

**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE  
FACULTY OF ECONOMICS AND MANAGEMENT  
DEPARTMENT OF ECONOMICS**



**BACHELOR THESIS**

**Subsidization under common agricultural policy (CAP) as a factor of  
competitiveness of the European agricultural producers**

**Pavel Pokorný**

**© 2010**



**DECLARATION:**

I declare that I have worked on my diploma thesis titled " Subsidization under common agricultural policy (CAP) as a factor of competitiveness of the European agricultural producers" by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on 25.3.2010

---

Pavel Pokorný

## **ACKNOWLEDGMENTS:**

I would like to express my sincerest gratitude to Ing. Petr Procházka, MSc, who has supported me throughout this thesis with his patience in discussing and giving me lots of helpful advices.

**Společná zemědělská politika jako faktor konkurenceschopnosti evropských zemí**

**Subsidization under common agricultural policy (CAP) as a factor of competitiveness of the European agricultural producers**

## **SOUHRN**

Tato bakalářská práce se zabývá tématem Společné zemědělské politiky Evropské unie jako faktorem konkurenceschopnosti evropských zemí. Na tuto tematiku je nahlíženo jak z obecného úhlu pohledu, tak z pohledu praxe.

Tato bakalářská práce odhaluje důvody zavedení podpor pro zemědělce nejen v Evropě, ale i ve státech z jiných částí světa. Zkoumá nejen historickou situaci, ale zahrnuje i aktuální situaci na poli zemědělských podpor. Tato bakalářská práce analyzuje jakým způsobem jsou získávány prostředky na podporu zemědělství. Dále se zabývá tím, jakým způsobem jsou tyto prostředky přerozdělovány mezi jednotlivé členské země Evropské unie. Především však zkoumá pozici a konkurenceschopnost jednotlivých evropských zemí v rámci Společné zemědělské politiky Evropské unie.

## **KLÍČOVÁ SLOVA**

SZP, Společná Zemědělská Politika, konkurenceschopnost, dotace,

## **SUMMARY**

The subject matter of the Bachelor's Thesis is the issue of CAP as a factor of competitiveness of European countries. This issue is described and approached in general and it based on a practical point of view. This bachelor thesis reveals the reasons, which served as the emergence of subsidies for farmers not only in Europe, but also in other countries from different parts of the World. It analyses not only the historical situation but it includes also the current situation on the field of agriculture subsidies. At the same time the serious attention of Bachelor thesis is directed to the main sources of CAP's money and the way of its subsequent redistributing. The main focus is given to the position of individual EU member-countries in terms of competitiveness under CAP.

## **KEY WORDS**

CAP, subsidy, price support, competitiveness, agriculture support

## Table of contents

<b><i>Introduction</i></b> _____	<b>5</b>
Method of analysis and synthesis _____	8
Method of abstraction and concretization _____	9
Comparative analysis _____	9
Descriptive analysis of time series data _____	9
<b><i>Literature review</i></b> _____	<b>10</b>
<b>What are the main principles of competitiveness?</b> _____	<b>10</b>
Company level of competitiveness _____	10
Industry level of competitiveness _____	11
National level of competitiveness _____	12
<b>History of subsidies in the USA</b> _____	<b>18</b>
<b>Current subsidy situation in the USA</b> _____	<b>20</b>
Market price supports _____	20
Direct payments _____	20
Export subsidies _____	21
<b>Subsidies - New Zealand</b> _____	<b>22</b>
<b>Subsidies - Europe - Common Agricultural Policy</b> _____	<b>24</b>
History of Common Agricultural Policy _____	24
McSharry reform _____	27
Agenda 2000 _____	29
Mid - Term Review _____	29
Health Check _____	30

<b><i>Analysis (Subsidies)</i></b> _____	<b>30</b>
Can the effect of reforms be proven? _____	30
How is CAP financed today? _____	33
The ways of transferring money to farmers _____	34
Do all states get equal amount of money? _____	38
Searching for free riders _____	42
Influence of Corruption index and GDP on amount of subsidies received _____	44
<b><i>Conclusion</i></b> _____	<b>49</b>
<b><i>Bibliography</i></b> _____	<b>51</b>

## **Introduction**

Farmers have to use all available tools to survive in the current market.

On one hand there are many input and output factors that they can manage and influence by themselves. They can decide from who they will buy the inputs needed for their production. They can also decide to who they will sell their production.

On the other hand there are factors that they cannot influence. For example: The Common Agricultural Policy. Common agriculture policy (CAP) is one of the oldest EU policies. It transfers money from taxpayers to farmers in order to support our suppliers of food to ensure stable high quality food supply. It is a policy that still consumes the highest amount of money in EU budget. Since its beginning in 1957 by Treaty of Rome CAP has been always one of the most controversial EU Policies.<sup>1</sup> For more than a half century of its existence it developed through many reforms in its current form. It still fulfils five major goals that were stated right from its beginning. The difference is the way how these goals are achieved.

The number of subsidized countries increased from 10 up to 27. The way how farmers are subsidised has also changed. The CAP went through a decoupling process. That means that farmers are not paid any more for producing a particular crop. Direct subsidization of agricultural products has led in past to overproduction and large expenses from the side of EU.

Today, farmers are subsidized for more social things such as: caring for nature, environmental conservation and rural development. Nowadays the farmer is not only a simple producer of food, but he is considered also as a person caring for the countryside.

The development of percentage of EU budget, spent on CAP, had also developed a lot during CAP existence. CAP constitutes the largest share of EU budget expenses.<sup>2</sup> At the beginning there was just about 10% of EU budget spent on CAP. Afterwards the spending was just increasing until its peak in late seventies when there were on CAP spend more than 80% of total EU budget on CAP till present spending. Nowadays, the annual cost spending on CAP is about 40% of EU

---

<sup>1</sup> (Mardell, 2008)

<sup>2</sup> (Europe's agriculture and the Common Agricultural Policy (CAP) – Frequently asked questions, 2009)

budget every year.<sup>3</sup> Unfortunately, as the total budget of EU increases every year, as well the spending at the expenses in CAP are increasing too.

Since my early childhood the development of agriculture has always been interesting for me. Later I've met a lot of European farmers. I wonder who has the most favourable conditions for his successful business. I am sure this information helps me to manage successfully my own business.

Surely CAP is not the only factor but definitely it plays a significant role in farmer's income.

---

<sup>3</sup> Eurostat; (Financing the common agricultural policy - Archive)

## **Aim**

The aim of my bachelor thesis is to try to study how CAP may contribute to competitiveness of farmers in individual European countries.

Firstly, this bachelor thesis tries to analyze, what was the reason for subsidising farmers. Then, it was the search for information about the CAP's starting. The sources of EU money that are used to finance this policy are identified further. This bachelor thesis reveals how the system of subsidies is organized in present time and what are the proposals for future.

Secondly, bachelor thesis tries to compare the situation with subsidies and farmer support in EU with other countries and continents.

Mainly attention is focused on New Zealand because since 1984 its strategy is totally different from European one. In 1984 the system of subsidies was abolished in New Zealand. The interesting findings are made in the analysis of this step. These findings are also reflected in this bachelor thesis.

The system of farmer's support in one of the North American state is also described in this thesis. The situation with the support of farmers in this North American state is rather different from the situation in Europe.

Finally, the long term data connected with CAP, EU budget inflows and outflows are analyzed in the practical part of this thesis.

Correct or incorrect findings of the redistribution of EU money to individual countries are expected from this analysis. The conclusions are proved by graphs and tables from where a lot of data are available.

## **Methodology**

Firstly, I give a description and at the same time I analyze the information which is available in Czech and in the international literature.

The attention focuses on other researchers' findings that were dealing with this topic before. The particular methods are chosen and used on the base of new knowledge gained from Czech and international literature. These methods help to achieve the aim, which is the successful completion of the thesis.

Method is: *"Established, habitual, logical, or prescribed practice or systematic process of achieving certain ends with accuracy and efficiency, usually in an ordered sequence of fixed steps."*<sup>4</sup> And methodology is: *"The study or theoretical analysis of such working methods"*<sup>5</sup>

Both types of methods are used in this work. The qualitative methods are used mainly in the first part of the research. The quantitative methods are used in the second part of the research. Methods used in this bachelor thesis are:

### **Method of analysis and synthesis**

The terms analysis and synthesis come from (classical) Greek and mean literally "to loosen up" and "to put together" respectively. These two methods are the very basic methods of text exploring. In general, analysis is defined as the procedure by which we break down an intellectual or substantial whole into parts or components. Synthesis is defined as the opposite procedure: to combine separate elements or components in order to form a coherent whole.<sup>6</sup>

These two methods always go hand to hand. Each synthesis usually foregone by analysis and vice versa.

These two methods always go hand to hand. Each synthesis precedes analysis and vice versa. These methods are used in this bachelor thesis mainly in the literature review. The competitive environment in European agriculture is analyzed here and the resulting synthesis is used in order to get the significant conclusions.

---

<sup>4</sup> (Business Dictionary)

<sup>5</sup> (Answers.com)

<sup>6</sup> (Ritchey, Swedish Morphological Society, 1996)

### **Method of abstraction and concretization**

These two methods are also members of the very basic methods of text handling. Abstraction means that when working with data, some details are intentionally omitted in order to make data more general. Then comparative methods can be used in order to compare such data. This method will be used in this bachelor thesis also when comparing amounts of subsidies received by particular states in EU. Some details will be omitted in order to make data comparable.<sup>7</sup>

On the other hand, the concretization is the opposite of abstraction. It is used when we try to identify and to justify some data and to determine the difference between the particular parts of data.

### **Comparative analysis**

Method of comparison deals with confronting data. Comparison is used to determine and quantify relationships between two or more variables by observing different groups that either by choice or circumstance is exposed to different treatments. This method will be used in the last section of this thesis where will be compared incomes of particular states received under CAP.<sup>8</sup>

### **Descriptive analysis of time series data**

*"A time series is a collection of observations of well-defined data items obtained through repeated measurements over time."*<sup>9</sup> Time series deals with analyzing this kind of data. It tries to identify and to interpret some regular and irregular behaviour of data. This method will be used also in last part of my bachelor thesis when the analysis of graphs from data, that will be gathered, will be done.<sup>10</sup>

---

<sup>7</sup> (Hindriks)

<sup>8</sup> (How to Write a Comparative Analysis)

<sup>9</sup> (Time Series Analysis: The Basics)

<sup>10</sup> (Easton & McColl)

## Literature review

### What are the main principles of competitiveness?

Competitiveness is often connected with questions: Are we doing the best we can? To what measure does the Czech Republic good in comparison with the other countries?

Professor Michael Porter of Harvard University's Institute for Strategy and Competitiveness defines Competitiveness as: *"The productivity with which a nation utilizes its human, capital and natural resources."*<sup>11</sup>

Professor Michael Enright, director of the Competitiveness Program at the Hong Kong Institute of Economic and Business Strategy, defines competitiveness for firms as the ability to succeed against competitors in ways that lead to higher profits.<sup>12</sup>

Finally definition of Council of Economic Advisors Chairman Laura D'Andrea Tyson who thinks that competitiveness is: *"our ability to produce goods and services that meet the test of international competition while our citizens enjoy a standard of living that is both rising and sustainable."*<sup>13</sup>

As there are many definitions of competitiveness, there are also many approaches and divisions of competitiveness. I would like to mention just two of them.

Based on texts from Franziska Blunck and Soren Kjeldsen - Krugh competitiveness can be divided into 3 main levels: Company level, Industry level, National level.

### Company level of competitiveness

*For the company, competitiveness is ability to provide products and services as more efficiently and effectively than the relevant competitors.*<sup>14</sup> *Therefore, the rate of capital return is an indicator of the competitiveness. If capital return is an indicator of efficiency a high private return on capital is also an indicator of a high social return. However, efficiency is not a clearly defined concept.*<sup>15</sup>

---

<sup>11</sup> (Porter, 2005)

<sup>12</sup> (Competitiveness)

<sup>13</sup> (Krugman)

<sup>14</sup> (Blunck, 2006)

<sup>15</sup> (Kjeldsen-Kragh, 1999)

Efficiency can be identified as structural efficiency, technical efficiency and allocation efficiency. **Allocation efficiency** is about choosing the right variety of products. There are quite many of them and it is just up to particular company which products it chooses to produce.<sup>16</sup> The company has to decide itself what is better to produce. For example: if it should produce a lettuce, an iceberg salad or radishes. The company is more effective when it chooses the suitable products that provide high profits and reduce costs.

It also depends on how the company is **technically efficient** in the production of the selected product. When choosing the products for produce, the company should take into account what kind of technology needs this product and what costs are possible with this technology.<sup>17</sup>

The applied technology also depends on the scale of the planned product which is going to be done. Usually it means the larger scale is planned, the more costly technology has to be bought at the beginning but the lower costs can be expected in the future. This is basically the **Structural efficiency**.<sup>18</sup>

### **Industry level of competitiveness**

*At the industry level, competitiveness is the ability of the nation's firms to achieve sustained success against (or compared to) foreign competitors, again without protection or subsidies.<sup>19</sup> The competitiveness of the agricultural sector can be defined as the capability of the agricultural sector to obtain income earnings which are comparable to what can be paid to the production factors in other industries.<sup>20</sup>*

The new technology is always coming into industry. And as the technology comes farmers accept it differently. Some of the farmers accept new technologies very quickly but some of them do it very slowly. Kjeldsen - Krugh based on research of Cochrane (1958) divides farmers into 3 groups: early adopters of new technology, the followers and the laggards. To adopt the new technology as a first one is quite risky, because it does not guarantee the farmer the best possibility. The new technology is not tested enough, usually it is quite expensive and the performance of the new technology is usually just a bit higher than the performance of the old technology. The farmer has to decide whether to invest "

---

<sup>16</sup> (Allocative efficiency in a perfectly competitive market.)

<sup>17</sup> (TECHNICAL EFFICIENCY)

<sup>18</sup> (Happe & Balmann, 2003)

<sup>19</sup> (Blunck, 2006)

<sup>20</sup> (Kjeldsen-Kragh, 1999)

into the new technology as soon as possible and benefit from usage of the technology for longer time than competitors or if he should wait when the technology develops and becomes less costly and more profitable.

The speed how the whole sector adopts new technologies in comparison with other sectors and the same sectors in other countries is very often analyzed.

### **National level of competitiveness**

*For the nation, competitiveness means the ability of the nation's citizens to achieve a high and rising standard of living. In most nations, the standard of living is determined by the productivity with which the nation's resources are deployed, the output of the economy per unit of labour and/or capital employed. A high and rising standard of living for all the nation's citizens can be sustained only by continual improvements in productivity, either through achieving higher productivity in existing businesses or through successful entry into higher productivity businesses.*<sup>21</sup>

There is also another approach how to look at competitiveness and its main factors. Hana Machková and Josef Taušer identify the basic factors of Competitiveness: Productivity, Quality, Flexibility and Innovation.<sup>22</sup>

**Productivity** is based on ability to decrease and optimize costs that means operating costs. The intention to decrease costs is very often connected with the movement of production into less costly and more suitable areas.<sup>23</sup> In order to decrease cost the nowadays companies also use the outsourcing for some their activities.

It is not just the case of car industry, this occurs also in agriculture. For example, the Czech Republic is able to be as one of the branches of the biggest producer of iceberg salad in Europe. This company is GS Marketing which is a part of Pascal's corporation.

They have branches in Spain and Great Britain and their main aim is to supply market in Great Britain. They always try to produce in the area where the conditions are the most suitable (iceberg salad needs very specific temperatures) in order to get the highest quality and the lowest cost possible.

---

<sup>21</sup> (Blunck, 2006)

<sup>22</sup> (Machková, Taušer, & kolektiv, 2007)

<sup>23</sup> (Produktivita)

**Quality** is the basic factor that influences the choice of customers and sellers. It can be defined as an additional feature of a product which increases the investor's willingness to put in and the consumer's wishes to pay for it.<sup>24</sup> Higher quality enables getting higher price for a product without decrease or loss of the market share. This can be demonstrated on all those super, hyper premium products that we can see everywhere around us. They are usually sold for double price than the ordinary products. The question arises: is the quality of this product really higher or is it just a marketing trick?

**Flexibility** is said to be ability of companies to react on changes on the market quickly.<sup>25</sup> The company should be ready to follow the never-ending story of market changes. The structure of the market changes continuously, new competitors are coming, products are changing and if the company wants to be successful in such a challenge it has to be flexible. This challenge led to development of concepts Just in Time (JIT), Quick Response (QR), Efficient Consumer Response (ECR) and etc. The purpose of ECR suppliers is to supply its customers better, faster and with lower cost. To reach this goal they have to use JIT strategy that means that they hold just little stock of material and the new material comes according to production just in time. This makes companies more flexible and it lowers its costs.<sup>26</sup>

**Innovation** is an essential part of today's competitive strategies. Innovations can be divided into three basic groups - product innovations, process innovations, organization innovations. Many successful strategies are based on certain level of innovation. Companies try to make their product different from products of their concurrence. If their products are different it helps them to attract customer and keep attention of a customer upon particular product.<sup>27</sup>

Producers always try to search gaps on the market where their product could succeed. In these gaps the producers would have lower concurrence so their profit could be higher. New innovations can be registered and defended by patents. New thoughts, ideas, if they are really new and original, are subject of property rights and everyone who wants to use these new ideas have to behave according to these rights.

---

<sup>24</sup> (Machková, Taušer, & kolektiv, 2007)

<sup>25</sup> (Machková, Taušer, & kolektiv, 2007)

<sup>26</sup> (Machková, Taušer, & kolektiv, 2007)

<sup>27</sup> (Machková, Taušer, & kolektiv, 2007)

If the aim is to make a research, whether Czech Republic is competitive in terms of CAP or not, then there has to be developed an approach how to do it.

In some sense we might agree with a statement of former president of USA Bill Clinton who said about competitiveness of states: *"each nation is like a big corporation competing in the global marketplace."*<sup>28</sup> But on the other hand, it is not as simple with the states as with the corporations.

*"The bottom line for a corporation is literally its bottom line: if a corporation cannot afford to pay its workers, suppliers, and bondholders, it will go out of business. So when we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business. They may be happy or unhappy with their economic performance, but they have no well-defined bottom line. As a result, the concept of national competitiveness is elusive."*<sup>29</sup>

Competitiveness in agricultural sector is based on companies and their activity. States are not competitive themselves. States just provide some environment to increase or decrease competitiveness. I would like to classify factors by which the states can influence an agricultural sector. If farmers of one state are competitive, then the whole sector is competitive and moreover the whole state is competitive also. This bachelor thesis is mainly focused on the factors that are measurable. Focus is mainly pointed on the effectiveness of getting subsidies from CAP. It is very hardly to quantify many factors such as quality and flexibility.

Companies can be competitive just if they operate on competitive markets. If we want to be competitive in the market we have to fulfil several basic conditions.

A book "Microeconomics" by sirs Pindyck and Rubinfeld was used here as a source for this chapter. They write about Market and competitiveness the following:

*A market is a collection of buyers and sellers that, through their actual or potential interactions, determine the price of the product or set of products.*<sup>30</sup>

---

<sup>28</sup> (Krugman)

<sup>29</sup> (Krugman)

<sup>30</sup> (Robert S. Pindyck, 2005) page 7

*"Market with many buyers and many sellers, so that no single buyer or seller has a significant impact on price is called perfectly competitive market. Most agricultural markets are very close to being perfectly competitive. For example, thousands of farmers produce wheat, which thousands of buyers purchase to produce flour and other products. As a result, no single farmer and no single buyer can significantly affect the price of wheat."*<sup>31</sup>

If the market has to be competitive it has to fulfil several conditions:

**Price Taking** - Because many firms compete in the market, each firm faces a significant number of direct competitors for its products. Because each individual firm sells a sufficiently small proportion of total market output, its decision has no impact on market price. Thus, each firm takes the market as given. In short, firms in perfectly competitive markets are **price takers**.<sup>32</sup>

**Product Homogeneity** - Price-taking behaviour usually occurs in markets where firms produce identical or nearly identical products. When the products of all firms in a market are perfectly substitutable with one another or in other words, when they are homogenous, no firm in this case can raise the price of its product above price of other firms without losing most or all of its business.

Most of agricultural products are homogenous, the product quality is relatively similar among farms in a given region, and for example, buyers of corn do not ask which individual farm grew the product.<sup>33</sup>

**Free Entry and Exit** - There are no special costs that make it difficult for a new firm either to enter and industry and produce, or to exit if it cannot make a profit. As a result, buyers can easily switch from one supplier to another, and suppliers can easily enter or exit a market.<sup>34</sup>

*In markets that are not perfectly competitive, different firms might charge different prices for the same product. This might happen because of one firm is trying to win customers from its competitors, or because have brand loyalties that allow some firms to charge higher prices than the others."*<sup>35</sup>

---

<sup>31</sup> (Robert S. Pindyck, 2005) page 8

<sup>32</sup> (Robert S. Pindyck, 2005) page 262

<sup>33</sup> (Robert S. Pindyck, 2005) page 262

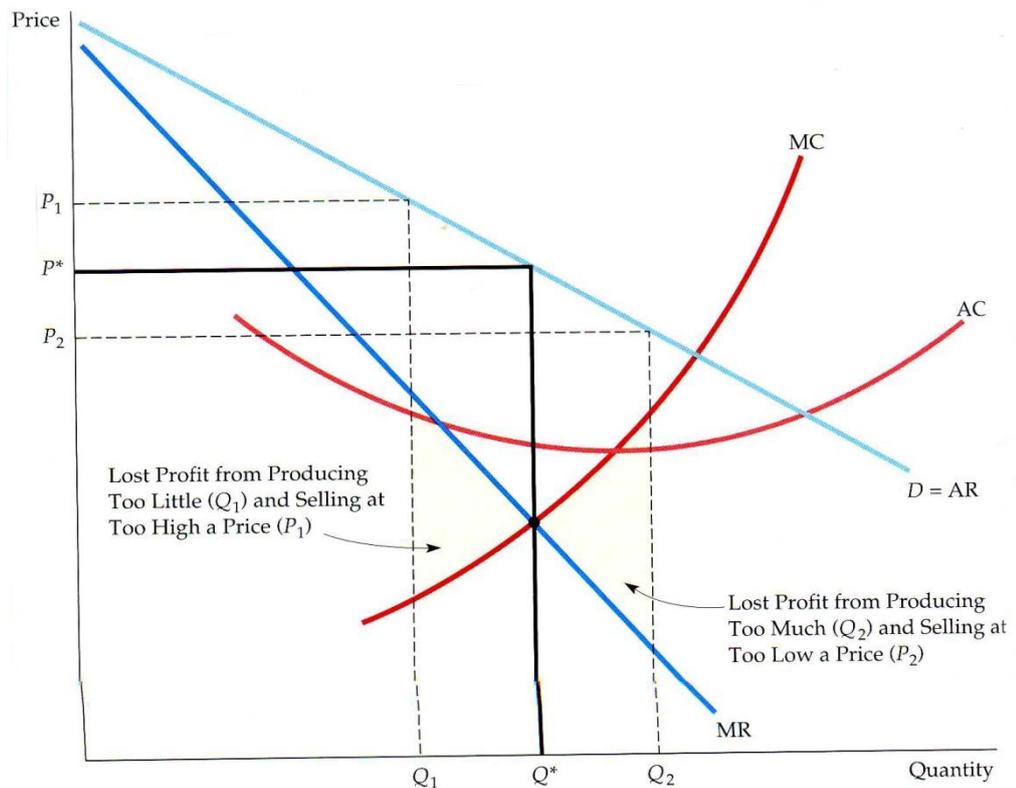
<sup>34</sup> (Robert S. Pindyck, 2005) page 263

<sup>35</sup> (Robert S. Pindyck, 2005) page 263

*In markets that are not perfectly competitive may the situation lead to extremes that are absolutely in contrary with perfect competition.<sup>36</sup>*

**Monopoly** means that on the market there is only one seller who has a unique position. If a monopolist decides to raise the price of the product, it no needs to worry about competitors who would capture a larger share of the market at the monopolist's expense by charging lower price.

The monopolist is the only one on the market and completely controls the amount of output offered for sale. But it does not mean that the monopolist can charge any price he wants - at least not if his objective is to maximize profit.<sup>37</sup>



source: (Robert S. Pindyck, 2005)

Profit is maximized when marginal cost equals marginal revenue. We can recognise it quite clearly on the graph that is taken from the book by Pindyck and Rubinfeld. The marked sections on the graph show us what does monopolist lost,

<sup>36</sup> (Robert S. Pindyck, 2005) page 263

<sup>37</sup> (Robert S. Pindyck, 2005) page 342

when he does not adjust the price according to concept of  $MR=MC$ . When the price is too high, then the fewer customers buy the goods.

**Monopsony** means that on the market is only one buyer. **Oligopsony** is a market where just a few buyers. The power of such low number of buyers is that they are able to affect the market price. It enables buyer to purchase a good for less than the price that would prevail in competitive market. It does not mean that the only buyer can state any price. If the price is too low then there would be nobody who would be willing to produce.

Agriculture is not a market which would be full of such extremes. European market is interconnected so there are so many buyers and so many sellers that nobody of them can have affect on price. The raw products are also almost homogenous. The only differences and the only ways for producer how to raise the price for their product might be quality and type of packing of the product. If someone wants to receive better prices he should produce an exceptional quality that is much higher than the standard of concurrence or he has to do the same with the type and design of packing of his product. In ideal conditions he has to do both at once. If the producer has just average or lower quality he cannot be willing in higher price. But sometimes the situations which are closer to extremes might occur and this situation is examined above. The situation with milk can serve as a good example.

There are so many producers and there are so few buyers, that now the last ones can choose the price of the product.

Nowadays the prices are too low that many farmers compelled to put an end to this business, because their cost of production does not comply with such prices.

It's just a matter of time when the situation will change. Then, there will be just a few producers and the prices will return to the level of market prices.

## **History of subsidies in the USA**

The implementation of the system of agriculture subsidies in the USA, as the biggest rival to the EU in the world market, is analysed in this part.

Nowadays Salinas Valley and Corn Belt definitely are the number one vegetable-producing regions in USA. Salinas Valley is a world leader in agribusiness innovation and production and Corn Belt is a vast agricultural region growing corn and wheat.

US Farm Subsidies have very deep roots. The farmer supports began already in the colonisation era when the Puritans were coming to New England. Right from the start of colonisation the new farmers were encouraged to bigger production. The native vegetation had to make place to agricultural crops.

*"The new nation had undeveloped land and natural resources, but needed income from agricultural exports. The first U. S. agricultural policy was to exploit the abundant land and natural resources to produce tobacco and lumber for export."<sup>38</sup>*

The development of agriculture is connected a lot with the technical revolution. The invention of plough, railroads, tractors, genetically modified crops shifted every time production more to the large scale.

*"Scientific agriculture became a function funded by the public, in contrast to the private funded agriculture research in England and Germany."<sup>39</sup>*

The support of farmers is organised through many programmes that since the start of subsidising farmers till the near past were focused just on increasing of production. As a result the number of such a support and as a result of technical development the number of farms was decreasing and the average acreage was increasing.

As the productivity increased, the prices fell. In order to get low price it needs to get also the highest yield possible on a large area in order to get reasonable money from your business. The efficiency are needed the following: the using of new developed technologies, the using of high-yielding crops as well as the using of maximum allowable fertilizer.

---

<sup>38</sup> (Keeney & Kemp)

<sup>39</sup> (Keeney & Kemp)

Those farmers who did not operate on large scale with the last hi-tech equipment had to go out of business. The subsidies were not focused on preserving small family farms. This would not be such a big problem. The major problem was that the subsidies did not force farmers to preserve nature. Nobody much cared about it.

There were just very few farmers, very few suppliers and very few customers. As a farmer you knew that you can buy fertilizers from just about 3 brands, you can buy seed just from about 4 brands and you have 3 types of tractors that you can drive.

*"In 1995, the top 10 percent of farm subsidy recipients received 55 percent of total payments. By 2003, the top 10 percent of farm subsidy recipients collected 72 percent of total subsidies and the top 5 percent collected 55 percent of payments. The largest 10 percent of grain farmers, with an average net worth of \$2.4 million, receive 50 percent of all grain subsidies. And, 60 percent of sugar program benefits go to the wealthiest one percent of sugar farmers."<sup>40</sup>*

The farmer was given what he has to grow and he knew to whom he has to sell it. The produce returns were based rather on prearranged contracts than on open markets. The opportunity for competitive bidding was in that time very low. And if the farmer was not able to do that, he could not survive. The subsidy programmes supported the big farms to become even bigger and there was no word about preserving nature.

*"Many environmental issues surfaced, including off site effects of soil erosion, large-scale animal confinements, pesticides, water quality deterioration by pesticides, sediments and nutrients, food safety, and biodiversity."<sup>41</sup> Nutrients and pesticides can be found now in drinking water, nitrate is often above health limits.*

This system of subsidies was very hard to be changed due to very strong lobby of enormous corporations that nowadays operate in US agriculture. Changes brought farm bills issued in years 1996, 2002 and 2007. There was created

---

<sup>40</sup> (Frydenlund, 2007)

<sup>41</sup> (Keeney & Kemp)

Conservation Security Program by Senator Tom Harkin of Iowa. The idea was similar to ideas that took place in Europe too.

Farmers should not be rewarded just for production but also for environmental treatment. It should be voluntary to participate in these programs. In the era when all extra money is needed in order to hold the production profitable, many farmers were expected to participate because they cannot afford to be without this money.

### **Current subsidy situation in the USA**

We can divide the current subsidy programmes into 3 basic groups: Market price supports, Direct payments and Export subsidies.

#### **Market price supports**

Price supports were carried in the past Europe through guarantee of minimum price of particular crop

*"This is accomplished through:*

*1) non-recourse commodity loans for crops at predetermined per-unit loan rates, with occasional acquisition of crop production used as collateral for the loans,*

*2) government purchases of dairy products at predetermined support prices, combined with a system of classified pricing in several regulated Federal milk marketing regions, or "orders,"*

*3) application of import restrictions, which are currently WTO-related tariff-rate-quotas"<sup>42</sup>*

#### **Direct payments**

There are 7 ways in total in which USA makes direct payments.

*1) decoupled income support payments-payments not related to current production, prices or resource use*

---

<sup>42</sup> (Young, Nelson, Dixit, & Conklin)

2) *commodity loan related payments and interest subsidies linked with current market prices and production*

3) *natural-disaster related payments and subsidies using crop insurance, revenue insurance, and ad hoc disaster relief programs;*

4) *emergency income transfers to compensate for low market prices and lost markets;*

5) *income-based benefits due to Federal income tax provisions;*

6) *subsidies on inputs such as water, grazing land, fuel, advisory services, and feed; and*

7) *payments to support and encourage conservation and environmental-oriented practices.*<sup>43</sup>

### **Export subsidies**

*Export subsidies can facilitate maintenance of domestic price levels over world market price levels, reducing the role of loans, acquisitions, purchases, and import restrictions in supporting domestic market prices.*<sup>44</sup>

This type of subsidy is used less and less due to WTO agreement that EU and USA should not directly influence world market prices by their subsidies.

---

<sup>43</sup> (Young, Nelson, Dixit, & Conklin)

<sup>44</sup> (Young, Nelson, Dixit, & Conklin)

## **Subsidies - New Zealand**

Australia and then New Zealand are quite exceptional agricultural countries in terms of agricultural subsidies compared with EU countries and the USA.

After the WW2 the New Zealand's government subsidized farmers in very similar conditions as in USA or Europe. Large portion of New Zealand's agriculture was always oriented on exports. In 1964 94% of its butter, 61% of meat and 87% of cheese were exported to UK.<sup>45</sup> Farmers were receiving subsidies to overcome hard times caused by oil crisis in USA and in connection with the change in UK Import Tax.

Increased taxes and oil crises made exports for New Zealand's farmers much more difficult because UK and USA belonged to the biggest importers from New Zealand. Farmers were offered subsidies to purchase more fertilizers, tax breaks, low interest loans, weed - eradication subsidies and many others. In total there were about 30<sup>46</sup> separate payments that were focused mainly on increasing production in hope of greater returns. It unfortunately caused just overproduction and it just worsen whole situation.

*As the laundry list of farm support programmes grew, it become an increasingly impossible burden for this small national economy to bear, threatening to further undermine the stability of the whole system.<sup>47</sup>*

Surprisingly there were farmers who wanted to get rid of subsidies. In 1982 Federated Farmers of New Zealand proposed this idea but in practice it was made in 1984 when the government party was changed. Labour party cancelled all subsidies in order of more efficient usage of this money. It was believed that it is better to use these funds for social spending, education and health service.

*"It is estimated that around 800 farmers—or 1% of the total number of commercial farmers in operation—were forced to leave the land. Sheep farmers, who as a group were the most heavily subsidized, were (not surprisingly) hardest hit by the elimination of subsidies. Those farmers who were heavily in debt at the start of*

---

<sup>45</sup> (Sayre)

<sup>46</sup> (What Happened When New Zealand Ended Farm Subsidies , 2002)

<sup>47</sup> (Sayre)

*the reform period were hit hard by rising interest rates, and a transition program was negotiated to ease their situation."* <sup>48</sup>

Farmers had to cope with this situation. They began to think about the most real way for them and they stopped to speculate with crops which are able to give them more subsidies.

The Jersey cow with milk rich in butterfat fell out of favour with New Zealand's farmers and the larger Friesians which provide more protein-rich milk began more popular. Thereby the farmers respond to international community's interest in health-conscious products.

To obtain the higher protein from a more compact animal, they began crossing Jerseys with Friesians, a breed is known now as the Kiwi cross..<sup>49</sup>

*Today, cows in New Zealand cost less to feed and yield more milk solids, making them more profitable. Dairy farming has become so much more lucrative that many sheep farmers have been shifting to dairy.*<sup>50</sup>

*They also responded by becoming more competitive. Farmers culled the huge herds of mostly small and fatty lambs they had been raising, importing breeds from Finland and Denmark to improve the fertility of their ewes and producing larger, leaner lambs.*<sup>51</sup>

Farming changed a lot since the abolition of subsidies. Efficiency increased a lot and farming became a real science. *"Farming in New Zealand is now a cold, hard business," said Lumsden, who at the time of the farming revolution was president of Federated Farmers in the Waikato region, the heart of New Zealand's dairy country.*<sup>52</sup> It is not as easy as it used to be but New Zealand proved that it is possible to do farming without subsidies. New Zealand is followed now by Australia that has already started to cut subsidies a lot. Both countries have now the opinion that: *"Traditional subsidies, economists contend, generally encourage inefficient farmers to grow unprofitable crops far beyond what consumers actually need, secure in the knowledge that the government will help protect them from loss. And it makes it much harder for farmers in poor countries to compete on a level*

---

<sup>48</sup> (Sayre)

<sup>49</sup> (Arnold, 2007)

<sup>50</sup> (Arnold, 2007)

<sup>51</sup> (Arnold, 2007)

<sup>52</sup> (Arnold, 2007)

*playing field against coddled farmers in the West<sup>53</sup> and removing subsidies, on the other hand, forces farmers and farm-related industries to become more efficient, to diversify, to follow and anticipate the market. It gives farmers more independence, and gains them more respect."<sup>54</sup>*

## **Subsidies - Europe - Common Agricultural Policy**

### **History of Common Agricultural Policy**

Roots of Common Agricultural Policy dates back into era after World War II. Due to damages in WW2 Europe was not self sufficient in agricultural production and had to import food a lot. There had to be introduced ration cards and common polices were supposed to be an instrument how to stabilize whole situation. It had to increase productivity, ensure price level of agricultural products and prevent migration of inhabitants into large cities.

CAP was initiated as a part of Treaty of Rome that was signed in 1957 and went into force in 1.1.1958. There were two treaties which initiated two organizations.

First of them (later renamed as Maastricht Treaty) was establish by European Economic Community and the second one was established by Euro atom. The aim of Euro atom was concentrated just on peaceful usage of atomic energy. The goal of ECC was to support the economic development in all branches and by that reach higher standard of life of whole society. Despite quite hard conditions after WW2 and low number of signatory states<sup>55</sup> the member countries were not able to make an agreement upon any specific objectives and goals.

France was the main supporter of protectionist behaviour where the also trade with agriculture commodities with states, who are not members of ECC, would be regulated. It was due to the fact that France was the biggest producer of agriculture products between the founder members and it saw in other founder members high possibility to export its own products.<sup>56</sup>

The Netherlands and Italy supported France when promoting this type of behaviour because they had also agriculture that was more oriented on export. On

---

<sup>53</sup> (Arnold, 2007)

<sup>54</sup> (Sayre)

<sup>55</sup> Belgium, France, Luxembourg, Germany, Netherlands and Italy

<sup>56</sup> (Tokar, 2003)

the other hand Germany wanted common market with free movement of goods. The reason was that Germany did not have access to very fertile regions in German Democratic Republic and it had to import agriculture products from other countries. For example grain they were buying on world market where the price was lower than in France.<sup>57</sup>

Simply due to that they did not like much the idea of communal preference in the terms of CAP. Otherwise they would have to buy grain from France for higher price. The whole Treaty is, because of different interests of particular states, very compromising. Treaty contains just very general specification of main objectives<sup>58</sup>:

*"Article 39*

- (a) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, particularly labour;*
- (b) to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;*
- (c) to stabilise markets;*
- (d) to guarantee regular supplies; and*
- (e) to ensure reasonable prices in supplies to consumers. "*

These objectives were quite general but each from founder countries could find in them advantage for the particular state. Italy was in that time the only state which produced tropical products, France could sell its grain in Germany and Netherlands could benefit from its cheap production of meat and meat products. But European agriculture was still much less developed in comparison with agriculture in USA. European countries stated the modernization of agriculture as one of their main goals.

---

<sup>57</sup> (Tokar, 2003)

<sup>58</sup> (Treaty establishing the European Economic Community)

The main tasks were formulated in 1958 on conference that took place from 3rd till 12th July in Italian city named Stresa. The above mentioned objectives should solve the following:

- to establish unity of the market based on the free movement of agricultural produce;
- to organise markets by product with prices being progressively unified and guaranteed;
- to ensure Community preference;
- to enable common intervention;
- to set up a European Agricultural Guidance and Guarantee Fund (EAGGF);
- to establish financial solidarity.<sup>59</sup>

From objectives stated in Treaties of Rome were later on derived its 3 main principles<sup>60</sup>:

*" A unified market for the free movement of agricultural products in the European Union covered by community preference.*

*Financial solidarity: All costs of the CAP were to be financed out of a communal treasury, FEOGA (European Fund for Orientation and Agriculture Guarantee), supported by import tariffs and contributions from European countries.*

*Community preference: European products were to be given preference over imported products."*

CAP was taken into practice in 1962 after previous agreement of proposal of European Commission in 1960.

In that time the price support was the main tool of CAP. There were introduced guaranteed prices and under them the market price couldn't fall. For these guaranteed prices were bought from farmers their products in unlimited amounts. Furthermore their exports were also subsidized. If a price on targeted market was lower than on domestic market, then the farmer was subsidized in the amount of price difference.

Domestic market was also protected by import taxes.

---

<sup>59</sup> (The Stresa Conference, 2006)

<sup>60</sup> (Delayen, 2007)

All mentioned above really helped to solve post war situation and made Europe again self sufficient in agricultural production. But in few years these support systems became a problem. European agriculture routinely produced more than the whole community could consume. This overproduction had to be either stored or discarded which made CAP every year more and more expensive.

Problem with overproduction peaked in 1991 when overproduction of wheat was 150 million tonnes.<sup>61</sup> Furthermore environmental effects of increased production became on surface and Europe was criticized by foreign countries for subsidized exports.<sup>62</sup> Issue of liberalization of Agriculture was also one of the main topics of The Uruguay round of GATT negotiation.

*"The General Agreement on Tariffs and Trade (GATT) was first signed in 1947. The agreement was designed to provide an international forum that encouraged free trade between member states by regulating and reducing tariffs on traded goods and by providing a common mechanism for resolving trade disputes. GATT membership now includes more than 110 countries."*<sup>63</sup>

A large discussion about the reforming of CAP started in 1980s because of obligations from Uruguay round of GATT and environmental risks, as well as in connection with the fact that costs of CAP were not sustainable anymore. The change of CAP became a necessity.

### **McSharry reform**

This reform of original CAP, introduced by Agriculture Commissioner Ray McSharry, was mainly focused on decrease of subsidies based on price support. The system of subsidy payments had to be changed. Subsidies were not so much dependent on the amount of production but on the amount of land that were in farmer's property.

---

<sup>61</sup> (Žižková)

<sup>62</sup> mainly by USA

<sup>63</sup> (General Agreement on Tariffs And Trade)

The main changes were<sup>64</sup>:

*1) Decrease of interventional prices - this decreased a lot costs that were spent on purchases of excesses from production and met requirements of Uruguay round of GATT*

*2) Initiation of direct payments - compensated decrease in production and ensured to farmers stable income which was dependent on area of their farmland or on number of their animals*

*3) Orientation on decrease of production - the target was to decrease production where were surpluses and export of these surpluses was not economically convenient*

*4) Set - aside of land - European Commission set every year amount of land that had to be set -aside which was dependent on world trade situation. Lost earnings were then paid to farmers in form of compensation payments. This decreased cost because if the product were grown then it would bring further costs on storage and possible export*

*5) Decrease of numbers of animals - the system was similar like the system of set-aside land.*

*6) Support of early pensions - if the farmer left to early pension and he left his farm to other farmer then he was subsidised yearly compensations and pension support. By earlier retirement he enabled enlargement of average size of farm.*

Reform from the year 1992 fulfilled its main goals. It decreased cost on price support, fulfilled GATT requirements and decreased stocks of intervention warehouses. Despite reforms that were made was CAP still expensive.

Need of further change was more and more obvious as the number of member states were growing. In year 2004 EU was enlarged by 10<sup>65</sup> new member states and 3 years later by another 2<sup>66</sup>.

---

<sup>64</sup> (Vznik Společné zemědělské politiky, 2006)

<sup>65</sup> Czech Republic, Slovak Republic, Poland, Hungary, Slovenia, Lithuania, Latvia, Estonia, Malta and Cyprus  
<sup>66</sup> Romania and Bulgaria

*"The new 12 Member States add about 55 million hectares of agricultural land to the 130 million hectares in the old EU of 15, an increase of 40 %, although production in the EU of 27 will only expand by about 10 - 20 % for most products. This confirms that the large agricultural production potential of the new Member States is still far from being used to its full extent."<sup>67</sup>*

### **Agenda 2000**

This reform was proposed already in 1997 but its final version was approved in March 1999 on summit of European Council in Berlin. Because of that it is also often called Treaty of Berlin. Agenda 2000 was basically just extension of reforms from the year 1992 but on the other hand it was again important step forward. Direct price support was reduced again.<sup>68</sup>

Member states were also allowed to decrease direct payments up to 20%. They could use the saved money on other rural development in particular countries.

Thus the rural development was supported as well as the preservation of nature.

In Agenda 2000 it was also stated that the effects of this reform will be analyzed around year 2002 or 2003 and it will be adjusted if necessary.

### **Mid - Term Review**

A lot has happened since the reforms Agenda 2000 Europe has experienced BSE that showed that not all agricultural products have to be for 100% safe. BSE supports the public anxiety about the ways of food production, food safety and environmental situation.

The main aim of this reform was to create common politics that will be less expensive, politics that will ensure prosperity of countryside and that will more promote orientation of farmers on market.<sup>69</sup> Majority of direct payments was separated from the amount and type of production that enabled farmers to concentrate more on needs of market then on growing of products that will be

---

<sup>67</sup> (The Common Agricultural Policy explained)

<sup>68</sup> (Gohin & Guyomard, 1999)

<sup>69</sup> (Evropská regionální fóra)

more subsidized. Four years later 21 CMOs were merged into one and that made CAP clearer and also less costly in terms of administrative expenses.<sup>70</sup>

### **Health Check**

Since the year 2008 the so - called health check (a control of the condition of CAP) has been running. This control has to analyze the effect of reforms from the year 2003 and develop them in the sense of further liberalisation of CAP. Its intention is to change again the direct payments in order to be more effective and it pretends increase of funds that will be used on development of countryside. It also pretends lowering of intervention prices again. Present budget of CAP is planned until the year 2013 and it will be very interesting what will happen afterwards. The negotiations about the budget for the next period are already running.

### **Analysis (Subsidies)**

#### **Can the effect of reforms be proven?**

Had so many reforms any effect on expenditures of CAP? Long time series data is used and analyzed to answer this question. The data from Commission about EAGGF fund seems to be an ideal for this purpose because EAGGF was the main source of CAP during its whole existence until 2006.

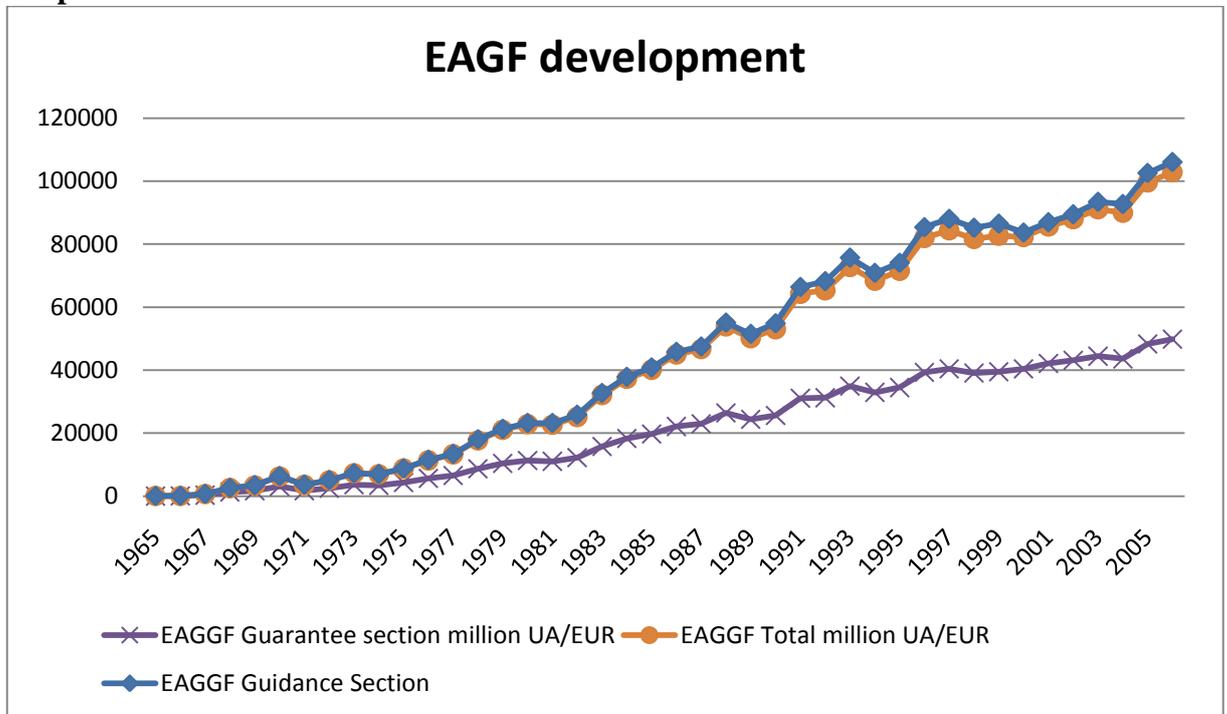
The data since 1965 is found on the webpage of Commission. They are given in Table - 1 and it can be seen in supplements. Graph – 1, which can be seen bellow, is made from this data. Data relating to 1970–1978 are in millions UA; 1979–1998 are in millions ECU and since 1999 they are in millions EUR. All these units are calculated here always in ratio 1:1, according to the practice used by many researchers. It is valid for whole Bachelor thesis.

As can be seen on the Graph – 1 it ends in year 2006. The reason is very simple - due to reorganisation of CAP was EAGGF cancelled and there are two new funds that are used for financing of CAP. These new funds are EAFRD and EAGF. Data from these two funds are not used because they are not comparable with EAGGF.

---

<sup>70</sup> (Evropská regionální fóra)

**Graph - 1**



*source: own work of an author of this thesis - based on tables in supplements*

EAGGF can be divided into two sections - Guarantee section and EAGGF Guidance section. On Graph-1 it is made in total numbers. These numbers are always increasing. It is not very surprising because the number of member states is increasing too.

Graph – 2, which is also made from Table-1, is more interesting.

The time series of expenditures on EAGGF is shown On Graph -2, but it is shown in percentage of EU budget and not in total numbers. It balances the growing number of members, because as the number of members grows, the budget and expenditure on EAGGF grow also, but the percentage remains comparable to previous years.

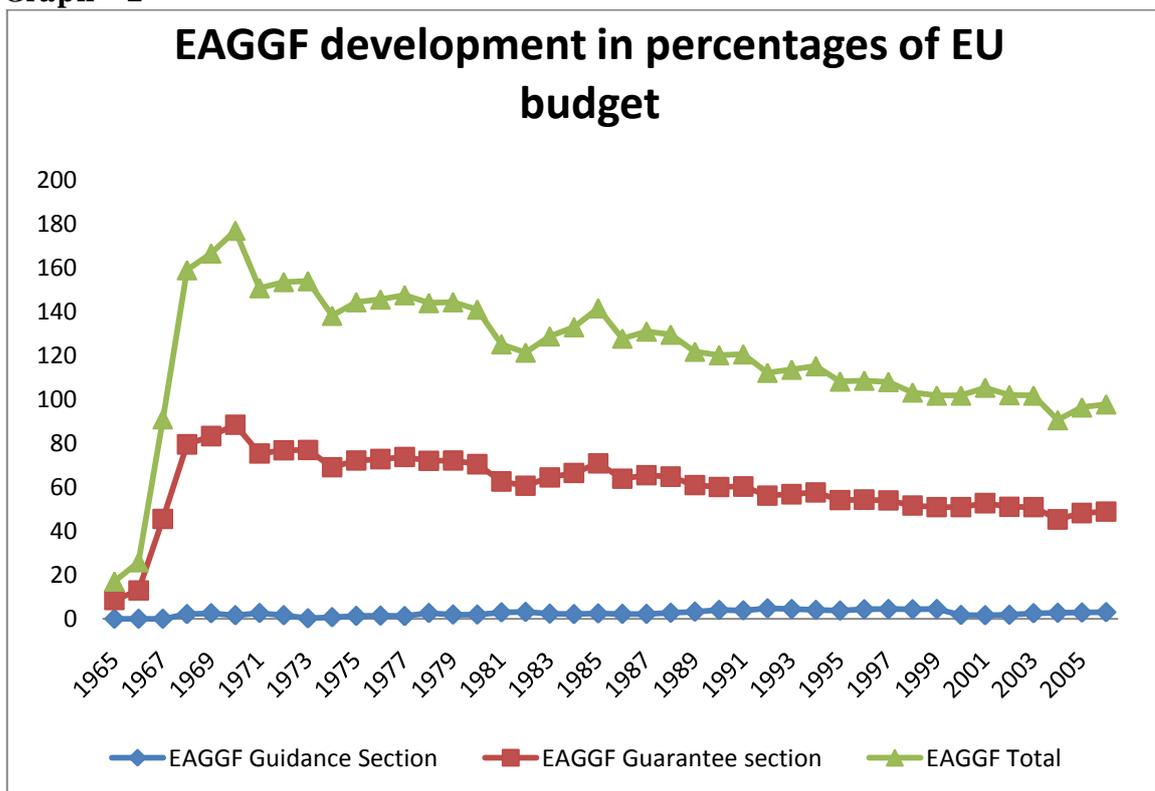
The effects of reforms can be clearly seen on such graph. The ratio has decreasing trend almost always in spite of increasing number of members and growing total number of expenditures on EAGGF and whole CAP.

An increase when CAP was on the start can be seen just on the very beginning.

The yearly fluctuations might be caused by situations that occurred in particular years. There might be money spent on some extra ordinary subsidising of farmers to face some kind of temporary problem. The trend is clear here and we can expect further pressure on decrease of subsidies. The discussion on financial plan for years 2014-2020 should start soon and there are the voices that defending the view that all direct payments should be cancelled.

There is a general belief that not all direct payments will be cancelled and the trend of decreasing of subsidies will continue. These expectations are based on the interviews with responsible persons on MZE who deal with these issues.

**Graph - 2**



*source: own work of an author of this thesis - based on tables in supplements*

### **How is CAP financed today?**

Since the early beginning CAP was financed from European Agriculture Guidance and Guarantee Fund (EAGGF). This fund was directly connected with European budget. EAGGF was the main source of CAP between years 1970-2006<sup>71</sup>.

*"Source of EU budget and by that also source of EAGGF budget were independent sources (duties on import from third countries, compensation benefits from imports of agricultural products, subsections of the value added tax) and then, if needed, contributions of member countries according to the size of GDP." <sup>72</sup>*

EAGGF was divided into 2 sections:

**The Guidance section** - This section was used mainly to finance long term structural changes in agrarian sector (modernization of agriculture and rural reconstruction).

**The Guarantee section** - was always more costly than previous section. The portion of this section in expenses was always about 90 - 95%.<sup>73</sup> The main purpose of this section was to cover expenses that were connected with CMOs that means to cover expenses on export subventions, interventions and programs for rural development.

In 2006 the EAGGF was cancelled due to change of structure of whole CAP and today farmers are financed from two new funds mainly.

European Agricultural Guarantee Fund (EAGF) which finances direct payments and regulates agriculture markets such as invention and export funds.

European Agricultural Fund for Rural development (EAFRD) finances programmes that are focused on rural development.

The expenditures for these funds are planned several years before. E.g. nowadays there is a plan for the period from 2007 - 2013.

An annual budget is made from these long term plans. The discussion about the budget usually begins during the spring in order to ratify it by the end of the year.

---

<sup>71</sup> (Fojtíková L., 2007) page 10

(NEUMANN, 2004)<sup>72</sup> page 20

<sup>73</sup> (Fojtíková L., 2007) page 10

All proposals of Commission are discussed by European Parliament and Council of Ministers. Both organs discuss and negotiate changes before the budget is ratified. Parliament has the major vote in more than half of expenditure items. But Ministers have the major role when deciding about agriculture. The ratification of budget needs three fifths of votes that were submitted.

The sources are similar as they used to be in the past. *"Close to three quarters — of this money is based on the member states' ability to pay as measured by their national prosperity, expressed as gross domestic product. The basic principle behind the calculation of each member state's contribution is one of solidarity and ability to pay."*<sup>74</sup> There are some changes made if it seems that this rule could cause problems to some states. The rest comes from customs duties and agricultural levies (a form of import duty on agricultural products) and a fixed proportion of the money member states collect in value-added tax (VAT).

### **The ways of transferring money to farmers**

Management of these funds is made by European Commission but the money is not paid to farmers directly. There are special agencies for this purpose. Nowadays we have 85<sup>75</sup> of them. These agencies have to first fulfil certain criteria determinate by European Commission and after that they can apply for money from EU budget. These agencies firstly have to fulfil a certain criteria determinate by European Commission and after that they can apply the money from EU budget. These agencies do not just make the payment; firstly they have to authorize applications of farmers. Expenses of these agencies are then paid to member states by European Commission.<sup>76</sup>

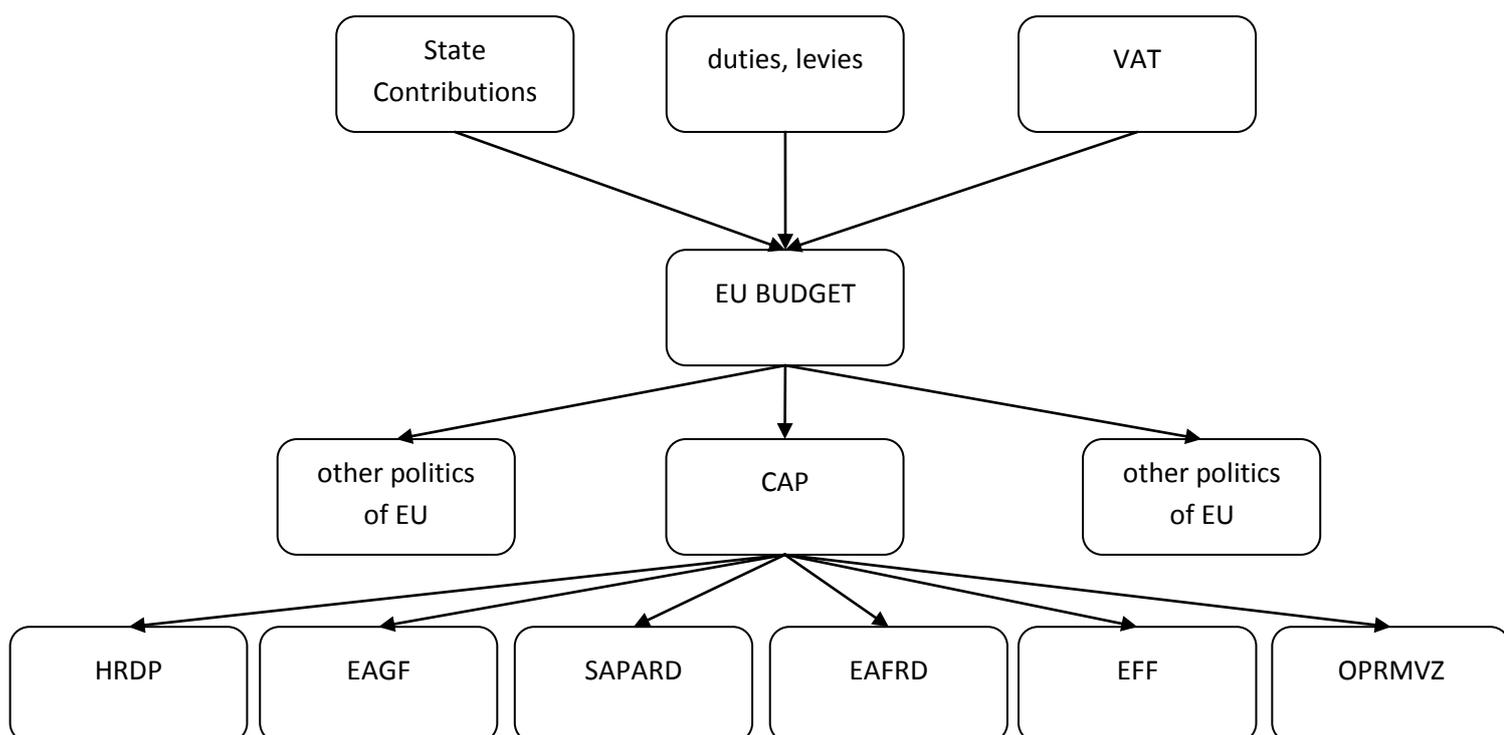
---

<sup>74</sup> (Europa)

<sup>75</sup> source: SZIF

<sup>76</sup> (Financing the Common Agricultural Policy)

The accredited agency in Czech Republic is The State Agricultural Intervention Fund (SAIF) It is our intermediary in case of receiving subsidies from EU. Subsidies are provided from European Agricultural Guarantee Fund (EAGF), and in period 2007 -2013 also from European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).



*source: own work of an author of this thesis - based on information collected from interviews on MZE and SZIF.*

These three funds are the base of financing farmers in Czech Republic. All of them could be divided into sections and subsections but that is not the aim of this thesis-maybe it might be further analysed in diploma thesis. In Czech Republic we do not have see so the EFF is not so important in Czech Republic.

The other three funds are closely connected with entrance of Czech Republic into European Union. The Czech Republic joined EU on the 1<sup>st</sup> of May 2004. It was the middle of budgetary period. The expenditures of whole EU-15 were already planned. The new countries used different funds. SAPARD was a fund that was used even before entrance new states into EU and its aim was to help new states to assimilate to EU concurrence conditions. The other two were used in first years of membership of new states in EU. The reason why they were included them

into this scheme is that there are still some money coming from these funds. The applications that were approved had some time in which the money had to be spent. When this time period ends then these funds will be cancelled.

The two basic models for drawing EU money are SPS and SAPS. Simple payment area scheme (SPS) was introduced by revision of CAP by Franz Fisher in 2003. SPS was already presented in Agenda 2000. The reason for introducing SPS was the same as for introducing direct payments. The intention was decoupling which means that EU wanted to separate payments of subsidies from production. The reason was that the EU wanted farmers to care more about rural development instead of growing crops that will bring them the highest amount of subsidies. It led just to overproduction. It had to substitute various payments by one single payment. The SPS was the original scheme for subsidies payments. Later was introduces simplified scheme that was used mainly by new member states.

Czech Republic and all the new member states except Slovenia use the SAPS system. The old states of EU and Slovenia and Malta use the SPS system. The basic difference between SAPS and SPS is the way of the calculating how much many will the particular state get. The choice of SPS or SAPS should not affect the total amount of money that the particular state receives. Every state should get the same amount of money regardless on the system it chooses. Each of these two systems has again its subsystems which are not a topic of this thesis. The plan was that the states that will choose SAPS should continuously exchange this system for the SPS system. The plan was that the SAPS system should end by of 2006 with an option to prolong this system two times for a period of one year.

Nowadays is known that this system will be valid until 2013. Then some kind of a new system should come which will be based on both SPS and SAPS. Nowadays the SPS is used in 7 states and SAPS is used in 10 states.

Differences between SPS and SAPS:

**SPS** is based on a title that brings into account amount of payments in previous years. E.g. The period between 2000 and 2002 was taken into account on the beginning of SPS in 2005.

Once a year **SAPS** claims a formula how much money will get one or the other state.

The formula is yearly budgetary framework divided by utilised agricultural area. The simplified definition of utilised agricultural area is that the part of total area of state used for agricultural purposes. The land does not have to be used to agricultural purposes it just have to maintained in good condition according to directive 1782/20003.<sup>77</sup> The yearly budgetary framework states EU to all member states according to Phasing in Model.

**Phasing in Model** was constructed on the basis of Copenhagen criteria and entrance contract that signed all the new members of EU. In this model is stated how much subsidies the new states should get. The model for Czech Republic is demonstrated in the table below.

**Table - 2**

Phasing-in model	
year	% of CAP subsidies
2004	25%
2005	30%
2006	35%
2007	40%
2008	50%
2009	60%
2010	70%
2011	80%
2012	90%
2013	100%

*source: own work of an author of this thesis - based on information collected from interviews on MZE and SZIF.*

According to this model the new states should receive subsidies. The governments of all states then have the option of **Top-up** payments. They can pay up to 30% extra to payments based on Phasing in Model but not more than 100% in total. The Top-up payments are fully optional and depend just on government of each particular state. It means that a state that does not pay the full amount of Top-up to its farmers decreases chances of them in international competition because the other governments might pay the top-up.

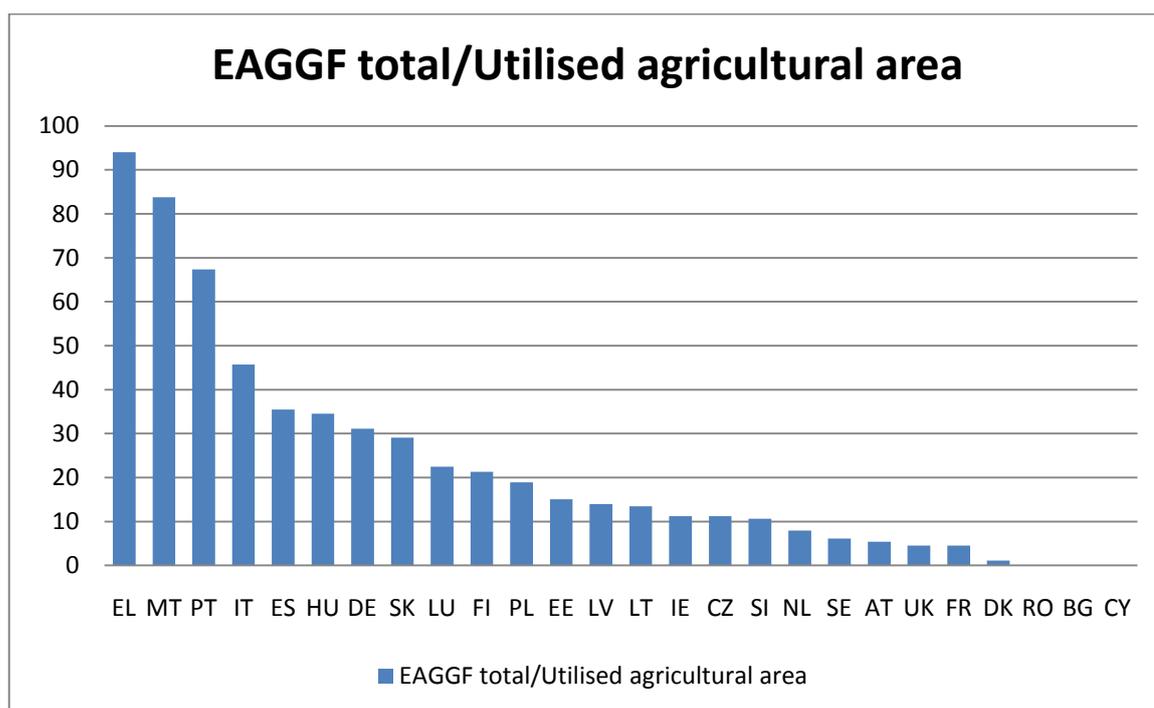
---

<sup>77</sup> (Fajmon)

### Do all states get equal amount of money?

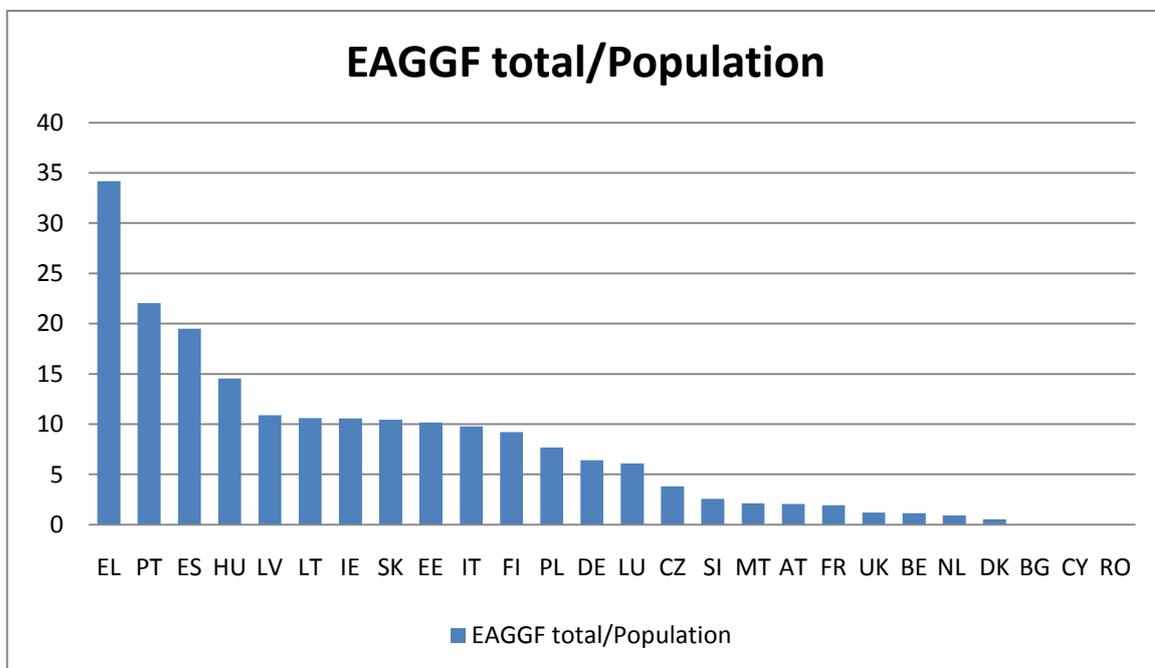
The amount received by each state in total can be seen from Table – 3 (it is included into supplements). Data are taken from the year 2006 from the reason mentioned above - if the newer data were used then it could not be compared historically. All data in this table are in millions of EUR. It is straightforward that in total the states will receive a different amount of money due to their total area, type of farming etc. The amount of subsidies of particular countries per inhabitant, number of agricultural holdings and per hectare is also compared. These data are on the contrary of the data mentioned above not in million of EUR but in EUR. These data can be found in supplements in **Table -4, Table-5** and **Table-6**. The graphs were made on the basis of these tables.

**Graph - 3**



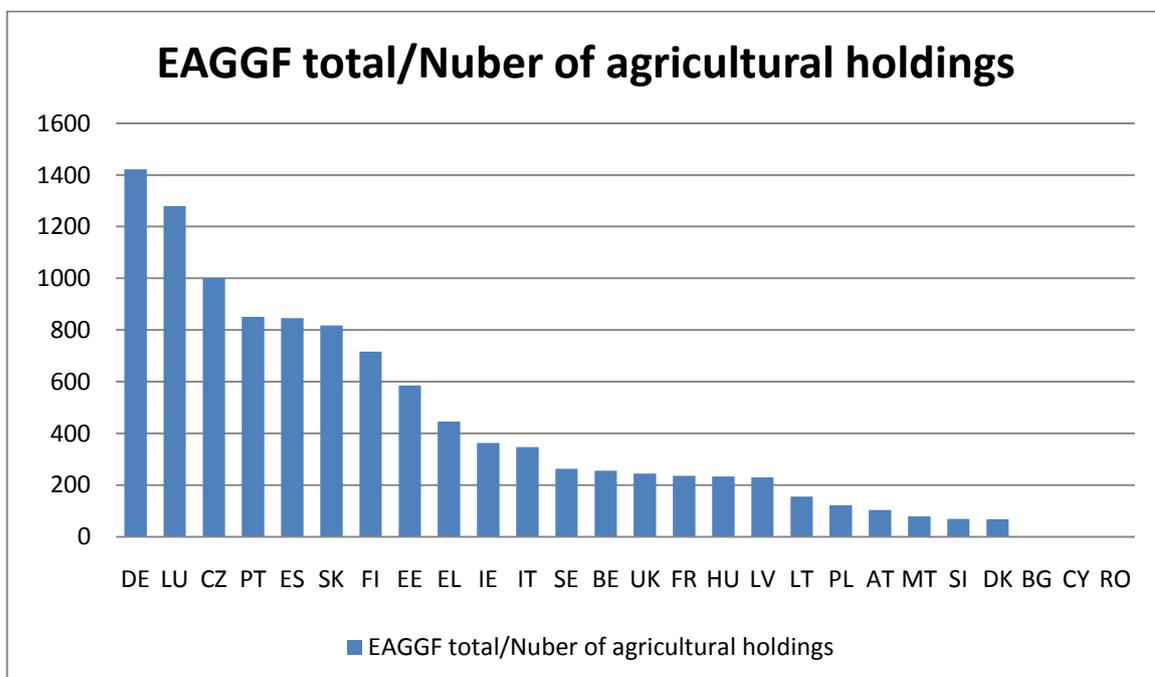
*source: own work of an author of this thesis - based on tables in supplements*

**Graph - 4**



*source: own work of an author of this thesis - based on tables in supplements*

**Graph - 5**



*source: own work of an author of this thesis - based on tables in supplements*

On these graphs can be clearly recognized that the subsidies in EU member states are not equal for everyone. There are the several reasons:

1) The model of subsidies is based on payments of referential periods so each state has its own (= different) referential value. Historically the model was based also on crops that were grown in particular states and as the model which is based on historical data it continues until the present time.

2) The new states still do not receive the full amount of subsidies. This is connected with Phasing in Model that is analysed above.

3) There are premium subsidies for certain commodities.

4) Less favourable areas play their role in the total amount of subsidies received. Extra subsidies are paid on the less favourable areas.

5) Each country might discuss some exceptions.

Even if we consider these five points - still the differences are really huge.

For example: the difference between the first and the last member state is about 90 EUR.

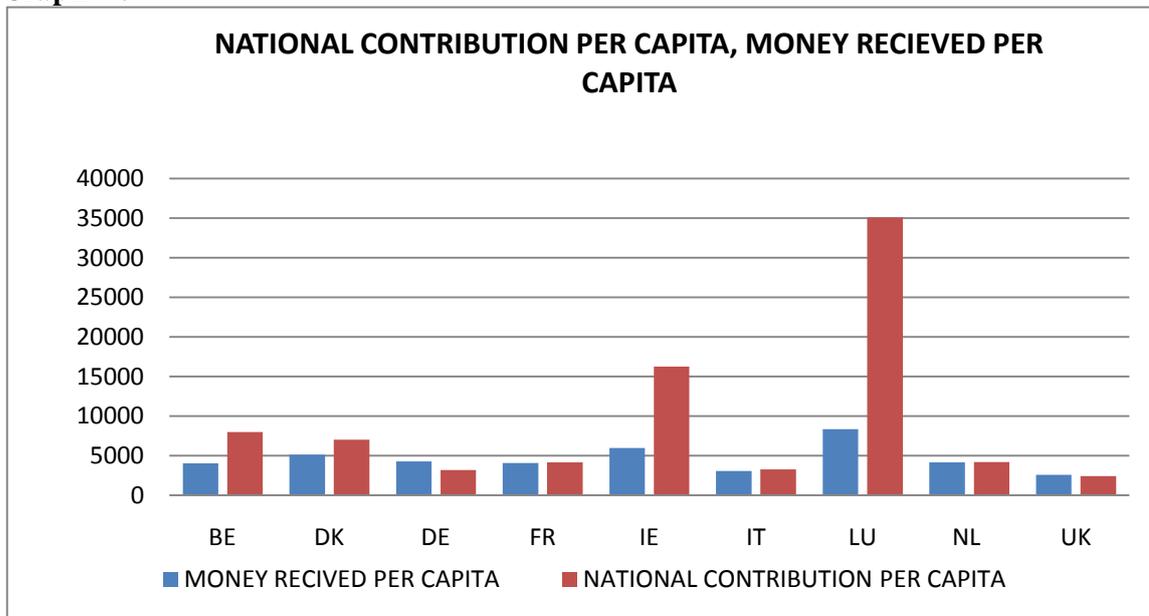
That means that the states, that receive the most, have a large competitive advantage. It might be interesting to know if such a high differences exist also in contributions on CAP. Unfortunately there are no available data which can answer directly this question. The reason is that the national contributions firstly gathered together. Then, the budget is making from these total contributions. The intended amount for CAP is determined in this budget and the CAP spend a majority on EAGGF from this amount.

The total expenditures and total contributions are compared here on the base of the analyze of historical development. The tables can be found in supplements.

It might be also interesting to know if there are such high differences during the historical process. In order to get the longest time series it is needed to use the data of the first ten members of EU. A long and thorough search is conducted and the historical data are found. It is decided to take the historical data since 1976 till 2007 and the graphs are made again. Unfortunately in these graphs a mixture of currencies, as they were changing during the history, plays a big role. The graph is

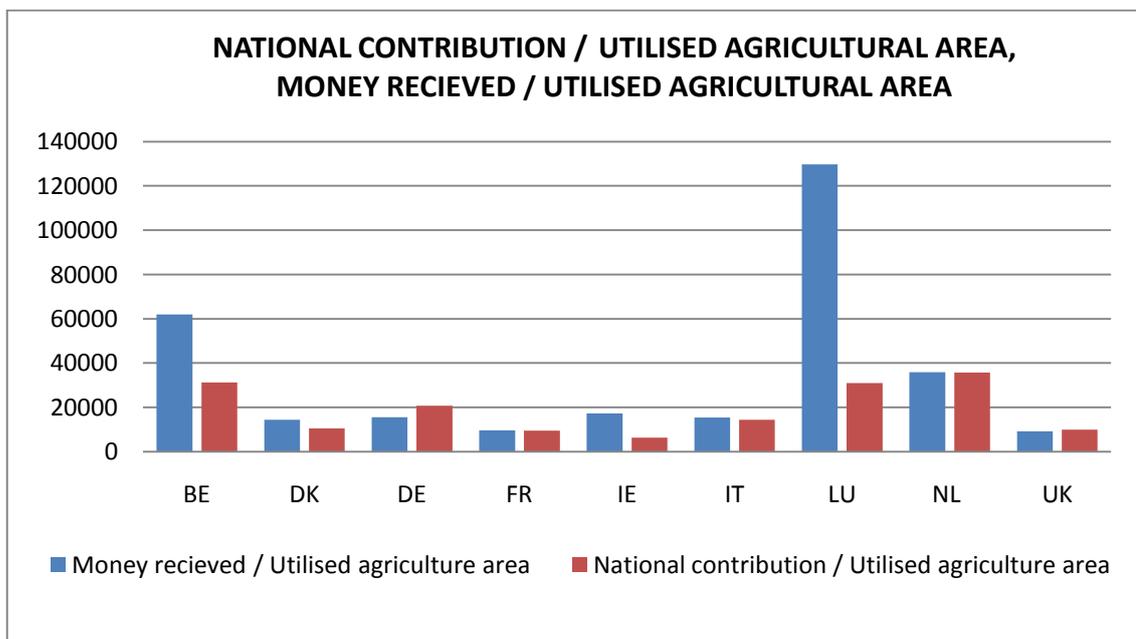
made from total money received/ contributed. Their ratio is always taken as 1:1 as all the other researchers. Here can be seen the results.

**Graph - 6**



*source: own work of an author of this thesis - based on tables in supplements*

**Graph - 7**



*source: own work of an author of this thesis - based on tables in supplements*

Luxemburg always has highest amounts but they can be omitted from our research due to its almost no impact on international trade.

The differences are not as high as in the 2006 data but they are still exist. The reasons for the differences were stated above. I can just add that here it is *confirmed* that there are significant differences in subsidies received by particular states. Yet it is not at all clear from the reasons mentioned above, why should some states receive more times than the other ones?

### **Searching for free riders**

Free riding can be defined as: *"The inclination to enjoy the benefit of a good without paying for it--if you don't have to."*<sup>78</sup>

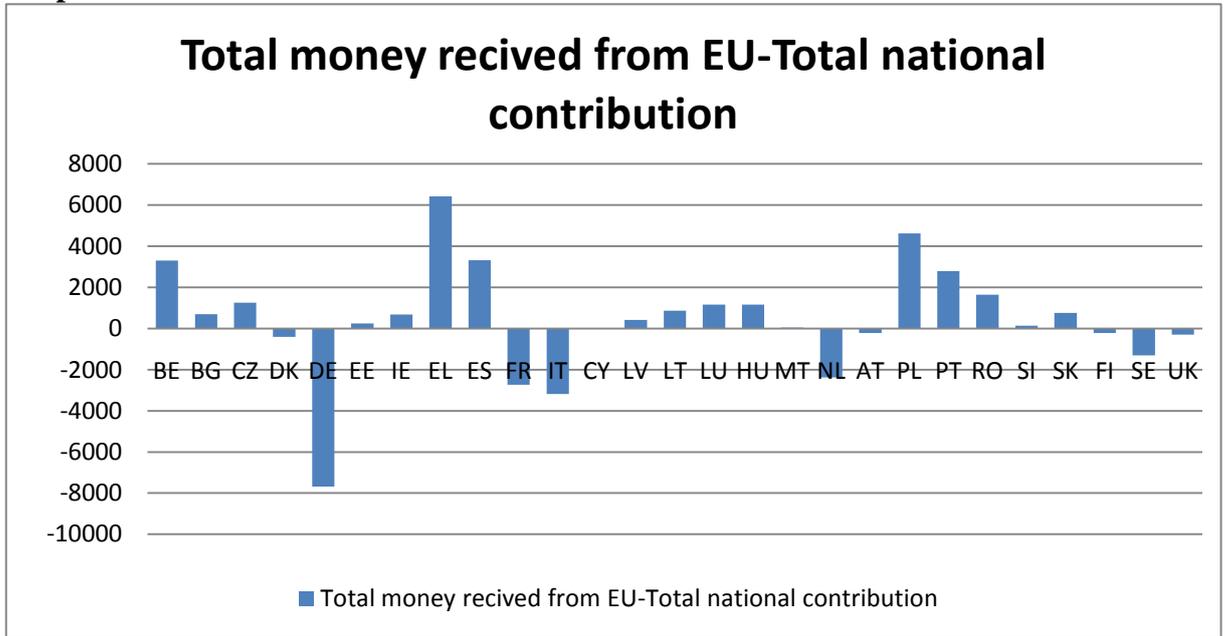
A single table is made in order to show the difference between the received and contributed money. It is researched if there are any free riders on CAP. **Table - 9** is made for year 2006 and for all 27 EU members.

**Table-10** works with historical development and just again with first ten EU members. Unfortunately it is needed to work with total data for EU budget instead of having data just for CAP. Due to the fact that nowadays CAP is about 40% of the overall EU budget, that certainly less than in the past, nevertheless, I think we receive a quite clear picture of the situation.

---

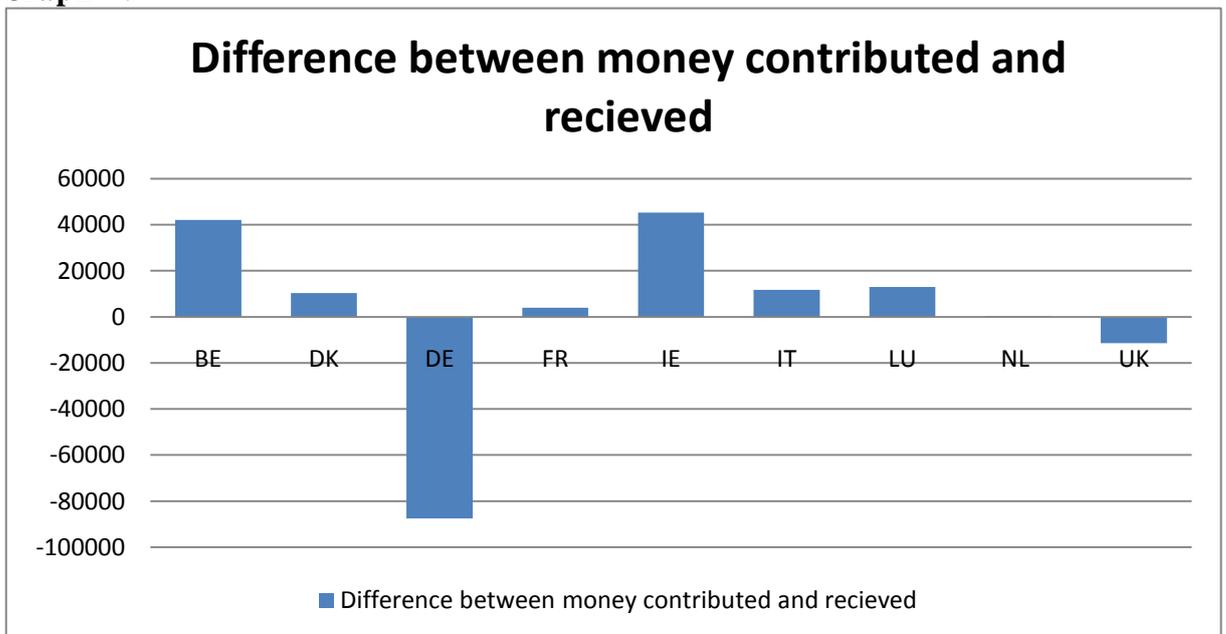
<sup>78</sup> (Economic Glossary)

**Graph-8**



source: own work of an author of this thesis - based on tables in supplements

**Graph - 9**



source: own work of an author of this thesis - based on tables in supplements

There are a few states that contribute much more than they receive and there are a few states receiving much more than they contribute. This fact is confirmed by these graphs.

The present situation is identified on **Graph -8**. The historical development is reflected in **Graph -9**.

Countries like Ireland receive quite significant bunch of money from someone else's pocket. It does not seem to be fair even if we take into consideration the natural conditions and premium subsidies.

Such largest net contributor as Germany and the other similar countries became the supporters of CAP reform and, of course, the states like Ireland and Poland, that have just received some finance, are against all changes that are planned to be done. The reason of the confrontation on the issue of reform by Coalition States can be understood. It is only due to money because every state wants to get lots of money.

### **Influence of Corruption index and GDP on amount of subsidies received**

Does GDP and Corruption index have an effect on the amounts of subsidies received? The answer for this question is researched at the last part of this bachelor thesis.

My idea is to try to find out whether there is a definite influence of rich countries as well as corruption on the amount of subsidies received. **Table -12** is made to illustrate the relationship with corruption index and **Table - 13** is made to illustrate the relationship with GDP per capita. Both tables can be found in supplements.

The following graphs are constructed from these two tables. The intention is to find out whether the amount of subsidies for more wealthy states has to do with their political power

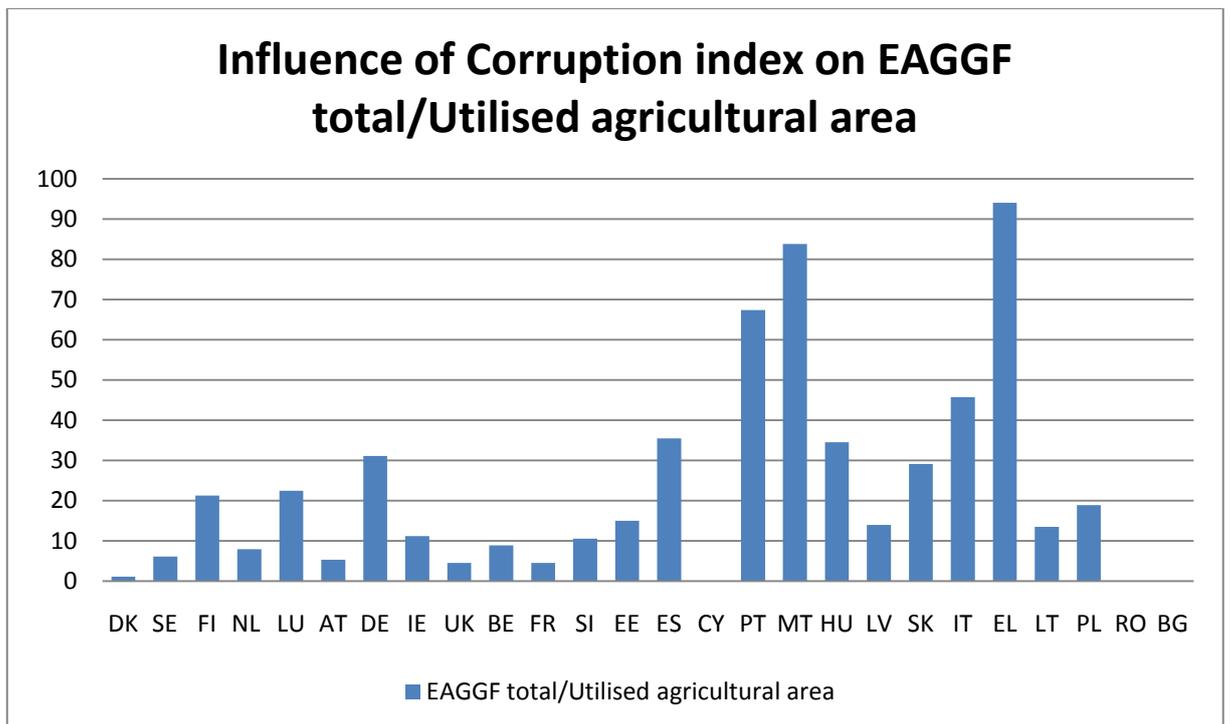
Of course, the conclusions cannot be done on the basis of these tables because there are no direct evidences.

The results of my work with the Corruption Perceptions Index (CPI) are displayed in **Graph - 10** and **Graph - 11**.

It basically means: *"CPI measures the perceived levels of public sector corruption in 180 countries and territories. A composite index, the CPI is based on 13 different expert and business surveys. The CPI measures perceptions of public sector*

corruption. The CPI is not intended to measure a country's progress over time. It is a snapshot of perceptions of corruption, using data published in the past two years. The 2009 CPI is calculated using data from 13 sources from 10 independent institutions."<sup>79</sup>

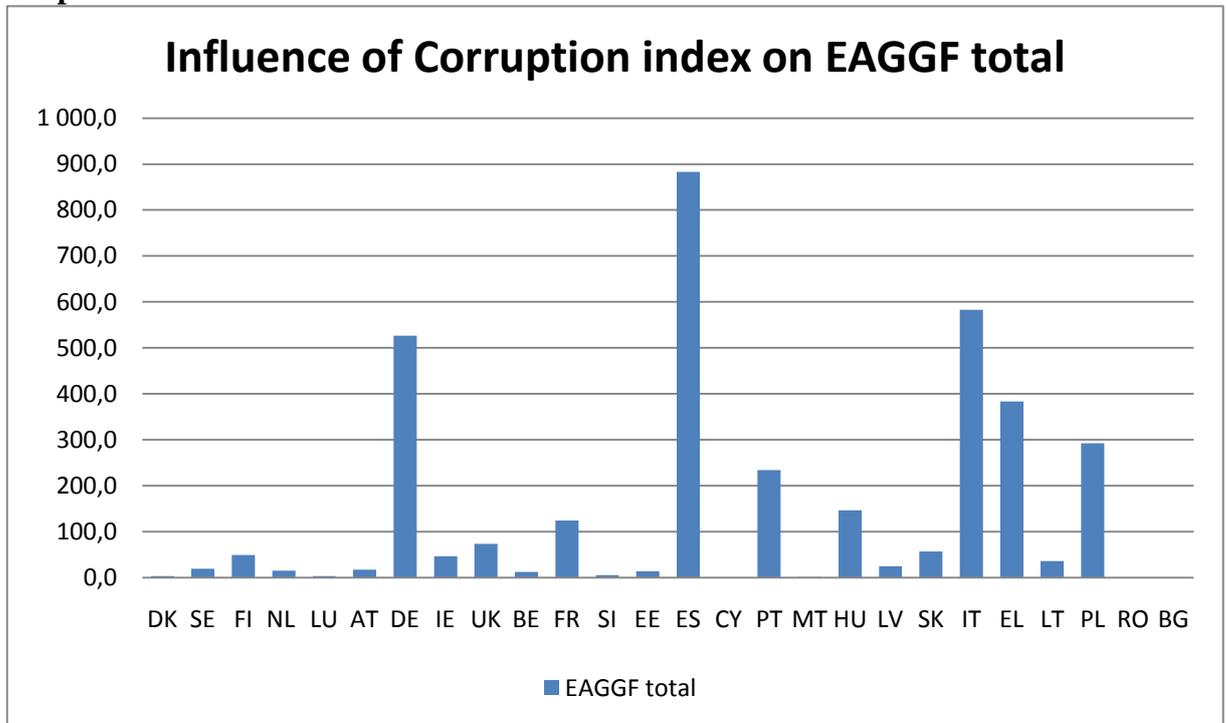
**Graph - 10**



source: own work of an author of this thesis - based on tables in supplements

<sup>79</sup> (International)

**Graph - 11**



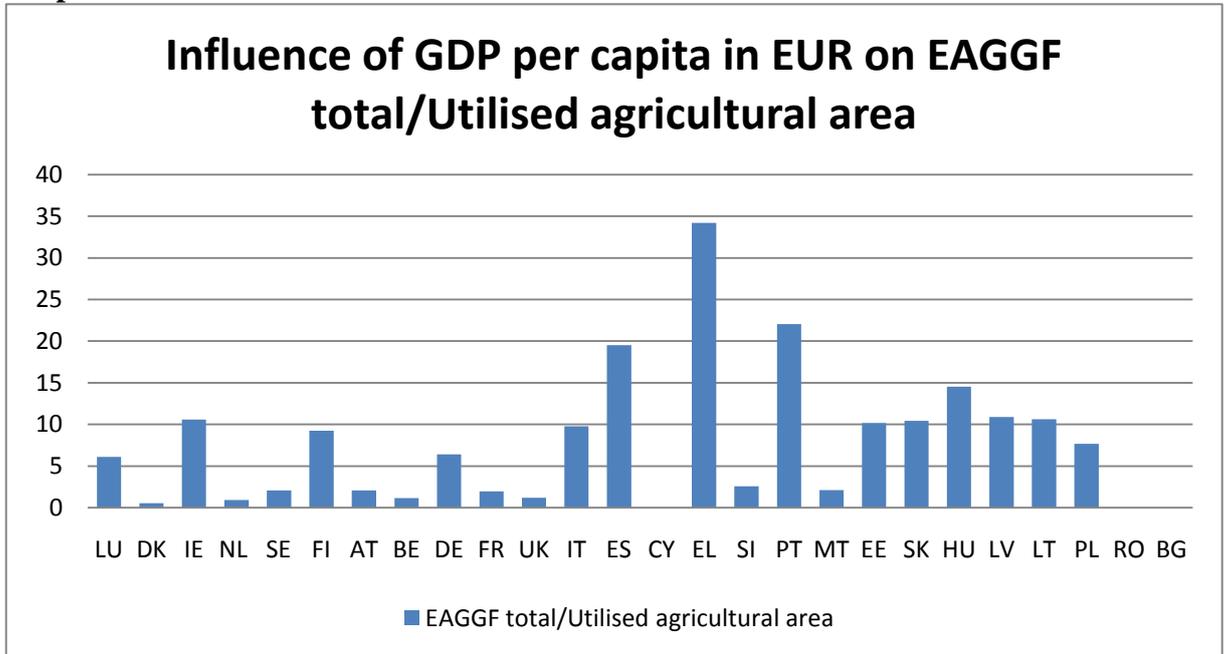
*source: own work of an author of this thesis - based on tables in supplements*

Countries are sorted according to their performance in CPI in 2006 and then the graph is made. CPI is evaluated from 0-10, when the best indicator is 10. The states with the least corruption are on the left hand side and states with the major corruption are on the right hand side.

It is a quite surprise that the states, which allegedly should be more corrupted according to Transparency International, have higher subsidies per hectare. Probably, it is not possible that the whole system is corrupt. Perhaps it is mere coincidence, but in this case it is very strange one, isn't it? The following two graphs (**Graph - 12**

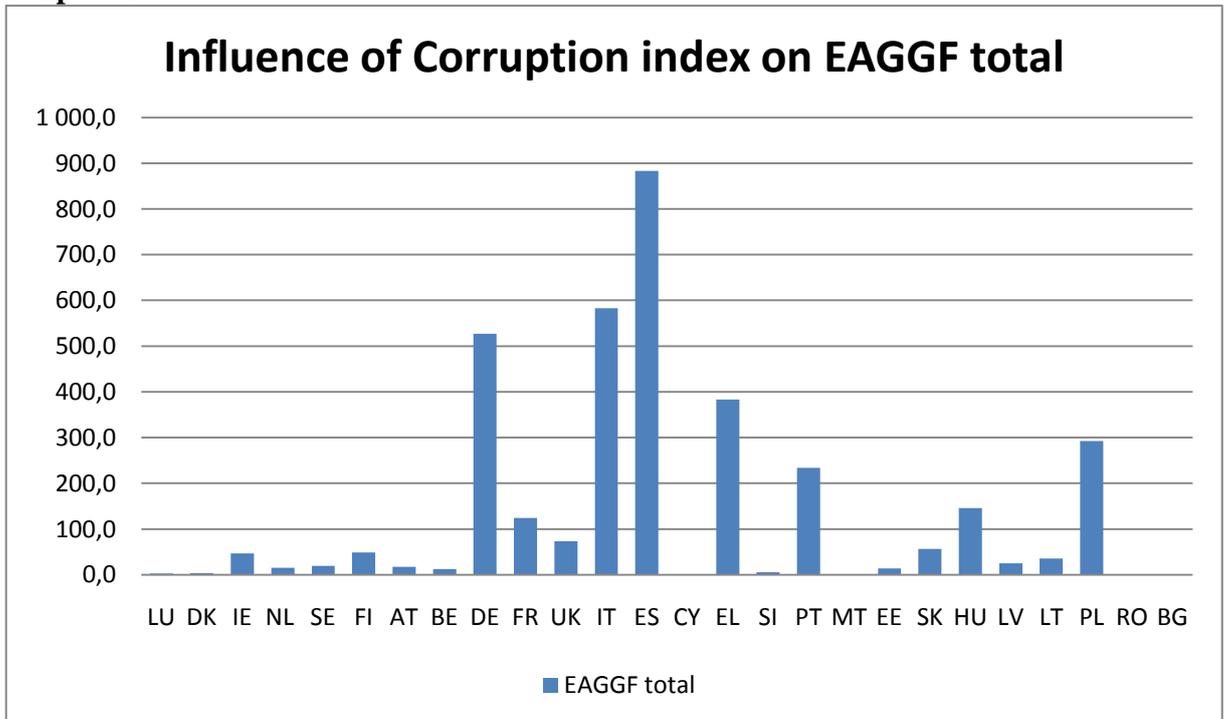
and **Graph - 13**) are done in the same way just with GDP. Here can be recognised that the graph with CPI really had to be just a coincidence.

**Graph - 12**



*source: own work of an author of this thesis - based on tables in supplements*

**Graph-13**



*source: own work of an author of this thesis - based on tables in supplements*

If the GDP per capita is taken as a measurement of nation's wealth then on the graphs can be seen that the most of subsidies get the medium wealthy nations. If the subsidies are really influenced by corruption then it would be definitely manipulated by nations that have funds to do so.

## **Conclusion**

Probably the main conclusion from this bachelor thesis is that EU states do not get the same amount of agricultural subsidies per hectare. The possible official reasons are already mentioned in the body of this bachelor thesis. Nonetheless there is the question - are these the real reasons, which explain why don't all states treated equally?

The whole CAP is just a purposeful battle for power. EU countries can be divided into groups according to their attitude to CAP. There are states that support CAP reforms and on the other hand there is a group of states that is against of Cap's reforms. The states, that negotiated privileges for themselves in the past, try currently to block all reforms. If small states want to negotiate something, then they are immediately outvoted by the big players. It creates competition that is not well balanced. How should farmers supply their products on one market with different conditions of inputs? Then there are states that have a competitive advantage and some states that have competitive disadvantage. It can be proved that the state that makes profit on CAP makes this profit in the long run - even for decades. This competition is financed from the taxpayer's pocket.

Basically CAP becomes more and more costly every year. EU still can afford to finance such a game but there is no guarantee that other days there will come. In that moment EU will be unable to continue this game.

The New Zealand's ways are definitely deserve the attempt to implement. The subsidies were cancelled there without any dramatic results. The efficiency raised, 2% of farmers went out of business and huge amount of money was saved.

The historical and life experience confirm that sooner or later but the incapable farmers would leave this business, and the strong ones do not cease to exist. Many people might be better off.

The farmer knows better than anybody else which products he should grow to obtain the highest profit. The customer also knows which product to buy in order to maximize his satisfaction. None of them needs an advice from EU. The savings could be then used for much wise things like healthcare, research etc.

If the legislation is set up properly, then the natural environment will not be affected at all. New Zealand has also no problems with nature treatment and there is no need of huge subsidies.

Definitely I would like to return to topic of CAP and competitiveness in my Diploma thesis. I'm really looking forward to what happens in these next two years. The discussion upon subsequent financial framework should start next year and I think that the significant changes can be expected.

## **Bibliography**

Alliance, I. C.-o. (2007, May 26). *Statement on the Co-operative Identity*. Retrieved 10 10, 2009, from <http://www.ica.coop/coop/principles.html#1>

*Allocative efficiency in a perfectly competitive market*. (n.d.). Retrieved 11 5, 2009, from Introduction to microeconomics. :  
[http://vladimir.tripod.com/allocative\\_efficiency\\_in\\_a\\_perfectly\\_competitive\\_market.htm](http://vladimir.tripod.com/allocative_efficiency_in_a_perfectly_competitive_market.htm)

*Answers.com*. (n.d.). Retrieved 11 2009, 5, from  
<http://www.answers.com/topic/methodology>

Arnold, W. (2007, 10 2). *Lessons from New Zealand: Farming without subsidies*. Retrieved 10 2009, 10, from The Newyork Times:  
[http://www.nytimes.com/2007/08/02/business/worldbusiness/02iht-farm.1.6953658.html?\\_r=2&pagewanted=2](http://www.nytimes.com/2007/08/02/business/worldbusiness/02iht-farm.1.6953658.html?_r=2&pagewanted=2)

Blunck, F. (2006, 6 26). *What is competitiveness*. Retrieved 11 16, 2009, from TCI Network: <http://www.competitiveness.org/article/articleview/774/1/32/>

*Brainy Quote*. (n.d.). Retrieved 10 23, 2009, from  
<http://www.brainyquote.com/words/me/method189741.html>

*Business Dictionary*. (n.d.). Retrieved 23 10, 2009, from  
<http://www.businessdictionary.com/definition/method.html>

*Competitiveness*. (n.d.). Retrieved 16 11, 2009, from Competitiveness support fund:  
<http://www.competitiveness.org.pk/subpage.php?pageid=14>

Delayen, C. (2007). *The Common Agricultural Policy: A Brief Introduction*. Retrieved 10 10, 2009, from Institute for Agriculture and Trade Policy:  
<http://www.iatp.org/iatp/publications.cfm?refid=100145>

Easton, V., & McColl, J. H. (n.d.). *Time series data*. Retrieved from Statistics Glossary:  
[http://www.stats.gla.ac.uk/steps/glossary/time\\_series.html](http://www.stats.gla.ac.uk/steps/glossary/time_series.html)

*Economic Glossary*. (n.d.). Retrieved 12 18, 2009, from <http://glossary.econguru.com/economic-term/free-rider+problem>

*Europa*. (n.d.). Retrieved 11 11, 2009, from How it works: [http://europa.eu/abc/budget/working/index\\_en.htm](http://europa.eu/abc/budget/working/index_en.htm)

*Europe's agriculture and the Common Agricultural Policy (CAP) – Frequently asked questions*. (2009, 4 20). Retrieved 11 11, 2009, from European Commission: [http://ec.europa.eu/agriculture/faq/faq\\_en.pdf](http://ec.europa.eu/agriculture/faq/faq_en.pdf)

*Evropská regionální fóra*. (n.d.). Retrieved 10 2009, 23, from [http://www.respektinstitut.cz/wp-content/uploads/prilohy/SZP\\_EU.pdf](http://www.respektinstitut.cz/wp-content/uploads/prilohy/SZP_EU.pdf)

Fajmon, H. (n.d.). *Finanční perspektiva českého zemědělství v EU pro období 2007-2013*. Retrieved 11 29, 2009, from [www.fajmon.eu/docs/dokumenty/konference-MU.pps](http://www.fajmon.eu/docs/dokumenty/konference-MU.pps)

*Financing the Common Agricultural Policy*. (n.d.). Retrieved 2 10, 2009, from European Comission: [http://ec.europa.eu/agriculture/fin/index\\_en.htm](http://ec.europa.eu/agriculture/fin/index_en.htm)

*Financing the common agricultural policy - Archive*. (n.d.). Retrieved 5 6, 2009, from Europa.eu: [http://ec.europa.eu/agriculture/fin/archive\\_en.htm](http://ec.europa.eu/agriculture/fin/archive_en.htm)

Fojtíková L., L. M. (2007). *Společné politiky EU - historie a současnost se zaměřením na Českou republiku*. Fojtíková L.,Lebiedzik M.

Frydenlund, J. (2007, 4 3). Retrieved 10 15, 2009, from Farm Subsidies:Myth and Reality: [http://www.cagw.org/site/DocServer/2007\\_Farm\\_Bill-Issue\\_Brief\\_1.pdf?docID=2121](http://www.cagw.org/site/DocServer/2007_Farm_Bill-Issue_Brief_1.pdf?docID=2121)

*General Agreement on Tariffs And Trade*. (n.d.). Retrieved 10 2, 2009, from CIESIN Thematic Guides: <http://www.ciesin.org/TG/PI/TRADE/gatt.html>

Gohin, A., & Guyomard, H. (1999, 11). *The Agenda 2000 CAP Reform in the WTO Context: Distortion Effects of Area Compensatory*. Retrieved 1 2010, 5, from INRA RENNES: <http://w3.rennes.inra.fr/economie/pdf/hg261100.pdf>

Happe, K., & Balmann, A. (2003). *Structural, efficiency and income effects of direct payments*. Retrieved 8 12, 2009, from Ageconsearch.:

<http://ageconsearch.umn.edu/bitstream/25920/1/cp03ha01.pdf>

Hindriks, F. (n.d.). *Concretization, Explanation,*. Retrieved 11 2, 2009, from PhilSci Archive: [http://philsci-](http://philsci-archive.pitt.edu/archive/00003525/01/Concretization_Explanation_and_Mechanism_s.pdf)

[archive.pitt.edu/archive/00003525/01/Concretization\\_Explanation\\_and\\_Mechanism\\_s.pdf](http://philsci-archive.pitt.edu/archive/00003525/01/Concretization_Explanation_and_Mechanism_s.pdf)

*How to Write a Comparative Analysis*. (n.d.). Retrieved 12 28, 2009, from Harvard University: <http://www.fas.harvard.edu/~wricntr/documents/CompAnalysis.html>

*International Co-operative Agricultural Organization*. (n.d.). Retrieved 10 10, 2009, from More about ICAO: <http://www.agricoop.org/about/about.htm>

International, T. (n.d.). Retrieved 11 30, 2009, from

[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009/methodology](http://www.transparency.org/policy_research/surveys_indices/cpi/2009/methodology)

Keeney, D., & Kemp, L. (n.d.). *A New Agricultural Policy for the United States*.

Retrieved 11 15, 2009, from The Minnesota Project:

<http://www.mnproject.org/pdf/A%20New%20Agriculture%20Policy%20for%20the%20U.S.%20by%20Dennis%20Keeney%20%20Lo..pdf>

Kjeldsen-Kragh, S. (1999, 9 24). *AGRICULTURAL COMPETITIVENESS*. Retrieved 11 16, 2009, from Agris:

<http://www.agris.cz/vyzkum/detail.php?id=104054&iSub=566&PHPSESSID=a3>

Krugman, P. (n.d.). Retrieved 11 1, 2009, from Competitiveness- A Dangerous Obsession:

[http://infoshako.sk.tsukuba.ac.jp/~takasaki/Teaching\\_U/IEU/Krugman\(1994\).pdf](http://infoshako.sk.tsukuba.ac.jp/~takasaki/Teaching_U/IEU/Krugman(1994).pdf)

Machková, H., Taušer, J., & kolektiv. (2007). *Mezinárodní konkurenceschopnost podniků po vstupu do EU*. Praha: Octoemia.

Mardell, M. (2008, 5 20). *Controversial CAP reform*. Retrieved 2 2010, 1, from BBC Mark Mardell's Euroblog :

[http://www.bbc.co.uk/blogs/thereporters/markmardell/2008/05/controversial\\_cap\\_reform.html](http://www.bbc.co.uk/blogs/thereporters/markmardell/2008/05/controversial_cap_reform.html)

NEUMANN, P. (2004). *Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace*. Praha: Oeconomica.

Porter, M. (2005). *What Is Competitiveness?*. Retrieved 11 16, 2009, from IGSE: <http://insight.iese.edu/doc.aspx?id=00438&ar=7&idioma=2>

*Produktivita*. (n.d.). Retrieved 10 8, 2009, from Slovenské centrum produktivity: <http://www.slcp.sk/index.php?category=118>

Ritchey, T. (n.d.). *On Scientific Method - Analysis and Synthesis*. Retrieved 10 23, 2009, from <http://www.swemorph.com/pdf/anaeng-r.pdf>

Ritchey, T. (1996). *Swedish Morphological Society*. Retrieved 18 9, 2009, from Analysis and Synthesis: <http://www.swemorph.com/pdf/anaeng-r.pdf>

Robert S. Pindyck, D. L. (2005). *MICROECONOMICS SIXTH EDITION*,. New Jersey: Pearson Education International.

Sayre, L. (n.d.). *Farming without subsidies?* Retrieved 10 2009, 10, from Rodale Institute: [http://newfarm.rodaleinstitute.org/features/0303/newzealand\\_subsidies.shtml](http://newfarm.rodaleinstitute.org/features/0303/newzealand_subsidies.shtml)

Svatoš, M. e. (1999). *ECONOMICS OF CZECH AND SLOVAK AGRICULTURE INTEGRATION WITH EU*. Prague: ČZU Praha.

SZIF. (2009). *Příručka pro žadatele*.

*TECHNICAL EFFICIENCY*. (n.d.). Retrieved 1 2010, 5, from AmosWEB Encyclonomic: [http://www.amosweb.com/cgi-bin/awb\\_nav.pl?s=wpd&c=dsp&k=technical+efficiency](http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=technical+efficiency)

*The Common Agricultural Policy explained*. (n.d.). Retrieved 10 2009, 1, from European Commission: [http://ec.europa.eu/agriculture/capexplained/challenge//index\\_en.htm](http://ec.europa.eu/agriculture/capexplained/challenge//index_en.htm)

*The Penguin English dictionary* (2 ed.). (2005). Praha: Euromedia Group.

*The Stresa Conference*. (2006). Retrieved 12 12, 2008, from  
[http://www.ena.lu/stresa\\_conference\\_12\\_july\\_1958-020703846.html](http://www.ena.lu/stresa_conference_12_july_1958-020703846.html)

*Time Series Analysis: The Basics*. (n.d.). Retrieved 11 30, 2009, from Australian Bureau of Statistics:  
<http://www.abs.gov.au/websitedbs/d3310114.nsf/4a256353001af3ed4b2562bb00121564/b81ecff00cd36415ca256ce10017de2f!OpenDocument#WHAT%20IS%20A%20TIME%20SERIES%3F>

Tokar, I. (2003). *Společná zemědělská politika Evropské unie*. Retrieved 10 2009, 2, from  
[http://www.valtr.wz.cz/spolecna\\_obchodni\\_politika/spolecna\\_zemedelska\\_politika\\_EU.doc](http://www.valtr.wz.cz/spolecna_obchodni_politika/spolecna_zemedelska_politika_EU.doc)

*Treaty establishing the European Economic Community*. (n.d.). Retrieved 10 2, 2009, from  
[http://training.itcilo.it/ils/CD\\_Use\\_Int\\_Law\\_web/Additional/Library/English/Regional\\_instruments/TreatyEstablishingEEC-1957.pdf](http://training.itcilo.it/ils/CD_Use_Int_Law_web/Additional/Library/English/Regional_instruments/TreatyEstablishingEEC-1957.pdf)

*Vznik Společné zemědělské politiky*. (2006, 4 25). Retrieved 10 2009, 2, from Ministerstvo zemědělství ČR:  
<http://mze.cz/Index.aspx?ch=72&typ=1&val=37129&ids=0&katId=2576>

*What Happened When New Zealand Ended Farm Subsidies* . (2002, 3 7). Retrieved 10 2009, 10, from National Center for Policy Analysis:  
[http://www.ncpa.org/sub/dpd/index.php?Article\\_ID=7033](http://www.ncpa.org/sub/dpd/index.php?Article_ID=7033)

Young, E., Nelson, F., Dixit, P., & Conklin, N. (n.d.). *AgEcon Search*. Retrieved 11 20, 2009, from POLICY DEVELOPMENTS IN UNITED STATES AGRICULTURE SINCE 1986:  
<http://ageconsearch.umn.edu/bitstream/16851/1/ag010098.pdf>

Žižková, B. (n.d.). *NOVÉ SMĚRY SPOLEČNÉ ZEMĚDĚLSKÉ POLITIKY*. Retrieved 10 2009, 3, from  
[http://www.law.muni.cz/edicni/sborniky/cofola2008/files/pdf/ekonom/zizkova\\_bohumila.pdf](http://www.law.muni.cz/edicni/sborniky/cofola2008/files/pdf/ekonom/zizkova_bohumila.pdf)

## Supplements

Table -1

	Year	EAGGF Guidance Section		EAGGF Guarantee section		EAGGF Total	
		million UA/EUR	% of EU budget	million UA/EUR	% of EU budget	million UA/EUR	% of EU budget
EU-6	1965			28,7	8,5	28,7	8,5
	1966			50,7	12,9	50,7	12,9
	1967			340	45,5	340	45,5
	1968	34	2,1	1259,7	77,4	1293,7	79,5
	1969	51,3	2,5	1668	80,8	1719,3	83,3
	1970	58,4	1,6	3108,1	86,9	3166,5	88,5
	1971	61,5	2,6	1755,6	72,8	1817,1	75,4
	1972	53,2	1,6	2485,6	75,2	2538,8	76,8
EU-9	1973	10,8	0,2	3614,4	76,8	3625,2	77
	1974	37,8	0,7	3459,8	68,4	3497,6	69,1
	1975	76,7	1,3	4327,7	70,9	4404,4	72,2
	1976	112,1	1,4	5636,7	71,4	5748,8	72,8
	1977	113	1,2	6587,1	72,6	6700,1	73,8
	1978	325,6	2,6	8679,3	69,4	9004,9	72
	1979	286,5	1,9	10387,1	70,3	10673,6	72,2
	1980	314,6	1,9	11291,9	68,6	11606,5	70,5
EU-10	1981	539,9	2,9	11063,7	59,7	11603,6	62,6
	1982	650,8	3,1	12259,8	57,6	12910,6	60,7
	1983	575,3	2,3	15785,8	62,1	16361,1	64,4
	1984	595,6	2,1	18330,4	64,4	18926	66,5
	1985	685,5	2,4	19727,8	68,4	20413,3	70,8
	1986	771,2	2,2	22118,1	61,7	22889,3	63,9
	1987	789,5	2,2	22950,1	63,3	23739,6	65,5
	1988	1140,9	2,7	26395,2	62,1	27536,1	64,8
	1989	1349	3,2	24401,4	57,7	25750,4	60,9
	1990	1825,3	4	25604,6	56,1	27429,9	60,1
EU-15	1991	2085,4	3,8	31103,2	56,5	33188,6	60,3
	1992	2857,9	4,7	31254,5	51,4	34112,4	56,1
	1993	2914,2	4,4	34935,8	52,4	37850	56,8
	1994	2476,5	4	32952,8	53,6	35429,3	57,6
	1995	2530,6	3,7	34490,4	50,4	37021	54,1
	1996	3360,3	4,3	39324,2	50	42684,5	54,3
	1997	3580	4,4	40423	49,6	44003	54
	1998	3521,5	4,3	39068	47,3	42589,5	51,6
	1999	3774	4,4	39468,6	46,5	43242,6	50,9
	2000	1390,7	1,7	40437,3	49,2	41828	50,9
	2001	1343,1	1,6	42131,2	51,1	43474,3	52,7
	2002	1553,9	1,8	43178	49,2	44731,9	51
	2003	2289,8	2,5	44414,3	48,4	46704,1	50,9
EU-25	2004	2742,9	2,7	43612	42,6	46354,9	45,3
	2005	2943,3	2,8	48346,8	45,4	51290,1	48,2
	2006	3206,1	3	49825,9	45,9	53032	48,9

source: compiled by an author from Eurostat and webpage of Comission

**Table-2**

Phasing-in model	
year	% of CAP subsidies
2004	25%
2005	30%
2006	35%
2007	40%
2008	50%
2009	60%
2010	70%
2011	80%
2012	90%
2013	100%

source: compiled by an author from Eurostat and webpage of Comission

**Table-3**

source: compiled by an author from Eurostat and webpage of Comission

State	2006 EAGGF total	Population	Utilised agricultural area	Corruption Index	Nuber of agricultural holdings	GDP per capita in PPS	EAGGF total/Utilised agricultural area	EAGGF total/Population	EAGGF total/Nuber of agricultural holdings
BE	12,2	10666866	1374430	7,3	48010	32200	1,147267283	8,903870237	254,8999452
BG	0,0	7640238	3050740	3,6	493130	4500	0	0	0
CZ	39,5	10381130	3518070	5,2	39400	14200	3,800988721	11,21596729	1001,486245
DK	3,0	5475791	2662590	9,3	44620	42400	0,546047484	1,122982472	67,01124832
DE	526,7	82217837	16931900	7,9	370480	30400	6,40625544	31,10746376	1421,692036
EE	13,6	1340935	906830	6,6	23340	12000	10,17550217	15,04657654	584,6052699
EL	383,4	11213785	4076230	4,7	860150	21300	34,18634442	94,04727317	445,6877478
ES	883,3	45283259	24892520	6,5	1043910	23900	19,50692698	35,4860507	846,1814014
FR	124,3	63982881	27476930	6,9	527350	30400	1,943466445	4,525563164	235,7989614
IE	46,5	4401335	4139240	7,7	128240	40900	10,56740957	11,23653367	362,6848847
IT	582,8	59619290	12744200	4,8	1679440	26300	9,776089355	45,73402068	347,0463406
CY	0,0	789269	146000	6,4	40120	21700	0	0	0
LV	24,8	2270894	1773840	5	107750	10200	10,90470623	13,96035266	229,8230344
LT	35,7	3366357	2648950	4,6	230270	9600	10,6166404	13,49191255	155,2065043
LU	2,9	483799	130880	8,3	2300	80500	6,084726839	22,49224297	1279,906417
HU	146,1	10045401	4228580	5,1	626320	10500	14,54014313	34,5415171	233,2059784
MT	0,9	410290	10330	5,8	11020	13800	2,109116625	83,77051888	78,52535935
NL	15,2	16405399	1914330	8,9	76740	36200	0,928797973	7,959600137	198,5574841
AT	17,2	8318592	3189110	8,1	165420	33800	2,064221445	5,384391256	103,8049571
PL	292,5	38115641	15477190	4,6	2390960	9500	7,672706401	18,89555679	122,3149374
PT	233,9	10617575	3472940	6,1	275080	15700	22,03319431	67,36053404	850,4402104
RO	0,0	21528627	13753050	3,8	3931350	6400	0	0	0
SI	5,2	2010269	488770	6,7	75340	18400	2,577184944	10,59974016	68,76606053
SK	56,4	5400998	1936620	5	68990	12000	10,43564247	29,10373957	816,9717948
FI	48,9	5300484	2292290	9	68230	34800	9,222568113	21,32543209	716,4601307
SE	19,0	9182927	3118000	9,3	72610	35600	2,072868415	6,104874708	262,1539642
UK	73,2	61193524	16130490	7,7	299830	29600	1,196668143	4,539746822	244,2328677

**Table -4**

	EAGGF total	Utilised agricultural area	EAGGF total/Utilised agricultural area
EL	383,4	4076230	94,04727317
MT	0,9	10330	83,77051888
PT	233,9	3472940	67,36053404
IT	582,8	12744200	45,73402068
ES	883,3	24892520	35,4860507
HU	146,1	4228580	34,5415171
DE	526,7	16931900	31,10746376
SK	56,4	1936620	29,10373957
LU	2,9	130880	22,49224297
FI	48,9	2292290	21,32543209
PL	292,5	15477190	18,89555679
EE	13,6	906830	15,04657654
LV	24,8	1773840	13,96035266
LT	35,7	2648950	13,49191255
IE	46,5	4139240	11,23653367
CZ	39,5	3518070	11,21596729
SI	5,2	488770	10,59974016
BE	12,2	1374430	8,903870237
NL	15,2	1914330	7,959600137
SE	19,0	3118000	6,104874708
AT	17,2	3189110	5,384391256
UK	73,2	16130490	4,539746822
FR	124,3	27476930	4,525563164
DK	3,0	2662590	1,122982472
RO	0,0	13753050	0
BG	0,0	3050740	0
CY	0,0	146000	0

*source: compiled by an author from Eurostat and webpage of Comission*

Table - 5

	EAGGF total	Population	EAGGF total/Population
EL	383,4	11213785	34,18634442
PT	233,9	10617575	22,03319431
ES	883,3	45283259	19,50692698
HU	146,1	10045401	14,54014313
LV	24,8	2270894	10,90470623
LT	35,7	3366357	10,6166404
IE	46,5	4401335	10,56740957
SK	56,4	5400998	10,43564247
EE	13,6	1340935	10,17550217
IT	582,8	59619290	9,776089355
FI	48,9	5300484	9,222568113
PL	292,5	38115641	7,672706401
DE	526,7	82217837	6,40625544
LU	2,9	483799	6,084726839
CZ	39,5	10381130	3,800988721
SI	5,2	2010269	2,577184944
MT	0,9	410290	2,109116625
SE	19,0	9182927	2,072868415
AT	17,2	8318592	2,064221445
FR	124,3	63982881	1,943466445
UK	73,2	61193524	1,196668143
BE	12,2	10666866	1,147267283
NL	15,2	16405399	0,928797973
DK	3,0	5475791	0,546047484
BG	0,0	7640238	0
CY	0,0	789269	0
RO	0,0	21528627	0

source: compiled by an author from Eurostat and webpage of Comission

**Table -6**

	EAGGF total	Nuber of agricultural holdings	EAGGF total/Nuber of agricultural holdings
DE	526,7	370480	1421,692036
LU	2,9	2300	1279,906417
CZ	39,5	39400	1001,486245
PT	233,9	275080	850,4402104
ES	883,3	1043910	846,1814014
SK	56,4	68990	816,9717948
FI	48,9	68230	716,4601307
EE	13,6	23340	584,6052699
EL	383,4	860150	445,6877478
IE	46,5	128240	362,6848847
IT	582,8	1679440	347,0463406
SE	19,0	72610	262,1539642
BE	12,2	48010	254,8999452
UK	73,2	299830	244,2328677
FR	124,3	527350	235,7989614
HU	146,1	626320	233,2059784
LV	24,8	107750	229,8230344
NL	15,2	76740	198,5574841
LT	35,7	230270	155,2065043
PL	292,5	2390960	122,3149374
AT	17,2	165420	103,8049571
MT	0,9	11020	78,52535935
SI	5,2	75340	68,76606053
DK	3,0	44620	67,01124832
BG	0,0	493130	0
CY	0,0	40120	0
RO	0,0	3931350	0

*source: compiled by an author from Eurostat and webpage of Comission*

**Table - 7**

National Contribution	YEAR/STATE	BE	DK	DE	FR	IE	IT	LU	NL	UK
EU-9	1976	128,7	92,3	1416,7	1228	27	329,1	11,9	138,9	-41,9
	1977	241	141,3	1718,7	1277,4	33,4	704,8	9,6	320,9	898,1
	1978	241	141,3	1718,7	1277,4	33,4	704,8	9,6	320,9	898,1
	1979	330,8	187,1	2248,3	1722,4	42,8	752,3	15	454	1302,9
	1980	327,1	193,3	2372,4	1778,8	64,8	864,1	15,3	462	1294,5
EU-10	1981	377,5	194,1	2809,6	2258,2	69,3	1589	22,7	500,3	1931,3
	1982	461,6	226,8	3340	2872,8	107,7	1457,7	25,7	649,8	2782,7
	1983	432,5	274,2	4038,9	3082,1	150,6	1923,3	39,2	713,7	2859,7
	1984	473,4	309,6	4524,6	3431,6	135,9	2319,9	47,8	788,7	2824,4
	1985	626,5	398,7	5229,8	4162,8	164,2	2856,7	49,7	968,2	3206,6
	1986	736,7	512,9	5869,1	5248,5	213,3	3518,7	59,2	1230	2601,2
	1987	782,6	576,3	6217,5	5556,5	207,7	3738	66	1326	3226,4
	1988	1063,9	706	8361,9	3367,6	190	4030,4	74,2	1745,5	2823,3
	1989	969,1	618,3	7725,4	6828,2	205,6	6172,2	63,8	1543	3846,9
	1990	938	528	6933,3	6351,8	221,7	4789,1	64,9	1476,8	4167,6
	EU-15	1991	1278,3	755,6	11317,2	8773,1	300,9	7187,4	92,1	2040,4
1992		1352	762	13068,5	8813	306,1	6961,8	108,3	2078,8	4294,1
1993		1521,3	946	15182,4	9850,3	381,4	9130,6	151,8	2559,9	5133,4
1994		1863,6	1020,5	17493,7	10867,9	419,9	6604,4	147,3	2699	3840,2
1995		1676,6	1009	17444,1	10165,4	436,7	5227,7	147,7	2685,9	6572,8
1996		1765,1	1103,3	17242,4	10880,7	474,8	7957,1	142,3	2826,2	5518,3
1997		1922,5	1217,2	17784,7	11635,1	462,3	7546,7	148,7	3109,2	5884,2
1998		1989,5	1399,7	17372,7	12082,4	787,7	9313,7	194,7	3414	9645,5
1999		2093,2	1359,8	17880,9	12507,6	884,9	9487,3	173,8	3479,3	8305,2
2000		2161,9	1368,2	18432,1	12866	875,2	9515,9	161,4	3749,1	10628,6
2001		2284,5	1486,8	16578,5	12961,9	1051,2	10213,6	236,5	3771,3	4634,4
2002	2129,4	1507,5	15617,6	13202,7	933,8	10411,3	173,7	3506,3	8085,7	
2003	2322,3	1559,8	16915,4	14113,8	1023	10639,9	192,1	3635,9	7872,1	
EU-25	2004	2570,1	1940,1	20229,8	16013,5	1250,5	13786	231,3	5268,8	11682,5
	2005	2650,6	1690,8	17411,9	15516,8	1260,2	12204,8	211,2	4462,7	9630,2
	2006	2635,2	1869,7	17573,3	15353,2	1279,7	11933,5	198,3	4487,1	9830,2
	2007	2686,8	1889,2	18583,2	15656,4	12336,9	123,9	759,4	2017	10771,9
<b>Total</b>		<b>43033,3</b>	<b>27985,4</b>	<b>350653</b>	<b>261704</b>	<b>26332,6</b>	<b>183996</b>	<b>4045,2</b>	<b>68429,6</b>	<b>159220</b>
<b>Population</b>	2008	1,1E+07	5475791	8,2E+07	6,4E+07	4401335	6E+07	483799	1,6E+07	6,1E+07
<b>National Contribution per capita</b>		4034,3	5110,75	4264,93	4090,22	5982,87	3086,18	8361,32	4171,16	2601,9
<b>Utilised agricultural area</b>	2007	1374430	2662590	1,7E+07	2,7E+07	4139240	1,3E+07	130880	1914330	1,6E+07
<b>National contribution / Utilised agriculture area</b>		31309,9	10510,6	20709,6	9524,5	6361,7	14437,6	30907,7	35746	9870,73
<b>Nuber of agricultural holdings</b>	2007	48010	44620	370480	527350	128240	1679440	2300	76740	299830
<b>GDP per capita in EUR</b>	2008	32200	42400	30400	30400	40900	26300	80500	80500	29600
<b>National contribution / Number of agrciultural holdings</b>		896340	627194	946484	496262	205338	109558	1758783	891707	531033

*source: compiled by an author from Eurostat and webpage of Comission*

**Table - 8**

Money recieved from EU	Year/State	BE	DK	DE	FR	IE	IT	LU	NL	UK
EU-9	1976	386,3	396,9	1087,8	1548,2	228,3	1146,9	9,2	781,4	994,2
	1977	451,5	472,3	1375,3	1536,2	469,2	1188,8	10,6	823,2	1490,1
	1978	643,5	602,5	2716,4	1695,1	414,9	2006,5	25,9	1218,8	1480,5
	1979	842,9	703,5	2753,2	2648,5	629,3	2166,2	15,2	1546,8	1541,2
	1980	677,2	680,1	2940,2	3372,4	826,5	2610,5	14,5	1667,1	1803,1
EU-10	1981	579,9	575,3	2502,3	3484,5	717	2813,3	8,3	1284,8	3124,7
	1982	649,3	630,5	2526,8	3421,2	880	3398,6	5,8	1553,3	3961,9
	1983	735,5	756,5	3825,3	4254,8	1026,2	3775	5,6	1860,5	4083,6
	1984	840,1	1020,1	4019,3	4342,5	1210,4	4962,4	11,2	2122,6	4092,5
	1985	1070	912,5	4185	5416,4	1548,7	4480,3	8,5	2231,9	3107,4
	1986	1164,2	1211,8	4988,4	6323,6	1573,9	4523,3	6,5	2449,5	3386,8
	1987	985,4	1144,2	45410,8	6744,3	1438	5256,2	12	2890,2	3121,5
	1988	838,5	1286,2	5427,7	7314,6	1487,5	5551	14,2	3945	3253,9
	1989	683,3	1045,3	4579,8	5676,5	1711,7	6177,1	8,2	3829,9	2314,3
	1990	989,8	1197,6	4807,1	6284,6	2260,7	5681	14,5	2983,6	3147,4
EU-15	1991	2643	1379,8	6597,4	8152,5	2809,7	7311,2	268,5	2999,8	4069,5
	1992	3463,3	1330,3	7435,9	9174,1	2582,2	8048,2	749,7	2715,4	4446,4
	1993	3728	1563,4	7416,7	10518,7	2969,9	9122,3	904	2766,6	4667,3
	1994	3961,8	1532,8	7900,6	10086,6	2406,8	5393,5	772,9	2483,1	5343,4
	1995	4398,3	1640,4	8125,7	10336,7	2578,3	5741	861,7	2428,3	4612,4
	1996	4166,8	1616,7	10214,4	12285,7	2997,7	7852,2	948,4	2103,7	6112,4
	1997	4050,9	1574,4	10273	12404,8	3363,7	8605,8	896,1	2561,4	7129,3
	1998	3932,6	1514,3	10408,4	12052	3226,8	8490,1	909,3	2099,1	6981,4
	1999	4166,7	1552,8	9985,2	13103,9	2909,1	9061,3	832,9	1772,7	5893,3
	2000	4239,2	1642,8	10256,5	12377,8	2617,2	10811,6	885,2	2241,2	7857,2
	2001	3988	1350,5	10246,9	11674,5	2310,5	8598,8	889,7	1676,4	5863,6
	2002	4338,8	1469	11697,3	12155,7	2597,5	8200	954,1	1585,1	6161
EU-25	2003	4477,1	1489,8	10594,9	13359,1	2690,2	10625,9	1095,8	1991,6	6174,5
	2004	5163,6	1591	11745,5	12944,9	2814,8	10367	1132	2115,8	7130,2
	2005	5575,9	1552,4	12284,1	13620,5	2493,6	10696,3	1105,8	2093,5	8670,4
	2006	5625,1	1501,9	12242,4	13496,2	2461,8	10922,3	1164,7	2190,4	8294,2
	2007	5678,8	1449,2	12483,6	13897,2	11315,3	126,8	2427,6	1598,4	7422,9
<b>Total</b>		85135,3	38386,8	263054	265704	71567,4	195711	16968,6	68611,1	147733
Population	2008	1,1E+07	5475791	8,2E+07	6,4E+07	4401335	6E+07	483799	1,6E+07	6,1E+07
Money recieved from EU per capita		7981,29	7010,27	3199,47	4152,74	16260,4	3282,69	35073,7	4182,23	2414,19
Utilised agricultural area	2007	1374430	2662590	1,7E+07	2,7E+07	4139240	1,3E+07	130880	1914330	1,6E+07
Money recieved / Utilised agriculture area		61942,3	14417,1	15536	9670,09	17290	15356,9	129650	35840,8	9158,59
Nuber of agricultural holdings	2007	48010	44620	370480	527350	128240	1679440	2300	76740	299830
GDP per capita in EUR	2008	32200	42400	30400	30400	40900	26300	80500	36200	29600
Money recieved from EU / Number of agricultural holdings		1773283	860305	710035	503848	558074	116534	7377652	894072	492721

*source: compiled by an author from Eurostat and webpage of Comission*

**Table - 9**

	Total money recived from EU	Total national contribution	Difference=Total money recived from EU-Total national contribution
BG	971,5740426	277,3966382	694,1774043
CZ	2441,101817	1189,074016	1252,027801
DK	1557,19876	1957,579753	-400,3809925
DE	11193,77972	18878,29978	-7684,52006
EE	368,3298935	127,3337782	240,9961153
IE	2051,627748	1375,516759	676,1109893
EL	8513,995932	2097,343106	6416,652826
ES	12093,83537	8776,388601	3317,44677
FR	13721,82559	16456,53524	-2734,70965
IT	10306,44008	13495,8915	-3189,451415
CY	130,0908733	134,8312592	-4,74038597
LV	610,4397436	186,5236386	423,916105
LT	1134,464724	269,1528964	865,3118278
LU	1409,759088	244,6072139	1165,151874
HU	2002,62694	833,714954	1168,911986
MT	87,39433992	47,48871985	39,90562007
NL	2267,038674	4635,885845	-2368,847172
AT	1777,341551	1992,829975	-215,4884235
PL	7639,456921	3021,896125	4617,560796
PT	4116,576914	1331,747167	2784,829747
RO	2666,168387	1017,741954	1648,426433
SI	456,4402675	318,5259807	137,9142868
SK	1241,776234	483,2336409	758,5425932
FI	1321,27916	1543,327765	-222,0486053
SE	1464,006243	2768,721765	-1304,715522
UK	7309,895078	7613,808499	-303,9134208

*source: compiled by an author from Eurostat and webpage of Comission*

**Table - 10**

	Corruption Index	Total National Contribution	Total Money recieved from EU	Utilised agricultural area	Utilised agriculture area	Utilised agriculture area
DK	9,3	27985,4	38386,8	2662590	10511	14417
NL	8,9	68429,6	68611,1	1914330	35746	35841
LU	8,3	4045,2	16968,6	130880	30908	129650
DE	7,9	350653,3	263053,9	16931900	20710	15536
IE	7,7	26332,6	71567,4	4139240	6362	17290
UK	7,7	159219,7	159219,7	16130490	9871	9871
BE	7,3	43033,3	85135,3	1374430	31310	61942
FR	6,9	261703,9	265704,3	27476930	9524	9670
IT	4,8	183995,7	195711,4	12744200	14438	15357

source: compiled by an author from Eurostat and webpage of Comission

**Table - 11**

	EAGGF total	Corruption Index	Utilised agricultural area	EAGGF total/Utilised agricultural area
DK	3,0	9,3	2662590	1,122982472
SE	19,0	9,3	3118000	6,104874708
FI	48,9	9	2292290	21,32543209
NL	15,2	8,9	1914330	7,959600137
LU	2,9	8,3	130880	22,49224297
AT	17,2	8,1	3189110	5,384391256
DE	526,7	7,9	16931900	31,10746376
IE	46,5	7,7	4139240	11,23653367
UK	73,2	7,7	16130490	4,539746822
BE	12,2	7,3	1374430	8,903870237
FR	124,3	6,9	27476930	4,525563164
SI	5,2	6,7	488770	10,59974016
EE	13,6	6,6	906830	15,04657654
ES	883,3	6,5	24892520	35,4860507
CY	0,0	6,4	146000	0
PT	233,9	6,1	3472940	67,36053404
MT	0,9	5,8	10330	83,77051888
HU	146,1	5,1	4228580	34,5415171
LV	24,8	5	1773840	13,96035266
SK	56,4	5	1936620	29,10373957
IT	582,8	4,8	12744200	45,73402068
EL	383,4	4,7	4076230	94,04727317
LT	35,7	4,6	2648950	13,49191255
PL	292,5	4,6	15477190	18,89555679
RO	0,0	3,8	13753050	0
BG	0,0	3,6	3050740	0

source: compiled by an author from Eurostat and webpage of Comission

**Table - 12**

	GDP per capita in EUR	Total National Contribution	Total Money recieved from EU	National contribution / Utilised agriculture area	Money recieved / Utilised agriculture area
LU	80500	4045,2	16968,6	30908	129650
NL	80500	68429,6	68611,1	35746	35841
DK	42400	27985,4	38386,8	10511	14417
IE	40900	26332,6	71567,4	6362	17290
BE	32200	43033,3	85135,3	31310	61942
DE	30400	350653,3	263053,9	20710	15536
FR	30400	261703,9	265704,3	9524	9670
UK	29600	159219,7	159219,7	9871	9871
IT	26300	183995,7	195711,4	14438	15357

source: compiled by an author from Eurostat and webpage of Comission

**Table - 13**

	EAGGF total	Population	Utilised agricultural area	GDP per capita in EUR	EAGGF total/Utilised agricultural area
LU	2,9	483799	130880	80500	6,084726839
DK	3,0	5475791	2662590	42400	0,546047484
IE	46,5	4401335	4139240	40900	10,56740957
NL	15,2	16405399	1914330	36200	0,928797973
SE	19,0	9182927	3118000	35600	2,072868415
FI	48,9	5300484	2292290	34800	9,222568113
AT	17,2	8318592	3189110	33800	2,064221445
BE	12,2	10666866	1374430	32200	1,147267283
DE	526,7	82217837	16931900	30400	6,40625544
FR	124,3	63982881	27476930	30400	1,943466445
UK	73,2	61193524	16130490	29600	1,196668143
IT	582,8	59619290	12744200	26300	9,776089355
ES	883,3	45283259	24892520	23900	19,50692698
CY	0,0	789269	146000	21700	0
EL	383,4	11213785	4076230	21300	34,18634442
SI	5,2	2010269	488770	18400	2,577184944
PT	233,9	10617575	3472940	15700	22,03319431
MT	0,9	410290	10330	13800	2,109116625
EE	13,6	1340935	906830	12000	10,17550217
SK	56,4	5400998	1936620	12000	10,43564247
HU	146,1	10045401	4228580	10500	14,54014313
LV	24,8	2270894	1773840	10200	10,90470623
LT	35,7	3366357	2648950	9600	10,6166404
PL	292,5	38115641	15477190	9500	7,672706401
RO	0,0	21528627	13753050	6400	0
BG	0,0	7640238	3050740	4500	0

source: compiled by an author from Eurostat and webpage of Comission