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Czech Republic

Agricultural Situation

Czech Republic 10-year Agricultural Strategy (2004 to 2013)

2004

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Report Highlights:

In June 2004, the Czech government approved its ten-year agricultural strategy for 2004 to 2013. The strategy foresees a continued restructuring of the farm sector with grain and oilseeds production increasing; pig and poultry production contracting; and possible increases in milk production. Farms are expected to grow in size and be mostly cooperatives or corporations. The number of family farms will not increase. A strategy for the food industry will be drafted by the Food Industry Chamber and is not included in this plan.

Includes PSD Changes: No
Includes Trade Matrix: No
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New Agricultural Strategy – Summary

In June 2004, the Czech government approved its ten-year agricultural strategy. The document is based on the assumption that EU farm subsidies will rise from 25 billion CZK in 2004 to 40 billion in 2013. The strategy foresees continued restructuring of the farm sector, particularly a transfer of dairy and beef cattle from the lowland to the mountain regions, and an extension in the national grassland area. Production of grains and oilseeds should increase, while pig and poultry production could fall. Production of milk could rise if not constrained by EU milk quotas. Multifunctional character of Czech agriculture is anticipated to develop slowly and accelerate towards 2013. The strategy envisions that farms will grow in size and be mostly cooperatives or corporations. The number of family farms should not increase. Strategy for the food industry is not included in the agricultural strategy; it will be drafted by the Food Industry Chamber

Specifics of Czech Agriculture

- Even though agricultural production fell by 35% since 1989, supply still exceeds domestic demand. The Czech Republic (CR) has a big potential for production of crops for non-food use (e.g. rapeseed for bio-fuels), which complies with CR's obligation to the EU to increase a share of renewable sources of energy from 3.6% to 8% in 2010.
- High concentration of agricultural production – cooperatives and companies (shareholding and limited) farm on 75% of arable land and individual farmers farm on remaining 25% of land.
- Over 90% of leased from owners and state, which does not give farmers enough stability for long-term investments. The government wants to privatize over 0.5 million hectares of total agricultural land (3.5 million hectares).
- Use of land and production allocation does not reflect natural and climatic conditions – over 70% of total agricultural land is arable land; around 50% of cattle is bred on arable land; and 0.3% of land is unused.
- There are big differences in production efficiency of various agricultural companies, e.g. meat processors have on average half efficiency when compared to the EU companies. Lower efficiency is partially a result of lower quality management and partially of older technology and equipment.
- Many agricultural companies are in debt, which slows down investments necessary for meeting tougher conditions on food safety, environment, and animal welfare.
- Farmers' incomes are influenced by extreme risk of production: weather instability (droughts, floods) and price fluctuation.
- Foreign capital is slowly penetrating into the agrarian sector, which improves companies' economic situation. In border areas it is mainly speculative purchase of land.
- EU animal welfare standards concern change of chicken breeding. The Czech Republic negotiated a transitional period, but after 2012 chicken breeding in cages will be forbidden.
- Czech food industry is still not consolidated. The least consolidated are meat processors, dairy plants and bakeries. Production capacity is excessive.

- Retail sector, dominated by foreign chains, has a strong economic influence in the agrarian market. Proliferation of supermarkets and hypermarkets in 1990s has brought changes in distribution as many retail chains build their own distribution centers.
- Organic farming is growing and currently is produced on 5% of agricultural land, mainly outside of arable land.
- Agrarian trade is less efficient than trade in industrial goods. The Czech Republic tends to export commodities and import high value products. This trend should change in the future. The government supports exports of grains, oilseeds, milk, and sugar. Marketing organizations are still nonexistent.

Czech Agricultural Strategy 2004 - 2013

Priorities of Czech agricultural policy after the EU accession reflect multifunctional character of Czech agriculture and could be defined in these major categories: competition - water – biodiversity – landscape – rural areas.

More detailed strategic goals are divided into seven areas:

1. Higher competitiveness of the Czech agricultural sector in the EU and towards other countries based on higher production efficiency, quality of products, food safety, value added and regional diversity of products.
2. Increased living standard of rural population by lowering risks in agricultural entrepreneurship, support of multifunctional character of agriculture and diversification of agricultural production for industrial use (e.g. biofuels).
3. Increased recreational function of countryside, especially of agricultural water areas such as ponds
4. Increased water retention capacity of land by turning some arable land into grassland, especially in flood areas
5. Improved quality of water
6. Increased quality of agricultural land, by using less synthetic fertilizers, foresting of areas with the worst conditions for agriculture etc.
7. Higher share of renewable sources of energy from agriculture (fast growing woods, bio-fuels etc.)

Within boundaries of EU's Common Agricultural Policy (CAP) the Czech Republic has space for forming its own agricultural strategy, which concerns mainly the following areas:

- Specific conditions for providing direct payments (national choice of Single Area Payment Scheme for 2004 – 2006, top-ups from the national budget, national choice for the payment scheme after 2006, conditions for providing these payments – “cross-compliance”)
- Focus and structure of the Horizontal Plan for Rural Development (HPRD)
- Focus and structure of the Operational Program for Agriculture

- Focus and structure of national subsidies (state aid) including other structural subsidies for protection of landscape, environment, cultural heritage and investments in rural areas

The strategy is divided into three time periods:

1. Entry period (2004 – 2006)

- Single Area Payment Scheme (SAPS) and Complementary National Direct Payments (CNDP, also called “top-ups”) will apply. The Czech Republic will receive 25% of direct payments from the EU in 2004, which will be increased by 5% until 2007 a year, then by 10% a year until 2013, when direct payments will be equal with the current EU-15. SAPS means that payments will be based on area not on commodity. CNDP may be paid out either by regime: classic under Agenda 2000 or modified Common Agricultural Policy (CAP) Single Payment Scheme or by SAPS.

2. Adjustment period (2007 – 2010)

- In this period, the Czech Republic must transform the system of direct payments SAPS into the EU's Single Payment Scheme (SPS) based on regional implementation (depending on the production structure with the possibility to solve specific sector problems from national resources) and meeting complex conditions (“cross compliance”).

3. Equalization period (2011 – 2013)

- At the end of this period direct payments in the old and new member states will be equal.

Subsidies to Czech agriculture

Domestic support is divided into four groups:

- **Direct payments** – simplified area payment scheme (SAPS) will be applied; 25% of the EU level (190.7 Euro) will be paid from the EU budget, it will be paid out after December 1, 2004 and payments will be based on area. Agricultural area, on which SAPS payments will be distributed, is according to Eurostat 3.652 million hectares, out of which are 185,000 hectares are declared as not eligible land. The Czech Republic therefore wants to decrease the area to 3.469 million hectares.
- **National complementary payments (top-ups)** – in 2004 maximum top up is up to 55% of the EU level; however, due to tight budget situation it will only be 48%. Top ups are paid by May 1, 2004 and distributed as follows:

| | |
|-----------------------|----------------|
| Hops | 26.56 mil CZK |
| Flax and forage seeds | 26.44 mil CZK |
| Suckler cows | 381.52 mil CZK |
| Sheep and goat | 46.71 mil CZK |
| Livestock t | 936.39 mil CZK |
| Arable land | 3.78 bill CZK |

Payments from the national budget that can reach 100% of the EU level for milk and starch will be around 0.5 bill CZK and will be paid out after December 1, 2004.
- **Structural Funds**
 - a) *Horizontal Plan for Rural Development (HPRD)* – 500 mil Euro for 2004 – 2006 (Czech Republic will pay 20% of this amount, the EU 80%) – the program will be

- used for support in rural areas (payments for less favorable areas – LFA, grass area, environmental policies, etc.).
- b) *Operational program "Rural Development and Multi-functional Agriculture"* – 176 mil Euro for 2004 – 2006 (50% will be paid from the EU budget, 50% from the national budget) – the program will be used for investments in agricultural property, diversification of agricultural activities (production of regional products, environment protection, technology, etc.)
 - **State Aid** – 1.5 bill CZK for 2004 is paid out from the national budget continually; the program supports: special crops, bees, irrigation for orchards and vineyards, repair of vineyards, hop gardens and orchards, fruit and vegetables, extension service, etc.

(Exchange rate: \$1 = 26 CZK)