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1 General review

1.1 General overview of agricultural and national economy developments

Since 2003, the Czech economy has continued to grow. The negative balance of foreign trade decreased (from 66 billion. CZK to 22 billion. CZK), the rate of inflation is running at 2.8 %, the exchange rate of the Czech koruna has strengthened, the rate of unemployment has stabilized (10.3%), and real GDP increased by 4 per annum

The agricultural sector's economic performance in 2004 was good. Increased output, higher farmgate prices and greater government support to agricultural enterprises combined to raise the profitability of Czech agriculture.

The value of agricultural productions at basic current prices grew by almost one quarter (crop output by 42 %, animal output by 5%). The differences between 2003 and 2004 are caused also by direct commodity supports which form a part of basic prices. Gross value added (GVA) in agriculture representing the difference between gross output and intermediate consumption, rose in 2004 even more significantly than gross output.

1.2 Overview of agricultural and rural sector development

1.2.1 Production

In 2004, output of all main crop commodities except potatoes rose. The total area of cereals increased by 11%. and combined with very favourable weather caused a surplus of supply over demand. The sugar beet area was only 93 % of the previous year but due to higher yields sugar production increased. Total line in potato production caused increased potato imports.

In 2004, production of the main livestock commodities excluding poultry fell. Production of milk is limited by quota, 99.72 % of which was met... Since 2001 the production of beef has decreased continually in response to a long term decline in domestic consumption coupled with increased imports... A similar situation arose in the pork sector where cheap imports restricted domestic sales and thus production. Poultry production is influenced by increased domestic consumption, which for several years has stimulated increased domestic production. Eggs production decreased due to high imports of cheap eggs.

Number of head, production, efficiency and yields of main agricultural commodities

Crop commodities production	Indicator	Unit	2004	Index 2004/2003 %
Wheat	Area	000 ha	863,161	133,12
	Yield	t/ha	5,84	143,49
	Production	000 t	5 042,5	191,16
Barley	Area	000 ha	468,995	85,28
	Yield	t/ha	4,97	132,18
	Production	000 t	2 330,6	112,66
Sugar beet	Area	000 ha	68,970	93,18
	Yield	t/ha	50,57	107,63
	Production	000 t	3 488,0	100,29
Potato	Area	000 ha	42,141	99,98
	Yield	t/ha	23,57	126,30
	Production	000 t	993,2	126,27
Rape	Area	000 ha	259,460	103,39
	Yield	t/ha	3,60	232,26
	Production	000 t	934,7	241,02
Livestock commodity production	Indicator	Unit	2004	Index 2004/2003 %
Milk	Number of cows	pcs	433,3	94,28
	Efficiency	l/cow/year	6 006,20	104,34
	Production	000 t	2 680,5	98,36
Beef	Total cattle numbers	Pcs	1 428,3	96,91
	Efficiency	kg/pcs/year	0,865	98,97
	Production	000 t live weight	184,5	92,99
Pig	Total pig numbers	Pcs	3 126,5	92,97
	Efficiency	kg/pcs/year	0,688	105,68
	Production	000 t live weight.	547,0	94,33
Poultry	Total poultry numbers	pcs	25 493,56	94,87
	Production	000 t live weight.	310,23	102,06
Eggs	Total number of hens	pcs	11 112,35	94,85
	Efficiency	pcs/hen/year	269,30	97,86
	Production	000 t	2 652,62	93,37

Source: CSO

1.2.2 Prices

In 2004 in comparison to 2003, farm gate prices increased by 8, 1 %, with prices of crops up by 11,6 %. The major cause of the higher prices was the low level of production in 2003 in the Czech Republic (as also happened in the most European countries). Prices of livestock products increased by 6,2% especially for milk, beef and pork. Poultry prices have been stable for 3 years, egg prices slightly increased. Detailed information is in the following table.

Farm gate prices of main agricultural commodities in EUR

Crop commodities	Unit	2003	2004	2004/2003
Wheat	EUR/t	107.63	117.16	108.9
Barletta	EUR t	84.74	96.45	113.8
Sugar beset	EUR/t	29.81	47.67	160.0
Potato	EUR/t	129.68	211.45	163.1
Rape	EUR/t	230.78	225.14	97.6
Livestock commodities	Unit		2004	
Milk	EUR/100 kg	24.47	24.60	100.5
Bulls, class SEUR	EUR/100 kg live weight	117.21	121.11	103.3
Pigs, class SEUR	EUR/100 kg live weight	95.85	104.38	108.9
Chicken, class I	EUR/kg live weight	0.66	0.69	104.9
Eggs	EUR/kg	0.96	0.98	101.8

Exchange rate EUR/CZK of year 2004 = 31,904

1.2.3 Agri-food Trade

The evaluation of agri-food foreign trade is reported for the period 1. 5. 2004 to 30. 4. 2005: Total agri-food exports amounted to 67000 million. CZK (2162 million euro, agri-food imports totalled 95121 million CZK (3070 million euro),

The EU25 countries are the main trade partners. They take up 86,7 % of total value of agri-food export (Slovakia 25,6 %, Germany 20,9 %) and 90,3 % of total value of agri-food import (Germany 25,8 %, Poland 10,6 %, Slovakia 10,1 %). The share of EU25 in total volume of agri-food export is 96,2 % and import to EU25 takes up 92,8 %.

As a result of abolition of tariffs within countries of the EU25 and changes in rates of duty applied to third countries, the turnover of total Czech agri-food trade increased year-on-year by 32 104,2 million. CZK, it is 1 195,5 million. EUR (24,7 %)

As the value of agri-food export increased by 16207 million CZK, (585,3 million euro) (31,9 %) and the value of agri-food import increased by 15 897,3 million CZK, (610,2 million euro) (20,1 %), the deficit on Czech agri-food external trade was slightly reduced and the ratio of exports to imports rose from 64,1 % to 70,4 %.

The main exports are live animals (CN01), dairy produces (CN04), sugar (CN17), miscellaneous edible preparations (CN21), cereals (CN10), malt (CN11), oil seeds and oleaginous fruits (CN12) and beverages (CN22). The main agri-food imports are prepared animal fodder (CN23), miscellaneous edible preparations (CN21); preparations of cereals, flour, starch or milk (CN 19); cocoa (CN18), vegetable (CN07), fruit and nuts (CN08) and meat (CN01).

1.3 Agricultural and rural policy developments

Accession to the EU brought significant changes in agricultural policy, through adoption of the CAP. The Government's total agricultural expenditures, including those that were EU funded, grew by 27 % in 2004 of which supports for agricultural enterprises grew by 55% compared to 2003 due to the significant increase in direct payments. An analysis of support payments by agricultural objectives shows that improving the economic situation of farms has long accounted for the greatest share of support payments– 42% in the period 2000-2003, 58% in 2004. This confirms the continuing focus of agricultural policy on stabilisation of farm incomes. Spending on farm modernisation and restructuring and on environmental and rural development account for the next largest shares of expenditure

In general the Czech agricultural sector has benefited from accession to the EU and from participation in the CAP which has been reflected in a substantial improvement of the economic situation of agricultural enterprises.

1.4 Issues related to the enlargement

After the first year of the Czech Republic's membership of the EU noticeable changes took place in numerous areas of economy and social life. However, the impact was greatest in agriculture which, unlike other sectors of the national economy, is subject to EU market regulations through the CAP.

The cereal sector is the sector for which accession to the EU and adoption of the *acquis communautaire* has brought the most significant change. In spite of above problem the overall economic conditions of cereals growers were favourable thanks to the increased supports. To date there have been neither unforeseen benefits nor unforeseen problems with EU membership.

A major new factor influencing the consumer price of food is the growing influence of multinational retail chains. In terms of higher food quality, improved product choice and price competition.

2 Assessment and Outlook

2.1 Wine sector

Czech wine production accounts for some but 40% of domestic consumption, hence imports dominate consumption. Czech wine exports are negligible, in 2004 equalling only 4% of imports.

2.1.1 Wine consumption

Consumption of wine has been increasing in recent years and now exceeds 16 litres per capita per year. The consumption of white wine has been rising at the expense of red wine and there has been some shift from table wines to quality wines.

2.1.2 Wine imports

Wine imports continue to rise in both volume and value. During the last 5 years, the volume of imports doubled and their value trebled. In 2004, imports reached 1.2 million hl of wine, valued at 2354 million CZK (74.3 million euro). The purchase of white wine in barrels reached 56%, the share of white wine in bottles to 2 l reached 41%. The major suppliers were: Austria with 21.8% of total imports, Italy 20% and Hungary 10%.

2.1.3 Vine production

In the Czech Republic, there is only a small area of vineyards used for table wine production, but most vineyards can produce grapes suitable for quality wine production. White wine varieties account for two-thirds of the vineyard area and red wine varieties the other third. Total area are divided to the white varieties 67% (Müller Thurgau (11 %), Veltlínské zelené (11 %), Ryzlink vlášský (8 %), Ryzlink rýnský (7 %), Sauvignon (5 %) a Rulandské bílé (5 %), red one 32% (Svatovavrinecké (9 %), Frankovka (7 %) a Zweigeltrebe (5 %), the rest are table wine sort.

2.1.4 Vineyard area

The total area of vineyards is 110000 ha, virtually all of which grows wine-making grapes.

2.1.5 Structure of production

At the present time in the Czech Republic there are 18292 producers of grape of which:

- 14 % of enterprises grow vines, buy and sell grapes
- 27 % of enterprises produce table grapes
- 19 % of enterprises produce wine grapes for processing
- 24% of enterprises grow grapes for processing to wine and buy more grapes for processing
- 10% of enterprises buy all the grapes they use for producing wine.
- the remaining 6% are engaged in a combination of two or more of the above enterprises.

2.1.6 Wine yields maximum

During last 10years, the yield of grapes in the CR varied between 3,99 and 6,04 tonnes/ha.. In 2004 the yield averaged 5,38 t/ha. The average sugar content amounted 18,4⁰.

2.1.7 Wine production

In 2004 production of wine reached 560000. Hl. During last 10 years annual production ranged between 267000 hl (1997) and 697000. Hl (1999). Production of wine processed in the CR is formed by 30% of table wine, 70% of quality wine. (due to the import of grape squash for production of table wine).

In comparison with 1998, in 2004 the production of domestic quality wines and wines with a geographical designation increased from 180000 hl to 300000 hl. Since 2000 the production of table wine has fallen.

2.1.8 Production cost and competitiveness

Costs of vineyards amount to 100000 CZK per ha. During last 10 years cost of 1 kg grapes reached 10,90 to 30 CZK/kg (in 2004 14,30 CZK/kg). The profit was estimated at 10% in 2003 but as the price for wine-making grapes fell 20% in 2004, it is estimated that grape growers endured a loss of some 5%.

2.1.9 Wine exports

In 2004 wine exports reached 47300 Hl (average export value 28,19 CZK/l), of which 85 % was exported to the Slovakia (40200Hl, average export value 25,50 CZK/l).

2.1.10 Policy issues

EU Accession has damaged Czech wine producers as the resulting fall in tariff barriers has led to increased low priced imports .Despite this, Czech producers are convinced that the quality of Czech wine can compete with that of other wine producers.

2.2 Sugar sector

2.2.1 Sugar consumption

Development of sugar consumption for human nutrition in the Czech Republic (kg/person/year)

1999	2000	2001	2002	2003	2004 estim.
37,1	36,1	39,0	41,5	43,0	45,0

Source: Czech Statistical Office

Notice: calendar year

During the last period the consumption of sugar for human nutrition significantly increased. The volume of sugar consumption reflected level of price. Pre-Accession, there was some evidence of consumers buying up sugar in the expectation of price increases post-Accession.

2.2.2 Sugar import

Development of sugar import volume (incl. sugar substitutes) is reported in detail in the Annex table.

Import of sugar to the Czech Republic (000 tonnes)

1999	2000	2001	2002	2003	2004	2005
54,1	48,3	60,2	36,3	27,7	33,5	15,8

Source: Czech Statistical Office

Notice :calendar years; year 2005 from 1.1.to 30.6. 2005.

During recent years, imports of sugar from EU 15 increased from 20% of total import in 1999 to 93% in 2004,. Post-Accession, Slovakia. has replaced Poland as the largest trade partner.

2.2.3 Sugar beet area

From 1989 to 2000, the area of sugar beet diminished as a result of the impact of Czech agriculture restructuring and instability in the sugar market. In the past two or three years, the area has been slightly reduced due to higher yields and a limited sugar quota.

2.2.4 Structure of production

In 2001 there were 1 000 producers of sugar beet with average area 80ha. In 2004 there were 915 producers with average area 75 ha. In the 2005/06 campaign only 11 sugar factories will be in operation and we expect a further decrease to the 4 or 5 factories.

2.2.5 Yields

Intensity of sugar beet production and sugar production are increasing. Sugar yield development in the Czech Republic (t/ha) is reported in the table.

1999	2000	2001	2002	2003	2004 estimate.
6,70	7,08	6,32	7,19	6,66	8,03

Source: State Agricultural and Intervention Fund, Ministry of Agriculture, Czech Statistical Office

Since 1989 there is produced very efficient variety of sugar beet with high content of sugar. At the same time the modernisation of sugar factories increased the productivity of work and recovery factor of sugar from sugar beet.

2.2.6 Sugar and isoglucose production

Isoglucose is not produced in the Czech Republic. Development of sugar production is in Annex table. After the privatisation and restructuring of Czech agriculture, surplus sugar was exported but the export price was lower than the production costs. This led to a decline in the sugar beet area and lower sugar production.

2.2.7 Production cost and competitiveness

The costs per tonne of sugar depend on the sugar beet yield and the sugar content. This reality has been reflected in the rate of sugar beet profitability.

Development of sugar beet costs in the Czech Republic (legal persons)

Indicator	Unit	1999	2000	2001	2002	2003	2004
Costs total	CZK/ha	37 495	36 473	39 401	41 125	37 267	43 488
Costs of main product	CZK/ha	37 495	36 473	39 401	41 125	37 267	43 488
Yield	t/ha	45,55	47,89	48,79	48,89	43,59	45,93
Costs of main product	CZK/t	823	762	808	841	855	947
Revenues	CZK/ha	36 032	49 526	45 286	43 905	40 449	65 073
Average price	CZK/t	799	1 038	961	899	928	1 410
Rate of profitability	%	-2,9	36,2	18,9	6,9	8,5	48,9

Source: FADN

The rate of profitability is calculated as cost per ton/price per ton.

2.2.8 Exports

The detailed information is set out in the Annex table. The overview is presented in the followed table.

Indicator	1999	2000	2001	2002	2003	2004	2005
Export total (000.t)	18,9	72,5	144,2	87,9	34,1	190,0	119,7
of which to EU(000.t)	5,3	19,1	10,4	11,3	3,6	151,1	74,4
CZK/kg	9,82	9,17	9,59	8,74	9,07	17,46	15,13

Source: CSO

During the monitored period the export of sugar increased especially after year 2000 as a result of the introduction of minimum prices for sugar beet and sugar, which raised the domestic price and the industry geared up in anticipation EU Accession. ,

2.2.3 Policy issues

The switch-over to the CAP rules occurred without problems.