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**Faculty of Economics and Management**

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**Diploma Thesis**

**The Common Agriculture Policy and its Functioning in  
the Czech Republic**

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**!!!**

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**!!!**

## Declaration

I hereby confirm that I wrote this Diploma Thesis “Common Agriculture Policy and its functioning in the Czech Republic” on my own and that I listed all used materials in references.

Kostelec nad Černými lesy, 25<sup>th</sup> March 2014

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# **Common Agriculture Policy and its functioning in the Czech Republic**

## **Summary**

The Diploma thesis broadly describes the history of the Common Agriculture Policy and it should function as a tool for a better understanding of its functioning in the Czech Republic. The description of the policy with regards to the Czech Republic has shown a certain difficulties and the author deals with them in the last part of this work. The initial description shows following troubles of the CAP in the Czech Republic like the unnatural size of farms, the unfavourable land management, agrarian companies strongly focused on economic profit from strongly subsidised agriculture sector, the poor rural areas without responsible farmers and the underdeveloped Civil Society. Furthermore the Diploma thesis operates with the example of farming and rural management in Austria. In the processed questionnaire it tries to find the answers to the Czech problems in Austrian agrarian sector and the Civil Society.

**Key words:** Common Agriculture Policy, Czech Republic, Ministry of Agriculture of Czech Republic, Reform, Direct Payments, Coupling, Farn, Decoupling

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## List of Abbreviations

ACP	African, Caribbean and Pacific Group of States
CAP	Common Agriculture Policy
CMO	Common Market Organisation
CZ	Czech Republic
ČSFR	Česká a Slovenská Federativní Republika, Czech and Slovak Federal Republic
ČSSR	Československá socialistická republika, Czechoslovak Socialist Republic
CULS	Czech University of Life Sciences
EAFRD	European Agriculture Fund Rural Development
EAGF	European Agriculture Guidance Fund
EAGGF	European Agriculture Guarantee and Guidance Fund
ECOFIN	Economic and Financial Council of Ministers
EEC	European Economic Community
EC	European Commission
EC	European Community
EU	European Union
EURO	European Union Currency
EURATOM	European Atomic Energy Community
FAO	Food and Agriculture Organization of the United Nations
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product

IPA	Instrument of Pre-Accession
MZE ČR	Ministerstvo zemědělství České republiky, Ministry of Agriculture of the Czech Republic
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic and Development
PGRLF	Podpůrný a garanční rolnický a lesnický fond, National supportive Fund
PHARE	Pologne-Hongrie-Assistance a la reconstruction des economies
SAPARD	Special Accession Programme for Agriculture and Rural Development
SEA	Single European Act
SAPS	Single Area Payment Scheme
SPS	Single Payment Scheme
SZIF	Státní zemědělský intervenční fond, Intervention Agency
TEU	Treaty on European Union
TFEU	Treaty on Functioning of European Union
UN	United Nations
USA	United States of America
WTO	World Trade Organisation

*” Man is not the Creator of Nature, but he uses the natural resources through the Art and Skill in order to gain his own profit“<sup>1</sup>*

Thomas Aquinas Summa Theologica I. O22, A2, R.O.3.

## **1 Introduction**

I have decided to aim my thesis at one of the most important parts of the common market of the European Union – the Common Agriculture Policy (CAP) – which started almost from the beginning of the European Community. However it has kept developing and transforming till nowadays. It has always maintained its principal and delicate position within the community. Evolution of the CAP continues, and there is a rather weak chance for changing that, as long as the EU exists. Due to those reasons I would like to verify the functionality of this important policy in its particular periods and to demonstrate it on the straightforward examples of its running.

If one talks about the importance of the CAP, it is necessary to realize how unique the placement of the European Union on the world map is. Thanks to the advantageous climatic conditions and good-quality soils it is possible to grow almost anything. Those advantages make the EU the superpower in production of food. However it is also linked with the responsible and sympathetic utilization of natural resources.

The area of the European Union is covered by forests, meadows and fields from 90 %. That is the exact area on which the CAP has a direct impact. 26.7 millions of workers are working on daily basis in agriculture of 28 member states. The currency of this topic is undebatable. For even now, as I write this thesis, there are last national disputes about the form of the CAP in the financial framework of the years 2014 till 2020. EU negotiations about the CAP within coming financial framework were finished recently in autumn 2013, just a final national discussions are in progress.

This topic directly applies to the Czech agriculture, because we are still one of the new countries of the EU, which makes us follow different rules than those of the older member states (so called two-speed Europe). It is also our responsibility to deal with those issues and some other difficulties connected with the Common Agriculture Policy

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<sup>1</sup> Summa Theologica I. O22, A2, R.O.3.

for it will directly change the terms we will have to follow within the EU ambit. Considering the socio-economic impacts of the agricultural policy, I see the concern and interest in the topic of the CAP as crucial, for it can change the effect on consumers' prices of food, the form of our landscape and the efficiency of its usage.

## **1.1 The aim of my work**

The aim of my work is to describe the CAP in the context of two different countries - Czech Republic and Austria - that border each other within the EU. The very same priorities, which are implemented in the EU, are the same in both countries. However they are used differently and with different effectiveness. The goal of my thesis is to find some ways of mutual inspiration and means of teaching each other new things about agriculture.

Also I would like to focus on the history, current state and assumed development of the CAP. I will deliberately let out certain fields of this policy for the thesis' extent does not allow me to scrutinize every detail of the topic. Thus I will not engage myself with fishery and forestry. I will rather busy myself with the issues of the policy with their influence on the Czech agriculture, and also with the way the policy is implemented in the rural development, environment and food self-sufficiency. The Austrian usage of CAP, mainly their Rural Development Policy, will serve me as an inspiration for employing the above mentioned policy in the Czech Republic. I will not omit examples from the Czech Republic and Austria themselves.

I will try to situate the history of the CAP development into a broader historical context and also to compare the former and current ideas. Another topic will be the motifs of the states for entering the community, which will hopefully give us some interesting comparison with the Czech motifs. Next I will try to include the influence of the globalised world on that policy and to prove that the CAP is already an integrated part of a greater unit – the World Trade Organisation (WTO). The aspect of the globalised world can be traced very easily in the EU agriculture. Hence it cannot be omitted from my work.

My thesis should be a summary of information about the development of the Common Agriculture Policy and it should also cast light on some of its current trends. And it should function to improve not only the knowledge of the readers but also my own.

## 1.2 State of knowledge

Many a thing have been written on this topic since the Treaty of Rome; and there is not a room for wondering about it since the Common Agriculture Policy is one of the most controversial and most discussed topics of the community since its actual start of running in 1962. The reason being is the amount of financial tools that are greater than in any other sector.

## 1.3 Methodology

The publications dealing with the issues of the European Union and its economic policies shall be the main source of my information. These sources sum up the historical development and reforms of this part of the partially supra-nationally managed policy. As my other source of information I chose the technical articles published on the topic of the CAP in the Czech Republic and in Austria. These will give me an insight into the Czech and Austrian particularities. Those are mostly created in the Ministry of Agriculture or they are directly published by Members of European Parliament, as Hynek Fajmon or Karin Kadenbach, who are focusing on agriculture and are intercede in it in the European Parliament. Equally important source of knowledge is the specialised library of the Czech University of Life Sciences (CULS), where one can find various analyses of the evolution of the CAP with consideration of the environment and Management Natural Resources.

I am intending to use my experiences and my background in the Czech and Austrian agriculture for I had the pleasure to be a part of both of them functionally. I have collected the above mentioned experiences on a family farm in the Central Bohemia region, which is owned by my family, and from my working stay on a farm in Oberosterreich close to Linz. My interest in the agricultural sphere and the development of the countryside and the related work is the essential part which inspired me to deal with those issues on a larger geopolitical scale.

To conclude my introduction I am not aiming at comparing what is incomparable and I am well aware of the fact that the Austrian and Czech agricultures are on completely different levels of development. Austrian agrarian system underwent a completely different development in the twentieth century than the Czech; and despite their long joint history the Austrian agriculture got a major lead in the second half of the twentieth century. However this can be considered as a great role model and inspiration for the future progress of the Czech system. The major aim of my study is to define the more effective usage of the CAP in the country which is similar to ours in respect to the area and population.

## 2 History and reasons of the development of the Common Agricultural Policy

### 2.1 The development of integration in the postwar Europe and its agrarian policy

West Europe decimated by the Second World War was not able to be self-sufficient in many fields. The most significant was its inability to be sufficient in the question of food after the war ended. This made Europe dependent on the United States of America. Parallel to that aid was the interlinking of the world and newly made bonds among the states, which were supposed to lead people to common welfare and prevent at any cost an outburst of a new war. The author of those integration endeavours was not only the USA but also the old continent, which brought in its experiences from surviving two devastating wars. It is absolutely necessary to strengthen that in the context of the globalizing world the economic order, created in the west, was a mirrored image of the economic and political position of the USA. The United States were greatly prepared, economically and politically, for this leading role<sup>2</sup>. The commencement of the world organizations of the magnitude of the OSN or the NATO shall be leaved out and the work will focus on the former most developed part of the world – the west Europe – into which the then Czechoslovakia slowly ceased to belong.

The year 1952 witnessed the uppermost efforts of France and Germany while crating the ESUO<sup>3</sup>. The founding countries were Germany, France, Italy and the states of former Benelux. By creating the ESUO the base for the origin of the European Union was set; and the same six states, which probed the benefits of free market in coal and steel, decided to go even further in the integration process. In 1956-1957 they have undertook to create the European Economic Community (EEC) and the EURATOM on the International Conference about Single Market and Atomic Energy<sup>4 5</sup>.

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<sup>2</sup> Vošta, Milan. Změny v rozmístění světového hospodářství, Praha. Publishing house VŠE, 2006, page. 17., ISBN 80-245-1105-3

<sup>3</sup> Euroskop, Viz. Jean Monnet, Schumanův plán (on-line), DOC, (2013-12-9), <https://www.euroskop.cz/290/sekce/r-s/>

<sup>4</sup> Lenka Fojtíková, Marian Lebiezík, Společné politiky Evropské unie, Historie a současnost se zaměřením na Českou republiku, 1. vydání, Praha, C.H. Beck, 2008, page:1-6, ISBN 978-80-7179-939-9

<sup>5</sup> „The prominet place in discussions about improvement of the sectors‘ integration gained yet again transport and **agriculture** and also researches and the development of nuclear energy. This occured also during the negotiations of The Council of Europe”. Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta

As was already mentioned, the positive standing of international cooperation created a setting in which a region had a great interest to continue with the integration in a larger scale since it was also proven that the efficiency of the integrated areas grew faster than expected in the regions at that time. Moreover the intended consequence of this economic cooperation was to reconcile the European nations (mainly Germany and France). This aim can be considered successful<sup>6</sup>. The sectoral integration should not be applied anymore, instead there should be a widespread cooperation leading to free inner market under the member states. One of the areas, where the EEC has the key role, is agriculture. And it was quite that agriculture which was a problematic issue in all the six states in the post-war era. Each of the states was focusing more on one sphere of agriculture, which created the chance to cooperate and complement each other. Hence it was decided that, with the quality improvement of the agricultural production and reaching the self-sufficiency level in mind, it is essential to cooperate<sup>7</sup>.

## 2.2 The formation of the CAP and its integration into the Treaty of Rome

Agriculture was a very important field for the founding states of the EEC in the post-war era; mainly due to the fact that it employed a high percentage of population capable of work. In France, where agriculture has a high importance, the percentage reached 23 %<sup>8</sup>. However despite the great amount of manpower, the European agriculture was not self-sufficient and was dependant on food imports, mainly from the USA. European politicians had to take in consideration not only the situation of farmers, who wanted to satisfy their needs to the fullest via adequate earnings, but also the rest of the population, whos imminent concern was to lower the prices of food as much as possible. Thus statemen were under great pressure and their success was, in some measure, dependent on their attitude towards agriculture. Up to now the low prices of food have

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Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 322, ISBN 978-80-7325-180-2

<sup>6</sup> Max Weber, „*States that do business with each other do not fight*“.

<sup>7</sup> Prof. PhDr. Petr Fiala, Ph.D., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 470, ISBN 978-80-7325-180-2

<sup>8</sup> “Employment in agriculture : Italy – 35%, Netherlan – 10%”, Prof. PhDr. Petr Fiala, Ph.D., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 402, ISBN 978-80-7325-180-2

continued to be a weighty topic, and it is one of the reasons why there is a trend of funding agriculture from means that are not part of the principles of the free market.

### 2.2.1 The reasons for supporting the agricultural sector

Agriculture sector had been supported by European countries due to its strategic social importance even before the Treaty of Rome was signed. The belief that agriculture cannot be governed by the free market was and still is present in the founding countries of the Economic Community. Among the many reasons for that phenomenon these are mostly mentioned<sup>9</sup> :

- 1) Strong influence of natural factors coaffecting the agriculture
- 2) Imperfect competition in agriculture – the diadvantageous position of small-scale farmers
- 3) Lower level of work productivity in agriculture and the possibilities of its increase
- 4) Ecology and keeping of landscape<sup>10</sup> - this factor started to play its role in the 70s; “Greening” policies<sup>11</sup>
- 5) Public pressing the lower prices of food (the accessibility of food to every social class is essential to human happiness)<sup>12</sup>

The motives of the states to create the CAP were sundry. One group of states seen in this policy the main reason for creating the CAP, while the other was willing to support it only under the condition of having the right to export their goods in the ambit of the emerging common market. Every new member had to deal with this issue while entering the Community and became either a blank receiver of agricultural grants (the Czech Republic, Austria or to start to reduce losses in the CAP payments by the entrance to the Free Market.

**France**, which was the most important agricultural producer, gave munificent grants to its farmers and its concern was to continue the considerable intake of money in this sector. French politicians saw the single market as a place where to dispose of their

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<sup>9</sup>NEUMANN, P. Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, pages: 5-8/ Římské smlouvy Hlava II. článek 39, 1. emission, Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

<sup>10</sup> Reakce na první konferenci o životním prostředí konanou OSN v roce 1972. Společná zemědělská politika, zemědělství a životní prostředí. Alberto Cammarata, Výzkumný ústav Zemědělské ekonomiky.

<sup>11</sup> European Parliament / News, Agricultural Policy: greener approach; European, 2013-11-20, reference number: REF. : 20131111STO24338, cited 14.1.2014, <http://www.europarl.europa.eu/news/en/news-room/content/20131111STO24338/html/New-agricultural-policy-greener-approach-and-better-distribution-of-funds>

<sup>12</sup> Article 33/1e., „to ensure sufficient and accessible food for EU inhabitants“, Treaty on the Functioning of European Union, Eur-Lex, PDF, cited: 14.2.2014, <http://eur-lex.europa.eu/en/treaties/index.htm>



agricultural products<sup>13</sup>. Nota bene the formation of the CAP became the main reason of creating the EEC for France.<sup>14</sup> Similarly to the Netherlands, the French wished to keep the trading with the agrarian products within the area of their colonies, therefore they requested liberalized trade with the above mentioned products.

**Italy** kept a close eye on the sales of their agrarian goods just like France. It also showed interest in the extensive aid from the structural funds, which would help to modernize their underdeveloped agriculture by releasing the employable manpower to other sector.

**The Netherlands** was building strong competitive intensive agriculture which was a substantial part of the GDP. The single market seemed to be the place, where they could sell their agrarian products, which were focused mainly on the animal production. That is why their request was to introduce certain measures (for example: a measure for supporting the production of milk).

**Belgium** had surpluses of agricultural sector, but the importance of it was overshadowed by the industrial nature of this country, which also became the main motivation for its entrance to the EEC.

**Luxembourg** was in a very similar position to Belgium<sup>15</sup>.

**German** agriculture was able to meet the domestic demand only by one third, hence it had quite a different idea about how should the CAP work than proexport France and the Netherlands.

There was a need to find a state on which all countries would agree. The German goal was to protect and gradually enlarge the agrarian production and also to cover the deficit with purchasing the cheapest food possible from the third world countries. By introducing high taxes for the protection of the inner market of the CAP, Germany knew it would be cut off from those cheap imports and forced to buy far more expensive food from France and other members of the CAP. Another reason against entering the Community was the rural class. Their standard of living was guaranteed by high market prices of the agrarian products, which would not be able to compete with the French prices that were still a little

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<sup>13</sup> Lenka Fojtíková, Marian Lebieczik, Společné politiky Evropské unie, Historie a současnost se zaměřením na Českou republiku, 1. vydání, Praha, C.H. Beck, 2008, page:1-6, ISBN 978-80-7179-939-9

<sup>14</sup> NEUMANN, P. Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, pages: 5-8, 1. emission., Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

<sup>15</sup> NEUMANN, P. Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, page 20,item 3, 1. emission., Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

bit cheaper. The consent to entering the CAP was a clear concession of Bonn's government, which was partly balanced out by abolition of custom duties of industrial products<sup>16</sup>.

### 2.3 Underdevelopment and unsatisfactory self-sufficiency of European agriculture

Modern agriculture can be amongst many other things defined by its little share on the formation of total GDP and by a low and decreasing<sup>17</sup> percentage of people working in this sector. Its modernization brought growth of pensions given to people still active in the agrarian sphere. These criteria of modern agriculture were not yet met by the to-be EEC in 1957. If one compares European and American agriculture of that time, it shows that the agriculture in the pre-EEC member countries was quite underdeveloped and insufficient. In the United States of America more than 200 million people were dependent on only 4 million farmers operating on area which was 400 million hectares; while in the EEC food for 150 million people was provided for by 16.5 million farmers managing on area of 65 million hectares of soil<sup>18</sup>. That disparity was not caused by different quality of soil in those two continents. In comparison of the average yield per 1 hectare the European Union is far better off with its 4.8 tons of food processing wheat than the USA nowadays. Neither the share of agriculture on the total GDP was negligible.

#### Treaty of Rome

Underdevelopment, little performance and food deficit led the European politicians towards the joint advancement, that is the inclusion of agrarian policy into the common market, as well as the strategic, political and social motives<sup>19</sup>. This decision about the creation of the Common Agriculture Policy was officially countersigned in the Treaty of

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<sup>16</sup> Petr Rumpel, *Geografické aspekty Evropské integrace*, page 185, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644

<sup>17</sup> *Current percentage in the Czech Republic is 2.9%*, Zemědělská výroba, Informační portál ministerstva zemědělství-e-Agri, 2012-04-13, cited 14.2.2014, <http://eagri.cz/public/web/mze/zemedelstvi/>  
*It is hard to specify agrar-employment in Austria, it is necessary to distinguish between paid and unpaid labour force due to small scale family farming, officially, there is only 23 000 full time workers in Agriculture.* Rupert Lindner, Otto Hofer, Rudolf Fehrer und Karin Brier, *Grüner Bericht*, BMLUW-54 Auflage Wien, PDF, 2013-06-13, cited 14.12.2013, <http://www.gruenerbericht.at/cm3/>

<sup>18</sup> Petr Rumpel, *Geografické aspekty Evropské integrace*, page 180, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644

<sup>19</sup> NEUMANN, P. *Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace*, page: 23, 1. emission., Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

Rome<sup>20</sup>, which came into force on the 1st January 1958. By this step the agrarian policy was partly taken out of the national authority and was incorporated into the primary law of the EEC. After the given transitional period<sup>21</sup> it was supposed to be governed on supranational level. The CAP belongs between the collectively governed policies.

The goals and different ways of progressive development of the CAP were set in the Treaty of Rome as well as the length of transitional periods and tools of the CAP. Moreover it establishes the leading role of the Commission as the CAP supranational body, talks about the regulation of market by Common Market Organisation and sets rules for trading agrarian products<sup>22</sup>.

The aims of this policy react to the reasons of its very self creation and they are defined in the article 39 of the Treaty of Rome.

### Article 39

#### ***1. The objectives of the common agricultural policy shall be:***

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;*
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;*
- (c) to stabilise markets;*
- (d) to assure the availability of supplies;*
- (e) to ensure that supplies reach consumers at reasonable prices*

*Treaty on European Union*<sup>23</sup>

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<sup>20</sup> “Římskými smlouvami bylo založeno vedle ESUO Evropské hospodářské společenství a EURATOM. K podpisu došlo 25.3.1958 šesti zakládajícími státy ESUO. Společná zemědělská politika zakotvena v Hlavě II. a člancích 38-47 (nyní články 32-38). Římské smlouvy tvoří základní pramen primárního práva“. Petr Rumpel, Geografické aspekty Evropské integrace, page 130-133, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644

<sup>21</sup> “Římská smlouva o založení EHS předpokládala existenci poměrně dlouhého, dvanácti až patnáctiletého období k definitivní realizaci SZP“. NEUMANN, P. Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, page 20, item 3, 1. emission., Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

<sup>22</sup> Treaty on Functioning of European union, EUR-LEX, cited. 14.2.20014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:en:PDF>

<sup>23</sup> Consolidated version of the Treaty on the European Union, Eur-lex, 10.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:0001:01:EN:HTML>

Despite the fact that the Treaty of Rome defined the main goals of the CAP, it did not work on elaborating and fulfilling them; for this purpose they authorised institutions of the future Community<sup>24</sup>. The supreme controlling authority of the CAP became The Council of the European Union and The European Commission, which was led by Sicco Mansholt, the first commissioner for agriculture. Agrarian commissioner had an uneasy task to accomplish – to introduce the CAP into praxis. This mission was supposed to be done with by the end of **the first stage of the transitory period**<sup>25</sup> (a period given in The Treaty of Rome), that is the end of the year 1961. Already on the January 1<sup>st</sup>, 1962 the CAP was supposed to be ready to be used in effect.

## 2.4 Rules and Tools of the CAP

The process of forming the CAP could be described as gradual. All member states were trying to employ their interests and get to agreement while meeting the lowest resistance possible. The first international conference of agrarian commissioners forming the CAP took place in Italian Stresa, in July 1958<sup>26</sup>.

The rules of the CAP were defined on this conference and they were derived from the actual needs of each member state to secure greater production and to stabilize the agrarian sector<sup>27</sup>. The same rules are still adhered to till nowadays.

In compliance with the gradual process the tools of the CAP were created as means of fulfilling the hoped-for goals.

### 2.4.1 Rules of the CAP

#### - *Single common agrarian products market*

The principle of this single common market was the free movement of the agrarian goods among the member states of the Community. The agrarian market became a part of a greater single inner market, from which certain measures like customs duties, trade restrictions and export subsidies.

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<sup>24</sup> NEUMANN, P. Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, page: 25, 1. emission., Praha: Oeconomica, 2004. 2, ISBN 80-245-0814-1

<sup>25</sup> Eur-Lex, Roman Treaties, Caput II. article 40. item. 1, cited 12.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:0001:01:EN:HTML>

<sup>26</sup> Petr Rumpel, Geografické aspekty Evropské integrace, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644

<sup>27</sup> Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 402, ISBN 978-80-7325-180-2

In order to make the single market more effective, the global unification throughout the whole Community was needed. **The unified prices, regulations, rules and principles of economic competition** were introduced<sup>28</sup>.

- *Domestic goods in preference to the external*

This principle is the logical consequence of creating the CAP. It serves the purpose of mutual support of products manufactured in member states. It also protects the inner market from the free import from the third world countries and from the excessive fluctuation of the world market.

In order to make this principle work a system of **variable surcharges**.

- *Financial solidarity with creating and exercising the CAP*

The main pillar of the CAP is the financial solidarity. This principle means that the costs of the CAP are covered by every member state. One can say that the money get into the agrarian politics via the financial funds thanks to this principle

The tool of this pillar is *EAGGF*<sup>29</sup>. Since 2005 its two parts – *EAGF*<sup>30</sup> and *EAFRD*<sup>31</sup> - function separately due to the decree of executive financial authority.

Fulfilment of these principles is secured by artificially manipulated prices of agrarian products, which are outside of the standard rules of the market economy, and cancellation of the member states' inner borders, which secures the free market, and implementation of the customs measurements of the third world countries' production. All these tools (except for the cancellation of the inner border lines) had to be reconsidered at the end of 80s and beginning of 90s due to the pressure from WTO.

## 2.4.2 The main institutional tools for putting the CAP into praxis

### European Agricultural Guidance and Guarantee Fund

As the Smlouva o fungování Evropské unie supposed<sup>32</sup>, the main tool for taking care of the expenses of the CAP became in 1962 the European Agricultural Guidance and Guarantee Fund<sup>33</sup>. This fund could be divided into two parts – the guidance and the

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<sup>28</sup> Ing. František Kůrst, Ing. Jana Potměšilová, Ministry of Agriculture of Czech Republic, Situační a výhledová zpráva obiloviny, page.9, 2010-12, page.9, MZE Praha, ISBN: 978-80-7084-907-1

<sup>29</sup> European Agricultural Guidance and Guarantee Fund

<sup>30</sup> European Agriculture Guidance Fund

<sup>31</sup> European Agricultural Fund Rural Development

<sup>32</sup> Roman Treaties were renamed by Lisbon Treaty to Treaty on Functioning of European Union, EUR-LEX

<sup>33</sup> EAGGF was in the year 2005 divided by Council of Ministers through Regulation about financing of CAP on EAGF and EAFRD

guarantee. Over the course of time it became the main financial item of the EU budget. The critical share of the EU budget was reached ON 1988, when it became 70% of the total budget of the EC. CoThat surpassed the notional line of financial possibilities of the then Community.

*4. In order to enable the common organisation referred to in paragraph 2 to attain its objectives, one or more agricultural guidance and guarantee funds may be set up.*

*Article 40 The Treaty of Rome, Article 40/4, Eur-lex<sup>34</sup>*

After the crisis the Community went through, two columns of the CAP were created due to the excessive expenses of the agrarian policy and the pressure from the WTO. A greater development of countryside and the so-called decoupling<sup>35</sup> were supposed to be focused on. It is important to highlight that any reform of the CAP becomes a very sensitive topic for discussion due to the unwillingness of agrarian superpowers (like France). That must be ascribed to the advantageously settled standards, which ensured the permanent supply of money to those countries.

In 2005 by the decree of the Financial Board of the CAP the division of the European Agricultural Guidance and Guarantee Fund (EAGGF) into 2 sections. Reason for that was the inability of the old form of fund to clearly fulfil the new requirements of the reform. By dividing the EAGGF **the European Agricultural Fund for Rural Development (EAFRD)** was created. It truly reacted to the new trend of the development of countryside and covered for the guidance part of the old fund and, partially, also the guarantee part. As the new European Agricultural Guidance and Guarantee Fund (EAGF) was established, which overtook the guarantee function, and in fact became the successor of the EAGGF. However it was limited only to the funding of Direct payments, mechanisms of market regulations and other payments directly connected to the agrarian production<sup>36</sup>.

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<sup>34</sup> The Treaty of Rome, Europa.eu, 10.1.2014,

[http://ec.europa.eu/economy\\_finance/emu\\_history/documents/treaties/rometreaty2.pdf](http://ec.europa.eu/economy_finance/emu_history/documents/treaties/rometreaty2.pdf)

<sup>35</sup> Decoupling - subsidy is not based on production, coupling – payments are based on production, previous leads to overproduction. Petr König, Lubor Lacina, Jan Přenosil, Jan Ostřížek, Jan Strejček, Učebnice Evropské integrace, p.150, Barrister & Principal- 2011, ISBN:978-80-87474-31-0

<sup>36</sup> Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 402, ISBN 978-80-7325-180-2

## **Common Market Organisation (CMO)**

The system of the unified market needed creation of **common prices**, on which they based both the mechanism and the functioning of the inner market. This led to the developing of the main tool for regulation of agrarian sector – **SOT** – dealing with agrarian primary production. First market organization (tržní řády) was concerned with grains, beef meat and dairy sector. Nowadays there are 22 of these organizations and they take care of more than 90% of the agrarian production<sup>37</sup>.

The CMO prevents the market from the imbalance of prices and supply by many tools (intervention purchases, export subvence, variable surcharges, quota of growing particular crops or animal species, financial aids for private warehousing etc.). These means regulate the market in such a way, that they secure sufficient income and easy access to reasonably priced food.

The SOT is divided into two main parts<sup>38</sup>:

<b>Animal Production</b>	<b>Vegetable Production</b>
- Beef	- Grains
- Pork	- Oil plants
- Poultry	
- Milk and dairy products	

## **Státní zemědělský intervenční fond (SZIF)**

The title of this item is the exact name of the Czech payment agency<sup>39</sup>, which deals with the division of money from the EU funds and national sources. This institution was the mediator between funds and a Czech farmer. **Payment agencies** are introduced in every member state of the EU in order to divide money among their farms.

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<sup>37</sup> Petr Rumpel, Geografické aspekty Evropské integrace, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644 / Treaty on Functioning of the European Union, caput II, article 40, item 3.

<sup>38</sup> *Common Market Organisation was established in July 2008, the new organisation capped original 21 Common Market organisation/ Common Market Organisation, Bussinessinfo-legislation, 2009-05-22, cited 3.1.20014, <http://www.businessinfo.cz/cs/clanky/spolecne-organizace-trhu-komodity-5143.html>*

<sup>39</sup> Czech law, number: 256/2000, concerns on establishment of SZIF- Czech payment agency. Its purpous is to set up market order and stabilise the market with agrarian products.

Nowadays the subsidies available are from the EAGF, EAFRD and the European Fishing Fund (EFF). In compliance with the current strategy of the EU, the importance of the Horizontálního plánu rozvoje venkova (HRDP) and Operačního programu rozvoje venkova a multifunkčního zemědělství (OP RMZV) is still growing. Both of these programmes are financed from the EAFRD. The pay-out of the benefits is conditioned by the EU's requirements<sup>40</sup> and by the three rules of the CAP (vide The Rules of the CAP).

SZIF is the most important body of the CAP for the Czech farmers. Through this particular system a farmer can get all the information needed. SZIF publishes monthly the current market prices of agrarian commodities together with the possibilities of the intervention purchase or repurchase, quota of dairy, current exchange rates of euro and the Czech crown<sup>41</sup>, the conditions of gaining subsidies and other crucial pieces of information.<sup>42</sup> The Czech farmers are subjects of the obligatory registration into the SZIF, which is linked with obligation to submit the number of livestock and cultivated land area.

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<sup>40</sup> Conditions of Czech Agriculture were discussed by the Czech government (Miloš Zeman-Prime Minister) between the years 98-02 and 02-06

<sup>41</sup> States outside the Eurozone have to use “green currency“, thus every month define exchange rates

<sup>42</sup> Czech Payment Agency – SZIF, cited 14.3.2014, <https://www.szif.cz/irj/portal/anonymous/eafrd>



### 3 Main principles of the CAP

As it was previously mentioned, the stepping-stone for the CAP was the creation of **the unified inner market**, which could be directed by unified rules. The assumption for creating it was that it has to be protected from the cheaper food commodities from the third world countries. A system of so-called bidirectional variable surcharges was put into praxis. The system fought the problem by adopting the import surcharges (**custom duties**) which not only protected the Community from the cheap import but also enabled to export the overproduction, thanks to the export compensations (**reimbursements**).<sup>43</sup>

At first the excess produce was not even a trifle, but in the 60s the agriculture in the Community started to become self-sufficient and shortly after that it showed the phenomena of overproduction. Later on in the 90s the Community was forced by other exporters of food (mainly the USA)<sup>44</sup> to relinquish from the export reimbursements and partially even from the import surcharges.

#### Target price

The balanced manufacturing price of agrarian goods is settled on every year in order to ensure the unified price point within the Community. This task belongs to The Council of the European Union (also referred to as The Council of Ministers), which is certainly influenced by many interest groups that lobby for the highest prices of agrarian commodities possible<sup>45</sup>. The prices are therefore not settled on by the means of market, as it is a custom in other parts of the world. The reason for that are the issues of the WTO. The target price protects the inner market of the EU against price turbulences and also ensures the income of the farmers. Being an important part of the complex price systems, the indicative price is the base for other price mechanisms (such as intervention price and minimal price). Common Market Organisations activities are practically based on it.

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<sup>43</sup> **Refunds** secures sufficient prices for goods to exporter, diminishes differences in prices in relation to third countries. Prof. PhDr. Petr Fiala, Ph.D., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, page: 451, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 470, ISBN 978-80-7325-180-2

<sup>44</sup> Uruguay round discussions, GATT/WTO

<sup>45</sup> Agrarian lobby is considered as the most influential lobby within the EU (particularly French lobby), EurActiv, Helsinki candidates catch up with fast track group, 29.1.2009, cited 15.3.2014, <http://www.euractiv.com/enlargement/helsinki-candidates-catch-fast-track-group/article-110796>

### **Intervention price**

Intervention price (also known as the minimal price guaranteed) is settled on in advance and it represents the price for which farmers can sell their goods if the market prices are below the level of rentability of conducting the business. This price is therefore somewhere below the cilova price and above the unprofitable level. If the prices of certain agrarian goods descend below the level of the intervention price, farmers can offer the goods to the intervention warehouses.<sup>46</sup>

#### *Intervention purchase of cereals from yield of the year 2011*

*Zemědělskými subjekty nebo obchodníky ČR bylo od 1. listopadu 2011 do 31. května 2012 nabídnuto do intervenčního nákupu celkem 438,3 tis .tun pšenice a 355,2 tis. tun ječmene. Převzaté množství obilovin do intervenčního nákupu činilo 343,8 tis. tun, z toho 61,3 tis. tun pšenice a 282,5 tis. tun ječmene.*

*„example, Situační zpráva Obiloviny, Ministry of Agriculture“*

The agrarian goods are then stocked in the intervention warehouses, from which they are divided among the poorest inhabitants of the EU and the third world countries citizens.<sup>47</sup>

Enormous intervention purchases of grains were the cause of the above mentioned crisis of the CAP by the end of the 80s. That situation was caused by the higher prices within the Community than were common in the rest of the world. Today the quantity restriction is applied through the national quota on the intervention purchase. For example the purchase of wheat was limited by the amount on 3 million tons for the whole EU in 2010 and 2011. The purchase conditions are set newly every year by the European Commission. The current head - Commissioner for agriculture is Daciano Cioloș from Romania.

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<sup>46</sup> Petr Rumpel, Geografické aspekty Evropské integrace, 1. emission, Ostravská Univerzita - Ostrava 2007, ISBN 9788073682644

<sup>47</sup> “European Union is the biggest donor of Food aid to the third world countries“ Petr König, Lubor Lacina, Jan Přenosil, Jan Ostřížek, Jan Strejček, Učebnice Evropské integrace, Barrister & Principal- 2011, ISBN:978-80-87474-31-0

## 4 The development of the CAP in the years 1962-19

### 4.1 Introducing the CAP into praxis

The CAP was introduced into praxis (that is into its second era of development) by The European Agriculture Guarantee and Guidance Fund (EAGGF), which was founded in 1962. Two years later, in 1964, it started to give financial support in 1964. Until 1962, which marks the end of the first phase of its development, the CAP was being prepared. However some market measures were already introduced (such as those for the protection of goods originating in the member states, support of family farms, balance in involvement in international trade<sup>48</sup>).

### 4.2 Financial support of the CAP

The source of the EC financial support together with the EAGGF's one are mainly custom duties from the export from the third world countries, even up allowance for the export of the third world countries's products, value added tax-share and other benefits from member countries based on their GDP<sup>49</sup>. There were few tries to finance the CAP solely from the money of the Community. The payments are first made to the farmers by Ministry of Agriculture of the Czech Republic (MZE) via SZIF (payment agency) and MZE would receive them later from the European funds.

#### 4.2.1 The CAP in praxis

In the 60s the production of member states was greatly promoted for **the amount of subsidies was based on it (coupling process)**. The EC was offering subsidies and artificially high guaranteed purchase prices for the farmers. These benefits and prices were far above the global customs. Also an encouragement to heighten production were given to farmers. Linked with that there was a substantial financial support intended for reconstruction of agrarian enterprises and their modernisation. The number of farms increased and they became more effective, which let more labour force to operate in another sectors. The support of the standard of living of farmers was furthermore supported by a measure in a form of help in premature retirement, continuous education of farmers and their specialized training.

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<sup>48</sup> CAP, EU, start up, development, reforms, Neumann Pavel, Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, 1. vydání, Praha, Nakladatelství VŠE, 2004, p.130-165, ISBN 80-245-0064-7

<sup>49</sup> *National contributions into the EU budget generates majority of the whole EU income*

During this first period of the development of the CAP the Committee set rules for creating of nine CMO (mainly for pork and beef meat, cereal and dairy products)<sup>50</sup>.

The Commission<sup>51</sup> thought that the systém of subsidies linked with the production should be reconsidered when the Community reaches the food self-sufficiency. However, when this situation took place, it was not easy to interrupt the vast agrarian lobbying, which was mostly done by France, the agrarian superpower. The Commission, from its position of the international authority that was not supposed to take sides in the interests of the countries but to look at the welfare of the Community as whole, was trying to deflict the threat of financial instability of the Community. Its endeavours to reconstruct the CAP system did not meet with willingness of the Commission, which was the highest authority in this matter. Being strongly influenced by the interest groups The Council of Ministers was fighting the best interest of their own countries, which was the main reason for their denial of the Commission's propositions<sup>52</sup>.

Towards the end of the 60s European farmers started to produce more food than was needed and the Community fell short of being able to use it all. This situation led to a great stockpiles in the intervention warehouses<sup>53</sup>. However based on the Community's policy, the goods had to be bought from the farmers for high prices. The export of the production was mostly enabled by the vast financial support of the EAGGF. These issues were the reasons due to which the neverending circle of spending money started; needless to say it only grew with the modernization and spreadingly-higher capacity of the farms to produce goods. The initial successes of the CAP slowly turned into the biggest fear of the Community<sup>54</sup>. Based on this it is clear that the process of development must be supported by certain reforms.

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<sup>50</sup> European Commission, The Common agriculture Policy, htm,26.6.2013, cited 15.3.2014, [http://ec.europa.eu/agriculture/faq/cost/index\\_en.htm](http://ec.europa.eu/agriculture/faq/cost/index_en.htm)

<sup>51</sup> Council of Europe of European Community in Stresa set the tasks to European Commission to administrate CAP, Neumann Pavel, Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, 1. vydání, Praha, Nakladatelství VŠE, 2004, p.130-165, ISBN 80-245-0064-7

<sup>52</sup> Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 457, ISBN 978-80-7325-180-2

<sup>53</sup> *"mountains of butter, lakes of milk"*

<sup>54</sup> Sicco Mansholt: *"CAP is a victim of its own success"*.

### 4.3 The Mansholt Plan

In 1967 it was more than evident that the EAC needed to change the structure of the CAP. The Council of Ministers therefore delegated the Commission, namely the Agrarian Commissioner Sicco Mansholt, to restructure the Common Agrarian Policy. The aim was to deal with the side-effects of the uniquely successful attempt to be food self-sufficing. Due to the enormous achievement one was able to talk about a long-termed overproduction of milk, sugar and wheat; also the overproduction of fruits and vegetables was expected.

On the 19<sup>th</sup> of December 1968, the Commission published its proposal of reconstructualization of the CAP called „Agriculture 1980,“ which became commonly known as „*Mansholt Plan*.“ It represented the first attempt of reforming the CAP's structure. The plan was based on supporting smaller farm units that decide to leave the agrarian sector. By doing so the price limits were supposed to get lower, which would disable the non-effective farmers to participate in the agrarian sector<sup>55</sup>. The most important part of the plan was the proposal of interrupting the increase of the prices of agrarian commodities and their substitution by direct subsidies. This means that the proposal of implementation of the today's direct subsidies was already a crucial part of the Mansholt Plan<sup>56</sup>. The goal of the „Agriculture 1980“ was to start a discussion about the future of agrarian sector. The vast discussion was supposed to be a field where the Commission learns and probes the ideas and stances of the Council and Assembly. That was mostly because their agreement was necessary for the final decision.

The Mansholt Plan met with opposition of France and Germany; situation that was not unexpected for these states were protecting their population, which was working in agrarian sector in high percentage. It was also historically the first time when great interest groups of farmers used their power and persuasion. Thanks to these reasons The Mansholt Plan was never realised. The interest groups were not willing to negotiate about any changes and as their main goal they chose to save family farms. Huge succeeding waves of protests took place, and there were more than 80.000 farmers involved<sup>57</sup>.

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<sup>55</sup> The present average size of farm in the EU is 14 ha.

<sup>56</sup> [www.euractive.cz](http://www.euractive.cz) / Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 457, ISBN 978-80-7325-180-2

<sup>57</sup> Lobbying is an inherent part of European policy, in this collision of interest Lobbyists realised their real power in decision making process of the EU.

All concluded the Commission did not find an ally in its fight for the change of the CAP. Nevertheless The Mansholt Plan became a very now topic again with the entrance of the Great Britain into the EC. The reason being was the fact that the Great Britain was already used to employ a system of direct subsidies and rise of effectiveness of production, similar to the Plan. Based on this fact, S. Mansholt decided to go to the Great Britain in 1969 in order to persuade the government that they should condition their entrance into the Community by the acceptance of his plan. His representation of the issue started a great discussion, because there were voices saying that because of its highly effective agriculture, Britain would have to give a great financial aid<sup>58</sup> to the rest of the Community. However another and even greater fear led to the declination of the offer.

Despite all the ill luck The Mansholt Plan was not completely ineffective. The active participation of the Commissioner Mansholt in the Great Britain made the Council deal with the reformations, even though in a limited scale, shortly before the first enlargement of the EC. The first real and successfull reform is the so-called “Miniplan“ which was directly deriving from the activities of Mansholt. As the result of the debate of the Council from 1972, three directives<sup>59</sup> were implemented:

- **Modernization** – introduction of the direct subsidies<sup>60</sup>
- **Retirement**
- **Counselling about agrarian sector**

#### 4.4 The link between the CAP and the environment

Agriculture is strongly linked to environment and its protection. There is an interactive relationship between these two which has many possible impacts depending on our conduct today. The EU is well-aware of this fact and therefore it decided to follow certain principles of environmental politics in every branches of its operation and mainly in agriculture<sup>61,62</sup>. Farmers are in the position where they can clearly gain from securing and protecting the nature resources because they will secure their income in future<sup>63</sup>.

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<sup>58</sup> Iron Lady proclaimed: “*I want my money back*“, since late 80s the *British rabout* was established to set a balance of outcomes and incomes of Great Britain into the Community budget.

<sup>59</sup> Prof. PhDr. Petr Fiala, Ph.D., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., *Evropská Unie*, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 582, ISBN 978-80-7325-180-2

<sup>60</sup> The early beginning of decoupling.

<sup>61</sup> The fifth Environmental Action Programm established in 1992, introduces environmental policy into all European policies

This aspect should be adhered to and stressed even in the Czech Republic; there is probably no need to mention the quality of soil and state and attitude towards farming during the Communist regime, which did not take in consideration the variousness of landscape nor the cleaning of the waste water and the limited fertility and possibilities of the recovery of soil<sup>64</sup>.

#### 4.4.1 Environmental Action Program

The first world conference dealing with the environment took place in Stockholm in 1972. That year can be considered as the beginning of the EU's attempts to protect the environment by applying different politics. There is a clear connection between the first conference of the OSN and the creation of the First Environmental akčního Programme (EAP). The EAP is a document setting the principles and goals of the environmental protection<sup>65</sup>. A crucial role in the EAP is played by the agriculture; that is mainly due to its cultivation and preservation of the landscape. The goals of the CAP environmental policy are to lower the amount of chemistry in processes, regulation of manuring with manure, protection of the water sources, support of environmental management in the countryside, protection of biodiversity and the natural sites of flora and fauna..

#### 4.4.2 Single European Act and The Green Book of the EU Commission

The Green Book of the EU Commission was published in 1985 and it declares that the environmental protection is one of the main reasons of having the agrarian sector. It also sets certain precautions which should be taken in order to deflect the environmental collapse. Another peak point of the environmental policies was the approval of the Single European Act (SEA) in 1986. This act further develops on the juridical side of the environmental protection. Among many of the environmental protectors are the EAGGF and **every single farmer in the EC**<sup>66</sup>.

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<sup>62</sup> Environmental protection is an important issue since the 1972 (UN Conference). Particularly SEA introduce environmental tendencies into the EU policy.

<sup>63</sup> In case of totalitarian regimes, is the majority of land owned by states. Private land tenure has a positive impact on a soil and secure sustainable development.

<sup>64</sup> I mean usage of chemical fertilizers due to a bigger yield.

<sup>65</sup> Nowadays we already apply the sixth Environmental Action Programme

## Article 191

(ex Article 174 TEC)

1. Union policy on the environment shall contribute to pursuit of the following objectives:

- preserving, protecting and improving the quality of the environment,
- protecting human health,
- prudent and rational utilisation of natural resources,
- promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

*Treaty on Functioning of the European Union (Environment)* <sup>67</sup>

### 4.4.3 90s till present

During the beginning of the 90s the environmental discussion was targeted mainly on the system of sustainability, which was defined on the international conference in Riudey.

**The Maastricht Treaty, which introduced the necessary and revolutionary reforms of the CAP<sup>68</sup>, which had highly positive impact on the protection of the environment.** Lowering of the overproduction became an important part of landscape protection. Farmers were motivated by compensatory payments to employ less intensive advancement; this led to the limitation of the negative impacts of agriculture on landscape<sup>69</sup>.

Right at the beginning of the 90s multiple agroenvironmental programmes were employed which are still in use nowadays. At their beginning these programmes were financed by the guidance part of the EAGGF, while nowadays this part is held by the EAFRD and other linked funds such as LEADER or Horizontal Programme of the Rural Development. As an example of the agroenvironmental programme and extensive farming one could mention a method of SET-ASIDE or of creating the bio-strips for wild animals in fields. The supposed impact of the agrarian extensification is bioproduction, which is in

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<sup>67</sup> TFEU, Eur-Lex, 15.3.2014, Pdf., <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:FULL:EN:PDF>

<sup>68</sup> Effort to limit overproduction. (decoupling)

<sup>69</sup> Chemical fertilizers – NPK or herbicides



coordination with the article 25 of the 4<sup>th</sup> chapter of SEA; *that is to contribute to the human health.*

The Maastricht Treaty introduced the term Natura 2000 as one of the important parts of the environmental protection, even for the CAP. The programme Natura 2000 was set by the regulation EAC no. 92/43, and it presupposed creation of a system of natural freelifelife reservoirs. This process was supposed to be all done by the year 2000, however due to the vastness of the project this goal was not perceived as being realistic. As for today **Natura 2000** is but a part of the **Programme for Rural Development (07-13)** in so-called II. Axis – improvement of the nature's landscape.

#### 4.4.4 The CAP as a Part of the Czech Environmental Protection

In present days the agriculture of the Czech Republic is preparing its entrance to a new financial perspective of years 2003 – 2010. The Ministry of Agriculture are now trying to prepare the farmers and Czech agrarian system in general for the change coming. An agency was created to control the conditions of the cross compliance<sup>70</sup>. These conditions are partly agroenvironmental (to let the soil recover, proper fertilization, storage of manure<sup>71</sup>, creation of vegetation zones etc) By adhering to the cross-compliance one can reach the subsidies.

In connection with executing the environmental protection policies in the Czech Republic it is important to mention the LEADER ČR, a part of the Programme of the Rural Development 07-13. LEADER ČR is aiming at: *Zlepšení kvality života ve venkovských oblastech*, *"Posílení místního ekonomického prostředí a zhodnocení místní produkce" a "Zhodnocení přírodních a kulturních zdrojů"*.<sup>72</sup>

Another important programme to mention is the EU: Natura 2000, which is linked with the original fund of the Czech Republic (that is it also belongs to the peripheral authority of the CAP). Almost 16 % of the area of the Czech Republic expanse is marked as protected area. Many of these places were *forcibly* cultivated by agrarian enterprises – *as examples one could mention bird sites, artificially dried wetlands*. All of these have at the end the effect of lowering the overproduction.

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<sup>70</sup> Cross compliance control agency, MZE

<sup>71</sup> Storage of organic manure must be appropriate due to drinking water resources – Cross compliance, also the amount of organic manure per 1ha is strictly done by cross compliance conditions. Jan Veleba, Deník hnojení, Zemědělec p.3, 12.2010

#### 4.4.5 Energetics

As one can see the whole image concerning the impacts of the CAP, the influence on energetics should not be left out. Mainly when it is also linked to the environmental protection.

The EU goals of the year 2020 will be to reach 20 % share in using the energy from renewable resources. *This should not only solve the issue of overproduction but also reintroduce the lack of certain food, which will be transformed into fuel.* These resources often comes from the agrarian production like biomass or biogas. The production and rebuy of these sources is subsidized by the EAFRD. The incinerators of biomass and filling station of biogas are also built from the money coming from the European funds.<sup>73</sup>

According to the researches of the Czech Ministry of Industry and Trade from 2007 the production of electricity made of biogas was 6.3% and the one made of biomass 28.4% of the whole electricity production.

#### 4.4.6 The Share of Agriculture on Polluting Air

The EU has created a long-termed strategy for limiting the pollution of the environment. Agriculture is very closely linked to it because for its role in it is that of a second biggest polluter of the EU, after energetics. It pollutes mostly by the greenhouse gas<sup>74</sup>. According to the study created by the EU Commission, the agrarian sector partakes on the pollution by 13%. *The main sources of pollution are methan, which is created in the digestive system of farming animals, manure<sup>75</sup>, industrial fertilizer and partially also the engineering mechanization<sup>76</sup>.* Surprising discovery of this long-termed strategy is that thanks to the new trend of eliminating the emission of greenhouse gas (GHG) the agrarian sector will become the biggest EU emitter of the harmful gases around 2050.

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<sup>73</sup> Ministerstvo životního prostředí – diverzifikace zdrojů

<sup>74</sup> Air pollution of the EU, European Commission, Environment, 16.3.2014, <http://ec.europa.eu/environment/air/quality/>

<sup>75</sup> CH<sub>4</sub> (Methan) is created. It can be used as bio-fuel. The usage of Methan on farms is subsidized by EAFRD (Horizontal programm for rural development). Zemědělec, 7/11, SZIF, HRDP, 16.3.2014, hrdp, <https://www.szif.cz/irj/portal/anonymous/hrdp>

<sup>76</sup> SZP a životní prostředí, p. 63., Alberto Cammrata, Výzkumný ústav zemědělské ekonomiky

## 4.5 The Growing Financial Greed of the 80s

It is plausible to say that the Common Agriculture Policy fulfilled most of its goals, that were set by the Treaty of Rome<sup>77</sup>, until the 80s. The successes of the CAP could be summarized as the rise of agrarian productivity by 100% between 1965 and 1985<sup>78</sup> and the increase of the standard of living among the farmer community<sup>79</sup> <sup>80</sup> and the food self-sufficiency and market stabilisation were also reached.

As for the failures of the end of the 80s, there were enormous surplus of food in the intervention warehouses. This was caused by the system of remittances, CAP's insufferable financial demands, incapability of reaching such food prices that would ensure sufficient income for the farmers.

As for the most crucial problem and the uppermost reason for the current reform of the CAP, the growing financial greed, it became apparent in the 80s. It became the reason for why the Community almost faced its financial collapse. The heavy pressure weighting down the budget became even more visible after the South Expansion (1984), when countries with underdeveloped agriculture became part of the Community.

### **CAP expenditure between the years 1982-1995 ( mil. ECU)**

<b>Year</b>	<b>Total budget of EC</b>	<b>EAGGF in total</b>	<b>EAGGF as a percentage of total budget EC</b>	<b>Total Guarantee</b>	<b>Guarantee as a percentage of EAGGF</b>
1982	20 705,8	13 055,6	63	12 405,2	95
1983	24 807,6	16 539,6	67	15 811,6	95
1984	27 208,8	19 022,7	70	18 346,5	96
1985	28 085,1	20 463,8	73	19 744,2	96
1986	35 174,1	22 910,9	65	22 137,4	97

<sup>77</sup> Lisbon Treaty renamed Roman Treaties - TFEU

<sup>78</sup> Production of agriculture within this period increase by 48%, due to the technological development a consequent reduction of workers in agriculture -52%. Šrein, Zdeněk. Mechanismy hospodářské politiky Evropské unie. Vysoká škola ekonomická v Praze, fakulta národohospodářská. 2. vydání, Praha : Vysoká škola ekonomická, 2000. 369 s.

<sup>79</sup> Incomes of people working in agrarian sector increased dramaticall between the years 1963-1973, later on the annual increase was only 2%. 73-75. SZP EU, vznik, vývoj a reformy. Pavel Neumann, str. 19

<sup>80</sup> Energy Crisis in 70s had a negative influence on farmers income

1987	35 469,2	23 875,1	67	22 967,7	96
<b>1988</b>	<b>41 120,9</b>	<b>28 829,8</b>	<b>70</b>	<b>27 687,3</b>	<b>96</b>
1989	40 197,8	27 225,2	66	25 872,9	95
1990	44 378,9	28 402,1	64	26 453,5	93
1991	53 823,1	34 541,7	64	32 385,9	94
1992	58 857,0	35 185,4	60	32 107,5	91
1993	65 268,5	38 337,8	59	34 748,1	91
1994	68 354,6	37 532,4	55	34 786,9	93
1995	76 526,1	39 946,9	52	36 972,5	92

Fennel, R. 1997, CAP. Oxford University press, str. 78

#### 4.5.1 The 80s Reforms

At the beginning of the 80s new procurings towards lowering the production (stimulation of manufacturing) were introduced. The farmers were supposed to be made responsible (with regard to the fees) for overreaching the production limit. These fees partially ensured the financing of the costs of storage of agrarian commodities and their export. „At first it mostly covered milk, for in 1938 there, in the intervention warehouses, was over million tons of unnecessary milk“. Important reform procurings were taken until the mid 80s. This was the time when production quotas and guarantee limit were set and every commodity dealing with its overproduction yielded to them. The procurings contained maximal guaranteed amount of production of commodities with their guaranteed prices; this brought greater accordance between supply and demand.<sup>81</sup>

#### 4.5.2 The Delors Commission I.

1988 was the year when the Community reached the maximal budget strain and it truly faced its financial collapse. The European Council therefore accepted a blueprint of financial revision of the CAP and other policies at the summit taking place in Bruxelles from the 11<sup>th</sup> till the 13<sup>th</sup> of February. Being considered the most important financial agreement in the history of the EU<sup>82</sup> this financial-procuring programme became known as

<sup>81</sup> Neumann Pavel, Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, 1. vydání, Praha, Nakladatelství VŠE, 2004, p.130-165, ISBN 80-245-0064-7

<sup>82</sup> Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 717, ISBN 978-80-7325-180-2

The Delors Commission I.<sup>83</sup> Among many other tasks it was putting into praxis the goals mentioned in the SEA. Debates about the system of reforming the CAP were yet again accepted with resistance, mostly French. However due to the fact that there was no other option available and the change was crucial, The Council of the European Union (ECO-FIN and Council of Agriculture ministers) held many talks which later on turned to acceptance of the Commission.

Delors's reforms had direct effect on lowering the guaranteed prices of certain agrarian commodities and on acceptance of quotas dealing with overproduction (milk, wheat). Furthermore, growth of the expenses of the CAP was limited by the amount of 74% of Community's GDP. For the first time in history bonus payments were implemented for cutting down the farming areas (forestation, grassing-over, etc.) and the premature retirement was still desired and advantageous. Thanks to these steps the total costs of the CAP between 1988 and 1989 were lowered by 5%. These reforms enlarged the role of market agents and the supply showed more consideration towards the demand.

Despite all that the changes in the CAP soon proved themselves to be beneficial. Towards the end of the 80s food global prices went down, which automatically meant rise of the export subventions. In spite of the fact that the costs of the domestic interventions went down, the amount of finances getting into the CAP rose again. The Community was therefore refacing the financial troubles. These were however so vast in their influence that another and more complex reforms were to be accepted right in the 1992.<sup>84</sup>

#### 4.6 Impact of the CAP on International Relations

The international market with agrarian production has been a hotly discussed topic even on the level of The World Trade Organization (WTO, formerly GATT). The EU is a very influential member there for it is the biggest world importer and second biggest exporter of food.

The CAP used to be heavily criticized for infringement of *fair trade* by import subventions, export subsidies and protectionism. The last reason even brought the nickname *Fortress Europe*. The criticism mostly came from highly developed agrarian

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<sup>83</sup> Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 457, ISBN 978-80-7325-180-2: Delors Packet method during the implementation process of reforms

<sup>84</sup> Neumann Pavel, Společná zemědělská politika EU: vznik, vývoj a reformy, mezinárodní komparace, 1. vydání, Praha, Nakladatelství VŠE, 2004, p. 130-165, ISBN 80-245-0064-7

superpowers, that is the USA, Canada, New Zealand and Australia. These countries have at their disposal effective and surplus agrarian sector, *that is also strongly subsidized*. It is therefore undisguised that the criticism was supported by their understandable efforts to set up their products on the EU market (former EC). However this market was very protectionist until the 90s, and that was backed up by one of its rules – *the preference of domestic goods*. The other group of critics were the third-world countries, for whom the agrarian production mostly was and still is the only export article available<sup>85</sup>.

As I have mentioned in the first chapter, the USA became the guarantor of the food-aid given to the western Europe right after both world wars. They stuck with this charitable attitude until the 1960s. After that period the Community started to be self-sufficient with food and it started to be unfit with their own overproduction.

#### **4.6.1 The Commencement of the EEC Activity on the Global Food Markets**

The Community did entrench itself on the global food markets in the 70s. This occurred as an aftermath of the expected crop failure. The structural crisis of the 70s scared many countries, including the EEC, which reacted by high financial assistance for agrarian sector. It feared the food deficiency. However the fears were not fulfilled, on contrary great food supplies were accumulated. The countries were trying to sell the supplies by export subventions. High export subsidies and therefore cheap food products started to *push out* from the market the standard agrarian exporters (e.g. The USA, third-world countries – their agrarian commodities are very cheap even without subventions). The EC was accused of creating dishonest competition disarranging the world agrarian trades' milieu. This had been an ongoing situation till the 90s and there were no big changes even after the Tokyo round GATT (taking place between 1973 and 1979).

The escalated situation between the GATT and the Community began under the Uruguay round, which started in 1986. Uruguay round of GATT negotiations became the first forum where the agrarian problematics was dealt with on the global level<sup>86</sup>. It was a very sensitive and postponed for a long time, which made the negotiations continue till the

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<sup>85</sup> Lenka Fojtíková, Marian Lebieczik, Společné politiky Evropské unie, Historie a současnost se zaměřením na Českou republiku, 1. vydání, Praha, nakladatelství C. H. Beck, 2008. p.179, ISBN 978-80-7179-939

<sup>86</sup> Trade with agrarian products in early 90s took a 12,5% of world export. Agrarian trade is still growing in its amount but takes a smaller number within the whole world commerce. Europa.eu, EU Trade in Agriculture, 10.1.2011, 16.3.2014, Pdf, [http://trade.ec.europa.eu/doclib/docs/2006/june/tradoc\\_129093.pdf](http://trade.ec.europa.eu/doclib/docs/2006/june/tradoc_129093.pdf)

1993. As a result the Community was more or less pushed into quite complex reforms of the CAP of 1992.

#### 4.6.2 Uruguay Round discussion forum - GATT

Global food exporters of GATT, mainly the USA, demanded from the EAC complete cancellation of export subventions within next ten years. This is, however, more than just unreal. France was strongly against the sweeping cut in subsidies. By the end of the year 1989 a minute consensus was reached and the EAC undertook to gradually reduce the agrarian subventions. Uruguay round was supposed to end by 1990, but because the USA was not willing to moderate their requirements, it still continued on the bilateral level just between the USA and the EAC. The United States were just defending their and other food exporters' interest. The adamant attitude of the USA only speeded up the beginning of the most important CAP reform in its history (from today's standpoint).

The negotiations of the Uruguay round were entrusted to the hands of the Commission, where **Roy McSharry**, an Irish agrarian commissioner, was employed at the beginning of the 90s. The Commissioner for Agrarian Sector understood very well that the situation was not sustainable and the reforms of the CAP were needed. In May 1992 he published a proposal for this change. The reform was accepted by the Council, which modified it and named it McSharry reforms. It became the reason for hope in the process of negotiations with the USA. However the promise of lowering the subsidies and the proposals of reform still seemed unsatisfactory. This was not changed even with the Community's pronouncement of readiness to follow and respect the principles of free market (together with preservation of the main principles of the CAP<sup>87</sup>).

The state of affairs became even more tensed because of an argument about production of oil plants, which took place in the autumn. The USA became tired with the protectionist rules of market of the EAC and threatened to levy discriminatory custom duties on many products coming from the EC.

Commissioner McSharry did not want to retire from his struggle for the CAP reform and despite the dissent of the Chairman of Commission J. Delors, who feared the unreal demands of the USA, McSharry went to the America to advocate his reform there. Other members of the Commission outvoted Delors's stand, which gave McSharry a

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<sup>87</sup> This is oxymoron, the free trade would not be possible without the financial solidarity principle.

chance to execute the process. The agrarian Commissioner was sure of the fact that in order to reach the realization and authorization of the process of reforms the outer pressure (from the USA) must be harmonized with the resentment of the members of the Community (mostly France) towards changing the system.

As the result of the discussion taking place on 22<sup>nd</sup> of November 1992, the agreement was reached that is known as The Blair House Agreement (BHA). In this compact the reconciliation in the question of agrarian politics was reached under the conditions of gradual lowering of subsidies and limitation of oil-plants-sowing areas. The BHA was the default source of the final negotiations of the GATT. The outcome was signing of multilateral WTO Agriculture Agreement. This treaty applied to all member states of the WTO and concerning the EAC it included the followings:

- annulment of non-tariff obstructions of import, their conversion to the shape of custom duties, which would be furthermore lowered by 36% (minimally 15%) over next six years with developed market economy and by 24% (minimally 10%) over next ten years with developing countries
- submission of export and import subsidies of multilateral regime and their lowering by 36%, or more precisely by 20% over six years
- reduction of the amount of subsidies of export products within six next years by 21%

*SZP EU: vznik, vývoj a reformy, Pavel Neumann*

This sort of reduction of assistance had to be followed by a complete reform of the CAP, because if that would not happen it would mean the end of European agriculture due to the overwhelming amount of cheap food production from the third-world countries<sup>88</sup>

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<sup>88</sup> Evaluation of Agriculture policy Reforms in the European Union, OECD, 2011



### 4.6.3 Present-day Tendencies of Global Agrarian Market with Focus on the CAP

The Conference of The WTO in Seattle in 1999 followed the negotiations of Uruguay round and it yet again showed the completely different point of view on the global market that the USA (and some other countries) had in comparison with the EU. The liberalization of the market with agrarian products became once more the main topic of the negotiations. The USA and the other members of the WTO asked again for the complete cancellation of the export subventions.

### 4.6.4 Development Round from Doha and its Consequences

Towards the end of 2001 another round of multilateral negotiations was commenced, and these did comply to the requirements for liberalization of the EU agrarian market on the conference of the WTO. The EU made a commitment to cancel all the export subsidies till 2013 as well as to reduce the custom duties and the domestic support, which disrupts the market by 70%. „*The development round from Doha furthermore determined to the countries of the WTO the export limits for agrarian commodities*“. The European Union was defending the positions which are the reflections of their current strategy for development:

- *The stress is placed on the nonbusiness aspects of agriculture and the multifunctional role of it. It is crucial to reach the balanced state between the business and nonbusiness interests. Among the latter there are the securement of the life in rural areas, **environmental protection, quality and harmlessness of products, welfare of animals**<sup>89</sup> etc.*
- *The need to maintain the different treatment of developing countries with respect to the significance of agriculture in these lands*<sup>90</sup>
- *To upgrade the access to the market. The EU is the second biggest exporter of food commodities in the world and from this perspective it is important to secure the barrier-free access to the third-world countries' markets.*
- *Substantial reduction of custom duties will be carried out*
- *Substantial lowering of domestic support, which disturbs the market, will be carried out (and that is by 70% or 75%)*

*Historie a současnost SZP se zaměřením na Českou republiku, Marian Lebieczik, 48*

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<sup>89</sup> Chapter: *Principles and Tools of CAP*

<sup>90</sup> *Everything But Arms*

In 2002 the negotiations concerning the liberalization of world market continued and again the different standpoint of the EU and the USA showed. It was not anymore a debate just about the export subsidies, but also about the reduction of domestic support. The USA demanded lowering of the direct payments. The EU decided again to reform the CAP due to this strain. Another reform with aim to restrain the direct payments and **to enlarge the support of rural areas** took place in 2003. In succession to this the EAGGF split in 2005<sup>91</sup>. It was a process of rearrangement of financial currents, which were not feasible to maintain in their original place due to the WTO, to the rural development. The measurements which had as their goal to decrease the agrarian production satisfied the WTO (thus also the USA). The reasons for the USA requirements was their interest to lower the competition in the global food market.

*Na základě reformy se EU snaží dostát svým závazkům ohledně snížení podpor zařazených v jednání WTO do tzv. **amber boxu** (dotace spojené s produkcí a podporou cen), resp. **blue boxu** (dotace do určité míry vázané na produkci, cílené však na plochu či počet zvířat, které jsou zafixovány a nezvyšují se, jde zejména o přímé platby). Podporu přesouvá do v rámci WTO nelimitovaného **green boxu** (dotace nespojené s úrovní produkce, cenami, počty zvířat a plochou).*

*CAP of the EU, Pavel Neumann, page 47*

The development round from Doha was supposed to end in 2005, but the agriculture and stubborn attitude of the USA thwarted it. The negotiations therefore ended a year later with vague outcome, where a lot of questions about the liberalization of market stayed unanswered, which certainly did not help the third-world countries.

The negotiations about agriculture is still a hot topic till these days. Bali Ninth Ministerial Conference in Bali, which was held from 3 to 6 did not bring any greater changes<sup>92</sup>. The efforts of the countries to cut down on the amount of agrarian subventions still continues. The developing countries are getting a greater and greater chance to participate on the global market with their agrarian production. Nevertheless the poor states still demand even more sweeping reduction of subventions in developed countries, and they condition their participation on negotiations by this even with debates with no agrarian topics. These arguments often make the WTO conduct impossible. An interesting

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<sup>91</sup> vide Chapter: *Principles and Tools of CAP*

<sup>92</sup> 09.12.2013, Lebensministerium III/2; Lebens Ministerium Austria, 11.12.2013, [http://www.lebensministerium.at/land/eu-international/wto/wto\\_mk\\_bali2013.html](http://www.lebensministerium.at/land/eu-international/wto/wto_mk_bali2013.html)

moment was the entrance of Russia to the WTO on 22<sup>nd</sup> of August 2012<sup>93</sup>. Russia is an agrarian superpower, which was not able to put the global market with agrarian production (and the CAP) under pressure for it was not a part of the organization before<sup>94</sup>.

The attitudes of the EU countries towards the liberalization of global market are various. V zásadě je však možné rozdělit je na země jižního a severního křídla. The countries of the south wing (Spain, France, Italy; that is the countries with greater agrarian production) hold conservative attitude and in fact they are against the liberalization. The second north wing (comprising of Sweden, Great Britain and Denmark) are on the contrary for the liberalization. The new members start to realize their positions in the CAP and are more inclined to agree with the south wing (mostly the case of Poland). This is because the agriculture plays a great role in both their economics and national interests.

#### 4.6.5 Everything But Arms

The decision to abolish the export subsidies corresponds with something one could call a higher moral status of the European Community. That is because the EU nowadays starts to realize what positive consequences of liberalization of its market happens to the third-world countries; which the EU starts to take as the part of the globalized society. For these countries, the liberalization means a unique chance to improve on their agrarian export and their economic situations. It is more efficient to support the export in the countries, which can grow some crop thanks to their geographic position, than to send financial help to them (it is not even necessary to mention that these money do mostly get just to the hands of elite members of their societies).

Initiative Everything But Arms, which is introducing the fully opened boundaries for the third-world countries (except for arms, ammunition and military materials), was approved by the European Council in February 2001<sup>95</sup>. Nowadays the EU is the biggest importer of food production from the third-world countries, and it surpasses even the USA, Canada and Australia. The Ministerial Conference in Bali only deepened the cooperation with developing countries, particularly in focus on the cheaper supplies of basic food (corn, rice); due to the “dumping“ the WTO went against its principles, however it demonstrated solidarity with poverty.

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<sup>93</sup> World Trade Organisation, 11.12.2013, htm, [http://www.wto.org/english/thewto\\_e/countries\\_e/russia\\_e.htm](http://www.wto.org/english/thewto_e/countries_e/russia_e.htm)

<sup>94</sup> Mezinárodní politika 2/2011

<sup>95</sup> Lenka Fojtíková, Marian Lebieczik, Společné politiky Evropské unie, Historie a současnost se zaměřením na Českou republiku, 1. vydání, Praha, nakladatelství C. H. Beck, 2008. p.179, ISBN 978-80-7179-939

The “*mini packet*“ was just introduced to Bali, that means that even after the 12 years Douha development round still continues.<sup>96</sup>

#### 4.6.6 Sugar Shortage

The reform of sugar order was conditioned by the negotiations of the WTO, which took place under the agreements about the opening of the European market for the countries of Latin America.

The news about the sugar shortage are more and more common nowadays. In the Czech Republic, being the latter sugar superpower, one should be truly concerned with this news, mostly because nowadays we are completely dependant on the sugar import. *„This case can show how the European Commission is not unfailing and that the agrarian plans of the Union can sometimes remind one of the foregone socialism“.*

In the last four years, the EU invested great money in order to suppress the sugar production. It was paying companies off in order to get them close their production processes and to make them leave market. The company Eastern Sugar can serve as an example; they got two milliard crowns for closing all of their three sugar factories in the Czech Republic. The money from the EU funds went to the farmers as a compensation for the discontinuance of growing sugar beet and to make the switch to other crops smoother.

The sugar reform made the EU a clear sugar importer (mostly from Brazil). And that is despite the fact that ten years ago the EU produced more sugar than Brazil and was the world leader in its production and export, which enabled the Union to set the global prices of this commodity<sup>97</sup>.

*„However it is true that the present state helps the poorer Brazilian economy and makes it capable of buying products originating from the EU in return“*

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<sup>96</sup> 09.12.2013, Lebensministerium III/2; Lebens Ministerium Austria, 11.12.2013, [http://www.lebensministerium.at/land/eu-international/wto/wto\\_mk\\_bali2013.html](http://www.lebensministerium.at/land/eu-international/wto/wto_mk_bali2013.html)

<sup>97</sup> Týdeník EURO 11.4.2011, Lenka Fojtíková, Marian Lebiezík, Společné politiky Evropské unie, Historie a současnost se zaměřením na Českou republiku, 1. vydání, Praha, nakladatelství C. H. Beck, 2008. p.179, ISBN 978-80-7179-939

## 5 The Reforms of the CAP in the 90s

I have already dealt with many issues that are part of this chapter in the previous ones. Therefore I intend to only briefly mention that the reason for the necessity of the changes was the situation at global agrarian markets and the irresolvable financial demands of the CAP.

### 5.1 The Essentiality of the Changes in the CAP

The above mentioned McSharry Reforms from 1992 were based on the basic measures, which could be traced even in the unrealized Mansholt Plan from 1968:

- Global reduction of intervention prices, which support greater competitiveness of European agrarian products
- Compensation of these measures by **direct payments**
- Introduction of voluntary arrangements leading towards the extensification<sup>98 99</sup>
- Social frame of the reform, which reacts to the average high age of farmers<sup>100</sup>, that is some retirement programmes for farmers<sup>101</sup>
- Development of programmes and tools that support reduction of people working in the agrarian sector<sup>102</sup>
- Implementation of a series of agroenvironmental action programmes that function hand in hand with the environmental politics

*EURLEX-TEU/Markéta Pitrová, European Union*

The global reduction of intervention prices from the 1992 meant an instantaneous decrease with grains by 35%, milk by 10%, beef meat by 15% „*In here I mention only the commodities which were affected by the issue of overproduction the most. However the reduction marked three quarters of all agrarian products.*“.

The main goal of the reforms was to be done with the overproduction, satisfy the demands originating from the Uruguay Round and to implement certain agroenvironmental

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<sup>98</sup> The importance of sustainability. It is not important to have a records in yield, the crucial think is to secure our land for future generations, that is why I call for rational land use and private land tenure.

<sup>99</sup> For instance: forestration of arable land as an extensificational measure

<sup>100</sup> Report of Commission from the yea 1992 present, that 4 mil. of EC farmers is older than 65 years old. Prof. PhDr. Petr Fiala, PhD., LL.M., Doc. PhDr. Markéta Pitrová, Ph.D., Evropská Unie, 2. vydání, Brno 2009, Centrum pro studium demokracie a kultury (CDK), page 457, ISBN 978-80-7325-180-2

<sup>101</sup> Mentioned programm exists in all reformátory treaties

<sup>102</sup> This program mis still in power, i tis financed from the EAFRD. Through refered programm it is possible to gain a new maschinery, only if we fullfill cross compliance.

arrangements. These goals were fulfilled over the course of time and became the main indicators of the path the EU agrarian politics wants to take.

The implemented reform of direct subsidies became the guarant of the farmers' living standard; this was not reached until 1992. The direct payments encouraged many branches of the CAP at the same time. Farmers were allowed to focus more on other aspects of their doings (and not only on the amount of production), which led mainly to higher quality of food products and greater thoughtfulness towards nature.

### 5.1.1 Agenda 2000

Agenda 2000 can be understood in terms of being somewhat the medium-term revision of McSharry Reforms from 1992. Basically it would be plausible to say that before and after every enlargement of the EU a revision of the main agreements is needed, which secures the possibility to cover the specific needs of each and every new member. This is exactly the case of Agenda 2000, where certain things were needed to be specified for Austria, Sweden and Finland. Also it was convenient to engage with the approaching possibility of the entrance of countries from Central and Eastern Europe. Agenda 2000 did deal with more than just agrarian reforms, however for the purpose of this study only this one will be discussed.

The reason for implying new reform was the third financial prospect of the Community for the years 2000 till 2006. This reform was somewhat smaller in its extend than the one from 1992. The financial prospect hold certain goals that were supposed to be reached (at least in the eyes of the Commission). There was the assumed flow of new member countries<sup>103</sup> coming to the EU, for whose agriculture was necessary to prepare itself. The countries of the Central and East Europe, for whose vast agriculture<sup>104</sup> there were certain programmes implemented in the 90s like the SAPARD and the PHARE, had enormous interest in reaching the same financial support as the old member countries did when they entered the Community. This idea did not find its fulfilment even thanks to the Agenda 2000.

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<sup>103</sup> Helsinki pre-accession group in which the Czech Rep. took a part later on Luxembourg group (Slovakia etc.) EurActiv, Helsinki candidates catch up with fast track group, 29.1.2009, cited 15.3.2014, <http://www.euractiv.com/enlargement/helsinki-candidates-catch-fast-track-group/article-110796>

<sup>104</sup> Poland has the biggest agrarian sector within the countries of central and east Europe.

### 5.1.2 The Creation of Two-Pillar Structure of the CAP

The main and most important contribution of this reform was the launch of the so-called two-pillar structure of the CAP. In the first pillar the traditional rewards of farmers for the area of cultivated land, amount of cattle etc. were defined. In the second pillar, which was supposed to become the main pillar in some time, **the development of rural areas and the environmental protection** were contained. „*The rural development is what became the most burdening item in the EU budget; this means that not only the actual agriculture but also the cultivation of rural areas, creation of working vacancies there etc.*“. This was a revolutionary idea, which did correspond to certain extent with the results of negotiations of the WTO. The method of decoupling was put even into a greater effect and conditions for cross compliance began to spring.

### 5.1.3 Limitation of the CAP Expenses

The effort to ensure the expenses of the CAP appeared almost periodically over the course of the politics running. It became more striking between 1999 and 2004, and it can be seen as the endeavours of the old member states to ensure the newer members (states of the SVE) that their agrarian sector will not have the same position as in the old member states<sup>105</sup>. As an example one could mention the summit of the European Council from October 2002, when the current CAP budget was frozen until 2007 because of the eastern enlargement. The so-called capping should limit the CAP payments per farm to 300.000 Euro per a farm in the financial framework for 14-20, and later on the 5%-reduction in payments above 300000eur was introduced. The capping tool was very controversial to use for countries with big sized land per farm. The Czech Republic has the biggest farms within the whole EU. Due to the capping our former Ministers of Agriculture Ivan Fuksa and Petr Bendl were strongly against new limits in the new framework.

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<sup>105</sup> Vide: *Two speed CAP*

## 6 The Common Agriculture Policy Nowadays

The contemporary state of the CAP is the consequence of its gradual development together with many compromises made by all member states. The image of globalized world is strongly present there, which is also because of the influence of the WTO on the development of the CAP. Yet again most of the aspects of the contemporary state of the CAP can be traced in previous chapters.

The most important influence on the proper running of the politics is, even based on its *common and united* character, is still in hands of the European Council and newly also in the hands of the European Parliament. Thanks to the Lisbon Treaty the Parliament is equal in the decision-making process with the CAP Council. The initiator of the proposals is still the Commission; from which all the essential reforms originated.

### 6.1 The Fischler Reform

The above mentioned reform influenced the Common Agriculture Policy in a great way. The Austrian Agrarian Commissioner Franz Fischler made the reform public on the 22<sup>nd</sup> of January 2003. This reform could be summarized as:

- *Separation of the direct payments from the production with the goal in mind to remove the encouragements for overproduction. This method is supposed to be done by the system of united payment that would replace the previous system of separated payments. This is based on the authorizations that calculate with the previous direct payments in the last referential era from 2000 till 2002*
- *The system of cross-compliance conditions the farmers' entitlement to get the direct payments by the obligatory fulfilment of legislative measures dealing with environmental protection<sup>106</sup>, food safety and health of animals*
- *Modulation meaning the gradual transfer of financial means from the first column of the CAP (direct payments, market regulations) to the second column which takes care of the rural development with targeting the enforcement of the ecological side of the European agriculture<sup>107</sup>*
- *Decreasing of the intervention prices in multiple sectors*

*Petr Fiala a Markéta Pitrová, Evropská unie, 471*

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<sup>106</sup> vide chapter about the influence of CAP on environment

<sup>107</sup> This strategy is elaborated in the chapter *Agenda 2000*, in this document was *modulation* firstly introduced



First bullet mentioned above met with strong opposition from the agrarian countries of the south wing of the EU. The French interest groups were not willing to accept decoupling in the extent demanded by the Commissioner Fischler; that was to completely cancel the bounds with production.

### 6.1.1 Single Payment Scheme (SPS)

The final agreement of the member states ment the employment of **single payment scheme per a farm** (SPS). „*Instead of a multitude of payments the farmer will receive only one payment per a farm*“, this principle is still adhered to and the politics from the first column are payed for in this manner. The system of SPS, which became valid in 2005 with a chance for two-years temporary period, ment a great compromise to the conservative south wing of the EU because it ment that it was separated from the production almost completely (eventhough there are some exceptions as for example in the animal production). A farmer receives the financial support once he fulfils the **cross compliance**, that is 18 different agroenvironmental arrangements and conditions for the rural development<sup>108</sup>. In the case of not obliging to the conditiones the subsidies are reduced.

### 6.1.2 Single Area Payment Scheme (SAPS)

New member states of SVE had a chance to employ the SPS within the end of 2007 (also with two-years temporary period). However in 2009 there were only two countries able to apply the system – Slovenia and Malta. The new countries defended themselves by saying that they do not have the same conditions as the old member states. Thanks to these lamentations the temporary period was prolonged until the end of the financial perspective of the community in 2013.

Single AREA Payment Scheme-SAPS ( a simplified system of payment) is therefore applied to the new member states. It is also the executer of the politics of the first column of the CAP. The system of payments SAPS is freed from the adherence to the conditions pf the cross-compliance and it depends on the amount of the cultivated hectares and the number of cattle. Optaining these payments for new states is in fact easier, they do not have to fulfil any environmental precautions (farmers do not have to let the soil rest etc.). There is also no risk of not completely drawing the subsidies in the cases when the farmers are not able to meet the cross compliance rules. However this does not mean that the

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<sup>108</sup> Vide chapter about the Environment

farmers are stripped from their duties of taking care of the environmental protection. Even they have to gradually apply the agroenvironmental precautions over the temporary period.

### 6.1.3 Rural Development Politics

One of the nowadays priorities of the European Union is the politics of rural development, which started to work as a part of payments heading towards the CAP (after so-called modulation) beside the politics of salary support and market support. It was applied even before, however in the financial perspective 2007-2013 it got the greatest room and possibilities in the history. It has 20% of the CAP budget reserved. The main document of the Rural Development Politics is the Council decree no. 1698/2005.

The reinforcement of the expenses of the rural development needed a special fund. Therefore the EAFRD<sup>109</sup> came to existence, which arose by division of the old fund, the EAGGF. By creating the new fund the financing of the CAP became more arranged because it comprises all the up to now programmes for rural development (such as the OP and the HRDP) and puts them in one place. It also supports forestry and the areas of interest of the NATURA 2000<sup>110</sup>.

The rural development fund has priorities divided into four groups:

- Improvement of competitiveness of agriculture and forestry (*investment in education and carrying-over the „know how“*)
- Improvement of environment and landscape (*biological diversity, preservation and development of agrarian and forestry systems with high natural worth and traditional farming landscape*)
- The quality of life in rural areas and diversification of farming countryside (*creation of job opportunities*)
- The LEADER (*development of microregions based on the founding the local action groups<sup>111</sup>*)

Fulfilment of these priorities is in hands of every member state according to the Council decree no.1698/2005. There is a goal given by the EU and its fulfilment is the job of every member state. In the case of the Czech Republic the National strategical plan for rural development was created and approved by the government for the period of 2007–

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<sup>109</sup> Vide chapter dealing with Principles and Tools CAP, EAGGF is divided into EAFRD and EAGF

<sup>110</sup> European Commission, Environment, 14.2.2014, cited 17.3.2014, Htm, [http://ec.europa.eu/environment/nature/natura2000/index\\_en.htm](http://ec.europa.eu/environment/nature/natura2000/index_en.htm)

<sup>111</sup> MAS Podlipansko supports local rural, (IV.Axis of EAFRD)

2013 (NSP). The separation of subsidies between these four groups is determined by maximal and minimal limits.

Despite the fact that the Rural Development Fund is a part of the CAP, it does not offer help only to farming subjects. The money can be taken even by the countryside inhabitants, entrepreneurs, alliances, associations and non-profit-making organizations. Even other activities participating on improvement of the quality of life in countryside are supported: the tourism, restoration of rural residences and natural richness protection under the NATURA 2000.

As an example of the EAFRD subsidies for agrarian objects one could mention the financial help for young farmers (until they reach 40 years of age), investment into agriculture entrepreneurship, ecological agriculture with a focus on usage of renewable resources like biofuels or the support of agriculture under the patronage of Natura 2000.

For those who would like to criticize the vastness of financial strenuousness of the CAP it is important to realize that these activities of the EAFRD are covered by from the total budget of the CAP. It is true that the CAP expenses are 43% of the whole EU budget; however 20% of these go to the procurement for rural development<sup>112</sup>. The CAP expenses are mandatorily given in the financial perspective for years 2007-2013. It can be found in the article „*Protection of natural resources and their management*“

The rural development politics means a complete reshaping of the CAP. It is focusing more on less effective agriculture, support of smaller farming units<sup>113</sup>. This politics actually almost goes against the rules set by the Treaty of Rome . This idea is further supported by the lowering of custom duties and opening of the outer boundaries of the Union to the third-world countries.

#### 6.1.4 Health Check

The penultimate reform for the time being is The Health Check and it was released in 2008. It was not anything ground-breaking, rather it worked as a sort of revision and controlling device of the newly shaped CAP concentrating on removing the links on

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<sup>112</sup> The biggest portion (currently 59,267.2 M) within the EU budget takes: “*Sustainable Growth: Natural resources*”. European Commission, Budget 2014 in figures, 19.2.2014, cited 17.3.2014, [http://ec.europa.eu/budget/figures/2014/2014\\_en.cfm](http://ec.europa.eu/budget/figures/2014/2014_en.cfm)

<sup>113</sup> Czech Agrarian chambre is strictly against “*Capping*“ with regards to an average size of farm in Czech republic (84ha/per farm)

production, on liberalization according to the WTO's demands and on the development of countryside.

Minor precautions were taken in order to deepen the modulation (transfer of a part of the money from the first column to the second). The conduct in the question of milk was significantly altered for there were quotas cancelled in production of milk.

Nowadays the CAP is preparing a new financial perspective, which will most likely exact another greater reforms that would be comparable to the Fisher reforms. The aim might be to unify the double-columned CAP. This seems as a very demanding task. The development of countryside is expected to be continuing, as well as the limitation of budget-drawing (*limitation around 33% of the EU budget*) and liberalization of global food market.

## 6.2 The Reform of the CAP of 2013

It was necessary to introduce another reform before the new financial framework 2014-2020. As I have already mentioned, the CAP has always been developing gradually and the reforms were coming at the eleventh hour or later. This reorganization of the CAP comes right in time and was agreed on by The Council of Ministers in December 2013<sup>114</sup>. Significant changes are supposed to be implemented, such as the Regulations by national governments, within 1 year of transition period (2014)<sup>115</sup>.

The original proposal of European Commission promised greater agricultural changes than the final proposal from December 2013 does. The weak reform of the CAP is caused by the traditionally strong agrarian lobby and is made by compromises between the member states. The unwillingness for a greater change is determined by the national differences of agrarian sectors, on which this common policy has a global impact. Every state tries to push through their national interest over any other. And from these tendencies the compromised-on reforms such as this one spring. There is a space for exceptions within the CAP's frame, however it is limited by the concept of the CAP in the EU law (*acquis communautaire*).

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<sup>114</sup>Ministry of Agriculture of the Czech Republic, Dana Večeřová, Ministři zemědělství definitivně potvrdili podobu Společné zemědělské politiky, 17.12.2013; 2.1.2014; [http://eagri.cz/public/web/mze/tiskovy-servis/tiskove-zpravy/x2013\\_ministri-zemedelstvi-definitivne.html](http://eagri.cz/public/web/mze/tiskovy-servis/tiskove-zpravy/x2013_ministri-zemedelstvi-definitivne.html)

<sup>115</sup>Overview of CAP Reform 2014-2020; December 2013, European Commission, 9.1.2014, [http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05\\_en.pdf](http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05_en.pdf)

*“I remember one lecture given by Václav Klaus, which took place in the Czech University of Life Sciences in 2012. The latter President mentioned the cons of the deeper integration for the European states. He dealt with the question of global approaches to some politics which are not able to comprise the regional differences because of their vastness. Václav Klaus used the following simile: “As it is impossible to have one size of shirt fitting all the EU inhabitants, it is unfeasible to try to apply the same method of politics on all globally managed policies, including the CAP.”*

A significant change in the new CAP is slowly turning back towards the intensive agriculture within the EU. Possible scarce of food resources has enforced new security trend within the EU, when European farmers will be rewarded for effective food processing. Sustainability is the corner stone of this policy, but without such an extensive methods as was the “*Set aside*”.

The main aims remain the same - the viable food resources, living conditions of farmers and mitigation of climate change.

### **6.2.1 The Proposed Changes / The Agreed Reform**

Proposal of European Commission was promising large changes for financial framework 2013-2020. The crucial words of the CAP reform are as follows : *capping, budget cut, modulation, greening, abolition of some extensification measures, rural development, cancelling of SAPS, unification of policy within the EU, quit quotas for milk and wine sector*. All mentioned areas of the CAP were reformed, but all of them were reformed a bit less than predicted by EC. That is except for the quotas. Long-pending debates between The European Parliament and The European Council<sup>116</sup> concluded in a compromise that did not fulfil the EC expectations. However compromises were reached and policy works forward with 38% expected share within the EU budget. The new CAP is supposed to come to power in January 2015 after the 1 year of transition period.<sup>117</sup>

The European parliament took a part in the negotiation process thanks to the Treaty of Lisbon, in which it gained the co-legislative power in agrarian sector and furthermore it got equal power as The Council of The European Union in the question of the European

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<sup>116</sup>Co-decision making procedure was set up in Treaty of Lisbon, Treaty of Lisbon, Eur-Lex, 9.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:FULL:EN:PDF>

<sup>117</sup>European Commission, Overview of CAP Reform 2014-2020, december 2013

annual budget.<sup>118</sup> Amendments to the original Treaties in Lisbon are made by the EP more powerful player. It helps to diminish the so-called “democracy deficit” and it brings the EU idea closer to the European citizens.

## 6.2.2 Multiannual Financial Framework 2014-2020

The CAP will dispose smaller budget resources in comparison to previous Financial Framework after the year 2013 . Total CAP expenditure between the years 2014-2020 are supposed to be 408.31 billion EUR in current prices. This comprises of 312.74 billion EUR for the first pillar and 95.58 for the second pillar<sup>119</sup>. Total amount adjudged to the second section of Multiannual Financial Framework: *Sustainable Growth and Natural Resources* represents 37.8 % of the entire EU expenditure, 29% *Market Related Expenditure* and 9% *Rural Development*<sup>120</sup>.

The trend of “savings” is visible in the whole EU, The Council agreed on overall ceiling of 408,31 billion EUR in current prices for 7-years long period. It is less than in 2007-2014 MFF.

European budget for the years between 20013-2020 represents 1% of EU GNI<sup>121</sup>. Just for comparison between the years 2007-2014 the share of GNI was 1. 12%, which means it declined in the EU spending while compared to the GNI one.

The scarce of resources given to agriculture is even more dramatic. If we take into account that the new member states coming to the EU (Bulgaria, Romania, Croatia) jointly with countries coming into the EU in 2014 call for unification of these payments. Simply expressed the old member states will loose and the new members will gain.

### **The Structure of the New CAP**

The Common Agriculture Policy still keeps its two-pillar structure as well as the direct payments and market measures in one pillar and The Rural Development in the second pillar. The amount of money as a whole in the first pillar was cut down by 3,8%<sup>122</sup>

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<sup>118</sup>European Parliament and the Lisbon Treaty; New EP: more power, more responsibility, 21.1.2014, <http://www.europarl.europa.eu/aboutparliament/en/0042423726/Parliament-and-the-Lisbon-Treaty.html>

<sup>119</sup>Agricultural brief on CAP, European Commission, December 2013

<sup>120</sup>Presidency, Lewandowski, Barroso, Budfingprog, Comdoc; European Commission, 19.11.2013, [http://europa.eu/rapid/press-release\\_IP-13-1096\\_en.htm](http://europa.eu/rapid/press-release_IP-13-1096_en.htm)

<sup>121</sup>Multiannual financial Framework, Newsroom, DG-Commission, 21.1.2014, [http://europa.eu/newsroom/highlights/multiannual-financial-framework-2014-2020/index\\_en.htm](http://europa.eu/newsroom/highlights/multiannual-financial-framework-2014-2020/index_en.htm)

<sup>122</sup>Axel Mönch, GAP-Reform: Übergangsjahr 2014 mit Geltenden Regeln und weniger Geld, 18.4.2013, Landwirtschafts Kammer Osterreich, 29.1.2014, <http://www.lko.at/?+GAP-Reform++UEbergangsjahr+2014+mit+geltenden+Regeln+und+weniger+Geld+&id=2500%2C1781186%2C%2C%2C>

when compared to the 2007-2014 period. The losses in the second pillar can be partially compensated by the national payments (TOP UP). The pillars are more linked together in the new MFF and thus offer a similar approach. The cornerstones of the new CAP are sustainable land, intensifying activities, viable food resources, preservation of countryside, Green direct payments, Producer Cooperation, Start up aid for young farmers, Basic Payment Scheme and sufficient living conditions for all types of farmers (especially small-scale farming is going to be enforced). These aims are determined in a common approach of both pillars.

The year 2014 will be in the sign of national implementation for there is a little space for national distinctions. For instance, there is an option to transfer up to 15% of national envelope from the first pillar to the second one. It depends on consideration of each state which type of support is more efficient in their region. The Czech Ministry of Agriculture has not decided yet<sup>123</sup>. The transfer of 15 % would mean 800 CZK cut per Hectare in the Direct payments and this idea is in compilation of Czech agriculture sector with large scale farming very unpopular<sup>124</sup>.

Austrian Lebensministerium<sup>125</sup> is very likely going to use the previously mentioned transfer opportunity between the pillars. Small-scale agrarian sector will be supported in diversification of farm activities with added value, which is very convenient for local farming.

There will be other possibilities of farm support agreed on by the EK, in which there will be possible to co-finance rural development from national resources. Co-financing from national budget will be fully used by Austrian Lebensministerium<sup>126</sup>. The old member states (EU15) will notice bigger decline in payments due to the unification of subsidies between member states. New rule was implemented by the EK, which states that no state will gain less than 90% of an average state payment in the whole EU. The unification is naturally welcomed in states coming in after the year 2004 and criticised by old members, such as France or Austria<sup>127</sup>.

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<sup>123</sup>Zuzana Fialová, Převod z pilířů štěpí zemědělece, Týdeník Zemědělec 4/2014.

<sup>124</sup>Zuzana Fialová, Převod z pilířů štěpí zemědělece, Týdeník Zemědělec 4/2014.

<sup>125</sup><http://www.lebensministerium.at/>

<sup>126</sup>Politische Einigung über die GAP bis 2020, Lebensministerium Austria, 27.6.2013, 29.1.2014, <http://www.lebensministerium.at/land/eu-international/gapreformeinigung.html>

<sup>127</sup>This fact is proved by my research in an appendix

Intervention purchase exists just for bread, wheat and dairy products nowadays, but they were not used for almost a decade. It is possible to say that almost all payments are decoupled. According to European Commission just 5% of payments were spent for export refunds and intervention purchases<sup>128</sup>.

It is important to highlight a new trend in mentioned policy, the intensification to ensure sufficient amount of healthy food. European Union leaders achieved a consensus about the scarce of food resources. It consequently defines land like strategically important and starts to reward efficient farming and production.

In the new Reform of the CAP there is mentioned an increased **competitiveness** in the Agrarian sector. To enhance competitiveness in the EU agriculture, all production constraints will be removed (volume of sugar, milk quotas, wine sector). Milk quotas will be cancelled in 2015<sup>129</sup>, while sugar quotas will be abolished in 2017. The other aim of the new Reform is to make the European agriculture worldwide more competitive.

#### **The Modernised Instruments of the New CAP**

The four basic Regulations agreed on by the EK, Council of EU and EP, editing the policy, were launched in the European Journal on 20.12.2013:

*Rural Development*

*“Horizontal” issues such as funding and control*

*Direct Payments for Farmers*

*Market Measures*

*Eur-Lex<sup>130</sup>*

Subsidies will be organised through The **Basic Payments Scheme**. It will succeed SPS (Single Payments Scheme). New member states that has implemented after the entrance to the EU SAPS (Single area Payment Scheme) can stay in this system until the year 2020. Furthermore the Regional model will be introduced within the transition period in the year 2014. The Regional model sets up subsidies in the first pillar accordingly to a certain national state. This new instrument allows to transfer up to 15% of national envelope for first pillar to the second pillar (rural development). The policy is much more

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<sup>128</sup>European Commission, Overview of CAP Reform 2014-2020, page 4, December 2013

<sup>129</sup>Eur-Lex, Market Measures, 1308/2013, [http://eur-lex.europa.eu/Result.do?T1=V2&T2=2013&T3=1307&RechType=RECH\\_naturel&Submit=Search](http://eur-lex.europa.eu/Result.do?T1=V2&T2=2013&T3=1307&RechType=RECH_naturel&Submit=Search)

<sup>130</sup>European Agriculture, Agriculture and Rural Development, CAP Reform basic regulations Published, 31.1.2014, [http://ec.europa.eu/agriculture/newsroom/155\\_en.htm](http://ec.europa.eu/agriculture/newsroom/155_en.htm)



coherent and better targeted now. Through better targeted support one can achieve higher performance of the EU agriculture.

**Cross Compliance** measures remains, but are more strict in case of penalties, payments are addressed gradually in connection to fulfilling green conditions. *Simply said, when we do not implement particular measures, as for example a piece of land for maintenance permanent grassland, animals welfare or other non-intensive measures, we will not obtain the full CAP funding.*

**Environment**, is secured in the first pillar by the Green payments, that reaches 30% of entire direct payment. In this second pillar we have 6 modernised arrangements: *Cooperation among science and innovation, Knowledge transfe, Competition, Food security and Risk management, Ekosystem, Efficient use of resources, Development in rural areas*<sup>131</sup>

Greening measures are represented in both pillars and are determining future policy.

#### ***Green Direct Payment- I. Pillar***

The so-called Greening is now present in all of the CAP activities. Greening in the first Pillar is the biggest change present in this CAP Reform. Farmers are enforced to keep environmental standards to preserve bio-diversity. Farms will receive 30% of Direct payments, if they practice three mandatory practices: *maintenance of permanent grassland, crop diversification and ecological focus area*. For unification of the payments in the whole EU, there is *Regulation* in favour of those states that do not reached 90 % of average Pillar I. These states are allowed to transfer up to 25% from Pillar II. to Pillar I.<sup>132</sup>

#### ***5% degressivity for farms with total amount of subsidies above 150 000 EURO***

Greatly discussed and controversial topic for countries with big agriculture companies, namely for the Czech Republic is **Capping**. However Capping was not agreed on and this Regulation does not mean significant changes.

#### ***Young Farmers Scheme***

Farmers in the whole Europe are aging very rapidly. That is why European leaders want to encourage young people, under the age of 40, to start up their agriculture business. Initial costs are high, young farmers are allowed to get + 25% of their direct payments

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<sup>131</sup>Politische Einigung über die GAP bis 2020, Lebensministerium Austria, 27.6.2013, attached 29.1.2014, <http://www.lebensministerium.at/land/eu-international/gapreformeinigung.html>

<sup>132</sup>European Comission, Overview of CAP Reform 2014-2020, page 4, December 2013

envelope from national TOP UP support for the first 5 years of their business. This additional support is limited by 2% of whole national envelope<sup>133</sup>

### ***Small Farmer Scheme***

The year 2014 was claimed like a year of family farm by the United Nation. The small-scale farms are usually family farms<sup>134</sup>.

The amount of Payments dedicated to small farmer support depend on each member state. Voluntary precaution is done by the legislative form, *Regulation*<sup>135</sup>. Optional measure has a form of redistributive payment from the first pillar. The usual subsidy plus maximum 1250 EUR is be granted to the first hectares of small and medium farm<sup>136</sup>.

An average farm in the Czech Republic has about 80 hectares, which makes from the Czech Republic the country with the biggest average size of farms in the EU. The Austrian farms have about 12 hectares<sup>137</sup>. Austria has decided for this measure, in the Czech Republic there are still discussions going on.

### ***Active Farming***

Just true farmers will be rewarded from the EU funds. They should not be missused for golf playgrounds, airports etc. The farmer has to be active in their businesses and at least 5 % of their income has to be earned from their agriculture business<sup>138</sup>.

### ***The Farm Advisory System***

It will help to adopt new technologies on farms to enhance competitiveness and efficiency of human resources. Mentioned initiative corresponds with the aim of the EC *Europe 2020*<sup>139</sup>.

*... Concretely, the Union has set five ambitious objectives - on employment, innovation, education, social inclusion and **climate/energy** - to be reached by 2020.*

*Europe 2020*<sup>140</sup>

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<sup>133</sup>Politische Einigung über die GAP bis 2020, Lebensministerium Austria, 27.6.2013, attached 29.1.2014, <http://www.lebensministerium.at/land/eu-international/gapreformmeinigung.html>

<sup>134</sup>FAO; United Nation, The international Year of Family Farming, 3.2.2014, <http://www.fao.org/family-farming-2014/en/>

<sup>135</sup>European Commission, CAP reform- basic Regulations, Brussel June 2013, 31.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0487:0548:en:PDF>

<sup>136</sup>European Parliament and Council of ministers, Regulation; article 36, Eur-lex; 1.2.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0608:01:EN:HTML>

<sup>137</sup>European Comission, Farming in Europe – an overview, Agriculture and Rural Development, 1.2.2014, [http://ec.europa.eu/agriculture/faq/index\\_en.htm#1](http://ec.europa.eu/agriculture/faq/index_en.htm#1)

<sup>138</sup>European Commission, Europe 2020, 31.1.2014, [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

<sup>139</sup>European Parliament and of the Council, Regulation; 1305/2013; article 13, Eur-Lex; ,31.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0487:01:EN:HTML>

### ***Areas with Natural Constraints***

**The** CAP traditionally supports extensive farming in the less favoured Area (LFA) to keep biodiversity. There is a new voluntary scheme within the envelope for the first pillar. It depends on the member states how to use given resources.

### ***The Management of Crisis***

Special reserve fund as the crisis reserve (400 mil. EUR per year) will help to diminish consequences of natural disasters such as flood, erosion and drought. Risk of erosion is especially high in the Czech Republic, over 50 % of land in the Czech Republic is at risk of erosion, due to the bad soil management<sup>141</sup>

### ***Producer Cooperation***

Producers will be motivated to cooperate together, because it will decrease their costs and enhance their outputs. Products from farms with added value could diversify food chain and make farmers more independent in sense of diversification of market activities<sup>142</sup>.

For instance farmers in certain areas, where they produce products on their farms like cheese, butter, fresh milk, sausages etc., will be supported in establishing their store in local city, where they will sell their products together. This model of cooperation between the farms is already well-functioning in Austrian Civil Society.

Cooperating farmers can share technologies and through that they can be more efficient. Furthermore they can have better access for credits for the agriculture business is very demanding for money resources.

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<sup>140</sup>European Commission, Europe 2020, 31.1.2014, [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

<sup>141</sup>Ministerstvo zemědělství, Poškození půdy erozí, 31.1.2014, [http://www.mzp.cz/C1257458002F0DC7/cz/poskozeni\\_pudy\\_erozi/\\$FILE/OOHPP-Poskozeni\\_pudy\\_erozi-081119.pdf](http://www.mzp.cz/C1257458002F0DC7/cz/poskozeni_pudy_erozi/$FILE/OOHPP-Poskozeni_pudy_erozi-081119.pdf)

<sup>142</sup>European Parliament and of the Council, Regulation; 1305/2013, Eur-Lex; ,31.1.2014, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0487:01:EN:HTML>

## 7 The Czech Republic as a part of the CAP

The Czech Republic became a part of the European Union on the 1<sup>st</sup> of May 2004. However negotiations succeeded this entrance and they could be traced back to the 80s<sup>143</sup>. A highly debated part of these negotiations is the Common Agriculture Policy, as anticipated. I will not deal with the first association agreements. However the preentering programmes Phare and SAPARD, that are nowadays substituted with programme IPA, will be mentioned. Furthermore the Copenhagen summit, where the entering conditions regarding agrarian sector were agreed on, will be discussed.

### 7.1 Admisssion of the Czech Republic to the EU

*"Give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert."*

Arthur Young

After the fall of the Communist regime the Czech agriculture was facing a vast transformation, which was financed even by the funds of the EU (by the SAPARD and PHARE). The soil owned by state and subordinated to the state scheduling started to return to its owner. It was back in a completely different condition than before its nationalization. The Agricultural Cooperative farms were active for about 40 years and they made very negative impact. The bosks, balks and slopes, creating the natural character of the landscape and averting erosion, were gone. Extensive fields were created not respecting the natural landscape at all. The water resources were irretrievably damaged, and so was the quality of soil that had been fertilized artificially in order to squeeze the maximum production out of it. When looking in the old statistic almanacs, one can see that the agriculture, which was an important part of the communist ideology, resembled an old sick giant. It is true that a great amount of grains was produced, there were millions of farming animals and that there were more than 10% of the people fit for work employed in the agrarian sector but the environmental languished for there was a lack of caring farmers, who would consider the soil as their legacy to their successors. Therefore the EU agriculture served as an example of how farmers should conduct and it became a blueprint which the Czech Republic decided to follow.

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<sup>143</sup>Establishing the diplomatical relations between ČSSR and EC in the year 1988. Euroskop, Zakládni data o ČR a EU, 17.5.2013, cited 17.3.2014, <https://www.euroskop.cz/9090/sekce/zakladni-data-o-cr-a-eu/>

The unsatisfactory condition of the Czech agriculture was the reason for the EC's reevaluation of their former idea that only Poland and Hungary need the financial aid for their agrarian sectors<sup>144</sup>. In 1990 the programme of the preentering support for agriculture, the Phare, was extended by ČSFR. This Phare programme worked in the Czech Republic until 2004; and it gave the country exactly 27.46 milliard Czech crowns. Its aim was to bring the Czech agriculture closer to the European. This amount of financial aid was lowered on the 15<sup>th</sup> of April 2011 by the fee of 224 milliard Czech crowns, given by European Commission, for deriving from the funds against the rules of the Union

The preentering programme SAPARD became active yet again in all ten candidate states and it supported agriculture and rural development. It was, in fact, the predecessor of the SZIF. It was not just focused on farmers, it gave a small financial aid even to small and middle-sized entrepreneurs in the countryside and to municipalities. In total 2.9 milliards were drawn from it in the Czech Republic.

The Czech Republic officially applied for the EU membership on the 23<sup>rd</sup> of January 1996. During the preparations of the admission the Czech Republic was one of the leading countries in meeting the demands. The entrance of the Czech Republic to the Union was based on the National Programm for the EU accession, which reacted annually to the EU Commission reports. The negotiations about agriculture were started in the middle of the year 2000 and it culminated by the final assessment from the EU Commission<sup>145</sup> presented on the Copenhagen summit in 2002. It was quite that Copenhagen summit that became fundamental in the process of the Czech admission for the timetable of the gradual onset of drawing the direct payments by the new member states was presented there. The ruling party in the Czech Republic back then was ČSSD; it is important to say that this party with Miloš Zeman in its forefront was the biggest advocate for the entrance of the EU. It was this Cabinet that actually negotiated the entrance conditions for the Czech Republic.

A clear shortcoming of the Czech agriculture was the lack of other activities but those of production. It was important to develop the rural development politics, agroenvironmental precautions were needed to be taken and some other things needed a

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<sup>144</sup> Programm PHARE was initially supposed to be used just for Poland and Hungary. Petr König, Lubor Lacina, Jan Přenosil, Jan Ostřížek, Jan Strejček, Učebnice Evropské integrace, Barrister & Principal- 2011, ISBN:978-80-87474-31-0

<sup>145</sup> Vide. White Paper of EC about the readiness of the Czech Republic to enter the EU

change too. In order to deal with these imperfections a new agrarian law was approved in 1997, and it set long-term principles of the Czech agriculture that are completely compatible with the CAP.

The institutional security of the agriculture policy of the EU was also needed to be secured before the entrance. Therefore the SZIF was created in 2000 and its goal was to implement the CAP into the Czech agrarian sector and policy.

Farmers of the SVE countries would become the supreme income group of inhabitants if it was not for the Copenhagen summit, where the direct payment amount was set for the SVE countries. The EU originally did not anticipate to allow the direct payment into agrarian sectors of the new members in the financial perspective of 2000-2006. The reason for it was the idea that the farmers from these countries could profit from the market arrangements of the EU and from the possibility to export their agrarian commodities into the old member states for higher prices. After the massive opposition wave of the candidate countries this idea was left behind. However the fact that the ready system of subsidies led to the division of the EU to the new-member and old-member parts is now supposed to be dealt with in the next financial perspective.

Drawing of the direct payments of the SAPS system seemed to follow the same pattern in all new member countries. They reached only 25% of the direct payments of the original EU 15 in 2004; until 2007 this share grew annually by 5% and then, with the new financial perspective it grew by 10%. This temporary period should be therefore end in 2013 by the complete even up of the payments. The differences can be, however, evened up by the aid of so-called national supplementary payments TOP UP by a certain amount of percentage points<sup>146</sup>. This was agreed on by the Commission of the EU.

*The current system of agriculture subsidies, which discriminates the farmers from new-member countries, should end in 2013. This has been stated by the European Commission in their proposal of the Common Agriculture Policy. The Union is not supposed to have a unified subsidies rates even in the future, but every farmer will have a guarantee that he will get no less than a certain percentage of the average rate for the whole European Union.*

Source: 18. 11. 2010, čtk

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<sup>146</sup> Situační a výhledová zpráva obiloviny, MZE ČR, Prosinec 2010 / Petr Fiala, Marketa Pitrova, Evropská unie, 470

## 7.2 Issues of the Czech Agriculture

The Czech Agriculture is dealing with many issues; and it is important to perceive these as one's own problems since each and every one of us is its component. Having certain difficulties connected with the agrarian sector is not unique in the EU. Having problems that hamper the fulfilment of reaching the CAP's goals or are directly caused by them is common to every member state.

As for the main concern of the Czech agrarian system, one should mention the ongoing consequences of the decisions and systems applied during the Communist regime. Certain megalomania of agrarian enterprises<sup>147</sup> should be considered as one of the reasons for which the Czech Republic cannot implement new guidelines that would strongly influence the protection of the natural sources. For this purpose small or middle-sized farms are more effective. Despite this fact only 21.5% of the agrarian sector manpower is employed in the small family farms, while the EU's average is 86.64%<sup>148</sup>. This therefore serves as a kind of an oxymorone to the current trend of the CAP (to focus on the rural development and to support family farms). The European Commission is trying to limit the amount of subsidies for a farm in its programme of supporting family. However it met with a wave of disagreement from certain member states, including the Czech Republic. The disagreement of the Czech Republic was published in the 17<sup>th</sup> of March 2011 by under-secretary of the Ministry of Agriculture Juraj Chmiele<sup>149</sup>.

It is dreadful how many small farms of the *Swiss type* were created after the Velvet Revolution and how they were literally smashed by the large enterprises and missing direct payments in the 90s. The Czech Republic had one of the least supported agricultures in the whole Europe in the 90s<sup>150</sup>. The lack of financial support was the main reason why there were so many small farms eliminated; the prices of agrarian commodities on the market were not high enough. Even nowadays the low prices of food endure (*in some years the*

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<sup>147</sup> Green Report about the State of the Czech Agriculture in the year 2012, 12.2.2013, cited 17.3.2014, page 25., pdf, [http://eagri.cz/public/web/file/291876/Zprava\\_o\\_stavu\\_zemedelstvi\\_CR\\_za\\_rok\\_2012.pdf](http://eagri.cz/public/web/file/291876/Zprava_o_stavu_zemedelstvi_CR_za_rok_2012.pdf)

<sup>148</sup> Zuzana Fialová, Ministři se postavili Evropské komisi nesouhlasí se zastropováním dotací pro velké podniky, 10.3.2013, cited:11.11.2013,<http://www.euractiv.cz/zemedelstvi0/clanek/ministri-se-postavili-komisi-nesouhlasi-se-zastropovanim-dotaci-pro>

<sup>149</sup> Zuzana Fialová, Ministři se postavili Evropské komisi nesouhlasí se zastropováním dotací pro velké podniky, 10.3.2013, cited:11.11.2013,<http://www.euractiv.cz/zemedelstvi0/clanek/ministri-se-postavili-komisi-nesouhlasi-se-zastropovanim-dotaci-pro>

<sup>150</sup> Neumann Pavel, Společná zemědělská politika EU: vznik, vývoj a reformy, page 55, mezinárodní komparace, 1. vydání, Praha, Nakladatelství VŠE, 2004, p.130-165, ISBN 80-245-0064-7

*prices of wheat oscillate around 2.200 CZK per a ton, which used to be the price of the 80s)* however the payments from the EU do compensate for that.

This brings us to another problem of the Czech agriculture - which is in fact common for the whole CAP – the low prices of agrarian commodities. This is closely linked to the small incomes of the workers in this sector, especially in the countries of the SVE, where farmers are the lowest income class of inhabitants<sup>151</sup>. The food prices are truly very low and this happens because of the pressure of the EU inhabitants and because of the WTO and reseller of grains. If one takes as an example the price development of the wheat in the Czech Republic, he realizes that the prices of July 2010 were lower than the prices of the same commodity in 2000<sup>152</sup>. The average price of wheat in 2010 was 2.916 CZE/t, while in 2000 it was 3.377CZE/t<sup>153</sup>. The resellers of grains influence the prices mainly in the course of the whole year and they clearly apply the rule of buying at the lowest rates possible and selling at the highest. The prices are therefore the lowest from the whole year during the harvest season. This resellers' activity affects the most the small farms, that do not have sufficient storage places. The EU started to solve this issue by giving subsidies for creating the storage places for the farmers.

The food price prognosis seems to be developing auspiciously because the prices of the last four months started to raise<sup>154</sup>. However the question is how much is that the activity of the resellers and the lack of food on the market (because the harvest of 2010 was subnormal).

Introduction of the free inner market of the EU in the Czech Republic had its drawbacks, which were not caused by the idea of the CAP but by the incompetence of the Czech Republic to ensure its own food items in Czech stores. One cannot be sure whether that is an issue because of the Ministry of Agriculture or the Agrarian chamber or because

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<sup>151</sup>Platy.cz, Čtvrdletní zpráva o odměňování Zemědělství a lesnictví, 12.5.2010, cited 17.12.2013, [http://www.platy.cz/pdf/PayLab\\_Report\\_Q\\_CZ\\_cz.pdf](http://www.platy.cz/pdf/PayLab_Report_Q_CZ_cz.pdf)

<sup>152</sup> I take into account the impacts of climate on particular yield. I do not operate, for example, with the year 2008, when the world prices of wheat were due to bad harvest very high (5 832Kč/t). Výhledová zpráva Ministerstva zemědělství Obiloviny, prosinec 2010, str. 89

<sup>153</sup> Situační a výhledová zpráva Obiloviny, Prosinec 2010, MZE ČR, Těšnov 17, 117 05, Praha 1, ISBN 978-80-7084-907-1

<sup>154</sup> Předseda Agrární komory Jan Veleba, Soběstačnost především, 9/2014, týdeník Zemědělec 31.1.2014



of the Czechs in general<sup>155</sup>. It could be because they seek for the cheapest price. However it could be even an issue generating from the inability of the farmers themselves to push through their own products. The truth remains that there are only 30% of the Czech products present in the supermarkets, which is a very sad situation in comparison with the surrounding countries and their state of things<sup>156</sup>. The problem can be traced in the export of the rough agrarian commodities to other countries of the EU from which they come back as foreigner products with added value. To resolve this issue we should work on a unified system of agriculture production, that would be as absent of the resellers' practice as possible, because that makes the farmers loose a lot of their potential money.

Quite an optimistic vision for the future, which could stand against the reselling tendencies and could revive the farmsteads is the direct selling from the farms, which starts to be very now nowadays. This goes hand in hand with the fashion of biofood. The direct sale is closely linked to the phenomena of *the farmers' markets* which seems very promising<sup>157</sup>. If this trend continues, there will be again enough of the Czech honey and garlic in our country. This positive prediction gives hope to the Czech farming that its role will not be just in maintenance of landscape and solar power stations but also in bringing good-quality food to the Czechs.

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<sup>155</sup> Spotřebitelé v Česku začínají preferovat domácí potraviny. Pro 86% dotázaných je důležité, zda se produkty pod českou značkou vyrábějí skutečně v ČR. Soběstačnost především, Jan Veleba, 9/2014, Týdeník Zemědělec

<sup>156</sup> Zpravodajství ČT 24, předseda Agrární komory ČR Jan Veleba. 24.3.2013, 21:20

<sup>157</sup> Zuzana Fialová, MZE ČR, připravuje kodex pro farmářské trhy, týdeník Zemědělec, 3/2014

## 8 Austria in the EU

Austria became a member of European Community in 1995, that is 40 years after them being neutral as an effect of the Cold War. Austria used to be divided among the Allies, similarly to Germany, from 1945 to 1955. Till these days Austria is not a member of NATO, which is caused by the reasons mentioned above (neutrality)<sup>158</sup>. After the fall of *Iron Curtain*, Austria starts to access negotiations together with Finland and Sweden<sup>159</sup>.

Since the year of its accession Austria is a net contributor to the EU budget (805,1 mil. EUR, 2012). This fact somehow compensates the fact that Austrian products entered the single market.

Austria brings to the EU approximately 800 million Euro more than is gains. However being a member of the Union is very convenient for obtaining money for its agriculture from the CAP budget. It is important to mention, that The Program for Rural Development is significantly co-financed from national resources, which demonstrates a substantial difference between AT and CZ<sup>160</sup>. Direct payments and market tools are entirely financed by the EU budget (I. pillar) in all member states.

### **The Austrian Society**

This state, located next to the Czech south borders, was neutral during the Cold War. When a nation is independent on the world scene, it brings it a greater nationalistic awareness and pride. Agriculture plays a very important part in nation's self-determination for it is a strategically very important sector. The traditional role of family farming in the Austrian Society helps to secure environment and living standard of farmers very naturally. Austrians are proud of their nationality; this is demonstrated on two main factors: mandatory military service<sup>161</sup> and family farming highlighted by environment friendly measures. There are certainly many more factors causing and highlighting this phenomena, but these two can help us to recover a special way of local patriotism...

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<sup>158</sup> Doc. PhDr. Běla Plechanovová, CSc. (FSV), 90. léta; Euroskop, 11.12.2013, <https://www.euroskop.cz/8889/sekce/90-leta/>

<sup>159</sup> Doc. PhDr. Běla Plechanovová, CSc. (FSV), 90. léta; Euroskop, 11.12.2013, <https://www.euroskop.cz/8889/sekce/90-leta/>

<sup>160</sup> EU- Agrarzählungen, Transparenzdatbank; 11.12.2013, <http://www.transparenzdatenbank.at/trans/see.through?init>

<sup>161</sup> Mandatory military service in Europe, Swissinfo.ch, January 2013, 29.1.2014; [http://www.swissinfo.ch/eng/politics/Mandatory\\_military\\_service\\_in\\_Europe.html?cid=34728252](http://www.swissinfo.ch/eng/politics/Mandatory_military_service_in_Europe.html?cid=34728252)

## 8.1 Characteristics of agriculture sector and rural areas

The size of Austria is 83.858 km square, of which 3.254.000 ha is farming land. Rural development policy is well developed and supported by civilian society. 78% of inhabitants live in rural or semi-rural areas; there is no trend of depopulation in Austrian NUTs 2 regions, except for Vienna, but it is not a rural area<sup>162</sup>. The similar situation is in the Czech Republic because the cities having up to 100.000 inhabitants loose its inhabitants to the neighbourhood semi-rural areas. Also villages of range 0 to 199 inhabitants have to face depopulation<sup>163</sup>. However in general there are more people leaving villages for urban areas in the Czech Republic than vice versa. It is one of the main tasks of rural development policy to support the living condition in countryside, create job opportunities, secure sufficient infrastructure and education. Nowadays the Czech countryside offers nice landscape and peaceful harmony, but this is often not enough for young people.

The Austrian Agriculture and forestry sectors together comprised of 173.317 companies in 2010<sup>164</sup>. Farmers cultivate 2.879.895 hectare of agriculture land. Compared to the Czech Republic it is two times less of farming land for Czech farmers cultivate 4.264.000 ha<sup>165</sup>. An average size of a farm per one holder is 18.8 ha. The number of farms has been declining during the past ten years as one can see in the statistics ( 20.8% decline in number of farms since the year 1999 to 2010). It could be discontinued by the EU membership and by opening Austrian market to the Single market. Austrian agriculture cannot be supported from national resources over the given framework by the European Commission. It often makes the EU unpopular with farmers, because they wish to be supported from national resources that would be more generous.

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<sup>162</sup>Gesellschaftliche Vielfalt am Land, Netzwerk Land Autoren, 2013 Wien, page 15, 6.2.2014, [http://www.lebensministerium.at/publikationen/land/gesell\\_vielfalt\\_land.html](http://www.lebensministerium.at/publikationen/land/gesell_vielfalt_land.html)

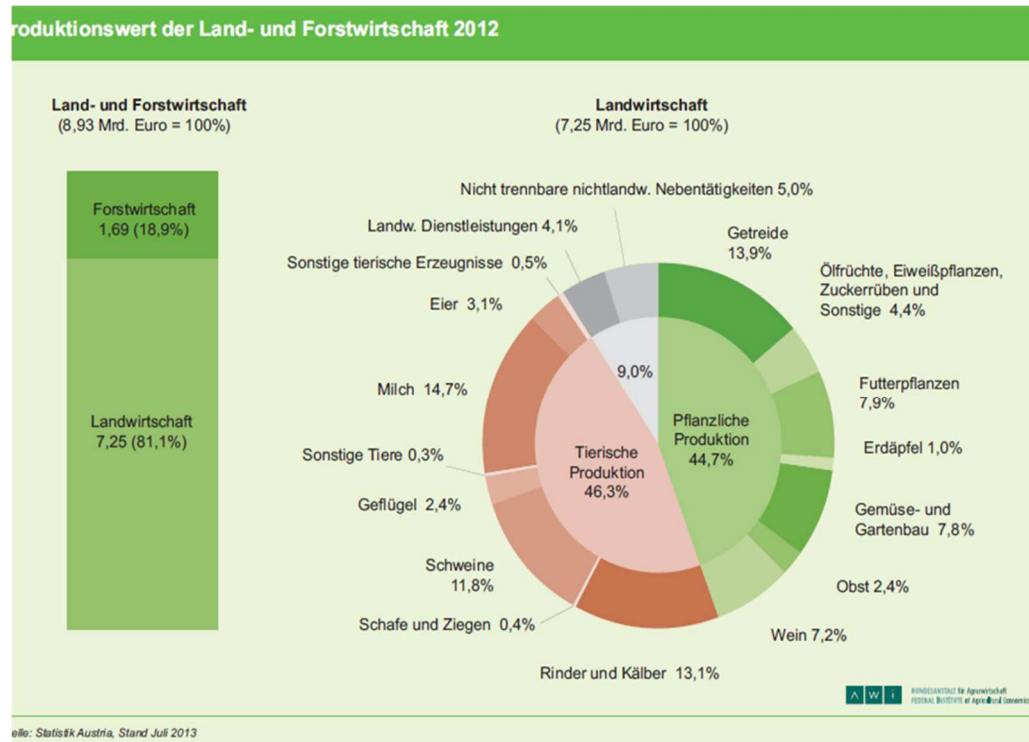
<sup>163</sup>Ing.Pavĺina Mařıkov, Czech Countryside Depopulation-presence and past, Sociologick laboratoř KHV, Praha 6 Suchdol, 5.2006, 6.2.2014, [http://www.agris.cz/Content/files/main\\_files/73/151543/993Marikova.pdf](http://www.agris.cz/Content/files/main_files/73/151543/993Marikova.pdf)

<sup>164</sup>Rupert Lindner, Otto Hofer, Rudolf Fehrer und Karin Brier, Gruner Bericht, Wien 2013, 54. auflage, 6.2.2014, <http://www.gruenerbericht.at/cm3/>

<sup>165</sup>Zemedelsk vyřaba, e-agri, Ministerstvo zemedelstv, 9.2.2014, <http://eagri.cz/public/web/mze/zemedelstvi/>

Production value of Austrian agriculture is 7.2 billion Euro (annual increase by 0,5%), it comprises of 45% for plant production and 46% for animal production. The share of agriculture in national Economy is about 1.6% of gross value added in 2012<sup>166</sup>.

### Plant and animal production in Austria (*Grüner Bericht.at*)



### Distribution of payments

Austrian national envelope in new MFF is smaller, than it used to be in the previous MFF. The total cut of national envelope is 2,8%<sup>167</sup>. The corner stone of its policy is the environment. Former minister of Austrian agriculture Berlakovich proclaimed, during the debates about CAP reform in Council of EU, that Rural Development goals for the next MFF are marking out the long term goals of Austrian Lebensministerium and that they do correspond with ÖPUL (Österreichische Agrar Umwelt Programm). This programme claims that 30% of direct payment will be based on ecological farming according to

<sup>166</sup>Rupert Lindner, Otto Hofer, Rudolf Fehrer und Karin Brier, Grüner Bericht, Wien 2013, page 7, 54. auflage, 6.2.2014, <http://www.gruenerbericht.at/cm3/>

<sup>167</sup>Politische Einigung über die GAP bis 2020, Lebensministerium Austria, 27.6.2013, 29.1.2014, <http://www.lebensministerium.at/land/eu-international/gapreformeinigung.html>

greening condition, 5% of land of farms above 15 ha has to be used for ecological activities such as green belts, permanent grassland, planting legumes etc.<sup>168</sup>.

## 8.2 Austria, a Model of Rural Area Management

I do not want to seem obscurant but it is important to say that Czech land has closer to Austrian land than to the American type of farming. We can take a great inspiration from Austria and continue in re-cultivation our rural area and society. Before the second world war, we had similar small scale farms as Austria has in nowadays. Austria has small scale family farms with average size of 14,6 ha. Communism and collectivism broke this original structure in Czech Rep. and interrupted traditional way of rural living. Young people were more or less enforced to move to cities, because traditional countryside structure was disturb by central planning and bans on entrepreneurship. At the same time, there were an incentives for move to the bigger cities. Fortunately Austria's evolution was different although it was not sure to 1955 what happened with the eastern Soviet part.

Thanks to this post war consequences Austria was unified and despite of several economic damages in east zone could develop free market economy and continue in traditionally diversified countryside. The best tool how to prevail living in countryside is to support agriculture activity in it. "*Die Landwirtschaft ist das Rückgrat der Gesellschaft*"<sup>169</sup>, this is written on the front web page of Austrian Agriculture Ministry. It's obvious and widely conscious in Austria's society, that farmers play natural role of land keepers and healthy food suppliers. Furthermore farmers ensure sustainable resources, they care about water resources, produce renewable energy. Not even in last row they help to prevail traditional cultural life in countryside through marketing their goods, services in infrastructure and creating jobs.

Particular management of human resources is a corner stone of each organisation. If we imagine, that the CAP is a commonly organised police of the EU, we have to deal with its implementantion process in each member state. The aim what we want to achieve in Agrarian sector is set up in Brussel, but the way how we achieve particular aim is in every state different. CAP is mostly enforced by *Directives*, that are a legislative acts of Secondary law.

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<sup>168</sup>Politische Einigung über die GAP bis 2020, Lebensministerium Austria, 27.6.2013, 29.1.2014, <http://www.lebensministerium.at/land/eu-international/gapreformmeinigung.html>

<sup>169</sup> Headline, Lebensministerium; 11.12.2013, <http://www.lebensministerium.at/land.html>

*A directive shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods.*

Treaty on the Functioning of the European Union, article 288<sup>170</sup>

Cause of this legislative procedures, there is a space during implementation process to do the things with different effectiveness. It is up to each member state how they will deal with the specifics and how they initiate proper programs. An Austrian example shows an effective work within this space in favour to countryside.

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<sup>170</sup> Treaty on the Functioning of the European Union; article 288, Eurl-lex, , 5.12.2013, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:FULL:EN:PDF>

## 9 The Swot Analyses

The swot analyses as a management tool provides an easier insight into the problematic. Furthermore it highlights the strenghts and weaknesses of agrarian sectors in both countries. For the better representation of certain needs, both analyses are shown and consequently compared.

A special outlook on the problematic given could be gained by implementation of external observants. The opinions of Austrian farmers, filling in my questionnaires, provide one to see the weak and strong parts of the Czech agriculture.

### 9.1 The Czech Swot analyses with regards to the Austrian case

#### The Strengths

Skilled and well-informed land managers, who lead the agrarian companies towards better economic profit, mean a great advantage to the globalized world in the sense of offering better competitiveness. This advantage can be cancelled by inappropriate usage of land, which leads for example to erosion<sup>171</sup>. This con is derived from direct payments.

Economies of scale, make the producers more independent from the EU subsidies. They are not dependent on the direct payments such as small producers are. In the Czech Republic are these savings visible mainly in the plant production, as it was mentioned in the previous chapters of this work. Large companies are gaining sufficient profit for their work through marketing their goods. From a certain level of production they do not need direct payment in the same extent as small-scale companies, because the profit is sufficient. An obvious example would be this: One man in a big tractor can cultivate quite easy 500 ha of land, while a small farmer with a small-scale farming with animal production does not dispose so many hectares. Thanks to this reason *capping* was a good idea and should be promoted in the future.

#### The Weaknesses

The unnatural size of fields does not respect traditional biodiversity of land. Collectivization in early 50s is the origin of this problem and together with the system of melioration it cause vast damages such as the loss of habitats of wild animal and erosion.

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<sup>171</sup>Monitoring eroze zemědělské půdy, Ministerstvo zemědělství, e-agri, 7.3.2014, <http://80.188.198.212/mapserv/monitor/index.php/> Ing. Eva Procházková, Ing. Dominika Kobzová, Problematika eroze v ČR, Výzkumný ústav meliorací a ochrany půd, Praha 2011, pdf. downloaded 7.3.2014, [http://www.czba.cz/files/ceska-biopllynova-asociace/uploads/files/21\\_VPBPS2011\\_prochazkova.pdf](http://www.czba.cz/files/ceska-biopllynova-asociace/uploads/files/21_VPBPS2011_prochazkova.pdf)

On one hand this is disadvantage on the other hand it is a benefit for large scale enterprises, it is possible to use big machinery.

The relationship between man and nature almost disappeared in our run for the profit in large scale enterprises. Due to the personal experience, the author can prove usual practices in agrarian companies, where no one care about the landscape except of a few measures that conducts *cross compliance*<sup>172</sup> and leads to subsidies. The rented land problem is strongly connected with loss of relationship between man and nature.

*"the magic of property turns sand into gold"*

*"give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert."*

Arthur Young 1741-1820 (*Travels in France*)

### **Opportunities**

The entrance to the world market is enhanced by large producers, which can store their yields and sell it later on. It is a great advantage, that originates from an economy of scale and is connected with well informed land managers. This opportunity can lead to independency from the EU subsidies. The better access to loans for big companies together with their business plan make entrepreneurship in agriculture easier. Small farmers have often problems to get sufficient loans as it was shown in my questionnaire. The Czech Republic does not dispose bank offering of a special loans for farmers nowadays.

As it was written in a previous chapter agricultural lobby is well known within the EU and very powerful, big companies employ its own lobbyists to fight for their interests. As an example one could mention the agricultural lobby coming out from the Czech Republic against *Capping*, it would be a measure against majority of the Czech big enterprises, that receive up to 300 000 EUR per year.

### **The Risks**

The risks are mostly originating from the non-respecting specifics of landscape. The main problem is in sustainability. The question is what to do to secure a land for future generation, when there is the problem of pollution, bad irrigation, straight water channels and erosion. More diversified agriculture with use of traditional manure could help to secure our soil. The Austrian example shows that the diversification of activities in rural

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<sup>172</sup>set aside method, permanent grassland, bio strips as a habitat etc.



areas goes hand in hand with public services. This is why the Austrian countryside looks the way it does.

### The Swot analyses

#### The Czech case

#### The Austrian case

	Helpful	Harmful		Helpful	Harmful
Internal	<p style="text-align: center;"><u>Strengths</u></p> <ul style="list-style-type: none"> <li>- skilled land management</li> <li>- worldwide competitive companies</li> <li>- economies of scale</li> </ul>	<p style="text-align: center;"><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>- unnatural size of fields</li> <li>- loss of biodiversity</li> <li>- lost relationship between man and nature</li> <li>- rented land</li> </ul>	Internal	<p style="text-align: center;"><u>Strengths</u></p> <ul style="list-style-type: none"> <li>- diversified activities</li> <li>- strong relationship between man and land-sustainability</li> <li>- private land tenure</li> </ul>	<p style="text-align: center;"><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>- low competitiveness</li> <li>- impact of any natural disaster</li> <li>- foreknowledge</li> <li>- small amount of capital</li> </ul>
External	<p style="text-align: center;"><u>Opportunities</u></p> <ul style="list-style-type: none"> <li>- entrance to world market</li> <li style="padding-left: 20px;">- loans</li> <li>- bussiness projects</li> <li>- powerful companies - strong lobby</li> </ul>	<p style="text-align: center;"><u>Threats</u></p> <ul style="list-style-type: none"> <li>- erosion</li> <li>- loss of biodiversity</li> <li>- polluted water resources</li> <li>- unsustainable yealds</li> </ul>	External	<p style="text-align: center;"><u>Opportunities</u></p> <ul style="list-style-type: none"> <li>- regional food chain</li> <li>- demand for local food</li> <li>- accomodation services- tourism</li> <li>- deeper diversification- specialisation</li> </ul>	<p style="text-align: center;"><u>Threats</u></p> <ul style="list-style-type: none"> <li>- natural constraints</li> <li>- diminishing state and European support</li> <li>- imported food from large scale production (imported cheaper food from Czech, Germany)</li> </ul>

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<sup>173</sup> Created table

## 10 The Processed Questionnaire

This questionnaire is focused on farms that represent the agrarian structure in the Czech Republic and in Austria. The survey was taken in South Bohemia region and in Oberösterreich region. It comprises only of farms specialising on animal production (dairy cows, pasture) or plant production (grains, meadows). Ten farmers from the Czech Republic and ten from Austria proved differences that has been described in previous chapters. Results coming out from the questionnaire are supposed to highlight the space for possible change in the Czech agrarian-sphere. Particularly the potential changes in the money distribution process could help to preserve the land and living rural areas.

The following chapter will lay new possibilities of the CAP within the Czech Republic with regards to an Austrian example. Consequently the chapter will prefigure the potential development of small-scale farming in Austria. The questions are set up in a certain order in order to help recover important facts about the functioning of the CAP. The questionnaire measures also the feelings about the EU integration process. The assumption that farmers are mostly in favour of the European integration was proven by the survey as well as the fact that the Austrians are more patriotic, while the Czech one are more federalist.

### **1. What is the size the acreage of your farm? What cattle species do you have and how many you own?**

The survey confirms the trend in large-scale farming in the Czech Republic and small-scale farming in Austria. The average size of Austrian farm is 18.7 ha and the average size of Czech farm is 80 ha, see appendix. All 10 farms in the Czech Republic were bigger than 50 ha, while only one farm in Austria cultivated more than 50 ha.

There was just one farm out of the ten in Austrian survey that practises just plant production and no other activity. Crop-oriented farm cultivated more than 50ha. An average size of land the other Austrian farms have is 15 ha and they breed mainly dairy cows (10 to 35 cows).

There were 8 farms out of ten in the Czech Republic which were just plant-oriented, and two farms practised also animal production (pasture).

### **2. How many family members work at your farm?**

It was already mentioned in this thesis that family farming is traditional in Austria. There are more than 70% of workers in agriculture that are not paid, and only less than 25

000 of regular paid employees in Austrian Agriculture according to Austrian Lebensministerium.

All Austrian farms were family farms with non-paid labour force. On the Czech side of the borders 5 out of 10 farms had paid labour force.

### **3. Do you make some products?**

All Austrian farms who deal with animal production, produce certain products, mainly commodities that are easy to process (such as soft cheese, milk, butter, spread butter, sausages, salami, bread, fruit and vegetables). These products are sold in local stores, that are owned by farmers from surroundings. They all have certain percentual share there. There is someone from the farms working as a shop assistant in the store every day. Furthermore the products are occasionally sold in the local market or *ab hof verkauf* (sale from farmyard).

Two out of ten Czech farmers are producing certain products, the products are sold from the farm (sale from farmyard). Local stores commonly owned by farmers do not exist in spite of the fact that the demand for that from people is growing. Demand for local food from farms is according to the farmers demonstrated by an attendance of people in Farm market in České Budějovice, where the market is opened occasionally.

### **4. Are you thinking about making products with value added?**

Austrian farmers who are already selling their products want to continue and exceed their offer.

The Czech farmers who offer their products want to continue as well because they see the demand and possibility of additional income rising. It is important to say that farmers in the Czech Republic do not process as many products as the Austrians. The main reason for this is according to them the insufficient labour force. However farmers who are combining vegetable production with grain production (crop rotation is necessary and the EU conduct a payments for this measure) are willing to start to sale their vegetable on Farm market.

### **5. Are you in some agriculture society?**

8 out of 10 Austrian farmers take a part in some kind of association (Vereine). Austrian farmers are much more socialistic than the Czechs are. They sell products together and also build together many local activities (for instance: shops, swimming pool, playgrounds). Simply said sociability within the civil society underlined by catholic atmosphere creates

rural area living and colourful with many interesting activities. What a pity that our boarding area lost its inhabitants after the II. World War. It will be hard to recuperate these poor areas.

Only 2 of the Czech farmers take a part in an Association of private farmers, that is national, any local farmer association does not interest them.

#### **6. How do you perceive the membership of the Czech Republic in the European union? Positive/Negative?**

Austrian farmers are very patriotic and try to be independent through their diversified activities. However they know about the importance of the EU subsidies in their life and understand their irreplaceable role in local small-scale farming. They are quite well-informed about the programs from the EAFRD and try to use its second pillar activities as much as possible. However 4 farmers responded in a negative way for they would prefer closer national economy with its own support mechanism for agriculture without any limitation coming out from the European Union. Majority of farmers do not agree with open market for food, they would rather be more closed as their colleagues from Switzerland.

All Czech farmers expressed their doubts about functioning of the EU but their opinion about the integration was positive.

In comparison, Austrian farmers are more proud about their unique landscape and homeland than their Czech counterparts.

#### **7. Do you believe that the current state of agriculture in the Czech Republic/Austria is sustainable?**

Both states have a different level of economic development, the Austrian GDP per capita is according to the OECD 43.848 USD, while the Czech GDP per capita is 26.706 USD<sup>174</sup>. It shows a huge gap between these two which is 17.142 USD. If we take into account a current trend in harmonization of payments throughout the EU, it is obvious, that the Austrian living standart of farmers will probably slightly decrease. This is the reason why are all Austrian family farmers afraid of the future. Not one from them was optimistic about sustainability of smaller farmers in Austria. In the eyes of Austrian farmers have their Czech colleagues a big advantage in large-scale farming system, because the Czech farmers will profit from economy of scale and will be able to produce with lower costs.

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<sup>174</sup>Country Statistical profile, OECD library, 12.2012, accessible online 8.3.2014, [http://www.oecd-ilibrary.org/economics/country-statistical-profile-czech-republic\\_20752288-table-cze](http://www.oecd-ilibrary.org/economics/country-statistical-profile-czech-republic_20752288-table-cze)

The question of high cost in farming is a very hot topic in Austrian agriculture. With diminishing amount of direct payments they intensify their diversifying activities, that are also supported from the second pillar of the CAP (Ab hof verkauf, Urlaub am Bauernhof etc.).

Czech farmers are more optimistic than the Austrians, for they know about harmonization of payments and they prepare their businesses for the EU conditions (cross compliance). All farmers agreed with the statement, that the worse times are behind and better times are coming. It is always better to come from bad to good than vice versa. Austrian farms will face the opposite situation, worse times with money shortages are coming to them.

**8. Do you think that the Czech Republic gets enough money from the CAP funds in comparison with other member states?**

The answers of the Austrian farmers were (according to expectation) very strictly against harmonization of payments with the new member states because of different costs of production in the states coming after 2004.

Czech farmers are logical calling for harmonization and argument for their Austrian colleagues with the same costs of machines, petrol, and almost the same prices of meat, corn and forage. They agree with the facts that labour costs and prices of land are higher, however it is not a reason for such a huge gap between the payments as it is present nowadays<sup>175</sup>. New regulation of the EU Commission do not allow direct payments below an average 90%.

**9. Do you perceive the agriculture as a traditional tool of rural development?**

Farmers from both states agreed with the statement above. However most of the Czech farmers (7) proclaimed that they do not have enough resources to finance any public activities. The rest of them are bigger farms, that probably have enough resources, but do not have enough time and argued by paying taxes to the state.

Austrian farmers are traditionally much more active in creating public spaces. They are all engaged in some association (Agrar-vereine, Maschienenring, Landschaft vereine, Lager-haus, etc.). It is hard to imagine in the Czech Republic such an activities like

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<sup>175</sup>New regulation of EU Commission do not allow direct payments below 90% of EU average in coming financial framework 2014-2020.

common building of local swimming pool or playground. Common activities are created on daily basis, regularly and in long term. Common-property resources serves furthermore to the Civil society.

**10. Are you afraid of the bureaucratic side of the agriculture business? Do you feel hampered by Brussels?**

A question above was jointly answered by all of the farmers, although on the Czech side with raise emotions. Environmental measures, which conduct direct payments are viewed as bureaucratic precaution. Austrian farmers know about the importance of the environmental measures and do it automatically, however they do not want to be enforced by the EU platform into it. Czech counterparts see environmental measures in terms of their economic profit and fulfil the conditions to receive money. Especially subsidies for permanent grassland are between the Czech farmers very popular.

**11. Whom do you see as a creator of the norms for agrarian sector? Is it the EU or the Czech Republic?**

Approximately 60% of national law initiative comes from the EU, especially acquis of Common administred policies influences given areas (the CAP) almost absolutely. Awareness of this is very poor in public, which means that farmers are not an exception. Farmers in the Czech Republic are according to the questionnaire better informed than the Austrian farmers. 3 Czech farmers did not know about the strong role of the EU institutions within the agriculture policy. They were convinced about the leading role of the national government. The rest of them were sufficiently informed. 4 out of 10 Austrian farmers did not know about the leading role of the EU in setting out the agrarian policy, they assumed, that this role is in national competences.

**12. What should be fundamentally reconsidered for the next financial framework of the EU?**

Both sides would diminish administrative constrains that lead to the EU subsidies. It would be great for Austrian farmers to freeze the payments on certain level and do not allocate the same level of money into each member states. Yet again they are strictly against harmonization of payments and thus diminishing the national envelope.

Czech farmers are logically in favour of harmonization of payments and against capping. Farmers from south Bohemia are also afraid of foreign import of food, especially

dairy farms were scared of import of Austrian milk surpluses. Eight out of ten farmers would limit the agrarian import into the country.

According to the Czech farmers the minimum level of self-sufficiency in a basic food stuff is necessary, on this demand react the new Czech government with Bohuslav Sobotka as The Prime minister and Marian Jurečka as The Minister of Agriculture very positively. In a new governmental plan is self-sufficiency in a basic food a priority (sector in crisis: pork meat, fruit, vegetable)<sup>176</sup>.

### **13. How do you see the future of your farm?**

In terms of this questions Austrian farmers are pessimistic; 6 farmers express fear about the future generation on their family farm. There is no guarantee that small farms will prevail in the European single market. High competition of foreign farmers and strong agricultural lobby could influence the way of local farming negatively.

They see the future in diversifying activities of farming, for instance in regional food and public services.

The South Bohemian farms are more optimistic about the future, there is no fear for big farms. They know very well about competitive advantage of their bigger businesses. The majority of small farmers transformed itself in 90s into a bigger enterprise or cancel business.

Czech farmers see its future in increasing number of hectares, 8 farmers proclaimed that they are willing to rent or buy a land. 2 dairy farms wants to sell its products on local markets in the near future.

*It is interesting to mention on this place an important phenomenon rising up within a comparison of this two types of farming. Czech farms were enforced between the years 1992-2000 to be very independent on state aid, there was almost no support after the Velvet revolution until the EU programs as the PHARE and relatively low prices of goods. Small farms had to logically disappeared in an open economy with high level of imported food (almost dumped food). This period means a huge decline in a number of Czech farms. Farmers had to transferred its businesses into a bigger one again and it makes them more competitive, this trend is still visible in here, the farms continuously grow up. Austrian farms are cultivating the same amount of land for a long term without a change in size.*

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<sup>176</sup>Oldřich Přibík, Soběstačnost především (self- sufficiency as a priority), Zemědělec 9/2014

#### **14. Do you take pride in your occupation?**

Austrian farmers are very proud of their business for 10 of them would not change their job is a life role for them. Their family farms have a long history (Knollenhof 6, Familie Schwab for example more than 300 years) thus they have a fear about the future.

In Czech Republic is the public meaning about the people working in agriculture enhancing over the course of time. In the scale of prestigious professions within the society in Czech is private farmer on a 9 place that is a good result<sup>177</sup>.

Private farmers, all of the respondents noticed enhancing social position within a society. 5 respondents are proud of their business, the rest 5 of them would not change their job, are rather proud.

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<sup>177</sup>Lidovky.cz, Prestižní povolání v Česku, 26.7.2012, cited 12.3.2014, [http://byznys.lidovky.cz/nejmene-prestizni-povolani-v-cesku-poslanec-porazil-uklizecku-pp-firmy-trhy.aspx?c=A120726\\_130542\\_firmy-trhy\\_rka](http://byznys.lidovky.cz/nejmene-prestizni-povolani-v-cesku-poslanec-porazil-uklizecku-pp-firmy-trhy.aspx?c=A120726_130542_firmy-trhy_rka)



## 11 Discussion

While considering the practical contribution of the Diploma thesis, one should pay the closest attention to the possibility of being inspired by the Austrian agriculture system. The Single Market of the European Union with its Four Freedoms offers us a great advantage for inspiring each other in order to procure better future. While being focused on the CAP this could be secured by using the EU funds more efficiently and therefore arranging for better conditions of farmers and the society as whole, which is strongly connected with the nature.

The Austrian model of agriculture serves primarily as an example of well-applied rural development policy, which contributes to landscape creation. The Common Agriculture Policy is a very important environmental instrument together with the Treaty on the Functioning of European Union. The Czech Republic should be inspired mainly in the following areas:

- diversifications of farming activities
- proper farm management (rotation of crops – particular plants on slopes to secure land from erosion)
- self-sufficiency with basic food (> 80 % <sup>178</sup>)
- balance between plant and animal production
- creation of smaller fields which are more respectful to the landscape
- responsible citizens
- owned not rented land, support proprietary structure

The question of being responsible citizens, who honours land and human labour, is probably more complicated. The totalitarian regime, which did not respect human rights during the forty years of its reign, made a stop to Civil Society development. Nowadays we have to make as much as we can to build it all back from the pieces of our Czech homeland.

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<sup>178</sup> This 80 % frontier is very often mentioned by the Czech politics (Miroslav Toman, Jan Veleba), vide. Oldřich Přibík, Soběstačnost především, týdeník Zemědělec 9/2014. Austrian supermarkets have traditionally much higher share of local food than the Czech superstores.

## Recomandations

*"the magic of property turns sand into gold"*

Arthur Young 1741-1820 (*Travels in France*)

It is quite obvious from the processed questionnaire that the corner stone of the agriculture is **private property**. Proper proprietary structure of land helps to secure the soil for our descendants. The connection between farmers and their soil is traditionally very strong within the Austrian society. The Czech Republic should be inspired by their example and support the purchase of new lands by money from the European funds. For this purpose the financial resources should stay in the Second Pillar of the CAP. Despite this fact there are certain political discussions which deal with the possible money transfer from one pillar to the other (up to 15%)<sup>179</sup> in favour of direct payments. In the author's opinion this settlement would be rather unfortunate for there is no reason why to support higher direct payments, since they are already high enough. Is it adequate to promote large-scale farming only to ensure high economic profit and to increase the financial surplus of big companies? The state of things in the Czech Republic and the prognosis for the future do not seem to be optimistic because there is strong lobbying from megalomaniac agrarian companies, which seems to be an inherent part of Czech government by now.

Taking into account the historical development, the biggest change-maker in the landscape projection of the Czech Republic was the Communist regime. Traditional family farming in Czechoslovakia did not prevail due to the violent collectivization. Manors and farms are the cornerstones of the Civil society and the Countryside. This function was destroyed during the Cold War and just few descendant of ex-propriated farmers returned back to agriculture. Family farming was almost totally destroyed. Ownership structure in the Czech Republic demonstrates the separation of land from people who care about it. 90% of agriculture land is owned by the private sector, while the rest belongs to the state. 92,5% of the land is cultivated by Farms bigger than 50 ha and just 22.1% of the land is owned by farmers who really works on it. 78% of land is rented to cooperatives or to private farmers<sup>180</sup>.

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<sup>179</sup> Zuzana Fialová, Převod pilířů štěpí zemědělece, *Zemědělec* 4/2014, page. 5

<sup>180</sup> Ministerstvo pro místní rozvoj, Vlastnictví půdy; 5.2.2009, 3.2.2014, <https://www.strukturalni-fondy.cz/cs/Fondy-EU/Programy-2004-2006/Operacni-programy/OP-ROZVOJ-VENKOVA-A-MULTIFUNKCNI-ZEMEDELSTVI/Dokumenty/Programovy-dokument-OP-Rozvoj-venkova-a>

In Austria there are farms existing continually for hundred years and their influence on local culture is very significant. Farmers are important rural employers; they care about the soil and cultivate it not only for the economic profit. Their irreplaceable role within the society has a stabilization character. The real question is whether the type of small scale family farming is sustainable in today's globalized world? It is clear that without a certain state support it cannot. The answer lays in the Czech large-scaled industrialised agriculture that is more competitive due to its average size of farm than Austrian type. However the present trend in the EU is to support the model similar to the Austrian agriculture. This means small-scale farming, rural development, bio-diversity, local food etc. That is a good direction.

*On March 2012 I had a presentation "United in diversity" during a seminar in Znojmo organised by doc. Ing. Karel Tomšík, Phd. for the Czech and Austrian students. I was talking about the Czech and Austrian agriculture and it's different approaches to land. Profesora from Wien Bodenkultur Universität after my presentation claimed, that the Austrian agricultural sector will have to follow the Czech one sooner or later because the present situation of generous subsidies cannot prevail. Therefore small-scale farming will not be competitive in such a big measure as by now.*

In the table is shown the average size of farm in the Czech Republic (89.3 ha) in comparison with the Austrian (19.3 ha). The average number of hectares in the size of farm cultivating more than 100 ha in the Czech Republic is 727.4 ha unnatural high compared to an average 232 ha in Austria. These farms cannot serve to rural areas as well as the small ones<sup>181</sup>. The present state in direct payments does not change the situation in favour of rural development in the Czech Republic. Farmers are motivated by relatively low costs of land and increase their plant production to gain more payments per hectare (2013-2020 = 5600Kč/ha<sup>182</sup> without transfer of 15% to the second pillar). Thus the incentives leads to mass production and specialisation on plants with high market prices (in Czech mainly: wheat, oil-crops, maize)<sup>183</sup>. The Czech Republic is self-sufficient with the mentioned grains and achieves very good yields, although more than 50% of an agricultural land is

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<sup>181</sup>Agrarian business structure in mentioned countries

<sup>182</sup>Zuzana Fialová, Převod pilířů štěpí zemědělece, Zemědělec 4/2014, page. 5

<sup>183</sup>Figure I. Changes in structure of Agriculture output

noticed as “Less Favoured Area” (LFA)<sup>184</sup>. Presumably the Czech agriculture will face another problem. This will push the animal production down, increase labour costs and prices of arable. The consequences of higher costs will very likely cause the other one to go through reduction<sup>185</sup>.

It is hard to achieve profitability in small-scale farming, and that is why farms are motivated to diversify their businesses. But the large-scale farming specialising to few types of crops is profitable with today’s prices (wheat – 167 EUR/t, maize – 152 EUR/t)<sup>186</sup> without any subsidies. It is quite a paradox that the large-scale farming could be to in the present state of support in the EU the way how to make the EU agriculture self-sufficient without any subsidies. Despite this fact it could have devastating consequences. These are already visible in the Czech Republic – erosion, small employment in rural areas, polluted water resources due to drainage channels, lack of grove for wild animals etc.

**Tab. 2 - Ukazatele podnikové struktury zemědělství ve vybraných zemích EU**

Země	Podíl PFO <sup>1)</sup> na celkovém počtu podniků (%)	Podíl vlastní půdy na celkové výměře z. p. podniku (%)	Podíl rodinných pracovníků na celkovém počtu AWU <sup>2)</sup> (%)	Výměra z. p. připadající na 1 podnik (ha)	
				podniky celkem	z toho nad 100 ha
ČR	93,0	16,2 <sup>3)</sup>	26,7	89,3	727,4
Dánsko	97,9	70,7	61,2	59,7	199,0
Německo	93,5	36,7	68,7	45,7	276,8
Nizozemsko	93,0	58,6	60,8	24,9	154,3
Rakousko	94,9	66,4	87,9	19,3	232,9

1) PFO = podniky fyzických osob.

2) AWU = přepočtený pracovník s roční pracovní dobou 1 800 hodin.

3) Podíl vlastní půdy se z 16,2 % zvýšil na 22,1 % v roce 2011. Významně k tomu přispěla privatizace státní půdy.

Pramen: Eurostat - Farm structure survey 2007

## Healthy farming

The appropriate combination of plant and animal production in farming brings many benefits to both kinds of productions. This combination of production methods on a smaller farm, as it is very frequently in present Austria, brings numerous benefits for rural areas. Fields are cultivated with respect to nature, arrays are smaller and it makes natural

<sup>184</sup>Ing. Martin Hlaváček, doc. Ing. Tomáš Doucha, Ing. Jindřich Fialka, Strategie pro růst, české zemědělství a potravinářství v rámci SZP EU po roce 2013, 12.12.2012 Praha MZE, 4.2.2014, <http://eagri.cz/public/web/mze/ministerstvo-zemedelstvi/koncepcie-a-strategie/strategie-pro-rust.html>

<sup>185</sup>Estimation of significance agr. commodities in favour of labour

<sup>186</sup>Czech prices, the world prices are higher about 36,5 EUR. Ing. Karina Pohlová; UZEI, Zemědělský servis, Týdeník Zemědělec, 5/2014

borders to water. Furthermore, there is the necessity of organic manure in a long term farming perspective. Diversification of practices on farm brings employments, products with added value, higher income and envelope an independence of farm within the society. The reasons mentioned are in context of the EU support in the second pillar.

*“Diversity powers innovation and innovation requires thinking differently”*

*Scott E. Page*

### **The Czech Republic and Its Improper Usage of Direct Payments**

Unfortunately for the rural areas the Czech agrarian sector specialises its farms mainly for plant production and animal production consecutively decrease. This happens due to its focusing on profits through market economy and system of EU support. The animal production sector in the Czech Republic is already not self-sufficient in many spheres (particularly pork meat) by now. It is self-sufficient by less than 80%. The mentioned trend is unfortunately caused by the EU subsidies. Czech self-sufficiency in animal production is in two main production sectors: beef meat and milk<sup>187</sup>.

The behaviour of farms simply originates in their orientation on profit from subsidies. In net add value of agriculture cooperatives subsidies play a very significant role; 75 % of net income to farms is generated from subsidies, while the average of the EU net income of farms is 41%<sup>188</sup>. This demonstrates the effect of large-scale farming that does not generate add value in form of certain products.

The production of plants that are not demanding labour force (such as wheat, barley, maize, oil-seeds grows) and commodities and animals with higher demand of work-force loose their share on the market rather rapidly. This applies particularly to pigs, potatoes and hops. The current situation leads to the monoculture agriculture. It would be

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<sup>187</sup>Ing. Martin Hlaváček, doc. Ing. Tomáš Doucha, Ing. Jindřich Fialka, Strategie pro růst, české zemědělství a potravinářství v rámci SZP EU po roce 2013, 12.12.2012 Praha MZE, 4.2.2014,

<http://eagri.cz/public/web/mze/ministerstvo-zemedelstvi/koncepce-a-strategie/strategie-pro-rust.html>

<sup>188</sup>Ing. Martin Hlaváček, doc. Ing. Tomáš Doucha, Ing. Jindřich Fialka, Strategie pro růst, české zemědělství a potravinářství v rámci SZP EU po roce 2013, 12.12.2012 Praha MZE, 4.2.2014,

<http://eagri.cz/public/web/mze/ministerstvo-zemedelstvi/koncepce-a-strategie/strategie-pro-rust.html>

very positive to limit payments per hectare (capping), as it was proposed by the EC, in order to make diversification of practices the goal.

All the positive effects from the running of the CAP are not easy to be overseen. Green direct payments, introduced in 2014, demand crop-rotation and penalize monoculture. The EU set up cross-compliance, support of permanent grassland, cows without market milk production are just some of the positives.

Cattle population in Austria is about 2 million head, the pig population is about 3 million animals<sup>189</sup>. Pig population in the Czech Republic is 1.59 million pieces and cow population compounds of 1.355 million heads. The significant difference is created by the different level of subsidies in the past years. While subsidies in the Czech Republic are used mainly for crop production, and thus do not fulfil their original purpose completely, it is different in the Austria. The subsidies should enhance diversification of farming as it does in Austria. The change in support of our farming system could come soon enough through capping, the small-scale farming support (redistributed payments) and other measures. Otherwise our agriculture would not fulfil its main role within the landscape system and rural living.

Better awareness and knowledge is the main purpose of the Diploma thesis. This could be inscribed to the author's great interest in healthy forms of farming.

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<sup>189</sup>Land und Forstwirtschaft, Statistik Austria, 9.2.2004,  
[https://www.statistik.at/web\\_de/statistiken/land\\_und\\_forstwirtschaft/index.html](https://www.statistik.at/web_de/statistiken/land_und_forstwirtschaft/index.html)

## 12 Conclusion

The aim of my work is to describe the functioning of the Common Agriculture Policy and its application within the Czech Republic agriculture. To understand the current functioning of this policy, it is necessary to widely described CAP foundation and its history because these are the factors which determine the present state.

The Common Agriculture Policy is the corner policy deeply rooted in the history of the EU integration. It is important to mention that globalization does affect the EU agriculture and that it is not influenced only by the EU members. The World Trade Organisation is a big player in the development of the CAP. This was shown in 90s during the Uruguay round. Each process of change of the CAP is a result of compromising of the EU member states and the WTO members. Thus it is very complicated to make any alterations of the policy and when they happen, they are gradual and long-perspectived.

While I am writing my diploma thesis, one of th biggest changes in the history of the CAP takes place. The new financial perspective 2014-2020 has started and new measures are going to be implemented within the first year of transition period (2014). Although the upcoming changes are probably the biggest in the history of the CAP, the modification of the policy is very slow. Despite many troubles one can observe the good directing the CAP is taking

Running of the CAP in the Czech Republic significantly improves the life of farmers, which is one of the main priorities of this policy since the beginning of the European Communities in early 60s. An important part of the CAP is the Rural Development Policy. There is a common mistake spread among the public that the affect on the landscape is made only via the second column, however it is also possible to make some impact with the direct payments. The Czech rural areas are not in the best shape thanks to their historical development after the World War II. There were collectivisation, nationalisation and consequent farming methods with the unnatural adjustment of landscape present that made significant damages in countryside. The human approach to the nature played its role as well. The other purpose of the CAP is to prevail natural resources, thus to care about nature by given tools. I am afraid that these tools are not used in a proper way in the Czech Republic. Farmers are urged to cultivate more and more fields to gain more subsidies, which means that the plant production dominates over the animal production, which decreases. Economic profit is crucial and one can assume that it is just

inherently in a man's nature to maximize one's profits. However there is an important point which should not be crossed and that is the fact that it should not limit the future generations and it should not be done from the EU subsidies.

With usage of my practical experiences and contacts in Austrian state Upper Austria, I wanted to highlight the Czech mistakes by comparing it to the Austrian system. South Bohemia Region and Upper Austria are two different types of agriculture systems despite them being so close to each other in one Euro-region (Silva Nortica). It is in the same climatic area, with the common future within the CAP but with different political history. My questionnaire consists of 15 questions that are designed to reflect farmers' state of mind in both countries. The Austrian model of agriculture serves primarily as an example of well-applied rural development policy, which contributes to landscape creation.

My whole thesis refers occasionally to results of my qualitative research and empirical knowledge. The whole questionnaire making and its purpose is described step by step in the penultimate chapter of my work. The outcomes of my empirical observations deal with the idea of functioning of the Civil Society for only developed Civil Society with men respecting the nature and human labour can generate from within conscious farmers who would care about the landscape. It is not possible to replace traditional environmental engineering for economic profit. This is exactly the reason for having the agriculture policy.

Nevertheless, I am strongly convinced that the upcoming CAP reform is a step towards the right path for the gradual change, which I tried to depict by describing all the preceding CAP transformations thoroughly. I am sure that the new measures (such as capping, support of smaller farms, redistributive payments, young farmer scheme) are good and help to the European landscape to prevail. It is necessary to support small-scale family farms because they still hold their traditional roles of land keepers and rural creators. The European Union has the power to influence our agriculture in a greater way than we are able to. That is because the final agreement of the CAP brings to our agriculture benefits that are superior to those our separate national policy can secure. Thanks to my practical agrarian experiences from many European states, I believe that I can claim, that the Czech Republic together with the other states that were behind the Iron curtain are in need of some sort of European supervision that would help in the question of the environment. We should aim for better results. The year 2014 was proclaimed by the United Nations as a



year of Family farms. This general awareness of their importance helps us to understand why we should support the family farms from the CAP funds. The good news is that the same trend is visible within the CAP itself. Other important notion is that the Czech Republic almost lost its traditional land keepers and that its large-scale enterprises are not able to prevail a landscape and countryside in such a good condition as their Austrian counterparts.

As for the future we should wish to inspire and be inspired by the members of the European Union. I personally believe that there is no better example for the Czech Republic than the Austrian countryside. At least when one is talking about the creation and restoration of the rural areas. The Future of The Common Agriculture Policy depends on mutual toleration and communication on the platform of the European Union and the World Trade Organisation. We have to take into account the beauties and specifics of our landscape and take the best care of it by particular tools for the beautiful and clean land will generate responsible people.

*Beauty will save the world...*

*...Fyodor Dostoevsky...*

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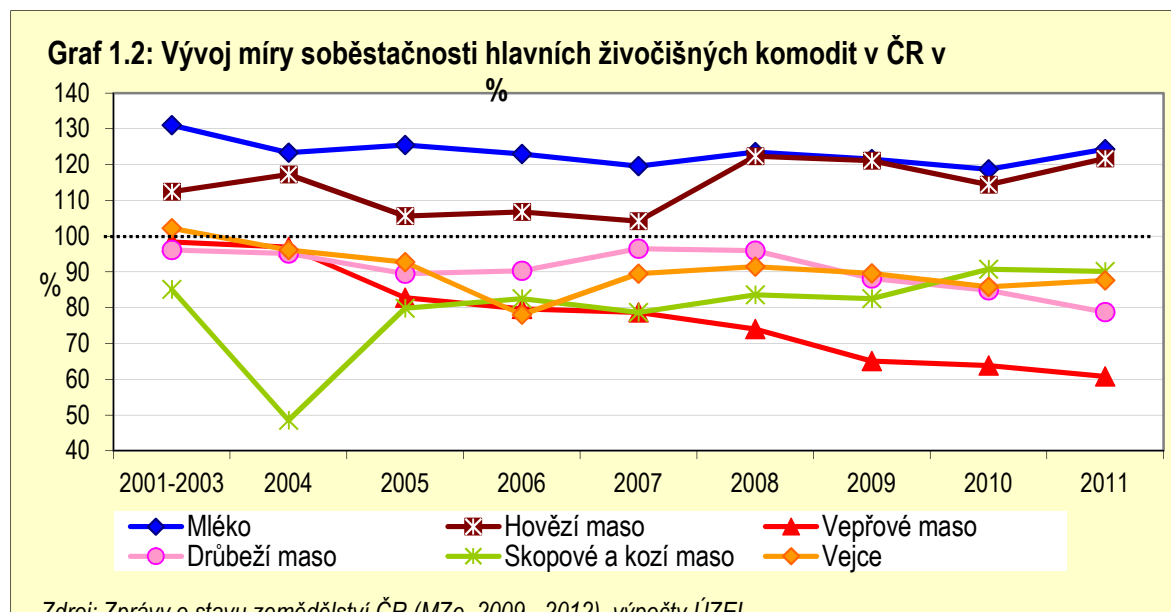
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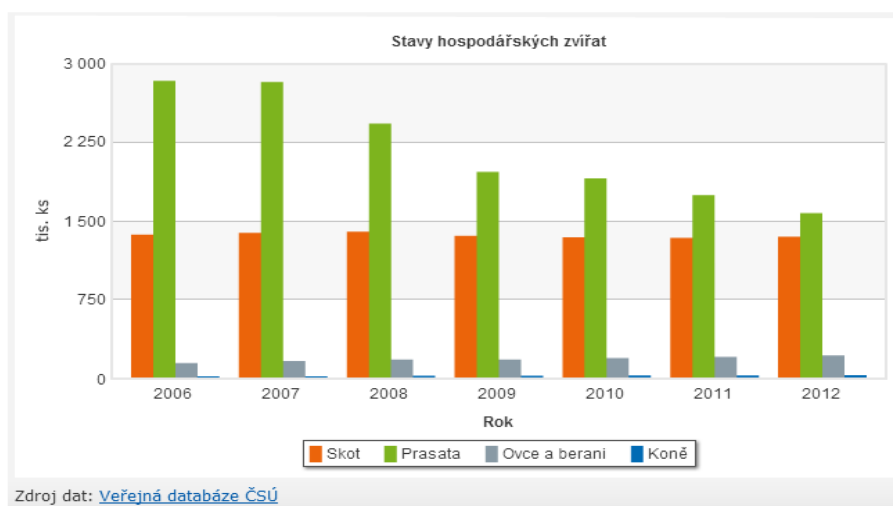
## Appendix

Figure I



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Figure II.



<sup>190</sup> Ing. Martin Hlaváček, doc. Ing. Tomáš Doucha, Ing. Jindřich Fialka, Strategie pro růst, české zemědělství a potravinářství v rámci SZP EU po roce 2013, 12.12.2012 Praha MZE, 4.2.2014, <http://eagri.cz/public/web/mze/ministerstvo-zemedelstvi/koncepce-a-strategie/strategie-pro-rust.html>

Figure III.

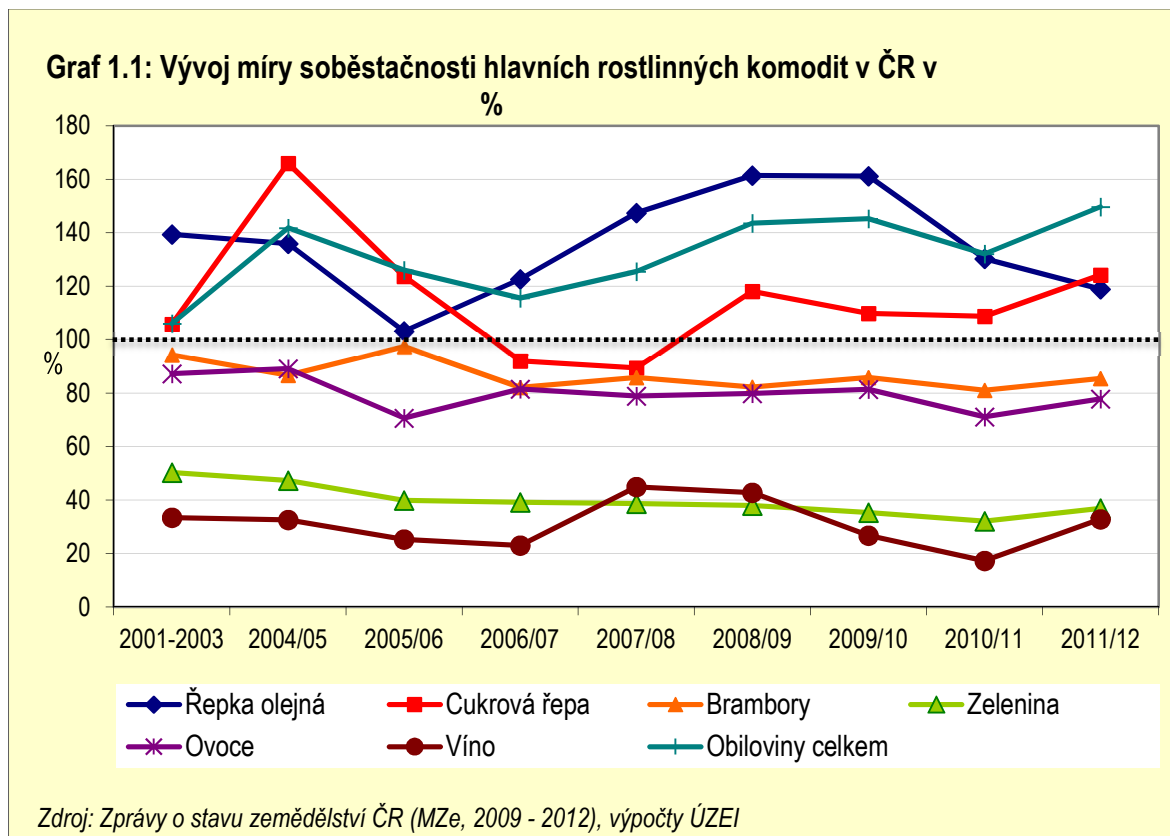


Figure IV.

Tab. 1 - Změny ve struktuře výroby po vstupu do EU

Plodiny, kategorie zvířat	MJ	Ø 2001-3	Ø 2008-10	Index
Obiloviny celkem	tis. ha	1547,1	1521,0	-1,7
- pšenice	tis. ha	808,1	822,4	1,8
- ječmen	tis. ha	512,0	442,0	-13,7
- kukuřice	tis. ha	67,6	107,5	58,9
Luskoviny	tis. ha	34,7	27,5	-20,6
Brambory	tis. ha	48,2	36,5	-24,3
Cukrovka	tis. ha	77,5	46,6	-39,9
Krmné plodiny na o. p.	tis. ha	571,3	396,4	-30,6
Olejniny	tis. ha	422,5	486,9	15,2
Len	tis. ha	6,2	0,1	-97,8
Zelenina	tis. ha	20,4	14,2	-30,3
Trvalé kultury	tis. ha	46,9	51,0	8,7
TTP	tis. ha	895,0	915,7	2,3
Dojnice	tis. ks	497,0	396,7	-20,2
Krávy bez tržní produkce mléka	tis. ks	102,0	163,7	60,5
Prasata	tis. ks	3424,7	2104,3	-38,6
Ovce	tis. ks	95,7	188,0	96,5
Drůbež	tis. ks	28561,7	26215,3	-8,2

Zdroj: Zprávy o stavu zemědělství ČR 2002 - 2011 (MZe).

Figure V.

<b>Bodennutzung der landwirtschaftlichen Betriebe in der EU 2010</b>					
	<b>Betriebe</b>	<b>LF<sup>1)</sup></b>	<b>Ackerland</b>	<b>Grünland<sup>2)</sup></b>	<b>Dauer-</b>
	in 1.000		in 1.000 ha		<b>kulturen</b>
<b>EU-27</b>	<b>11.756</b>	<b>171.604</b>	<b>103.027</b>	<b>57.606,2</b>	<b>10.624,3</b>
Frankreich	507	27.837	18.386	8.418,9	1.018,3
Spanien	967	23.753	11.266	8.377,4	4.086,2
Deutschland	298	16.704	11.847	4.654,7	198,8
Ver. Königreich	183	15.686	5.946	9.704,7	36,2
Polen	1.499	14.447	10.797	3.229,2	389,7
Rumänien	3.724	13.306	8.306	4.506,3	311,4
Italien	1.616	12.856	7.009	3.434,1	2.380,8
Irland	140	4.991	1.012	3.978,5	1,0
Ungarn	534	4.686	3.797	720,9	151,7
Bulgarien	357	4.476	3.125	1.240,6	99,7
Portugal	304	3.668	1.173	1.784,6	690,7
Tschech. Republik	23	3.484	2.517	928,8	37,0
Griechenland	717	3.478	1.768	750,7	950,3
Schweden	70	3.066	2.611	451,9	2,9
<b>Österreich</b>	<b>149</b>	<b>2.878</b>	<b>1.371</b>	<b>1.439,5</b>	<b>65,2</b>
Litauen	200	2.743	2.115	605,9	21,6
Dänemark	41	2.647	2.419	199,9	27,7
Finnland	63	2.291	2.253	33,0	4,6
Slowakei	24	1.896	1.344	531,3	19,6
Niederlande	71	1.872	1.022	813,3	37,0
Lettland	83	1.796	1.120	651,1	8,5
Belgien	42	1.358	837	499,7	21,5
Kroatien	233	1.316	900	345,4	84,0
Estland	19	941	640	296,1	3,1
Slowenien	74	483	169	285,7	26,8
Luxemburg	2	131	62	67,6	1,5
Zypern	38	118	85	2,1	31,3
Malta	12	11	9	0,0	1,3

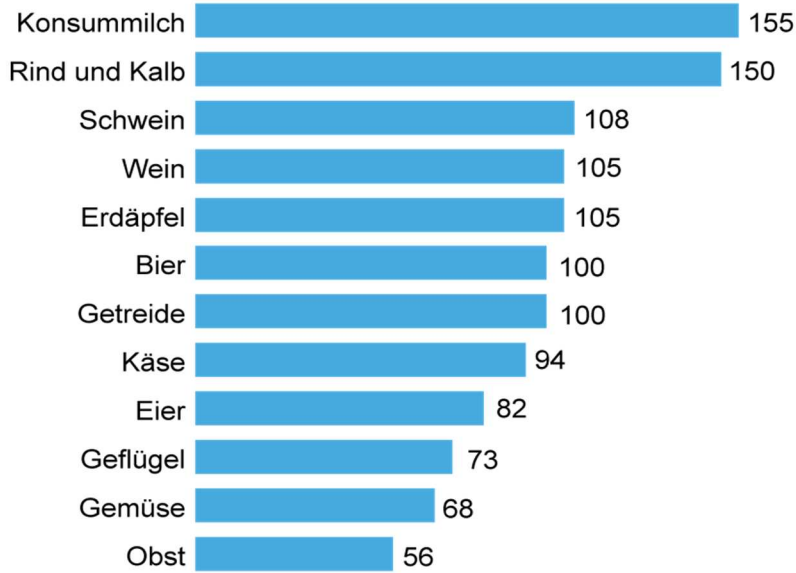
<sup>1)</sup> LF = Landwirtschaftlich genutzte Fläche  
<sup>2)</sup> Dauergrünland und Weiden  
 Quelle: Eurostat, Datenstand 19. März 2013



Figure VI.

## Selbstversorgungsgrad ausgewählter Agrarprodukte 2011/12

in Prozent



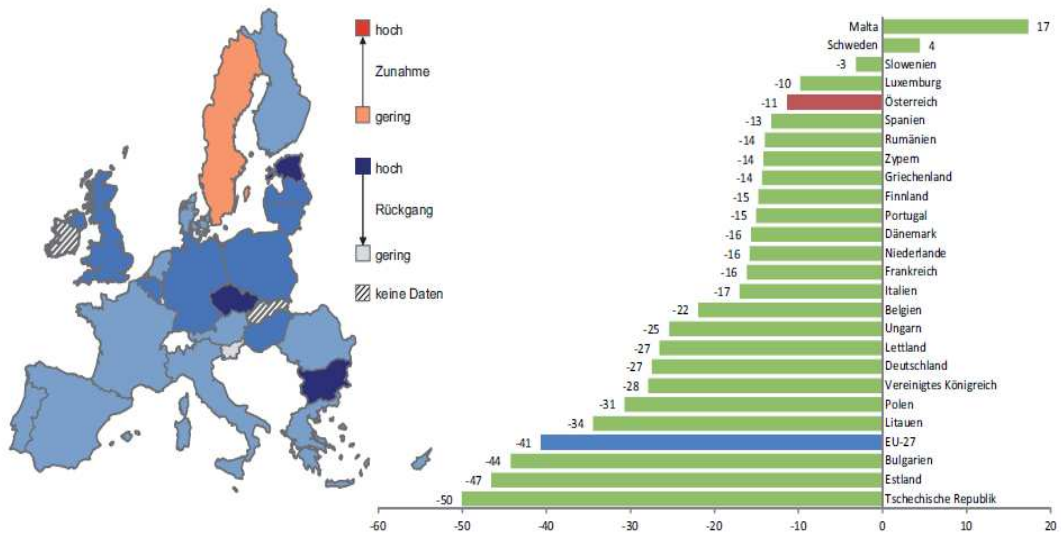
Quelle: Statistik Austria

Figure VII.

## Agrarstruktur der EU-27

Strukturerhebung 2010

Veränderung der Zahl der landwirtschaftlichen Betriebe 2003 bis 2010 in %



## Abstract

My Diploma thesis surveys The Common Agriculture Policy from its very outset until the present, with a view to describe the influence of its development over the Czech agriculture. It is written in chronological sequence, withal, it for example a certain orientation arose in 1972, its whole development up to now is described in the one charter. The work is aware of the role of the CAP in the EU and its status of one of the essential policies, which influence the World agricultural market. The thesis also defines its basic orientations in the way they were influenced by their progress. Its aim is not only to show historical events, but also to illustrate its operations in practise. Including the point of view of its author who belongs with the agrarian policy of the Czech Republic, it pushes for revealing its insufficiencies. The work serves as source of material and account of grounds for today's present of the CAP.