

Abstract

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DEVELOPING THE STRUCTURE OF AGRICULTURE

This audit investigated the effectiveness of measures influencing the structure of agriculture, support for land purchasing and barn investments and the milk quota system, as well as the focusing of support.

About FIM 170 million was spent on support for land purchasing and about FIM 670 million on support for barn investments in 1996-99. These accounted for about one-fourth of structural support for agriculture during that period. The milk quota system, which was introduced in 1985, regulates the production of milk. In the early stage quotas were transferred administratively from farms going out of business to active farms. Since 1992 producers have been allowed to buy and sell quotas. Under the present mixed model about half of quotas are transferred administratively for a fixed price while the other half of quotas are freely traded by producers.

The audit indicated that support for land purchasing raises the price of farmland. Owing to the rise in price, support partly benefits farms which are going out of business. This is contrary to agricultural policy goals, according to which support should only go to active farms. The audit also indicated that support for land purchasing has not affected growth in farm size. This is also contrary to objectives.

On the basis of the audit, the effectiveness of support for land purchasing should be reconsidered. If support continues, the benefit to farms going out of business should also be mentioned in the Government's budget proposal.

With regard to support for barn investments, the audit did not obtain statistical proof that support results in higher prices for milk quotas for farms going out of business. It is highly probably that support raises the price of quotas, however. In order to receive support, farms must have sufficient milk quotas, and the number of milk quotas - like the amount of farmland - is fixed.

The milk quota system even without support for barn investments causes a considerable transfer of income from active farms to farms going out of business. Furthermore, capital tied to the price of quotas weakens the profitability of dairy farms and makes it more difficult to transfer farms to descendants. The audit did not indicate that the milk quota system had achieved its objective of speeding up the rate at which farms discontinue milk production. This rate has not changed in

30 years. In the opinion of the State Audit Office, consideration should be given to ending trade in milk quotas between producers and basing the system on administrative transfers.

In the near future support will also be paid for milk quotas. In the opinion of the State Audit Office, this type of support for production rights in the present system will mainly be capitalized in the price of milk quotas and will not benefit farms which carry on production.