

The 2014-2020 budgetary period of Common Agricultural Policy (CAP) and its impact on Hungarian agricultural reform

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ABSTRACT

The new Common Agricultural Policy (CAP) has been designed to shrink funds that Hungarian agricultural reform will inevitably face over the period 2014-2020. Direct payments are to be decreased by 18 per cent, while rural development funds are expected to diminish by 13.5 per cent. Although the EU cake will grow less, the CAP will grow to a greater extent, and the agricultural and rural development piece of cake, providing support for Hungarian agricultural reform, will get bigger. A very encouraging fact is that young farmers will benefit the most since two new elements will come into force in this period of reform; land-based direct payments topped up by an additional 25 per cent and the sub-programme for young farmers enabling them a more favourable position within the system. The new plan period will be much more flexible than the previous one with several key elements becoming optional, which could protect Hungarian interests much better than was the case in the last period of agricultural policy reform (2006-2013).

Keywords: Common Agricultural Policy (CAP), Hungarian agriculture, policy reform instruments

INTRODUCTION

In Hungary, agriculture plays an important role in the economy. The agricultural conditions are above-average in Hungary by international comparison. The high quality soil provides a suitable basis for agricultural production, and Hungary benefits from many natural qualities which provide favourable conditions for agriculture: fertile plains, an advantageous climate, availability of water - the quantity of flowing water per inhabitant is said to be the largest in the world.

Agriculture's share in the Hungarian economy has decreased in recent years, although it is still significant: agriculture accounted for 3.2% of the GDP, and provided employment for 5.2% of the working population in 2012. The Hungarian agricultural balance of trade has been always positive, but for many years it has been diminishing. Earlier, Hungary was a major food supplier of the neighbouring countries. The traditional Hungarian food export surplus over Poland, the Czech Republic and Slovakia has turned into a deficit. In addition, even where Hungarian exports have expanded, this growth is vulnerable and fragile: the production of cereals and sugar are highly dependent on Common Agricultural Policy (CAP) rules such as intervention purchases, subsidies and the possible changes related to them. The large figure for grain exports is a consequence of the relatively unusual

disproportion of cereals in arable production (Burger, 2009). When joining the European Union (EU), Hungary agreed to harmonize its land legislation to the EU regulations after the grace period that finished on 1st May, 2014. The Hungarian Parliament adopted the law regulating land distribution, which triggered huge debates. All the opposition parties and many organisations protested against it. The new law on the transfer of agricultural lands is part of a legislative package that includes farm regulation and integration acts.

With the regulation of land distribution the government intends to support family, as well as small and medium farms, it also intends to represent the interests of local communities in the legislation. The law actually aims at serving the needs of both sides: complying with the EU standard and protecting the interests of Hungary, unfortunately the two of which may not overlap in some cases. In addition, the law does not contain expressly the clause that agricultural land should be granted for Hungarian farmers.

It is important that the law should be in accordance with food sovereignty of the nation and food safety of the citizens in the long run. The main objectives of the government are to reach the proportion of 80 per cent of the agricultural land to be used by small and medium-sized farms, and to develop animal husbandry so that the volume of cultivation and stock breeding will be balanced.

Furthermore, it is vital to increase rural employment,

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maintain the population living in the countryside and to improve quality of life in rural areas. Considerable efforts must also include strengthening the position of family farms, fostering market environment and, thus, creating more competitive agriculture. These efforts are served by the modification of the present proportion of small farms and large estates (50-50 per cent) for the benefit of small and medium farms which are expected to become more viable.

In relation to the Common Agricultural Policy (CAP), we have to consider the political environment as well, since the Hungarian agricultural policy has been influenced by several issues lately. The land purchase moratorium made it possible for Hungary to limit the purchase of Hungarian land by foreign citizens for 7+3 years after joining the EU. It simply meant that no foreigner could own land without having Hungarian citizenship. However, this moratorium expired in May, 2014. According to the new Hungarian land law, only natural persons may acquire ownership of land, legal entities and organizations without a legal personality may not. Only natural persons have acquisition rights, and from them only those who are regarded as farmers. Those are considered farmers by law who practise actual agricultural and forestry production activities and have appropriate qualifications or professional practice.

POLITICAL ISSUES ADDRESSING PROPERTY RIGHTS IN AGRICULTURE

In the case of land acquisition, the recognition of speculative intentions and the protection of Hungarian agricultural land have priority. For this reason, contracts concerning land ownership can be made exclusively with the help of state-numbered documents subject to strict accounting regulations in the future. According to plans, only professional farmers will be able to buy and use agricultural land later on; that is how they try to exclude land speculation. By tightening the clientele of land acquisition will lead to a reduced demand, by so doing it will significantly devalue the property of landowners since it will reduce land prices and land rental rates.

Nowadays it is not possible to give accurate figures on the ownership of agricultural land by foreign citizens. The crude estimate is between 200.000 and 1 million hectares. Foreign individuals are able to purchase land after 3 years, while they are declared as farmers after having registered premises for 1 year. It is important to take the registered permanent address into consideration and not the local, residential address (Ángyán 2013).

There is a general view that Hungarian right-wing politics intends to decrease, while the left-wing parties strive to increase the quantity of area measurement units (some figures/trends can be gleaned from Table 1). It can easily be observed that the current 'centre-right' government tries to maintain an appropriate balance; in reality it seems to take the side of large estates, while being in favour of small and family farms only in the 'rhetoric'. Left-wing politics supports concentration and large estates, while right-wing politics generally favours small (family) farms.

In 2013, several organisations formulated detailed proposals in connection with the Land Law towards the government and the parliament. Regarding this, the farms should be defined 300 hectares uniformly. Optimal farm size should be determined in every sector and region in a way that makes it possible to give exponentially decreasing support to farms bigger than the optimal, while increasing support to the farms smaller than the optimal. At regional and at farm level alike, an ecologically and economically mixed type of farming should be supported. This was vindicated by the new provision of law contributing to the fragmentation of estates, bringing about crop production into a seriously disadvantageous position. It would be hence necessary to re-establish the most adequate proportion of crop production and animal husbandry, especially as legal loopholes in the past actually enabled large agricultural estates to grow virtually without any boundaries.

The law also defines „integrated agricultural production organization” instead of family companies and cooperatives, where the land law should be treated in accordance with the cooperatives law. Elder farmers are somehow reluctant to get involved due to bad experiences in the past, but young farmers do have a propensity for co-operation and exhibit benevolence to establish some sort of cooperatives. They perceive a possible huge potential in cooperatives which could eventually lead to effective rural development within the specific Hungarian agenda.

THE 2014-2020 BUDGETARY PERIOD OF THE COMMON AGRICULTURAL POLICY AND HUNGARIAN AGRICULTURE

The second pillar of the Common Agricultural Policy (CAP) invokes six priorities:

- (1) knowledge transfer and innovation,
- (2) enhancing competitiveness,
- (3) promoting food chain organization,
- (4) reconstructing agricultural and forest ecosystems,
- (5) resource efficiency,
- (6) reducing poverty.

EU member countries may, in addition to that, also invite applications for 'thematic sub-programmes' primarily for young farmers, small farms, mountain areas, short supply chains and agricultural restructuring. Member countries are expected to commit at least 25 per cent of the funds to prevent climate impacts, minimum 5 per cent to LEADER, which is undergoing transformation, and not more than 10 per cent to areas with unfavourable natural conditions. The legislative proposal would determine several additional aspects as being considered important. For example, 'life-long learning' in agriculture can be a new requirement in knowledge transfer, restructuring and generational renewal among conceptions for enhancing competitiveness. Producers' integration and supporting agricultural risk management would be a prerequisite for promoting food chain organization, while biodiversity, soil and water management would play roles in the efforts for the reconstruction of ecosystems. The utilization of renewable energy sources could improve resource efficiency

Table 1: Scaling of agricultural companies in Hungary 2000-2007

	The numbers of farms			Average area			Own property		
	2000	2007	change	2000	2007	change	2000	2007	change
individual company									
1 ha -	662.2	415.1	62.7	0.25	0.23	92.0	95.9	97.8	102.0
1 – 5 ha	174.0	85.9	49.4	2.2	2.3	104.5	93.0	93.9	101.0
5 – 10 ha	39.4	23.5	39.6	6.8	7.1	104.4	88.5	89.1	100.7
10 – 50 ha	40.7	27.2	66.8	20.1	21.2	105.5	77.1	78.7	102.1
50 – 100 ha	4.2	5.6	119.0	67.1	70.1	104.5	69.0	66.8	96.8
100 – 300 ha	1.9	3.4	178.9	156.7	163.3	104.2	58.3	58.6	100.5
300 ha +	0.2	0.2	100.0	456.4	423.2	92.7	45.0	57.6	128.0
Összesen	922.6	560.3	60.7	2.5	3.6	144.0	77.6	73.5	94.7
	The numbers of companies			Average area			Own property		
	2000	2007	change	2000	2007	change	2000	2007	change
Economical companies									
1 ha -	201	274	136.3	0.4	0.4	100.0	63.2	39.1	61.9
1 – 5 ha	316	432	136.7	2.6	2.9	111.5	34.9	29.1	83.4
5 – 10 ha	230	361	157.0	7.1	7.5	105.6	26.1	19.0	72.8
10 – 50 ha	1003	1293	128.9	27.9	25.6	91.8	18.5	16.3	88.1
50 – 100 ha	370	597	161.4	71.4	72.8	102.0	15.0	12.8	85.3
100 – 300 ha	839	1132	134.9	205.5	190.8	92.8	11.2	8.4	75.0
300 ha +	1430	1579	110.4	1483.9	1198.1	80.7	9.7	6.6	68.0
Összesen	4389	5668	129.1	532.9	386.1	72.6	10.1	7.1	70.3

mitigating the process of adaptation to climate change; in the meantime the establishment of new, rural small businesses would help actions against poverty. This process also entails the support of young farmers, small farms, mountain areas, short supply chains and farm restructuring.

The multiannual financial framework (MFF) lays down the maximum annual amounts ('ceilings') which the EU may spend in different political fields ('headings') over a period of at least 5 years (Graph 1).

Graph 1: Commitment appropriations of the Multiannual Financial Framework (MFF) between 2014 and 2020 (Source: European Commission 2014).

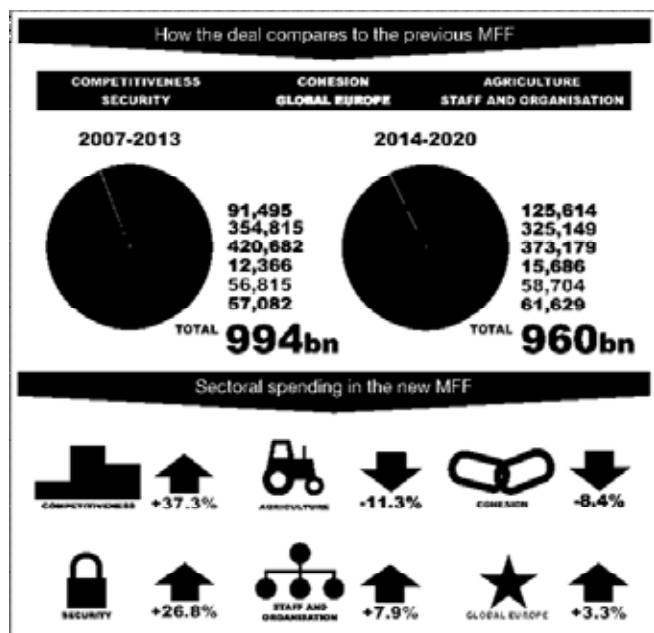
The new MFF applies to the seven-year period from 2014 to 2020 and as such should provide a budgetary framework for the EU which, with the joining of Croatia, now has 28 member countries. MFF devotes significantly more money to research and education than earlier, it seeks to encourage economical growth, on the other hand, with reducing the scope of the common budget, it indirectly supports the member countries in keeping back their public expenditure. The policy of MFF rests upon the principle of subsidiarity, proportionality,

conditionality, solidarity, and common budgetary sources should be used in the most efficient way.

It seems that after 2013 an important feature of the Common Agricultural Policy is that CAP is not common at all. Although agricultural policy will have a common frame, 28 different kinds of agricultural policy will be carried out in the individual member countries. On one hand, the new system will be much more flexible than the old one, on the other hand, a number of its main elements will become optional. It can be acknowledged that national differences may greatly increase, as a number of optional elements will be incorporated into the system.

The budget was adopted with regard to the plan period of 2014-2020 of the Common Agricultural Policy. The budget of the Common Agricultural Policy will be 373,179 billion €, the first pillar amountsto 277,851 billion €, while the second pillar amounts to 84,94 billion € (Graph 1).

According to the European Commission, "proposals for a reform of the CAP after 2013 aim to strengthen the competitiveness and the sustainability of agriculture and maintain its presence in all regions, in order to guarantee



Graph 1: How the deal compares to the previous MFF? (Source: Cicero 2013)

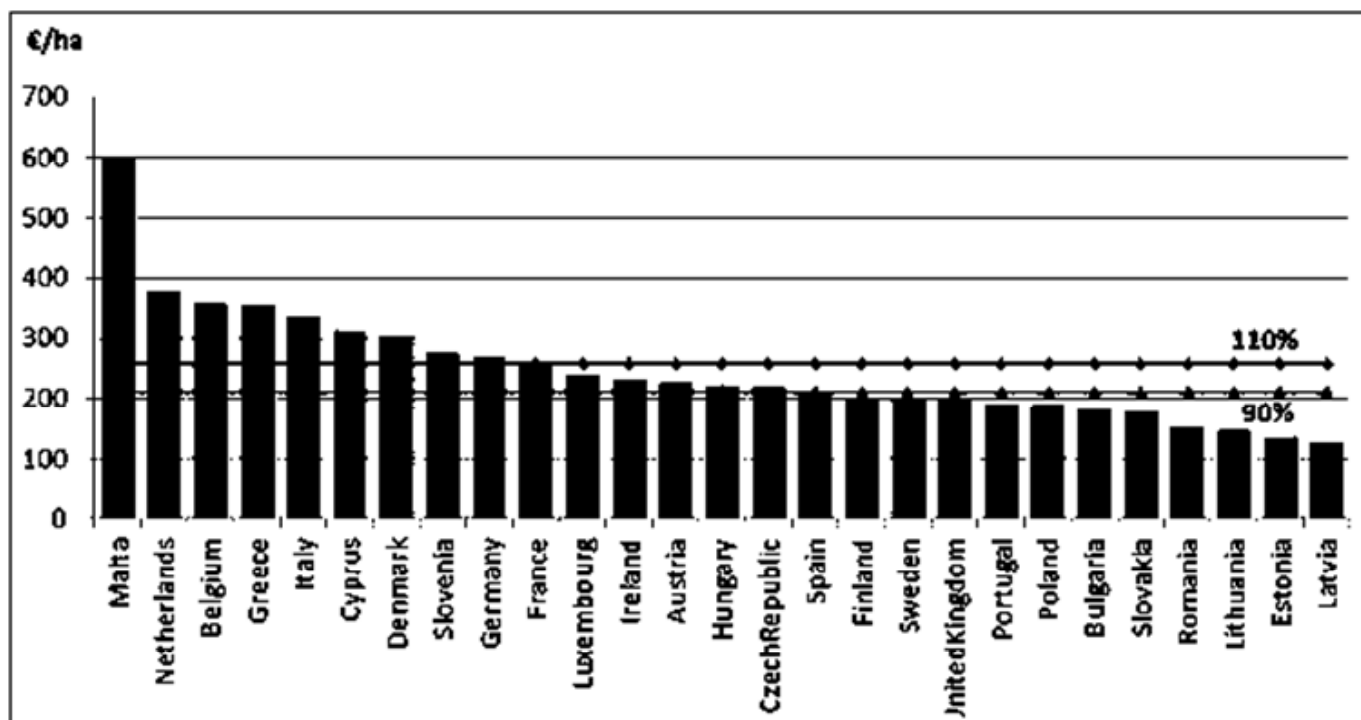
European citizens healthy and quality food production, to preserve the environment and to help develop rural areas” - Impact Assessment for CAP towards 2020, 2013 (European Commission 2011).

The budget of the European Union (including a member country of Croatia) was decreased by 3.5 per cent for the period of 2014-2020, the financial framework of CAP was reduced at an even greater extent, by 11 per cent compared to the previous period of 2007-2013 (Graph 2). At the same time, Hungary’s share of the CAP budget has increased from

2.4 per cent to 3.2 per cent, which in turn means that the annual direct payments frame that country can utilize is 1.27 billion €. This would imply that Hungary has been able to maintain the level of direct payments in terms of size. Figuratively speaking, although the EU cake will grow less, the Hungarian agricultural and rural development piece of cake will get bigger.

Several restrictions will be ceased in order to help CAP become more market-friendly: quotas will expire in relation to milk in 2015, while for sugar this will happen in September, 2017, vine-planting rights will be managed in a completely new system from 2016. The second, rural development pillar will become much more flexible: the basic concept that the member countries are able to compile their rural development programmes in accordance with their own needs (even with separate thematic sub-programmes) remains, they only have to follow an action ‘menu’, but the axes system will be abolished. Programs should be adjusted to the common EU policies, objectives and other funds more extensively. Innovation and knowledge transfer will have a key role in agricultural productivity and sustainability with the help of the European Innovation Partnership and the strengthening of agricultural consultancy. Smallholders can get up to 15 thousand, while young farmers 70 thousand € for the establishment of farms, they can introduce new risk management tools, they will help the coordination of producers and separate provisions will apply to organic farmers. Opportunities will be broadened to establish basic rural services and to renew the villages (e.g. broadband Internet or renewable energy) and the LEADER program will have a greater influence with the introduction of community-based local developments in which several EU funds can be involved.

The system has not become simpler than the earlier ones, but the scope of actions that the member countries can decide



Graph 2: Average annual direct payment per hectare potentially eligible area, 2014-2020, 2011 prices (Source: European Union 2011)

to take is more favourable. Within direct subsidies only the 30 per cent support for greening and the funds for young farmers are determined.

Year 2014 is a temporary year. The new elements do not enter the system: the payment scheme of 2013 will be valid but within the frameworks of the new budget. The new model will be in force from 2015 and the compulsory elements enter the system in that particular year: besides the basic payment scheme, greening and funding young farmers, there will be voluntarily chosen elements as well: the system of production-linked subsidies and the simplified payment scheme for small farms (Table 2 and Table 3).

Direct payments (DP) amount to 70 per cent of the expenses of CAP, which clearly made this topic the most important agenda during the reform negotiations (Graph 3). The differences in payments among farmers of different

Table 2: Changes of Hungarian framework in 2007-2013 and 2014-2020 (Source: Tamás 2014)

Billion €	Direct payments (I. pillar)	Rural development (II. pillar)
2007-2013	6,6	3,9
2014-2020	8,8	3,5

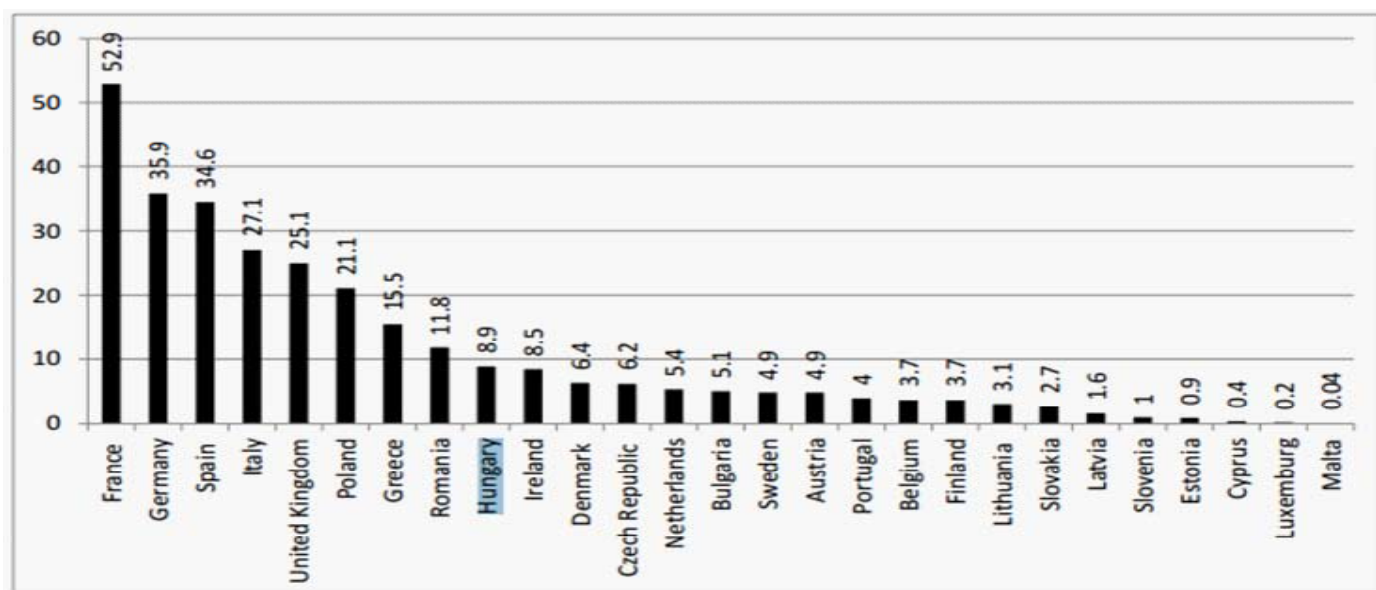
Table 3: Pattern of the new system of direct payments (Source: Miklós 2014)

<ul style="list-style-type: none"> Obligatory elements • Elementary payments • „Green” component • Subvention for young farmers • National reserve 	<ul style="list-style-type: none"> Voluntary elements • Subvention of production • The subvention of areas with natural disadvantages
OR	
+	
The simplified subvention system for small farms <ul style="list-style-type: none"> • The acquittance of the requirement of greening 	

member countries have increased significantly, which has been mostly disputed by Baltic and Balkan countries. The new CAP tries to solve the problem by rearranging part of the DPs and increasing direct payment allocation to those countries which are currently below the 90 per cent of the EU average (external convergence).

Another feature of the DP system is that the new member countries – with the exception of Malta and Slovenia – have adopted the simpler, so-called Single Area Payment Scheme (SAPS) that is based on flat rate payments per hectare. Originally SAPS was created for a transitional period of five years, but its force was extended once during a CAP reform in 2008 - that lasted until 2013. Now the new reform has prolonged the validity of SAPS again, this time until 2020. Meanwhile the old member countries have applied the so-called Single Payment Scheme (SPS) since the CAP reform of 2003.

Potori et al. (2013) argue that a rational economic approach at the national or the regional level may justify the implementation of a smaller number of optional support schemes, and favouring the reduction of direct payments against a top-up on the first 30 hectares of eligible farm land along with the introduction of the subsidy for small farmers. The European Commission’s proposal for “Agriculture 2020” seeks to reduce and redistribute farm payments. Convergence of agricultural support among the Member States is critically dependent on the EU budget. The proposed distribution is expected to be beneficial for a country such as Poland (Czyzewski and Sebastian 2014). Keeping the national interests in mind, Hungarian government has decided to continue applying the SAPS system until 2021, although it would have been possible to change over to the so-called Basic Payment Scheme (BPS) no later than 2018. There are several reasons behind this decision: it is very important that farmers and other market participants engaged are already familiar with the well-established, functioning system. A very important aspect is also that it has always been possible to draw 100 per cent of the resources available; in that way



Graph 3: Estimated direct payment allocation (Pillar I), 2014-2020, in billion EUR, current prices) (Source: Czyzewski and Sebastian 2014)

resources are not forfeited for the national economy, for the member country and for the farmers either, in contrast to a possible introduction of a BPS system. On the other hand, the longer the SAPS system is applied, the harder the transition to the new system will be after 2020.

Thematic sub-programmes

Greening

30 per cent of the direct payments are linked to separate conservation provisions, to 'greening' – in addition to the basic environmental, animal welfare and hygiene requirements that are still demanded ('cross-compliance'), but have been simplified and slightly broadened. The provisions have three requirements: maintaining permanent grasslands and 'ecological focus areas' addressing environmental issues, as well as the diversification of crops.

The latter regulation concerns farms with an area larger than 10 hectares only, a farmer must cultivate at least two crops from the three recommended if the agricultural area does not exceed 30 hectares, the main crop can cover utmost 75 per cent of the agricultural area or two main crops 95 per cent. There are exemptions from greening, for example organic farms, however failure to respect the requirements will result in penalties which can be up to 125 per cent of the greening payment.

Supporting young farmers

Tools encouraging generational renewal (establishing and handing over farms) have been available for 20 years, yet two new elements will be adopted from 2014 that are specifically intended for new entrant farmers: land-based direct payments should be topped up by an additional 25 per cent, young farmers under 40 years will be able to draw land-based payments up to the area size of 90 hectares if the estate has been installed within 5 years, which is more than motivating for young farmers. Another new element is the young farmer sub-programme that will be realized within rural development measures.

Redistribution versus degressivity

Redistribution means the rearranging of a part of the direct payments in favour of the farmers cultivating a smaller area (under 30 hectares). While degressivity means taking away part of the subsidies above a certain limit of support value. Member countries have to apply for one of the two.

Redistribution is not going to be applied by the government, as it decreases basic aid. Their aim is to prevent present land-based direct payments from change in terms of size in the new plan period.

Redistributive measures, that can take up to 23 per cent of the budgetary framework of the member country, would significantly decrease the per-unit measure of the basic aid. At the same time, it is apparent that strengthening small and

medium-sized farms, as well as family farms, are important among the land policy aims of the government. This would in turn imply strengthening the farms ranging between 50 and 500 hectares; this is mainly what Hungarian law of land distribution is all about.

As far the degressivity measure is concerned, 5 per cent of the basic aid over at least 150 thousand € has to be drawn away. This should be interpreted as the following: we know the amount of the basic aid that a certain farm receives, we have to deduct wages and taxes imposed on wages, and if the remaining amount is more than 150 thousand €, 5 per cent deduction on subsidies is subsequently applied. Individual member countries do not lose that particular amount as it is transferred into pillar II, however it can only be used for innovation objectives without co-financing.

Member countries may decide to introduce a single payment scheme for small farms which is a voluntary element. Hungary is obviously going to take that opportunity. This really means simplification; if the single payment scheme is applied, farms do not have to consider greening, and there is no penalty if cross-compliance has not been observed. This form of support is expected to affect about 50 per cent of the farmers in Hungary. These farmers taking part in the system would be eligible for EU funding accounting to between 500 and 1,250 € per year.

The Redistributive Payment would benefit only farms of relatively small sizes and would shift EU funding from farms that fall into the 100 to 500 hectares category; i.e.: the mid-sized family farms in Hungary, which are explicitly preferred by the government as is highlighted in the new Land Transaction Law (Act CXXII of 2013 on the transfer of agricultural lands and lands of forestry) recently passed by the Parliament (Potori et al. 2013).

CONCLUSIONS

Albeit CAP has been experiencing lower budgets over the two given periods (direct payments will be decreased by 18 per cent, while rural development funds will diminish by 13.5 per cent), the Hungarian direct payment envelope will receive more than in the previous period (7.9 billion € instead of 6.3 billion) as the support started from 25 per cent. Basically, the EU cake unequivocally will grow less, the agricultural and rural development piece of cake that provides support for Hungary will get bigger. It is important to stress here that the biggest winners of the plan period of 2014-2020 will obviously be young farmers, as two new elements enter the system from 2014 onwards. The new plan period will be much more flexible than the previous one with several key elements becoming optional, which could protect Hungarian interests much better. Consequently, the EU cake will grow less but owing to the optional measure „menu”, Hungary would be able to allocate the resources in a more efficient way, unlike in the last period of agricultural policy reform.

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Proračunsko obdobje Skupne kmetijske politike (SKP) 2014-2020 in vplivi na kmetijske reforme na Madžarskem

IZVLEČEK

Nova skupna kmetijska politika (SKP) je zasnovana tako, da se predvideva krčenje sredstev in Madžarska se bo znašla v neizogibnem položaju po uveljavljanju kmetijskih reform v novem programskem obdobju 2014-2020. Sredstva za neposredna plačila so se v tem obdobju zmanjšala za 18 odstotkov, medtem ko so se sredstva za razvoj podeželja po pričakovanjih zmanjšala za 13,5 odstotka. Kljub manjši EU „pogači” in manjšim SKP sredstvom, bo Madžarska dobila večji kos „pogače” za zagotavljanje podpore kmetijstvu in razvoju podeželja. Zelo vzpodbudno je dejstvo, da bodo dobili največjo podporo mladi kmetje, zaradi dveh novih elementov: i) sredstva za neposredna plačila se bodo povečala za 25 odstotkov in ii) uveljavljanje pod-programa za mlade, ki bi jim omogočal ugoden položaj v sistemu. Novo načrtovano obdobje je veliko bolj fleksibilno od prejšnjega, z nekaj ključnimi elementi in z veliko večjo možnostjo zaščite interesov Madžarske, kot je bilo to v zadnji fazi reforme Skupne kmetijske politike (2006-2013).

Ključne besede: skupna kmetijska politika (CAP), Madžarsko kmetijstvo, instrumenti reformne politike