Project no.
513705

Project Acronym
CEEC AGRI POLICY

Project title
Agro economic policy analysis of the new member states, the candidate states and the countries of the western Balkans

Instrument Specific Support Action

Thematic Priority Scientific Support to Policies

D12-2 Second 6-monthly report
MONITORING AGRICULTURAL POLICY, MARKET AND TRADE DEVELOPMENTS IN The Czech Republic

Due date of deliverable: 05/2006
Actual submission date:05/2006

Start date of project: 01.05.2005 **Duration**: 24 Months

Organisation name of lead contractor for this deliverable : VUZE

Revision Final

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Acknowledgement

This report forms part of the deliverables from a project called "CEEC AGRI POLICY" which has been awarded financial support by the European Commission under the 6th Framework Programme.

The project aims to establish a network of experts involved in agricultural policy analysis and rural development in the New Member States, in the Acceding Candidate Countries and in the countries of the Western Balkans. More detailed information on the project can be found at www.agripolicy.net.

DOCUMENT HISTORY

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1 General review

1.1 Major agricultural market developments in 2005

In the year 2005 average agricultural producer prices were 9.2 % lower than in 2004. The prices of crop products had fallen by 25%; whilst prices of animal products had grown by 0.4%. Lower prices were reported for cereals, potatoes, pigs for slaughter, poultry, sugar beet and eggs. Prices of agricultural producers of bulls for slaughter year-on-year rose by 4.0 %; on the other hand prices went down by 7.7 % for the similar category of pigs. The prices for milk grew.

In 2005 pig meat production decreased by 6.0 % and beef production incl. veal went down by 3.8 % year-on-year. Since the beginning of 2006 total meat production (excl. poultry meat) has decreased by 11.1 % due to both a decreases in pig meat and a decrease in beef production (incl. veal). The decrease of meat production was connected with the increase of meat imports. Pig meat production went down by 9.8 % year-on-year. The pig population continued to decline as the livestock census carried out as of 1 April 2005 confirmed. Pig numbers went down by 8.0% year-on-year and by 22.0% in comparison with 2000. The decrease in the pig population was related to the liquidation of unprofitable pig farms. The number of pig farmers went down by 10 % year-on-year in 2005. The average price of pigs to agricultural producers went down by 1.6% in 2005 year-on-year, of which price of 1st-quality pigs in carcass weight decreased by 0.6 % and the price of live weight pigs fell by 1.9 % year-on-year.

Beef incl. veal production decreased by 16.2% year-on-year. Meat production continued to decrease throughout the year compared to the same period in the previous year. The cattle population continued to decrease in 2005. According to the livestock census conducted on 1 April 2005 there were 1 397 thousand head of cattle in the Czech Republic. The cattle population decreased by 2.2% year-on-year and by 11.2% compared to 2000. The decrease in the cattle population was related to an increase in milk production per cow and to the liquidation of unprofitable herds. As well as the lower supply of domestic cattle for slaughter the significant year-on-year fall in beef production was caused, by the decrease in imports of cattle for slaughter, by 32.3% compared to 2004, and by more than a doubling of the number of exports of cattle for slaughter compared to the preceding year.

1.2 Agricultural and rural policy developments

A new system and structure of agricultural and rural support came into force in the CR as a result of the CR accession to the EU with state aids permitted only with EU agreement.
Direct payments accounted for the greatest part of the state aid in 2004 as well as 2005. The Czech Republic introduced the EU "single area payment scheme" (SAPS) and, where it was considered appropriate the Government supplemented SAPS with national Top up within the permitted level. Such Top up were provided for growing of hops, flax and selected arable crops; for cattle, sheep and goats and for potatoes grown for starch production.

Support within the EU structural policy covered:

- The SAPARD programme was designed for ten candidate countries and it provided assistance to these candidate countries in addressing specific tasks connected with the introduction of the "acquis communautaire" related to the Common Agricultural Policy, and with structural adaptations in individual agricultural sectors and rural areas;
- The Operational Programme "Rural development and multifunctional agriculture", that is a basic programming document approved by the European Commission (2 July 2004) allowing finance from EU funds to be drawn to support agriculture in the period 2004 to 2006.
- The Horizontal Rural Development Plan (HRDP)- the primary objective of the HRDP programme is the economic stabilisation of farming in less- favoured areas through the measures "Less-favoured areas", "Early retirement from farming" and "Setting-up producer groups" and further the application of the principles of sustainable agriculture in the entire agricultural sector through the schemes of the Czech agri-environmental measures.

Rural development measures have also been included under SAPARD. The SGFFF's schemes also contribute to rural development. The main activity of the SGFFF is to provide support in the form of interest subsidies and guarantees of a part of the principal of loans for return generating business projects of enterprises falling under the remit of the Ministry of Agriculture.

Other resources for the preservation and development of rural areas are provided by the Ministry of the Environment. Landscape upkeep schemes focusing on particular action (planting of small woodlands and hedges, revitalization of watercourses, etc.) are among the priorities of the Ministry of the Environment. The Programmes of the Ministry of Industry and Trade and the Ministry for Regional Development are designed to support small and medium sized enterprises through interest subsidies (the VILLAGE and REGENERATION programmes). The aim of these programmes is to increase the attractiveness of small-scale businesses and employment in small villages and thus to contribute to the economic and social situation in such areas.

1.3 Issues related to the enlargement

The removal of customs barriers in mutual trade and higher tariff protection against imports from third countries had an immediate impact on the competitive position of individual producers and led to a more competitive environment but the agri-food terms of trade have continued to deteriorate as the Czech Republic exports products with low added value and imports products with a higher added value.

A further negative element of EU Accession is that multinational retail companies are now major players in the food market and their market power impacts brings great difficulties to the processors and producers of raw materials for food production. On the other hand, consumers are benefiting from lower prices for higher quality foodstuffs.

The larger agricultural companies are relatively able to compete on the European market in the production of cereals and oilseeds but the livestock producers are not well equipped to face competition from EU-15 producers whose output per man is twice that on Czech farms.

2 Assessment and outlook: market integration in the cereal sector

2.1 Introduction

Cereals are among the commodities for which the accession to the EU and the Common market organization (CMO) brought a significant change in the method of intervention. Wheat, maize and barley are the main cereals produced in the CR, production of oats is negligible. During the last 5 years the total area of cereals decreased due to a significant decrease of wheat area. Production of cereals has varied due to weather conditions from 5.76 million tonnes 8.78 million tonnes in 2004. Consumption for human use has been fairly constant but use of cereals for animal feed has decreased due to falling livestock numbers.

Market development

During recent years productivity on farms and in the processing industry has increased. Cereal producers are uneasy about their future under the changed support regime and are concerned at the power that multinational processors are beginning to exercise in the market. Whilst Czech consumers now have a wider choice, the lower farm gate prices are not reflected in the consumer price. Market price transparency is evident because information from the Czech Commodity exchange is provided fortnightly. However, it seems that the multinationals and the traders who buy cereals on the Commodity exchange and later resell them to processors and manufacturers have been able to increase their margins significantly.

Recent changes in the cereals market are the consequence of the possibility of intervention purchases. There has been over production in Europe as a whole, but the percentage increase in the Czech Republic in 2004 was above the average increase in EU-25. This has led to a significant fall in farmgate prices as unwanted stocks have piled up. The average cereals area per farm has increased and there is evidence of increased concentration on large scale farms.

The cereals sector is considered as relatively stable because the possibility of intervention gives farmers more security, so the cereals area in 2005 remained the same as in 2004. Between the year 1992 and 2005 the sown area of cereals as a percentage of the total sown area increased from 50 % to the 60 %.
On the other hand rapeseed belongs to the commodities that can be counted as profitable nevertheless the sown surface in the CR has varied according to market demand (1990 - 3.21%, 1995-8.13%, 2000-10.77%, 2005-10.05%).

Use of inputs
Machinery investment increased after the introduction of support under the Operational Programme of Agriculture and the possibility of co-financing from EU funds. The variety of machinery available has increased sharply as a result of competition between machinery companies on the Czech market from which the farmers profit. It is important to note that the machines are of high quality and are more expensive than in the past and on the other hand there is the possibility to lease machinery instead of buying it outright.

Seed for sowing: farmers have purchased new seed of the highest quality. Every year the Cereals union organises a trade fair where a wide offer of high quality breeding seeds, from domestic producers and abroad, can be purchased.

The prices of fertilisers have risen (index 2005/2004 108.8%). After a sharp decline during the 1990s, fertiliser use per hectare is now slowly increasing – NPK net nutrient/ha of arable land -. 1986-1990 - 223.8 kg, 1991-95-71.58 kg, 1996-2000 -74.54 kg, 2001-2004 - 90.9 kg.
Concerning pesticide prices, the inter-annual index between 2004 and 2005 decreased to 94.9%.

Short term outlook for cereals market
As a consequence of the divergence between stable domestic demand and the increased production during the last 2 years in the CR there is evident over-supply and this has resulted

in increased stocks. For the marketing year 2005/06 we expect the level of total cereal stocks to be 22.6 % of domestic consumption (wheat 27.9%), a high ratio of stocks is also expected for maize (23.4%). Due to the stable representation of cereals in crop production a decrease of final stocks can be expected to occur very slowly.

Long term outlook

The current problems in the CR cereals market will diminish during the next 2-3 years. Direct support will mean that CR producers will continue to sow the same area of wheat, barley and maize but the predicted increase in yields will mean that production will increase.

The scale of intervention purchases will increase as the domestic market is expected to stagnate or even decrease. The use of wheat for the production of bio-ethanol, probably as much as 300000 tonnes, will be significant if this amount is not supplied by imports.

2.2 Expert views on infrastructure (storage capacity and transportation)

Storage

Qualitative description of the storage capacity

The storage capacity is mostly situated outside farm. According to AGROCENZUS 2000 there were in Czech agriculture a total of 13 947 stores for grains with a total capacity of 4.9 million tonnes, of which only 2343 stores with a capacity of 0.58 million tonnes had been modernised in the previous 10 years. According to an investigation carried out by the Research Institute of agricultural techniques (VUZT) done on the 31. 12. 2005 there were more than 11000stores available of which 1/4-1/3 were indoor stores which were unsuitable for long term storage.

Assessment of the quality of the storage facilities

The quality of stores which are owned by professional (monopolistic) holders is excellent, the transport to/from these stores is provided by railway siding. This equipment increases the effectiveness of cereal handling. Smaller owners of stores provide lower quality indoor storage.

Main problems related to storages

At the present time the CR has no state stores for cereals. In the CR there are stores in 68 regions but they vary in size and grain handling facilities and many date from the 1960s so are in need of modernisation. At the present time the usage of the stores is changing and the capacity in some region is exploited less than in others.

The majority of the capacity is in the hands of the 3 main companies. Company AGROFERT and AGROPOL are owners of modern stores. The third one is a privatised former state company “Agricultural Supply and Purchase”, that own stores alongside railway stations, but where small stores have a problem with maintaining a high quality for a long time. Investment in building /reconstructing storage capacity and in post harvest technology is eligible for EU funded support the construction of 2 stores with a capacity of 100000 tonnes

Transportation

Transport is carried out entirely by rail but the capacity of the railway is not increasing. Transport costs have grown proportionately with the increased price of energy and fuel.
CR transport costs are very high because of the distance to the ports.

2.3 Expert view on quality

Cereal quality year-to-year changes as a consequence of weather influence during the growing period and throughout the harvest. In previous times the poor quality of seeds could be added to these factors. At the present time fertilisation is not at the required level as a consequence of the lack of financial resources

2.4 Expert view on possible or existing market distortion

In the CR fodder cereals form 75% of the total cereals volume. This is not only the result of demand for cereals as feedstuffs but as a consequence of the climate in the CR which predetermines the quality of cereals compared to the southern European. Conditions for agriculture in the CR which are different in terms of EU did not reach such qualitative parameters as for example Hungary.

At the same time the lower quantity funds available, in comparison with the EU 15, is reflected in the lower use of fertilizers and use of protective matters which also lead to lower yields. The lower intensity of use and the increased costs will result either in lower price or in loss of competitiveness.

2.5 Assessment of the market integration

Integration of the CR cereal sector into the common market EU has had many negative results because the Czech cereal sector has had to face up to more difficult conditions than older EU members. This means that the different geographical position causes higher transport costs for intervention purchases outside the CR which has to be compensated for by EK.
Furthermore as a consequence of the different climatic conditions there will be profitable to start the intervention purchasing procedure immediately after the harvest to keep the full quality.
The many problems would be solved if the overproduction of cereals could be used to fulfill demand inside the EU.