquid manure may only be distributed to agricultural areas with an official permit based on a specialist

pedological survey. Preparation of the survey involves the investigation of ground-water conditions if the level of ground water is within 7 metres of the surface. The soil of the area to be used for the placement of liquid manure, the level of ground water and the quality of the ground water has to be surveyed every 3 years.

Unfortunately, the decree does not prescribe that the surveys are to be performed free of charge, which means that in nitrate sensitive areas, the cost of keeping pigs is not only increased by the additional costs of compliance with "good agricultural practice" but by the costs of the above surveys as well.

At poultry keeping sites, manure management and air pollution may present environmental problems. The presence of deficiencies range from 2% at breeding hen sites through 32% of the buildings at broiler chicken farms to 96 percent of the buildings at breeding duck sites. There exists no satisfactory technological solution to the problems of manure management and storage in Hungary, therefore it is probable that the adaptation of new Western technologies (e.g. manure drying) shall be necessary.

At cattle farms, the management of manure, manure water, and most of all the separation of manure water and precipitation cause the greatest problem, whose solution shall require significant investment in the future. Manure is primarily removed using a mobile process¹³. 84 percent of the buildings operate that system, representing 90% of the total stock of cattle. 2/3 of the remaining stock, in almost 3/4 of the remaining buildings use manual¹⁴ manure removal. Manual manure removal is most characteristic of meat cattle sites.

In cattle barns, the use of traditional dunghills is the general practice. In total, the liquid manure process is only used in three percent of the buildings, in just over one hundred barns, representing four percent of the cattle stock. 1/3 of liquid manure facilities use outdoor reservoirs, enclosed reservoirs have only been built for 2/3 of those facilities. (The liquid manure management method is practically only characteristic of large cattle farms. 85 percent of the sites using the technology keep over 500 cows. But even in that category, just under four percent of the buildings actually use the liquid manure process.)

There is no exact data on the ratio or number of dairy cattle units operating in nitrate vulnerable zones, however it should not exceed 1/3 (approximately 280) of the existing dairy cattle farms.

Animal welfare

At pig farms, the animal protection regulations are largely identical to regulations of animal hygiene, which also implies that the majority of the required capital expenditure shall also be necessitated by compliance with the EU regulations that shall become effective as well as the establishment of competitive production conditions.

In the case of poultry farms, compliance with animal protection measures, in particular those applicable to holding cages presents serious problems.

Relative to the animal protection guidelines of the EU, the following deficiencies occur frequently at domestic dairy farms:

- calves younger than 8 weeks are kept in separate cages,
- breeding cows are raised with minimal opportunities for movement,
- milking cows are kept all year in an enclosed space without grazing and without paddocks,
- floors are slippery and cracked,

¹³ Tractor dozer blades, manure forks, loading buckets, liquid manure collectors.

¹⁴ Pitchforks, manual dozer blades, hoses.

- the protection of cattle against heat shock is partially missing,
- frequent overcrowding in open cattle barns,
- insufficient quantity of quality straw for keeping the animals clean,
- there are some malfunctioning milking machines that cause injury (lack of servicing, training, lack of interest),
- insufficient cooling and warming facilities for the feeding of beestings,
- horns are not removed in some free-range stocks,
- paddocks and pounds unsuitable for use in the autumn and spring periods.

The applicability of the animal protection and food safety regulations of the EU to individual cattle farmers may be characterised as follows:

- Animal protection regulations are applicable to a minor degree or not at all to the approximately 40 thousand farmers who keep a total of approximately 120 thousand cows. Although they are characterised by the enclosed method, the cows are (largely) out in pasture in groups during the pasture season.
- The small farmers more likely to survive are those who only use suitable enclosed buildings (feedbox, feed path, fishbone pattern, etc.) as night shelter and put their cattle to pasture in the daytime (when possible).
- The animal protection rules are the most applicable to the large old enclosed cattle farms, which keep a total of 44 thousand cows. There, cows are tied in the hot and humid barn air all year round, including the summer, and they hardly ever get an opportunity to move. The technical and technological level of those sites along with the professional skills and level of interest of their employees all leave something to be desired.
- Hungary has a significant number of small farms which are unable to meet the increasingly strict regulations governing milk quality, or are unable to meet them in a reliable manner, while they would not recoup the investment they would have to make in order to comply with them. Those farms will be unable to market even their allocated quotas of milk, although at present that is their main activity or a significant supplementary activity. Those farms may be able to maintain their income generating potential by converting to beef farming.

From the perspective of animal protection, the large cattle farms with up-to-date technology and high standards of quality and unit production characteristics are the best.

The environmental, animal welfare and food safety survey of animal keeping sites indicates that there are significant deficiencies as regards compliance with the environmental protection and animal welfare standards of the EU. A significant proportion of the specialised, large animal keeping sites established before 1990 use technologies and manure management methods that do not meet EU requirements or that have deteriorated. Due to the ownership conditions that were established after 1992, some of the specialised sites do not have suitable land areas for the placement of manure, or, due to privatisation, they are unable to establish contractual relations that would facilitate the placement of the manure they produce in the long term.

At the smaller animal keeping sites of private farms, the cost-efficiency of technological development, rather than manure management and placement is the major constraint.

The NRDP shall promote compliance with the above requirements within the measure of the ARDOP supporting the investments of agricultural production units by providing supplementary support for supplementary costs, operational costs and the compensation of lost income, and it shall also be closely connected to the ability to comply with the regulations governing good agricultural practice within the agri-environmental management measure.

1.5. Agricultural salary levels

Agricultural incomes are typically lower than the national and industrial average. This gap has widened since 1990 to the detriment of those employed in agriculture (*Table 27*).

Table 27: Gross and net salaries of agricultural workers relative to other sector groups of the national economy*

Description	1990	1992	1994	1996	1998	2000	2001
Average gross salary (EUR/person/month)							
in agriculture	47,46	64,51	103,90	147,37	194,45	250,75	303,84
in industry	57,70	92,82	142,98	211,52	288,29	385,50	441,27
as an average of sectors of the economy	56,63	93,89	142,94	200,01	278,77	36,78	434,86
<i>Agricultural gross salary</i>							
as a percentage of industrial salary	82,2	69,5	72,6	69,7	67,5	65,0	68,9
% of the average of sectors of the economy	83,8	68,7	73,6	73,7	69,8	68,0	69,9
Average net salary (EUR/person/month)							
in agriculture	37,13	49,32	76,91	104,49	141,66	172,28	205,50
in industry	43,27	65,26	98,50	136,46	191,36	242,87	275,60
as an average of sectors of economy	42,57	65,82	98,65	130,92	186,43	234,38	272,17
<i>Agricultural net salary</i>							
as a percentage of industrial salary	85,8	75,6	78,1	76,6	74,9	70,9	74,6
% of the average of sectors of economy	87,2	74,9	78,0	79,8	76,0	73,0	75,5

* Between 1992 and 1996 economic organisations with more than 20 full-time employees, from 1998 those with more than 4 full-time employees have been taken into consideration
Source: Employment and salaries 1998-2001, KSH (HCSO) 2002

Table 28: Profitability indicators in individual and company enterprises on the basis of the data of businesses tested in 2000

Description	Unit of Measurement	Individual farms	Company enterprises
Operating profit	1000 Ft/ha of agricultural land \approx 4,2 EUR/ha	11, 26	11, 34
Equity profitability	1000 Ft/ha of agricultural land \approx 4,2 EUR/ha	3, 47	4, 25
Labour profitability	1000 Ft/annual workforce unit \approx 4,2 EUR/ha	988, 4	777, 1

Low efficiency and profitability in agriculture leads to low income and salary levels (75% of that of in industry), which is one of the direct causes of diminishing and ageing employment structure in the sector. Being one of the major employers in rural areas this results to unfavourable economic and demographic changes in these areas.

The number of economically viable facilities is below 40-50 000. This is also underlined by the sales revenue generated by registered producers. The revenue per farm was EUR 55 for business enterprises, but only EUR 18 952 for full-time private entrepreneurs and primary

producers and only EUR 3 369 for non-full-time private entrepreneurs and primary producers. The income of the latter two groups does not contain any surplus that can facilitate any development or the use of any modern services not directly related to production. This situation generally prevents the required modernisation of the holdings. The farmers belonging to this group usually live in essentially rural regions where the maintenance and enhancement of income-generating activities is very important because of the high rate of unemployment. The rationalisation of farming using professional services, the bridging of temporary financial problems and the establishment of resources needed for investments may result in the stabilisation of many semi-commodity-producing farms.

Due to the lack of capital and the low profitability of the sector, the agricultural enterprises can only utilise the available credit lines to a restricted extent. The current possibilities and of state aid cannot offer an efficient solution to that problem. The standard cost support proposed in the NRDP can offer a solution by providing more capital and making the farmers more creditworthy.

This feature is of key importance because the level of support received by Hungarian farmers at present is far behind that received by their competitors in the European Union, which has a direct effect on their competitiveness.

In the agricultural raw material production, processing and marketing process the two latter phases (processing and marketing) generate the majority of the income produced. Currently the three stages are separated from each other, the producer ownership and stakeholding is low in the more profitable processing and marketing business. Consequently, producers only retain a small part of the income generated. The NRDP offers a solution to this problem through the measure entitled “Setting up of producer groups” by providing targeted support for the establishment and operation of producer organisations.

The above mentioned (standard cost support in primary production, support to producers’ groups) creates more advantageous financial position for farmers than the loan condition. This way it is possible to improve the organisational structure of the holdings, the utilisation of tools and also the intensity of developments that is essential for eliminating the disadvantages caused by increasing parity¹⁵. From 1990 to 2001, the producer price index has multiplied by four, while the price index of industrial goods used for the production of agricultural products increased by a factor of 5,6 (Table 29).

Table 29: Current producer consumption of agricultural products, price indexes, parity

Description	1990	1994	1995	1996	1997	1998	1999	2000	2001
<i>Volume indexes of current producer consumption, 1990=100%</i>									
Producer consumption of agricultural origin	100,0	63,1	63,6	66,0	65,9	55,3	56,0	47,4	53,8
Producer consumption of industrial origin	100,0	77,0	78,1	78,6	72,8	77,9	81,6	87,4	97
Fees of agricultural services	100,0	68,7	70,0	76,9	75,3	68,8	73,2	61,7	69,7
Total	100,0	67,2	68,0	69,4	66,0	65,1	67,7	67,7	75,6
Price index, 1990=100%									
Producer price index	100,0	163,1	206,4	276,0	301,4	309,9	317,9	389,4	408,7

¹⁵ Parity: the price index of industrial goods used for the production of agricultural products divided by the producer price index

Price index of industrial goods used for production	100,0	202,9	250,9	351,7	404,8	425,9	443,2	491,6	565,7
industrial fodder	100,0	180,7	204,9	308,9	345,7	338,5	335,7	390,8	463,5
consumables and lighting	100,0	224,3	268,2	359,2	433,7	494,8	550,3	604,7	646,4
artificial fertiliser	100,0	199,2	274,5	373,9	408,3	421,3	438,2	468,0	572,4
pesticides	100,0	202,7	256,7	324,7	359,4	389,6	419,2	430,1	512,2
animal health preparations	100,0	197,9	250,9	316,2	347,5	379,8	402,6	429,5	463,9
Parity	100,0	124,4	121,6	127,4	134,3	137,4	139,4	126,2	138,4

Source: relevant volumes of the Agriculture Statistical Yearbook, KSH (HCSO)

1.6. Investment needs

During the last decade, Hungarian agriculture has reached a unique situation as regards machinery and production technology, since the creation of technical and technological conditions for a new operating structure has become necessary. The technical and technological conditions of production are primarily influenced by price and income conditions. The growth of parity has characterised the whole decade, producers' consumption in 2001 reached only 53,8% of the 1990 level (*Table 30*).

Although calculated at fixed prices agricultural investments grew almost every year, the level of income made the required level of technological improvement unaffordable in most of the sectors involved. In spite of the significant improvement observed from 1999, overall agricultural investment in 1999 reached only 55,6% of the amount in 1990 (calculated at 1990 prices) (*Table 27*). These figures indicate that the technical-technological system of agriculture is not updated at the necessary rate.

Table 30: Investments in agriculture

Description	1990	1994	1995	1996	1997	1998	1999	2000	2001
<i>Value of investments in current price, million EUR</i>									
Total investment	136,9	104,7	125,9	194,6	260,4	326,5	337,4	323,3	376,8
of which: construction	62,3	31,6	42,5	66,3	95,6	122,6	114,6	115,7	85,4
machinery	63,0	53,7	73,0	110,8	145,1	178,7	161,9	146,7	161,4
other	11,6	19,5	10,4	17,5	19,6	23,3	60,9	-	-
<i>Change of investment at current price, 1990=100 %</i>									
Total investment	100,0	76,5	92,0	142,1	190,2	238,5	246,4	236,1	275,2
of which: construction	100,0	50,7	68,3	106,5	153,6	196,9	184,0	185,7	137,2
machinery	100,0	85,2	115,9	175,9	230,5	283,7	257,1	233,1	256,4
other	100,0	167,3	89,4	150,1	168,6	199,8	523,0	-	-

Source: calculation based on KSH (HCSO) data

In the above table, the data only refer to economic organisations, therefore in reality development exceeded the figures displayed in the table.

The profitability of production is permanently low, there are only a few sub-sectors producing appropriate level of profit to invest in updating the technology. Such investments are essential to raise production efficiency.

From the utilisation of state aids and the trends of investment indicators the conclusion can be drawn that a significant enlargement of machine capacities was carried out in 1997 and 1998. In 2000, the average number of tractors for 100 ha of agricultural land was 35%, that of combined harvesters reached half of the EU average. No detailed information is available about the depreciation of machinery used. Average lifetime of farm engines is around 12-13 years. The average working time grows constantly, since it was only 7 years regarding the period 1981-1985. The average lifetime is remarkably high in case of automotive harvesters (15,2 years) and of tractors between 41 and 75 kilowatts (12,1 years).

It can be concluded from the above data that due to the transformed structure of the economy, investments were carried out in small steps, maintaining only the basic conditions of production. The further environmental, animal welfare and food safety requirements that shall become obligatory with accession will demand considerable efforts from farmers with

unfavourable financial rates of return, thus the incentive of complementary support is also necessary.

1.7. Environmental conditions

1.7.1. General considerations

About 85% of Hungary's territory is suitable for different purposes in agriculture and forestry, depending on the fertility of soils. Accordingly, agriculture is the largest user of land in Hungary. The quality of cultivated lands, soil types, physical features, slope conditions and climatic conditions are all good for agricultural production in general, although there are substantial regional differences.

As a result of the very intensive farming, often without regard for agro-ecological conditions that has characterised recent decades, the physical, chemical and biological condition of soils has deteriorated. The political and economic transition of the early 90s had a strong influence on the processes of the agricultural sector and they also had a strong effect on the condition of the agri-environment. The result was a somewhat self-contradictory situation as, while after the implementation of the privatisation, holdings became fragmented and the economic conditions of the sector deteriorated in parallel with the general state of the economy, that resulted in the general introduction of more extensive farming methods with much lower levels of pesticide and fertiliser use (and in general, a lower level of input), accompanied in many cases by the appearance of the environmental problems associated with "under-utilisation" (e.g. nutrient management problems, lack of manuring, negative nutrient balances, growth of fallow areas, the stopping of the management of valuable areas under nature protection).

Relative to the figures from previous decades, the use of fertilisers decreased significantly. That is part of the reason why today the primary problem is not presented by environmental damage caused by excessive doses of fertilisers but rather by the degradation of soils resulting from the lack of nutrient replenishment. The quantity and proportion of manuring, which improves and maintains the fertility and the structure of soils have also dropped significantly during the last decade. In the period 1990 to 2000, the area treated with livestock manure dropped to a third, while the quantity of manure used dropped by 68% (relative to the period 1981-1985, that is equivalent to a reduction of 75%).

Table 31: NPK balances of the period 1900 to 2000 (in areas under agricultural cultivation, kg/ha/annum)

Period	N	P ₂ O ₅	K ₂ O	In total
Withdrawn with yield				
1900-1950	40	15	38	93
1961-65	47	18	48	113
1971-75	72	27	69	168
1986-90	88	40	97	225
1991-95	83	32	79	194
1996-2000	73	26	46	145
Replaced by fertilisers				
1900-1950	0	1	0	1
1961-65	24	17	9	50
1971-75	80	54	67	201
1986-90	93	47	58	202
1991-95	29	4	4	37
1996-2000	47	7	8	62
Total replacement				
1900-1950	7	7	16	30
1961-65	23	19	24	66
1971-75	84	62	105	251
1986-90	120	64	111	295
1991-95	53	19	51	123
1996-2000	64	14	24	102
Balance				
1900-1950	-33	-7	-22	-62
1961-65	-24	+1	-23	-46
1971-75	+13	+35	+31	+79
1986-90	+32	+24	+14	+70
1991-95	-30	-13	-28	-71
1996-2000	-9	-12	-22	-43

Source: Imre Kádár, Hungarian Academy of Science, Soil and Agrochemical Research Institute

The amounts refer to all fertilisers.

Largely thanks to the reduction of the intensity and concentration of production and the reduction of the use of environmentally damaging inputs (chemicals), the environmental stress caused by agricultural production is not significant, which also constitutes a tremendous advantage as regards compliance with food security standards. Risks are posed, rather, by the

excessive fragmentation of production and, in some places, unprofessional production methods and agri-technological measures that fail to take environmental considerations into account. On the other hand, certain prosperous farms in certain areas still make excessive use of natural resources, apply no methods of environment-conscious farming and in those situations, the resultant environmental problems are still present (reduction of biodiversity as a result of the intensive use of pesticides and fertilisers, diffuse and point-source soil and water pollution).

In addition, the unfavourable effects that the agricultural processes of recent decades (in particular the conversion of valuable grasslands to arable land in the areas distributed in the compensation scheme) had on the landscape still await remedy.

Diagramm 4: Pesticide sale, 1990-1998

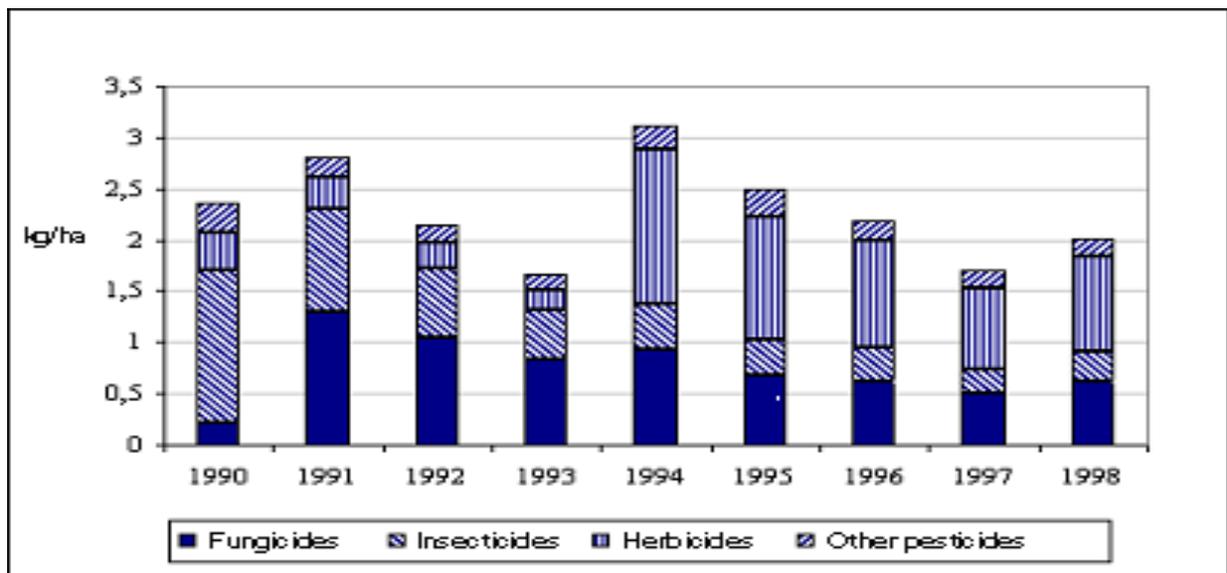
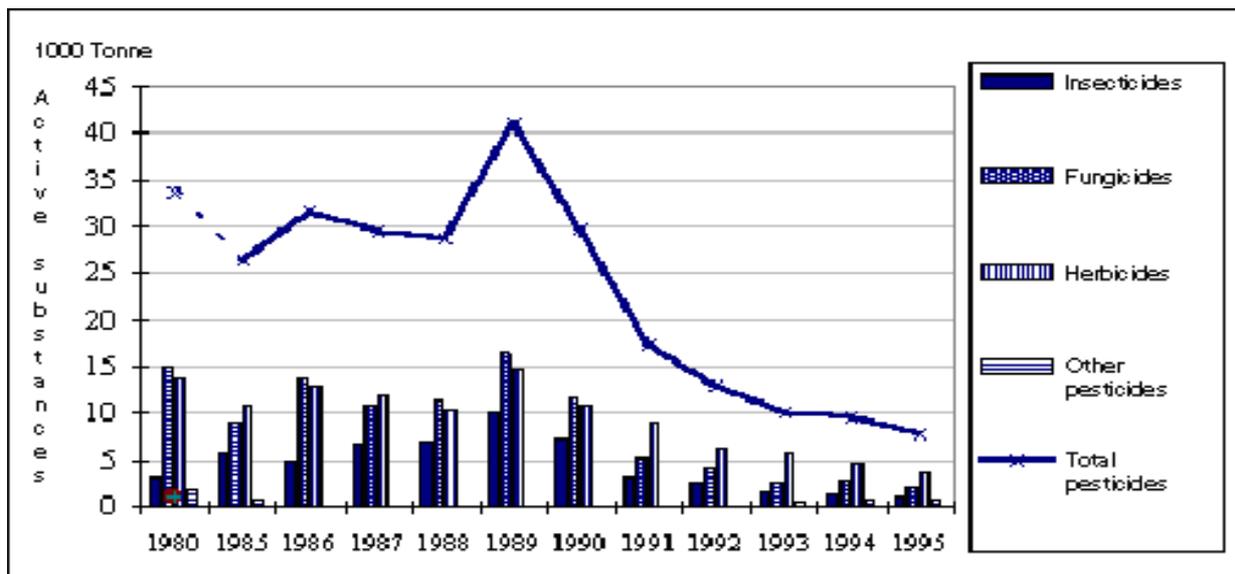


Diagramm 5: Pesticide use, 1980-1995



In the large fields that had been established previously, the lack of sufficient replenishment of organic materials, inappropriate crop rotation and the generally used practices of soil cultivation, the total lack of soil coverage and the destruction of the protective forest belts that had been established in the 70s and 80s are leading to alarming levels of wind and water erosion.

The development of agricultural technologies in line with the so-called American model and the general introduction of the intensive use of plant protection chemicals and fertilisers during the 1970s and 80s, along with the agricultural crisis of the 90s caused by the general economic downturn lead to the almost total eradication of traditional, environment-oriented, resource-efficient forms of farming. That represents a grave problem not only on account of the negative changes in the status of soils and waters, it is also the main causal factor behind the reduction of biodiversity. The majority of the natural assets of Hungary are in effect near-natural habitats and their associated plant and animal species, which have developed as a result of the wide-ranging application of certain human, in particular agricultural activities and methods. However, that also implies that those natural assets will also be lost when the traditional domestic farming methods disappear. In that respect, the cessation of cultivation or utilisation and excessively intensive farming are equally dangerous, though at present, due to the reasons mentioned above, the former presents the greater problem.

The above considerations indicate that in Hungary, due to the country's complex features and the wide range of current problems, the promotion of environment-conscious farming must extend to a large number of different areas. The sections below present the current situation and recent changes in relation to individual components of the environment. The most important problems of agri-environmental management based on the priority criteria defined are summarised in the next table.

Table 32: Agri-environmental problems

Denomination	Area concerned	Environmental significance	In total
1. Wind and water erosion	+++	+++	6+
2. Reduction of biodiversity in valuable natural areas due to the cessation of cultivation	++	+++	5+
3. Soil compaction	+++	++	5+
4. Destruction of natural assets caused by intensive farming	+	+++	4+
5. Landscape destruction caused by changes in (the intensity of) land usage	++	++	4+
6. Water pollution from agricultural sources (nitrate and phosphate infiltration)	+	++	3+

Evaluation: + moderate, ++severe, +++very severe

In implementing the NRDP and ARDOP, every effort will be made to ensure that this situation is not worsened.

1.7.2. Soil

In Hungary, the following physical soil degradation processes associated with agriculture occur to a significant degree:

1) erosion and wind erosion; 2) soil acidification compaction; 3) deterioration of soil structure caused by salinisation; 4) soil compaction; 5) risk of undrained inland waters; 6) charring, scaling of topsoil;

In Hungary, the greatest soil degradation factor is (water and wind) erosion, in addition soil acidification and salinisation are also affecting significant share of the used agricultural area.

Erosion

In Hungary, water erosion in agricultural areas caused by negligence of topographical conditions, inappropriate parcel allocation conditions, large table monoculture plant growing, growing of hoeing cultures on slope areas, plantation and cultivation from the hill down to the valley, the failure to plant intermediate crops or covering plants and the application of inappropriate soil cultivation procedures has contributed substantially to the strengthening of erosion. Estimating the current extent and degree of erosion in a reliable and accurate manner is a difficult task, and it is also very difficult to estimate its economic and environmental impact.

In Hungary, water erosion is also very significant soil degradation processes, at present it affects over a third (35,3%) of all agricultural areas, totalling 2 297 000 hectares¹⁶. Currently, soil loss caused by water erosion amounts to about 100 million tonnes per annum. Hungary

¹⁶ Stefanovits P., Várallyay Gy.: State and Management of Soil Erosion in Hungary, Soil Erosion Prevention and Remediation Workshop, Budapest, April 27 - May 1, 1992.

also suffers significant wind erosion (1,4 million hectares are at risk), but, as no suitable monitoring system is in operation, accurate data are not available. Wind erosion damage is most significant on our sandy and sandy chernozem soils.

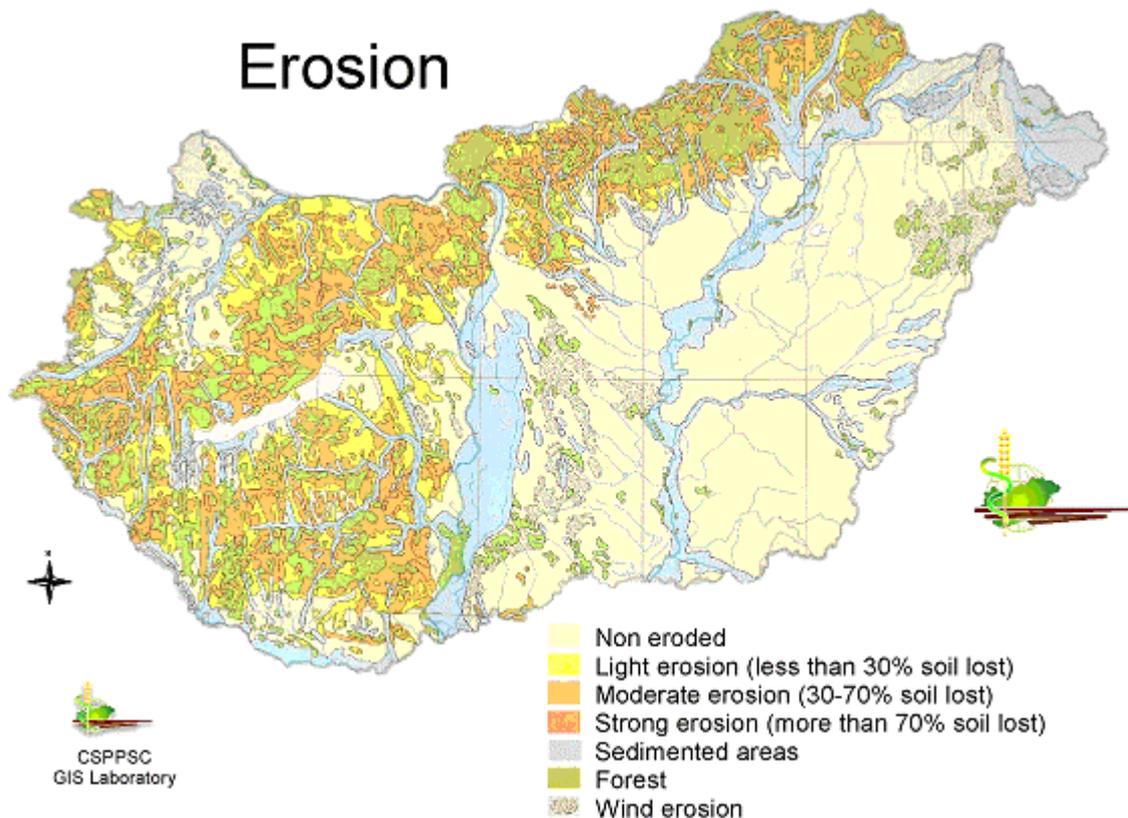
Wind erosion damage is primarily incurred by sandy soils and by inappropriately cultivated (loessal) chernozem soils. As a result of inappropriate land use (no crop rotation, lack of manuring, destruction of protective forest belts, no soil coverage) among the arable land that constitutes almost 50% of the country's territory, the large fields in industrial cultivation that do not have continuous plant cover are affected by the risk of wind erosion. In the next decade, the soil damage caused by erosion processes shall have to be reduced significantly through the wide-ranging application of soil protection agricultural technologies, the establishment of lines of trees, forest belts and anti-erosion hedges in the vicinity of fields and the application of continuous soil cover. If justified by the threat of erosion and wind erosion, areas should be afforested for soil protection purposes.

Table 33: Erosion in Hungary, 1999

Erosion	
Total area affected by water erosion	2 297 million ha
of which	
severe erosion,	0,557 million ha
medium erosion,	0,89 million ha
moderate erosion	0,86 million ha
Average annual soil loss	
in areas with:	
severe erosion,	70 t/ha
medium erosion,	40 t/ha
moderate erosion	20 t/ha
Total annual soil loss	100 million tonnes
Total annual loss of organic materials	1,5 million tonnes
Area affected by wind erosion	1,4 million ha

Source: Hungarian Academy of Science, Soil and Agrochemical Research Institute

Map 2: Map of erosion in Hungary



Forests play an important role in soil protection. The forest areas covering almost a fifth of the country's territory are affected by minimal erosion or no erosion at all. As a result, the currently forested area prevents the erosion of 32 million tonnes of fertile soil per year. In the

areas of the Great Plains with loose soils, the 465 thousand hectares of forests play an important role in protection against wind erosion and desertification.

The implementation of the National Afforestation Programme (700 thousand hectares) shall protect some 12,6 million tonnes of fertile soil annually against erosion and shall reduce wind erosion on an area of almost 400 thousand hectares.

Methods of soil protection that may be used to counter soil erosion:

- changing the land use
- agricultural technology (direction and method of soil cultivation) that is appropriate from the perspective of soil protection
- technical soil protection (melioration, establishment of terraces, contour terraces, belt ditches)

Possible methods of protection against wind erosion:

- changing the land use in order to protect the soil (grassland, forests)
- adjustment of field structure (optimal field sizes)
- soil improvement (replenishment of organic materials)
- establishment and maintenance of soil cover (covering plants, intermediate crops or mulching)
- application of agricultural soil protection technologies (soil cultivation methods)
- establishment of soil protecting forest belts.

Soil acidification

13% of Hungary's soil cover has strong, 42% has average or weak *acidity*. In Hungary, 50% of soils belong to the category of acidic soils. Soil acidification has accelerated in the last two decades, but the area affected has not grown significantly. The intensification of soil acidification is attributable to the misuse of chemical fertilisers, acidic deposits from the atmosphere, various acidic industrial by-products, waste and the lack of adequate soil improvement (liming). Soil acidification processes may be reversed to a significant extent by the application of environment-friendly nutrient management, increasing the organic content of soil, the use of vegetable fertiliser and regular liming.

Soil salinisation

Salinisation affects and limits soil fertility and productivity on 946 000 ha (10% of the country, 155 of UAA). On further 245 000 ha salinisation in deeper soil layers occurs. Excess Na-salts seriously limit arable production (15-40%) and in grasslands there is also a significant loss of productivity. In areas with saline soils (solontsak, solonets, salimne meadow soils, saline chernozem soils etc.) there is also a risk of further salinisation if temporary water logging occurs bringing up more excess salt from deeper layers. Inappropriate water regulation, land use changes (conversion to arable,) deep ploughing, disturbance of deeper soil layers, irrigation can exacerbate the negative processes. To avoid the worsening the situation strict land use (avoid plough up, deep ploughing, special tillage) and water management (no irrigation/ strict irrigation water quality, keep down water table) related rules must be followed.

Soil compaction

In Hungary, soil compaction can be attributed to the following causes:

- Natural factors: they are primarily characteristic of soils or genetic soil strata containing low amounts of organic or inorganic colloids. Soils can also be compacted as a result of extreme weather conditions (undrained inland waters or drying and sedimentation caused by excessive precipitation or lack of precipitation).
- Movement of machinery and cultivation on wet soils: The extent of deformation is a function of the severity of the causal factor, the period over which it is effective, the loading per unit area, characteristics of the soil and other factors (irrigation, inappropriate agricultural technologies in areas affected by movements of water)
- As a result of repeated cultivation at the same depth resulting from pressure placed on the soil repeatedly by cultivating tools: This occurs most frequently at the depth of harrowing (16-20 cm) or ploughing (22-25 cm, 28-32 cm, 38-40 cm). In unfavourable circumstances, two or three excessively compacted strata can develop in a single section of soil.

According to older surveys, crop cultivation is hindered by the presence of a compacted barrier stratum over an area of some 1,4 million hectares in Hungary. In recent years, domestic surveys indicate that the situation has deteriorated further in this respect. Since 2000, about half the arable land area of Hungary has been shown to be affected by compaction.

Table 34: Areas with various degrees of compaction in Europe and Hungary (million ha)

Degree of compaction	Europe	Hungary
Minor	24,8	1,05
Medium	7,8	0,33
Severe	0,4	0,02
In total	33,0	1,4

Source: Gyuricza, 2000

Agri-technological solutions, appropriate crop production technology and new cultivation methods can be used to reduce, prevent and eliminate soil compaction. In exceptional cases, compaction may be reduced naturally as well, but that process either takes several years or only affects the top few centimetres of the soil.

- Crop production technology and cultivation solutions

Continuous maintenance of the water absorption capacity of soil by cultivating below the level of the compacted stratum or by performing regular loosening of the soil

Appropriate combination of work on arable land

Adjustment of machine movements to match the water content of the soil, use of special machines

Use of direct sowing without cultivation

Variation of the depth of cultivation, use of combined tilling activities

Periodic deep tillage

Improvement of the condition of soil in strips

Improvement of the condition of soil below the standard lowest level of tilling (deep loosening)

1.7.3. Water

The 93 000 km² territory of Hungary is located in the deepest part of the Carpathian Basin. Two-thirds of its territory are plains, flat or nearly flat basin bottoms at heights above sea level under 150 m, while the great majority of the remaining third consists of mountainous and hilly regions at heights above sea level over 150 m. The climate of the Carpathian Basin is characterised by the regular alteration of drier and wetter periods. The fact that the country is located in a basin implies that at times it stores tremendous quantities of water – in the shape of floods and undrained internal waters – while at other times, agricultural production is jeopardised by drought. 52% of the country's territory, two-thirds of its cultivated area is subject to the risk of flooding and internal waters. The agricultural areas subject to the risk of drought are equivalent to those affected by flooding and internal waters, and the damage caused by drought reaches or exceeds that caused by floods and undrained internal waters.

The positive effects of forests on water management: the protection of the drinking water base, the storage of precipitation, the reduction of the danger of flooding through slowing the flow of precipitation water, the purification of water and the improvement of water quality characterise all the forests of the mountainous and hilly regions of the country. Among afforestation measures for water management purposes, the afforestation of catchment areas and the flood planes of rivers constitute priorities.

Floods

Domestic topographical features are not the decisive factor behind the origins of flooding in our country. The water yield of our rivers is dependent to a significant degree on the water management of the countries where those rivers enter our country from, the so-called up-river countries. Within the borders of the country, the total area of floodplains along rivers and minor watercourses is 35 000 km². During the period 1995 to 2000, Hungary experienced flooding and had to apply emergency protective measures for varying periods of time every year with the exception of 1997. Of our major rivers, the Danube floods every 2 to 3 years while the Tisza floods every 1,5 to 2 years on average. One-third of the country's cultivable area, 32% of our railways, 15% of our public roads and over 700 settlements totalling 2,5 million residents are located in floodplains. The floods of the Tisza valley are particularly often accompanied by the appearance of undrained internal waters.

Decades ago, in the course of river regulations flood-control dykes were constructed, which kept flood flows for a long time. Due to the changes in land use (deforesting) in the catchment area, mainly over the country border, and to the neglecting of the flood-plains flood levels have raised in the Tisza river and its affluents, thus eliminating the recurring flood risks by raising the embankments is no longer expedient for economic reasons. Therefore, the Hungarian Government has elaborated a plan (the so-called Vásárhelyi¹⁷ Plan) for the mitigation of flood in the area of the most endangered Tisza river, in the framework of which emergency reservoirs will be constructed in the less valuable agricultural areas and the utilisation of flood plains will also be changed. Implementation of the long-term plan will start in 2004, for which 8 billion HUF are appropriated in the budget for the year 2004.

¹⁷ The Program was named after the initiator, designer and head manager of river controls.

Waterlogged areas

About a quarter of the territory of Hungary consists of low-lying plains that have no natural drainage. Some 10-15% of the almost 5 million hectares of regularly cultivated arable land is affected periodically by harmful surface waters (internal waters). The assessment of the data of several years indicates that the annual average area covered by internal waters (for a period of 2 to 4 months) is approximately 130 000 hectares. The area affected by internal waters was exceptionally large in the year 2000, when 343 thousand hectares were under water at the beginning of the year. At present, a network of drainage canals totalling 27 500 km and 235 surface water reservoirs with a combined capacity of 259 million m³ are available for the drainage and storage of internal waters. The areas of the country that carry the highest risk of internal waters are the Tisza valley and the lower-lying parts of the Danube valley.

Drought

In recent years, the risk of the occurrence of moderate droughts has increased significantly across all seasons, while the probability of severe drought in the spring and winter periods has also increased. A survey of the annual distribution of precipitation over the last hundred years indicates that there have been 17 favourable years, 32 dry years and 28 very dry years. The probability of severe drought is particularly large in the plain areas (though there are variations between regions), the Transdanubian region is only subject to more moderate droughts. Droughts may occur every two years. The average period of recurrence of severe droughts is between 10 and 20 years in the Great Plain. In drier periods, actual quantities of precipitation remain far below the average, while in wetter periods, it may reach two to three times the average value. A review of the precipitation conditions of the growing season indicates that rain alone does not meet the water requirements of vegetation.

The quality of surface and subsurface waters

In Hungary, primarily thanks to the transition and the accompanying crisis of the sector described in the introduction, which resulted in a reduction of inputs, there is no significant diffuse or point source water pollution of agricultural origin. Although that situation arose spontaneously as a result of economic and financial conditions that were forced on the sector, it is very important to preserve it through the promotion of environment-friendly technologies and methods.

The only problem with respect to the protection of waters is posed by the liquid manure and wastewater emissions of large-scale industrial animal husbandry sites (pigs, poultry, cattle). The following further agricultural factors represent (moderate) risks to the condition of our waters:

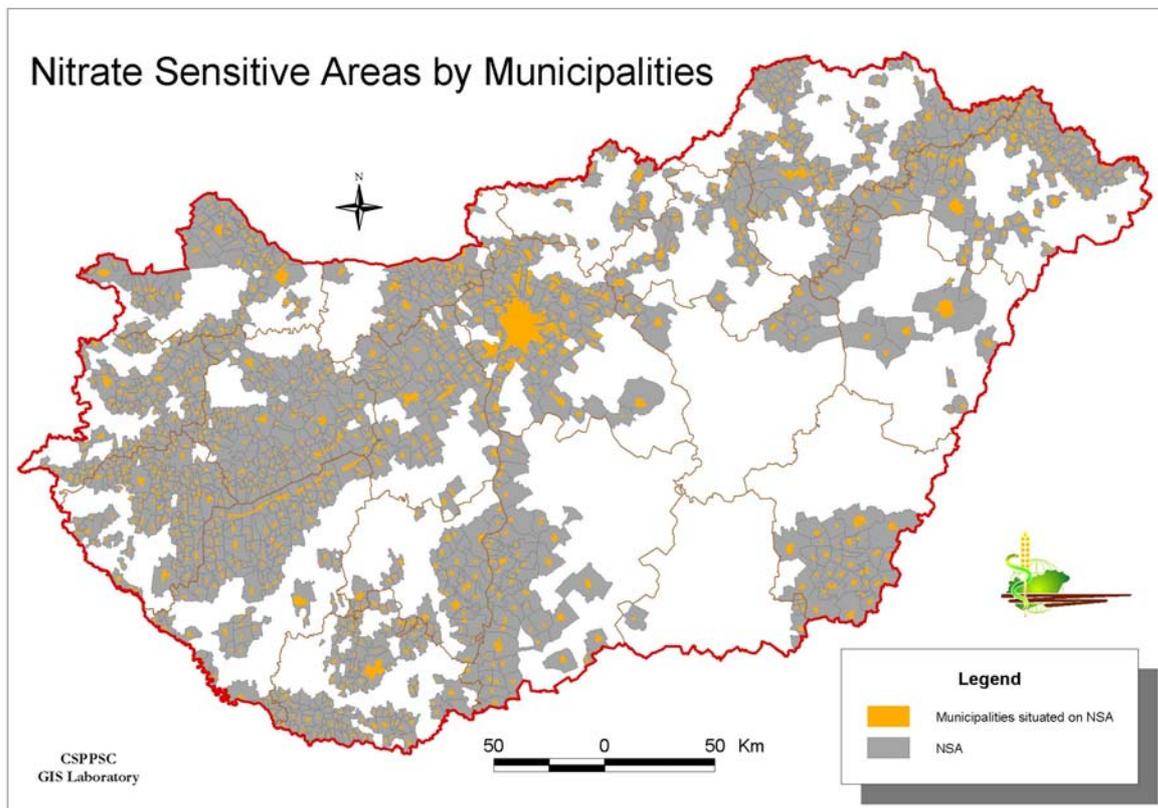
in some locations, the risk of environmental pollution resulting from the inappropriate (irresponsible) use of excessive quantities of fertilisers and organic (liquid) manure still exists,

surface and subsurface waters may be polluted by inappropriately stored and managed organic, largely liquid manure and other wastewaters at intensive animal husbandry sites, surface and subsurface waters may be contaminated by pesticides due to inappropriate distribution.

It is not possible to quantify the nitrate, phosphate and (possibly) pesticide pollution of surface and subsurface waters from agricultural sources in an accurate manner, as no dedicated monitoring system is in operation at present. The most assistance with monitoring environmental conditions is provided by the Soil Protection Information and Monitoring

System operated by the Plant and Soil Protection Service of the MARD, which monitors the nitrate content of soils, among other things.

Map 3: Nitrate Sensitive Areas in Hungary



Implementation of the Nitrate Directive

Annex 2 of Government Decree 49/2001 (IV.3.) contains the list of settlements located within the nitrate sensitive areas of Hungary (some 1500 settlements) and the rules under the title "good agricultural practice of manuring" whose observation allows farmers to comply with requirements. Nitrate Vulnerable Zones (NVZs) accounts for 4,337 million hectares of Hungary (46,6 % of the country) of which 2,788 million hectares is agricultural area (29,9 % of the country, 44,9 % of UAA). According to Central Statistic Office data (2004) 450 737 land owners are situated on NVZs. Action programmes for NVZs under the nitrates directive are automatically part of the good farming practice, as defined in Annex 3.

The decisions aimed at the implementation of the provisions of the above Government Decree were based on national surveys of nitrate pollution, the assessment of those surveys and the corresponding data obtained from the General Agricultural Census performed by the HCSO in 2000. Measurements extended to surface waters, their catchment areas, the eutrophication status of waters and to the extent to which agricultural activities influence the nitrate concentration of waters.

Nitrate sensitive areas were defined on the basis of the nitrate content of waters, and a 12-year action plan (covering the period 01.01.2002 to 31.12.2013) was also prepared. Annex 2 of

Government Decree 49/2001 (IV.3) defines the nitrate sensitive areas in the form of a list of settlements. The list of settlements drawn up on the basis of the nitrate sensitivity of surface and subsurface waters contains some 1500 settlements.

In the case of subsurface waters, nitrate sensitive areas were defined on the basis of the nitrate sensitivity categories established by Government Decree 33/2000 (II.17.) "on certain tasks associated with activities connected to the quality of subsurface waters", in accordance with the administrative areas of the settlements.

Among surface waters, those falling under the effect of Government Decree 240/2000 (XII.23.) "on the definition of surface waters that are sensitive from the perspective of municipal wastewater treatment and their catchment areas" were considered to be highly nitrate sensitive for the purposes of the survey (e.g. the catchment areas of our large lakes, the catchment areas of drinking water reservoirs, etc.). The action plan is divided into 4-year periods with the provision that it may be revised and amended every 4 years on the basis of continuous data provision by farmers and the experiences of on-site controls. The nitrate pollution of groundwater is primarily associated with large-scale intensive animal husbandry sites, with those using the liquid manure technology causing most of the problems. (According to a survey of storage facilities performed in 1996-98, the total annual production of liquid manure is around 11 million m³. Approx. 80 thousand hectares of agricultural land would be required to accommodate that amount. Approximately 3.4 million m³ of livestock manure is produced every year in nitrate sensitive areas.) The most important priority is the reduction of nitrate emissions. At the European level, the corresponding provisions are prescribed in the "Nitrate Directive" (Council Directive 91/676/EEC), whose application was prescribed within the domestic legal system by Government Decree 49/2001. (IV.3.).

Water protection programme

Over 90% of the public utility drinking water supply of Hungary comes from drinking water wells installed on subsurface water reservoirs. About two-thirds of those are in fragile geological locations, that is to say over a longer period of time, pollution from the surface can reach the point where water is obtained. Under the action programme launched by the government in 1997 in order to protect the drinking water base, the replenishment zones of the fragile drinking water sources already operating and those allocated for long-term use are being determined and 20-day, 6-month, 5-year and 50-year access period protection areas are being defined. Sources and processes of pollution are being investigated within the complex status survey of the water base. The programme is expected to be concluded in 2009. The protective zones of the total of 700 fragile drinking water sources cover approx. 8% of the country's territory. Among other things, the water protection programme promotes the transition to environmentally sound agricultural activities within the protective zones of water sources.

1.7.4. Air

There is only a small amount of data available about air pollution of agricultural origin in Hungary, because the contribution of agriculture to air pollution is very small, so national initiatives have concentrated on pollution originating from industry and transport. Nevertheless, the reduction of methane and ammonia emissions from inappropriate storage and use of organic fertilisers and liquid manure is an objective. At the regional level, there exist a significant number of animal husbandry sites that produce large quantities of liquid manure without appropriate storage facilities. As the majority of those farms use the liquid

manure (high water consumption) technology, methane and ammonia emissions and odour pollution are quite common. Due to the lack of financing for investment in waste management facilities, animal husbandry technologies remain unchanged at those farms and therefore they may remain sources of air pollution for some time yet.

In addition to the air pollution associated with animal husbandry, there exist some other problems that also bear on air quality. Particularly in the areas sensitive to the wind erosion, the top layer of the soil is carried off by the wind, which causes dust pollution and in some cases the pesticides and fertilisers bonded to the deflated soil may also cause pollution. Solutions to the former set of problems may be furnished by changing the technology of liquid manure sites or by avoiding the stockpiling of liquid manure, i.e. through its utilisation for biogas production, while the latter problem may be solved by reducing wind erosion. The latter example demonstrates the complexity and close interrelations of environmental problems, as the aggravation of one problem may result in the appearance or intensification of another one.

Forests play an important role in the regulation of the carbon dioxide content of air and in the purification of air, the filtering of harmful materials and they may also play a key role in solving the problems arising from climate change. Hungary has undertaken to reduce carbon dioxide emissions by 6% when it signed the UN Climate Change Treaty. The 30-50 million tonnes of carbon that the 700 thousand hectares of forests whose establishment is proposed in the National Afforestation Programme may absorb will make a significant contribution. The majority of the planned afforestation shall take place in the Great Plain, where it will also play an important role in absorbing dust and sand particles from wind erosion polluting the air.

1.7.5. Biodiversity and agriculture

A significant proportion of Hungary's natural assets are associated with extensive agricultural production and the places where it is conducted, agricultural habitats. Variable use of the landscape adapted to the varying characteristics of the environment plays an important role in maintaining the high-level biodiversity of Hungary. Effective protection for the many species of domestic agri-biodiversity can only be established through the wide-ranging integration of the interests of the protection of nature into agricultural cultivation.

The extensive farming that is advantageous from the perspective of nature protection was preserved to the greatest degree in low fertility, underprivileged areas, many of which also have poor infrastructure supply. In those areas, the local population has been conducting agricultural production to obtain supplementary income, often in part-time work and in a labour-intensive manner, preserving traditional methods. In some instances, extensive farming has been mixed with intensive production. The processes that are taking place today or have taken place recently, for instance, privatisation, are also promoting the establishment of such contradictory circumstances. In some privatised areas, production is becoming even more intensive, while in others, farming is relaunched using traditional tools. The latter may not be expected to survive in the long term without external support, yet in many areas, the considerations of nature protection suggest that they should be preserved. At present, almost 10% of the territory of Hungary is under nature protection, representing over 900 thousand hectares. Some 40% of the areas of national importance are being used by agriculture. Those areas are generally of low productivity, which implies that it is much more difficult to conduct farming in a profitable manner there. Extensive farming in line with the requirements of nature protection may be one solution for the farmers living in those areas, provided that suitable financial incentives are provided to supplement their income.

Certain forms of extensive farming systems, or their transitional forms or remnants still exist in some areas of the country. Almost all our large geographical regions still have some form of traditional farming, though their methods, extent and volumes differ from region to region. The shepherding in the alkali flats of the Great Plain, fruit production and grassland farming in the "Órség" region or the grazing of the wooded pastures of the Transdanubian region by cattle, the system of detached farmsteads in the "Kiskunság" region or the extensive use of the karst area at Aggtelek are all good examples. Grasslands and extensive arable lands have only survived in fragments, particularly in the pre-regulation floodplains of our larger rivers. The scatterings and islands of grasslands are indispensable for the survival of endangered species, for example the corncrake. Among the land uses, reed areas and fish ponds are extremely important. Their domestic proportion is significant even in European comparison. Reed areas and fish ponds play a definitive role in the preservation of aquatic ecosystems. Among vineyards and orchards, the proportion of extensive systems is negligible, but from the perspective of nature protection, maintaining at least those areas is certainly desirable. In addition to those listed, it shall also be necessary to insert as large as possible a number of extensive elements among the methods of farming currently used in areas with better agricultural potential in order to preserve the riches of our landscapes and natural assets, which are outstanding even in European comparison.

The system of support available in High Nature Value Areas (Nature Sensitive Areas) is particularly important because it makes forms of farming viable in areas not under nature protection that are in complete accordance with the interests of nature protection. At present, areas under nature protection constitute less than 25% of Sensitive Natural Areas. As regards the future of the system, we believe it is of the utmost importance to extend the system of support to as many of the areas that, on the basis of their natural assets, have been included in the Hungarian Natura 2000 network, as possible in the cases where semi-natural agricultural cultivation can contribute to the preservation of those assets. In our country, the protection of two very important species, the corncrake (*Crex crex*) and the bustard (*Otis tarda*) may be mentioned in particular as being directly related to the application of certain special farming methods.

Corncrake (*Crex crex*): A species listed in Annex I of the Bird Protection Directive. Its domestic population has been decreasing continuously since the middle of the 1970s. The current domestic population is around 1500 pairs. Agri-environmental protection support aimed at protecting the corncrake (with the corresponding obligations: delaying the first mowing of wet grasslands, establishment of parcels of suitable sizes, mowing no more than twice a year, agricultural technology that maintains soil structure) may be applied for in the following areas: North Cserhát, Marcal Basin, the Turján region, Szatmár-Bereg, Danube valley plain.

Bustard (*Otis tarda*): A species listed in Annex I of the Bird Protection Directive. A drastic reduction of the Hungarian population took place in the beginning of the 80s, when the number of pairs dropped below 1000. According to the counts performed in recent years, the current population of bustards is around 1200 specimens. As regards its habitat, the domestic population of bustards is primarily to be found in areas where autumn coleseed and alfalfa is being grown on arable land and in extended grasslands. The packages of farming support aimed at protecting the bustard may be applied for in the following areas: the environs of Dévaványa, Danube valley plain, Heves plain, Borsod grasslands.

Forests, as the most complex ecosystems, are the most important scenes of maintaining biodiversity. 57% of the country's forests consist of near-natural stock (SFS 2001), dominated

by indigenous tree and shrub species. 43% of forests are composed of acclimatised tree species, most of which are black locusts (*Robinia pseudoacacia*) and improved poplars (Poplar cv.). Those forests are less valuable from the perspective of biodiversity, but they play important roles in improving the economic potential of rural areas and their environmental protection role is also significant (carbon absorption, air purification, wind erosion protection, etc.). The obligations undertaken by the Hungarian government in order to implement the principles of the United Nations Conference on Environment and Development in Rio de Janeiro include the maintenance of the productivity and health of forest ecosystems, the maintenance of biodiversity and the development of protective and socio-economic functions. The maintenance and improvement of biodiversity play an important role in relation to afforestation measures. This is manifested in the higher support available for the plantation of near-natural forests and additional supplementary measures aimed at increasing biodiversity.

19,5% of Hungary's forests are under nature protection (Ministry of Environment, 2002), 47% of all protected areas are forests. In protected forests, all forestry activities are subject to permission by the environmental authority, economic activities are subordinated to environmental considerations. Of our forested areas, 49 forest reserves provide special protection on a core area of 9 731 hectares. In those areas, no forestry activities are permitted at all. Afforestation planned in areas under nature protection also requires the preliminary permission of the environmental authority, which ensures that biodiversity and our natural assets are protected.

1.7.6. Natura 2000

The proposed list of sites to be included in the Natura 2000 network has been elaborated at the technical level but the national legislative process of designation is not yet completed. Hungary will ensure that this process will be completed as soon as possible and in any event no later than end October 2004. The list includes 1 233 110 hectares of special bird protection areas and, partially overlapping the former, 1 370 038 hectares of areas of Community significance. The degree of overlap with existing sensitive natural areas is 22%. However, the sensitive natural areas not included in the Natura 2000 network are also significant from the perspective of meeting our EU legal harmonisation obligations if they are the habitats of species of Community significance, as the general protection of those species is an obligation of member states beyond the scope of the Natura 2000 system as well. A significant proportion of the areas under nature protection are part of the Natura 2000 system. Almost 40% of the network to be established is already under nature protection. In some cases, the preservation of species of Community interest requires the maintenance of farming activities in their interest or the establishment of extensive, near-natural forms of farming. Pastures and meadowlands are the habitats of those species, but arable lands may only be significant as feeding areas.

Particular care will be paid when implementing NRDP and ARDOP measures not to deteriorate the environmental situation of the Natura sites designated/to be designated.

1.7.7. Landscape

"A landscape can be regarded as a system comprising a specific geology, land use, natural and built features, flora and fauna, watercourses and climate." (Directions towards sustainable agriculture, Brussels, COM (1999) 22 final, Communication of the EU Commission). Agriculture is not always a component of the landscape, but in Hungary, where agriculture uses a very significant proportion (almost 85%) of the land, it is certainly the most important influencing factor. In Hungary, the structure of the landscapes of agricultural areas and their biodiversity is dependent to large extent on the form, nature and intensity of farming in use in

the region concerned. Agricultural activities have a very pronounced effect on the landscape, in particular the spatial location of the components of the landscape and the its structure. In Hungary, changes to farming methods, specialisation, intensification and in some cases the cessation of cultivation as well as the direct destruction of landscape components jeopardise the maintenance of landscape diversity to an even greater extent than they do in the EU member states. In many regions, the reduction of the number of people farming small areas and intensification have resulted in the practical disappearance of variegated, fragmented landscapes and mosaic-type cultures.

On the other hand, valuable landscapes may also be put at risk by the conversion of areas from cultivation to other sectors of the economy (e.g. tourism) and the inappropriately controlled expansion of urban areas (industrial parks, inclusion in the internal territory of settlements). In the past, the regional development policy pursued in Hungary has resulted in the draining of significant quantities of aquatic habitats, and floodplains were also made suitable for agricultural cultivation. In recent years, such large-scale transformations of the landscape have not been pursued, the only serious problems are posed by urban and infrastructural development and construction without building permission. No accurate figures and statistics exist about the valuable features of landscapes that have been destroyed. The degradation of landscapes is attributable to the following causes:

- destruction of (line type) landscape components due to the increasing size of land parcels (intensification),
- development of scrublands and spontaneous forests as a result of the cessation of cultivation,
- simplification of crop rotation systems, specialised forms of farming, monocultures,
- draining of aquatic habitats, tilling of grasslands (intensification),
- distribution of human and animal waste to agricultural areas,
- cessation of the maintenance of man-made components of the landscape,
- unregulated regional development, reduction of agricultural areas to establish roads and settlements.

Solutions to the problems outlined above may be furnished by the promotion of environmentally conscious farming methods that match the agri-ecological characteristics of the corresponding landscapes and the establishment (restoration) of the missing or destroyed landscape components, which can be implemented primarily through agri-environmental measures.

1.8. Forestry

In Hungary, forests are the second largest cultivation type after arable land. The percentage of forest cover grew from 11% to 19% in the last century as a result of large-scale afforestation, but it is still well below the European average of 36%. In the long term (over 35-50 years) the forest cover of Hungary could be raised to the optimal level of 27%. The ownership structure of forests changed substantially after the change of regime in 1989, approx. 40% became privately owned. The current ownership structure of forest areas is as follows:

- state-owned 58 %,
- community-owned 1 %,
- privately owned 41 %.

Areas subject to forest management total to 1,93 million ha (2002), while the stocked area totals to 1,80 million ha. Planned forest management is pursued in the entire forest area. In 2002, forest management did not attain 1% of the GDP without the non-material type (e.g. protection, public welfare) services of forests. The forest area per 1000 capita is 177 ha. The regional distribution of forests is unequal. The percentage of forest cover in the plain region is 9,4%, while it is 27% in the mountain and hill regions.

Unlike the general situation in Europe, 86% of forests are broadleaved forests. The most valuable tree species are beech and oak, while black locust and poplar occupy significant areas as well. 57% of forest areas are occupied by indigenous tree species, while 43% is occupied by introduced tree species (black locust, red oak, conifers) or cloned species (improved poplars). The distribution of tree species is as follows: oak 21,0%, Turkey oak 11,5%, beech 6,1%, black locust (introduced 300 years ago) 21,8%, hornbeam 5,7%, improved poplar 6,6%, indigenous poplar 3,2%, other broadleaved 10,3%, conifers 13.9%.

The total forest area in Hungary is exploited in a planned way, supervised by the State Forestry Service (SFS) operating all round the country in regional directorates. Forestry is a multifunctional activity, serving business, protection and welfare purposes at the same time. According to their primary functions, app 65,2% of forest areas has economic, 33,1% protective, 1,4% health, social, and tourism-related primary functions, and 0,3% is used for educational and research purposes. According to their multipurpose utilisation, economic and social functions are combined and served simultaneously. The demand for the social and ecological services of forests is constantly increasing, and multipurpose forest management is becoming more and more dominant. The growing stock of Hungarian forests is 329 million gross m³, with an annual increment of 12 million m³ of which 7 million m³ are harvested annually. 60% of the harvested wood is industrial wood.

Forests are only capable of fulfilling their versatile functions indispensable for society if they are in proper physical condition and if the various detrimental effects on forests do not destroy the stability of the forest ecosystem. According to the 2002 figures of the European forest health monitoring network (ICP Forests), 38% of all tree species show no symptoms with respect to leaf loss, 41% are endangered and 21% are significantly damaged. In European comparison, the forests of Hungary are in the category of forests showing a medium degree of damage. Damages are to be reduced by planting and tending ecologically stable mixed forests and restructuring existing forests in suitable locations into close-to-nature forest associations.

Individual and co-operative management is pursued in some parts of privately owned forests, the management status of an ever-decreasing portion is still unresolved, mostly due to shared joint ownership, therefore in those areas, no adequate forest management has begun yet. The

about 795 thousand hectares of privately owned forests are extremely fragmented from an ownership point of view, the number of private forest owners is close to a quarter of a million. The majority of afforestation (80%) takes place in privately owned forests, thus the ratio of privately owned forests is constantly increasing.

Profit-oriented management is done in both state-owned and privately owned forests. Nevertheless forests and forest management fulfil important economic roles as well as roles of public interest (protection and public welfare, services). Although these roles are emphasised by the increasing expectations of society, the lack of central budget financing for public interest activities means that forest owners carry the burden of these tasks as well. Today, the problem of compensation for loss of income due to various management limitations implemented in the public interest is still unresolved.

During the drafting of the Forestry Chapter of the NRDP the main principles of the National Forest Programme, which is being finalised at present, were considered. The Hungarian Parliament is expected to adopt the National Forest Programme by the middle of 2004. The corresponding Parliamentary Resolution will be issued subsequently.

In case of large-scale afforestation projects (over 200 hectares), and in certain areas where the forests have a significant effect on the landscape or ecological conditions, an Environmental Impact Assessment is required.

The role of afforestation in rural development

The majority of afforestation projects in recent periods were established in disadvantaged regions, except for the greenbelt forests planted around cities in order to improve the state of city environments.

The planting of trees in the Great Hungarian Plain, the soil protective forestation in mountain and hill regions, the afforestation programmes designed for disadvantaged small regions essentially aimed to improve the economic, ecological and social conditions of the rural population. Forest management offers low but long-term profitability. Forestry work is seasonal. It improves employment. Forest management co-ordinated with agricultural work offers supplementary income and improves the domestic supply of timber.

The majority of timber processing takes place in rural regions, as a result of the concentration process, in large sawmills and other plants processing timber, yet sideline and conventional "small industry" timber processing linked to previous producer co-operative forestry remains significant. The impact of afforestation on rural timber processing will offer further employment opportunities in wood processing to the rural population.

The labour potential associated with forestation can be estimated as follows: implementation of 1 000 ha of afforestation is equivalent to a workforce of about 40, maintenance and protection of planted forests is equivalent to a workforce of more than 45 per annum. In view of the seasonal nature of forestry work, 1 000 ha of afforestation offers employment to a workforce of about 80 and in maintenance to about 90 for six months every year. The management of 1 000 ha of forest entails a workforce of about 4 in the long run, including the required administrative structure. Labour demand of forests depend generally on the seasonally fluctuating demand of labour in agriculture and offer supplementary income. Through new forests and the improvement of ecological conditions, air quality will improve, the range of touristic offers and services will increase in areas under intensive agricultural utilisation. Afforestation using indigenous tree species will generate significant eco-touristic attraction in time. The connected services can provide supplementary income for more and more farmers.

During selection of potential areas for afforestation, nature conservation and landscape preservation aspects also have to be taken into consideration. Grasslands with great ecological value are not recommended for afforestation. The Natura 2000 areas to be defined shall also be taken into account during the planning of afforestation projects.

1.9. SWOT analysis

Chapter 1 of the NRDP provides a detailed description of the present situation of Hungarian agriculture. The SWOT analysis is an organic part of this chapter. It consists of a summary of the main findings from the general situation analysis (chapter 1), the evaluations on the conditions on which the programme will operate as well as a structured system of the weaknesses and the corresponding threats, the strengths and the corresponding opportunities derived from chapter 1.

The SWOT is intended to provide an overview, or context, for the strategy of the programme set out in chapter 3. The structure of the SWOT is elaborated according to the main stakes that have to be addressed by the programme, which are the following: 1) agricultural structure, 2) forestry, 3) agri-environment and landscape, 4) population and labour market in the rural areas.

The SWOT has an organic relation with the one of the ARDOP. It contains common elements, since the situation in agriculture and in the rural areas serves as a common root for both analyses. More detailed analysis on some aspects of the agricultural economy that are not directly related to the measures of NRDP is available in the ARDOP.

A detailed status survey in Chapter 1. explores the situation, the advantages and disadvantages, as well as the possibilities and threats of agriculture, environment, forestry and rural areas. Based on the findings the most important areas that demand urgent intervention, determining this way the directions of rural development, are summarised as follows:

While simplified land use and non-sustainable utilisation of landscape result into either environmental or employment and profitability problems, the whole phenomenon of environmentally aware, environment-friendly farming is almost unknown and for several reasons is rather ignored by the agriculture-connected part of rural society.

Areas with less favoured agro-ecological and social conditions are lagging behind and the ratio of under-used agricultural lands is high, however existing potentials of sustainable land use and of income earning alternatives have not been employed yet.

Although the environmental load of agricultural production is low (due to low level of chemical use and stocking density) wind and water erosion causes considerable amount of soil loss, and also other degradation processes have been increasing.

The age composition of the population in agriculture is extremely unfavourable: the proportion of young generations (below 40) is very low as regards employees and private farmers.

The occupational skills and competence of small-scale private farmers are inadequate: their complex business administration skills (business administration, operation, finances, and marketing) as well as EU-related knowledge (standards, support conditions) are particularly deficient; besides, the system of such services (including extension services) is also underdeveloped.

There are lack of producers' associations for procurement and sales either in production or food processing and marketing.

Small and medium-sized farms are lack of capital and additional operational assets which hinders the implementation of developments and operations in compliance with EU requirements in the fields of environmental protection, hygiene, product quality, food safety and animal welfare.

The underdeveloped manure and wastewater management in animal husbandry is continuously endangering the quality of surface and subsurface water.

In spite of the existence of the national afforestation support scheme and long-term concepts and programmes, the forest cover is still at relatively low level, new forests are at risk due to different reasons and many obstacles has been delaying the speeding up of afforestation.

The status survey of agriculture, environment, forestry and rural areas revealed a number of advantageous features. With the help of NRDP subsidies these features can be utilised to a greater extent during the planning period. Weaknesses and unfavourable conditions can be mitigated through accompanying compensations increasing the ratio of environmental-conscious agro-business operations and further possibilities of integrated production and additional investments.

All these factors may improve the conditions of competitive, EU-compatible and environment-friendly production and the chances of increasing the ratio of marketable special Hungarian products that comply with the EU standards and higher quality requirements and represent higher added value. The chances of market possibilities of safe and environmentally sound agricultural products and the growing demand from the whole society for healthy and sound amenity values, the rural areas can be improved without the expansion of the volume of production.

Opportunities will be provided to disseminate environment-saving and environment-friendly production methods in a wider range to rationalise land use, to diversify agriculture activities through renewable energies, to create safe manure treatment, environment protection and livestock accommodation conditions complying with the EU requirements, while the majority of agricultural jobs may be maintained. The healthy rural environment can be preserved, while conditions of living and subsistence in rural areas can be improved.

The following table summarises the links between the status analysis and the SWOT: the advantages and disadvantages, the threats and possibilities of agriculture, forestry, environment, landscape and rural areas (the references of strengths and weaknesses related to Chapter 1 are in bracket).

<i>Strength</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
<i>Agriculture structure</i>			
<ul style="list-style-type: none"> • Hungary’s agri-ecological features are generally good, but variable according to production sites, high proportion of the country’s territory is suitable for agricultural production (<i>ch. 1.1 par. 1-2., ch. 1.7.1</i>); • High-performance biological bases are available in most sectors (<i>ch.1.7.5.</i>); • The self-sufficiency of the Hungarian agriculture is 120% (<i>ch. 1.1 par. 6</i>); 	<ul style="list-style-type: none"> • Part of the agricultural areas suffer of unfavourable site conditions; • Non-suitable and simplified land use, the farming structure is out of line with the features of cultivated areas, significant proportion of abandoned fallows; • Land ownership and land use structures differ significantly, short-term lease contracts are an obstacle to multi-annual programmes (agri-environmental management, afforestation), the land structure is imbalanced (<i>ch. 1.3 par. 1,3</i>); • Great degree of “forced (involuntary) farming”, many of them producing mainly for self-subsistence economically not viable (<i>ch. 1.1, par. 8. diagr. 3.</i>); • A technological lag regarding plant cultivation and animal husbandry, a lag in EU product quality, food safety, environmental protection, animal welfare and hygienic 	<ul style="list-style-type: none"> • The efficient use of EU resources available through the NRDP; • Change of agriculture to target economically and environmentally sustainable development on the basis of multifunctionality • Preservation and utilisation of the relative low contamination of chemicals of soils as a comparative advantage through support of various agri-environmental measures • The CAP-reform highlights the growing importance of product quality, environment protection, animal welfare and food safety requirements facilitate the change of agricultural production structures towards economic viability and improved environment; • Increasing integration of producers, increasing number and potential of associations of agricultural producers; • New market opportunities for 	<ul style="list-style-type: none"> • Increasing global competition; • The inefficient, technically outdated holdings will lose market because of the increasing operational costs due to the newly introduced standards come into force with the accession • Without proper support schemes high ratio of animal husbandry sites have to close up due to not meeting standards on environment, animal welfare and hygiene. • As a consequence of the absence of the development of a market institutional infrastructure based on the interests of producers, the current disadvantages attributable to the lack of producer organisation may escalate; • Due to the lack of development of the necessary institutional and consultancy network, the flow of information is not improved, thus acquiring the resources becomes even more difficult;

	<p>standards (<i>table 24-25</i>)</p> <ul style="list-style-type: none"> • Low efficiency of the agricultural activities: agriculture reaches only one third of the efficiency index value of the EU-15 (<i>ch. 1.3.6 par. 1</i>); • Agricultural incomes and profits are typically lower than national and industrial average, PSE index is 30-40% of EU (<i>ch. 1.1 par. 15, table 27.</i>); • The support rate of farmers is significantly lower than their EU competitors' (<i>table 21</i>) • Due to the lack of capital, low profitability, enterprises have limited access to credits and national funds, which is an obstacle to carry out developments among others in order to meet EU standards (<i>ch.1.5.par 4,6</i>); • Low degree of producer organisation, fragmentation of agri-business contacts (<i>ch. 1.3.2 par 10, ch. 1.3.5</i>); • The production, processing and sales of raw materials are under separate business interests, not properly organised and matched 	<p>products coming from production systems compliant with EU standards, growing demand for unique quality, healthy food;</p> <ul style="list-style-type: none"> • Promoting changes of production schemes and product ranges to match increasing the market and quality requirements and by establishing market channels based on producer organisations; • Human resource potential for developing other commercial activities in rural regions. 	<ul style="list-style-type: none"> • Small- scale semi- subsistence farms will lose markets, further decreasing in agricultural employment and rural incomes; • Disappearing knowledge of traditional, organic production methods;
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	<p>(<i>ch.1.3.5; ch.1.5.par 6</i>);</p> <ul style="list-style-type: none"> • Due to fragmented agri-business structures and lack of marketing services the market position of producers is poor, their level of dependence is high; uncertain vision of the future (<i>ch.1.3.5; ch.1.5.par 6</i>); 		
<i>Forestry</i>			
<ul style="list-style-type: none"> • Standard-cost based national afforestation support scheme compliant with EU directives with sufficient regional and local institutions, and available long-term afforestation concepts and programmes in various levels (<i>ch.1.8.par 4</i>); 	<ul style="list-style-type: none"> • Underdeveloped character of the professional, organisational and integrational system of private forest planting (<i>ch. 1.8 par.6</i>); • Relatively low level of forest cover (<i>ch. 1.3.2. par 2.</i>); 	<ul style="list-style-type: none"> • Utilisation of low quality timber recovered from afforestation and planted forests as renewable energy resource, alternative land use with energy plants and biomass production; • Sustainable multipurpose utilisation of planted forests and existing forests, strengthening the social and public welfare role of forests; 	
<i>Environment and landscape</i>			
<ul style="list-style-type: none"> • Hungary's unique landscape and natural features, natural assets, special biodiversity, high proportion of protected areas even in comparison with Western Europe (<i>ch. 1.2.1. par 2.</i>); • Relatively "clean" soils in substantial areas due to the reduced use of chemicals 	<ul style="list-style-type: none"> • A significant proportion of cultivated areas are at the risk of drought, flooding and inland inundation (<i>ch.1.7.3.</i>); • Changing (increasingly intensive) farming methods, strong specialisation; • Cessation of cultivation in some locations, low rate utilisation of grasslands within agricultural 	<ul style="list-style-type: none"> • Environmental and nature protection considerations gain increasing emphasis, increasing value is associated with the quality of the environment, it is becoming a significant economic factor; • Increasing interest towards environment-friendly farming methods and programmes 	<ul style="list-style-type: none"> • Further deterioration of the quality of agricultural areas: reduction of fertility, increase of fallowing, weed penetration, increasing frequency of severe drought (due to global climatic changes); • Further deterioration of the quality of the environment, impoverishment of landscapes,

<p>compared to the 1980s (<i>diagram 5.</i>);</p>	<p>areas, high rate of weed penetration;</p> <ul style="list-style-type: none"> • Soil degradation processes (erosion, acidification, alkalisation, compaction), negative nutrient balance, lack of environmentally sensitive nutrient management, strengthening of numerous processes that are disadvantageous for nature conservation (<i>ch. 1.7.1. par 2-3., table 32, 33</i>); • Environmental risks due to the outdated technology of animal husbandry sites, unsolved situation in manure processing and outplacement (<i>table 26., annex 12.</i>); • Lack of monitoring of the (nitrate, phosphate and pesticide) pollution of surface and subsurface waters from agricultural origins (<i>ch.1.7.3.par 9</i>); • Farmers have little knowledge of environment-friendly methods, deficient environment consciousness; 	<p>aiming at promoting environmentally aware, environment-friendly farming methods;</p> <ul style="list-style-type: none"> • Increasing the value of alternative forms of land use: evolution of a land utilisation structure in line with habitat features, landscape management, landscape rehabilitation; • Higher utilisation of poor quality production sites with biomass production due to the increasing demand for renewable energy resources; 	<p>narrowing biodiversity;</p> <ul style="list-style-type: none"> • Lands becoming unsuitable for economically viable agricultural production; • Delayed fulfilment of rural development and agricultural land utilisation programmes conforming to the EU directives on sustainable farming;
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Population and labour market in the rural areas

<ul style="list-style-type: none"> • Favourable and diverse production sites for region-specific, unique products, rich culture and tradition of farming. 	<ul style="list-style-type: none"> • Very low economic activity (<i>ch. 1.2.3. table 9.</i>); • Specialisation in the production structure with decreasing labour requirement(<i>ch.1.3.par 4</i>); • Extremely low reproduction rate of the population in essentially rural areas, unfavourable and deteriorating the population retention capacity of rural areas also because of constrained opportunities in rural areas for employment and earning income (<i>table 7a – b., ch. 1.2.2 par. 2-3, 6-7</i>); • Unfavourable age composition of the population and the labour force (<i>tables 11-12</i>);; • Deficient vocational skills of private farmers also due to limited and lacking cross-training and further training opportunities for entrepreneur farmers (<i>ch. 1.3 par. 5</i>); • The ratio of disadvantaged social groups within the population in rural areas significantly exceed the national average (<i>ch. 1.2.2. par. 5</i>) 	<ul style="list-style-type: none"> • Human resource potential for developing high standard agricultural and other commercial activities in rural regions 	<ul style="list-style-type: none"> • Further outflow of labour force from agriculture, thus further migration from rural regions and continued ageing of population and farmer society, continuation of depopulation and ageing in rural areas; • Further suppression of agricultural employment due to missing structural changes and technological development. Diminishing importance of the sector;
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2. Achievements of the period preceding the drafting of NRDP

This chapter outlines the results of recent national and EU-funded supports connected to the accompanying measures.

2.1. National Agricultural and Rural Development aids related to NRDP objectives

Overview:

Act CXIV of 1997 on the Development of Agricultural Economy guarantees that the amount of agricultural aid shall increase as a function of the growth of GDP, also taking the rate of inflation into account. The system of agricultural aids has featured components that are essentially similar to the rural development measures of EC Regulation 1257/1999 for a long time.

Every year, a new piece of legislation provides the financial resources of agricultural subsidies. With respect to the year 2003, Act LXII of 2002 on the Budget of the Republic of Hungary for the year 2003 sets forth the key directions and areas of development and support under Subtitle 4 of Title 10 (Chapter-managed Appropriations) and under Subtitle 3 of Title 11 (Support Appropriations) in Chapter XII (Ministry of Agriculture and Rural Development). The specific utilisation of subsidies is regulated in MARD Decree 3/2003 (I. 24.). Support may be obtained either under a standard cost system or by individual applications, within the scope of authority of both central and decentralised regional levels of administration.

Within the budget of agricultural subsidies in 2001 pursuant to EC Regulation 1257/1999, HUF 81 billion (EUR 334 341,2 thousand) was disbursed in line with the objectives of the European Agricultural Guidance Fund (EAGGF) and HUF 11,5 billion (EUR 4 748,5 thousand) was disbursed in line with the titles of the Guarantee Fund. The biggest chunk of aid was allocated to investments (HUF 56 billion – EUR 230 235,9 thousand).

The network of village managers and specialist advisors assisting individual farms was established using state funds several years ago. Most of the managers – as civil servant employees of the county MARD offices – fulfil general information and administrative tasks as well. The registered consultants provide services to individuals and groups that are subsidised by the State.

The National Land Fund facilitating the streamlining of land use was set up in 2002 with central and regional offices. For the structured and rational utilisation of state-owned agricultural land the National Land Fund (NLF) was established by Act No. CXVI/2001. The main task of the NLF is to utilise and/or purchase agriculture land in accordance with the land policy principles. The principles of the utilisation of state owned land are the followings:

- to promote the formulation of viable farm-structure,
- to provide land-base for voluntary land-exchange,
- to provide land for special programmes (protected areas, experimental crops, etc.)

Also the NLF takes the agricultural lands offered by farmers over 60 years in the framework of the "annuities for land" programme introduced by Government Decree 255/2002 (XII.13.). As the above activities are operational for only one year these trends may affect the utilization of those state-owned agricultural lands: selling, exchange, utilization for special programme or by land-lease by private companies. These activities may affect in the coming years the

agricultural land use in LFA areas, the potential for afforestation and also the need and potential for early retirement (see also point 4.5.2).

Substantial technical development has been implemented by using agricultural aid, the restructuring of land use has continued (support for afforestation, multi-functional forest management, organic farming, production processes causing moderate environmental stress), estate concentration has accelerated slightly. However, in view of the modest amount of funds, aid has tended to be sufficient to halt deteriorating tendencies, but failed to produce tangible improvement.

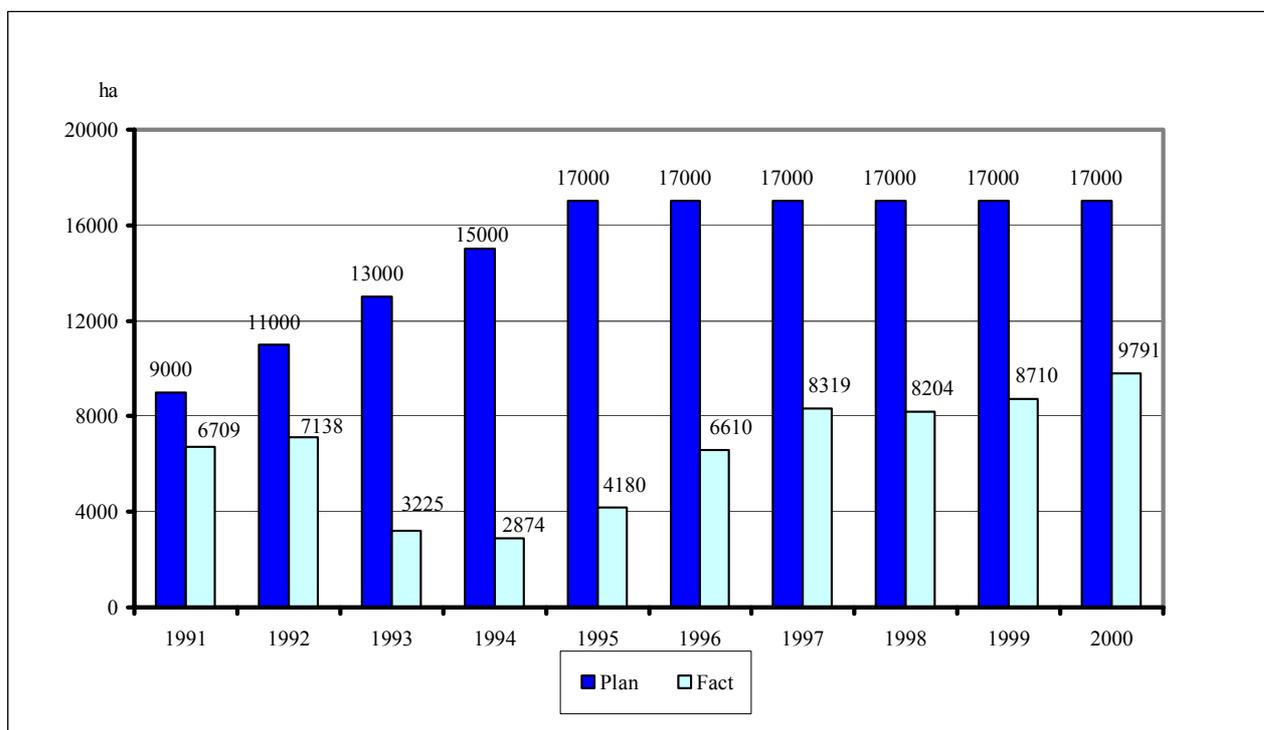
2.1.1. Afforestation achievements of the period preceding the drafting of the NRDP

Until 1990, nearly 600 thousand hectares of new forests were established. Due to (economic) rural development considerations, the focus has shifted to black locust, improved poplar and conifers, but the cutting cycle of those species exceeds 20 years. Black locust was brought to Hungary 300 years ago and since then it has adapted to the specific climatic conditions of the Carpathian Basin. The Hungarian Government took measures to accelerate the planting of forests and passed a resolution ordering the establishment of at least 150 thousand hectares of new forests in the period 1991 to 2000. The national long-term afforestation concept, based on agricultural land utilisation concepts, was drafted in 1996; it claimed that 778 thousand hectares of agricultural areas with afforestation capacity could be taken into account realistically and that thus the forestation rate of the country could be increased to the 27%, which was regarded as optimal. This concept provided the basis for the National Afforestation Programme drafted in 1997.

When selecting the tree species for afforestation, the programme recommended the planting of indigenous close to-nature forests with greater ecological stability, whenever possible. This has been implemented only in part because, partly due to local limitations, since the majority of forests were planted in locations where the planting of close-to-nature forests was not an alternative the private owners establishing forests preferred to introduce species offering faster profits.

The implementation of the programme slowed down due to the delays in settlement of land ownership issues and to decreasing state support, and only reached the current level gradually. In the last ten years, only 44% of the 150 thousand hectares proposed in the programme were planted; 66 thousand hectares of new forests were established due to the delays in the settlement of ownership issues and due to limited financial resources. The national funds required to plant 15 thousand hectares of forests in the years 2001 and 2002 each were available, thus it was completed in line with the Plan. Afforestation is generally most significant in disadvantaged areas with poor quality agricultural land: in the year 2002, 3,759 hectares of new forest were planted in Szabolcs-Szatmár-Bereg County, with 1,659 ha planted in Somogy County, 1,322 ha planted in Borsod-Abaúj-Zemplén County, 220 ha planted in Nógrád County and 204 ha planted in Békés County. The annual development of the 10-year programme with reference to the Plan is shown in *Diagram 6*.

Diagram 6: Afforestation and tree planting from 1991 to 2000



The majority of new forests were established in the Great Hungarian Plain where the forest rate was low and where site conditions only allow for the establishment of indigenous close to-nature forests to a limited extent. These afforestation projects featuring lower biodiversity play a useful role in improving the dry forest steppe climate, in protection against deflation and desertification and in the ecological enrichment of the landscape.

The planning, the implementation and the legal and financial requirements of afforestation projects are regulated by government and ministerial decrees. In order to facilitate afforestation, the state offers grants for the establishment of forests and tree areas, which are awarded to landowner applicants through an applications process.

Forests planted using state grants are protected by the Forestry Act. They are subject to operative planning obligations and they may only be removed from the cultivation category "forest" in exceptional cases, with permission of the authorities. In case of forests established without utilisation of state grants, agricultural production may only be restored within a maximum of 30 years, these usually comprise fast-growing tree species.

As a result of the afforestation efforts of the last 10 years, the forest cover in Hungary grew by 1%. The new forests will absorb 736 thousand tonnes of carbon dioxide during their lifespan and will produce 540 thousand tonnes of oxygen. On average, they will prevent the movement (erosion, deflation) of 990 thousand tons of soil per annum, and will increase the amount of forested bioactive surfaces offering natural habitats by 66 thousand hectares. In the vicinity of planted forests, the quality of the environment and thus the conditions of living of the rural population will improve.

2.1.2. Achievements of the National Agri-environment Programme

The National Agri-environment Programme (NAEP) was accepted and resolved to be implemented gradually by application of the Government Resolution 2253/1999 (approved after several years of preparatory work).

In this context, as part of the 2002 support system of agricultural economic objectives, the introduction of area-based support of the National Agri-environment Programme began on the basis of MARD Decree 102/2001 (XI. 16.). EUR 9,018 million worth of funds was allocated in 2002 to the launching of the implementation of the NAEP (*Table 35*). This support was awarded through an application process in line with the target programmes and the cultivation branches. The amounts of agri-environmental area-based support varied between 34 and 168,5 EUR/ha .

A total of 4 219 applicants filed a total of 5 321 applications (one applicant had the opportunity to file applications for more than one target programmes). The area covered by applications exceeded 270 000 ha, the amount of area-based aid applied for was close to EUR 19 million. The average area of application was 51,4 ha, and the average amount applied for was EUR 3 533. The average aid claim per 1 ha of area applied for was EUR 68,73/ha.

The budget available for area-based aid was allocated pro rata to the areas for which applications were filed. The 2002 supports enabled the application of various environment-friendly technologies on a total of 153 thousand hectares. Statistical data for the applications submitted and approved for individual target programmes are summarised in *Table 35*.

Besides the area-based support, so-called “agri-environmental model farms” were supported as complementary aid based on Articles 139 to 143 of MARD Decree 102/2001 (XII. 16.). This title was given to 11 farms out of 40 applicants in 2001, with a total support of EUR 341 140. Almost 700 applicants submitted proposals for the support of “complementary animal usage”. 80% of them were successful, the amount of assistance disbursed was EUR 1 052 900.

Table 35: Data of NAEP-2003

Target programme	Area applied for (ha)			Number of applications (item)		Support applied for (thousand EUR)		Calculation number of NAEP applicants (2003) *NRDP payment rate	
	%	total	approved	total	approved	total	approved	Euro/ha in NRDP	Total in thousand EURo
Agri-environment management basic programme	7%	20 742	14 856	223	137	1 712	294 732	168	3 494
Integrated farming target programme	7%	21 309	13 048	2 426	1 321	3 817	483 977	337	7 179
Ecological farming target programme	22%	65 624	59 657	1 240	1 136	5 277	1 085 682	337	22 109
Grassland utilisation target programme	41%	123 924	89 348	2 556	1 672	5 277	894 468	126	15 656
Wetland habitat target programme	6%	18 325	16 983	108	100	621	135 863	261	4 785

ESA target programme	17%	51 459	40 740	976	748	6 411	1 193 442	211	10 835
Total	100 %	301 383	234 632	7 529	5 114	23 115	4 088 164		64 058

Source: MARD, 2004

2.1.3. Supporting the establishment of new co-operatives (associations)

Prior to 1999, approximately 1.26 million EUR were awarded to support co-operatives from the national budget. In 1999, around 4 211 000 EUR aid was paid from the national budget to support the establishment and maintenance of producer groups. In the year 2000, another 8,85 million EUR was provided to satisfy the demand from 1999.

In 2001, 440 organisations applied for support totalling 15,2 million EUR. The available budget was 4,6 million EUR. In 2002, 330 organisations applied for support totalling 10,1 million EUR while the budget available was 3.15 million EUR.

Table 36: Trends in the support for co-operatives in the past few years

Year of support	(Number of applications)	Total amount applied for	Budget available
		thousand EUR	
1999	263	13,477	4,211
2000 (needs originated in 1999)	170	9,265	8,844
2001	440	15,161	4,632
2002	330	10,107	3,158

Source: MARD, 2004

Based on the data it can be concluded that 600-700 of such co-operatives set up during the past few years, can meet the standards required for approval as producer groups (*Table 36*). Based on MARD Decree 85/2002, the recognition of EU compliant producer groups has started in 2003.

If the expected total production value of the producer organisation is less than 600 000 EUR but more than approx. 240 000 EUR it can apply for a preliminary recognition with the fulfilment of all the other criteria. In this case the organisation can apply for final recognition at any time after it reaches the total production value of 600 000 EUR, practically in the compulsory yearly report before 31th March of the coming year of operation.

2.2. Phare programme

Agribusiness has been the beneficiary of the Phare programme since 1990. Until 2003, seven projects had been implemented, with a total EC contribution of EUR 109,4 million. Previous Phare projects mostly aimed at preparing institutions and at consultancy. Part of the Phare projects currently underway aim at the establishment of the system of background institutions required for implementation of the NRDP. The following projects have been/are being implemented with EC contribution under the Phare programme:

The purpose of the first project (HU9004, financial framework: EUR 20 million) was to strengthen or establish institutions that either had no sufficient capacities for their operation under market conditions or were entirely missing within the previous institutional structure.

The second programme (HU9104, financial framework: EUR 13 million) focussed on two areas of support. On one hand, the initial agricultural privatisation in Hungary in the cereals, milk and meat sectors, as well as in the field of forestry and timber industry. On the other hand, support has been granted to the transformation of state-owned large-scale farms and old-type co-operatives in the form of technical assistance.

The third programme (HU9202, financial framework: EUR 5 million) granted assistance to the development of a financial and banking infrastructure able to provide financial resources for the rural economy.

The fourth programme (HU9304, financial framework: EUR 30.5 million) intended to support agricultural entrepreneurs and the implementation of their investments.

The fifth programme (HU9505, financial framework: EUR 10 million) focussed on the preparation for integration of the most important agricultural institutions.

In the framework of the 1998 programme (HU9806) altogether 16 million euros were used to develop the phytosanitary and veterinary institutional system, to establish the institutional system of the Common Agricultural Policy, to improve quality assurance and the competitiveness of food industry, and also to develop the institutional system of rural development and agricultural environment protection.

In the 1999 programme (HU9909) 14.9 million euros were devoted to the development of the phytosanitary service, the border stations and systems of land registration and agricultural statistics.

In the framework of the ongoing programme of 2000 (HU0003) 8 million euros were assigned to the development of the veterinary system (pig registration database, construction of border stations, elaboration of animal welfare measures).

The projects of the ongoing programme of 2001 (HU0102, financial framework: EUR 5.5 million) aim at the further development of the phytosanitary and veterinary institutional system and the forestry service (EU-conform registry of plant protection and yield increasing chemicals, phytosanitary and veterinary system connected to railway border stations, EU-conform statistical system at the Forestry Service, promotion of the accreditation of the SAPARD Agency).

The ongoing programme of 2002 (2002/000-180-01) consists of six projects with a community grant of EUR 11,05 million. The programme focuses on the implementation of CMO procedures, BSE control, implementation of EAGGF measures, development of the quality of seeds, propagation materials and feeds, the establishment of the sheep and goat register and the setting up of the Food Safety Office.

The community grant of the ongoing programme of 2003 is EUR 17,33 million. The projects aim at the establishment of the Integrated Administration and Control System, the protection against rabies and the development of the laboratory infrastructure of the phytosanitary and soil protection service.

Main results:

As a result of the programmes, the elements of the EU institutional system have been established or are under development. The phytosanitary and veterinary border stations that manage commodity transport (public road, railway and airport) are being developed. The digital parcel registration system is a tool for the implementation of the community support schemes. In 2003 the Food Safety Office was established. Also in 2003 the Agricultural and Rural Development Agency, which will operate as the EAGGF paying agency, was established. The conditions of the digital cattle, pig, sheep and goat registry have been set up. The preparation for the receipt of community support for rural development and fisheries has been launched. The Forestry Service is modernising their information and registration system according to the European requirements, with special regard to the legal prescriptions.

2.3. SAPARD programme

Programming

Government Decision 2349/1999 (XII.21.) on measures taken to receive the Community's agricultural and rural development subsidies in the framework of SAPARD Programme and on the establishment of the institutional background approved the following measures:

- investments in agricultural holdings,
- processing and marketing of agricultural and fishery products,
- improvement of vocational training,
- agricultural production methods designed to protect the environment and maintain the countryside,
- setting up producers' groups,
- renovation and development of villages and protection and conservation of rural heritage,
- development and diversification of economic activities, providing for multiple activities and alternative income,
- development and improvement of rural infrastructure,
- technical assistance.

The year of 2001 was a turning-point in the implementation of the SAPARD Programme, because, as a result of the ministerial decisions taken in the second half of 2001, the process of establishment of the SAPARD Agency and that of the institution building resulting in meeting the accreditation criteria accelerated. During their mission in December 2001, the experts of the DG Agriculture noted considerable progress that led to the official opening of the seven regional offices from January 2002 on. The decision of the European Commission 927/2002 (EC) of November 26th 2002 conferred the management of funds of the SAPARD Programme to the SAPARD Agency of the Ministry of Agriculture and Rural Development. The Agency was accredited to implement four of the measures set forth in the SAPARD Plan of Hungary:

- investments in agricultural holdings,
- processing and marketing of agricultural and fishery products,
- development and improvement of rural infrastructure,
- technical assistance.

In January 31st 2003 the SAPARD Agency proposed to launch the accreditation process on the rest of the five measures of the Plan. Due to the limited time that was available until the accession the Managing Authority proposed to accredit the measures that do not include long term commitments (5 year contracts).

Taking into account the above consideration the SAPARD Agency launched the accreditation of the following two measures:

- renovation and development of villages and the protection and conservation of rural heritage
- development and diversification of economic activities, providing for multiple activities and alternative income

The national accreditation of the two new measures of the SAPARD Plan has taken place in November 2003. The calls for proposals were published in January 14th 2004. The EU

accreditation concerning the two new measures has been successfully finished by the end of April 2004.

A further step in the institution building was the establishment of the Agricultural and Rural Development Agency (ARDA) as single Paying Agency for EAGGF Guidance and Guarantee Section payments on July 1st 2003 through the merger of the SAPARD Agency and the Agricultural Intervention Centre. One of the tasks of ARDA is to carry on with the implementation of the SAPARD Programme.

Implementation

So far, applications have been received in three stages:

Stage I.: from September to December 2002, with set deadline for submission of applications

Stage II.: from February 2003 on, with no set submission deadline

Stage III.: from August 2003 to April 30st 2004, the call was published with revised application conditions

Stage IV.: new measures launched in January 14th 2004 with the submission deadline of April 30st 2004.

On 26th September 2002. the SAPARD Agency published the first call for applications in relation to the above listed measures. The applicants had relatively short time (approximately 1,5 months) to prepare their applications. Despite the tight submission deadline and the comprehensiveness of the application packages, a large number of applications (1 160) were received.

More than half (51,45%) of the applications were submitted by economic organisations together with the cooperatives, 649 partnerships took part in the application process. Private enterprises submitted 290 applications, which is one fourth of the total number. Local governments submitted 195 applications, which targeted the development of rural infrastructure. Other organisations, such as associations of micro regions and different NGOs submitted 26 applications, which is hardly more than 2% of the total number of applications. Smooth starting of the operation of the agency was hindered by the fact that the operational manual had been prepared and capacities had been designed with the preconception that applications would be received at an even pace, on a continuous basis, in the first stage however applications arrived on the last couple of days before the given deadline. Possibly due to the comprehensive documentation requirements of the applications and the short submission deadline almost all the applications were found to be incomplete and the agency had to ask for supplementary documentation.

At the second application stage in February 2003 applications arrived continuously. The conditions of applications were modified in other respects as well. The most important element of the changes was that SAPARD grants were no longer available for the purchase of machinery for agricultural holdings.

On the initiative of the Government of Hungary the Commission approved further adjustments in the conditions of application during the summer 2003. These changes mark Stage III. in the calls for applications. In order to make the measures more effective, the upper limit of available support for the individual schemes, the ratio of grant (usually 50%, whereas in the case of procurement of machinery: 40%) and the eligible maximum cost of projects

were increased. The conditions for economic viability were also eased and support was extended to all branches of field crop production.

For the two further calls for applications up until November 1 2003 the agency received 718 new applications increasing the total number of received applications up to 1 878. As at this time the agency received more applications for investments in agricultural holdings and less for the improvement of rural infrastructure, the ratio of the applications for the investment in agricultural holdings grew from 26,6% to 34% whereas that of the ones for improvement of rural infrastructure decreased from 51,8% to 46%. In respect of total support requirement per project applications for the measure of processing and marketing of agricultural and fishery products rank first.

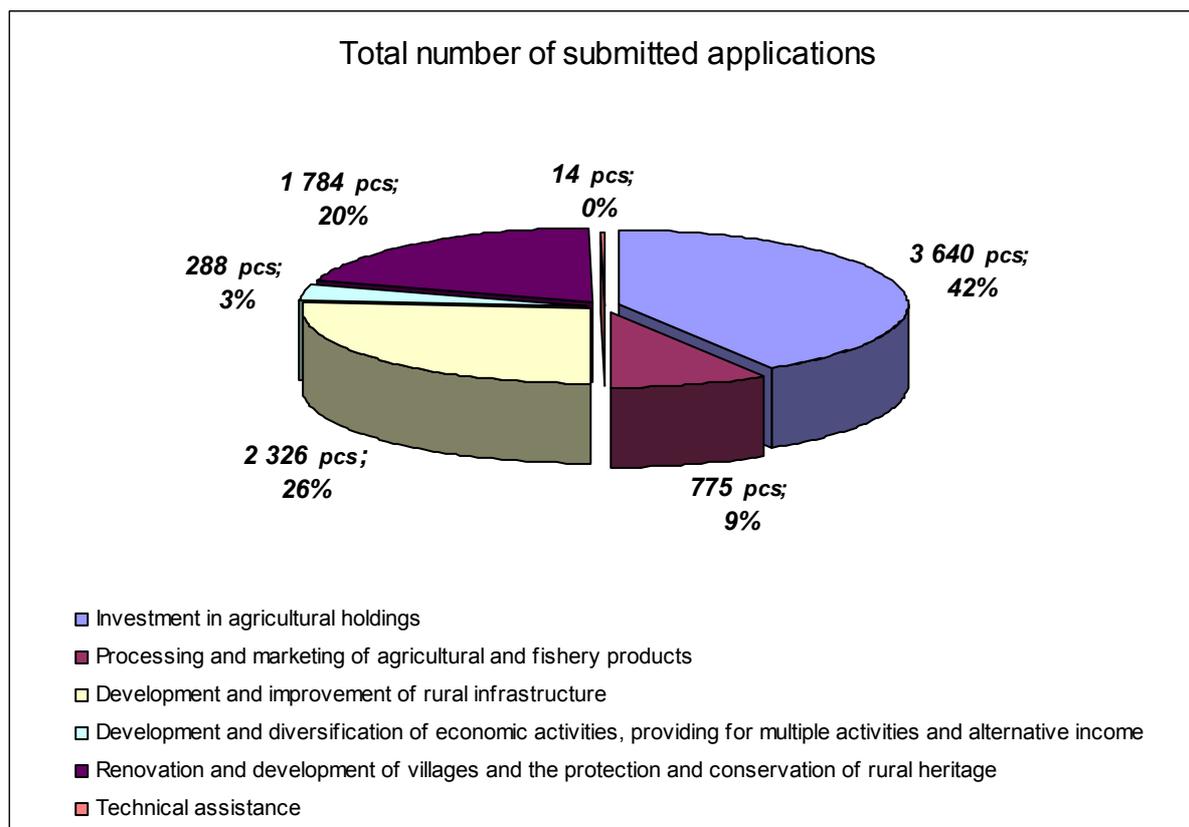
Within the framework of the SAPARD Programme the total number of applications received until April 30st 2004 is **8 813** with a total eligible cost of **EUR 1 750 263**. The support demand of these applications is **EUR 915 251**, which is four times more than the available financial allocation according to the Annual Financial Agreements the years 2000-2003.

Following the considerable over-claim for SAPARD the MARD proposed the introduction of SAPARD payments into the NRDP plan. The Agricultural and Rural Development Coordination Council (FÖVÉT) discussed the proposal (in detail see in Ch.6.5) and adapted the inclusion of SAPARD into the financial table (Chapter 7). The proposed modification towards the previous draft NRDP is 8,28% of the year 2004 allocation and 2,49% of the total 2004-2006 NRDP financial allocation thus it does not affect the overall strategy of the plan and the planning period 2004-2006. The necessary sum is deducted from the Meeting Standard measure for the following reasons: the targetted investments under Meeting Standards measure need considerable and time-consuming preparation works on the side of the applicant while the planned activities under the Agri-environment measure are the „successors” of the National Agri-environmental Schemes. Also the SAPARD Monitoring Committee discussed and welcomed the proposal for additional financial means sufficient for financing the good-quality SAPARD applications.

The processing of the applications and their registration in the Management Information System is still proceeding.

1329 out of the received applications has been rejected so far.

Diagram 7 Distribution of the number of submitted application by measures received until April 30st 2004



Signed contracts

The total number of contracts signed within the framework of the SAPARD Programme until April 30st 2004 is **992**. The total budget of these projects amounts up to **EUR 236 206 835**. The total amount of support applied for in the contracted projects is **EUR 111 028 917**. There are further **385** projects approved amounting to further **EUR 23332210** support.

Table 37.: Amounts and value of contracted projects by measure

Measure	Number and total value of signed contracts
111 Investment in agricultural holdings (pcs)	412
- total eligible cost (thousand EUR)	80 173
- public contribution (thousand EUR)	36 268
114 Processing and marketing of agricultural and fishery products (pcs)	221
- total eligible cost (thousand EUR)	114 494
- public contribution (thousand EUR)	44 701
1308 Development and improvement of rural infrastructure (pcs)	354
- total eligible cost (thousand EUR)	41 533
- public contribution (thousand EUR)	30 052
1306 Development and diversification of economic activities, providing for multiple activities and alternative income (pcs)	0
- total eligible cost (thousand EUR)	0
- public contribution (thousand EUR)	0
1305 Renovation and development of villages and the protection and conservation of rural heritage (pcs)	0
- total eligible cost (thousand EUR)	0
- public contribution (thousand EUR)	0
41 Technical assistance (pcs)	5
- total eligible cost (thousand EUR)	7,6
- public contribution (thousand EUR)	7,6
Total number of signed contracts (pcs)	992
- total eligible cost (thousand EUR)	274 111
- public contribution (thousand EUR)	111 029

Source: ARDA, 2004

Payments

Within the framework of the SAPARD Programme the payments amount up to EUR 19 962 thousand until April 30th 2004. Major part of the payment were made for projects on measures “Development and improvement of rural infrastructure“ (**39%**) and “Processing and marketing of agricultural products” (**36 %**). The share of the measure “Investment in agricultural holdings” in the payments is **25 %**.

Table 38: Payments by measure

Name of measure	Payments (thousand EUR)
111 Investment in agricultural holdings	5 019
114 Processing and marketing of agricultural and fishery products	7 116
1308 Development and improvement of rural infrastructure	7 711
1306 Development and diversification of economic activities, providing for multiple activities and alternative income	0
1305 Renovation and development of villages and the protection and conservation of rural heritage	0
41 Technical assistance	115
Total payments carried out	19 962

Source: ARDA, 2004

Experience gained

The SAPARD programme was based on the same principles and procedures as the ones applicable for Structural Funds, especially for the programmes financed by the EAGGF Guidance Section. They have a similar structure to the ones included in the ARDOP. This will help the potential applicants and managing authority and intermediate body responsible for ARDOP, due to the knowledge and experience gained, contributing to the smooth management of the funds allocated for the implementation of ARDOP.

The selection procedures and the application forms to be applied in the NRDP take into account one of the main conclusions of the SAPARD mid-term evaluation, such as to simplify and improve the clarity of the application, selection and management procedures in order to speed up the support process. Most of the measures will not apply a ranking system but a simple set of eligibility and selection criteria. The application forms as well as the necessary annexes will be limited in its extent.

For the management of the very high number of applications expected to come in under the ARDOP (and the need to ensure the management and control of the ongoing contracts under SAPARD), ARDA has planned a substantial increase in the number of officers. These shall exceed 100 staff in the first half of the year 2004, irrespective of the fact that the introduction of an IT supported application processing methodology for ARDOP and NRDP is expected to ease the burden on the agency. The IT system is planned to serve the monitoring tasks of both programmes.

Since within the framework of the pre-accession programme, the NRDP type measures (dissemination of production methods aimed at agricultural-environmental protection and landscape preservation, setting up and operation of producer groups) have not been launched, no significant achievements have been realised in these fields. Valuable experience was gained regarding the management of Technical Assistance type activities.

Experience has been taken on board regarding the setting up of monitoring and evaluation indicators. The definition of indicators of the ARDOP and the NRDP is based on the actual capability of the monitoring system to gather the necessary data as well as to cover the common questions for further evaluation.

Experience gained regarding accreditation and institutional preparation processes. Taking into account that the financing under the SAPARD Programme begun in the second half of 2003 further experience is expected related to the financing, controlling and accounting of EAGGF Guarantee Section rules. The utilisation of such experience is facilitated by the fact that the Agricultural and Rural Development Agency occupies the whole staff of the former SAPARD Agency.

In the case of the NRDP the programming procedure is organised in order to achieve better coordination of the relevant departments and institutions. Different working groups have been set up for drafting each measure involving representatives of relevant departments, external institutions and the ARDA, which is directly involved in the implementation procedures. The work of these groups are harmonised by a general co-ordination working group. This planning system allowed a better cooperation among the working units responsible for the elaboration of the individual measures, between the professionals responsible for planning and implementation as well as the better consideration of the interests of external institutions.

Within the ARDOP and NRDP separate Communication Plans are elaborated taken on board the related experience of SAPARD on information, publicity and direct assistance for beneficiaries. The NRDP Communication Plan foresees the development of a nationwide information distribution and advisory network involving the micro-regional managers among its members.

3. Objectives, priorities and strategy (2004-2006)

This chapter defines the goals to be achieved, the priorities and the strategy for the period 2004-2006, in terms of goals it outlines the main directions of long-term development. It is based on the situation analysis, the SWOT analysis and the previous experiences described in Chapters 1. and 2.

Key facts in Chapter 1 of the NRDP:

The changeover of the political and economic system in Hungary was followed by radical changes in agricultural land use and ownership conditions as well as in the organisational and operational structure of farming. All these factors – exerting a negative impact on domestic agriculture and food processing – are jointly impeding the utilisation of Hungary's highly suitable for agricultural production endowments and comparative advantages as well as of the – internationally recognised – skills and expertise of agricultural professionals.

The Hungarian agricultural economy has favourable features (outstanding soil quality, diverse habitats for cultivated areas, highly developed biological basis) and fulfils an important role in rural areas and at the level of national economy as well (employment, income, self-subsistence). Nevertheless, it can be observed that the positions and result indicators of agricultural economy are deteriorating in almost every field (GDP and exports, added value, production volume, technical-technological level, profitability, employment), while a considerable part of the natural assets remain unexploited. The holding structure is bipolar and unbalanced. Taking into account the number of enterprises, the small-scale holdings are in significant majority, however for land use the large-scale holdings are the dominant. The great majority of holdings are very small while the great majority of the land is being used by the large holdings. The backwardness in the technical-technological quality is characteristic primarily in case of small- and medium- size private farms. Due to the isolated production and marketing structure, they are more sensitive to market effects, and marketing and profitability issues are problematic as well.

Several disadvantageous effects cumulate in rural areas (low population rate, ageing and decreasing population, poor economic activity, low and deteriorating income level, lack of services and infrastructure). The role of the agricultural economy is extremely important in these regions, especially in smaller settlements (villages), where approximately 800 000 people live and where agricultural activity often provides the only way of income-earning. Therefore, the deteriorating positions of the agricultural economy have a particularly bad damaging impact in rural areas (decreasing profitability and employment, lowered economic activity and transmigration).

As regards natural assets, the features of Hungary are remarkably favourable, the rate of national protected areas is high even in international comparison. Parallel to this, environmental risks increase due to human intervention. Large ratio of Hungary's territory is suitable for different purposes in agriculture and forestry, depending on the fertility of soils. As a result of the intensive farming, often without regard for agro-ecological conditions, inappropriate landscape management, ignorance of fundamental soil protection activities, lack of reasonable and environmentally friendly nutrient-management result in the further degradation of physical, chemical and biological soil conditions. Significant areas are threatened by water erosion (2.3 million hectares), wind erosion (1.4 million hectares) and

secondary salinification (approximately 400 000 hectares). Soil acidification has also accelerated. Farming methods serving environmental protection, nature conservation and the interests of farmers are unknown to most of those involved, the dispersion dissemination of such methods and their application is slow.

Largely thanks to the reduction of the intensity and concentration of production and the reduction of the use of environmentally damaging inputs (chemicals), the environmental stress caused by agricultural production is not significant, which also constitutes a tremendous advantage as regards compliance with food security standards. On the other hand, certain prosperous farms in certain areas still make excessive use of natural resources, apply no methods of environment-conscious farming and in those situations, the resultant environmental problems are still present (reduction of biodiversity as a result of the intensive use of pesticides and fertilisers, diffuse and point-source pollution of soil and water). In addition, the unfavourable effects that the agricultural processes of recent decades (in particular the conversion of valuable grasslands to arable land in the areas involved in the compensation scheme) had on the landscape still await remedy.

The social and economic transformation highly affected the less favoured rural areas; differences increased to the detriment of rural areas. This resulted in under use of some rural areas with high nature values but less favourable for economic potential, increased income disparities for the agricultural population, negative tendencies in subsistence conditions, considerably increased proportions of disadvantaged, economically inactive social groups and an increasing migration of the population from regions in the most critical situation. Behind these tendencies the most significant problem of the agri-economy is the low level of efficiency. It is a complex indicator, which implies deficiencies in several fields. The efficiency indicator of Hungary's agricultural production is 33.4% of the EU average. The investment-type tasks (technology, etc.) and human resource development tasks whose necessity is implied by that fact are included in the NDP –ARDOP, while the NRDP aims to improve efficiency through assisting a transition towards optimal utilisation of land (agri-environment, less favoured areas, afforestation). Among the factors behind low efficiency, we must also mention financial policy and the low level of capitalisation. In transition economies, there is frequently pressure from financial policy, which results in the relative devaluation of sectors primarily working to meet internal demand, such as agriculture, in order to provide incentives for increasing revenue from exports. The reduction of the price value of agricultural products is a global phenomenon, but in the accession countries, including Hungary, the prices of input materials have shown much higher increase compared to the price value of the agricultural products than that of the EU average. In the EU, a part of the income/profit derived from the relatively stable food prices is retained by the producers through their stakeholdings in the processing industry through the cooperatives. The same reverse cash-flow does not exist in Hungary (while there are negative margins on prices in the internal market here, too), because the cooperative sector is rather weak and production chains are fragmented. Low profitability means that only a small amount of incomes can be invested in the farms, hence the level of technological development and other operational investments is very low in agriculture. The shortage of income and the withdrawal of profits from these sectors jeopardise the possibility of restructuring in the long term. This process is aggravated by the fact that due to low or, in some cases even negative profitability, financial institutions consider investments in agriculture to carry high risks. As a result, the terms on which available credit is offered are much less favourable than in the EU member states. Without a stable and strong national economy, the level of state support is also less than half that characteristic of the EU. Among the above challenges and difficulties, the NRDP may target

its own resources at improving profitability, primarily through supporting semi -subsistence farms in transition and the establishment of producers' organisations.

3.1. Objectives and priorities of the NRDP

The NRDP cannot provide immediate solutions to all the relevant problems identified in the status survey, nevertheless it can facilitate the improvement in some fields.

The strategy is based on the status survey, the related SWOT analysis and the tasks specified in Act No. CXIV of 1997 on sectoral development outlining the major areas of agricultural and rural development and is in accordance with the objectives of the rural development measures set forth under Title II of Council Regulation 1257/1999 and its amendment Council Regulation 1783/2003. The previous experience and the achievements of pre-accession funds, national support schemes and programmes described in Chapter 2 are an important basis for NRDP.

The strategy is also consistent with the priorities and objectives of rural development defined in the NDP and the included Operational Programmes taking the development of rural areas on board, primarily the ARDOP. In line with a uniform set of objectives but due to the characteristics of the measures serving the implementation of the objectives, agricultural and rural development measures are set forth in two programming documents (ARDOP and NRDP). The uniform set of objectives and the connection of the agricultural and rural development objectives to the national objectives are described as follows.

Objectives of agricultural and rural development to be reached by the implementation of the ARDOP and the NRDP:

improving the competitiveness of agricultural production and food processing, environment-friendly development of agriculture, rationalisation of land use, assistance to the realignment¹⁸ of rural areas.

Multipurpose environmentally sustainable agricultural production enhance the distribution of environment-friendly and environmentally sound production procedures as well as the maintenance of production coupled with the extensive transformation of production in less favoured areas. To these are connected the investments to be implemented in the framework of the ARDOP measures, which can only be realised if the environmental, food-safety, hygiene and animal welfare conditions are in compliance with the new EU regulations, and investments resulting in the reduction of environmental load and serving environment protection to a greater extent (e.g. through manure management, better management and utilisation of wastes and by-products) are given priority. By realising the objective, the afforestation of areas with weaker ecological endowments for agriculture will also be given priority. Results will show in the preservation of and the improvements in the status of the environment and animal welfare. A considerable part of labour force to be released can be occupied by diversified production and environmental services in rural areas; the arising social tensions can be diminished by strengthening semi-subsistence farmers by re-training, establishment of producer groups, by the help of extension services and early retirement. The planting of new forests in areas less favourable for competitive agricultural production will contribute to the improvement of the environmental condition of rural areas: they may reduce the danger of floods and inland inundation and the damage by droughts; they may provide improved opportunities for other forest-based rural activities, such as forest and village tourism, biomass energy uses, hunting, and recreational activities.

¹⁸ Development in order to decrease the disadvantages of rural areas.

General Objective of NRDP

- To improve income and safeguard employment in rural areas;
- To ensure environment-friendly development of agriculture, rationalisation of land-use and to encourage landscape management;

Specific Objectives

- To extend and improve income opportunities, strengthen rural employment, establish new alternatives for agriculture in compliance with the requirements of environmental protection;

To set up appropriate production structures that match the characteristics of the corresponding cultivated areas, to encourage environmentally aware farming and sustainable landscape management;

To improve the quality of the environment and to reduce environmental contamination of agricultural origin;

To strengthen the market position of producers;

- To improve the viability and the economic efficiency of farms;

To increase forest cover and thereby improve the ecological conditions and strengthen the economic, social and public welfare role of forests as well;

The tools for achieving the objectives of the NRDP are the measures (as follows) described in detail under chapter 4 of the NRDP:

1. *Agri-environment*: The measure provides support for farmers applying farming methods in compliance with the rules of Good Farming Practice as well as with the specific conditions of the different schemes of the measure. Schemes are developed for arable land, grassland, permanent cultures, wetland and extensive animal husbandry of endangered breeds, covering this way all kind of land use methods. Zonal programmes are developed for designated areas called High Nature Value Areas, where specific programmes serve special nature conservation aims.
2. *Support of Less Favoured Areas*: The measure provides compensatory payments to farmers maintaining farming activities on land designated as a Less Favoured Area. On these areas the land abandonment is relatively high, so the measure aims at cease if this phenomena by supporting the agricultural activities that are meeting the prescriptions of Good Farming Practice.
3. *Meeting standards*: The measure provides assistance on one hand to solve the environmental problem generated mainly by the accumulation of organic (liquid and stable) manure by supporting the on-site manure management. On the other hand it assists to improve animal welfare and hygienic conditions through improving husbandry technologies in order to meet the relevant EU standards.
4. *Afforestation of agricultural land*: The measure contributes to the increase of the forested area of the country as well as to the improvement of the quality of forests and their protective functions. The measure consists of three types of support: 1) planting costs for the afforestation of agricultural land, 2) maintenance, protection and fill-in planting cost of newly planted forests, 3) premium for loss of income occurred on the afforested area.
5. *Early retirement*: The measure provides income for elderly (from 55 to the standard retirement age, max 15 years) farmers giving up commercial farming activities and transfer their land (min 3 ha) to either another farmer, or the National Land Fund Management Agency.

6. *Support for semi-subsistence farms undergoing restructuring:* The measure provides a temporary income support for farmers who produce primarily for their own consumption, but who also market a significant proportion of their output, and whose farms can potentially evolve into commercially viable units. The support is provided for five years as a flat rate annual aid with a maximum annual amount of 1 000 EUR/farm. Applicants have to submit a business plan demonstrating the future economic viability of the enterprise.
7. *Supporting the establishment and administrative operation of producer groups:* The measure supports farmers of any type of agricultural production profile (except fruit, vegetable and tobacco) to set up and maintain a producer group. The support is paid upon recognition of a producer group. The amount is calculated on the basis of the annual production turnover of the group.
8. *Technical assistance:* This measure supports the effective implementation of the NRDP by providing technical assistance required for the preparation, implementation, monitoring, evaluation and necessary adjustment of the programme.
9. *Complements to direct payments:* The “measure” provides *complementary support to area based direct aid under SAPS and to Complementary National Direct Payments.* The measure contributes to the balance of financial status of the farmers ensuring the continuity of cultivation in the future.

The following priorities should be put into force during the elaboration and implementation of the NRDP:

- A. Safeguarding and improving the conditions of the environment,
- B. Supporting the conversion of the production structure towards better matching to the ecological and market conditions,
- C. Increasing the economic viability, financial conditions and market positions of producers,
- D. Maintaining and improving agricultural activities hereby providing additional income and job opportunities for farmers active on areas with weaker production site conditions

Priority A) has major importance for the future opportunities of the Hungarian agriculture and rural areas described in the SWOT analysis. This priority builds upon the strength of relatively clean soils and environment. It can be the basis for changing the production towards better marketable “healthy food” and encouraging a “healthy environment” for rural tourism and better living conditions. As a prerequisite, environment protection and environmentally sound production procedures and the widespread application of quality, food safety and hygiene prescriptions are connected to the development of a competitive and sustainable agriculture. The objectives of safeguarding and improving the conditions of the environment are to be primarily achieved by the two measures included in this priority: *agri-environment* and *meeting standards*. Several other measures of the RDP will also contribute to a positive impact on the environment. This is notably the case for the LFA and afforestation measures, included in priority B and D, and also for the producer groups, included in priority C, due to the eligibility criteria which will allow more conscious fulfilment of the requirements of consumer protection.

The enforcement of priority B) is essential to convert the traditional intensive, in some cases low income and low labour intensity farming structure, towards an economically and environmentally more sustainable production. The *afforestation* measure is the primary tool of this priority. However, the agri-environment, LFA and the meeting standards measures included in the other priorities of the RDP also contribute to the realisation of its objective.

In the case of priority C), the economic viability of Hungarian farms is more directly and efficiently served by the investment support provided by the ARDOP. The Rural Development Plan includes a number of measures intended to complement such support and thereby contribute to increase the financial conditions, the liquidity and market position of farmers. The measure supporting the *establishment and operation of producer groups* are to be implemented, with a view to improving significantly the market position of their members by assisting them to produce standard quality products in a marketable quantity. Based on the past experience, the willingness is still quite low among individual farmers to set up such co-operations and it is envisaged to increase gradually. In the long term, the measure providing *support for the semi-subsistence farmers, complement direct payment* should also contribute to the improvement of economic viability of farmers willing and able to develop their business. In many cases certain developments depend on the economic status of the farming unit. The measure *complement direct payment* contributes to the stabilization of economic viability of the farmers, which lead to stronger market positions and balanced continuous cultivation.

Based on the SWOT analysis and the description of the current situation in Chapter 1, it can be stated that the highest need in rural areas, especially for farmers, are connected to low income and narrowing employment. The situation is more severe in areas where the production conditions are weaker, or where the structure of production is based on the traditional agricultural products. The implementation of priority D) is targeting to ease the above problems. Due to the characteristics of the accompanying measures set in the relevant EU legislation, the RDP is not directly designed for solving low income and unemployment issues; this is mostly targeted by the ARDOP. However the RDP also envisages a number of tools to complement such support and affect positively these problems. The main tools for providing additional income for farmers working on areas with weaker site conditions and having less income through those maintaining agricultural activities is the *LFA and complement direct payment* measures. In addition, the afforestation measure provides support for additional possibilities of land use, which will affect mostly areas less suitable for intensive agriculture. Supporting the production of better quality, higher added value products and more labour intensive production such as e.g. the agri-environment schemes also contributes to the realisation of this priority. The measure complement direct payments would contribute to providing supplementary income support to farmers.

The logical links among the general and the specific objectives, the priorities and the measures are as follows:

Logical links among the objectives, priorities and the measures of the NRDP – p.

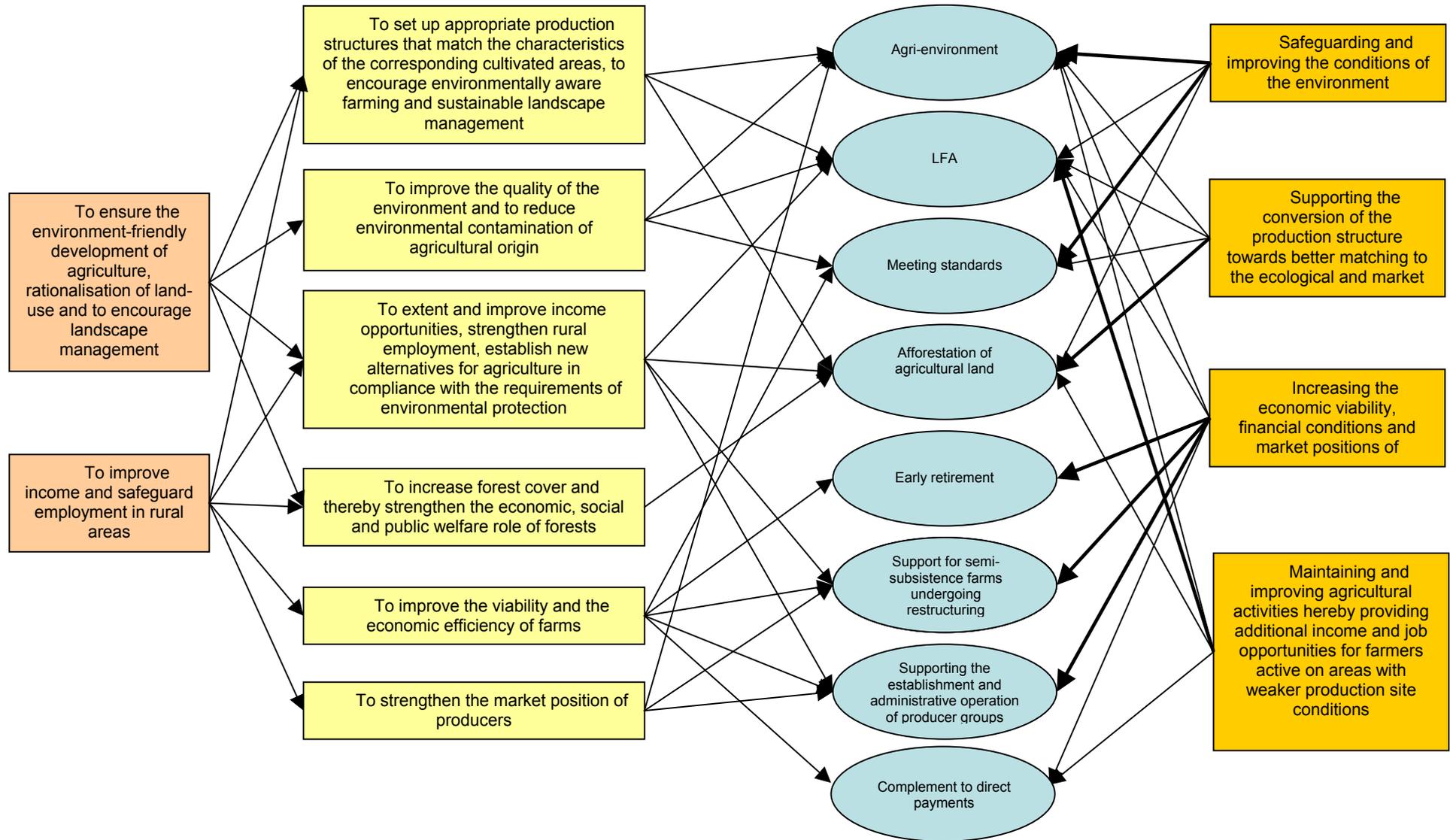
General objectives

Specific objectives

Measures

Priorities

ss



The previous experience derived from the implementation of the National Agri-environment Programme shows that the popularity of the schemes of NAEP rapidly increased year by year. The characteristics and the conditions of the agri-environment schemes in NRDP are similar to that of the NAEP. Table 35. shows that calculating with the current number of NAEP beneficiaries and the payment rates of NRDP the expected need for financial resources is very close to the amount allocated for this measure. However, within the NAEP 64 sub-schemes were implemented, while in the NRDP 82 sub-schemes are proposed. The arrows pointing to the *agri-environment* measure both from the specific objectives and the priorities show that this measure is of high importance to achieve both economic and environmental objectives and to answer to the priorities set forth by the programme.

Concerning the expected impacts of this measure it should be stated that it will have significant positive impacts on the environment in a rather long term (water, wind erosion, soil conservation and fertility, biodiversity, etc.). This measure will thus highly contribute to the sustainable development of the rural society, resources and the protection of local and global environment. In addition, the measure should have relatively positive impact on the income situation of farmers through the fact that the quality of the products will be improved and also allow an improvement of the market position of farmers. In the short run, the measure could have negative impact on the production efficiency thanks to its nature.

The importance of the *meeting standards* (3,33% of the NRDP budget) measure cannot be well described by the number of arrows due to the so-called “preventing” characteristic of the measure. The supported activities do not directly solve economic problems; rather the need for extra investments from the farmers, at the beginning of the application/support period. Experience has shown that a lack of capital and the relatively low level of support led to a less than expected uptake. The financial allocation of the measure was reduced accordingly.

The financial allocation to the *LFA* measure (1.83 % of the NRDP budget) is set according to the size of the eligible designated areas and to the number of beneficiaries. This measure should have long-term positive impacts on the environment especially on the maintenance of the countryside and the landscape management, that both participate in the sustainable development of the rural society. Regarding economic impacts support to farmers located in LFA could encourage them to a limited extent in the transition of their farms to a better market oriented production and thus improve their market position. This effect is strengthened by the fact that farmers located in LFA are given priority in the selection procedure of the semi-subsistence measure and the investment measure of ARDOP.

The amount of resources designated to the *afforestation* measure (10,57% of the budget allocation) is based on the long term National Forest Programme (see Chapter 1.8) as well as the previous experiences and practices.

All impacts related to this measure are long-term impacts. The expected economic impacts of the measure will emerge mostly through development of alternative sources of income. The environmental impacts can be significant by contributing to the prevention from water and wind erosion, to the improvement of the quality of environment and landscape preservation, and to the preservation of the living creatures and biological diversity.

Early retirement, which was originally included in the NRDP, was not finally opened for applications because of a number of legal issues to be solved (tax and social insurance regulations) The measure will be proposed in the new programming period.

The financial allocation for the measure *setting up of producer groups* (3,76% of the NRDP budget) is based on the previous experience of the national agricultural support scheme (see Chapter 1.3.5 and 2.1.3). 225 producer groups gained preliminary recognition by 2004 according to the MARD Decree 85/2002 (IX. 18.). Since the condition of recognition regarding the minimum limit of annual sales revenue will increase significantly the expected number of applications is lower than that of the preliminary recognitions and expected to be lower year by year. The measure should lead to significant short term impacts on the structural changes of the farming units' organization and production that should be more market oriented. The efficiency of farms should be also strengthened, thanks to a common organization and use of materials.

The financial weight of the measure *supporting the semi-subsistence farms* (0,51% of the NRDP budget) is based on the number of beneficiaries, which is estimated according to the eligibility conditions (e.g. economic viability) in line with the ARDOP. Regarding the impacts, the measure on a short run is assisting farmers struggling with subsistence difficulties. The amount (1 000 EUR) will improve the farmer's income but without creating alternative sources of income.

The financial allocation to the measure on the complements to direct payments (12,4% of the total NRDP budget) is based on the calculation according to the guidelines for granting Complementary National Direct Payments in the new Member States, for each of the two years in which the measure is implemented.

3.2 Links to NDP, ARDOP and other national policies (objectives, priorities)

Since the 1990s, as a preparation for EU accession, the Hungarian legal and administrative system has gradually incorporated EU requirements, guidelines and objectives.

The main objectives to be enforced in agriculture in the long run were set out in Act No. CXIV. of 1997 on the development of the agriculture, according to which the main objectives to be fulfilled are:

- improving the competitiveness of agricultural production;
- creating equal opportunities;
- achieving proportionate capital and labour incomes;
- providing a basis for and improving the conditions of sustainable development in agriculture by harmonising the interests of production activities, environment and nature protection;
- exploiting of the comparative advantages of agricultural production to increase profitability and food exports;
- encouraging rural employment and alternative incomes;
- improving the capacity of rural areas to retain the population;
- developing the human resources of the economy; enhancing the spread of agricultural innovation.

More recently, the strategy of the Hungarian Government for the development of agriculture and rural development was defined in the following legal measures and programmes:

- Government resolution No. 2253/1999 (X. 7.) on the National Programme for Agricultural Environment Protection, and the measures required for its implementation;
- the Government programme and the agricultural strategy of the Ministry for Agriculture and Rural Development
- the National Forestry Programme (under elaboration and partnership discussion), based on the EU Strategy for Forestry.

To achieve the main objectives and the strategy listed above, the Hungarian support system has introduced several measures for the modernisation and structural transformation of agriculture in order to comply with the newly introduced EU standards, for the enhancement of afforestation, for the promotion of the establishment and operation of producer groups and the implementation of National Agri-environmental Programme for a more environmentally sustainable development.

They can be classified into two main groups, on the basis of the Act on the State budget:

Agricultural subsidies

They are based on decrees by the Minister for Agriculture on the budgets for the agricultural economic objectives. As for the years 2001 and 2002, the major lines and sectors of support are contained in the Act No. CXXXIII of 2000 on the budget of the Republic of Hungary, in Chapter XII (Ministry of Agriculture and Regional Development), sub-title 4 of Title 10 (Provisions managed by chapters) and sub-title 3 (Funds dedicated for support). Support provided under these decrees is consistent with the rural development measures set forth in Council Regulation 1257/1999.

Environmental measures

There have been included in domestic legislation for several years (for instance, Act LIII/1995 on the general rules of environment protection; Act LIII/1996 on the protection of nature; and Act No. CXIV/1997 on the development of agriculture).

The implementation of National Agricultural Environment Protection Programme (NAEPP) was introduced in 2002, based on the above Acts. This programme, approved by Government resolution N. 2253/1999 (X. 7.), with a budget of about 2,2 HUF billion, aims at integrating environmental concerns in the agricultural activities (by supporting integrated protection and environment-friendly cultivation methods).

This is the broad framework of the existing system of the national subsidies for agriculture and rural development. This system will be completed by a number of measures listed by EC Regulation N. 1257/1999 that the Hungarian authorities plan to finance only by national resources (forestry, basic services for the rural economy and population).

3.2.1. Coherence with NDP and ARDOP

The NRDP, functioning as a document fit into the structure of the NDP, is a key tool for the sustainable development of rural areas. The multi-purpose objectives described in the strategy of the NRDP can be achieved by the complementary effects of the group of investment-type measures found in the ARDOP and of the measures aiming the sustainable development in rural areas. By implementing accompanying measures, NRDP contributes either directly or indirectly to the implementation of NDP and ARDOP objectives. NRDP is linked to several objectives of the NDP, thus to a number of its Operational Programmes.

The NRDP measures enhance the effects of the structural measures of the ARDOP in the following way:

- NRDP gives priority to a more rational land use, through the compensation given to low-input farming systems in less favoured areas and the afforestation of agricultural land in areas with weaker natural endowments. This is consistent with the choice in ARDOP to favour the more competitive, economically viable enterprises thereby contributing to a more efficient use of the available resources and, at the same time, to preserve the natural and cultural landscape with the recognition of the multifunctional role of agriculture;
- the agri-environmental measure contributes to the spread of environmentally sound production practices and the rationalisation of land use, in synergy with the investments measures in priority I and II of ARDOP;
- the measure supporting semi-subsistence farmers will aim at making a considerable part of partly self-supporting farms becoming economically viable;
- the measure to help farmers to comply with the newly introduced EU-standards related to environment, hygiene, animal welfare can also enhance and accompany the investments financed from ARDOP;
- early retirement – coupled with the setting-up aid for young farmers in ARDOP – will pave the way towards a healthier age structure of agricultural producers;
- by the establishment and development of producer groups, the co-operation and integration of producers will strengthen;
- the measures of ARDOP facilitating investments and the development of the agricultural infrastructure serve for the farmers as the basis for NRDP measures (e.g. Agri-environmental management, etc.);

the land-based support types of the NRDP extend the financial possibilities of farmers, thus enabling the using up of investment-type supports of the ARDOP;

both documents contain a measure for facilitating compliance with the EU environmental protection and animal health standards. A most fundamental provision was to avoid overlap and strengthening the complementary effect between them;

the early retirement scheme of the NRDP and the support for setting up of young farmers in the ARDOP provide help for achieving better age structure among agricultural workers;

the support of training through the ARDOP aims at improving the abilities of farmers, consequently the measures of the NRDP can be utilised better. The topics covered in the trainings include the knowledge necessary for the implementation of accompanying measures as well;

the support for investments financed by ARDOP will serve as a good basis for farmers to join different support schemes of NRDP. By providing higher support rate for farm investments carried out on Less Favoured Areas as well as giving higher scores to beneficiaries joining agri-environment schemes or producer organisations will significantly increase the willingness of farmers to join such schemes or forms of co-operations by which the fulfilment of the objectives of these measures will be increased;

the common objectives of the two documents such as meeting EU standards, improving the state of environment will be fulfilled by harmonised actions (ARDOP supports investments, NRDP supports additional costs etc.);

the measure on vocational training financed from ARDOP by providing the necessary knowledge base for farmers on agri-environment, EU standards etc. will contribute to the successful implementation of number of measures of the NRDP.

A Co-ordination Committee within the Ministry of Agriculture and Rural Development will ensure consistency in implementing the two programmes. This committee will have its meeting on regular basis as it is necessary. The composition of the committee will be based on the responsible units of the Ministry (implementation, planning, control, legal) and the Managing Authority of the ARDOP of both programmes. The committee will take the necessary steps to avoid inconsistency in implementing the programmes.

The elaboration, implementation of the National Rural Development Plan and the mechanisms of the implementation are in line with the requirements defined by EC Regulations 1257/99 and 817/2004.

3.2.2. Coherence with community policies

Common Agricultural Policy

NRDP aims at fully establishing the European "agricultural model" formulated in the course of the latest CAP reform, by setting the basis for a rational and sustainable development of agricultural production.

It has been drafted in a way to ensure consistency with the measures implemented under other instruments of the common agricultural policy and in particular the measures under the common market organisations.

Sustainable Development

NRDP measures include the horizontal objective of sustainable development, according to Article 2 of the Amsterdam Treaty. All measures for the support of agricultural activities will be compliant with the EU requirements on environment, animal welfare, hygiene and food safety and will aim at preserving natural and landscape values. The implementation will be in compliance with the environmental *acquis* (Council Directive 97/11, 91/676/EEC, 92/43/EEC, 75/442/EC, 76/464/EEC, 80/68/EEC, 86/278/EEC, 96/61/EEC). The promotion of renewable energy sources as part of the *acquis communautaire*¹⁹, contributes to both the environmental protection and social and economic cohesion, especially in rural areas. Technical assistance will also include environmental monitoring. Applicants will receive environment protection guidelines. Representatives of environment protection organisations will attend the Monitoring Committee. NRDP will include appropriate arrangements for monitoring and evaluation in relation to the environmental objectives envisaged. The annual implementation reports will describe how these issues have been addressed.

Employment

It is essential for the economic, social, environmental and landscape renovation of rural areas to slow down the processes that generate environmental and ecological problems and also depopulation and the increasingly unfavourable age structure of the population. NRDP will have a positive impact on employment by wide-spreading new, environment friendly labour intensive farming methods, improving and safeguarding the operation of semi-subsistence farms and that of not yet meeting EU standards, sustaining adequate agricultural activities in less favoured areas, creating new market outlets by improved quality and range of products.

Public procurements

Implementation of Technical Assistance measure must comply with Community requirements as set out in the Public Procurement Directives, plus national rules stricter than the Directives. This compliance is assured through the following steps:

There is a separate chapter on procurement in the grant contracts. (The standard grant contract is published so beneficiaries can get informed about their obligations at an early stage.)

Beneficiaries have to provide information on procurement measures taken in the project progress reports. No payments will be made in cases where procurement directives have not been complied with.

Evidence of procurement measures are checked at audits.

¹⁹ Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market, O.J. L 283/33, 27.10.2001.

- Notices will be sent for publication in the Official Journal of the European Communities.

The public procurement office nationally active is the “Council of Public Procurements”. It is an independent state organisation with its own legal background. This organisation has a legally guaranteed competence for wide scale of control and registration activities on the whole field of public procurement.

Environmental protection

Implementation of NRDP shall be conducted pursuant to the EU requirements on environmental protection.

In particular, all operations undertaken under the NRDP shall comply with the Habitats and Wild Birds directives (92/43/EC and 79/409/EC) and where applicable with the Directive on Environmental Impact Assessment (85/337/EEC as amended by 97/11/EC), see chapter 3.7 for details. Additionally, all actions realised within the NRDP must be carried out according to the Hungarian legislation on environment. In cases where applicable Community environmental legislation is not yet transposed into national legislation, the relevant EU directive shall directly apply until their effective transposition.

Equal opportunities

See chapter 3.6.

Quality policy

The support system of the EU as well as the CAP highlights that the emphasis of the production should be transformed from the quantitative aspect towards quality.

In the EU, the quality of agricultural and food products is a relevant market category. In order to regulate the market concerning some agricultural and food products there are directives, regulations, product protection-, and quality management systems as applied within the quality policy.

- Quality requirements

Such as: regulations concerning fruits and vegetables, alcoholic drinks, directives of sugar, honey, fruit drinks etc.

Hungary through law harmonization accepted these rules and implements them. The official food control institutional system set up to control the compliance with quality requirements is operating well.

- Quality policy of the EU

Key elements of the quality policy of the EU are the protection of signing the origin of agricultural and food products, certifying Hungaricums, and labelling of eco-production.

Hungary accepted the EU system, which aimed at protecting, certifying and labeling quality products, moreover it should help the training of producers to acquire new information, and implement their knowledge to explore new possibilities when Hungary enters the EU.

- Quality management systems

In the EU there are several quality management systems applied in food production and food industry. Besides these systems the HACCP system –such as in Hungary- is mandatory.

The implementation of other systems (such as ISO 9001, TQM) is not mandatory, although their implementation helps to keep their position in the market, to gain new markets fields, boost their efficiency, and increase consumer satisfaction. Quality management systems have

been widely implemented within the food sector, and their future implementation in the raw material sector is already projected.

The MARD will start pilot projects, and since 1998 supports up to 50% of the realisation cost of the establishment of HACCP, ISO and TQM systems, and will support from 2003 the implementation of monitoring systems. The implementation and support of quality management systems in the EU is equal to the current Hungarian situation.

3.3. Overall strategy of the NRDP

In a radically altered economic environment, the national agricultural policy has two main objectives. On the one hand, to improve the efficiency of agricultural production and to ensure more favourable and safer competitive market and income positions for producers by making use of comparative advantages. On the other hand, to pursue an agricultural policy that targets sustainability and multifunctionality in areas less suitable for compatible economic development. Balanced realisation of the two objectives is a fundamental national interest; however, it is also in line with EU objectives. Realisation of both objectives may be enhanced by Hungary's accession to the EU as well as the joint utilisation of EU and domestic resources in terms of timing, schedule, and efficiency. The measures introduced in ARDOP and in NRDP aim at achieving these objectives and thus contribute to sustainable development and to the establishment of a European agricultural model which reduces the negative economic, environmental, social, and welfare-related consequences of regional differentiation.

The strategy that focuses on the above objectives of agricultural and rural development is intended to harmonise the concepts for agriculture and rural development, the National Agri-environment Programme, the related EU directives and support practices, and the experiences gained from the pre-accession instrument and national support schemes for agricultural and rural development with the development plan for the national economy.

As it was indicated in the status survey and the SWOT analysis, the socio-economic transformation badly affected and even set back the performance of agriculture. The many comprehensive reasons include the change in ownership conditions, the transformation of the organisational system, the over-simplified and low profit production structure, the increasing marketing problems, the reducing share of agriculture in employment, the regional differentiation and the intensified social problems of rural areas.

The NRDP strategy relies on the initiative of individual and collective enterprises empowered by the recognition and sustainable utilization of existing potentials of different natural resources and income-earning alternatives built upon them. Therefore it becomes fundamental to back up, orient and train the whole rural society

- for acquiring/recognising new challenges and possibilities of EU accession,
- for fulfilling and accepting EU requirements and standards

in order to make rural actors be able to raise their problem solving capability in terms of either employment and income-earning or reduction of other inequalities.

It is a fundamental interest of society to develop rural areas particularly disadvantaged by the social and economic changes of the past decade; to put the rural economy on a new track of growth; and to realign the rural population. It is essential for the social, economic, cultural, and environmental renovation of rural areas to improve the subsistence, income, and employment conditions of rural population, to stop both the processes that generate depopulation and the increasingly unfavourable age structure of the population.

It is a basic requirement for all subsidised developments not to increase environmental burden. Integrated approach can therefore enforce sustainability in the environmental, economic, and social sense. According to the principle of coherence, the strategy also takes into account the impacts of the measures included in ARDOP financed from the EAGGF

Guidance Section. The measures of NRDP complete and enhance the effects of those structural measures of ARDOP.

In accordance with the principle of co-financing, the strategy takes into account the opportunities for support provided by ARDOP and also the Single Area Payment together with the national “Top Up” supports.

Moreover, the strategy focuses also on some social aspects regarding especially some disadvantaged groups. Roma, youngsters and handicapped people are in relatively more unfavourable situation in rural areas. During the implementation of NRDP these groups will be supported by special awareness-raising and information channels with the involvement of their representatives and organisations as compared to the other applicants. This way NRDP promotes the removal of inequalities of men and women and also between the different groups of society, with special regard to the aim laid down in the last phrase of Article 2 of Council Regulation 1257/1999.

It can be concluded from the situation analysis that in spite of the constant recession experienced in the 1990s, the agriculture, game and forest management and fishery still plays a significant role within the national economy as well as in the employment and the maintenance of rural areas. Due to these functions, this sector is a strategic one within the national economy. However, based on the data of the last decade indicating both deterioration and restructuring and considering the trends of the European Union it can be foreseen that the importance of traditional intensive agriculture will decrease with respect to direct employment and rural income generating potential. This fact emphasise those strategy directions of restructuring that can shift the sector from quantity production towards quality and sustainable production, in other words towards environmentally aware farming and multifunctionality. This strategic shift is also going to ease the environmental burden caused by intensive agricultural activities on the quality of soil, water, biodiversity and landscape described in detail in the situation analysis (chapter 1.7). This overall target is ensured especially by meeting the objectives of the Less Favoured area measure to enhance agricultural practices based on the sustainable use of natural resources, to encourage the protection of environmental and natural assets, maintaining the values of the rural landscape and to encourage the production of quality products. Thus, the tensions within rural society and economy caused by the concentration of production and the reduction of the labour force release can be relaxed.

In addition, in line with the general objectives of the NRDP, the effects of the strategic elements of the Hungarian Forest Programme – currently under approval by the Government - shall be primarily amplified through the afforestation of agricultural areas. As the forest cover increases, its significance also grows with respect to the global carbon balance and the alleviation of climate change, to the increasing biodiversity, to the protection of ecospheres and species, soil and air quality protection, while the leisure and recreational functions and the quantity of environment-friendly raw materials offered by the forests shall also increase.

The measures of the NRDP provide answers to environmental as well as economic and social difficulties caused by the transition or to the adaptation of the Common Agricultural Policy and conditions of Hungarian agriculture and rural areas.

NRDP can only facilitate the sustainable development of rural areas with the utilisation of the well-established, complex and harmonised instruments of the NDP. The horizontal development of infrastructural, social and environmental issues in rural areas are dealt with in the relevant Operational Programmes (Environment and Infrastructure Operational Programme, Regional Development Operational Programme, Human Resource Operational

Programme), while the development tasks connected to agriculture are handled within the framework of ARDOP.

The chapter presenting the state of the environment and the SWOT reveals that the opportunities (afforestation, environmental farming methods, integrated farming, rehabilitation of the landscape) tackling the weaknesses (soil-degradation, flood and inland inundation hazard, drought losses, water pollution and manure management problems in animal husbandry, degradation of the landscape) and the supporting EU policies (with the allocated resources) coincide for a great extent.

Impact of measures bearing the biggest weight will occur both through the improvement of the market efficiency of agriculture as well as environment conditions. To implement measures with relatively smaller weight, however, still remains important, since their targets are those micro and small entrepreneurs that represent a significant part of the agricultural population and expect subsidies first of all for facing income generating problems.

3.4. Quantified expected results of the NRDP

This chapter contains the quantified monitoring indicators, following the format of the Commission Working Document VI/43512/02.

The detailed description of the procedure of data collection and process as well as the relevant tasks and responsibilities are included in Chapter 5.

The quantified targets of the NRDP by measures are as follows:

The measure “**Agri-environmental management**” is implemented via six target programmes, with a potential agri-environmental uptake of *699 758 ha agricultural land* in the period 2004 to 2006. The breakdown by schemes is as follow: arable scheme (349 879 ha), grassland scheme (279 903 ha) permanent cultures scheme (55 980 ha), wetland scheme (13 995 ha), supplementary agri-environment measures (40 953 ha).

The “**Support of less favoured areas**” targets altogether 883 558 ha of less favoured area. Out of the total LFA area 395 402 ha is considered LFA according to Article 19 and 488 156 ha according to Article 20 of (EC) Regulation N° 1257/1999.

The measure “**Meeting standards**” is separated into two sub-measures. The first sub-measure is aiming at environmental protection including activities of removal, treatment and on-site storage of manure. The second sub-measure is aiming at animal welfare and animal hygiene covering activities of 1) compliance with provisions concerning floors, 2) compliance with provisions concerning micro-climate, 3) compliance with provisions concerning safety of animal husbandry sites, 4) compliance with provisions concerning space requirements, 5) compliance with provisions concerning keeping and foddering technology, 6) technological developments associated with site technology, 7) complete reconstruction. The number of *beneficiaries* that will apply for support is about 1800.

Regarding the “**Afforestation of agricultural land**”, 10 000 hectares are envisaged to be afforested per annum in average, this means *30 000 hectares afforested land* during the period 2004 to 2006.

In the case of “**Support of semi-subsistence farms undergoing restructuring**”, based on the specific objectives of the measure – facilitating of structural change, the creation of economically viable farms – the target group is producers with low capital and small holding size, but a possibility of development with assistance. According to the eligibility criteria set in the NRDP approximately *1800 holdings* will be able to meet the requirements within the average of three years.

Within the framework of “**Setting up of producer groups**” around 200 groups are envisaged to be supported in the programming period 2004 to 2006. At least 40 groups will evolve into competitive producer groups possessing strong market positions. Taking into account that at least 15 producers take part in one group - but quite often even 100 producers are allied in one group - the measure involves 1 300 to 2 500 natural persons.

The detailed physical and financial indicators for monitoring the RDP measures in the period 2004-2006 are indicated in annex 18 to the plan. The annex also includes evaluation indicators on estimated targets and impacts of the plan.

The system is consistent with the guidelines by the Commission services on monitoring and evaluation of rural development programmes.

Physical and financial indicators of the NRDP measures for 2004-2006 are elaborated in and evaluation indicators as annex No.18 to this plan.

3.5. Integrated approach

The rural development measures included in the NRDP are part of an integrated plan covering the whole territory of Hungary, based on a uniform system of priorities and objectives. Other means supported by the Structural Fund are incorporated in the Agricultural and Rural Development Operational Programme. The coherence between the two plans is ensured by their strategies of common roots. Linking the measures of the two documents to each other can increase the efficiency. More favourable conditions can be provided for applicants of the different support schemes so as they can easier fulfil the eligibility criteria, furthermore the objectives of the measures can more easily achieved.

The second meaning of integrated approach is to ensure the parallel and coequal development of society, economy and environment. The improvement of the situation regarding population in rural areas dealing with agriculture and of the environment can be maintained by the development of agriculture. One basic aim of the NRDP is to facilitate the sustainable development of rural areas, the encouragement of multi-purpose, environmentally aware farming and the improvement of employment and profitability conditions. This objective integrates the mutual interests of all the three mentioned components.

Apart from the beneficial impacts on employment and economy, some of the measures remarkably improve the state of environment and play a role in landscape preservation as well. The agri-environmental management, the support of less favoured areas, the supporting to meet with EU standards and the afforestation of agricultural land have direct positive effects on environment. In case of the other measures, impacts on environment are indirect, however the beneficial consequences for economy and society (since the target groups of these measures are the agricultural producers, mainly semi-subsistence farmers, elderly people) are significant.

3.6. Equal opportunities for men and women

In line with Article 1 of Council Regulation (EC) n° 1260/1999 on Structural Funds and the aspects described in the National Development Plan and the Agricultural and Rural Development Operational Programme, the provision of equal opportunities, including opportunities of men and women and disadvantaged groups, is one horizontal principle of the National Rural Development Plan.

Already in the phase of partnership consultation attention was drawn to this aspect of the programme planning and it was unanimously accepted by the participants.

The NRDP pays special attention to improving the situation and the equality of chances of disadvantaged groups of society, such as women living in rural areas and involved in agricultural production, agricultural entrepreneurs struggling with subsistence difficulties and Romas living in great number in rural settlements. Since in rural areas agriculture is the most obvious source of living, every means should be used to encourage agricultural activities and the expansion of opportunities linked to agriculture.

The chances of job creation and preservation can be significantly improved by the different special information-dissemination activities, permanent advisory and extension services which can contribute to both adaptation and the diversification of activities such as strengthening of market-opportunities of semi-subsistence farmers or additional working opportunities in afforestation and in agri-environmental non-production services.

The principle of equal opportunities is taken into consideration through the balanced participation of women in the bodies involved in the management, monitoring and implementation of the NRDP including the active participation of the competent organisations in charge of these issues in the Monitoring Committee.

According to the nature of the measures concerned in this NRDP mostly directly dependent on certain physical farming potentials or demanding standards in relation to the given farming activity the NRDP does not apply positive discrimination as regards of women or disadvantaged groups in the eligibility of support.

It is common in the rural areas of Hungary that the majority of women work in the service sector, and in fields of lower income-level. Their professional and organisation structure is unfavourable, only few of them fulfil senior positions. The National Rural Development Plan is oriented to the agricultural sector, therefore it affects the labour-market position of women by creating or maintaining employment possibilities for them in agriculture or forestry. Since these sectors employ primarily men, women are poorly represented in production, decision-making processes, management and other organisations. Thus, ensuring the equal opportunities is of key importance. Apart from employment, this aspiration includes income-conditions, interests and official representation.

In the case of **groups struggling with disadvantages**, or cumulative disadvantages, the provision of appropriate employment is the most important factor, that encourages the integration into the entire society and ensures living expenses. The “Agri-environment”, the “Support of less favoured areas” and the “Support for semi-subsistence farms undergoing restructuring” increase directly the labour-market positions by supporting sustainable and perspective ways of farming. The other measures ensure the equal opportunities indirectly, through the quantitative and qualitative improvement of employment (generally these strata are employed in the agricultural economy). Linked to this, the implementation of equal treatment principle – primarily in case of Romas – is of extreme importance. Apart from this,

the information and consultation provided within the framework of Technical Assistance considers these groups as highly privileged target groups. Another basic aspect is the increased assistance as regards of writing applications, calculation of support demand and submission of proposals. There is no positive discrimination applied in these strata either, though it is incorporated into the basic principles of the NRDP and are enforced during the implementation.

3.7. Future environmental commitments

The measures of the National Rural Development Plan are affected by environmental commitments regarding greenhouse gases, water quality, protection of natural resources and sustainable forest management. Based on the environmental state of rural areas described in detail in Chapter 1.7. and taking into account the international environmental protection and nature conservation commitments of Hungary, the rural development measures contribute to the following environmental achievements on these fields:

Comply with treaties concerning greenhouse gases

On the Kyoto Summit Hungary has engaged to reduce the emission of greenhouse gases by 6% by 2008, related to the average emission level between 1985 and 1987. The new forest plantations implemented within the measure “Afforestation of agricultural land” contribute significantly to the completion of this commitment.

Framework for Community action in the field of water policy (Water Directive)

The Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy was put in force on 22nd December 2000. This Directive is considered as the most important piece of legislation as regards of water management in the European Union. Its primary objective is to **ensure the good ecological condition of water** and waterside living world until 2015. The implementation of the Water Directive has to be carried on in line with the EU Common Agricultural Policy and the rural development programming, by integrating the aspects of water protection. Article 11 of the Directive states that a programme of the measures has to be elaborated so as to reach the determined conditions of waters by the set deadline. The measures “Agri-environmental management” and “meeting standards” of the National Rural Development Plan assist indirectly to the achievement of the targets.

Nitrate Directive, Good Farming Practice

The most important field of water quality protection is the reduction of **nitrate emission**. In Community level the Nitrate Directive (91/676/EC) regulates this question, the implementation of which is enforced by Governmental decree 49/2001 (IV. 3.) on the protection of waters against nitrate contamination of agricultural origin. The introduction of this rule is justified by the recognition that the waters can be seriously damaged due to the intensive agricultural production and large-scale animal husbandry (increase of nitrate pollution, eutrofication). The Directive appoints that a survey shall be made on nitrate contamination of waters and – based on the result – the delineation of nitrate-sensitive areas shall be completed. Thus, the Governmental decree 49/2001 (IV. 3.) contains the list of nitrate-sensitive settlements (involving approximately 1500 settlements) and the Good Farming Practice of manuring, the rules the keeping of which farmers can meet the standards. The decree has also adopted a 12-year-long action programme, the implementation of which has started in 2002. Keeping the obligations of the nitrate decree is compulsory for all farmers fulfilling agricultural activities. The rules set within the Good Farming Practice of manuring

can be divided into two parts: the utilisation of organic manure originated from animal keeping in agricultural land and the storage of manure produced in animal keeping sites.

By the implementation of the 12-year-long action programme on keeping the provisions and rules of the nitrate decree and acquitting the obligations described in the National Rural Development Plan the existing and newly established animal keeping sites will meet the strict environmental standards of the Nitrate Directive. Since the provisions for Good Farming Practice of manuring include not only the basically environmental protection rules of storing organic manure but also the utilisation of the stored manure, it will be achieved that the surface and sub-surface nitrate contamination of agricultural origin will decrease. According to the decree, the nitrogen content of organic manure shot on agricultural land cannot exceed 170 kg per hectare.

Convention on Biological Diversity

Act LXXXI. of 1995 on the introduction of the Convention on Biological Diversity (further referred to as Convention) is based on a multilateral **nature conservation convention** that was signed by Hungary, too. The objective of the Convention is to harmonise the measures serving the preservation of living creatures and biological diversity. It states that the contracted partners, taken into consideration their conditions and abilities a) elaborate national strategies, plans or programmes for the preservation and sustainable utilisation of biological diversity or adopt existing strategies, plans or programmes for this purpose and b) includes as sophisticatedly as possible the conception of preservation and sustainable utilisation of biological diversity into sectoral or inter-sectoral plans, programmes and policy-making procedures. Article 8 of the Convention contains a list of the activities to be implemented. For part of them the NRDP provides resources in an indirect way.

Directive on the conservation of wild birds and of natural habitats and of wild fauna and flora (79/409 EEC and 92/43 EE)

The above Directives oblige Member States to take appropriate protective measures for wild birds, plant and animal species and their habitats. So as to ensure the necessary protection land use and farming restrictions are inevitable. In agricultural land the compensatory allowances paid within the framework of the NRDP measure “Agri-environmental management” and “Support of less favoured areas and areas under environmental restrictions” play a remarkable role in encouraging the compliance with the provisions of the Directives.

Natura 2000

Meeting the requirements of Good Farming Practice as a minimum in the target programmes of the agri-environment measure and in less favoured areas facilitates the protection of the Natura2000 areas.

The proposed list of sites to be included in the Natura 2000 network has been completed. The list includes 1,233,110 hectares of special bird protection areas and partially overlapping the former areas of Community significance (1,370,038 hectares). The degree of overlap with existing sensitive natural areas is 22%. However, those sensitive natural areas that are not included in the Natura 2000 network but are habitats of species of Community significance also important from the perspective of meeting EU legal harmonisation obligations, as the general protection of those species is an obligation of member states beyond the scope of the Natura 2000 system as well. A significant proportion of the areas under nature protection are part of the Natura 2000 system. Almost 40% of the network to be established is already under nature protection. In some cases, the preservation of species of Community interest requires the maintenance of farming activities in their interest or the establishment of extensive, near-

natural forms of farming. Pastures and meadowlands are the habitats of those species, but arable lands may only be significant as feeding areas.

Sustainable forest management

In 1992, in the UN conference Environment and Development (Earth Summit) several international conventions were signed (e.g. on biodiversity, climatic change), almost all of which contain elements involving the forest issues. In order to stop forest devastation the AGENDA 21 was approved. It appoints for the countries which signed it how their national action programmes for ensuring the maintenance of the forests and the sustainable management shall be elaborated. Hungary has representatives in the UN Committee of Sustainable Development (CSD) dealing with environmental, ecological approach of forests and in the UN Food and Agricultural Organisation (FAO) competent in traditional forest management approach. Beside this, in 1990 a package of recommendations was adopted on governmental level in Strasbourg in order to stop the degradation of forests in Europe. Furthermore, Hungary takes several resolutions concerning forest management as voluntary commitments in another three governmental level meetings – the Protection of European Forests Ministerial Conferences (1993 Helsinki, 1998 Lisbon, 2003 Vienna). One resolutions of the 2nd ministerial conference (1993 Helsinki) deals directly with the sustainable forest management.

Act LIV. of 1996 on forests and the protection of woodland areas and its implementation regulation includes all the elements of the Pan European forest initiative that were available at the time of creation of the act. By this, the long-term completion of European Union legislative harmonisation tasks is ensured. In the forewords of the book titled “Forest population of Hungary, 2001” published by the State Forest Service it can be read that according to the future perspective outlined on the 3rd conference of responsible ministers (1998, Lisbon) “in the 21st century the European forestry sector will optimize its contribution to the sustainable development of the society, in particular in the field of rural development, renewable resources and the protection of local and global environment”. To realise these goals the ministers committed themselves to assess the achievements reached in the field of sustainable forest management with indicators able to show the advancement made on national level. Taking into account this principle, the national legislation has been improved. Thus, “an overall analysis shall be made in each five years so as to monitor the processes undergoing in the forests of the country and to analyse the management of the forest capital”. The analysis shall contain “beside the examination results of the data recorded in the annual reports, the conclusions made with the help of the application of requirement and monitoring system approved by the Protection of European Forests Ministerial Conferences for the qualification and measure of sustainable farming”. The first national forest inventory was made in 1970, when the total production control was achieved. From 1981 on, an overall report is made on the state of the forests in the country in each five years. The quoted publication was completed following several years of development work, taken into consideration the experience gained during the analysis carried on in 1996.

The conference held in Lisbon in 1998 focused on the connection between the forest and the society, while also some details of the sustainable forest management (requirements, indicators, practical principles) were elaborated. One of the six main systems of indicators was the role of forests in the global carbon cycle. Forestation is a significant factor in the global carbon cycle. More than 15 000 hectares of new forestation were implemented annually in 2001 and 2002. Over 10 000 hectares is foreseen in 2003. For the year 2004, the NRDP sets 8 000 hectares of afforestation with EU co-financing. It is well-known that the wood of forests created by the afforestation absorbs the atmospheric carbon-dioxide and is able to store it for even 100 years (half of the air-dry lumber is carbon that was absorbed

during the photosynthetic process). The utilisation of lumber as firewood is neutral as regards of the carbon balance, since the chopped trees are replaced by new plantations in the sustainable forest management.

In line with the international trends, the elaboration of the **National Forest Programme** has started in Hungary in 2001. The concept of the national forest programmes was clarified during inter-governmental negotiations. They recently function as important tools of the global forestry policy, ensure that forestry considerations fit into the sustainable development and land use strategies of the countries. The afforestation chapter of the National Rural Development Plan takes into account the basic principles of the National Forest Programme.

4. NRDP measures

4.1 Agri-environment

4.1.1. Legal References

4.1.1.1. European Union Legislation

Articles 22 – 24, and the Annex of Council Regulation (EC) n°1257/1999, as amended by Council Regulation (EC) n°1783/2003. Articles 13 – 21 and Annexes I and II of Commission Regulation (EC) n°817/2004.

4.1.1.2. National Legislation

Act CXIV of 1997. on the Development of Agriculture, Act LV of 1994 on Agricultural Land, Act LIII of 1995 on the General Rules of the Protection of the Environment and its related implementing regulations, Government Resolution 2253/1999 (X. 7.) on the introduction of the National Agri-Environment- Programme (NAEP).

4.1.2. Objectives and justification of the measure

General objectives:

- To maintain and improve the quality of environment, reduce the environmental pressure of agricultural origin;
- To enhance agricultural practices based on the sustainable use of natural resources (biodiversity, landscape, soils and water resources and genetic diversity);
- To change land use to correspond to agro-ecological conditions towards environmentally aware farming and sustainable landscape management ;

Specific objectives:

- to protect and improve physical, chemical and biological soil conditions
- to preserve traditional low input farming systems and traditional landscapes
- to provide alternative use for areas with low potential, preserve valuable grassland habitats and arable land through extensive cultivation methods or landscape management
- on High Nature Value Areas preserving and protecting biodiversity, sensitive habitat types and specific rare species
- provision of effective tools for the implementation of the NATURA 2000 network.

Operational objectives:

1. Entry Level Schemes
 - to encourage farmers to introduce environmentally friendly farm management and maintain environmentally and culturally important low input farming systems in each agricultural land use
2. Integrated Crop Management Schemes

- to encourage farmers to use integrated farming methods particularly by reduced and optimised use of chemicals and applying all available means of sound farming,
3. Organic Farming Schemes
- to encourage farmers to convert their production systems to organic production,
4. High Nature Value Area Schemes and environmental set-aside
- to encourage farmers to apply specific farming methods directly aiming at the conservation of important bird species and habitat development in designated areas.
 - in designated zones of vulnerable freshwater aquifers the protection of long term supplies of drinking water to exclude environmental pressure from pesticides and fertilisers
5. Supplementary Agri-environment Schemes
- encourage farmers to apply farming methods that help combating soil erosion, preserve biodiversity and landscape.

Justification of the measure

The social and economical transition in the beginning of 1990 in Hungary exerted significant changes on agriculture. The earlier production focused, large cooperatives based intensive farming was replaced by low intensity production on fragmented strips of land often without appropriate farm management skills, following the compensation process. Although the reduction in the previously common intensity of chemicals and artificial fertiliser usage could even be considered a change for the better, these rather resulted in the development of adverse environmental changes. The lack of nutrients replenishment (the nutrient balance is in deficiency for years!), not sound plant protection, acceleration of land degradation (primarily erosion), the negligence or often complete absence of crop rotation became general trends, the proportion of uncultivated land reached alarming heights that have lead to serious public health problems (allergy). The conditions of natural habitats created by the extensive agricultural production, and are characteristic of Hungary started to deteriorate, and the characteristic traditional, conservational production methods and breads are disappearing.

Land use practices must be restructured in most parts of the country partly due to national priorities (i.e. withdrawal of low potential, “loss producing” arable lands, finding new directions of farming) and partly due to regional priorities (i.e. restructuring use of land regularly exposed to flood and inland water, re-establishing environment friendly cultivation practices).

Besides, on the regional level the excessively intensive plant production still is a problem, mainly because of the artificial fertiliser and chemicals usage that comes with aiming for maximum possible yields. To handle these problems together an agri-environment programme had to be developed and introduced that promotes the wide scale introduction of environmentally friendly production methods. Hungary was the first of the countries preparing for accession that committed herself to the full adoption and introduction of the agri-environment support system of the EU.

The National Agri-Environment Programme (Government Resolution 2253/1999. (X.7.)) passed in 1999 and introduced gradually was formulated in line with the earlier EC Regulation No. 2078/92. and the effective EC Commission Regulation No. 1257/99. The measures detailed in the Plan provide the continuation of introduced schemes and further extension of environmentally sound methods by multi-level solutions that are adjusted to the

producer's expertise and the desired goals, to many environmental problems characteristic of today's Hungarian agriculture.

Following the accession to the EU, with the widening of the already running programmes and introduction of new schemes, it will be possible to gradually propagate environment friendly methods in cultivation, contributing thereby to the protection and development of rural life and the formulation of general practice and country image that can be characterised by the motto of "healthy food, environmentally friendly practices, beautiful landscapes, clean soils".

Due to the diverse and complex nature of agri-environment measures, the different schemes contribute to the completion of all four priorities targeted in the NRDP from which the two most important are:

A) safeguarding and improving the conditions of the environment

AE schemes (besides their positive rural policy, rural employment and market improvement effects) primarily targeted at environmental goals, to preserve and improve physical conditions of the environment (soils, water, landscape) and maintain, enhance biodiversity. This way the complex system of AE measures to be continued and introduced by the NRDP will have an important role to save current environmental, nature values, furthermore provide resolution for existing environmental problems

B) supporting the conversion of the production structure towards better matching to the ecological and market conditions,

the basic principle of the AE measures is to change production methods to match with agro-ecological conditions, and two major schemes, the integrated and the organic farming scheme provide support for environmentally friendly production of high quality products which are better preferred by consumers

Transition from NAEP to NRDP

In 2003 for the beneficiaries contracted in 2002 in the frame of NAEP the opportunity was offered to choose between two alternatives: A) to phase out the contract by the end of 2003 and apply for the NRDP agri-environment schemes, B) to stay in the already operating NAEP scheme to continue and finalise the five year contracting period. Over 90% of the farmers (beneficiaries) have selected option A), to switch to the new co financed schemes.

Together with the new beneficiaries of 2003 approximately 4 900 farmers decided to continue with agri-environment commitments in the framework of NRDP. These farmers have to apply and sign the contract for five years as those who did not join the NAEP. However the ones already proved commitment within the frame of NAEP will be preferred by 20 points in the selection.

The communication campaign started in 2003 has contacted approximately 10 000 farmers to introduce agri-environment policy and measures. Based on the estimations considering the highly positive response of farmers about agri-environment schemes during presentations, lectures, forums, it is expected that the subscription for the measures will be at least double as of in 2003, thus the targeted allocation for the measures will be well covered.

The measures introduced by NAEP were similar to the measures present in NRDP. The acceptance and understanding by farmers is corresponding to the former experiences, which

are considered very positive given the high number of applicants and final beneficiaries without any significant technical assistance in the matter.

4.1.3. Introduction to the Schemes

Agri-environment payments are contract-based incentive aids for the application of environment-friendly methods for a period of at least 5 years and normally not longer than 10 years (20 years in the case of long term environmental set-aside). Agri-environment measures will be applied horizontally throughout the country, except the schemes for High Nature Value Areas, which are zonal schemes. The aid consists of compensation for income forgone and costs incurred. This measure will be implemented through several schemes with different levels of commitments, grouped as follows:

- agri-environment measures on arable land
- agri-environment measures on grassland
- agri-environment measures in permanent cultures
- agri-environment measures on wetland habitats
- agri-environment measures for livestock
- supplementary agri-environment measures.

Regarding the various levels of commitments associated with them, the schemes are divided into the following categories:

- a) entry level schemes (ELS) (arable stewardship, grassland stewardship, endangered breeds of livestock) and other habitat schemes (wetland habitat schemes),
- b) integrated crop management schemes (ICM) (arable crops and vegetables, permanent crops),
- c) organic farming schemes (OFS) (arable crops, vegetables, grassland, permanent crops, livestock),
- d) High Nature Value area (HNV) schemes (mainly arable land and grassland) to support special low input farming methods that favour the protection and improvement of biodiversity and
- e) supplementary agri-environmental measures (SAES) which can be combined with arable stewardship scheme and all integrated, organic or HNVA agri-environmental measures. (combination options are detailed in the table below).

Farmers in HNV areas can apply also other schemes than HNVA, if eligibility criteria are met, but HNVA scheme can only be applied in the designated areas. A farmer can enter several schemes with his/her farmland provided for eligibility criteria are met.

4.1.4. Combination Options*

On a parcel only one scheme can be applied, except the supplementary agri-environment measures, which can be applied as a top-up measure to other schemes (see table below). Only one supplementary measure can be applied to a basic scheme. Except the combinations listed in the table, no other combination of commitments (schemes) is possible.

When designing the supplementary measures and the combinations, provisions of Article 17 of Commission Regulation 445/2002 (“*various agri-environment commitments may combined provided that they are complementary and compatible,.. the level of support shall take into account of income forgone and special additional cost arising from the combination*”) were taken into account, so the level of support is within the limits permitted and SAES has also 0% incentive rate.

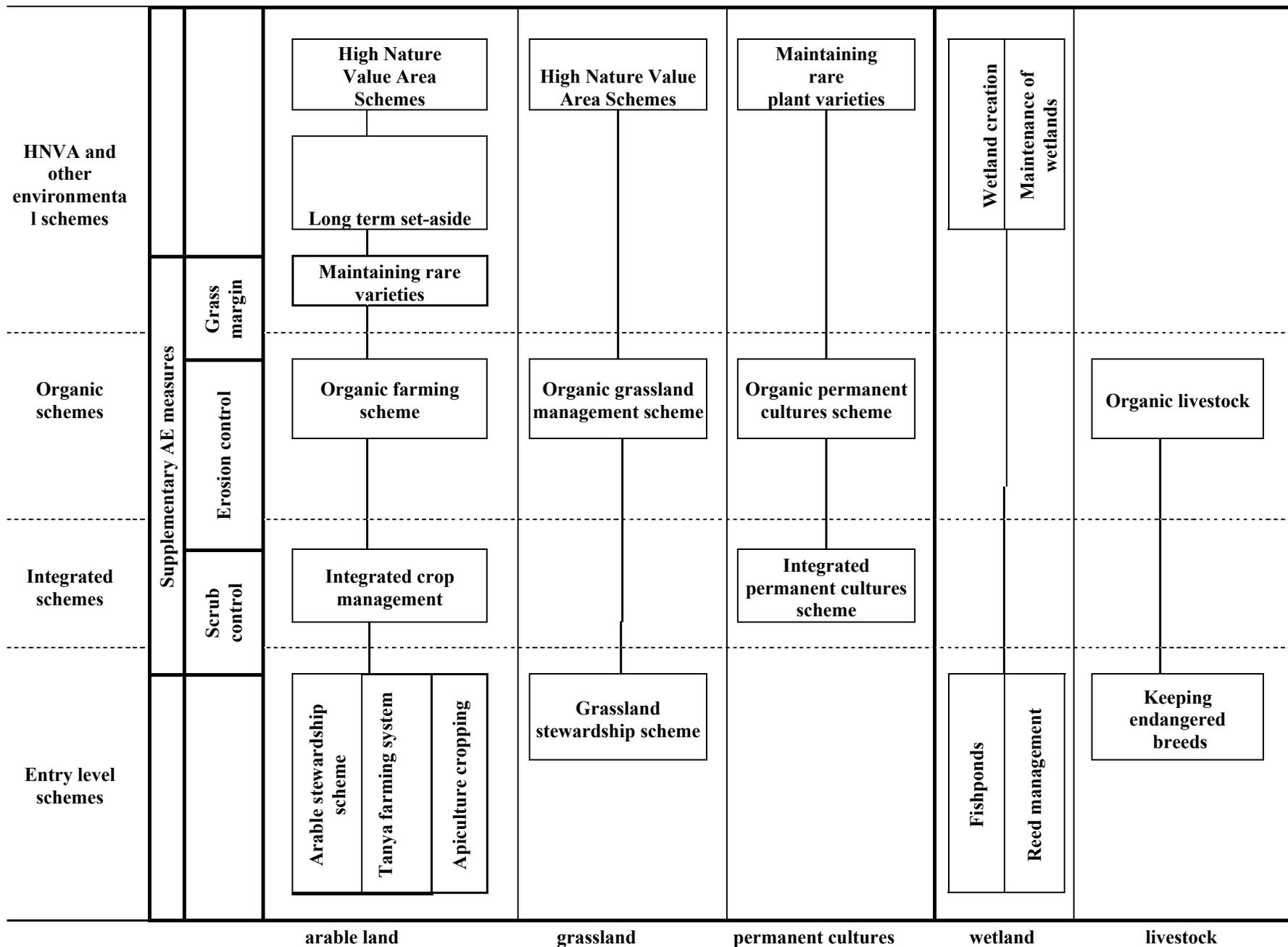
Table 39: Possible scheme combinations

Supplementary AE measure	Basic scheme	(highest possible) cumulated payment rate EUR/ha
Erosion control	arable stewardship	270,59
	integrated crop management (arable)	321,57
	organic farming scheme (arable)	447,04
	integrated permanent crops	651,37
	organic permanent crops	666,37
Grass margin	all arable scheme	area eligible to grass margin payment is not eligible to any payment for a basic scheme
Scrub control	all grassland schemes	294,12

4.1.5. Budget

Table 40. Budget for agri-environment measures
(including EU and national co-financing in billion HUF/million EUR)

schemes	2004		2005		2006	
	bHUF	m€	bHUF	m€	bHUF	m €
arable	31515,89	124,63	31515,89	124,63	20136,44	79,63
grassland	5512,7	21,8	5512,7	21,8	3522,19	13,93
permanent crops	4390,95	17,36	4390,95	17,36	2807,28	11,11
wetland	1421,9	5,62	1421,9	5,62	908,19	3,59
livestock	350,16	1,38	350,16	1,38	223,63	0,88
supplementary measures	90,81	0,36	7,88	0,03	5,56	0,02
Total	43282,41	171,15	43199,48	170,82	27603,29	109,16



4.1.6. Financial table (in EUR)

2004-2006		
Public Expenditure		
EU	National	Total
360 898 000	90 228 289	451 126 289

4.1.7. Aid Intensity

Payment rates for agri-environment measures are listed in Annex 05. An overview on payment rates per scheme type is provided in the table below. The Community contribution under the schemes will be 80% of eligible public expenditure.

4.1.8. Beneficiaries and eligibility

For the purposes of this measure eligible persons are natural and legal persons who derive income from farming activity in Hungary. Furthermore these persons are eligible if they:

- are registered in Hungary*,
- apply any of the AE schemes for at least 5 years (in case of long term set aside for 20 years)
- own or rent (at least for 5 years) the land entered into a scheme
- respect further eligibility criteria detailed at the different schemes (see Annex 02)
- comply with the rules of Good Farming Practice on their whole farmland (Annex 3)

4.1.9. Overview of Agri-environment Schemes

a) Entry Level Scheme (ELs)

Entry level schemes promote environmentally friendly farm management in each land use type to provide broad scale opportunity to farmers to enter commitments to reach environmental achievements in their farming practice. Elements of the ELS have already been introduced in Hungary in 2002-2003 under Government Resolution 2253/1999 (X. 7.) on the introduction of the National Agri-environment Programme. ELSs are designed to encourage farmers to use farming methods adapted to the local environmental/agricultural conditions, to target production systems suitable to soil and climate conditions and natural environment, with special attention to relevant environmental protection aspects. Such adapted methods provide benefits in terms of soil health and fertility, benefits for bio-diversity and the wider landscape through the use of, nutrient management and plant nutrition, appropriate grassland management, increased use of natural substances and limited use of synthetic pesticides, herbicides and fertilisers, enhance beneficial crop rotation, environmental planning of crop patterns and other environmental measures. ELSs are also targeted towards areas unsuitable for arable production to provide alternative use for land by supporting the maintenance and creation of different wetland habitats, this way enhancing biodiversity in farmed landscapes. Finally, an ELS will provide support for livestock farmers to keep and preserve endangered breeds.

*See Section 4.3.8, p. 137, for the clarification on the registration requirement, which applies to all RDP measures

Agri-environment measures on arable land	A.3. Apiculture cropping		74,51	
	A.4. Integrated crop management	arable crops	133,33	
		vegetable	223,53	
	A.5. Organic farming scheme	arable crops in conversion	192,00	
		arable crops converted	145,00	
		vegetable in conversion	349,00	
		vegetable converted	220,00	
	A.6. Long term environmental set-aside	Y1	376,47	
		from Y2	133,33	
	A.7. Maintenance of rare plant varieties	arable crops	129,41	
		vegetable	231,37	
	A.8. Arable schemes in High Nature Value Areas			
A.8.1. Arable farming for great bustard habitat development			250,98	
A.8.2. Arable farming for bird protection			203,92	
A.8.3. Alfalfa production for great bustard habitat development			266,67	
A.8.4. Arable farming for habitat development			192,16	
Agri-environment measures on grassland	B.1. Grassland stewardship scheme	a) maintenance of grassland habitats	58,82	
		b) conversion of arable land into species rich grassland	290,20	
	B.2. Organic grassland management scheme			58,82
	B.3. Grassland management schemes in High Nature Value Areas			
	B.3.1. Grassland management for great bustard habitat development			125,49
	B.3.2. Grassland management for corncrake habitat development			109,80
	B.3.3. Grassland management for bird habitat development			98,04
B.3.4. Grassland development in HNVA			294,12	
Agri-environment measures in permanent cultures	C.1. Integrated fruit and grape production scheme		420,00	
	C.2. Organic fruit and grape production	in conversion	435,00	
		converted	322,00	
C.3. Maintenance of rare plant varieties		permanent cultures	231,37	
Agri-environment measures on wetland	D.1. Extensive fishponds		203,92	
	D.2. Wetland creation	D.2.1. conversion of arable land into wetland Y1	317,65	
		D.2.1. conversion of arable land into wetland from Y2	133,33	
	D.2.2. Wetland creation for spawning areas		117,65	
	D.3. Maintenance of wet grasslands, bogs, marshlands		101,96	
D.4. Reed management		86,27		
Livestock measures	E.1. Keeping endangered breeds*	cattle	113,67	
		pig	78,43	
		sheep	20,59	
		hen	0,69	
		broiler	0,33	
		goose	1,10	
		turkey	1,53	
		horse	119,80	
	E.2. Organic livestock*	cattle	74,62	
		pig	58,82	
		sheep	18,82	
		hen	0,49	
		broiler/guinea fowl	0,25	
goose and duck		0,78		
		turkey	1,04	
Supplementary agri-environment measures	F.1. Erosion control	1.1. a) water erosion control in permanent crops Y1	231,37	
		F.1.1. a) water erosion control in permanent crops from Y2	39,22	
		F.1.1. b) water erosion control on arable land spring crop	98,04	
		F.1.1. b) water erosion control on arable land winter crop	39,22	
			F.1.2. wind erosion control on arable land	98,04
	F.2. Grassmargin	Y1	462,75	
		from Y2	39,22	
	F.3 Scrub control	Y1	168,63	
from Y2		62,75		

*payment per head

Justification of the commitments

Commitments under ELS are aimed to provide broad opportunities to farmers to apply environmentally sound practices in all main land use. In Hungary, agriculture is very diverse and the current practices are mostly not satisfactory in terms of sustainability. The most problematic issues are nutrient management, pesticide use, tillage and careful management of agriculture related habitats. By way of introducing (and continuing the practices started by the NAEP) basic schemes many farmers can find appropriate but easily adaptable methods for the sake of the environment. Most schemes involve soil analysis based nutrient management, selection and use of environmentally pesticides, low input, extensive arable, grassland and permanent crop management methods of which has long tradition in Hungary and now it is a great chance to return to that sustainable approach prevailing in the past. Basic restrictions of the commitments involved will have a substantial impact on soil nutrient management, avoiding pesticide contamination, water protection, and in case of grassland scheme appropriate maintenance of valuable grassland habitats with nature conservation benefits.

Level of incentive and justification

Payment rate was calculated at income forgone and additional cost incurred, no incentive was used.

b) Integrated Crop Management schemes

Environmentally beneficial extensification, especially the reduced, optimised use of fertilisers and pesticides, the considered (limited) application of dangerous substances and other accompanying benefits for the environment are among the main priorities for agricultural practice. Integrated farming is based on the internationally approved principles and practices of integrated pest management (IPM, IOBC guidelines). This production system should be targeted as a future standard for market oriented agricultural production due to the economical and efficient production that it facilitates, its environmental merits and its food safety aspects. The ICMS was introduced in Hungary in 2002 under Government Resolution 2253/1999 on the introduction of the National Agri-environment Programme

The ICMS is designed to encourage farmers to use integrated farming methods of production in compliance with higher environmental standards, to optimise the use of fertilisers and pesticides and to apply all available means (equipment and know-how) of sound farming. The application of integrated farming systems provides benefits in terms of soil conservation, water protection and bio-diversity through the use of environmentally friendly crop patterns, cultivation techniques, nutrient management, crop rotations, as well as the optimised, limited use of synthetic pesticides, herbicides and fertilisers.

Justification of the commitments

Integrated scheme management prescriptions involve elements of nutrient management, pesticide use, crop variety selection, compensation area establishments and other measures as international guidelines of IOBC set rules for integrated production systems. The primary objective to have a positive impact on nutrient balance, optimal pesticide application, reducing the impact on soils, water, creating possibilities for biodiversity as well as a source

for biological pest control and to result in a healthy, safe product range competitive on the market. Commitments are selected to meet those international standards of integrated farming and to reach that positive impact on soil, water, biodiversity and product.

Level of incentive and justification

Payment rate was calculated at income forgone and additional cost incurred, no incentive was used.

c) Organic Farming Scheme

The OFS is designed to encourage farmers using conventional farming methods to convert their production systems to organic production as prescribed by Regulation 2092/91 (as amended). Conversion to organic farming systems provides gains in terms of soil health and fertility, benefits for bio-diversity and wider landscape benefits through the use of organic soil cultivation, crop rotation and the absence of synthetic pesticides, herbicides and fertilisers.

All farmland in the land use concerned must be entered into the scheme, parallel farming (both organic and conventional) is not allowed. Any farmer who is controlled by any organic production certification organisation approved under Article 9 of Regulation 2092/91 is eligible for aid under the OFS regardless that he/she is in conversion or already converted. For areas in conversion period the higher payment rates apply, this is 2 years for annual crops and 3 years for permanent crops.

Justification of the commitments

Commitments of the scheme involve rules and restrictions on nutrient management plant protection, etc. set by Community regulation on organic production standards. Also certain elements applied which will satisfy the higher standards of BioSwiss organic standards as well. There are commitments like compensation for establishment of pest forecasting system which help the implementation of the restrictions by way of creating refugee area for biological pest management and help the success and efficiency of organic pest control. The impact of the commitments should help the implementation of organic rules to provide a feasible, easy conversion to this farming system also by ensuring soil, water and biodiversity related objectives of the scheme.

Level of incentive and justification

Payment rate was calculated at income forgone and additional cost incurred, no incentive was used.

d) High Nature Value area schemes (HNV)

The system of HNV areas was introduced in order to provide adequate solutions for the protection of nature values and the physical environment through appropriate farming practices. The HNV system was introduced in Hungary in 2002 (under Government Resolution 2253/1999 on the introduction of the National Agri-environment Programme) with

the purpose of protecting the physical environment, landscape, wildlife and specific areas of historic interest of Hungary which are of national environmental significance, where changes in farming methods posed a threat to the environment and where conservation depended on adopting, maintaining or extending particular farming practices.

The HNVA areas are the following:

1. *Baranya HNVA*
2. *Borsodi Mezőség*
3. *Békés Csanádi plain HNVA*
4. *North Cserehát HNVA*
5. *Dunavölgyi plain HNVA*
6. *Dévaványa plain HNVA*
7. *Hevesi plain HNVA*
8. *Marcal basin HNVA*
9. *Bereg floodplain HNVA*
10. *Bodrogköz HNVA*
11. *Szatmár Bereg HNVA*
12. *Mosoni plain HNVA*
13. *Turján HNVA*
14. *Órség HNVA*
15. *Szentendre island HNVA*

The HNVAs are to protect and enhance the environment in specially selected areas which would be vulnerable to certain farming methods or where natural assets and values (habitats, species) are bound to a specific farming system of which continuation is necessary. The overall objective of the schemes are to protect the biodiversity, landscape, wildlife and features of historic interest in certain areas where conservation depends on the adoption, maintenance or extension of particular farming practices. They are usually intended to maintain and enhance the conservation, landscape and historical value of the key environmental features of the area. There are now 15 designated HNV areas in Hungary. The boundaries of each HNVA are defined by the MARD in agreement with environmental governmental and non-governmental bodies. The HNVA status is highlighted in the LPIS as well (A map of the HNVAs is provided in Annex 08.)

All land entered into any schemes must be within the boundaries of the relevant HNVA. The location of the farmstead does not affect eligibility.

Justification of the commitments

Commitments were designed by various nature conservation experts, the Hungarian National Park Directorate network based on the previous experience of agri-environment schemes. Commitments are targeted at the provision of low input, extensive farming methods in arable and grassland to provide feeding sources, protection of nesting and offspring rearing, habitat development features. Also important to avoid any disturbance factor to these protected birds and other animals. Many elements of the schemes target landscape protection/management, to reintroduce once traditional methods of farming which have created most of the protected values in Hungary. Implementation of the different commitments should ensure the

management of sites (sometimes also part of future NATURA 2000) which will have significant positive impact on biodiversity development in Hungary.

Level of incentive and justification

Payment rate was calculated at income forgone and additional cost incurred, no incentive was used.

e) Supplementary agri-environment schemes (SAESs)

Environmental problems related to agriculture, such as soil erosion, soil degradation, compaction due to inappropriate land use and cultivation techniques, loss of habitats for wildlife and landscape elements and the need for alternative, low-input farming systems call for new solutions, sound techniques in farm management. The SAESs are designed to encourage farmers to target methods that help combating soil erosion, to provide means of improving the situation regarding biodiversity and landscape. SAES measures cannot be applied separately, only as a top-up measure next to certain agri-environment schemes discussed earlier (see 4.1.4.).

Justification of the commitments

Supplementary agri-environment schemes contain several measures which are complementary to many basic schemes. These commitments can be applied on the top of given schemes tailoring them towards also other specific objectives as erosion control, maintenance of genetic diversity or creation of new habitats. Commitments are formulated in a simplest possible way, also having in mind the provisions of Article 17 of Regulation 445/2002 as quoted below. Commitments of the given supplementary measure are designed to provide an additional environmental benefit next to the scheme where it is combined with, to have a positive impact in a specific issue. Short overview of the impact by measure:

Erosion control – impact on reduction of water and wind erosion

Grass margin – positive impact on erosion and biodiversity (new habitat)

Scrub control – create basic conditions for grassland habitat management

Level of incentive and justification

Having regard to the provisions of Article 17 of Commission Regulation 445/2002 (“*various agri-environment commitments may combined provided that they are complementary and compatible,.. the level of support shall take into account of income forgone and special additional cost arising from the combination*”) **no incentive** was used.

4.2. Support for Less Favoured Areas

4.2.1. National Legislation

Currently there is no legislation regarding the support for Less Favoured Areas.

4.2.2. EU Legislation

Articles 13-20 of Chapter V and Annex of Council Regulation (EC) n° 1257/1999, as amended by Council Regulation (EC) n° 1783/2003, and Articles 11 and 12 and Annex II of Commission Regulation (EC) n° 817/2004.

4.2.3. Objectives of the Measure

General objectives:

- To set up appropriate production structures that match the characteristics of the corresponding cultivated areas, environmentally aware farming and sustainable landscape management;
- To maintain countryside;
- To extend and improve income opportunities, strengthen rural employment, establish new alternatives for agriculture in compliance with the requirements of environmental protection;

- Specific objectives:
- To ensure continued agriculture land use and thereby contribute to the maintenance of a viable rural community;
- to maintain and promote sustainable farming systems which in particular take into account environmental protection requirements;

Operational objectives:

- support farmers located in LFA areas to maintain agricultural activities meeting the requirements of the Good Farming Practice

4.2.4. Justification of the Measure

Articles 13 - 20 of Regulation (EC) n° 1257/1999 provide for support to be granted to farmers operating in naturally less favoured areas (LFAs). According to article 14 the payment of compensatory allowances to farmers in the LFAs is made on an area basis (i.e. according to the area farmed). Following article 15 the level of compensatory allowances is sufficient to make an effective contribution in order to compensate for existing handicaps, while avoiding overcompensation.

Farmers shall possess a certain minimum size of land, and follow the rules of "good farming practices" that comply with environment protection and the preservation of the rural landscape. They also shall undertake to continue farming for at least five years from the reception of the first compensatory payment.

The measure contributes to the realisation of the following priorities:

- A. Maintaining and improving agricultural activities hereby providing additional income and job opportunities for farmers active on areas with weaker production site conditions.

Fulfilling the management prescriptions defined in Good Farming Practice the measure contributes to the revitalisation of abandoned land thus additional income for farmers to maintaining agricultural activities in less favoured areas.

B. Supporting the conversion of the production structure towards better matching to the ecological and market conditions.

The measure contributes to the change of the production structure by supporting fodder and extensive livestock production of special (sometimes endangered) breeds having market importance and suited to the disadvantaged site conditions.

C. Increasing the economic viability, financial conditions and market positions of producers.

Compensatory payments contribute to the improvement of the financial conditions and profitability of producers and to the maintenance of economic activity in these areas.

4.2.5. Scope of the Measure

Hungary will implement the LFA scheme applying the conditions set out in Articles 19 and 20. Hungary will not use the opportunity given by Article 16 as proposed Hungarian sites to be included in the Natura 2000 network are yet to be finalised and approved by the EU Commission. Natura 2000 sites – after their approval by the EU Commission - may be included in a later phase after due preparation and consultation with the EU. Article 18 is also not used as basically there are no areas complying with the criteria set out in the EU regulatory framework.

a) Article 19 areas are homogeneous areas from the point of view of natural production conditions exhibiting all of the three characteristics specified in the article, i.e.:

- *the presence of land of poor productivity, difficult cultivation and with a limited potential which cannot be increased except at excessive cost, and which is mainly suitable for extensive livestock farming*: for this criteria the following indices were used: low value of the land or of an index of land values considerably below the national average (i.e. below 80% of the average); (100 point soil value index system, established by the Soil Science Research Institute of the Hungarian Academy of Science) (see Annex 9 LFA criteria, 1st sheet)
- *production which results from low productivity of the natural environment which is appreciably lower than the average, with regard to the main indices of economic performance in agriculture*: to apply this second criteria Gross Farm Index exclusively on fodder area (arable land and grassland) on settlement (NUTS-5) level were determined by the Central Statistical Office using General Agricultural Census (GAC) (year 2000); farm data, settlements/municipalities (NUTS-5 level) were selected, where the GFI value (gross farm income) was below than the 80% of the national average. (see Annex 9 LFA criteria, 2nd sheet, shaded with dark grey colour)
- a low or dwindling population predominantly dependent on agricultural activity, the accelerated decline of which would jeopardise the viability of the area concerned and its continued habitation; this third criterion comprises two aspects of rural population: population density (less than 50% of national average), and agricultural employment higher than 8.25 % (the national average is 5.5%) (source: data from the Hungarian Central Statistical Office). Settlements/municipalities (NUTS-5 level) were selected where both criteria were comprised at once. (see Annex 9 LFA criteria, 3rd and 4th sheet).

Areas comprised of all criteria at once were designated as Article 19 LFAs, totalling of **395 402 ha**, which is 6,3 % of the utilised agricultural area (UAA) and 4,25 % of the country.

b) *Article 20 LFAs are areas affected by specific handicaps, in which farming should be continued, where necessary and subject to certain conditions, in order to conserve or improve the environment, maintain the countryside and preserve the tourist potential of the area.* Based on the recommendation of EU Commission regarding selection criteria of Article 20 LFAs Hungarian Article 20 areas were designated using 4 specific handicaps (agronomic limitation factors): severe acidity, severe salinity, extreme water management (inundation, water logging) and extreme physical characteristics of soils (see relevant maps in Annex 10 LFA maps). Scientific digital database on soils (Agrotopo-100, scale 1: 100 000, Soil Science Institute of Hungarian Academy of Science) were used to designate these areas with specific handicaps.

- *severe soil acidity*: where the extent of acidity (pH) exceeds 4.5, it limits soil productivity seriously as many crops cannot be cultivated (non-tolerant crops); also crops which can be cultivated will suffer significant loss of yield due to restricted soil nutrient uptake due to the undesirable chemical status. This affects 650 000 ha in Hungary.
- *severe soil salinity*: the excess content of Na-salts (over 0,15%) in the topsoil has similar effects as high acidity, only salt tolerant crops can be cultivated and only with significant yield loss. In Hungary, *solontsak* and *solonets* soils (340 000 ha) are those soil types which are considered as complying with the criteria.
- *extreme soil water management conditions*: soils with poor drainage and high water retention abilities present a significant handicap to crop production as regularly affected with inundation resulting in yield loss and profitability. In Hungary, 4 years out of 7 a different degree of water logging (temporary inundation) occurs, causing a considerable limitation to cash cropping and significant (sometimes complete) yield losses.
- *extreme physical soil characteristics*: heavy clay and light sand soils have significant limitations regarding profitability and yield of crops, furthermore handicaps regarding tillage (machinery and method selection). In Hungary on these soils crop production is restricted due to these natural handicaps, thus complying with the criteria set above.

As the elements for criteria of natural handicaps exceeds the 10 % limit of the country set in the Regulation 1257/1999 separately or cumulatively, the **areas selected as eligible** for Article 20 were those where at least 2 of the 4 parameters occur at the same time. As a result, a total area of **488 156 ha** (5,24 % of Hungary and 7,77 % of UAA) was designated eligible for Article 20.

c) Total LFA areas in Hungary (Art. 19 + 20) are **883 558 ha** which is **9,5% of the country and 14% of UAA**.

4.2.6. Description and justification of the designation procedure

Designation of eligible areas for Article 19 and 20 (described above) were done. In the case of Article 19 areas the general approach used for designation is divided into two steps. Firstly, settlement (NUTS-5) level eligibility was determined as necessary basic (GIS related) data and information is only available on this level. Intersection of the 4 eligibility criteria was made, resulting in the gross eligible areas (list of eligible settlements, 188 settlements, see Annex 9); then gross eligible areas were intersected with LPIS (eligible physical blocks - arable land and grassland, forage area) with the consideration where eligible settlement LPIS blocks were crossing the border of the neighbouring settlement, only those LPIS blocks were considered eligible where more than 50% of the block was related to the original, eligible settlement. This way some blocks of the eligible settlements were left out from eligibility and some blocks of neighbouring settlements were considered eligible. They approximately equal each other. Thus, net eligibility was determined on LPIS physical block level.

In the case of **Article 20 areas** digital map layers of Agrotopographic map (1:100 000) were used where eligible areas were selected if 2 out of 4 criteria were met and the result was made in shape (SHP) format. As a second step (similarly to Art. 19 LFAs) an intersection with eligible (arable and grassland) blocks of the LPIS was made to determine net eligibility. The same method was used, namely if the intersecting blocks had more than 50% overlapping with the gross eligible area (2 criteria out of 4 were met) the physical block was marked with eligibility. Thus net eligibility was determined also on LPIS block level.

The budgetary table (4.2.10.) contains areas (hectares) of net eligibility.

4.2.7. Beneficiaries and Eligibility Criteria

Support may be granted to all natural and legal persons engaged in agricultural activity, respecting the following eligibility criteria:

- the rules of “Good Farming Practice” are complied with on the whole farmland;
- minimum farmland size: 1 hectare of fodder area (grassland and arable fodder production); payment is excluded when the following crops are produced: winter and spring wheat, rice, sunflower, corn, sugar beet, potato, tobacco, industrial crops and vegetables;
- to pursue farming activity in the designated less-favoured area for at least 5 years from the first payment of a compensatory allowance;
- hormone directives 96/22/EEC and 96/23/EEC are respected.

4.2.8. Amount of aid

Payment rates for the compensatory allowances were calculated on the bases of reference **gross farm income** (GFI) data using statistical information originated from General Agricultural Census (2000) (Central Statistical Office). Data for settlements (NUTS-5 level) provided by the Central Statistical Office on **gross farm income** (GFI) values (arable and grassland) were listed. **National average** of forage area (arable and grassland) GFI is **88 841 HUF/ 374,13 EUR**. In the next step 80% of the national average was calculated which is happened to be **71 073 HUF / 299,31 EUR**. (see Annex 09 LFA criteria and payment calculation, 5th sheet –GFI values)

Payment rates for Article 19 areas

The average of GFI values of the eligible settlements designated as Article 19 was calculated, the result is: **50736 HUF / 213,66 EUR**. The payment rate is the difference (with rounding) to GFI 80% of national average: **20400 HUF/ha / 85,9 EUR/ha**. (see Annex 09 LFA criteria and payment calculation, 6th sheet – Art. 19)

Payment rates for Article 20 areas

The average of GFI values of the eligible settlements for Article 20 was calculated, which was happened to be **68563 HUF / 288,74 EUR**. Difference to threshold (80% of national average) was calculated, it was resulted in a payment rate of **2600 HUF/ha / 10,94 EUR/ha** (rounded). (see Annex 09 LFA criteria and payment calculation, 7th sheet –Art. 20)

Overview of aid intensity for LFAs

	Article 19. LFAs		Article 20. LFAs	
	HUF	EUR	HUF	EUR
80% of average of GFI values	71073	299,31	71073	299,31
average of GFI values of eligible settlements	50736	213,66	68563	288,74
difference	20337	85,64	2510	10,57
proposed payment	20400	85,9	2600	10,94

4.2.9 Avoiding overcompensation

Article 15 of Regulation (EC) n° 1257/1999 sets out that Member States shall avoid over-compensation. In order to avoid over-compensation of farmers with a large land area, Hungary will introduce ‘payment ceilings’ by way of ‘degressivity’ to reduce the payments over a certain holding size. The payment rates after exceeding a certain size of farmland will gradually be reduced. The level of **degressivity** regarding the different farmland size is given below.

Table 42: Payment degressivity by farmland size

Farmland (ha)	Degressivity (payment rate)
1-50	100%
50-100	90%
100-300	80%
300-500	70%
500-	50%

Justification of degressivity:

The proposed degressivity is related to economic aspects of farming, namely to **economy of scale**, capital availability and the standards of European Size Unit (ESU) as a unit for viable farm holding. Due to the factors mentioned over a certain threshold of size the effects of natural and/or economic handicaps are gradually reduced in farm holdings. Based on a multi-factor analysis consist of several parameters listed below, reduction of the effect of handicaps are increasing as farm size increases. In smaller holdings the effects are the following:

1. no basis for amortisation
2. lower level of financial liquidity due to lower values of ESU (viability)
3. economy of scale – level of costs, expenditures are **degressive** with increased size, so the effects of handicaps are compensated/ levelled
4. in holdings with larger farmland expertise/skill is greater due to farm management requirements, this reflects in higher efficiency and lower costs, also affecting the levelling of (natural) handicaps

In Hungary (based on economic research, Agricultural Research Institute, Economic Department of Debrecen University, 2003, 2004) size economy threshold is around 50ha, so up to this value, the payment rate shall be 100%, but over 50 ha, 100ha, 300 ha and 500 ha there are gradual reductions in the handicap effects of the production. Economic research shows that the levelling factors are around the values proposed for degressivity, 100%, 90%, 80%, 70% and 50%

respectively. To avoid overcompensation the application of that degree of degressivity is necessary.

4.2.10. Budget requirement of LFA payments

Table 43: Calculation of potential budget for LFAs (in EUR)

classification	total area (ha)	payment rate (EUR/ha)		Budget						total
				1- 10 ha	10-50 ha	50-100 ha	100-300 ha	300-500 ha	500 ha -	
share of uptake by holding size:				13,86%	14,85%	5,75%	9,20%	38,80%	17,54%	
degressivity:				100%	100%	90%	80%	70%	50%	
Art. 19 LFA	395 402	EUR	85,9	4 707 553	5 043 807	1 757 690	2 499 826	9 224 903	2 978 733	26 212 513
Art. 20 LFA	488 156	EUR	10,94	740 183	793 053	276 367	393 055	1 450 460	468 355	4 121 474
Total:	883 558	EUR		5 447 737	5 836 861	2 034 057	2 892 882	10 675 363	3 447 089	30 333 988

4.2.11. Financial table

in EUR

2004-2006		
Public expenditure		
EU	National	Total
11 848 000	2 962 000	14 810 000

4.3. Meeting standards

4.3.1. Legal reference

EU legislation:

Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and Commission Regulation (EC) No 817/2004 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

- Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources;
- Council Directive 91/629/EEC laying down minimum standards for the protection of calves, its amendment, Council Directive 97/2/EC and Commission Decision 97/182/EC;
- Council Directive 91/630/EEC laying down minimum standards for the protection of pigs, its amendment, Council Directive 2001/88/EC and Commission Directive 2001/93/EC;
- Council Directive 88/166/EEC laying down minimum standards for the protection of laying hens kept in battery cages;
- Council Directive 1999/74/EC laying down minimum standards for the protection of laying hens;
- Council Directive 1998/58/EC concerning the protection of animals kept for farming purposes;
- Commission Directive 2001/93/EC laying down minimum standards for the protection of pigs.

National legislation:

- Act LIII of 1995 on general rules of environmental protection;
- Act XXVIII of 1998 on protection of animals and MARD Decree 32/1999. (III. 31.) on rules keeping of agricultural animals and MARD Decree 20/2002. (III. 14.) amending MARD Decree 32/1999. (III. 31.);
- Act LV of 1994 on Agricultural land
- Government Decree 6/2004 on general rules of use of agricultural supports from EU and connecting national sources;
- Government Decree 49/2001 (IV.3.), corresponding to Council Directive 91/676/EEC, on the protection of waters against pollution caused by nitrates from agricultural sources and the Action Plan as Annex 1 of the Decree thereof;
- Government Regulation 2070/2001 (IV.10.) on necessary activities required for the protection of waters against pollution caused by nitrates from agricultural sources.
- Government Decree 33/2000. (III.17.) on the protection of groundwater against pollution caused by certain dangerous substances, which corresponds to Council Directive 80/68/EEC.
- Ministry of Agriculture and Rural Development (MARD) Regulation: 4/2004 (I.13) on determination of conditions of Good Farming Practice and Good Agricultural and Environment Conditions for area based and rural development supports.

4.3.2. Objectives of the measure

General objectives:

- To improve the quality of the environment, reduce the environmental contamination of agricultural origin;
- To improve the viability and the economic efficiency of farms;

Specific objectives

- To assist farmers to adapt standards based on Community legislation in the fields of the environment, public, animal health and welfare;
- To supplement and strengthen the impact of the investments aiming at meeting standards supported from the ARDOP

Operational objectives

- Support the on-site removal, treatment and leak-proof storage of manure;
- Support to meeting animal welfare standards regarding floors and micro climatic conditions in livestock buildings,
- Support to meeting standards with the safety of the animal husbandry sites,
- Support to meeting standards on animal space requirements, animal keeping and foddering technology,
- Support on-site technological developments.

4.3.3. Justification of the measure

The measure contributes to the realisation of the following priority:

A) safeguarding and improving the conditions of the environment

The measure has direct positive impact on the environment by assisting livestock farmers to solve the problems regarding organic manure as well as supporting other on site technological developments aiming at meeting standards on the environment, and animal health.

4.3.4. Description of the measure

I. Environmental protection submeasure

(protection of waters against pollution caused by nitrates from agricultural sources in Nitrate Vulnerable Zones)

On-site removal, treatment and leak-proof storage of manure in Nitrate –Vulnerable zones

The aim of this type of support is to ensure the adequate on-site placement and management of the organic manure and the storage in line with the environmental requirements detailed in Annex 3 point 3 “good nutrient management” in leak-proof tools.

Type of subsidy: investment costs

II. Animal welfare and animal hygiene sub-measures

The above listed submeasures facilitate the compliance of operating husbandry sites for the animal welfare and animal hygienic rules. The submeasures contain the solution of most problematic fields of husbandry technologies regarding to the present national conditions. Significant part of the stabling places are in average or poor technological state, meaning that one or more component of the required technology is missing or obsolete. The state of animal keeping sites is presented in Chapter 1.4. and Annex 12.

II/a, Compliance with provisions concerning floors

General principles to be applied in animal welfare provisions concerning floors in case of different animal sorts are that stable floors must be easy to clean and disinfect, solid, even and without cracks or any breaks of continuity, with a certain tilt to lead away water, smooth and with non-slip surfaces. It must not do any harm or pain for the animal standing or laying on it. There are very detailed metric prescriptions in **pig keeping** for instance concerning the ratio of the size of the solid floor surface and the slatted floor surface made of concrete. Concerning slatted floors the metric standards of the width of the slats and the spaces between differ from age-groups and utilization purpose.

It is a basic principle that in **hen keeping** this prescription has to be applied with considerable differences regarding the method of keeping the animals. The floor of the buildings of alternative hen keeping has to be designed so that it adequately supports all front nails of both legs of the animal. With alternative keeping methods the possibility for scratching has to be ensured and there must be at least 250 cm² littered surface per hens. With certain alternative keeping systems the animals are kept on a dirt floor, others ensure a chicken-run. When keeping the hens in coops the floor must be designed so that the hens can rest, stand or stand up without harm and it supports all front nails of both legs of the animal. The tilt of the floor of the coop must not exceed 14% or 8°.

Type of subsidy: investment costs.

II/b, Compliance with provisions concerning micro-climate

The stock breeder must ensure that lighting, temperature, relative humidity, the dust content of air and other environmental conditions (gas concentration or noise levels) do not reach levels that are harmful to the animals at the place where they are kept. These values must be set according to the well-tried practice and fit the physiological and ethological needs of the animals.

For instance it is not allowed to keep the animals in dark. It is also not allowed to expose the animals to constant or sudden noise.

Type of subsidy: investment costs

II/c, Compliance with provisions concerning the safety of animal husbandry sites

The stock breeder must develop the living and material conditions of the keeping so that it ensures the adequate and safe location of the animals with regard to public health, epidemic protection, animal safety, public and property security as well as protection against escaping of the animals. When developing the conditions of animal keeping the stock breeder must comply with provisions concerning the prevention of fire hazards. The tranquil relaxation and the opportunity of harmless movement must be ensured for animals kept laced or having restricted possibilities for movement in any way. In case of free-range keeping, animals must be provided with an area or facility where they can find shelter against extreme weather conditions, against predators and against other effects that are damaging to their health.

Type of subsidy: investment costs

II/d, Compliance with provisions concerning space requirements

The amount of space allocated to individual animals must be consistent with the species, variety, age and sex and physiological state of the animals concerned. The animals must have access to the resting, feeding, drinking and manuring places. When developing the conditions it must be regarded, that the freedom of movement adequate for the species etc of the animal so that it causes unnecessary suffering or harm.

In case of different animal species (pigs, calves, laying hens) and in case of different keeping methods (separate, kept in individual boxes, caged, alternative etc) there are detailed metric specifications for different weight-groups of piglets and pigs for instance, or minimum space requirements in case of laying hens regarding the different keeping systems (alternative keeping, improved or not-improved cages). In the case when the animal is permanently or regularly laced, enough space must be ensured for freer movement according to the physiological and ethological needs of the animal, the well-tried practice and the scientific knowledge.

Type of subsidy: investment cost and/or compensation (additional cost and loss of income)

II/e, Compliance with provisions concerning keeping and foddering technology

The fodder and liquid (basically drinking water, but it can be milk for instance in the case of calves at certain physiological phase, or in the case of pigs in some foddering technology when diluted with water or mixed with fodder) given to the animal must not contain any substance that may cause suffering or pain to the animal. Foddering and watering equipment must be installed, assembled, placed, operated and maintained so that the animal have a possibility to satisfy its needs at any time. The disperse of fodder and the effusing or pollution of drinking water must be minimised. All animals must have a satisfactory accessibility to the fodder and water, and the foddering and watering equipments must be properly working under all weather conditions.

Type of support: investment costs.

II/f, Technological developments associated with site technology

When animals are kept in enclosed spaces, sharp edges and elevations of the building structure must be eliminated. The materials used may not irritate or injure the animals. The surfaces in contact with the animals must be possible to clean and disinfect appropriately and they may not be made of materials hazardous to the health of animals. The placement of the animals and the design of the stables must make the observation of the animals possible without any difficulties. Appropriate (fixed or mobile) lighting must be ensured for checking the animals at any time. Technical equipment used in the course of animal husbandry must be safe and must be checked at least once a day and any malfunctions discovered must be remedied immediately. Through technical improvements of the technology used in the course of animal husbandry (auxiliary electricity resource, other auxiliary methods, alarms, shock protection, etc) it must be ensured that the operation or malfunction of technological equipments do not cause any avoidable, permanent or serious suffering or impairment of the animals.

Type of support: investment costs.

II/g, Complex reconstruction in order to meet the above mentioned selected standards (I/a and II/ a-f sub-measures).

In many cases of the operating animal husbandry sites not one or two but several of the technological equipments related to the mandatory standards on keeping and protecting of animals are missing or outdated and also the conditions of the buildings are insufficient regarding the newly established standards. In these cases the necessary reconstructions are rational to be carried out in one complex investment both from technical and financial point of view. For the calculation of the standard cost of such complex reconstruction a weighted sum of the above listed investment elements (I and II/a-f sub-measures) are taken into considerations and calculated for the species concerned. Where more than one species is kept on a farm, the relevant totals will be added together to obtain the overall cost.

Type of support: investment cost

4.3.5. Links to other measures

The types of support under this measure facilitate the implementation of the environmental and animal welfare requirements applicable to livestock farms.

4.3.6. Financial table (in EUR)

2004-2006		
Public expenditure		
EU	National	Total
20 136 000	5 034 000	25 170 000

4.3.7. Aid intensity, ways of differentiation

In case of sub-measure **(I)** the basis of the allocation of support is the large animal unit (LAU). The maximum amount of support for investments can be 25 000 EUR/year in a 3 years long period.

In case of sub-measures **II/a-g** the maximum amount of support for investments can be 25,000 EUR/year in a 3 years long period. The farmer can have investment support only for a period of maximum 3 years. Investment period eligible can differ from 1 to 3 years according to the complexity of the investment and the size of the husbandry plant concerned. Where a combination of sub-measures II/a-II/f are required in relation to a single building or activity, the standard costs of the components will be added together. If the total eligible support is:

- EUR 25 000 or less the investment period will be one year,
- EUR 50 000 or less the investment period will be two years,
- EUR 75 000 or less the investment period will be three years.

4.3.8. Scope of beneficiaries

Natural and legal persons registered in Hungary active in animal husbandry at the date of application for support. Registration is necessary in order to identify all the beneficiaries and control the implementation of the measure (IACS). It does not involve any requirement of nationality or residence in Hungary but only the establishment on the country. The establishment is fulfilled either via a primary establishment (registered office, central administration or principal place of business) or a secondary establishment (agency, branch or subsidiary) in Hungary. In any event, it is open to all EU legal and natural persons wishing to establish in Hungary.

4.3.9. Eligibility criteria

Submeasure I:

Natural and legal persons registered in Hungary active in animal husbandry in Nitrate Vulnerable Zones at the date of application for support

- having operating animal farm breeding the following animal species kept for farming purposes: bovine, pig, laying hen, broiler, sheep, horse, buffalo, goat, donkey, mule, rabbit (for meat) guinea-fowl, turkey, duck, goose, ostrich and emu and
- having a written certificate issued by the Environmental Protection Authority of the Ministry of Environment and Water Management,

Submeasure II a-g:

Natural and legal persons registered in Hungary active in animal husbandry at the date of application for support

- having operating animal farm breeding the following animal species kept for farming purposes: bovine, pig, laying hen, broiler, sheep, horse, buffalo, goat, donkey, mule, rabbit (for meat) guinea-fowl, turkey, duck, goose, ostrich and emu and
- having an expert's written report issued by the Animal Health and Food Control Station of MARD (certification of the necessary investments for the required support).

4.3.10. Application procedure

The submission and the assessment of the applications are continuous all over the year. The selection of eligible applications will be carried out on first come first served basis.

Calculation of the compensatory payment:

- If the investment period is followed also by compensatory payment the compensatory payment shall be calculated the following way: Compensation payment is to be spread evenly over the period remaining after the investment:
 - if the investment is eligible for 1 year – the compensation is to be calculated: 100%, 75%, 50%, 25%;
 - if the investment is eligible for 2 years – compensation is to be calculated: 100%, 66% and 33%,
 - if the investment is eligible for 3 years – compensation is to be calculated: 100% and 50%,
- Only compensatory payment (sub-measure II/d8 without investment) – compensation is to be calculated: 100%, 80%, 60%, 40% and 20%.

4.3.11. Harmonising with ARDOP

The measure does not entail any risk of overlapping with support under measure "Investments in Agricultural Holdings", sub-measure "Development of livestock keeping facilities" of the Operational Programme for Agriculture and Rural Development, which will be closed for all applications before the re-opening of Meeting standard measure.

4.3.12. Controls and sanctions

Article 9a of Commission Regulation (EC) No. 740/2004 shall be applied. In the case of the investment-related sub-measures in „Meeting Standards” Art. 86-89. of Chapter VIII. of 217/1998. Gov. Regulation „on the operation system of the Government Budgetary system” shall be applied towards the specific commitments and obligations in relation to the targeted investment. The same regulation is to be applied for investments financed from ARDOP.

4.4 Afforestation of agricultural land

4.4.1. Legal Reference

EU regulations:

Council Regulation (EC) n° 1257/1999 on support for rural development, as amended by Council Regulation (EC) n° 1783/2003, Chapter VIII (Articles 29 and 31) and the annex. Articles 32, 33 Commission Regulation (EC) n° 817/2004 concerning the implementation of the above Regulation.

National regulations:

The application of the afforestation measure is connected not only to the obligations associated with EU regulations but also to the implementation of tasks prescribed in the following national legislation:

Act No. CXIV of 1997 on the development of the agri-economy, Act No. LIV of 1996 on forests and the protection of forests (hereinafter the FPA) and its executive decree, Decree No. 29/1997 (IV.30.) of the Minister of Agriculture (hereinafter ED); Decree No. 88/2000 (XI.10.) of the Minister of Agriculture and Rural Development on forest management and the Forest Planning Guidelines published (by the State Forestry Service, 2001) pursuant to that decree, and the Decree No. 12/1997 (II.26.) of the Minister of Internal Affairs about the Protection of forests from fire.

4.4.2. Objectives of the measure

General objectives

- To increase forest cover and thereby strengthen the economic, social and public welfare role of forests;
- To extend and improve income opportunities, strengthen rural employment, establish new alternatives for agriculture in compliance with the requirements of environmental protection;
- To preserve the natural and landscape heritage of rural regions and to improve the health and living conditions of the rural population;
- To set up of appropriate production structures that match the characteristics of the corresponding cultivated areas and sustainable landscape management;

Specific objectives

Economic objectives

- to improve timber supply, to produce an environment-friendly natural source of energy, and to satisfy an increasing proportion of domestic timber demand with domestic supply;
- to increase the use of renewable energy and raw materials in rural areas in a sustainable way;
- to provide an opportunity for the development of other related economic activities (hunting, apiculture);

- to facilitate the closing of the gap of underdeveloped and disadvantaged regions by utilising forest areas for the purposes of tourism in connection with the development of rural tourism.

Environmental development objectives

- to increase the air-purifying, carbon-dioxide absorbing, soil protection and water management regulating, etc. beneficial impacts of new forests that affect the environmental conditions of the entire Central European Region;
- to enrich biodiversity by establishing close-to-nature forests, to preserve the natural components of the rural landscape, and to facilitate appealing landscape appearance;
- to improve the quality of forests and their protective functions;
- to improve the state of environment, and the water management, by increasing the forest cover of the under forested Great Plain and the flood area of Tisza.

Operational objectives:

- to increase the forested area of the country;
- to implement the forestry policy in line with the Convention on Biological Diversity, establishing new, close-to-nature forests with high biodiversity by increasing the ratio of the native species specially on the protected areas;
- to assist the implementation of the National Forest Programme, with the elaboration of the Afforestation Objective Programme and the fulfilment of its tasks for year 2004-2006;
- to prevent from damages threatening the new forests, by supporting the supplementary protective works of the afforestation.

4.4.3. Short description of the measure

Rationale of the measure

Increasing afforested areas is in the national interest for several reasons. Afforestation within the scope of alternative land use primarily furthers the objectives of agricultural policy as it is considered environment-friendly land use and produces environment-friendly raw materials. Afforestation aimed at meeting the complex social requirements applicable to forests play ecological, economic and social functions that all promote rural development and the improvement of the standard of living of the rural population.

Afforestation is of key importance in areas affected by water and wind erosion as well as the region of the Great Plain that is often covered by internal water and floods.

In all the agricultural areas that fall under the scope of the measure of the National Rural Development Plan entitled "Agri-environment" (see chapter 4.1), afforestation is a possible alternative form of land cultivation.

Afforestation may also be an alternative in those parts of less favoured areas which are eligible for agri-environmental support where it is not prohibited by considerations of nature protection (chapter 4.2). One example of such a prohibition is the prohibition of the afforestation of protected natural grasslands that are not endangered by erosion.

According to the afforestation concept of Hungary, specified in the National Forest Programme, presently under finalisation, on the basis of ecological features, public demand and economic opportunities, the afforestation of some 700 000 hectares is feasible in the long term

(35-50 years). In view of the possible difficulties involved in launching the co-financed support system, the ministry has decided that for the transitional period 2004-2006, instead of the original plan of 12 000 hectares/year, the NRDP would only finance the resources required for an increasing rate (in year 2004: 9 000 ha, in 2005: 10 000 ha, and in 2006: 11 000 ha) of afforestation. If additional resources become available, the rate of afforestation is expected to accelerate. Such additional amounts may primarily result from the afforestation of agricultural areas sold by the National Land Fund to private individuals or municipalities specifically for afforestation.

The measure "Afforestation of agricultural land" shall contribute to the performance of international obligations undertaken by the Community and its member states. It is based on national or lower level forestry programmes and equivalent measures which take into account the obligations established by the conferences of ministers devoted to the protection of European forests. Such as the National Forest Programme, which, among other things, fulfils the international obligations that have been undertaken in the Kyoto Agreement to protect the climate, and decrease the carbon dioxide level.

The measure contributes to the realisation of the following priorities:

B. supporting the conversion of the production structure towards better matching to the ecological and market conditions,

Afforestation of agricultural land contributes to the restructuring of the agricultural production by changing the land used for arable production to forests primarily in areas with weaker site conditions.

D. maintaining and improving agricultural activities hereby providing additional income and job opportunities for farmers active on areas with weaker production site conditions,

Afforestation is a possible alternative way of land use on areas where other types of agricultural activities would not be profitable or the area is endangered by wind or water erosion or inland inundation. Thereby supporting plantation and maintenance of new plantations and the quality improvement of existing ones the measure provides the basis for new economic activities for those working in forestry as well as increases the tourist attractiveness of the area.

Description of the measure

In order to assist with the reorganisation of the agricultural economy to increase the forested area of the country, to improve the quality of forests and their protective functions, standard-cost based aid shall be made available upon application, in justified cases supplemented by invoiced based supplementary support for the extra costs associated with public interest, protective and ecological functions (to the extent that additional expenditure over the amount for which the standard-cost based element is disbursed is certified) under the "Afforestation of agricultural land" measure, which shall consist of three types of support. The types of support listed below are all based on Article 31 of Council Regulation (EC) n° 1257/1999 as amended by Council Regulation (EC) n° 1783/2003:

- Establishment: afforestation of agricultural land, and, in justified cases, supplementary aid for certified additional activities performed in conjunction with establishment, as detailed in the chapter entitled "Supplementary support".

- Maintenance, protection and fill-in planting of newly planted forests, disbursed for a maximum period of 5 years.
- Premium for loss of income for the afforested area, disbursed for a maximum period of 20 years.

4.4.4. Links of the measure

The majority of areas with afforestation potential coincide with less favoured areas proposed for agricultural aids or with areas affected by the agri-environmental management measures. By co-ordinating sectoral support schemes and by allocating suitably proportioned financial resources to the individual types of support, area utilisation in line with ecological, economic and social aspects that also match regional objectives can be established in these regions.

4.4.5 Financial table

in EUR

2004-2006		
Public contribution		
EU	National	Total
63 740 000	15 935 000	79 675 000

4.4.6. Scope of beneficiaries

Support shall be granted for agricultural land owned by private owners, or their associations, by municipalities or their associations, or any other agricultural land owned by public authorities.

4.4.7 Provisions for public authorities

As far as the afforestation of agricultural land owned by public authorities is concerned, according to Article 31, paragraph 2 of Council Regulation (EC) n°1257/1999, as amended by Council Regulation (EC) n°1783/2003, support shall only cover the establishment costs. If this public-owned land is rented by a private law person (and the contract is valid for a period of at least 20 years), the annual premia to cover the maintenance costs and loss of income shall be granted.

4.4.8. Eligibility criteria

Article 32 of Commission Regulation (EC) n°817/2004, states that **agricultural land eligible** for afforestation support pursuant to Article 31 of Council Regulation (EC) n°1257/1999 as amended by Council Regulation (EC) n°1783/2003 **is defined by the Member State**. According to the regulation: “this covers especially arable lands, grass areas, permanent grazing lands and areas used for growing perennial crops on which regular farming is pursued.” In Hungary, eligible agricultural areas (arable lands, grass areas, permanent grazing lands, and areas used for growing perennial crops, orchard, vineyard) are those that the Hungarian land parcel identification system (hereinafter LIPS) classifies as eligible for support and which have been in agricultural cultivation for at least the two consecutive years preceding the application. Those areas are primarily pieces of arable land. Areas that are actually cultivated as grasslands will be afforested to a limited extent in locations where afforestation is justified by environmental considerations (e.g. protection against water or wind erosion). Under Article 3, section d) of Act No. LXXIII of 2003 on certain issues associated with the procedure applicable to agricultural and rural development support measures and other measures and associated amendments of law, "the Land Parcel Identification System shall be the sole national

system used for identification in relation to payments associated with the agricultural and rural development sector, in which the basic units of geographical identification shall be physical blocks as they are defined on the basis of orthographical aerial or satellite photographs." The agricultural areas entitled to support are determined on the basis of those satellite photos.

According to Article 33 of Commission Regulation (EC) n° 817/2004, pursuant to paragraph (1) of Article 31 of Council Regulation (EC) n°1257/1999, as amended by Council Regulation (EC) n°1783/2003 , **in Hungary, eligible "farmers", for the purposes of the annual premium to cover loss of income resulting from afforestation are people**

- who earn at least 25% of their incomes from agricultural activities and
- who devote at least 50% of their working time to agricultural activities.

The beneficiary must be the owner or the tenant of the area. In case of applications filed by tenants, a declaration from the owner must be attached to the effect that the owner consents to the area's reclassification into a different branch of cultivation.

Eligibility for support is assessed and applications are ranked by the appropriate regional directorate of the State Forestry Service (hereinafter SFS) by completing a score sheet for each forest parcel. The following factors are examined and assessed in order to rank the applications:

the rural development and employment generating role of the new forest, as a rational method of land use (35% of the total score)

The score sheet shall include scores for the following items:

whether the planned forest belongs to a priority area under Government Decrees 89/1997. and 240/2000. and Act CXII of 2000;

whether the planned forest is located in a less favoured area, in a sensitive natural area or in an area with average characteristics;

whether the forest is planned for a socially and economically backward region or in an area where the rate of unemployment is significantly higher than the national average in accordance with Government Decree 7/2003;

whether the applicant is a farmer,

the extent of the nature protection, ecological protection and status improving impact of planting forests, establishment of near-natural plant communities, planting of mixed, indigenous stock, consistency with the national afforestation concept (32% of the total score).

The score sheet shall include scores for the following items:

size of the planned forest;

primary function of the planned forest;

indigenous nature of the species of the planned forest;

whether the planned forest will be a mixed one;

level of afforestation of the region.

The increased role of the new forest played in the protection of the human environment, increasing the potential of the region for tourism, effect on local and regional conditions (33% of the total score of the proposal).

The score sheet shall include scores for the following items:

the location of the planned forest relative to settlements;

the number of inhabitants of the settlements in the vicinity of the planned forest;

any hazardous facilities, communal plants with detrimental effect in the vicinity of the planned forest.

The score sheets shall be completed on the basis of the afforestation implementation plan, the forms in the application package, effective legislation and available maps.

In summary, only those applications can be supported that are consistent with the national afforestation concept, existing regional afforestation programmes and any regional and micro-regional development plans. That is consistent with paragraphs 1, 2 and 4 of Article 29 of Council Regulation (EC) n°1257/1999 , as amended by Council Regulation (EC) n°1783/2003.

The minimum area eligible for afforestation support is 1 ha. Agricultural areas below that limit are only accepted if they are directly adjacent to a forest area.

Support may not be granted in the following cases:

- planting of Christmas trees,
- for farmers benefiting from the early retirement support.

This co-financed support scheme is not applicable to plantations of trees with fast-growing species with short rotation cycles (under 15 years).

4.4.9. Administrative process

Applications shall be sent to the SFS Directorates, which will perform administrative and professional checks and data registration. Applications submitted before the deadline and – having supplied the missing elements – assessed as complete will be ranked by the SFS Directorates, on the basis of scoring. Based on the regional rankings, the central office of SFS shall submit recommendations for the national ranking to the Agricultural and Rural Development Authority (hereinafter ARDA) so as to comply with national development concepts, in cooperation with the Forestry Department of MARD. Once the ranking is completed, the decision concerning the allocation of support is made at the central office of ARDA. After the decision is made, the SFS Directorates perform the tasks associated with the support decisions.

During the approval procedure of support applications, in order to secure accurate data registration and the legality of the administrative procedure, the central office of SFS will perform regular process control.

4.4.10. Certification

The acquisition of an afforestation permission (a resolution of approval of the afforestation plan) from the appropriate SFS Directorate shall be a precondition of receiving support for afforestation. According to Article 35, paragraph (4) of the FPA, the afforestation implementation plan is approved by the forestry authority upon prior approval of the other authorities concerned (e.g. nature protection, water management, archaeology). The rules, formal and content requirements applicable to the preparation of the plan is governed by legislation (FPA Article 36, ED Article 51). The submission of appropriate documentary evidence for the applicant's entitlement to use the area concerned (either as an owner or as a renter) shall be a precondition of the granting of the afforestation permission.

The afforestation implementation plan shall be approved in accordance with a public administration procedure (official procedure). The regional directorate of the SFS will request the approval of the specialist authorities concerned (nature protection, water management,

protection of monuments, etc.) in accordance with the effective legal provisions and shall represent their interests.

The participation of the nature protection authority ensures that considerations of nature protection are taken into account. The areas affected include, in particular, the natural sites of the NATURA 2000 network. In the case of protected natural areas, sensitive natural areas and ecological (green) corridors, changing the branch of cultivation (and hence afforestation) requires the approval of the nature protection authority, which has to be attached to the afforestation implementation plan.

The parties concerned may appeal the resolution approving the afforestation. Therefore the procedure ensures the comprehensive participation of all stakeholders and work may only commence after the resolution takes effect.

Therefore, in the course of the assessment of the afforestation implementation plan, it shall be checked whether the plan contains the required approvals by specialist authorities, whether the planned forest is in line with long-term objectives and professional guidelines. The procedure ensures that the stock planted is an ecologically stable one, preferably composed of indigenous species, which is the most suitable for the specific local conditions of the production area concerned. Through the requirement of additional approval by specialist authorities, it also ensures that protected areas, grasslands, pastures, archaeological sites and sites important from the perspective of water management are appropriately protected and that the afforestation is consistent with the objectives of nature protection, water management, monument protection, national defence and other specialist authorities.

The key requirement for receiving support is the existence of an afforestation implementation plan approved in accordance with Article 35 of the FPA. The afforestation implementation plan documentation includes a site survey, which precludes the planting of tree species that are not appropriate for the site.

4.4.11. Control

Based on a risk assessment and selection procedure conducted by the ARDA, the SFS shall conduct on-the-spot checks of 5% of the beneficiaries during the disbursement of support. Detailed reports of the on-the-spot checks shall be prepared and submitted to the ARDA. The beneficiaries to be inspected shall always be selected by the ARDA based on risk assessment criteria established in accordance with Article 19 of Commission Regulation (EC) n°2419/2001 as well as additional criteria used for individual measures.

Moreover, the 10 regional directorates of the SFS shall implement on-the-spot checks prescribed by current national regulations. As a criteria of the payment, these obligatory professional checks are implemented in the first, third and fifth year of the investment. The payment of annual support claims shall be conditional on the suitable result of these checks.

Further on-the-spot check has to be implemented in the year of technical completion (if its time in the decision of support determined later than five year).

The regional directorates of the SFS shall perform technical on-the-spot inspections in order to ascertain that the planned afforestation has taken place and in order to assess whether the professional criteria required for issuing a recommendation to proceed with support payments for establishment and maintenance have been met. The corresponding findings shall be recorded in the technical on-the-spot inspection record (E-sheet) for each forest parcel.

Professional criteria for the approval of establishment:

In case of establishment support:

- compliance with the afforestation technology specified in the approved afforestation plan,
- a mixture of species that is consistent with the planned target stock.
- use of professionally treated reproductive material of the planned quantity and quality.

In case of supplementary aid:

- professional work implemented and facilities completed in accordance with the approved plan,

Professional criteria for the approval of maintenance work:

- a mixture of species that is consistent with the planned target stock,
- the first maintenance support shall be paid if establishment and the growth of the seedlings is certain,
- maintenance support shall be paid in the 3rd year (for the 1st, 2nd and 3rd years) if viable saplings totalling at least 70% (50% in case of protective forests) of the number planned for initial establishment are present in the area in a uniform pattern,
- maintenance support shall be paid in the 5th year (for the 4th and 5th years) if the minimal number of trees specified for the completion of the afforestation are present in the area in a uniform pattern.

It shall be the responsibility of the manager of the forest to ensure that the data and records required for the technical on-the-spot inspection check are available and up-to-date.

In order to render claims for support valid, the regional directorates of the SFS shall certify that the data submitted in the support disbursement claim agree with data records of authority and that the permitted work for which supplementary support is claimed has been performed in a professional manner complied with the conditions of the decision of support. 4.4.12.

Sanctions

The general cases are summarized in chapter 5.3.2. If the investment fails due to a reason attributable to the forest manager, or if the beneficiary uses the support for another purpose, or if the manager changes the original purpose of the investment after implementation, the support is considered to have been used illegitimately. At the reclaim procedure the support regulation must be followed.

Above the general cases in chapter 5.3.2, sanctions are imposed in that specific case, where the beneficiary does not fulfilled the prescriptions of the support decision, and did not taken the initiative the modification of the decision, or did not reported vis maior due to an unavoidable reason by the prescribed deadline of the claim for the payment, namely if the failing, or the partial implementation of the investment is not the fault of the beneficiary, then the beneficiary can be exempted from sanctions via sending a vis maior form. . The professional criteria are detailed in the FPA, the DE, and the support regulation, which will be issued after approval of the NRDP.

1. Sanctions in the first year of afforestation:

- *If the work is not (or partly) carried out, and the beneficiary notifies the agency in writing till the deadline of the claim for the payment, he/she is obliged to pay penalty – for the extent detailed in the support regulation - for the unnecessary commitment of*

resources and the unnecessary on-the-spot check. The eligibility of the support is valid for an additional year. If the beneficiary notifies in writing that he does not want to implement the investment, his/her further obligations and eligibilities are cancelled.

- *If the beneficiary does not notifies the agency till the deadline of the claim for the payment, he/she is obliged to pay penalty. He/she loses his/her further support, and the eligibility of support stops.*
- *If the afforestation is not completed with the planned target stock, or if it is carried out with a fundamentally different technology from the one planned, then – independently of the success of the afforestation – support may not be granted, the agreement shall be considered unilaterally cancelled. Furthermore, the applicant shall be liable to pay the penalty. About the surviving of the afforestation the forestry authority decides in the frame of a separate process.*

2. Sanctions in the third year of afforestation:

- If the success of the afforestation in the third year is under the 70% (in case of protective forests 50%) of the planned number of seedling for the establishment, the support for the maintenance cannot be disbursed in the third year, and the beneficiary has to pay penalty. The maintenance support can be rescheduled to the fifth year if the beneficiary requests.

3. Sanctions in the fifth year of afforestation:

- If the afforestation does not fit to the conditions of the acceptance of maintenance for the fifth year, the beneficiary is obliged to pay penalty and is finally deprived of the maintenance support loses the eligibility for support, and cannot apply for afforestation in the next two years.

4. Sanctions in the year of the latest permitted deadline of the completion:

- If the afforestation cannot be complete, the beneficiary is obliged to refund the support considering the conditions determined in the call for applicants valid in the year of issue of the decision of support loses the eligibility for support, and be supported for afforestation in the next two years.

5. In case of losing the eligibility of support, concerning the support for loss of income the content of regulation of support has to be followed.

6. The beneficiary has to remove the fence against game damage implemented in the first year of afforestation as a supplementary investment by the deadline determined by the forestry authority. If it is not happens, the procedure starts as it is detailed in the regulation of support.

7. In case of intentional omission, namely if in any phase of the support period the lack of the implementation is the consequence of the serious negligence or the intentional conduct of the beneficiary, then over the obligation for reclaim determined in the

regulation of support, the beneficiary cannot be supported for afforestation in the next two years.

4.4.13. Establishment support

The objective of afforestation is the establishment of a new forest through the planting of seeds or seedlings in areas that up to the time of afforestation were subject to regular agricultural use. Establishment support consists of a standard cost support and, if required, supplementary support.

In addition to the cost of plantation (which contains the staking out of rows (including the required material plus transportation to the site)) the basic standard cost support includes the costs of planning²⁰ (site survey and implementation plan), soil preparation²¹, the reproductive material²², plant protection²³, the cost of replacement of 20% (this figure is the national average) of the seedlings (labour, material and energy costs).

This support is based on detailed calculations (see tables 44 and 45 and Annex 13).

If the establishment of the forest serves a public, protective or ecological purpose and involves extra costs as a result, supplementary support may be disbursed in accordance with those purposes. There is no overlap between basic support and supplementary support.

a) Establishment costs

Table 44: Establishment costs in agricultural non protected areas (EURO/ha)

	Target stock type					
	Oak and beech aa)	Other hard broadleaved ab)	Other soft broadleaved ac)	Black locust ad)	Improved poplars ae)	Conifers af)
Smallest rotation cycle (years)	70	60	25	25	20	45
Minimum number of seedlings (pieces/ha)	8 000	8 000	4 500	4 500	600	8 000
Slopes of 10 degrees or less with a possibility to cultivate using machines, afforestation (EUR/ha)	1 979	1 348	1 221	1 053	1 137	1 221
Slopes of more than 10 degrees or not possible to cultivate with machines, afforestation (EUR/ha)	2 569	1 769	1 600	1 348	--	1 600

Support of the target stock types aa), ab) and ac) (close-to-nature mixed forests) is conditional on the presence of the main group of species in at least 70% of the forest stock, with additional species present in 20 to 30% of the stock. The supplementary indigenous species that enrich the

²⁰ Afforestation implementation plan. The content of the plan is prescribed in Article 36, paragraph (1) of the FPA. According to paragraph (2), the rules governing the preparation of the plan are prescribed by the Minister in a Decree, those provisions are included in Article 51 of the ED, as detailed in Annex 13.

²¹ E.g. deep harrowing prior to deep ploughing, followed by deep ploughing to a depth of 55-60 cm, smoothing, working in strips and deep drilling to a depth of 180-220 cm.

²² Cost of material, transportation, pit storage and root pruning of reproductive material.

²³ Protection of the reproductive material against pests.

stock and increase the biodiversity of the forest must be planted in an even distribution over the entire forest parcel.

In the case of the target stock type af), support may only be disbursed if the ratio of broadleaved supplementary species is between 20 and 30%.

The following compositions of species are eligible for support:

aa) oak and beech: oaks except red oak and Turkey oak, sweet chestnut and beech;

ab) other hard broadleaved trees: red oak, Turkey oak, sycamore maple, Norway maple, elm, ash, black walnut, hornbeam, nettle tree, Russian olive, and among soft broadleaved species, linden;

ac) other soft broadleaved tree species: all native poplars and willow types, and common alder and birch;

ad) black locust: black locust;

ae) improved poplars: hybrid poplar and willow species;

af) conifers: Scotch pine, Austrian pine, silver fir, spruce, larch, Douglas fir. (In 2002, the proportion of coniferous afforestation was 1%-see Annex 13. table 3. Tree species used: Scotch pine, Austrian pine, spruce.)

Table 45: Establishment costs in protected agricultural areas

(EURO/ha)

	Target stock type					
	Oak and beech aa)	Other hard broadleaved ab)	Other soft broadleaved ac)	Black locust ad)	Improved poplars ae)	Conifers af)
Smallest rotation cycle (years)	70	60	25	25	20	45
Minimum number of seedlings (pieces/ha)	8 000	8 000	4 500	4 500	600	8 000
Slopes of 10 degrees or less with a possibility to cultivate using machines, afforestation (EUR/ha)	2 148	1 474	1 348	842	927	969
Slopes of more than 10 degrees or not possible to cultivate with machines, afforestation (EUR/ha)	2 780	1 937	1 727	1 095	--	1 263

Sources for the definition of protected areas:

¹Registry of Protected Natural Values – MoEPRD Decree No. 13/1997 (V.28.)²National Ecological Network (NECONET)³MoEP-MARD Joint Decree 2/2002 (I.23.) about Environmentally Sensitive Areas⁴NATURA 2000 areasThe following compositions of species are eligible for support:*aa)* oak and beech: oaks except red oak and Turkey oak, sweet chestnut and beech;*ab)* other hard broadleaved trees: Turkey oak, sycamore maple, Norway maple, elm, ash, hornbeam, and among soft broadleaved species, linden;*ac)* other soft broadleaved tree species: all native poplars and willow types, and common alder and birch;*ad)* black locust: black locust;*ae)* improved poplars: hybrid poplar and willow species;*af)* conifers: Scotch pine, Austrian pine, silver fir, larch.

The support prescribed in Table 45 can be disbursed for afforestation projects in case of making certain the existence of mixed stock fitting the natural forest type in protected areas that are approved by the environmental authority, and in which a minimum of 3 different indigenous broadleaved main species are planted that are certified compliant with OECD requirements and which originate from the same region or a registered seed-bearing stock, and where the ratio of indigenous supplementary species is over 30%. The reproductive material must be distributed evenly or in groups over the entire forest parcel. The target stock type is equivalent with the species existing in the highest ratio.

Afforestation projects in protected areas that use black locust, improved poplar or conifers even if approved by the environmental authority may only receive a reduced amount of support (Table 45, items ad), ae) and af)).

Justification of the support amount

Standard-cost support amounts are based on detailed calculations (see Annex 13).

In order to determine realistic amounts for standard-cost basic support, in the year 2003 the Forestry Office of MARD commissioned the State Forestry Service to assess actual net investment costs by target type in detail. Average values weighted by area type were calculated for each target type. The basic support includes a component of 20% for the replacement of expected plant decay after establishment. This percentage has also been determined by the Forest Science Institute on the basis of factual data.

The Hungarian support and accounting system of forest management, including afforestation, was developed by the Forest Science Institute (hereinafter the FSI) in the 1970s. The amounts of standard-cost based afforestation support were reviewed regularly to allow for the effect of inflation using detailed cost analyses. The last detailed analysis of afforestation support was conducted in 1997. The amounts of standard-cost based basic support shown in Table 44 and 43 are consistent with the latest FSI results for each target type. We have adjusted the 1997 FSI results by the actual rate of inflation between 1997 and 2003.

b) Supplementary Establishment costs

In line with the resolutions adopted and concluded at the Ministerial Conferences on the Protection of European Forests, Act LIV of 1996 on forests and the protection of forests and its executive decree devote particular attention to the protection of the biological, ecological, natural and economic value of forests.

The objective of supplementary afforestation support is to provide additional support on top of the basic standard cost support for the additional expenditure associated with the protection of the soil, wildlife and timber content of newly afforested areas.

Applications for supplementary support shall go through several filters before a decision is reached. The regional directorates of the SFS shall decide about the justification of claims on a case-by-case basis, on the basis of preliminary site inspections. Eligibility and ranking shall be decided using a score sheet to be completed for individual forest parcels.

Several types of supplementary support may be applied for in a single application, but support may only be disbursed for elements that are included in the afforestation implementation plan and which are approved by the SFS.

The SFS shall verify that the supplementary work has been performed through an on-the-spot check, the lawful use of the support disbursed shall be ensured by the on-the-spot checking of the actual features submitted in the payment claim.

The determination of the amount of support was done by the Forest Scientific Institute on the basis of real costs (see Annex 13).

Types of supplementary support

ba) Protection of the soil of afforested areas

baa) Supplementary support may be granted for the installation of erosion protection works in the area of the afforestation and for activities aimed at preventing erosion.

Amount of the support: making berms: EUR 12.63 /100 m

Areas with slopes in excess of 10 degree are eligible for this support. The proportion of areas with such slopes is less than 20% of the total area to be afforested.

bab) Supplementary support may be granted for the establishment of forest edges using indigenous shrubs in order to protect the forest soil, to establish the specific microclimate of the forest as soon as possible and in order to enrich the habitat (nesting for birds, specific fauna of forest edges).

Amount of support: the plantation of 10 thousand shrubs along edges or in patches shall be equivalent to the standard cost of afforestation of 1 hectare with a hard broadleaved species [target stock type ab)]. The smallest number of shrubs that can be supported is 1000 pieces.

The support is eligible if the area to be afforested is not immediately adjacent to existing woodland.

bb) Protection of the afforestation against grazing animals, game and trampling damage

bba) Supplementary support may be granted for installations in the afforestation area to protect against chewing and trampling by grazing livestock and game. Possible installations: fences, electric fencing. Condition of support: the beneficiary undertakes to remove the installation at the time prescribed by the forestry authority.

The area concerned by this kind of support is less than 5% of the total annual area to be afforested. If the population of game is in line with the game capacity of the area, no fencing is necessary. The area hunting association is responsible for ensuring that the game population remains at the sustainable level. Therefore even if support for a game protection fence is approved, it only covers 50% of the costs.

Amount of the 50% support:

- Fences up to 1.80 m: EUR 3.15/m
- Fences of 2.20 m and over: EUR 3.79/m
- electric fencing: EUR 1.37/m

Areas eligible for support: all areas in Hungary where afforestation without protection is impossible. During the assessment of the implementation plan, the SFS shall assess whether installation of the fence is justified on the basis of the density of the local game population and the game damage generally incurred in the area.

bbb) Supplementary support may be granted for the use of protective measures applicable to individual plants against grazing damage caused by grazing livestock or game in afforestation areas. Protective measures eligible for support: mechanical or plant protection.

Amount of the 50 % support:

- mechanical protection: EUR 0.21/pcs

Areas eligible for support: all areas in Hungary where afforestation without protection is impossible. During the assessment of the implementation plan, the SFS shall assess whether installation of the fence is justified on the basis of the density of the local game population and the game damage generally incurred in the area.

bac) Protection of afforested areas against inundation damage

Of the plain regions of Hungary, almost two thirds lie in basins that are at the risk of inundation and flood damage due to the rivers that cross them. The annually recurring periods of inundation lasting several weeks jeopardise the survival of afforestation projects. In order to prevent such damage, supplementary support may be granted for the establishment of ridges and drainage ditches established in afforestation areas to protect them against inundation.

Amount of support:

- ridges: EUR 421.15/ha
- drainage ditches: EUR 0.42/m

Areas eligible for support: Areas at the risk of inundation according to MoEPWM-MoI Joint Decree 18/2003. (XII.9.) “on the classification of settlements as regards risk of flooding and inundation”.

bad) Protection of afforested areas against fire

In areas classified as high or medium forest fire risk, support may be granted for the establishment of fire protection strips.

The current fire hazard classification of forests is contained in Annex 11. The classification will be modified with the provisions of the Forest FOCUS currently under preparation, when its finished, the fire hazard classification will be actualised.

The protection of forest in these areas is an important and urgent matter. According to Article 29.5 of Regulation (EC) n°1257/1999, Hungary will ensure that all the measures proposed in those areas will conform to the National Forest Protection Plan.

Amount of support:

- establishment of fire protection strips:
 - in areas with slopes under ten degrees, or where machine cultivation is possible: EUR 0,63/m,
 - in areas with slopes over ten degrees, or where machine cultivation is not possible: EUR 0,95/m.
 - The width of fire protection strips is 3-4 m, their area is considered part of the area of the afforestation.
 - The length of fire protection strips for which support may be claimed shall be assessed on an individual basis in view of the fire hazard classification of the area concerned and the provisions of the National Forest Protection Plan

4.4.14. Maintenance support

This support aims at the maintenance of forests established in agricultural areas, including measures required or protection against harmful biotic effects, for five years following the establishment. This includes the annual maintenance (machine weeding, hoeing, sickle cutting, removal of young shoots, etc.) of forests along with their pest protection and the ploughing and cleaning of fire protection strips.

In Hungarian practice (justified by the characteristics of habitats), the nursing and protection of newly planted forests constitute a part of afforestation, their costs are integral part of the cost of afforestation, and this practice is justified. In view of the fact that without maintenance, it is not possible to establish a forest (a completed forest) in Hungary, the nursing and protection of forests should not be made subject to a separate permit, they should rather be prescribed as compulsory elements of the afforestation technology used.

The forestry authority shall verify their execution on site.

Amount of support

Table 46: Standard-cost support for maintenance for a period of 5 years

	Target Stand Type					
	Oak and beech	Other hard broadleaved trees	Other soft broadleaved trees	Black locust	Improved poplar	Coniferous
Slopes of 10 degrees or less with possibility to cultivate with machines	358	253	168	126	168	211
Slopes of more than 10 degrees without possibility to cultivate with machines	463	337	211	168	--	274

Justification of the support

Standard-cost support amounts are based on detailed calculations (see Annex 13).

Maintenance costs have been determined on the basis of a detailed survey performed by the State Forestry Service, which established actual net expenditures by target stock.

Maintenance is supported as follows:

The cost of additional maintenance and protection after establishment is determined for each target type as a lump sum, which applicants will receive in the third and fifth years after establishment. The **national support and settlement system for forest management of Hungary** is a **field-specific feature** that is unparalleled in Europe. Among other things, the system prescribes the technical conditions for the conclusion of forest plantation and renewal for the management of forests with long rotation cycles (in the case of oak and beech, for instance, 80-120 years) and specifies the minimum and maximum periods after which forestation may be concluded separately for individual types of target stock.

Criteria of eligibility for maintenance support

The payment of maintenance support in the third and fifth years is conditional upon the success of the afforestation and compliance with the technical requirements listed above in relation to the on-the-spot checks prescribed by national legislation as conditions for the acceptability of maintenance work.

Forestation is to be regarded complete in the course of the procedure of the authority if

- the area contains the main and mix species of the proposed target stock in the prescribed proportions and at the prescribed standard of quality;
- the area does not require any replacement planting;
- at least 2 growing seasons have passed or will pass by September 20 of the year of acceptance since the last replacement;
- the existing number of seedlings is sufficient for closure, that is the stock after the first tending cutting can be established in line with the forest tending model tables specified in the document "Tree-growing Technical Guidelines, Chapter IV: Forest tending".

Forestation may not be accepted if

- the area does not comply with the above conditions, professional maintenance has not been performed, the health condition of the forestation makes further growth of the stock doubtful;
- poplars and other soft broadleaved and black locust forestations may not be accepted as complete for a period of 3 years from establishment, sessile oak and beech may not be accepted as complete for a period of 5 years from establishment and new forests of other tree species may not be accepted as complete for a period of 4 years from establishment.

No support may be claimed for forestation whose target composition is not in accordance with the characteristics of the location. In such cases, the forestry authority shall issue a resolution concerning the survival of the new forest.

Only complete forest parcels may be accepted as complete. Part of a forest parcel may only be accepted as complete upon consideration by the forestry authority, but neither the accepted nor the remaining part may be less than 2 hectares. In this event, the division of the forest parcel has to be initiated by the manager of the forest by filing a ground plan specifying the division.

Parts of forest parcels not forested or not available for forestation *due to special purposes* (e.g. biodiversity, game grazing, public welfare) or other special reasons do not have to be deducted from the forested area. Patches not forested or grown with trees for biodiversity, game protection, public welfare objectives or possible soil deficiencies may not be over 0.5 hectare each or 20 per cent of the area in total.

If certain parts of forest parcels are not forested for any other reason than the ones enumerated above, they may not be accepted as complete.

Conditions of completeness of afforestation projects qualified as not economically viable for timber production on the basis of site data, *but considered to be of primary importance for some other reason such as their protective or other public purpose functions:*

- area coverage of at least 50 percent,
- patches not forested should be no larger than 0,5 hectare each, and they should not exceed 20 percent of the area in total.

No area deduction has to be applied if the above conditions are met.

In afforestation, the state of technical completion must be attained in the 6th year at the earliest and in the 10th year at the latest after establishment in the case of pedunculate and sessile oak and beech forestation projects and in the 6th year after establishment at the latest in case of forestation projects of any other type.

4.4.15. Premium for loss of income

The aim of this support is to provide compensatory payment to farmers for the loss of revenue or income caused by the afforestation of their agricultural land.

Pursuant to paragraph 1 of Article 31 of Council Regulation (EC) n°1257/1999, support will be granted annually to cover loss of income due to the afforestation of agricultural land for a maximum period of 20 years. The Regulation sets forth the maximum amount of support only, whereby farmers or associations thereof may receive a maximum of EUR 725 per hectare per annum, while other private law persons may receive EUR 185 per year. Private law persons who are renters of state-owned areas are also eligible for this support if they have 20-year rental contracts.

Income loss can be calculated from the data of farms in the Farm Accounting Data Network (FADN), on the basis of the values of 2001 income indicators projected for 2004 (*Table 48*).

Table 47: Periods eligible for premium for loss of income under the afforestation measure by target stock

	Target stock					
	Oak and beech	Other hard broadleaved trees	Other soft broadleaved trees	Black locust	Improved poplar	Coniferous
Minimum rotation cycle (years)*	70	60	25	25	20	45
Period eligible for loss of income support (years)	20	20	15	10	10	10

* The rotation cycle of target stocks depends on the composition of tree species, the specific area and the purpose of the timber, but it is at least 20 years in all cases.

Table 48: Amount of the premium to cover loss of income

Beneficiary categories	Premium (EUR/ha/year)			
	Arable-lands and other cultivation categories		Grasslands (meadows, pastures)	
	less favoured	Average	less favoured	average
	areas			
Farmers and associations thereof EUR/ha/year	187,93	281,90	55,50	95,14
Any other private law persons EUR/ha/year	46,97	70,45	13,86	23,77

Data concerning classification as "less favoured" or "average" shall be determined on the basis of the classification of the parcel identification block.

In view of the fact that direct area-based payments will affect income levels in 2005, the amounts of support (as regards newly established afforestation projects) shall have to be reviewed on the basis of the variation of incomes in 2005.

4.5. Early retirement

4.5.1. Legal reference

Early retirement shall be supported under Articles 10 to 12 of Chapter IV, Title II of Council Regulation (EC) n° 1257/1999 and under Articles 7 to 10 of Part 4 of and Section 9 of Annex II of Commission Regulation (EC) n° 817/2004.

4.5.2. Justification

During the last 15 years a dramatic restructuring took place in the Hungarian farming structure. The land-distribution of the former co-operatives resulted in many non-viable micro-parcels. However the former mid-aged employees of those co-operatives started their micro-farming activity without sufficient technical assets and capital. Most of these farming activities are considered “farming as necessity” instead of real business enterprises. Additional to this the health condition of the rural population of this age is quite low. In parallel the next generation of those families are working as “assistant family-member” without official registration, insurance and tax-paying because of the social cost. The introduction of early retirement could facilitate the phasing out of the elderly generation and motivate them to other local activities and the reinforcement legal employment possibilities of the local young generation at the same time. The possibility for support “vocational training” defined in ARDOP of Hungary provides further possibilities for those younger farmers in order to continue a more viable farming structure. The overall local employment would not decrease, what is more the range of income earning possibilities could raise.

Due to the above complex structural change of ownership and farming conditions that resulted from the events that have occurred since the beginning of the nineties, official statistical data is not available or could only be made available with some difficulty about the range of potential beneficiaries of the early retirement measure. The detailed elaboration of the actual introduction and the efficiency of the measure may be influenced to a great degree by the implementation of the national programme introduced in 2002 for the same purpose by Government Decree 255/2002 (XII.13.) "on the purchase of cultivable land by the state for life annuities" and the assessment of the experiences of that programme.

The Hungarian pension system

According to Hungarian rules that person is entitled to full old-age pension who is over the age of 62 and has more than 20 years of employment. In case of men who accomplished 60 years and in case of women who accomplished 55 years before 1st of January 1991 and had at least 10 years of employment until the before mentioned date, people are also entitled to full old-age pension.

Those people who have only 15 years of employment are entitled to partial old-age pension. Those people are entitled to partial old-age pension who in case of men have turned 60 years, and in case of women have turned 55 years between 1st of January 1991 and 30th of June 1993 and until 1st of July 1993 had 10 years of employment; furthermore who reached or will reach retirement age between 30th of June 1993 and 1st of January 2009 and had at least 15 years of employment.

The disadvantage of partial old-age pension is that there is no so called minimum amount. It means that the partial old-age pension must be determined in percentage, which is dependent on the years of employment, of average monthly wage forming the basis of pension, even though the given pension does not reach finally the minimum old-age pension defined annually. Those, whose average monthly salaries do not reach the all-time minimum old-age pension, but have at least 20 years of employment, will receive their average monthly wage as old-age pension.

The amount of full or partial old-age pension is dependent on certified employment period and on the amount of average monthly wage forming the basis of pension.

There is a special system of early retirement when employer prepays normal pension of concerned employee and its annual increase for national pension system during the five-year period preceding the relating retirement age of the employee.

The measure contributes to the realisation of the following priority:

C. increasing the economic viability, financial conditions and market positions of producers,

The economic efficiency of transferred farms will increase due to the change of farm management and farm structure. The transferees will replace elderly farmers lacking development capacity and having difficulties to conduct profitable farming by a management able to improve the economic viability of farms. The average farm size is expected to increase through the transfers decreasing the viability problems caused by fragmented farm structure.

4.5.3. Objectives and rationale of the measure

General objectives

- to improve the viability and economic efficiency of farms;

Specific objectives

- to improve the age composition of farming population;
- to encourage the replacement of elderly farmers by farmers able to improve the economic viability of the agricultural holdings they take over;
- to guarantee reasonable existential security for farmers who stop farming;
- to rationalise the segmented land structure, increase the average size of farm;
- to encourage the reassignment of agricultural land to non-agricultural uses where it cannot be farmed in an economically viable manner.

Operational objectives

- to provide income for elderly farmers who decide to stop commercial farming.

Due to the changes in ownership structure that took place during the political and social system transition, Hungarian agriculture is faced with a twofold set of problems. Some farmers have aged, others, due to uneconomical farm sizes or lack of development capacity, are only able to conduct profitable production compatible with EU requirements with great difficulty, if at all. In case of farmers who are not yet of normal retirement age and who struggle with long-term difficulties, the combination of early retirement and the modernisation of land structure justifies the introduction of a complementary measure in order to relieve farmers over the age of 55 who are not yet entitled to old-age pensions.

The reassuring and fair withdrawal of elderly farmers who are forced to conduct farming by economic necessity is far beyond the competence of agricultural policy because that is not just an economic issue but also a social one, which, however, has a decisive influence on the agricultural sector's opportunities for renewal.

The introduction of the measure is also justified by the fact that the proportion of people making a living from agricultural production in Hungary is still more than twice the average of the European Union, and this cannot be maintained in the long term.

The concept and system of early retirement, which is only applied by the European Union to people making a living from agricultural activities, is unknown, completely new in the Hungarian national pension and pension-type allowance system.

The supplementary measure is a type of support, it does not fit into the existing pension system of Hungary, the status of those receiving this special aid is not equivalent to that of people receiving state pensions.

Due to the complex application and the expensive administration and control of the system, only a few of present member states (France, Ireland) have introduced the system of early retirement.

In view of the Hungarian levels of salaries, pensions, the minimum wage and unemployment benefit, the amount of the aid shall have to be determined on the basis of several criteria.

The following factors must be taken into account when calculating the amount of the aid:

- the present system of determining old-age pension,
- the amount of unemployment benefit,
- the amounts of other social security benefits,
- the amount of the life annuities offered for cultivable land.

Since January 2003, a new form of support has been available in Hungary under the “Program of life annuities for cultivable land”. The programme is administered by the National Land Fund Management Agency (NFSZ). Under the programme, land owners over the age of 60 can sell their lands to the state on favourable terms for life annuities. Owners are eligible for this favourable scheme if they sell at least 1 but not more than 20 hectares to the state for a purchase price that does not exceed HUF 3 million. The life annuities – whose amount is HUF 20-30 thousand (EUR 80-120) or more per month in case of 2-3 hectares of land of average quality – are disbursed monthly with old-age pensions. Life annuities are inflation-linked: annual adjustments are equal to the annual adjustment of old-age pensions in the previous year to reflect the increase of prices and salaries.

4.5.4. Criteria for the determination of the amount of the aid:

- in the case of heads of holdings, the size of the holding, the nature of the activities, the amount of sales revenue expected,
- in the case of farm workers –immediate family members providing assistance – the years of work completed and salary (personal income) prior to early retirement,
- the size of agricultural land sold or donated, at least 3 hectares,
- the transferred animal stock.

The only employees to whom the extension of early retirement is justified are immediate family members providing assistance.

The reason is that firstly, due to the features of the distribution of holdings, in particular the small size of holdings, the employment of non-family-member employees is rare among the

target group of the measure. On the other hand, "external" farm employees, as insured persons, are entitled to unemployment benefit and hence they will not drop out of the social security system, and in some cases they may also continue working for the farm after it is transferred.

The characteristic form of employment is the employment of "assisting family members", which is an unpaid form of employment for which contributions are not paid, either, therefore we propose that family members (spouses) should be entitled to support equivalent to 50% of the entitlement of the head of the holding.

In case of the death of the transferor, his/her spouse who had lived in the same household would receive 50% of the early retirement pension that the transferor received.

4.5.5. General eligibility criteria

Transferors:

Transferors should be at least 55 years old, but below the standard retirement age (and they must not be in receipt of an early retirement or disability, etc. pension or pension-type support, either).

Certification of at least 10 years of active farming preceding the application (time spent in full-time agricultural jobs also counts), at least 5 years of leadership of a farm (acceptable certification shall consist of documents certifying employment and documents issued by the county offices of MARD and by municipalities).

Other than subsistence production on a piece of land no larger than 1 hectare (0.1 hectare in the case of horticulture), for which no support may be obtained, transferors must discontinue all commercial agricultural production and must transfer all livestock and production quotas, and thereafter they may not work in agriculture as employers, employees or self-employed agricultural producers.

The head of the holding who stops farming is not allowed to obtain further production aid for subsistence production.

Transferors must sell, donate or let a minimum of 3 hectares (with no upper limit) of agricultural land to other farmers or to the National Land Fund Management Agency,

If at any time the transferor begins to receive a pension under any national pension scheme but the amount thus received is less than the amount of the early retirement support under the present measure, disbursement of a reduced amount of early retirement support shall continue so as to make up the difference.

In the case of transferors of holdings, the period of early retirement may not exceed 15 years and may not continue after the transferor's 75th birthday (Council Regulation (EC) n^o 1257/1999, Title II, Chapter IV, Article 12.).

If a single farm is transferred by a number of transferors, the total amount of support shall be limited to the amount that would be payable to a single transferor.

Assisting family member employees of transferors:

Assisting family members must stop all commercial production activities.

They must be under the standard retirement age but no younger than 55 years of age.

They must have devoted at least half of their working hours to work as an assistant or occasional employee doing agricultural work in the 4 years prior to receiving the support.

They must certify having worked on the transferor's agricultural holding for at least the equivalent of two years of full-time work during the five-year period preceding early retirement,

They must have social insurance cover.

An amendment of law shall be required to render the land sold or donated under the early retirement measure free of all taxes and official duties payable for transfers of property.

Eligibility criteria applicable to transferees:

as the transferees or the successors of the holding, transferees must undertake to practise farming on the whole land in a way that **improves the economic viability of the holding**.

They must possess adequate occupational skills and competence, basic level professional (agricultural) qualifications and two years of experience in agriculture or secondary or higher level professional (agricultural) qualifications and one year of experience in agriculture.

They must undertake to practice farming for a period of at least five years.

At the time of the transfer of the agricultural holding, they must be less than 40 years old.

They must undertake not to transfer ownership of land bought or received through a donation for at least 10 years. (If the transferee does transfer ownership of the land within 10 years the transferor must pay twice the applicable amount of the duty payable for the transfer of the property.)

The spouse of the beneficiary is not allowed to take over the land transferred neither in full, nor in part.

Transferees may be non-farming persons or organisations if they propose to perform non-agricultural activities that preserve the landscape, protect the environment, or if they propose to practise forestry. As a further requirement, the conditions laid down in the agreement shall be applicable throughout the period during which the transferor receives early retirement support.

The early retirement pension shall be determined in a differentiated manner. **After the details are elaborated and the necessary amendments of legislation are in place, the measure can be introduced for the entire range of potential beneficiaries beginning in 2006.** According to specialist estimates and preliminary calculations, based on the number of registered farms, of the almost 37 thousand heads of holdings (agricultural private entrepreneurs, full-time primary producers), some 25% may meet the eligibility criteria. **The number of potential beneficiaries is thus around 10 thousand.** The specific provisions concerning the determination of the quantity of support and the procedure and institutional background of implementation shall be developed in 2005.

4.5.6 Financial table

in EUR

2004-2006²⁴		
Public contribution		
EU	National	Total
0	0	0

²⁴ The measure is not opened in the programming period 2004-2006. Its financial allocation was brought to zero through financial communication on 11th September 2006.

4.6. Support for semi subsistence farms undergoing restructuring

4.6.1. Legal reference

The legal basis of the measure and the support is Article 33b of Council Regulation (EC) No. 1257/1999 as amended by the Accession Treaty.

4.6.2. Aim and brief description of the measure, economic justification, links to other measures

General objectives

- to improve the viability and economic efficiency of farms;
- to strengthen the market position of producers;
- to extend and improve income opportunities, strengthening rural employment, establishment of new alternatives for agriculture in compliance with the requirements of environmental protection;

Special objectives

- to facilitate the transition of farming units to market oriented production;
- to facilitate the structural change of farming units that are not economically viable at present;
- to encourage further developments of economic activities.

Operational objectives

- to support the costs which are necessary for the development of the farms;
- to provide tools for farmers aiming at transition towards market oriented production.

On account of its scale, supporting investments in farms is not a primary objective of the measure. At the same time, if the support was disbursed purely as an income supplement, it would not guarantee a shift towards sustainable development. The measure provides support for using the system of instruments required for the realisation of the results targeted in the five-year development plans of semi-subsistence farming units.

The measure contributes to the realisation of the following priorities:

C) Increasing the economic viability, financial conditions and market positions of producers

The supported beneficiaries are expected to increase their economic viability by optimising the operation of their farms, increasing the ratio of marketed production. The financial condition of the beneficiaries will increase by receiving the assistance for five years.

D) Maintaining and improving agricultural activities hereby providing additional income and job opportunities for farmers active on areas with weaker production site conditions,

By providing additional resources to farmers lacking capital for developments and suitable knowledge on farm management the measure will contribute to activities resulting in additional income and jobs. It will improve the potential of the beneficiaries to access supports for investment.

4.6.3. Justification of the measure

The difficulties of the transition to a market economy have created numerous “forced” enterprises (small farming units). Most of these enterprises work independently, suffer from a shortage of capital, and in some cases they are also facing problems arising from the lack of suitable professional skills, market organisation and business experience.

Individual enterprises (221 142 farmers) use 45% of the total agricultural area and 51% of the arable land. (The average size of arable land used by individual farmers is 23 hectares.) These enterprises are the registered farms, where the arable land size is above 1 ha. The data of CSO regard to smaller units, which could be under the size required for supports.

Based on the current distribution of land, the potential beneficiaries of this measure are individual farmers most of whom cultivate pieces of arable land between 5 and 10 hectares (43,060 farmers), or equivalent economic agro-activity in small-size vineyards, orchards, foil-cultivation, greenhouse plantation, glass-raised crop or tree nursery. Small-scale husbandry farmers who participated in national land-based support possesses normally typically 1 to 5 cows (a total of some 30,000), 100-150 sheep (approx. 150,000 in total), a highly variable number of goats (totalling around 6,000) and 4-500 poultry (totalling around 4-4.5 million).

Within the above category, in fact in the previous years only 29,899 farmers registered and have submitted applications for national land-based subsidies, so in fact it is that group of farmers that can be considered – at least partly – market-oriented (semi-subsistence) individual farmers.

The typical obstacles to the development of the semi-subsistence farming units described above include the lack of capital for technical development, lack of professional education or up-to-date knowledge, the hazards associated with one-sided structures of production, lack of market information, lack of co-operation and the lack of modern business and planning skills or services.

The average annual income per farmer – according to the previous years’ client-registration for support -within this category (between 5-10 hectares) is HUF 2 million (EUR 8000), of which HUF 1.5 million (EUR 6,000) comes from agricultural activities. Costs are around the same amount, one part of the products produced are self-consumed, another part is sold. These micro enterprises operating as self-employed either in the form of full-time “primary producers” (őstermelő) or individual entrepreneurs (egyéni vállalkozó). 30 of them were registered in the previous years’ national client-registration. Opportunities for the professional and business development of the enterprises are constrained because of the low level of incomes; therefore it is hard to create the conditions necessary for strengthening or developing market-oriented production and operations.

The way out of the situation presented in the status analysis (large number of farmers with relatively small sizes of land, low level of income) lies in the direction of strengthening the income producing capability of farmers and diversification of agricultural activities and sources of income. Certain measures of other programmes (ARDOP) also serve the diversification of sources of income (development of processing and marketing of agricultural products, extension of rural income producing capacities) and the improvement of income producing capability (support for agricultural investments, support for young farmers). The present measure of the NRDP also contributes to the priorities of ARDOP "establishment of competitive raw material production in agriculture" and "development of rural areas".

4.6.4. Aid intensity

The support can be disbursed for a maximum period of 5 years, but a review shall be performed after the first three years. If, by the end of the third year, the objectives established in the business plan have been achieved, further support can be granted for a two years period. On the

contrary, no further support can be granted to the same farm but there will be no reimbursement of the amount already received.

Taking into account the new nature and the small amount of support available through the measure, it is expected that of the total number of 30,000 micro-enterprises described in point 4.6.3 approximately 10,000 primary producer and individual entrepreneur will apply for the support in the period of 2004-2006.

Basically, the farmers whose applications will be assessed favourably will be those who already have the required production tools and a minimum level of knowledge of professional know-how and who have already taken the first step towards market-oriented production but presently lack some other conditions for professional or business development. Using this financial support may give them the chance to move towards modernisation, rural development, and the development of production and of product structures.

In view of the new nature and the small amount of support as well as other aspects of the measure, supporting approximately 4,000 farmers in the first year, 7 000 in the second year and 13 000 farmers in the third year seems to be a viable target.

in EUR

2004-2006		
Public contribution		
EU	National	Total
2 768 000	692 000	3 460 000

The support is paid annually, in the form of a flat rate aid equal to 1000 Euros.

Criteria for eligibility

- Individual entrepreneurs or full-time primary producers registered in Hungary. Registration is necessary in order to identify all the beneficiaries and control the implementation of the measure (IACS). It does not involve any requirement of nationality or residence in Hungary but only the establishment on the country. The establishment is fulfilled either via a primary establishment (registered office, central administration or principal place of business) or a secondary establishment (agency, branch or subsidiary) in Hungary.
- Farming performance in the year before the application is between 2 – 5 ESU, based on gross income, resulting from the following categories:
- Cultivation of 5-10 hectares of arable land and/or maximum 0,3 hectares of vineyard or orchard, or greenhouse plantation, or tree nursery
and/or
grassland providing sufficient fodder for 2-to-10 LAU (1 ha corresponding to 1.4 – 1.8 LAU)
and/or
other farming activity.
- Secondary level professional qualification or three-years of professional experience,
- Submission of a business plan covering 5 years, which demonstrates future economic viability of the farm, includes the description of milestones, targets, objectives and details of the necessary investment and other activities.

Business Plan (Structure and minimum content):

A) State of Art (the year before the application)

- size of natural assests (arable land, horticulture, grazing land, forest, other land, N° of animals by type and age)
- infrastructure (buildings, equipment, machinary)
- activities/income sources (agriculture and connected: production, trade, service)
- other incomes: salary, social, lease, other

B) Financial balance (in the year of the application and the year before)

- standard costs of economic activities/ type (including credit re-payment)
- investment costs (inculded credit re-payment)
- household standard costs (assesment)
- incomes (price, fee, support)

Present financial balance and economic performance in ESU.

C) Strategic planning for the 5 years

- target(s) aims (to improve: capacity, efficiency, quality, diversification etc.) and the targeted milestones for the third year

D) Set of tools (actions) in order to reach the target (year-by-year planning):

- investments (land, herd, new building, reconstruction of building, technological equipment, machinery, IT facility),
- quality-improvement of production (change of method, processing)
- diversification of activities (type and size)
- non-investment tools (participation in producer group, application of professional advisory or accountancy or financial advisory assistance)
- other tools
- output indicators by activities by the end of the 5th year

E) Financial calculation of all the targeted actions year-by-year and summarised)

- costs (fixed + variable + investment including credit re-payment, loss of income)
- income.

Targetted financial balance: at least 5 ESU or 50% gorwth as compared to the entry level whichever figure is the higher by the end of the 5th year.

If the resources available for support are over-subscribed, farmers are prioritised. The ranking order is the following: young farmers applying from less favoured areas and young farmers will be firstly prioritised, secondly farmers from LFA areas, thirdly young farmers.

4.6.5. Scope of beneficiaries

The potential beneficiaries of the measure are registered farmers who primarily produce goods for subsistence purposes in the period preceding the submission of the application, but also market a part of the agricultural products they produced.

The eligibility and assessment criteria target those farmers among the group of farmers determined by the situation analysis who are to a certain degree able to take steps towards modernisation, rural development, the improvement of agricultural holdings and product structure and the development of the technical standards adequate to the size of their holdings. The support can only be disbursed to "farms" and farmers with appropriate potential, where conditions for structural change can be established, and those farmers who show a certain degree of readiness and willingness and who also have some resources of their own available for development.

4.6.6. Criteria for economic viability

The farm can be considered economically viable if by the end of 5-year it fulfil the criterion of economic viability to be assessed on the basis of Standard Gross margin, measured in the terms of ESU. The economic performance in terms of gross income (derived from agricultural activities and other relevant activities included in the Business Plan) reaches 5 ESU or 50% growth as compared to the entry level whichever figure is the higher. Support can only be continued after the third year if the applicant has achieved the third year milestones, unless appropriate justification is given, such as in the case of force majeure. If the overall income of the applicant in terms of gross income goes over 10 ESU (resulting from the activities included in the Business Plan and all other regular income such as salary, insurance, pension etc.) the support for the further years is not granted.

The farms with an index between 2 and 5 ESU can not benefit from support from the measure “investment in agricultural holdings” financed under the Chapter 1. of the regulation (EC) No. 1257/1999. Consequently, semi-subsistence farms that are assisted under the present measure are not eligible from support under the ARDOP before reaching the above-mentioned economic viability.

4.6.7. Control

After the third year – when a decision needs to be made on the continuation of support – the ARDA shall check all the beneficiaries. If the milestones established in the beneficiary’s business plan for the third year has not been achieved, no support will be granted for the remaining two years.

4.7. Supporting the establishment and administrative operation of producer groups

4.7.1. Legal Reference

European Union legislation

The measure will be supported under Article 33d and Annex II , of the Accession Treaty, to be inserted into Council Regulation (EC) n° 1257/1999 (last amended by Council Regulation (EC) n° 1783/2003) and Commission Regulation (EC) n° 817/2004.

National legislation

- Acts Nos. I and II. of 1992 on Cooperatives,
- Act No. CXLI. of 2000 on New Cooperatives,
- Act No. CXLIV of 1997 on Business Associations,
- MARD Decree 81/2004 (V.4.)on producer groups, which was drafted in line with the relevant pieces of EU legislation. Thus producer groups recognised according to the provisions of this regulation fulfil all the criteria that are included in the EU regulations. The most important ones are outlined below:
 - the group can only have producer members who or which sign a contract with the producer group about the organisation of production;
 - members must undertake to remain members for a period of 3 years and to terminate membership with 12 months of notice;
 - members must market 100% of their products through the producer group, therefore with one product they can be member of only one producer group at a time;
 - the primary goal of the producer group is to adapt the production of producers to the demands of the market;
 - the producer group maintains a registry of the members and their economic activities and follows the rules of fair competition.

Under MARD Decree 81/2004 (V.04.), government recognition may be awarded by the Minister for Agriculture and Rural Development or his authorised representative. The Minister's decision is prepared by the Assessment Committee established by the Minister, whose members are delegated by the specialist divisions of the Ministry and by non-government organisations. The Committee is also responsible for the supervision of the activities of the producer groups. If in the course of supervision the Committee finds any infringement of the rules prescribed by the Decree, it shall initiate the withdrawal of recognition with the Minister.

4.7.2. Objectives of the measure

General objectives

- to strengthen the market position of producers;
- to improve the income situation, the economic viability and the economic efficiency of individual farms;
- to improve the situation of agricultural employment and improve the living conditions and existential security of rural population.

Specific objectives:

- to reduce the operating costs of producer groups by utilising the input and output price advantages of a cooperative market position, improved utilization of assets, co-financing;
- to establish and operate the institutional framework for cooperation between isolated producers, increasing the added value of products;
- to improve financial and administrative conditions to carry out cooperative investments by members of producer groups.

Operational objectives:

- to support the establishment and administrative operation of producer groups.

The achievement of the above-mentioned objectives shall have the following results:

- improvement of the efficiency and competitiveness of individual farmers,
- reduction in production costs, improved utilization of assets,
- improvement of the quality of products, modernisation of production processes,
- encouragement of the production of region-specific products of exceptional quality, integration of individual farmers into producer groups, establishment and extension of the protection of product origins and brands,
- promotion of marketing, maintenance and strengthening market positions,
- stabilization and improvement of recently established organizations,
- increased application of environmentally friendly procedures.

Those results shall contribute to the realisation of the priority C *“increasing the economic viability, financial conditions and market positions of producers”*.

4.7.3. Description of the measure

Individual farmers may benefit from concentrated market appearance (product sales and purchases of assets and materials) in the course of marketing products, operating market information systems and the operation of certain high-value means of production.

The measure shall allow farms (farmers) with any agricultural production profile to set up a producer group.

As the producers associations are not adequately developed in all agricultural sectors support is eligible in the following sectors:

Plant

Cereals,
Rice,
Potato,
Oil seeds,
Sugar beet,
Textile plants,
Cut flowers, buds, living plants,
Grape and vine,
Herbs and spices,
Nursery products,

Animal products

Raw milk (bovine),
Other raw milk,
Bovine,
Pig,
Rabbit,
Sheep and goat,
Fish,
Fur animals
Poultry and eggs,
Honey

4.7.4. Links of the measure

Of the four objectives of the National Development Plan, which aims to ensure that the Structural Funds are utilised in an efficient manner, the Agricultural and Rural Development Operative Programme is the most closely related to the national objective of "A more competitive economy" and the priority of "Increasing the competitiveness of the productive sector". The achievement of those objectives is facilitated partly by structural and partly by supplementary measures. Several measures within the ARDOP promote structural changes in agricultural production and improving the competitiveness of agriculture; they are as follows: "Assistance with Investments in Agriculture", "Setting up of young farmers" and "Assistance with Vocational Training and Retraining". The efficiency of those measures shall be significantly improved by the fact that the National Rural Development Plan includes a measure that assists farms (farmers) with the establishment of producer groups. The measure is also connected to the other supplementary measures of the National Rural Development Plan in an interactive manner. As a result, the structural and supplementary measures constitute an integral whole. Moreover, the present measure also takes into account the national legislation system in force.

4.7.5. Financial table

in EUR

2004-2006		
Public contribution		
EU	National	Total
22 700 000	5 675 000	28 375 000

4.7.6. Aid intensity and/or available amounts and modes of differentiation

Aid amounts will be determined individually for each producer group.

Aid shall be paid in annual instalments for the first five years upon recognition of a producer group; the specific aid amount will be calculated on the basis of the annual production turnover of the group. The amount of support disbursed may not exceed the following limits:

In the case of producer groups with production turnover of up to 1 million euro per year:

- 5%-5% of the production turnover value in the first, and second years;
- 4% in the third year
- 3% in the fourth year
- 2% in the fifth year

In the case of producer groups with production turnover over 1 million euro per year, the above limits shall be applicable to the first 1 million euro, and the following limits shall be applicable to any amounts in excess of 1 million euro:

- 2.5%-2.5% of production turnover value in the first, and second year
- 2% in the third year
- 1.5% in the fourth year
- 1,5% in the fifth year

In any case, overall aid shall not exceed the following limits:

- 100 thousand euro in the first year,
- 100 thousand euro in the second year,
- 80 thousand euro in the third year,

- 60 thousand euro in the fourth year,
- 50 thousand euro in the fifth year.

Requests for support shall contain:

the document certifying recognition and

an extract of the approved annual balance sheet which shows the group's annual production turnover value on whose basis the amount of the support can be calculated.

Only applications complying with the eligibility criterion and formally correct and complete will be supported. No scoring system and subsequent selection of applications will be applied.

4.7.7. Scope of potential beneficiaries

Support shall be granted only to the producer groups formally recognised within the period 1 May 2004 – 31 December 2006 and which fulfil the requirements of MARD Decree 81/2004 (IX.18.) on Producer Groups (which is consistent with the recognition principles of the European Union).

In order to prevent overlapping of support with the Community Market Organisations (CMO), producer groups in the fruit, vegetable and tobacco market sectors will not be supported under the present measure.

4.7.8. Eligibility criteria

Attachment of the document on recognition of the producer group. (This document certifies that the group submitting the application meets the legislative criteria for recognition and has been recognised officially.)

4.7.9. Application period

Applications shall be submitted between 31 May and 31 December. Those applications, which are not approved should be resubmitted the following year.

Limits established for each sector shall be part of the application form in order to provide information to eligible organisations concerning the total amount of support available for individual sectors. After the exhaustion of individual sectoral budgets, any remaining resources from the budgets of other sectors may be reallocated after 1 October each year. Reallocation shall also be performed in the order of submission, irrespective of the applicants' scope of activity.

4.7.10. Controls and sanctions

1) The ARDA controls the annual production turnover of the group declared by the beneficiary.

If ARDA detects that the annual payment claim contains:

- 10% higher volume - ARDA reduces the support of the given year by 50%
- 20% higher volume - ARDA shall not pay any support for the applicant
- payment claim second time higher by at least 10% within the support period - ARDA shall not pay any subsidy in the subject year moreover disqualifies from the support for another 2 years.

2) In case a supported producer group miss to submit the annual payment claim within the 5-year supporting period, the group will be disclosed from submitting a new claim for 2 years.

3) In case of withdrawal of the recognition, the beneficiary should repay the total yearly sum with interests charged at twice the prevailing basic rate of interest of the Central Bank.

4.8 Technical Assistance

This measure supports the effective implementation of the National Rural Development Plan. The measure provides all the technical assistance required for the realisation of the Programme. The activities under the measure shall also provide a deeper insight into the programme and shall provide assistance with the preparation, implementation, continuous monitoring, evaluation and necessary adjustment of inquiries.

4.8.1. Legal reference

The Measure shall be supported according to the Accession Treaty Article 33/e to be incorporated into Council Regulation (EC) No.1257/1999 and article 45 of Commission Regulation (EC). No. 817/2004.

Article 23 of Council Regulation (EC) No.1260/1999 and Commission Regulation (EC) No.448/2004 on the eligibility of expenditures.

4.8.2. Objective and justification of the measure, links with other measures

The objective of this measure is to assist the management, implementation, monitoring, control and evaluation of the Programme. The measure contributes to the realisation of the following main objectives:

- support for the on-going monitoring and evaluation (including studies, workshops and seminars) of the Programme;
- to support the preparation of potential beneficiaries of the other NRDP measures, with special regard to the citizens living in underprivileged areas, informing the citizens of disadvantaged groups and providing information to the public in line with Commission Regulation (EC) No.1159/2000;
- liaison with the representatives of social partners, especially with the local and/or micro-regional representatives of disadvantaged groups (especially Romas, women and unemployed people in the remote areas, especially villages under 500 inhabitants);
- provision of information and publicity on the programme,
- ensuring the controllability of actions and activities eligible for support.

4.8.3. Description of the Measure

The Technical Assistance includes two sub-measures:

1.) Sub-measure 1. covering expenditure under point 2.1 of Rule 11 of Commission Regulation (EC) No.448/2004 and subject to the ceiling indicated in point 2.4 of such rule

- expenditure on preparation, selection, appraisal including horizontal themes and monitoring of the assistance and of operations;
- expenditure on meetings of the Monitoring Committee relating to the implementation of assistance (including costs of experts and other participants);
- expenditure relating to audits and on-the-spot checks of operations.

Expenditures relating to on-the-spot checks of operations carried out by State Forestry Service, the Plant and Soil Protection Service of MARD, the Animal Health and Food Control

Stations of MARD and the national Park Directorates are eligible only in case of seconded and duly documented decision of the competent authority (MARD).

2.) *Sub-measure 2. covering other expenditure under point 3 of Rule 11 of Commission Regulation (EC) No. 448/2004* such as studies, seminars, workshops, information actions based on the NRDP Communication Strategy, evaluation, including acquisition and setting up of computerised systems for the proper management of the Programme.

The most relevant part of the Communication Strategy aims to prepare the members of different advisory networks (chambers, associations, village-extension officers, small-regional RD managers, etc.) in order to disseminate practical information about the NRDP subsidy schemes to the potential final beneficiaries in an efficient way. The implementation of the “package” of those information activities (one-day workshops with corresponding materials, information events and leaflets, etc.) will be carried out by the Training and Extension Institute of MARD. The Institute is owned and supervised by MARD operating with a nation-wide infrastructure and expertise network with great experience in such activities (eg. SAPARD). Those one-day workshops with the corresponding materials does not overlap with the activities eligible under the ARDOP measure “Vocational Training”.

Costs are deemed to be eligible only if they arise in connection with the execution of activities described in the NRDP. The annual implementation report will give account of the utilisation of the resources.

Rate of support:

Up to 100% of total eligible costs of which 80% are financed by the EAGGF Guarantee and 20% by the national budget.

Form of assistance: non-repayable assistance

Beneficiary: *Programme Management Unit* of the NRDP (Department of Rural Development Programmes of the Ministry of Agriculture and Rural Development).

The Programme Management Unit of the NRDP will ensure appropriate co-ordination with the other Technical Assistance activities co-financed by the EAGGF Guidance, in order to ensure the respect of the provisions under article 28. of the Council Regulation (EC) No. 1260/1999.

4.8.4 Financial table

in EUR

2004-2006		
Public contribution		
EU	National	Total
30.000.000	7.500.000	37.500.000

Sub-measure 4.8.1²⁵:

2004-2006		
Public contribution		
EU	National	Total
6.200.000	1.525.000	7.725.000

Sub-measure 4.8.2:

2004-2006		
Public contribution		
EU	National	Total
23.800.000	5.975.000	29.775.000

4.8.5. Communication Plan

The Communication Plan includes the communication strategy for the information measures to be performed with the coordination of the NRDP Programme Management Unit between 2004-2006, as referred to under point 5.2.4.

Objectives

- General objectives:

Informing the general public about the short-, medium- and long-term rural development policy of Hungary and the role that assistance from the European Union plays through the NRDP.

Informing the different target groups of the NRDP about the possible support-schemes and the conditions thereof.

- Specific objectives:

To ensure continuous publicity and transparency of the assistance from NRDP and, through it, the Guarantee Section of EAGGF and to raise awareness of equal opportunities.

²⁵ A breakdown of the measure is provided to allow verifying the respect of the threshold in accordance with point 2.4. of rule 11 of Commission Regulation N° 448/2004

To provide exhaustive and targeted information to the potential beneficiaries, target groups about the possibilities, criteria and application procedures.

To inform the general public about the role of the European Union in cooperation with Hungary in the assistance concerned and the results that it achieves.

To inform those participating in the implementation of the projects about the goal, role and means of the information activity they are expected to perform.

Target Groups

General Public:

It is important to provide general information to the general public – via press and electronic media – about the role of the European Union, the assistance provided to Hungary by the Guarantee Section of EAGGF through the NRDP and the importance of that assistance.

Professionals:

potential applicants,
professional, advocacy groups and civil organisations,
regional and local authorities (governments),
training institutes and bodies and bodies concerned with employment,
environmental protection and forestry offices,
organisations promoting equal opportunities.

Ensuring Transparency

For the sake of the transparency of supports the NRDP Programme Management Unit and the Management Committee shall provide for the following:

publication of the content of the support package, circulation of these documents and their availability to those who request them;
establishment of appropriate reporting on the progress of the assistance throughout the programming period;
implementation of information measures relating to the management, monitoring and evaluation;
making the beneficiaries and the public more aware of the role played by the European Union in the project concerned;
accessibility of the national, regional and local contact persons and offices.

Activities for Informing the General Public and the potential applicants

Internet, electronic communication

Internet and electronic communication tools are to be used widely in the communication of EU-supports, since they allows rapid and efficient spreading of general information and facilitate a dialogue with the population.

The NRDP shall have its own homepage within the site of the Ministry (www.fvm.hu). The homepage shall include a general description and the financing allocations from EAGGF and the national budget. The homepage will describe the organisations involved in the implementation of NRDP, their structure, tasks and activities, and also the calls for applications and later the list of supported applications. The homepage will contain links to

the sites of other related issues such as GFP obligations, the LFA-areas, the main items of legislation, etc.

Press and electronic media

In order to establish a good relationship with the media and to utilise the funds intended for this purpose efficiently, a special media plan will have to be elaborated with respect to the following sub-measures:

Issuing press releases about for important event relating to the launch and the implementation of the NRDP, especially the approval of the Plan by the Commission, before launching tenders and upon the completion of their primary implementation phase. Publishing supplements in the most suitable periodicals and publications providing detailed information to the potential beneficiaries about: interpretation of the measures, sample-documentation, best practices, successful projects and applications. Creating some television and radio advertising spots, and broadcasting them in programmes specialising in agriculture or as public information segments.

Publications

Preparing and distributing brochures, leaflets, information publications, reports, newsletters and project reports for the potential beneficiaries about the NRDP in general and individual measures in particular. Special booklets will be published about the GFP conditions and the LFA and agri-environmental support options.

Personal Advisory Services

Targeted especially the potential beneficiaries besides the printed materials different forms of personal advisory services will be prepared: the general customer service of ARDA, the background services of MARD and nationwide networks (such as: chambers, village extension officer, small-regional managers and others) will be involved in the information distribution network. The information distribution system will be based on a “training for trainers” activity prepared, organised and distributed by the MARD Institute of Vocational Training. The efficiency of the advisory tools will be regularly monitored and supervised by the PMU. The nationwide network will include:

- the county offices of MARD (general information),
- members of the extension service registered in MARD,
- agricultural chambers,
- small-regional rural development managers,
- others (NGOs or professional firms)

Time Schedule

Preliminary Communication Stage

The preliminary communication stage (until 1 January 2004 or, for the general public, up until 1 May 2004) is a time for overall communication involving the introduction of the NRDP and preliminary general information on the assistance policy of the European Union.

Full Communication Stage

In the interim communication stage (between 1 January and 1 May 2004), potential beneficiaries will need to be provided specific information on how to access the NRDP

and on application opportunities – with special regard to the LFA and GFP conditions - and on the contact details of customer service points.

Permanent Communication Stage

In the permanent communication stage (after 1 May 2004), i.e. following the opening of EU assistance, communication activities relating to the NRDP will have to cover all details, as set out in this document.

The implementation of the measures of the NRDP Communication Plan is the responsibility of the Managing Authority Department at the Ministry of Agriculture and Rural Development, which acts as the NRDP Programme Management Unit (PMU). The PMU will designate one or more persons responsible for communication and public awareness.

Evaluation

The effectiveness of the NRDP Communication Plan activities will need to be evaluated regularly against indicators set in the Plan, and the results and feedback from such evaluation should be used in subsequent communication. The selection of the adequate communication channels may be facilitated by the preparation of studies and surveys.

Evaluation and reporting to the European Commission

Preparing annual reports to the European Commission on measures in the subject year and their effectiveness – these are to form part of the annual report approved by the NRDP Monitoring Committee.

The annual implementation report should state the financial allocation of the support funds as well as the application of the technical assistance. Expenditures can be based on flat rates (e.g. daily allowance, assistance for advisory services providing information to the public) in compliance with the conditions and tariffs applicable to similar activities in the Hungarian public administration and consultancy service.

4.9. Complements to direct payments

4.9.1. Legal reference

Article 33h of Council Regulation (EC) No. 1257/1999.

4.9.2. Objective of the measure

To provide additional and temporary resources to fund Complementary National Direct Payments (CNDPs).

4.9.3. Description of the measure

The Hungarian Government decided to replace the EU direct payments with a Single Area Payment as referred in Article (1)(5) of Council Decision of 22 March 2004.

In accordance with Article 143c of Regulation (EC) No 1782/2003, Hungary requested the authorisation of CNDP schemes complementing a number of direct payments listed in Annex I to the same regulation.

In 2004 Hungary introduced 10 different CNDP schemes, as authorised by the European Commission by Decision C(2004)2295 of 29 June 2004, as amended by Decision C(2005)4247. In 2006, Hungary intends to implement 13 CNDP schemes, as authorised by Commission Decision C(2006)3967 of 7 September 2006. Hungary complements national funding with resources under this measure of the Rural Development Plan only in the case of one of these CNDPs, namely the arable crops, in respect of the years 2004 and 2006.

4.9.4. Financial allocation

in EUR

2004-2006		
EU	National	Public expenditure
75 210 000	18 802 500	94 012 500

The calculations for the arable crops have been done so as to meet the conditions referred to in article 33h (2) of Council Regulation No. 1257/1999, namely that the support granted to a farmer shall not exceed the difference between the level of direct payments applicable for the year concerned and 40% of the direct payments applicable in the Community as constituted on 30 April 2004.

The Community contribution to support under this measure in respect of each of the years 2004 and 2006 does not exceed 20 % of the respective annual allocation for the rural development plan, as required by article 33h (3) of Council Regulation No 1257/1999.

4.9.5. Eligibility criteria and implementing rules

a) General eligibility criteria for all CNDPs

Beneficiary for the CNDPs may be an applicant (a “person”), who is

- a. a legal person with headquarter or site, or exercising economic activity (production, services, manufacturing, trade) or
- b. a natural persons with a permanent residence or temporarily staying,
- c. a natural or legal person or other organization, having assets, realizing income, availing profit in the territory of the Republic of Hungary.

These criteria are applied *erga omnes* and consequently do not mean any discrimination for the citizens of the other EU member states.

A further technical condition is that the applicant has to possess a registration number issued by the ARDA. New applicants may receive this registration number after they application is processed.

b) Additional criteria for area-based CNDPs, including arable crops

- Area based CNDPs may be claimed only for those areas, which are eligible for SAPS payment, with the exception of short rotation coppice.
- Only one CNDP application in a given marketing year shall be submitted for any agricultural parcel except for the energy crops supplementary CNDP.
- Any parcel for which area based CNDP is claimed may not be smaller than 0,3 hectare, but the total area covered by an application has to be at least 1 ha (including SAPS areas).
- Where sowing or transplanting is finished not later than 15 June.
- The parcel has to be an agricultural area determined in accordance with Article 20 of Council Regulation No. 1782/2003.
- The parcels have to be maintained in good agricultural and environmental condition in accordance with Article 5 of Council Regulation (EC) No 1782/2003.
- Set aside land is not eligible.
- The amount of aid is established per hectare.
- In case that the total area in a given sector entered for application exceeds the CNDP base areas, the eligible area per producer shall be decreased proportionally according to Article 139 of Commission Regulation No. 1973/2004.
- Applicants for the CNDP may be beneficiaries who submit an application for aid to ARDA.

Implementing rules

a) Common implementing rules for all area based payments (including arable crops CNDPs)

Commission Regulation (EC) No 796/2004 shall apply to the CNDP area based payment schemes to the extent as laid down in Articles 136 and 140 (1) of Commission Regulation No. 1973/2004.

The payment application shall be treated as an aid application within the meaning of Article 2 (12) of Commission Regulation (EC) No 796/2004.

The filled-out application forms shall be submitted to county offices of ARDA by mail. Applications shall be submitted, as the latest, until 15 May. However, in case of late applications provisions defined in Article 21 of Commission Regulation No. 796/2004 apply. Where, as a result of the administrative or on-the-spot check as defined in Commission Regulation (EC) No 796/2004, a difference between the area indicated and the area determined is found, reductions and exclusions shall be applied according to Article 138 of Commission Regulation (EC) No 1973/2004.

For the purpose of the calculation of the aid the following crop-groups shall be distinguished: arable plants, rice, energy crops on arable land, energy crops on SAPS land not eligible for CNDP arable, short rotation coppice, tobacco - Virginia, tobacco - Burley.

Payment shall be made once a year within the period from 1 December to 30 April. However, advance payments may be made prior to 1 December but not earlier than 1 September.

If an undue payment is made, the farmer shall repay the amount plus interest calculated in accordance with Article 15 of Act 73 of 2003 on certain issues related to the agricultural and rural development grants and other measures and on the related amendments to the relevant law.

b) Specific implementing rules relating to the arable crops CNDPs

The CNDP will be paid area based after the actual production area of

- arable crops, as defined by Article 100 (2) and Annex IX of Council Regulation (EC) No 1782/2003.
- grain legumes, as defined by Article 141 of Council Regulation (EC) No 1782/2003 and
- seed species listed in Annex XI of Council Regulation (EC) No 1782/2003
- hops that have been planted at a uniform density of at least 1 500 plants per hectare in the case of double stringing/ wiring, or 2 000 plants per hectare in the case of single, stringing/wiring as defined by Article 170 1 (a) of Council Regulation (EC) No 1973/2004
- dried fodder for which Articles 14-17 of Council Regulation (EC) No 382/2005 apply.

CNDP arable may be granted only to an area, on which the cultivation of the plants listed in Annex IX and XI of Council Regulation (EC) No 1782/2003, and in Article 141 of Council Regulation (EC) No 1782/2003 is maintained at least until the beginning of the flowering in normal development conditions.

In case of production of seed species listed in Annex of Council Regulation (EC) No 2323/2003 (except *Pisum sativum* L. (partim) and *Vicia faba* L (partim)) the producer has to prove the followings:

- the seeds are produced under a multiplication contract or intended for own use by the producer;
- the area is inspected by the National Institute for Agricultural Qualification;
- the producer possesses certificate on field inspection.

Production of hops has to be in conformity with Article 110o of Council Regulation (EC) No 1782/2003.

Remarks:

CN code, ex 1206 00 10 in Annex IX of Council Regulation (EC) No 1782/2003 relates only to sunflower seed. However, Hungary intends to pay CNDP arable to all kind of sunflowers, not only for ones produced for seeds.

*Council Regulation (EC) No 2323/2003 sets the seed aid level at 0 EUR/100 kg in case of *Pisum sativum L. (partim)* and *Vicia faba L (partim)*. However, these species are listed in Annex IX of Council Regulation (EC) No 1782/2003, consequently the producers can receive CNDP without proving the certified seed production.*

For the CNDP arable crops co-financed by the EU the following specific rules will apply:

- Where, as a result of the administrative or on-the-spot check as defined in Commission Regulation (EC) No 796/2004, a difference between the area indicated and the area determined is found, reductions and exclusions shall be applied according to Article 51 of Commission Regulation (EC) No 796/2004.
- In case of advance payments, Article 28(3) of Council Regulation No 1782/2003 will apply.
- If an undue payment is made, Article 73 of Commission Regulation No 796/2004/EC has to apply.

5. Institutional structure of implementation

The establishment of the administrative capacity and the appropriate system of institutions required to manage the types of support under the National Rural Development Plan financed by the EAGGF Guarantee Section shall require significant expertise and preparation. The provisions of Commission Regulation (EC) No. 817/2004 and the experience gained during the implementation of the SAPARD Programme and the elaboration of the NRDP are the most important with respect to the establishment of the system of institutions.

5.1. Appointment of responsible bodies

5.1.1. Unit appointed for the elaboration of the NRDP document

Pursuant to Article 41 of Council Regulation (EC) n° 1257/1999, the institution appointed for the elaboration of the National Rural Development Plan is the Ministry of Agriculture and Rural Development.

Contact details:

Ministry of Agriculture and Rural Development

Department of Rural Development

Responsible coordinator: Balázs CSÉPE

H-1860 Budapest P.O. Box 1.

Telephone: +36-1-301-5929,

Fax: +36-1-301-5949,

e-mail: csepeb@fvm.hu,

Coordinated by the Rural Development Department, the different sections of the plan were elaborated by working groups composed by the members of specialist MARD departments (see chart in 5.1.6) corresponding to the individual measures in cooperation with the other relevant ministries (Ministry of Environment and Water Management and Ministry of Employment and Labour Affairs), research institutes and the Agricultural and Rural Development Agency (ARDA), which shall be responsible for implementation. The ARDA includes the former SAPARD Agency, therefore the experience gained during the accreditation process of the Agency and the operation of the SAPARD Programme can also be used in the process of preparing the plan and performing institutional preparatory measures.

5.1.2. Competent Authority

Financial resources for the measures of the National Rural Development Plan shall be provided by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. Pursuant to Article 1 of Government Decree 81/2003 (VI. 7.), the Competent Authority of the EAGGF Guarantee Section is within MARD.

The tasks of Competent Authority are directly under the supervision of the State Secretary for EU Affairs.

Contact details:

Ministry of Agriculture and Rural Development

State Secretary for EU Affairs

Responsible: Attila TÓTH

H-1860 Budapest P.O. Box 1.

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e-mail: totha@fvm.hu

The tasks and responsibilities of the Competent Authority are governed by the provisions of Commission Regulation (EC) No. 1663/1995. Accreditation requirements are prescribed by the Competent Authority in accordance with the directives stipulated in the Annex of Commission Regulation (EC) No. 1663/1995. The Competent Authority shall only approve the accreditation of the Paying Agency if it complies fully with the accreditation requirements and if the administrative and accounting processes of the institution are compliant with the relevant EU requirements.

In accordance with Commission Regulation (EC) No. 1663/95 Article 1. 4. the Competent Authority can temporarily approve the accreditation for a specific period if the deficiencies of administrative or accounting processes can be rectified or supplied during that period.

5.1.3. Programme Management Unit

The programme-level management tasks of the NRDP shall be performed by a separate unit in MARD that shall be independent from the Competent Authority. This unit is established within the Managing Authority Department. The Managing Authority Department is responsible also for ARDOP as the Managing Authority thereof. By this solution the co-ordinated programme-level management of the two programmes is to be better solved and all the experiences gained from the implementation of SAPARD programme is to be utilised.

Contact details:

Ministry of Agriculture and Rural Development

Department of Managing Authority

Responsible: Miklós MAÁ CZ

H-1860 Budapest P.O. Box 1.

Telephone: +36-1-301-4584

Fax: +36-1-301-5949

e-mail: maaczm@posta.fvm.hu

The tasks of the Unit are as follows:

- It shall – with the assistance of the Management Committee - organise and coordinate the collection and analysis of the information necessary (including financial and statistical data) for the constant monitoring of the implementation and evaluation of the programme in accordance with Article 61 of Commission Regulation (EC) No. 817/2004. It forwards this information to the Monitoring Committee and the Commission.
- On the basis of the financial and statistical data about the implementation collected from the IACS system – with the assistance of the Managing Committee - it shall organise the preparation of analyses and prepare recommendations for modification or amendment of the Programme for the Monitoring Committee.
- It shall forward reports and proposals discussed and approved by the Monitoring Committee to the Commission in a form consistent with that agreed by the member states and the Commission – using computerised data exchange wherever possible.
- It shall submit required amendments in line with Article 51 of Commission Regulation (EC) No. 817/2004 at most once a year, in the form of a single proposal.
- It shall organise the elaboration of annual reports on implementation and shall submit them to the Commission in accordance with Article 55 of Commission Regulation (EC) No. 817/2004.
- It shall enforce – with the assistance of the Managing Committee - compliance with the Community policies during the implementation of the programme.
- It shall ensure compatibility between Community and national policies and enforce compliance with the requirement of publicity.
- In accordance with the provisions of Articles 62-65 of Commission Regulation (EC) No. 817/2004 it shall organise the completion of the ex-ante and ex-post evaluations of the programme by independent evaluators.
- It shall perform secretarial tasks for the Monitoring Committee.
- It shall prepare and coordinate the implementation of a Communication Action Plan in order to facilitate the successful and effective operation of the programme communication.
- In the interest of the successful and effective operation of the programme it shall plan and organise the utilisation of resources allocated to the measure Technical Assistance.
- Based on the data about the progress of the programme, it shall prepare all the documentation necessary for the amendment of the programme and shall call the Monitoring Committee as required, but at most twice a year.
- In the interest of the coordinated performance of programme-level tasks, it shall maintain continuous liaison with the Competent Authority, the Agricultural and Rural Development Agency, the members of the Monitoring Committee and the Commission.
- In the interest of the coordinated performance with the ARDOP it shall maintain continuous liaison with the Managing Authority thereof.

5.1.4. Management Committee

Without prejudice to the decision-making competence and to the role and responsibilities of the Programme Management Unit and the Monitoring Committee, the NRDP Programme Management Unit will be assisted by a Management Committee.

The Management Committee addresses day-to-day advisory issues relevant to specific measures or to any general aspects of the NRDP, which do not require decisions by the Monitoring Committee. It aims to ensure, where necessary, effective co-ordination in implementing the Programme, to share experience related to such implementation and to spread the best practices on the co-financed operations. The Management Committee operates as an open body, whose composition can be changed according to the requested advisory issues.

The Management Committee shall consist of the following members:

NRDP Programme Management Unit, chairing the Committee,
Paying Agency (ARDA) and the State Forest Service,
Representative of State Forest Service, Plant and Soil Protection Service of MARD, Animal Health and Food Control Stations of MARD and the representative of the Ministry of Environment and Water Management as the supervisor of the National Park Directorates.
Departments of the Ministry of Agriculture involved in the elaboration and implementation of the measures (see chart in 5.1.6),
Control units of the Ministry of Agriculture and of the Paying Agency, as observers.

5.1.5. Monitoring Committee

The establishment of a Monitoring Committee for NRDP is not an obligatory requirement under EU legislation, but, according to the experience of other Member States and the SAPARD Programme in Hungary, its establishment facilitates the precise and professional supervision of the Programme to a great extent. The task of the Monitoring Committee is to assess and share experiences towards the aims and objectives set up in the NRDP.

The Monitoring Committee shall discuss horizontal issues associated with the NRDP that require a consensus, or a cooperative solution in order to implement the programme smoothly.

The Monitoring Committee is responsible for the comprehensive monitoring of the implementation of the strategic objectives of the National Rural Development Plan. The data and information necessary for the implementation of monitoring tasks shall be provided by the official databases of the Paying Agency (Agricultural and Rural Development Agency).

The work of the Monitoring Committee shall be led by the chairman. The Monitoring Committee Secretariat, which shall be set up within the Programme Management Unit, shall perform the tasks associated with the operation of the Monitoring Committee.

Accordingly, the NRDP Monitoring Committee has the following responsibilities and tasks:

- a) to adjust the programme, including the physical and financial indicators used in the course of monitoring the assistance. A preliminary approval of the Monitoring Committee is required for all modifications or amendments to the Programme.
- b) to regularly review progress made in implementing the measures of the Programme;
- c) to examine the results of implementation, in particular the achievement of the objectives set for the different measures;
- d) to discuss and approve the annual implementation report before they are submitted to the Commission;

The Monitoring Committee will be set up after consultation with the relevant partners: wide and effective association of all relevant bodies, taking into account of the need to promote equality between men and women, equal opportunities in general and sustainable development. This principle of partnership will be applied in the composition of the

Monitoring Committee, including partnership with special ministerial partners, socio-economic partners, institutions representing horizontal interests, and regions.

Accordingly, the composition of the NRDP Monitoring Committee will be as follows:

- Competent Authority of the NRDP (i.e. Department for Accreditation);
- Ministries (Ministry of Environment and Water Management, Ministry of Labour, Governmental Office for Equal Opportunities) and Departments of the Ministry of Agriculture and Rural Development participating in the elaboration of the programme;
- Socio-economic partners (including environmental associations, chambers of agriculture, forestry associations, representatives of producer group's organisations, etc.);
- Bodies representing horizontal issues (equal opportunities, environment protection, the Roma issues, etc.);
- the Paying Agency (ARDA);
- Programme Management Unit (Department of Managing Authority)
- the Managing Authority of ARDOP;
- the representatives of Local Authorities;
- a representative from the European Commission, participating in an advisory function.

5.1.6. Rural Development Committee of MARD

In order to provide a co-ordinated supervision of the two rural development programmes (ARDOP and NRDP) the Rural Development Committee was established by Administrative Regulation No. 9/B issued by the Minister of Agriculture. The overall task of the RD Committee is to provide direct coordination between the different MARD Units participating in the programming and management of ARDOP and NRDP with the representation of the Paying Agency (ARDA) and to provide the unique representation of both Programmes towards third partners. The Committee is chaired by the Deputy State Secretary in charge of EU and International Affairs (responsible for the planning of ARDOP), and consists of the Deputy State Secretary in charge of Rural Development and Food Safety (responsible for the planning of the NRDP), the relevant Departments of MARD and the president of ARDA.

The President of the Committee is responsible for the management of both Programmes. According to the Operational Manual of the MARD, the Department for Managing Authority (see 5.1.3) directly reports to this Deputy State Secretary.

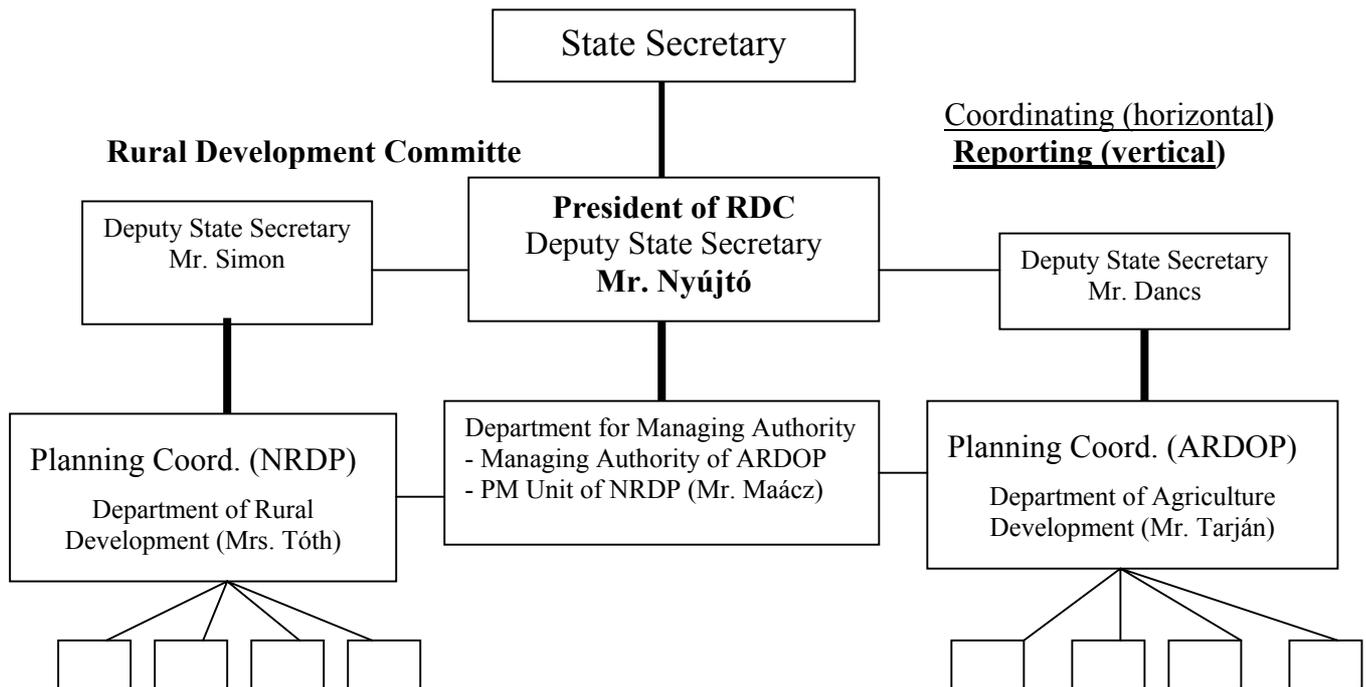
By the regulation referred above establishing the RD Committee, the President of the RD Committee has the potential for direct control and supervision of all concerned services and MARD departments and the representation of both programmes. The President of the Committee is responsible for the elaboration of proposals necessary for the smooth implementation of both programmes and in the scope of this responsibility is empowered to give instructions to all members of the RD Committee. The referred decision shall be reflected in the Operational Manual of MARD.

Contact Details of the President of RD Committee of MARD:

Ministry of Agriculture and Rural Development

State Secretary for EU Affairs

Responsible: Ádám FICSOR
H-1860 Budapest P.O. Box 1.
Telephone: +36-1-301-5940
Fax: +36-1-331-5946
e-mail: ficsora@fvm.hu



MARD departments participating in the drafting of NRDP (D1-Dn):

- Department of Rural Development,
- Department of Agri-environment,
- Department of National Agricultural Policy
- Department of Animal Health and Food Control,
- Department of Development,
- Department of Forestry,
- Department of Human Policy,
- Department of Plant Protection.

5.1.7. Institutions responsible for implementation

5.1.7.1. Agricultural and Rural Development Agency

The institution responsible for the implementation of the National Rural Development Plan is the Agricultural and Rural Development Agency (H-1054 Budapest, Alkotmány u. 29.). The ARDA was established on 1 July 2003 in accordance with Government Decree 81/2003 (VI. 7.). The ARDA was established by the merger of the SAPARD Agency accredited for the implementation of support under the SAPARD Programme and the Agricultural Intervention Centre that managed national aid schemes. Through that merger, Hungary facilitated maximum utilisation of the experiences gained during the implementation of the SAPARD Programme. The ARDA has been accredited as the Paying Agency for EAGGF Guarantee Section and will also act as the sole intermediate body of the Managing Authority for the ARDOP, financed under the Guidance Section of the EAGGF.

As regards the National Rural Development Plan, the ARDA, as the only Paying Agency for EAGGF funds in Hungary, shall perform implementation, payment and accounting functions as well as collection of data for monitoring and evaluation. Implementation shall be

performed by the ARDA, its county offices and other organisations performing tasks associated with individual measures that are delegated to them. The execution of payments and accounting shall be performed exclusively by the ARDA. The key steps of the implementation procedure and the controls to be performed during implementation are described in detail in Chapter 5.3. ARDA units responsible for the implementation of the National Rural Development Plan: are indicated in dark boxes in chart 2 and described below. In the respect of NRDP implementation functions the coordination of the work of the services of ARDA is ensured by the President of ARDA.

Accompanying Measures Unit

This unit coordinates all tasks related to the implementation of the National Rural Development Plan. Following the administrative and physical controls executed by the county offices, the Accompanying Measures Unit decides in point of authorising contribution in schemes, effecting payments, sanctioning, etc.

Financial Directorate

This directorate effectuates financial and economic tasks, as well as the tasks related to the book-keeping and clearance of accounts of the support schemes. This directorate will also execute the payments.

Directorate of Territorial Affairs

This directorate is primary responsible for the coordination of the on-the-spot controls. It selects among claims considered eligible to be controlled. On-the-spot controls are executed by the County Offices of ARDA. The findings of these controls are first evaluated by the Directorate of Territorial Affairs. Following this preliminary evaluation the Accompanying Measures Unit assesses the results and imposes the necessary sanctions.

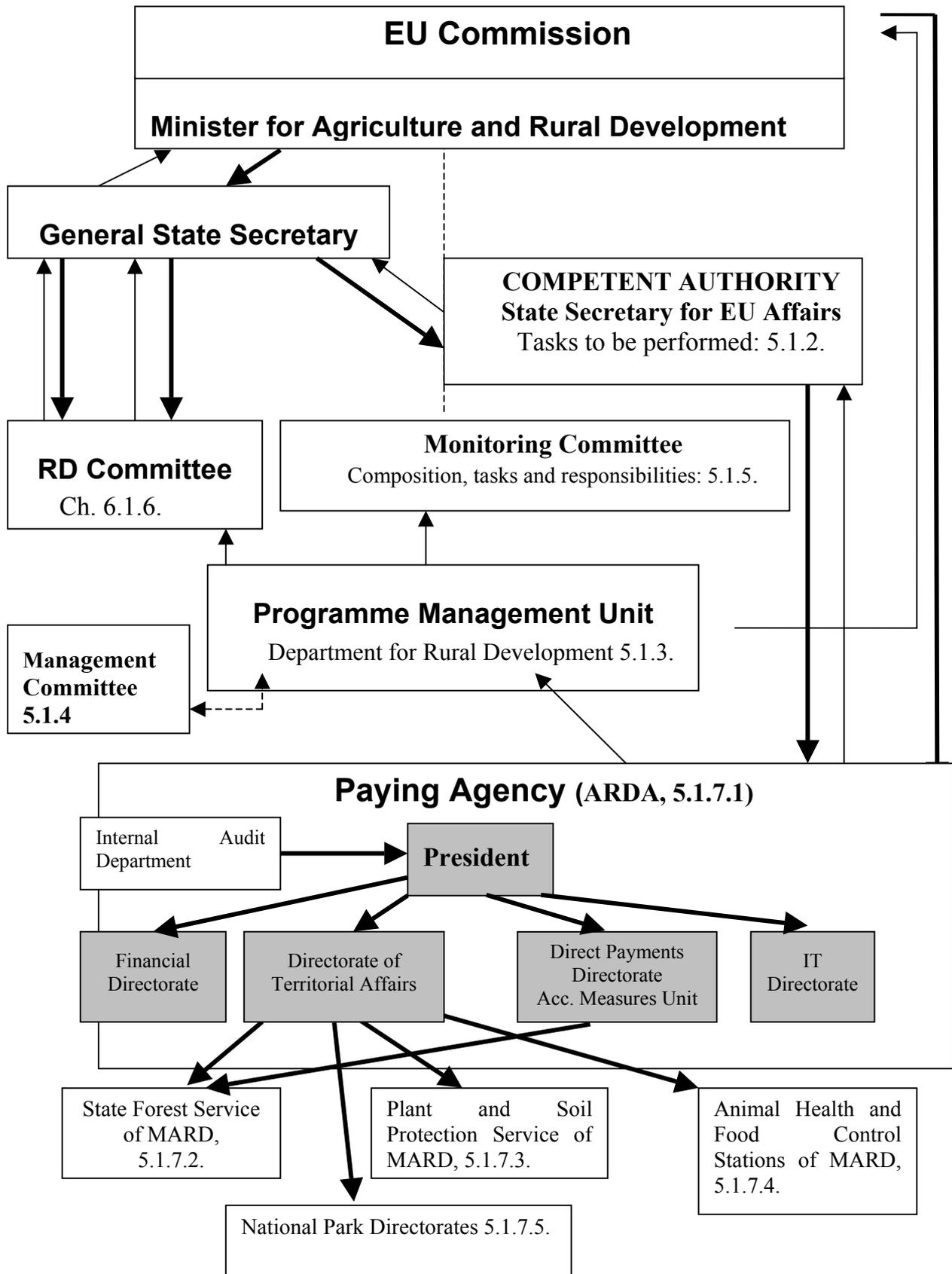
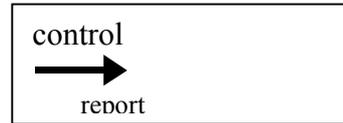
The Directorate is also responsible for the cooperation with external services involved in the on-the-spot controls (see in 5.1.7.2 – 5.1.7.5). In this respect all involved services shall submit their control report to this directorate. The supervision of the control activities shall be ensured by the Internal Audit Department of ARDA.

IT Directorate:

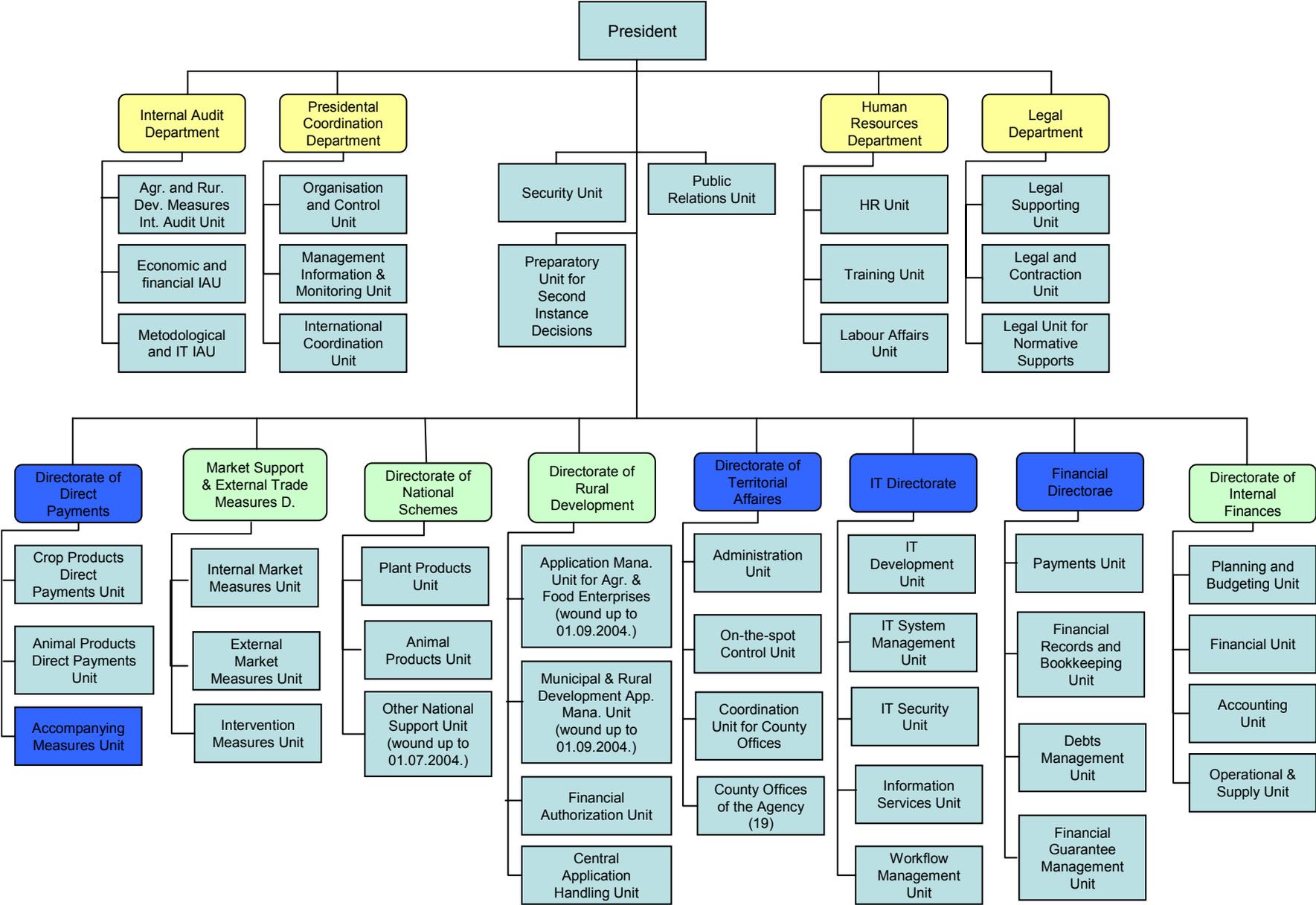
This directorate is responsible for the maintenance of ARDA's IT system applied by the State Forest Service as well. IT Directorate operates the Integrated Administration and Control System (IACS).

County Offices: annex 16.

Implementation structure of the NRDP



Organisational Structure of ARDA



Institutions fulfilling delegated functions (5.1.7.2.) associated with individual measures and institutions providing technical services (. 5.1.7.3. - 5.1.7.5) and their tasks are listed below:

5.1.7.2. State Forest Service

Commission Regulation (EC) No. 1663/1995 laying down detailed rules for the application of Council Regulation (EEC) No 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section and Article 8 of the national Act 73 of 2003 on certain issues related to the agricultural and rural development grants and other measures and on the related amendments to the relevant law, lays down the rules of delegation of certain functions to other bodies. In accordance with the above mentioned Act, the SFS is under the professional supervision and control of the Forestry Department of MARD. As a delegated body with respect to the measure entitled "Afforestation of agricultural areas" SFS shall accept, evaluate and approve applications and submits the annual payment claims towards ARDA for authorisation of payment. The delegated part of the authorization function will be performed according to Commission Regulation (EC) No. 1663/1995 and the national Act 73 of 2003. The SFS will receive, check administratively and conclude the yearly on-the-spot checks of 5% of the beneficiaries prior to the authorization of payments, which is made by ARDA, the Paying Agency. The selection is performed by the ARDA. The evaluation of the on-the-spot checks, the drawing of consequences and the necessary steps as well as the authorization decision shall remain to the responsibility of the ARDA.

SFS will be involved in management and control tasks. In the respect of delegated tasks to be performed in terms of the NRDP „afforestation” measure the co-ordination between SFS and ARDA is governed by a Delegation Agreement. In order to provide sufficient guarantee of the proper and transparent implementation of the programme the above functions will be separated within the SFS according to the Delegation Agreement. The representation of SFS in the MARD RD Committee is ensured by the representative of ARDA.

5.1.7.3. Plant and Soil Protection Service of MARD

In the case of the Agri-environmental Management and LFA measures, in the framework of a cooperation agreement with ARDA the **Plant and Soil Protection Service (PSPS)** shall perform the on-the spot checks requiring specialised skills of 5% of the beneficiaries prior to the annual payments. The selection of the beneficiaries to be checked and the risk assessment shall be the responsibility of the ARDA. The PSPS assists ARDA carrying out the on-the-spot checks of the selected applicants, issues certificates and/or control reports based on the criteria set out by ARDA, and send them to the ARDA. The evaluation of the results of the on-the-spot checks, the drawing of consequences and the necessary steps shall remain to the responsibility of the ARDA.

5.1.7.4. Animal Health and Food Control Stations of MARD

In relation to the measure "Meeting standards" in the framework of a cooperation agreement with ARDA the **Animal Health and Food Control Stations (AHFCS)** shall also provide technical services during the on-the-spot checks requiring specialised skills of 5% of the beneficiaries prior to the annual payments. The AHFCS assists ARDA carrying out the on-the-spot checks of the selected applicants, issues certificates and/or control reports based on the criteria set out by ARDA, and send them to the ARDA. The selection of the beneficiaries to be checked and the risk assessment shall be the responsibility of the ARDA. The evaluation of result of the on-the-spot checks, the drawing of consequences and the necessary steps shall remain to the responsibility of the ARDA.

Both the Plant and Soil Protection Service and the Animal Health and Food Control Stations will perform their tasks together with the inspectors of ARDA. In other cases these institutions will perform their own authority checks and send the results of their measurement activity to the Paying Agency as a certificate.

5.1.7.5 National Park Directorates

The Ministry of Environment and Water Management has contracted ARDA in order to ensure the systematic control of the compliance to the relevant environmental regulations on those areas, which are entered into one of the NRDP Agri-environmental schemes applicable in the High Nature Value Areas (HNV). The National Park Directorates supervised by the Ministry of Environment and Water Management assists ARDA carrying out the on-the-spot checks of the selected applicants, issues certificates and/or control reports based on the criteria set out by ARDA, and send them to the ARDA. On the basis of the contract DPD officers carry out control on the areas mentioned.

5.2. Measures facilitating effective and appropriate implementation of the NRDP

5.2.1. Information and publicity

All information and publicity measures related to the NRDP shall be implemented in accordance with the requirements laid down in Commission Regulation (EC) N° 1159/2000.

In order to implement the tasks associated with the provision of information and publicity, the Programme Management Unit shall prepare a Communication Action Plan, which shall define the objectives, implementing strategies and the content of the measures concerned along with the social and economic groups targeted and the evaluation criteria to be used for assessing the efficiency of the measures. The Action Plan shall also include a proposed budget and shall specify the administrative units responsible for its implementation.

In accordance with the Commission Regulation the objectives of information and publicity measures are as follows:

- to inform potential and final beneficiaries, as well as regional and local authorities and other competent public authorities, farmer's organisations and producer groups, economic and social partners, non-governmental organisations, especially bodies to promote equality between men and women and bodies working to protect and improve the environment, project operators and promoters, about the Structural Funds, the financial opportunities offered and the application procedures in order to ensure the transparency of the assistance;
- to inform the general public about the role played by the European Union in rural development via the NRDP and other forms of support of economic and social cohesion in Hungary. This shall describe the tasks of the Funds providing support under the NRDP and their contribution to rural development.

According to Commission Regulation N° 1159/2000 all publications (books, leaflets, billboards, newsletters etc.), applications and payment authorisation documents must bear the emblem of the Community.

The Communication Action Plan includes the aims and the targeted economic and social groups, the content and strategy of the resulting communications and information measures, the criteria to be used to evaluate the measures carried out, its indicative budget, and the administrative departments or bodies responsible for implementation.

5.2.2. Monitoring, Data collection and Electronic Data Exchange

The implementation of the NRDP, including the monitoring activities, will be supported with a centrally developed information system. The flow and exchange of data between the organisations participating in the implementation of NRDP is planned to be executed through this information system.

The implementation of the NRDP measures shall be supported by the computerised information system of the ARDA. The system implements cross-checks using the Integrated Administration and Control System (IACS). Based on the indicators compiled by the information system, the Paying Agency shall make decisions and produce reports for the Competent Authority and the European Commission. The computerised information system

will also facilitate electronic data exchange between the ARDA and the European Commission.

The fact that the use of the information system shall be an integral part of day-to-day work will ensure that the data in the information system are accurate and up-to-date. In addition to the generation of indicators for monitoring, the ARDA shall also use the system to generate all the documents to be used during the operation of the programme in a uniform format.

It will contain the data of all projects financed in the framework of the NRDP, including the procedural, financial and physical indicators of implementation. The Competent Authority will ensure that the system includes indicators which are consistent with the indicators proposed by the Commission services for monitoring and evaluating rural development programmes. The Monitoring Committee will adopt its decisions on the basis of the indicators aggregated in the information system. Reports for the Monitoring Committee, the Government, and the European Commission will be compiled relying on this information. Accuracy and updating of the data in the information system is ensured by using it as an integrated part of daily work processes.

According to Chapter 5.2.1 of the NRDP, the task of PMU:

In accordance with the section 5.1.3. of the NRDP, the Programme Management Unit coordinates the financial and statistical data transfer on the monitoring and evaluation of the implementation of the NRDP to the Management Committee and the Monitoring Committee.

Basic information resources:

The Management Information and Monitoring Unit of ARDA provides it from the monitoring system:

- from the IACS system
- information derived from questionnaires collected yearly from beneficiaries

Other information resources:

- from the State Forest Service on the basis of the delegation contract SFS send the data to ARDA. It is the responsibility of ARDA to transfer the collected data to the Programme Management Unit.
- from the Hungarian Central Statistical Office.
- from the National Park Directorates

5.3. Controls and sanctions

5.3.1. Controls

The measures of NRDP shall be implemented in compliance with Articles 67-73 of Commission Regulation (EC) No. 817/2004. The Paying Agency responsible for implementation (the Agricultural and Rural Development Agency as the only paying Agency of Hungary) will operate in compliance with the accreditation requirements of Commission Regulation (EC) No.1663/1995. This will ensure that the administrative procedures, internal audit processes and the organisations performing delegated tasks will all operate in compliance with the requirements of the European Union, in particular as regards the documentation associated with the authorisation of claims and the correct implementation of administrative and on-the-spot checks.

ARDA shall be responsible for receiving and processing applications (except afforestation measure: see under Chapter 5.1.6.2. SFS). Detailed implementation manuals governing the processing of both initial applications to join the scheme (applications) and subsequent applications for payment (claims) shall be elaborated in writing for each measure. The administrators responsible for authorisation will apply detailed checklists to ensure that all the necessary controls are performed and their performance is certified. The results of the controls as well as the names of the administrators shall be recorded in the checklists attached to the file of the application/claim.

Agricultural parcels and animals will be identified in accordance with Articles 4-5 of Council Regulation EEC. No. 3508/1992. Where these parcels and animals form the basis for the support, the data of applications will be compared to the IACS (Integrated Administration and Control System) database, so as to avoid double financing and to verify that the data indicated in the applications are identical to the ones that appear in the databases of the ARDA. Further IACS cross-checks against the relevant databases will also be carried out where necessary, depending on the measure.

As part of the control and selection procedure of the application the followings are taken into consideration:

- Does the applicant meet the eligibility criteria?
- Did the applicant provide all required data?
- Are the attached reports/certificates appropriate?

In case of annual payment claims:

Administrative control:

- Did the proposal meet the deadline?
- Are the documents supporting the payment claims complete and acceptable?
- Is there any problem according to the IACS cross-checks?

On the spot control:

- Are the activities implemented properly and comply with the agreement?

Process control

Process control means a review/audit extended to the whole process of applications and payment claims from submission to approval. The Accompanying Measures Unit of ARDA is responsible for its execution.

It aims to:

- control the implementation procedure
- supervise the job of the administrators or that of the head of the department
- identify deficiencies
- take necessary steps to eliminate these deficiencies.

The number of payment claims selected for process control is set centrally, by representative sampling method. If the process control identifies deficiencies the rate set for representative sample can be raised accordingly. This process control is made by the Accompanying Measure Unit, which is coordinating the complete implementation within ARDA.

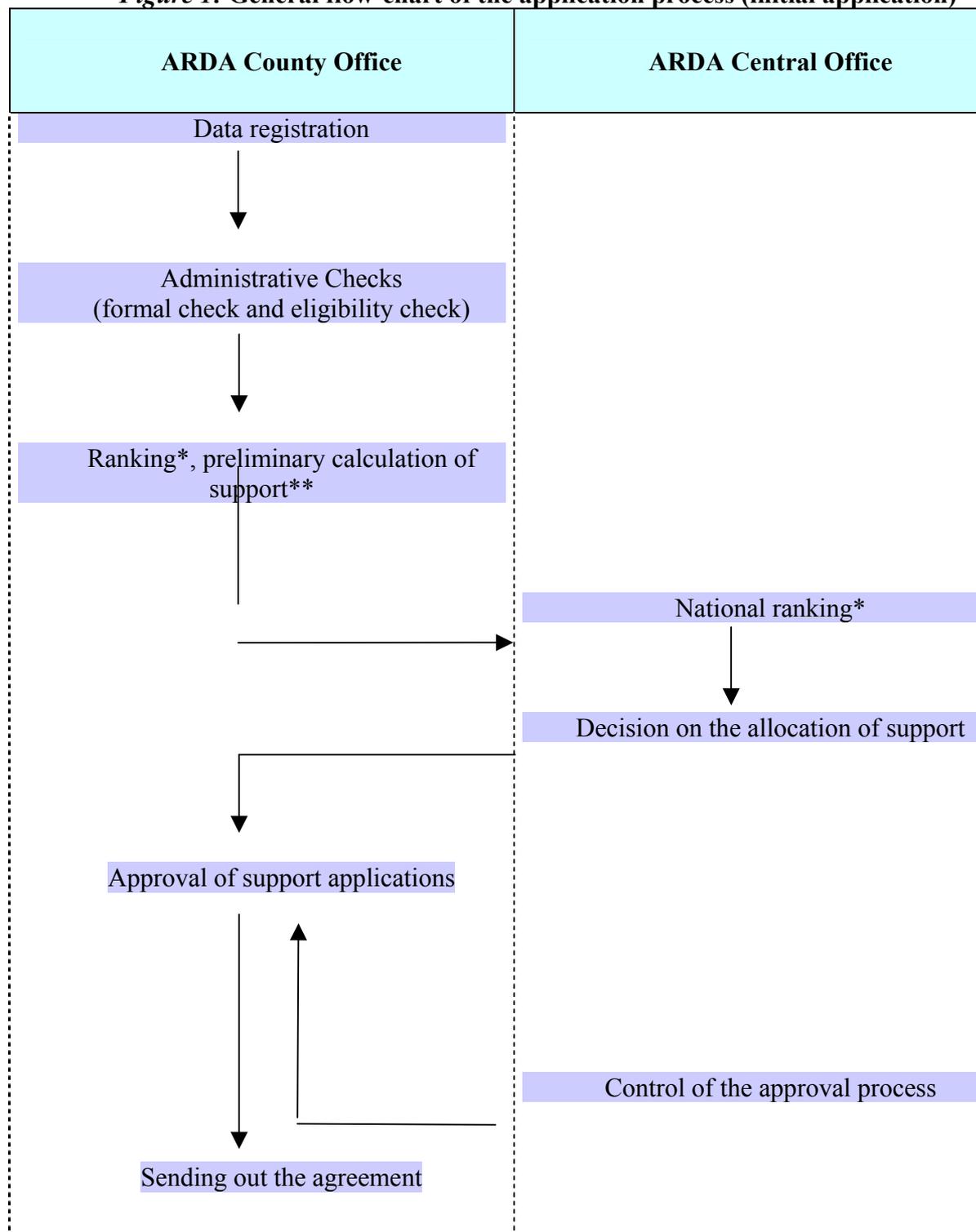
In parallel the Internal Audit Department supervises continuously by analysing the work of the county offices and that of the Accompanying Measures Unit.

Processing and verification of applications (initial applications to join a scheme - Figure 1.).

Each application (except afforestation measure: see under Chapter 5.1.6.2. SFS) shall be submitted to the ARDA using the forms made available for the individual measures, which shall contain all the information that is relevant for the assessment of the application. The processing of each application shall begin with a detailed formal and administrative check. Administrative checks shall be exhaustive and shall include cross-checks wherever appropriate, inter alia with the data from the Integrated Administration and Control System, and applications may only be approved if all the required checks have been performed and the application was found eligible according to both Community provisions and the criteria of support prescribed in the call for applications for the measure concerned. All completed administrative checks shall be indicated in the checklists provided by ARDA for the purpose.

In the case of area-based support, specific attention shall be devoted to checking whether the area specified in the application meets the criteria of the measure and the identification data of the area shall be verified against the data of the Land Parcel Identification System (LPIS, a part of the IACS). The entitlement of the applicant to use the area applied for and the applicant's compatibility with the measure applied shall also be verified along with all other circumstances whose checking will prevent double financing.

Figure 1: General flow-chart of the application process (initial application)



* Only appropriate in case of the measures of “Agri-environment”, “Afforestation of agricultural land” Meeting Standards, sub-measure I/a” and “Supporting semi-subsistence farms undergoing restructuring”

** Except for the measure “Supporting semi-self-subsistence farms undergoing restructuring”, where the amount of support is 1000 euro per applicant.

In case of more applications than financial means available the ARDA shall then rank the applications according to the ranking system – based on priorities by measures - defined in the call for applications. Based on the available resources, the ARDA shall also make decisions concerning the approval of applications with the highest scores and the rejection of applications that cannot be financed due to the shortage of funds or on account of formal deficiencies or deficiencies of content (*Table 49*).

Table 49: Selection process

Measures	Selection process		Ranking criteria
	Method for application filing	Principle of selection	
Agri-environment	Deadline	Ranking system	Percentage of the farmland entered into the scheme (compared to the total area cultivated in the same manner) farmer living in the area Percentage of agricultural income Former NAEP participation Natura 2000 sites Nitrate sensitive areas (More in detail in annex 10)
Support to Less Favoured Areas	Deadline	standard-cost based	No
Meeting standards	Continuous basis (2-month application period)	First come – first served basis	
Afforestation of agricultural land	Deadline	Ranking system	Purpose of afforestation Location of territory Other territorial characteristics Size of forest Nature of forest Rural development aspects Regional preference
Early retirement			
Supporting semi-self-subsistence farms undergoing restructuring	Deadline	Ranking system	Less Favoured Area young farmer date of arrival
Supporting the establishment and administrative operation of producer groups	Continuous basis (1-month application period)	First come – first served basis	No

For each measure a certain application period (1-6 months) will be determined, including a deadline.

In case of the “Meeting standards” and “Supporting the establishment and administrative operation of producer groups” measures, the applicants –if meeting all eligibility criteria and handing in the application before the deadline- are selected for support on a continuous, first come-first served basis as long as the financial resources are available.

On the other hand, applicants for the measures of “Agri-environment”, “Afforestation of agricultural land” and “Supporting semi-self-subsistence farms undergoing restructuring” are selected based on a ranking system at the end of the application period. The applications are checked and evaluated continuously during the application period, but the decision of support is made at the end of the period, based on the score received.

After all the applications are processed, the ARDA (except afforestation measure: see under Chapter 5.1.6.2. SFS) shall conclude contracts with approved applicants for the periods prescribed for the individual measures. The approval of applications and the contracting procedure can only go ahead after all the necessary checks are completed and the applications comply with the legislative requirements of the measure. Contracts shall specify the obligations and undertakings of the applicant connected to the utilisation of the support given. Contracts shall come into effect when both the applicant and the ARDA sign it.

During the processing phase, the work of each administrator shall be reviewed by the next administrator, which will ensure that only truly eligible applications of the highest quality will be supported. All administrators shall record the checks they perform in writing on the checklists, they shall sign them and place them in the file. Moreover, the ARDA centre shall implement further process controls in order to maintain the quality of the processing of applications.

Processing and verification of claims (subsequent applications for payment - Figure 2).

Claims shall be submitted to the ARDA by those holding valid contracts once a year. The ARDA shall process the claims received and after completing the necessary checks it shall authorise payments. In each instance, payments shall be based on some unit of support (e.g. land area, livestock unit, holding), which shall be defined in the support contract.

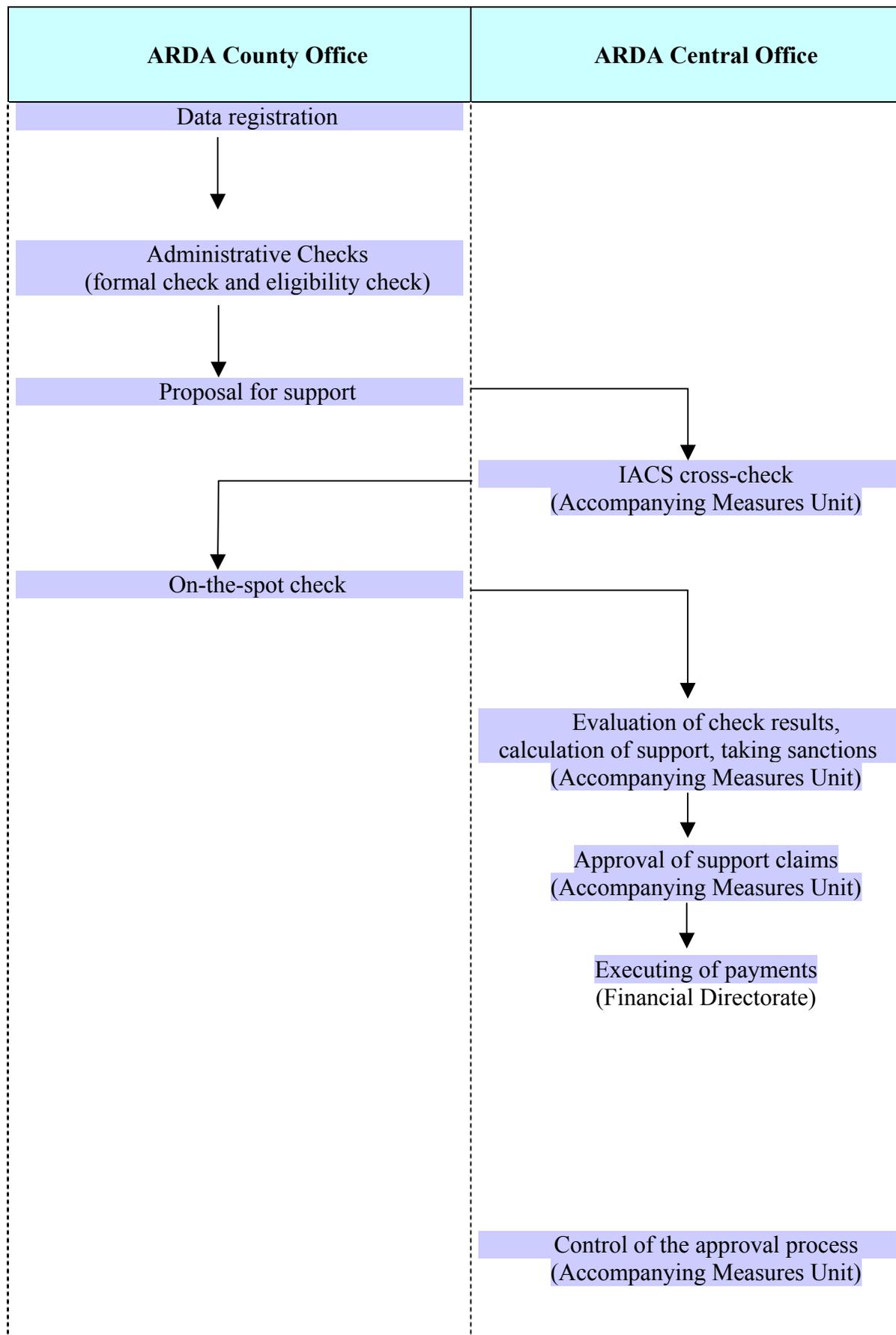
The processing of claims shall start with a detailed formal and administrative check. Administrative checks shall be exhaustive and shall include cross-checks wherever appropriate, inter alia with data from the Integrated Administration and Control System, and claims may only be approved for payment if all the required checks have been performed and documented in the check-lists provided by ARDA for the purpose. The authorisation of claims for those selected for on-site checks shall have to be postponed until the controls and their assessment are completed.

The computer system that supports the processing of claims shall monitor payments continuously, which will prevent the double financing of individual units of support or, in the case of area-based types of support, the excessive supporting of individual physical blocks. All relevant claims shall be cross-checked in the Integrated Administration and Control System. The measures for which cross-checks with the IACS are appropriate are those where claims are based on plots and/or animals registered in the IACS system.

Authorising administrators can only authorise claims for which the results of checks indicate that they comply with all the requirements of EU and national legislation associated with the measure concerned. In the course of the processing of claims, the work of each administrator shall be checked by the administrator who is next in line, which will ensure that only truly eligible claims are authorised. Each administrator shall record the checks they perform in their checklists, which they shall sign and attach to the file of the claim. Moreover, the ARDA

centre shall implement further process controls to maintain the quality of the processing of claims.

Figure 2: General flow-chart of the process of claims (subsequent application)



On-the-spot checks

In addition to the administrative checks, the ARDA shall implement on-the-spot checks in line with Article 61 Commission Regulation (EC) No. 817/2004. On-the-spot checks shall cover at least 5% of beneficiaries each year of all the different types of rural development measures prescribed in the programming documents. In the case of investments under the measure 4.3 (Meeting Standards) the article 9a of Commission Regulation 740/2004 shall also be implemented. Checks shall cover all the commitments and obligations of beneficiaries that can be checked at the time of the on-the-spot checks. Inspectors shall prepare detailed, standardised reports about the on-the-spot checks. The beneficiaries to be checked shall be selected by ARDA (as Paying Agency) so as to furnish a representative sample based on the risk-assessment criteria prescribed in Article 19 of Commission Regulation (EC) No 2419/2001 and other relevant risk-assessment criteria prescribed for the individual measures. In order to ensure that the sample is representative, the ARDA shall select 20 to 25% of the minimum number of beneficiaries to be checked at random. No beneficiary of any rural development measure will be automatically excluded from the checks. If necessary, these checks shall include the verification of compliance with Good Farming Practice, too.

Detailed guidelines shall be elaborated for each type of on-the-spot check - that shall contain the facts to be checked, the procedure of the visit and the methods used. Report templates shall be created for each type of check and each measure, indicating in particular the following items: supported measure, persons in attendance, methods and results of measurements, subjects of measurements, comments of the beneficiary inspected and any other control actions taken.

The ARDA can conduct further checks in excess of the obligatory 5% of all beneficiaries if any circumstance emerges which can jeopardise the legal utilisation of the support.

On-the spot checks will be carried out by field inspectors of the county offices of the ARDA. These inspectors will be fully trained. Those who carry out administrative tasks associated with the processing of applications and claims may not participate in the annual compliance check procedures.

The authorisation of claims by those selected for on-the-spot checks has to be postponed until the checks and their assessment are completed.

The date of the on-the-spot checks shall be determined so as to ensure that the facts to be controlled are available for control during the period of the checks. Therefore, the period of on-the-spot checks can vary between individual measures. The inspector has to create a report containing all irregularities and all phenomena that are at odds with the rules applicable to the given measure.

On-the-spot checks shall be assessed at central offices of the ARDA. All irregularities found shall result in sanctions such as the reduction of the support amount, repayment orders, disqualification from support or other measure-specific sanctions.

As a measure of quality management of the work of inspectors, the ARDA shall repeat on-the-spot checks in some cases.

All the procedures and controls performed by organisations performing delegated tasks and providing technical services shall comply with the requirements set by the EU, Council Regulation (EC) No. 1663/1995 and the relevant Commission Guidelines (Doc. VI/5331/98).

After all these checks ARDA (as paying Agency) will effect the payment to the beneficiary through the Hungarian State Treasury as the account holder of the ARDA.

5.3.2. Sanctions

The sanction system referring to the measures of the National Rural Development Plan were determined taking into account of Articles 70-73 of Commission Regulation (EC) No. 817/2004. These penalties will be designed to be effective, in proportion to the seriousness of the breach and act as a deterrent.

- For all the area based measures (LFA, afforestation, agri-environment) the sanctions provided by the Integrated Administrative and Control System (IACS) will be applied.
 - Possible penalties are also regulated in Art. 71-73 of Commission Regulation (EC) No. 817/2004.
- A specific system of recovery/reduction of the aid shall be developed for each failure of a beneficiary as regards his commitments and obligations under the Good Farming Practices and all the measures of the plan. These penalties shall be “effective, proportionate and dissuasive”, according to article 73 of Commission Regulation (EC) n° 817/2004.
- As far as the measure Meeting Standards is concerned Article 9a of Commission Regulation (EC) No. 740/2004 shall be applied. In the case of the investment-related sub-measures in „Meeting Standards” Art. 86-89. of Chapter VIII. of the Gov. Decree 217/1998. „on the operation system of the Government Budgetary system” shall be applied towards the specific commitments and obligations in relation to the targeted investment. The same regulation is to be used for the investments under the ARDOP measures.

Where it is found that a false declaration has been made as a result of serious negligence, the beneficiary shall be excluded from all rural development measures under the relevant chapter of Regulation (EC) No 1257/1999 for the calendar year in question. Where a false declaration was made intentionally, the beneficiary shall be excluded for the following year as well.

A breach is a failure to comply with the rules of the scheme and the relevant EU and Hungarian legislation. Breaches are varying in degrees of seriousness so the responses to the different breaches will also vary.

When a breach occurs the ARDA makes an assessment according to a formal checklist and imposes different penalties. The overall handling of irregularities will be fully recorded. The response to a breach will be proportionate to its seriousness and in case of serious breaches the response should have a deterrent effect.

If the breach is referring to the extent of the eligible land (area based measures) or the number of animals and the size or number alters from that indicated in the claim, sanctions of IACS (EC) No 2419/2001 will be applied.

For other kind of irregularities a number of factors will be taken into account in assessing the seriousness of a breach: the permanence of the breach, the previous history of the agreement holder, an assessment of the impact that the breach has on the objectives of the agreement etc. Concerning the different measures of the NRDP, a wide range of sanctions can be applied. The range of sanctions is the following:

- Issuing a warning letter in case of less serious negligence;
- Reducing of annual payment (1% per working day) – in case of late lodgement of a claim (subsequent applications for payment);
- Reducing the annual payment in case of scheme incompliance (1-100%);
- Repayment of any illegitimately drawn grant plus interest calculated by applying twice the valid base rate published by the Hungarian National Bank. This would occur in case of intentional incompliance with the scheme rules, through the fault of the agreement holder.

- Termination of agreement and recovery procedure in case of reoccurring, intentional non-compliance, through the applicant's fault.

In case of undue payment the farmer shall repay the amount in question plus interest corresponding at least to the official interest rate applicable. Interest shall be calculated for the period elapsing from the notification of the repayment obligation to the farmer and either repayment or deduction.

The details of the special different sanctions of different NRDP measures according to the special commitments and obligations are listed in Chapter 4, and will be further specified in the national legislation and in the call for applications including the sanctions applied in the case the beneficiaries fulfil the commitment of providing data for monitoring and evaluation.

6. Public consultation with partners

6.1. The drafting organisation of the NRDP

The Department of Rural Development of MARD is responsible for coordinating the drafting of the programme and the participation of all the relevant parties. The RD Department set up a “Coordination Committee” with the participation of the most relevant key-experts of the measures and horizontal issues of the Plan. The representative of the ARDOP Managing Authority is also member of the Coordination Committee. In the Implementation phase this Committee in its co-advisory function will be continued as the Management Committee (see: 5.1.4).

The members of the Coordination Committee are the team-leaders of the “Thematic Working Groups”. There are seven working groups according to the measures and one other for the horizontal issues led by the representative of the Paying Agency (ARDA). All the “Thematic Working Groups” consist of the relevant departments of MARD, the relevant experts of other related ministries such as the Ministry of Environment and Water Management, the Ministry of Labour, the Headquarter of Pension-insurance, and several experts from research institutes such as: Research and Information Institute for Agricultural Economics (AKII), Institute for Regional Research and Planning (VÁTI), Central Statistical Office and Institute of Geodesy, Cartography and Remote Sensing (FÖMI).

6.2. Phases and forms of public consultation

6.2.1. The Executive Meeting of MARD

The Executive Meeting of MARD²⁶ debated all the draft versions of the programming document entitled "National Rural Development Plan for the EAGGF Guarantee Section Measures". The main issues raised at the meetings were:

- the clear highlight of the potentials and needs of the Hungarian agriculture - focusing on the potentials rather than vastly on the negative effects,
- the strong need for the “meeting standards” measure in order to fasten the compliance potential of the Hungarian animal husbandry sector in line with solving the manure-problems,
- the need for the secure phasing out of elderly farmers cultivating non-viable farms. However, it was observed that the introduction of “early retirement” needs a lot of considerable legal and technical preparations, which means that it is not possible to introduce this measure from the year 2004.
- the highlight of the adjustment and continuation of the well-functioning national afforestation scheme,
- the coherence with the aims and priorities of ARDOP such as: strengthening the potential for “EU-compliance-type” investments in holdings with the assistance of meeting standards subsidy, strengthening the development capability for semi-subsistence farmers, and also for the promotion of continuation of farming in less favoured areas.

²⁶ The executive board is composed of the Minister, the State Secretaries, the Deputy State Secretaries and the relevant Heads of Departments

“The proposal on the amendment of the NRDP by introducing CNDP payments was elaborated by the competent services of the Ministry of Agriculture and Rural Development MARD in November 2004. The proposal was consulted at the following levels:

- Inter-Ministerial Consultation (see detailed as amendment to Ch. 6.2.3.).
- Consultation with the Agri-economic Council (see detailed as annex to Ch. 6.2.4),
- Monitoring Committee (see detailed below as amendment new Ch. 6.2.8)

The proposal for the amendment to the financial table was negotiated at all the above forums according to the following table containing the yearly allocation and the modifications.”

6.2.2. Open Public Consultation

In the Executive meeting session on 10 April 2003 the draft NRDP version . After some technical changes, on 14 April 2003 the draft NRDP, version 5 has been approved for open public by the Executive Board of Ministry. The open public consultation took place between 16 and 30 April 2003 and were organised in the following way:

6.2.2.1. Preparation

The Department of Rural Development of MARD, responsible for co-ordinating the drafting of the Plan organised a country-wide open consultation campaign. A letter by the Minister invited partner-organisations to participate as moderators of local meetings organised at about 80 places all around the country. The Ministry fully covered the organisation and expertise costs.

Beforehand the Department of Rural Development prepared a “forum-package” for all the moderators: PPT-lecture, hand-outs, samples for memo-writing, questionnaire and a compulsory one-day training on the main issues of the NRDP in MARD. Participation at the one-day-seminar was a precondition of granting the subsidy for the costs of the forums.

The preparation-package contained:

- Draft-5 of the NRDP (complete document),
- the list of recommended partners of MARD (some 260 names and addresses),
- a brief summary of the draft-NRDP in Power Point Presentation format,
- guidelines for the presentation and the documentation of the forums,
- a sample attendance sheet (compulsory) and a sample questionnaire.

The open consultations lasted in general 3-4 hours. The trained moderators - in several cases with the assistance of some experts - explained the draft-NRDP on the basis of the PPT-lecture and then opened the floor for discussion on the opinions and proposals. Also the moderators collected and structured the questions and opinions raised written and oral.

The registration at the local forums, participation and filling in the questionnaire was voluntary at the forums, which means that later on not all the participants was identified and not all the opinions were written. Approximately 50% of the participants returned the questionnaire but only half of them contained considerable information on their opinion.

6.2.2.2. Levels of open public consultations:

a) Small-regional (NUTS 4) level

The MARD established in year 2000 a network of 190 “small regional rural development managers”. Those full-time experts are employed by the village associations and around 50% of their yearly cost is subsidised by the MARD Rural Development Subsidy Scheme since year 2000. Some 60 of those small regional rural development managers organised three small regional forums in every county with at least 50 registered participants (mainly local farmers, land- and forest owners, representatives of local governments and local associations, local civil organisations).

Participants (registered):

- Wine Communities (the Hungarian for the "wine community" is "hegyközség", meaning literally "hill community")
- Farmers' Cooperatives
- Local Foundations (mainly social nature)
- Hunter's Associations
- Organisations of Roma Local Governments
- Elderly Associations
- Local Savings Banks (common financial partners of local citizens and micro-entrepreneurs)
- Local Tourism Organisations
- Machinery Rings
- Farmers' Associations
- Students' Associations
- County branch of Hungarian Chamber of Commerce and Industry
- Regional Directorates of State Forestry Service
- Local Women's Associations
- Community Cultural Centres
- County Labour Centres (Belong to the Ministry of Labour and Employment)
- Local Cultural Associations
- Lawyers' Offices

b) County level

All 19 County Chambers of Agriculture organised one forum in every county with at least 100 registered participants, (mainly professional organisations such as associations of wine-producers, organic producers, stock-breeders, different MARD Services, village extension officers, specialist consultants on agricultural and regional development, major agricultural companies).

Participants (registered):

- Agricultural High-Schools (secondary)
- Agricultural Universities
- Regional Research Centres of the Hungarian Academy of Sciences
- Regional Directorates of State Forestry Service
- National Park Directorates
- Association of Hungarian Food Producers
- Regional Development Agencies (Intermediate Bodies of the RDOP)
- Environmental Protection Directorates (belong to the Ministry of Environment)
- "Hegyközség", (local association of grape-producers)

- Farmers' Cooperatives for producing and marketing (producer groups)
- County Directorate of Hungarian Central Statistical Office
- Credit Unions
- Biokultúra Association (association of certified organic producers)
- County Animal Health and Food Control Stations (Belong to the MARD)
- County Plant and Soil Protection Services (Belong to the MARD)
- Hungarian Folk High-School Society (NGO-network)
- County Offices of National Land Fund (belong to MARD)
- Association of Hungarian Stock-breeders

c) Regional (NUTS 2) level

The Rural Parliament - nation-wide umbrella organisation of some 180 NGOs - organised one forum in every region with at least 100 registered participants (mainly environmental and other non-agricultural NGOs).

Participants (registered):

- Needlework Clubs
- Organisations of Roma Local Governments
- Hungarian Red Cross
- National Rural Tourism Association
- Associations of Voluntary Firemen
- Association of Large Families
- Retirement Clubs
- Association of Local Youth Clubs
- Community Centres
- Associations of Settlement Protectionists
- Associations of Environment Protectionists
- Smallholders' Board
- Hungarian Wine Association
- Environmental Protectionists Clubs
- „Tele-Cottages” (public IT-facilities in villages)
- Association of Private Forest Owners
- Associations for Nice Villages

6.2.2.3. General observations

Approximately **80 forums** of open public consultation were held in the country with a total of **4464 registered participants**, of which:

- 33% were private individuals, 34% farmers, 19% representatives of municipalities, 14% representatives of NGOs;
- 51% were rural citizens and 49% urban citizens;
- 31% were under the age of 40, 46% were between 41-55 and 23% were over 55;
- 71% were men and 29% women.

In general it can be summarised that the communication of the draft-NRDP had a great interest at all level.

At the small-regional level events local people - especially the non-organised and non-professional individual farmers – challenged the lacking information on the framework conditions and possibilities. The need for and the difference between the two rural

development programmes (ARDOP and NRDP) is not clear and not easily understandable: most of the local people had great expectations in relation to off-farm support elements (such as diversification, craft, tourism) and wider rural development solutions (such as social and human infrastructure). In this manner only a few opinions or proposals – directly linked to the NRDP - were expressed by small farmers (with around 1 to 10 ha arable land or equivalent farming capacity), and even less in written form.

At the county level events more professional opinions and proposals were presented.

Detailed description of the conclusions of those open forums is presented in sub-chapter 6.3.

6.2.3. Inter-ministerial consultation

After the open country-wide public consultation forums the relevant opinions and needs were incorporated in the 6th draft of the NRDP. Following this, the MARD opened an Inter-ministerial consultation on the draft Plan in May 2003. The ministries involved were:

- Ministry of Environment and Water Management,
- The Office for Nature Conservation,
- Ministry of Labour,
- The Prime Minister's Office,
- Ministry of Finance,
- Governmental Office for Equal Opportunities,
- Ministry of Economy,
- Ministry of Justice

The consultation took place in the form of written opinions and also a one-day consultation forum. The most relevant issues raised by the Ministries were settled with consensus:

- The highlight of the importance of protection of natural values, ecological and landscape heritage in agricultural areas by the LFA and the agri-environmental subsidies,
- The need for continuation and widening of the existing subsidy-schemes such as: agri-environment, afforestation and setting up and operation of producer groups,
- The importance of maintaining the cultivation in less favoured areas,
- Despite the fact that most of the NRDP subsidies are planned for operating agricultural holdings the need for special communication and means of participation of Roma population and other local groups,
- The problem of ageing agricultural population and the lack of insurance in case of a lot of former cooperative employees.

“The proposed 2004-year amendment elaborated by the services of MARD was circulated to written Inter-ministerial Consultation. The Ministry of Environment and Water Management highlighting the importance of the agri-environmental support schemes articulated considerable concerns. Others like the Prime Minister's Office and the Ministry of Finance required more information on the implementation data available so far. After the written procedure more information on the implementation phase and data on that available so far was added to the proposal and handed in to the Hungarian Government for decision. The Government Decision on the 23rd December supported the submission of the proposal for the amendment of the NRDP to the EU Commission.”

6.2.4. Consultation by the Agri-economic Council

After the opinions gathered and elaborated from the open public forums and the inter-ministerial consultation the NRDP was redrafted again into the 7th draft NRDP, and forwarded to the members of the Agri-economic Council. This Council is established as the highest level

official advisory body to the Minister and composed by the national representatives of different farmers' associations, the different associations of employees in the agri-food sector, the national associations of small farmers, land- and forest owners and also the leading representatives of the academic and research sphere. Since all the representatives were also actively involved in and informed about the previous consultation forums this forum summarised the previous findings and supervised the incorporation of them into the latter draft. The main findings and recommendations of the Council were the followings:

The Council in general regarded the structure of the plan as to be well established and basically consistent with the National Development Plan and the ARDOP. Participants also welcomed the effort of the Ministry to elaborate and implement all the possible subsidy measures. However the chapter on the situation analysis was criticised in some ways. Some inconsistencies, out-dated data and even contradictions between the data-bases used in the ARDOP and in the NRDP. Also criticism was characterised on policy-side regarding the characterisation of the Hungarian agriculture: focusing too much on the economical weaknesses of the Hungarian agriculture. The Council also suggested to devote the necessary weight on the strengths and opportunities also which can provide a unique scenario for the further development of the Hungarian agriculture and the rural societies depending fully or partly on agricultural activities.

At the same time the lack of income and capital for the necessary investment in order to meet the EU standards and to improve the efficiency of the agro-business enterprises was also highlighted. The opinion on the "semi-subsistence" measure was doubtful since there was no information detailed enough on the real objective and target group of the measure.

The "early retirement" measure was welcomed as well and also agreed that it is not worth to be finalised and introduced before having considerable experiences on the results and management of the domestic "Program of life annuities for cultivable land".

"The proposed 2004-year amendment elaborated by the services of MARD was also discussed by the Agri-economic Council on the 15th December in parallel with the public consultations with the Inter-Ministerial Consultation."

"Since the nature of the proposed amendment besides the permanent representatives of the farmer's associations and the Chamber of Agriculture also expert representatives of the Ministry of Environment and Water Management, National Land Fund, Rural Parliament, Association of Agricultural Universities, Board of Advisers on Animal Protection, Association of Young Farmers, Representative of the National Board of Environment- and Nature Protection Organisations were invited."

"At the consultation meeting the representatives of the environmental protection NGO-s and the Ministry of Environment and Water Management highlighting the importance of the agri-environmental support schemes articulated considerable concerns. At the same time the representatives of the farmer's associations and the Chamber of Agriculture required more information on the current state and data on the implementation of the NRDP and the risks of efficient implementation and the use of the financial means via the NRDP or the inclusion of the CNDPs payments. Due to the fact that most of the Bodies represented at the meeting, the delegates of this consultation forum finally accepted the commitment of the MARD that for the Extra-ordinary session of the Monitoring Committee 17th December more detailed data on the current state of the implementation and risk-assessment will be presented by the Services of MARD and ARDA."

6.2.5. Decision on submission to the Commission

Decision of MARD was taken on 8th draft and then finalised as Draft-9th to be submitted to the Hungarian Government and to the EU Commission as the basis for further negotiations.

6.2.6. Further drafting after submission on the basis of consultations

Following the submission to the Commission on 3 November 2003 for starting the negotiations the NRDP has subject to consultation by the different DG and Services of the Commission. Also the background legislation in relation to the “Meeting Standards” measure were considerably modified in the meantime. The ex-ante evaluator also elaborated its “Preliminary Report” based on the Draft-12 Plan.

6.2.7. Last Consultation on the Plan

For the above reasons a last public consultation was opened on the 12th version of the NRDP between the 10th and 15th of March 2004. This consultation was organised in an on-line form: the 12th version was published on the web-site of MARD with a set of guiding questions and also sent directly to the some 260 registered partner organisations of the Ministry. The following sections summarise the main findings:

6.2.8. Monitoring Committee Added:

“Due to the urgent nature of the proposed amendment the Monitoring Committee meeting was organised as an “extra-ordinary “ session. The adapted rules of procedure did not have detailed regulation on the deadlines for preparatory information for the case of the extra-ordinary organisational procedures so the Committee Members present – 42 delegates of 50 – first had to declare its competence and ability to take decision on the proposal. On the other hand the informal information on the proposed amendment of the NRDP was known by the majority of the majority of the delegates voted on favour to take decisive voting on the issue in question.

At the session the competent director of ARDA presented up-date information on the current state of the implementation. For most of the measures the expected number of eligible applicants and the approximate sum of eligible support claims can be assessed. On the other hand the number of applications for argi-environmental support is very high – some 32.000 even to compare to the prior of national scheme. Therefore the number and sum of eligible claims out of those unexpected number of applications for agri-environmental support can not be assessed.

Also the representative of NRDP Programme Manging Unit (MARD) presented in detail the possibilities and the reasons for the proposed amendment in a wider support-policy and overall financial context and also the risks of efficient use of all available sources for the period 2004-2006. The representative of MARD also characterised the risk of “wave effect” at the beginning of 2007 around the starting of the new programming period if considerable amounts of the 2004-2006 financial means is still have to be spent according to the N+2 possibility.

In their comments the representatives of the Ministry of Environment and Water Management and also the representatives of environmental protectionist NGO-s strongly debated on the diminishing of the financial means for the agri-environment measure arguing the risk of breaching the agri-environmental policy of the Plan. On the other hand the representatives of framer’s associations and the Chamber of Agriculture supported the proposed amendment

considering the CNDP payment less doubtful, more balanced and more efficient help to a wider sphere of the great number farmers.

As a result of the debate the majority of the Monitoring Committee voted in favour of the submission of the proposal for amendment NRDP to the EU Commission.

Due to the relevant points of the Memorandum of March 2005 as a close of the demonstration the Ministry has organised multi-rounded, wide-ranged conciliations involved NGO's (civil and professional bodies) on modification of amendments of NRDP 2004. The documents of these conciliations were sent to both the members of the NRDP Monitoring Committee and the to Commission of EU.

As a result of the conciliations the modification of amendments was put to written procedure for the MC of the NRDP according to the rules of procedures on 27th April 2005.

Due to the point "Decision-making process" of the Rules of Procedures of NRDP MC the voting has been done. The voting results are the following: from the 49 members 17 voted, of which 13 accepted the modification, 4 of them declined it.

As the non-voting automatically means acceptance due to the Rules of Procedures, the modification has been accepted by the NRDP MC."

6.3. Detailed evaluation of the public consultations

The cooperating specialist departments and sections of the MARD have received all the relevant opinions and incorporated them into the NRDP together with additional material received from experts. The drafting has been interlinked with the finalisation of the ARDOP as well with special regard to the clear-cut between the "investment in agricultural holdings" and the "meeting standards" measures and also the comprehensible criteria for the "semi-subsistence" and the "Investment in agricultural holdings" measures.

General opinions and comments of public consultations

6.3.1) The public's opinion of the NRDP was basically favourable at all levels and forms. Attendance of farmers even at the open public consultation forums was high, despite the good weather and the fact that the season of agricultural work had already started. The participants were pleased that their opinion was being asked, though some voices of scepticism were also heard.

6.3.2) The time available proved short for a thorough review of the material issued. Basically, the document was received, the participants of the forums agreed with the aims and priorities it outlined. The participants argued vehemently about the topics, but only a very small number of them completed the questionnaires. The farmers welcomed the fact that the aims and conditions of support would be fixed for years ahead, as that makes the support system more predictable and facilitates easier planning.

6.3.3) There was a general consensus that such forums, opportunities for preparatory consultations are extremely important for the sector. The provision of information is highly deficient, so a continuous supply of detailed information about the possibilities is required. Greater emphasis should be placed on the provision of substantial and understandable information (e.g. brochures) and on the detailed preparation of the potential beneficiaries at

the local (municipal/micro-regional/county) level and at the level of target groups and individual measures.

Reaction: The Ministry took this point into account and prioritised this requirement during the planning of the "Technical assistance" measure by the elaboration of a detailed Communication Action Plan operating with different tools (such as: general publications, information-dissemination events and printed materials), increased the financial allocation for TA up to the possible maximum.

6.3.4) Another requirement expressed that the setting up and/or and strengthening of a high quality network of specially trained advisors (composed of: agricultural chambers, agricultural advisers registered by MARD, rural development managers, local agricultural engineers, etc.) and the continuous provision of updated information to that network preconditions of eliciting a suitable level of activity from the potential beneficiaries.

Reaction: The MARD also took this point into account and prepared a detailed programme of one-day workshops and leaflets for preparing the members of the above advisory networks in order to disseminate the detailed information to the potential final beneficiaries. Those one-day workshops do not overlap with the training courses eligible under the ARDOP measure "Vocational Training".

6.3.5) It was raised as a requirement that clear guidance should be provided concerning the use of the different support schemes under the various measures of the NRDP. In several settlements, participants required further advice and coordination in respect of assets and risks related to the differences of financial conditions between supports for investment and standard-cost based supports.

Reaction: The possibilities of available types of support are indicated in the Plan and its Annexes and also in the Hungarian implementation regulation for NRDP and also in the operational information booklets both for NRDP and ARDOP.

6.3.6) Farmers need further information on the assistance to environmentally aware, new sustainable forms of farming, however they are aware of the fact that a new attitude towards agriculture needs to be established in which the emphasis is put on the multifunctional character of agriculture.

Reaction: Because of their complexity, special information booklets and publications will be published and information sessions will be organised throughout the implementation period of the NRDP with the co-operation of MARD services and the National Park Directorates on Good Farming Practice and on the Agri-environmental measure.

6.3.7) Whereas at the time of the consultations (April-May 2003) the new implementing system of ARDA was not yet established doubts and questions were raised in relation to the implementation of the NRDP, concerning feasibility. The institutional framework and the procedures of implementation, which were not included in the material published caused worries concerning the expected bureaucracy and the expenditure associated with the application of farmers.

Reaction: The final version of the plan and also the national implementing regulation includes basic information concerning the institutional framework and procedures. In general, the key actor is ARDA and only the necessary technical services will be involved along with ARDA *not* causing further bureaucracy to the recipient. In the case of the afforestation measure the application, evaluation and control functions will stay with the

State Forestry Office as delegated functions in order to exploit the experience of SFS gained in the previous decades.

6.3.8.) There was also a great uncertainty and fear concerning the notion that the majority of farmers - in particular primary producers - will not meet the strict eligibility criteria and conditions of support. The opinion that the plan will mainly support farmers with large holdings was also prevalent. It was asserted that those who perform agricultural activities as a second job to supplement their incomes would be put in an impossible situation. When the detailed conditions are elaborated, equal opportunities shall have to be provided for small holders.

Reaction: Based on the experience gained from the implementation of SAPARD and the harmonisation with ARDOP, the final version of the NRDP contains the necessary minimum eligibility criteria based on the existing national regulations that are already harmonised with the EU regulations. Also data of all the eligibility and other relevant information will be stored in a central database (IACS) that ARDA will use for several different types of support.

6.4. Incorporation of the recommendations concerning individual measures

Agri-environment: The agri-environmental measure in chapter 4.1 is re-grouped in a more target-oriented way in five “packages”. Within the “packages” the possible commitments are specified at three levels. The new structure is supposed to be more transparent and easily understandable for the potential beneficiaries and also for the officials involved. The system of conditions for "good farming practice" has been elaborated in a precise and structured way based on the existing regulations in different Hungarian pieces of legislation.

Meeting standards: Public opinion and also the professional considerations indicated that there will be a great deal of interest in the measure especially as an additional possibility for investments next to the ones provided for in ARDOP. Professionals and also farmers consider the supporting of supplementary investments in order to comply with the stricter, newly introduced compulsory EU-standards and the support for additional costs and loss of income to be very helpful. The re-drafted description of the measure in chapter 4.3 is in line with ARDOP in a complementary manner.

Afforestation of agricultural land: There was also a great interest in this measure; farmers are aware that this is a long-term utilisation option. Their recommendations are consistent with the plan: the support should promote the utilisation through afforestation of areas with relatively low productivity, which cannot be used in an economically viable manner for agriculture, unprotected grasslands, flood-plain and poor quality, inundated arable land. This is particularly important for the calculation of support for loss of income in order to ensure that those farming in better quality areas are not given an incentive to enter afforestation as well. For the best use of the experience in the Hungarian afforestation support scheme the NRDP-scheme is drafted in chapter 4.4 on the basis of the previous scheme as much as possible. In order to utilise the existing expertise and the management capacity several implementation activities are delegated to the State Forestry Services (chapter 5.1.6).

Establishment of producer groups: A high level of interest was shown in this measure, which may have been due to the producer organisations already being formed and preliminary approved on the basis of MARD Decree 85/2002. The measure will provide support for the groups finally approved after the first year of operation, so the greatest interest in the measure

may be expected in the first year. Despite the strong need and interest, due to the uneven yearly financial means for this kind of support in the Hungarian scheme in the previous years the real intensity of establish producer groups were not really high. According to current expectations, the calculated resource requirement will be sufficient for financing the initiatives we are aware. The first experience of such a stable subsidy for five years may considerably increase the activity in this field.

Support for semi subsistence farms undergoing restructuring: Interest in the measure in accordance with the ranking specified in the draft plan has been confirmed. The potential beneficiaries are badly in need of even such a low level of support. The eligibility criteria for semi-subsistence farming and for the investment in agricultural holdings now is based on the same, comprehensive criteria on a gradual manner. The formulation of the framework criteria for a 5-years business plan (drafted in chapter 4.6) is to be elaborated as user-friendly as possible. Besides that considerable effort is devoted to the preparation of a specially trained advisory service network in order to draft the necessary business plan for semi-subsistence farmers.

Early retirement: There is significant interest in the measure, but opinions and expectations vary on a wide scale. Feedback has confirmed that it is primarily farmers with small, non-profitable farms and full-time primary producers who may take advantage of this support. At the same time even the professionals in agriculture are not aware of the complexity of the measure. Due to the technical and financial constraints described above, **the measure is only expected to be introduced in 2006**, by which time it will be possible to develop it in detail.

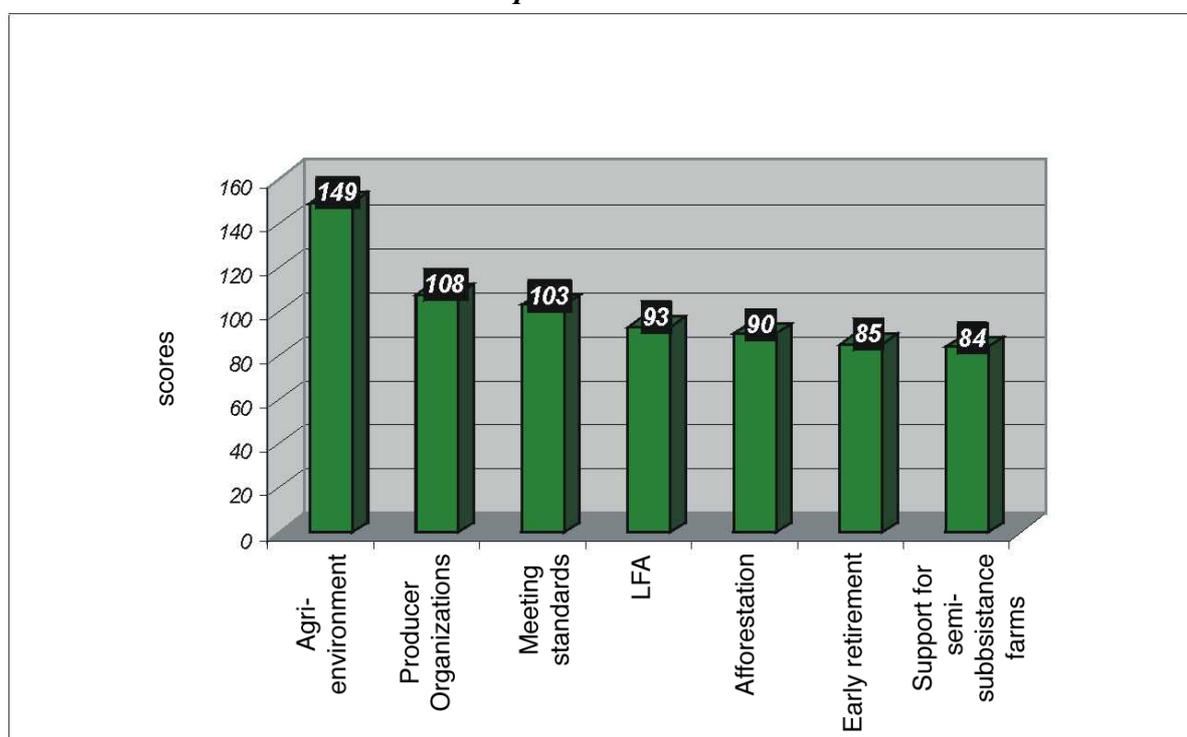
6.4.1. Other relevant characteristics of the public consultations

Main possible obstacles to participating in the NRDP:

- 1) Lack of organisation and cooperation among farmers, lack of interest, lack of qualifications, mistrustfulness, ageing farmers;
- 2) The problem of joint ownership of agricultural land: privatisation of former cooperative-owned lands not divided legally and in reality between the new owners,
- 3) Fragmented holding structure, technical and technological backwardness.
- 4) Low economic viability of small farms, lack of capital for investments,
- 5) Lack of established development concepts, long-term business plans;
- 6) Lack of clear, practical information and organised, easy accessible consultancy networks at reasonable price;
- 7) Lack of models of sustainable – multi-functional - farming;

Ranking of the measures of the plan:

Diagram 8: Ranking of the NRDP measures based on the opinion of participants at the open consultations



The ranking in Figure 3 was established as an average of the orders of importance specified by individual respondents. The figure does not take the financial weights of individual measures into account.

6.5 Final partnership consultation concerning the over-application of SAPARD resources

Due to the considerable over-application of the available SAPARD resources the MARD proposed a financial reallocation of NRDP funds. The Agricultural and Rural Development Coordination Council (FÖVÉT) discussed the proposal on the 25th of June. The council consisted of 38 representatives of farmers' associations, agricultural employees, trade unions, the academic and science sphere, the Rural Parliament as an umbrella-organisation of some 80 NGOs and also the umbrella organisation of environmental NGOs (Védegylet).

The Ministry proposed the need for inclusion of SAPARD into the financial table of the NRDP with approximately 15 MEUR of EU-contribution to be re-allocated from the 2004 year budget of „Meeting Standards” measure. The rationale of the modification as follows: most of MS-type applications are planned to be investments needing considerable and time-consuming preparation works on the applicants' side. MARD rejected the proposal of reallocating resources from the agri-environment measure based on the fact that it is to be paid on a land-base normative manner (no major preparation needed from the applicants). Also the agri-environment measure is the „successor” of the national agri-environment

schemes having considerable experience and notoriety behind while the “Meeting Standard” (MS) measure is without previous experience.

The representative of MARD proposed a reallocation of 8,28% of the resources of the year 2004 for SAPARD, which is the 2,49% of the total 2004-2006 NRDP budget. It means 12% reduction of the MS measure for the three years period. Thus the proposed modification of year 2004 does not affect the overall strategy of the NRDP for the planning period 2004-2006. Also the SAPARD Monitoring Committee discussed and welcomed the proposal for additional financial means sufficient for financing at least the best quality SAPARD applications.

At the partnership consultation the partners agreed on providing additional financial means for SAPARD. As the result of the consultation the proposal was adopted, the financial table was modified accordingly (Ch. 7).

Amendment to the Plan 2004

The 2004 amendment to the NRDP consists of introducing a new measure on Complements to Direct Payments. The amendment slightly modifies the financial weight of the different measures well according to the prior suggestions of the ex-ante evaluator. The reallocation is based on the present needs (applications) of each measure and the estimated risks of eligibility of applicants at certain measures. Through the introduction of the new TOP-UP “measure” - aiming at strengthening of the income stability of farmers - the economic priority of the plan is to be strengthened. The loss of weight of agri-environmental policy in the NRDP is not relevant due to the facts on claims and resources from the previous national agri-environment support scheme (see in Ch 2.1.2). Therefore by the 2004-year amendment the internal consistency of the plan is not distorted but improved according to the relevant socio-economical needs.

7. Financial table

Annual programming (EC contribution in EUR)

	2004	2005	2006
Total plan	181 200 000,00	201 900 000,00	219 200 000,00

Amended indicative overall financial table (EUR)

	Programming period 2004-2006		
	Public expenditure	EU contribution ²⁷	Private contribution
Priority A: Safeguarding and improving the conditions of the environment			
Agri-environment	451 126 289,00	360 898 000,00	0
Meeting Standards	25 170 000,00	20 136 000,00	0
Total priority A	476 296 289,00	381 034 000,00	0
Priority B: Supporting the conversion of the production structure to better match ecological and market conditions			
Afforestation	79 675 000,00	63 740 000,00	0
Priority C: Increasing the economic viability, financial conditions and market positions of producers			
Semi-subsistence farms	3 460 000,00	2 768 000,00	0
Producer groups	28 375 000,00	22 700 000,00	0
Early retirement	0,00	0,00	0
Complements to direct payments	94 012 500,00	75 210 000,00	0
Total priority C	125 847 500,00	100 678 000,00	0
Priority D: Maintaining and improving agricultural activities providing additional income and job opportunities for farmers on areas with weaker production site conditions			
Less-favoured areas	14 810 000,00	11 848 000,00	0
Other actions			
Technical assistance	37 500 000,00	30 000 000,00	0
Projects approved under R.1268/1999	20 011 211,00	15 000 000,00	0
Total other actions	57 511 211,00	45 000 000,00	0
Total plan	754 140 000,00	602 300 000,00	0

²⁷ The Community contribution is 80% of the eligible public expenditure for all measures, except for project approved under Regulation (EC) N° 1268/1999 for which the Community contribution is 75% of the eligible public expenditure.

8. Ex-ante evaluation

8.1 Background information

The NRDP was evaluated by an independent team of evaluation experts led by Ernst & Young Europe (through Ernst & Young offices in Budapest, Paris and Rome) in cooperation with Birdlife and other International and a Hungarian expert organisations.

The evaluation process has been launched in mid-December 2003.

An inception report presenting the approach followed during the evaluation process has been submitted to the Ministry of Agriculture and Rural Development on January the 15th, a Preliminary Report on February the 18th, and a draft Final Report on March the 19th.

The ex-ante evaluation is the result of an evaluation process conducted in tight collaboration with all parties involved in the drafting of the programme, including officials of the Ministry of Agriculture and Rural Development, its background institution (VÁTI), officials responsible for the programme in DG AGRI and the evaluation team. The finalisation of the Plan and its assessment was a parallel exercise. At various points in time, the ex-ante evaluation team made several suggestions and recommendations in order to improve the structure and content of the programme. To this end sets of interviews and working sessions with the staff of MARD, VÁTI, ARDA, the Ministry of Environment and Water Management and other institutions were held. The overall approach taken during the evaluation can be described as intensive and interactive.

The present final version of the ex-ante evaluation report is in line with the version 13 of the plan submitted to the evaluators on March the 31st. According to the last recommendations some further additional minor amendments also occur in this version – highlighted in this chapter.

8.2 The structure of the ex-ante evaluation process:

The ex-ante evaluation contains:

- 1) the description of the methodology used,
- 2) the activities done by the evaluators,
- 3) The ex-ante evaluation contains the assessment and evaluation of and answers (conclusions and recommendations) to the following questions:
 - a) the previous experiences,
 - b) the situation and the SWOT analysis,
 - c) the internal consistency of the NRDP and the rationality of the strategy,
 - d) external coherence of the NRDP with the ARDOP, the EIOP and the NAEP,
 - e) the system of indicators,
 - f) the provisional implementation procedures,
 - g) expected impacts.

8.3 Overall Conclusion of the ex-ante evaluation:

The final version of the NRDP has improved compared to the previous versions. It takes into account the main recommendations formulated by the evaluation team in the Preliminary Report, the draft Final Report as well as during the interviews and working sessions. A tight coordination between the MARD and all the experts involved in the planning process and the evaluation team allowed a rapid and efficient evaluation process in a short time period.

8.4 Main conclusions

Previous experiences: The ex ante evaluators recommended to update and complete the chapter with the main NRDP-relevant findings of the SAPARD mid-term evaluation. The chapter has been completed according to the recommendations of the evaluator in order to confirm that several previous experiences have served the NRDP setting up. Therefore, the NRDP sub-chapter on the previous experiences related to the SAPARD and PHARE programmes are now complete and explain clearly that the main lessons learned from previous experiences have been taken into account along the NRDP drafting process (see in Ch.2.3).

Logical character and exhaustiveness of the situation and SWOT analyse: The ex-ante evaluators concluded that some of the elements of the SWOT was missing such as the clear description of its rationale, the purposes and the logical links with or reference to the relevant sections of the NRDP. The internal structure and balance amongst the specific fields was weak and the identification of the target groups of some measures needed further explanation. The recommendations of the ex-ante team was taken on board so the final version of the NRDP provides a clear and logical presentation of the analysis, a better indication of references making at the same time more traceable the linkages between the situation analysis in NRDP Chapter 1, the conclusions contained in the SWOT and the NRDP Chapter 3 (objectives, priorities and strategy). Therefore, the general and the specific foundations of the SWOT analysis are clearly identified, allowing that the conclusions in Section 1.9 of the NRDP derived from a log-frame matrix. The internal balance of the SWOT has also been improved and restructured according to the detailed recommendations. *These improvements have been made according to the ex-ante preliminary and draft final reports and personal negotiations and working groups between the MARD, the planning institute and the ex-ante evaluation team.*

- **Global internal consistency of the NRDP:** Recommendations of the ex-ante team was aiming at:
 - Achieving a better logic between the SWOT analysis' conclusions and the priorities set forth in the programme,
 - Clarifying both the relationship between general objectives of the plan and the priorities (taking into account that the general objectives of the plan are the same as the ARDOP objectives and set up for both programmes in the ARDOP),
 - **Clarifying the logical link between the transversal objectives of the plan and the objectives set forth for each of the measures,**
 - **In each measure description there should be a reference to the priorities, whereas the priorities should help understanding the measure's characteristics (allocation of resources, eligibility and selection criteria, target groups),**

- Avoiding the link made between specific objectives and priorities, considering the fact that the priorities are to be considered in a transversal manner. The priorities have to be in line with the main weaknesses pointed out in the SWOT analysis and should serve to legitimate the allocation of resources between the measures.
 - o The objectives and priorities were redrafted taking into account the evaluators' comments. The logical links among the programme level and the measure level general, specific and operational objectives are explained. The hierarchy between the priorities has been reviewed following the ex-ante evaluation recommendations. It is now better in line with the situation and SWOT analyses. In addition, the priorities and the hierarchy between them are better explained and justified, as well as the link between them and the different measures. The allocation of resources is better justified by the description of objectives and priorities and their logical links to the measures.

Financial allocation: The evaluator suggested a financial reallocation based on the result of the assessment such as the internal consistency of the plan needs more significant financial weight to the socio-economic measures of the NRDP. The allocation of resources still shows a certain unbalance between the measures since the results of the SWOT analysis put emphasis on the economic weaknesses of the Hungarian agricultural sector and not on the environmental issues and risks. Still 40% of the resources are allocated to the **agri-environmental measure** and 20% to the **“meeting standards” measure**, whereas between 5 and 11% are allocated to the other measures). Thus, some measures seem to be under-allocated, such as the **“producer groups measure”** and **“the support for semi-subsistence farms measure”**. The ex-ante evaluation considers that **the agri-environment** financial allocation remains risky:

- o The gap between the NAEP 2003 total amount available (23 MEUR) and the approved amount (4 MEUR) is not clearly explained. The amount of the budget allocated to the AE measure is however partly explained on the basis of these figures. In addition, the calculated demand in Table 35 is only 64,1 MEUR, which is significantly different compared with the planned allocation in 2004 (83,4 MEUR), all the more as this calculation is based on the total areas instead of the approved one. This contributes to increase the doubts with regard to the success of the AE measures.
- o The number of sub-measures is much higher compared to the NAEP. In addition, the EU rules with regards to the control and monitoring procedures are severe and somehow more demanding compared to those implemented under the NAEP. The monitoring and control requirements are thus higher. The ex-ante evaluation express some doubts on the efficiency of the AE implementation procedures to fulfill these requirements, if no appropriate training and information period is conducted before starting the measure implementation.

According to the same recommendations in the Preliminary Report the financial allocation did not change in the Plan. At the same time the justification of it is more clearly stated. It is also strongly advised to put high emphasis on the AE measure communication and training for the involved bodies and potential beneficiaries.

Consistency between the NRDP and the EIOP: According to the analyses conducted, evaluated as to be consistent to each other.

External consistency between the NRDP and the ARDOP: According to the evaluators at measure level, there is **consistency** between the two Programmes especially in terms of interaction, as NRDP aids aim at strengthening and supporting the effects of ARDOP structural interventions. Thanks to this distinction between supplementary (NRDP) and structural measures (ARDOP), there is no particular risks of duplication and overlapping of the two Programmes, even for those measures aiming at the same goal (i.e. “Setting up producer groups” and “Improvement of processing and marketing of agricultural products”, “Support to Less Favoured Areas” and “Renovation and development of villages and protection and conservation of rural heritage”, “Early retirement” and “Setting up of young farmers”). In order to increase consistency between NRDP and ARDOP and avoid any redundancy or conflict the evaluators recommended to:

- define the eligible costs for measures “**meeting standards**” and “**supporting semi-subsistence farms undergoing restructuring**”.
- provide and apply a single definition for the economic viability in both ARDOP and NRDP,

Since the final version of the NRDP provides a distinction between farmers eligible under the two Programmes there is no any risk envisaged of overlapping of the support,. In fact, the already operating farms can have support from the NRDP “**Meeting standards**” measure, while the new farms can be supported exclusively from the ARDOP for the same type of investment. In order to have a very clear distinction between the two types of investments, according to the consultations with the experts of DG-AGRI the wording of “farms” has been substituted with “animal husbandry instalments” and size-related separation criteria have been added to the eligibility criteria (see points 4.3.9. and 4.3.11).

The co-ordination in the implementation of both programmes is improved by including the representative of the ARDOP Managing Authority to the Monitoring Committee of the NRDP. According to the evaluators some further possibilities should be considered to improve the synergic effects between the two Programmes by for instance giving priority in the selection criteria for “agri-environment” and “afforestation of agricultural land” to farmers apply for ARDOP measures (e.g. vocational training).

A Co-ordination Committee has been set up within the Ministry of Agriculture and Rural Development, in order ensure a consistent implementation of the two programmes; however, according to the recommendations its operating mechanisms should be further defined (point 5.1.6). The evaluators also recommend adopting measures in order to prevent or at least minimise ARDA’s work overload, as that body will be involved in the implementation of both programmes. Task delegation agreements are entailed to solve this problem, as described under point 5.1.7.

Consistency with the NAEP: The NRDP is considered to be in line with the overall strategy set forth in the NAEP. The summary of the strategy of the NAEP is described under point 2.1.2.

Monitoring indicators: According to the recommendations the structure of the indicators has been improved with regard to their potential usefulness in the framework of the ex-post evaluation of NRDP. In particular, the additional monitoring indicators adopted for the AE measure allow for an assessment of the level of commitment of farmers and of the achievement of the specific objectives of different schemes.

As a result of a joint effort of the planners and the ex-ante experts the NRDP monitoring indicators as a whole are adequate in terms of coverage, balance, selectivity and relevance.

Evaluation indicators: The set of indicators as well as their categorisation were worked out in close co-operation with the ex-ante expert team. The questions and suggestions on the quantification were also fully taken into consideration. The evaluation indicators are more suitable for answering to the Common Evaluation Questions set up in the STAR Document VI/12004/00) and for explaining and measuring the measures' ability to achieve their specific goals. The adequacy of the evaluation indicators is improved also some additional ones are being introduced on the basis of the evaluator's proposals. The additional indicators have already been quantified making them definitely usable for the ex-post evaluation of the Plan. The inconsistencies in the quantification of some of the given evaluation indicators are solved. Moreover, the adequacy of data collection procedures is improved because of a less demanding coordination of the different sources related to some indicators.

According to the recommendations of the evaluators the final version of the NRDP has widely improved their descriptions, especially with regard to the *selection process* related to the individual measures. The ex-ante team recommended improving the clarity of the selection procedure such as:

- principle used for procedure selection: ranking system or first come-first served basis
- the methods of application submission (continuous basis or prescription of a deadline)

The weaknesses pointed out by the assessment are solved (i.e. the selection method envisaged for “**Supporting semi-self-subsistence farms undergoing restructuring**” measure). Some specific recommendations related to the “**Agri-environment**”, “**Less favoured areas**”, “**Afforestation**” and the “**Supporting the establishment and administrative operation of producer groups**” measures taken on board after the elaboration of the final ex-ante report is finalised. The clarity of eligibility/ranking criteria of these measures are now improved accordingly.

Implementation structure: The final version of the NRDP describes adequately on which basis the *administrative checks* shall be carried out, providing a range of elements to be taken into account on this purpose (i.e. the completeness of documents supporting the application/claim).

According to the assessment the *description of the process control* performed by the ARDA Central Office is adequate to maintain the quality of applications and claims processing. According to the evaluator a further improvement could be reached describing also the division of tasks among the Units within the Central Office of the ARDA.

The potential effectiveness of the *overall institutional organisation* was strengthened, because of a better description of tasks, composition and relationship of the Bodies involved in the implementation of the Plan. The result of the assessment shows that the actual capability of the IACS to support the implementation of the Plan is still to be verified, also with regard to the collection of monitoring and evaluation indicators.

As a result of the assessment concerning the *information and publicity* of the NRDP, the Communication Plan is said to be adequate to provide specialised and more technical information to the prospective applicants, which now are identified as an independent target group of the NRDP communication strategy. However according to the evaluator by better description of specific relationships between each objective-target-tool, the clarity of the strategic structure of the Communication Plan could have been improved.

The final version of the NRDP strengthens the clarity of the *monitoring strategy*, adding a specific Chapter, which adequately describes the bodies in charge of the different tasks and

the sources for the collection of the monitoring data. Moreover sanctions have been introduced for those beneficiaries who do not comply with the commitment to provide the information for collecting data.

The plan together with the ex-ante evaluation analysis of the *expected impacts* contribute to give a clear picture of what should be the impacts as well as their level and time of occurrence. The NRDP took into account most of the recommendations. The expected impacts are more clearly presented. The plan shows also a better balance between the economic and the environmental expected impacts.

Concerning the *EU priorities* and especially equal opportunity, the mention to it remains seldom in the measures' description, objectives and/or eligibility criteria. It was however clearly decided by the MARD to put emphasis on this EU priority on the programme implementation rather than on the content of the measures.

The detailed analysis and the conclusions and recommendations made by the ex-ante evaluators are included in **Final Report**, the full ex-ante evaluation report annexed to the NRDP.

9. Annexes 1-18.

Annex 1. Classification of NSO regions (NUTS IV) according to the OECD typology

Annex 2. Agri-environment measures and payment calculation

Annex 3. Prescriptions of „Good Farming Practice”

Annex 4. Glossary for Agri-environment measures and Good Farming Practice

Annex 5. Agri-environment payment calculation

Annex 6. Endangered breeds

Annex 7. Rare (indigenous) plant varieties

Annex 8. High Nature Value Areas

Annex 9. LFA criteria and payment calculation

Annex 10. LFA maps

Annex 11. Counties of Hungary by fire hazard of forest land area

Annex 12. Environmental state of the animal husbandry sites

Annex 13. Afforestation calculation

Annex 14. Meeting Standards calculation

Annex 15. Tables of correspondence – Animal welfare (a-d)

Annex 16. ARDA County Offices

Annex 17. List of acronyms

Annex 18. Physical and financial indicators