

The Common Agricultural Policy in a Czech Context

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Abstract—The largest share of policy and money within the European Union goes to agriculture. The Union's Common Agricultural Policy has undergone several transformations in the last five decades, with the main change taking place in the 1990s. This change influenced agriculture in the Czech Republic, inasmuch as the fledgling republic was preparing to join the European Union and adopt its policies. In the 1990s, Czech agriculture passed from a centrally planned economy to a market economy and subsequently adopted the terms of the Common Agricultural Policy. The Czech Republic is also characterized by a significant diversification of landscape sphere. Agricultural entrepreneurs in the Czech Republic are still not accustomed to the possibility of grants from the European Union. They focus rather on national or regional subsidies. Only half of all agricultural entrepreneurs in the Czech Republic use European subsidies. This article focuses on the introduction of the Common Agricultural Policy to the Czech Republic and its subsequent influence on Czech agriculture. It is demonstrated through the implementation rate of the CAP in the EU Member States and a closer focus on Czech integration.

Keywords—Common Agricultural Policy, Agriculture, European Union, Transformation.

I. INTRODUCTION

INCREASING competitiveness and financing industry and research are common public administration aims, but governments use different methods and approaches, depending on various possibilities and conditions: financial, material or natural [1]. The idea to create synergies within an economy first appeared in the nineteenth century. Alfred Marshall, in *Principles of Economics* (1890), described the clustering of geographic and economic activities, with a focus on the agricultural sector. Highlights of this work include cooperation with the environment, and taking the greatest advantage of each country's geographic attributes. In the agricultural sector, such migration proves difficult. Agricultural production is strongly linked with the land and with the population it supplies. Agriculture has long been socioeconomically significant, prompting states to provide conditions to limit overproduction [2].

II. AGRICULTURAL TRANSFORMATION

A. European Agriculture

More than a hundred years ago, agriculture encountered problems. The European economy, along with agriculture, had undergone a strong transformation. One part of Europe was strongly influenced by the socialist system and the subsequent rapid transformation to a market capitalist system. Agriculture

during this period suffered a blow. Agricultural products, which were heavily subsidized by the state at this time, became significantly more expensive. Thus, a considerable number of agricultural entrepreneurs lost their previous customers and were forced to reduce production. The second part of Europe since the 1950s has tended towards a common agricultural policy. This system is nowadays adhered to by all European Union countries and even some countries outside the European Union [3].

The thinking and views of individual countries on agricultural policy are different. In this respect, Europe was split between west and east. Historically, the twentieth century was marked by a uniting of lands. In the west, it was performed gradually by redeeming the land from the peasants, which led to the gradual and spontaneous transformation of agriculture. In the eastern part of Europe, in the communist bloc, including also Czechoslovakia, land unification was performed by so-called "collectivization," which was land acquisition through repression, intimidation and political pressure. Of course, some areas, such as Poland or Yugoslavia, managed to retain autonomous [4].

B. Agriculture in the European Union

The common agricultural policy of the European Community in the 1980s struggled with high surplus of raw materials, such as meat products, grains or vegetables. These surpluses were created as the result of the determination of the intervention prices. When the market price fell below a specified threshold, the member states began to buy up crops and foods from the farmers and manufacturers for the promised price. Prices were not established by the market, but administratively, and were the same throughout the whole European Community. Farmers produced regardless of demand, which led to substantial overproduction. Subsidized commodities became disproportionately expensive. One solution was the export of raw materials to developing countries, where they were sold for a lower price than local production offered, which ruined local farmers. The farmers of other states protested against this solution, and the CAP had to be reformed [5]-[7].

III. COMMON AGRICULTURAL POLICY (CAP)

A. Pillars of CAP

Agriculture comprises the largest part of the European Union subsidy policy. The Common Agricultural Policy is the oldest European Community policy. The formulation of objectives and principles of CAP began in the 1960s. Currently, agricultural and forest areas cover around 78% of the territory of the European Union, and utilized agricultural land covers 170 million hectares. The common agricultural

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policy expenditures are the highest of all EU policies. In the past, they amounted to 70% of the European budget. In the programming period 2007-2013, the CAP comprised 43% of the total EU budget. In the current period 2014-2020, Common Agricultural Policy accounts for over 40% of the common EU budget [8].

The European Commission decided on a partial CAP subsidy reduction, frozen at 2013 levels. The Common Agricultural Policy is divided into two pillars. The first pillar is market measures that were established at the beginning of CAP. This pillar, which focuses on ecology, absorbs the greater part of the budget, but the member states do not pay additional money. The second pillar is based on the document "Agenda 2000" and deals with rural development policy. This pillar consists of three axes: an axis to promote competitiveness and innovation, an axis to support care for the environment, nature and the landscape, and an axis for dealing with a loss of jobs in agriculture. For the member states supporting the care for the environment, nature and landscape is compulsory. The grant portion of the second pillar is much lower than in the first pillar, so it must be co-financed by individual member states. The ongoing modifications of the common agricultural policy gradually weaken the first pillar and increase subsidies to the second pillar, thereby strengthening it [6], [9]-[11].

In the current period, the member states can choose the percentage allocation to individual pillars. Member states may transfer 15-25% of their annual budgets for the Common Agricultural Policy from Pillar 1 to Pillar 2. The maximum possible transaction, 25%, can be made by Bulgaria, Finland, Greece, Latvia, Lithuania, Poland, Portugal, Romania, Greece, Slovakia, Spain and the United Kingdom. The possibility of transferring funds from Pillar 2 to Pillar 1 is available to Croatia, Poland and Slovakia [12].

B. Criticism of the Common Agricultural Policy

Increased CAP reforms have led to increased criticisms, chief among them being that the reforms have led to overproduction and thus unnecessary waste. Some are quick to point out that farmers represent only 5,4 % of the EU population, their production is only 1,6 % of EU GDP and yet they receive around 40% of the total EU budget. Another criticism focuses on a marked inconsistency. One of the aims of the Union agricultural policy is competitiveness and innovation in agriculture, but the common agricultural market is protected from most agricultural products of non-EU countries. Therefore the member states compete at the European level only and are not forced to adapt to pressures and innovations from the United States, Canada and China [14].

As mentioned, agriculture occupies the largest share in both the budget and policy of the European Union. Therefore, it is exposed to strong influences, and negative influences affect agriculture very strongly. This is not only about surpluses and overproduction in the EU, but also restrictions on exports or imports from outside the EU. Nowadays, trade with Russia and Africa is so closely watched. The European Union

imposed sanctions on Russia. The Commission decided to allocate the windfall assigned revenue to prevent the spread of Ebola and other humanitarian crises [15].

TABLE I
DISTRIBUTION OF CAP PILLARS [13]

Pillar 1: €281, 8 billion 2014 - 2020 (proposal)	Pillar 2: €89,9 billion 2014 -2020 (proposal)
<p>Traditional market management tools</p> <ul style="list-style-type: none"> • Minimum price arrangements • Processing aids • Intervention buying and storage • Withdrawals • Export subsidies • Set-aside Production quotas <p>Direct aid payments</p> <ul style="list-style-type: none"> • Coupled direct aid payments • Partially decoupled direct payments • Decoupled direct aid payments <p>Transitional and emergency measures</p> <ul style="list-style-type: none"> • Dedicated restructuring funds • Emergency measures in response to sector-specific crises <p>Other tools</p> <ul style="list-style-type: none"> • Horizontal programme of support to veterinary and plant health measures • Horizontal programme of support for the promotion of products on EU and international markets 	<p>Axis I - Rural Development Investment (2007 - 2013: € 53 billion, co-financed by EU and member states)</p> <ul style="list-style-type: none"> • Restructuring and modernization of the agricultural sector • Improving integration in the agrifood chain • Facilitating innovation and access to research and development • Encouraging the take-up and diffusion of information and communication technologies • Fostering dynamic entrepreneurship • Developing new outlets for agricultural products • Improving the environmental performance of farms <p>Axis II - Improving the environmental and countryside</p> <p>Axis III - Improving the quality of life in rural areas and encouraging diversification of the rural economy</p> <p>Axis IV - Building local capacity for employment and diversification (LEADER programmes)</p>

IV. COMMON AGRICULTURAL POLICY IN THE NUMBERS

Using European soils leads to changes in the landscape. Productive farmland gives way to emerging agglomerations and associated transport infrastructure. The EU Commission devotes considerable resources to revitalize the land, fund and subsidize farmers, both of which are important components of the Common Agricultural Policy [16].

The most utilized agricultural area is in the United Kingdom. In Central Europe appears the efforts about requisition of agricultural lands and use it for other purposes, such as creating new industrial areas, expansion of housing construction or road networks [17].

Although expenditures on the Common agricultural policy are increasing, the percentage of the common agricultural policy throughout the EU budget is reduced. This phenomenon is strongly influenced by the position of individual countries to the common agricultural policy. On the one hand, the efforts are focused on maintaining a strong agricultural policy. On the other hand, the financing of the CAP is significantly reduced in favor of other sectors [6], [9].

Nowadays, Europe is still experiencing an economic crisis. The European Parliament is transferring more funding for growth policies such as research, education and innovation. But in fact, the EU budget will transfer an even larger share of its total resources to EU farmers in the next few years than it does currently as a result of the budget deal [19].

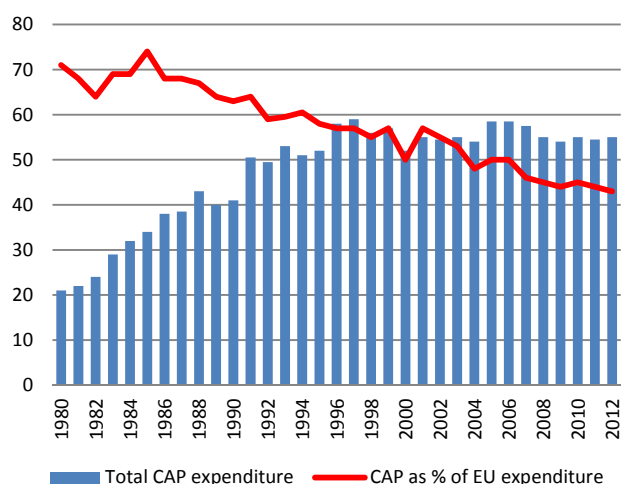


Fig. 1 CAP expenditure in the total EU expenditure, 2011, [18]

TABLE II
SHARE OF CAP IN TOTAL EU BUDGET (MIL. EUR), [19]

Commitment appropriations	2010	2011	2012	2013	2014
EAGF	43,794	42,839	43,894	43,957	43,778
EAFRD	14,345	14,419	14,602	14,805	13,991
Total CAP	58,139	57,258	58,496	58,762	57,769
Total budget inside MFF	137,732	137,980	144,390	152,119	142,184
CAP share % of total CA	42,2%	14,5%	40,5%	38,6%	40,6%
Total income outside MFF					142,640
Payment appropriations					
EAGF	43,669	42,759	43,876	43,934	43,777
EAFRD	11,49	11,965	13,128	13,023	11,655
Total CAP	55,159	54,724	57,004	56,957	55,432
Total budget inside MFF	116,970	122,275	131,722	144,866	135,155
CAP share % of total PA	47,2%	44,8%	43,3%	39,3%	41,0%
Total income outside MFF					135,550

EAGF - European Agricultural Guarantee Fund
EAFRD - European Agricultural Fund for Rural Development
CAP - The Common Agricultural Policy
MFF - Multiannual Financial Framework

The common agricultural policy is financed by two funds which form part of the EU's general budget. First is the EAGF – European Agricultural Guarantee Fund, and second is the EAFDR – European Agricultural Fund for Rural Development. The European Agricultural Guarantee Fund (EAGF) supports sustainable agriculture and finances direct payments to farmers and measures to regulate agricultural markets such as intervention and export refunds, and falls under the first pillar of the CAP [20].

The EAFRD is financed under Pilar II of the Common Agricultural Policy (CAP). It contributes to the Strategy Europe 2020 by supporting sustainable rural development in the Union, and it is supplementary to the other instruments of the common agricultural policy, to cohesion policy and to the common fisheries policy. The EAFRD also contributes to a

more territorial and environmentally balanced, climate-friendly and resilient and innovative Union agricultural sector [20].

Although financial subsidies to agriculture have not changed and remain at high levels, the share of agriculture in GDP of member countries significantly decreases. Fig. 2 shows the percentage share of agriculture in GDP over ten years in the Czech Republic and the member states bordering the Czech Republic. The comparison shows also the percentage of the GDP in the European Union and the World.

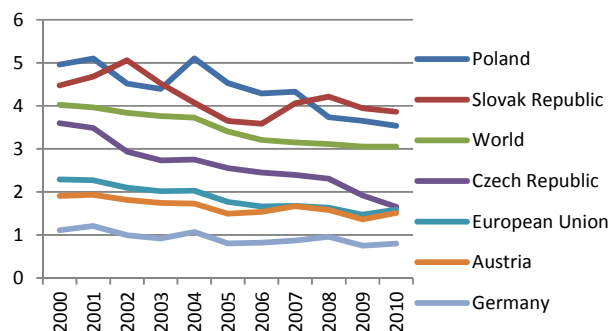


Fig. 2 The percentage share of agriculture of GDP, own processing according to data from The World Bank, 2013, [23]

The Czech Republic belongs to the countries, where the decline in the share of agriculture in GDP in recent years is most noticeable. This trend is the result of a partial decline of agriculture in the Czech Republic. The consequence is a reduction of employees in the agricultural sector in the last twenty years.

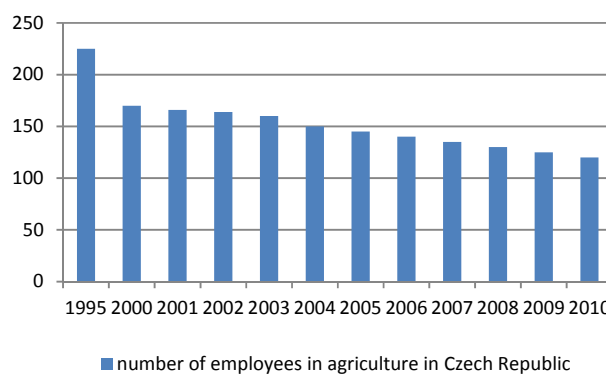


Fig. 3 Development of the number of agricultural workers (thou.), 2012, [21]

In more than fifteen years reduced the number of employees in the agricultural sector by more than half. This is primarily due to a significant transformation of Czech agriculture and submission to the quotas of the European Union.

However, in the Czech Republic exist areas where the percent agriculturally oriented population are higher than the national average, those are Vysočina Region, NUTS 2 -

Northeast and NUTS 2 - Southwest. These regions are mostly flat with fertile soil and numerous waterways.

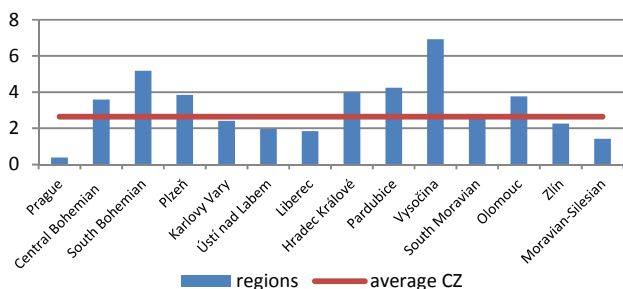


Fig. 4 Percentage of employees in the agricultural sector by regions, 2012, own processing according to data from the Czech Statistical Office, [24]

Agricultural entrepreneurs in the Czech Republic are still not used the possibility of grants from the European Union. They focus rather on national or regional subsidy titles. Each country has established an organization that carries out the agenda of the European Union and pays the subsidies to farmers under the common agricultural policy. In the Czech Republic it is SAIF - State Agricultural Intervention Fund. The State Agricultural Intervention Fund is the intermediary financial support from the European Union and national sources. Subsidies from the EU under the Common Agricultural Policy provided by the European Agricultural Guarantee Fund (EAGF) in the programming period 2007 - 2013 and in the programming period 2014 -2020 also from the European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) [22].

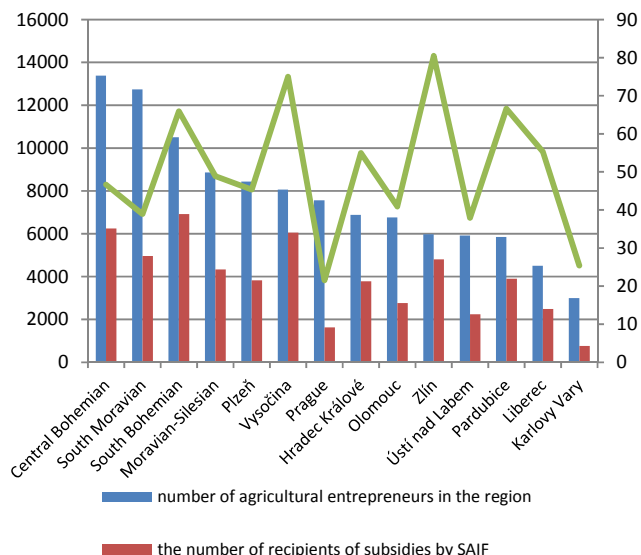


Fig. 5 The percentage of applications within SAIF in regions of Czech Republic, own processing according to data from the Czech Statistical Office and SAIF database, 2014, [25], [26]

Differentiation in the number of applicants for European or national subsidies among different regions in the Czech Republic is huge. While in the Zlín Region applies for a grant of almost each agricultural entrepreneur, in the capital city reaches on the grants almost every fifth entrepreneur.

To better overview the status of subsidies to agriculture is selected breakdown by NUTS 2, as shown in Fig. 6.

The national average of subsidies is slightly higher than 50 percent. All NUTS 2 regions, with the exception of Prague and Northwest, move around this boundary. We can therefore say that every second agricultural businessman works with the help of national or European grants.

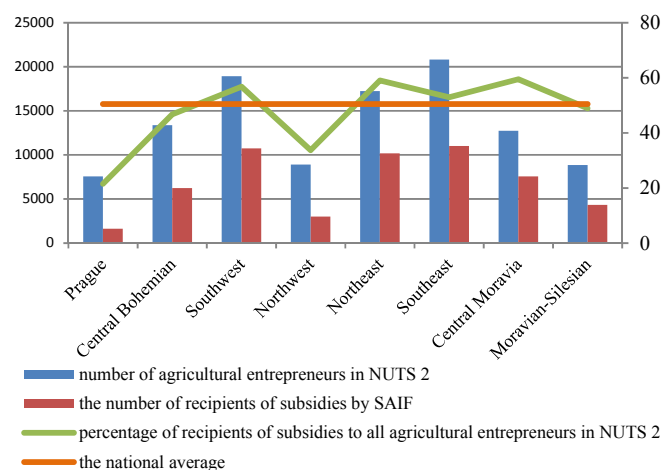


Fig. 6 The percentage of applications within SAIF in NUTS 2 of Czech Republic, own processing according to data from the Czech Statistical Office and SAIF database, 2014, [25], [26]

V. CONCLUSION

Agriculture is an integral part of the economy around the world. Each of continents or countries has varied approaches to agriculture. The aim of this paper was to introduce the Common Agricultural Policy of the European Union, its financing and the impact on the Czech agriculture. The Czech agricultural sector had to deal with many changes during the fifteen years. In the 1990s, Czech agriculture passed from a centrally planned economy to a market economy. Since 1998, when the Czech Republic was preparing to join the European Union, the Czech economy was forced to accept the rights of the European Union. Among them were the requirements and quotas of the Common Agricultural Policy. At that time, the number of agricultural subjects and farm workers significantly declined. Currently, in Czech agriculture sector working around 3% of the employees and the share of agriculture in GDP is about 2%. Czech farmers since 2004, when the Czech Republic joined the European Union, have learned to use for their business the benefits from national and especially European grants. Nowadays, more than half of Czech agricultural entities are working with these subsidies.

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