

CZECH UNIVERSITY OF LIFE SCIENCES

FACULTY OF ECONOMICS AND MANAGEMENT

Department of Economics

EUROPEAN AGRARIAN DIPLOMACY



DIPLOMA THESIS

**Agrarian Subsidies Policy in the Czech Republic
and European Union**

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I declare that I have worked on my diploma thesis titled “Agrarian Subsidies Policy in the Czech Republic and European Union” by myself and I have used only the sources mentioned at the end of the thesis.

In Prague, 28th November 2014

Acknowledgement

I would like to thank doc. Ing. Mansoor Maitah, Ph.D. et Ph.D. for his advices and support during my work on this thesis.

Agrarian Subsidies Policy in the Czech Republic and European Union

Agrární dotační politika ČR a EU

Summary

The thesis provides the overview of agrarian subsidies in Czech agriculture. It describes drawing subsidies from the common European Union funds and from Czech national funds. Work describes the reasons of origin of Common Agricultural Policy, its development and reforms. There are presented various perspectives on present position of the Common Agricultural Policy in member states of European Union. The thesis contains listing of institutions providing the payments of agricultural subsidies, there are described their bilateral relationship and competencies. The part of the work is aimed on evaluation of the situation in the Czech agriculture before the accession to European Union, the adaptation of Czech agriculture on common policy and evaluation of impacts of the accession on the position of Czech agriculture. Further, the system of support for Czech farmers is described, the allocation of payments and the amount of drawing these sources. Based on the available information, the analysis of amount of drawn subsidies in agriculture is made. Using charts and descriptions, the processed data compose the practical part of the thesis.

Keywords:

The European Union, The Czech Republic, Subsidies, Agriculture, Trade.

Souhrn

Práce poskytuje přehled dotačních podpor v českém zemědělství. Popisuje čerpání dotací ze společných fondů Evropské unie a z národních fondů České republiky. Práce popisuje důvody vzniku Společné zemědělské politiky, její vývoj a reformy. Jsou uvedeny různé pohledy na současný stav Společné Zemědělské Politiky v členských státech Evropské unie. Práce obsahuje výčet institucí provádějících vyplácení zemědělských dotací, jsou popsány jejich vzájemné vztahy a kompetence. Část práce je věnována hodnocení situace v českém zemědělství před vstupem do Evropské Unie, adaptace českého zemědělství na společnou politiku a hodnocení dopadů přistoupení na stav českého zemědělství. Dále je popsán systém podpor pro české zemědělce, rozdělení plateb a výše čerpání těchto zdrojů. Na základě dostupných informací je provedena analýza množství čerpání podpor v zemědělství. Prostřednictvím grafů a popisů jsou zpracována data, která tvoří praktickou část práce.

Klíčová slova:

Evropská unie, Česká republika, Dotace, Zemědělství, Obchod.

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1 Introduction

Agriculture was always an essential part of the human history. In all times, the population tried to secure a sufficient amount of food as well as they dealt with the question of the food storage. During the time, people subsequently learnt more proper ways of processing and storing of food.

The food production and self-sufficiency was interrupted by conflicts between people. For example, a huge problem in Europe was caused by the Second World War. The war caused an insufficiency of food stuff of all kinds. Europe was badly damaged by war and these reasons caused the inability to produce sufficient amount of food for the whole population of Europe.

Inevitably, the economically strongest European states started negotiations of developing a strong community, which would ensure the economic stability, security, and stability of food production. The lack of food during the war was a situation, which the European citizens would never want to face again.

The negotiations resulted into development of the European Economic Community. Apart from that, the idea of the Common Agricultural Policy was introduced by the member states of the Community.

The basic principle of the Common Agricultural Policy was to secure the sufficient amount of food. The member states agreed on common financing of the Common Agricultural Policy. In the post-war period, the Common Agriculture Policy fulfilled its primary mission.

During the years, the Common Agriculture Policy would face new challenges. Very beneficial conditions for farming caused huge overproduction in European agriculture. In accord with that, the expenditures on the Common Agricultural Policy raised to an inappropriate level. Therefore, the subsidiary system and the Common Agricultural Policy itself became a controversial and often criticized topic.

In the course of assessment of new member countries, the needs to deal with another upcoming problems. The difference of structure of agriculture in individual member states represents issues, which sustain till recent times.

2 Objectives of the Thesis

The main aim of this thesis is to bring a comprehensive overview on the Common Agricultural Policy, focusing on the policy of agricultural subsidies in the Czech Republic and the European Union. To understand the principles of the Common Agricultural Policy, it is essential to describe the historical development and the significant milestones. Then, the main goals of the Common Agricultural Policy in recent years can be demonstrated. Simultaneously, the real situation in agriculture is appraised and the practical application of the policy is described.

Agricultural subsidies, being a very extensive part of issues in the European Union, are administrated by various scale of institutions and authorities. These subjects, charged with implementation and execution of the Common Agricultural Policy, are described. Other accredited agencies are included as well.

Since the Czech Republic entered the European Union, the adoption of the Common Agriculture Policy was necessary. The period of preparation for the accession is described, the advantages and disadvantages of the accession are evaluated.

The overall review of agrarian subsidies is enumerated. The purpose of particular subsidies is explained. The comparison between individual subsidies is concluded.

3 Methodology

The thesis was processed by research of relevant data from variety of available sources. Significant information were emphasised and adequately described. Comparison of available sources was performed. Descriptive specification of Common Agricultural Policy, condition of Czech Agriculture and subsidy system was used.

In the analysis, reliable sources of the Czech agriculture were researched. Raw data were compared, processed and evaluated. Final statements were concluded within the usage of final results done by comparative analysis.

The thesis evaluates the overall effectiveness of agricultural policies in the European Union member states, it evaluates the significant agricultural economic indicators.

4 The importance of agriculture

Agriculture plays an important role in the livelihood of the population. Apart from food production, it fulfils other functions, such as environmental and socio-demographic. The importance of agriculture in the context of ecological functions includes monitoring of environmental conditions and influences the management of soil and water resources. In the context of socio-demographic features, it affects the status of rural employment, cultural development of rural areas and social cohesion.

4.1 Basic functions of agriculture

The most important function of agriculture is the production function. This function consists of the production of agricultural commodities, especially food, and, at the same time, also in the production of non-food products. These products can include textile resources (such as cotton), technical resources (various oils) and pharmaceutical resources (medicinal plants).

Agriculture also plays an important ecological role: its production significantly influences the environment, shaping the landscape, it affects soil quality through fertilization, application of chemicals, irrigation etc. The significant influence of agriculture in social and demographic area is: that it affects the population outside urban areas and offers employment opportunities in agriculture related industries and other infrastructure. It also affects a number of other factors that are social activities, cultural activities etc.

4.2 The specifics of agrarian sector

Agriculture needs to deal with different factors which are distinct in comparison with other types of industries.

Agriculture needs to deal with its own periodicity. The fluctuation of its production, based on natural conditions, does not follow the constant demand of customers on agricultural products.

In agricultural production, the Engels law is valid. The amount of consumption is inversely proportional to the amount of income of the population. That means that people, receiving still higher incomes, spend still the same amount of expenditures in agricultural production and connected industries. They spend money in other areas of other industries. Consequently, the amount of consumption is constant, while production is highly affected by natural conditions. Auto regulative market mechanism thus does not work, agricultural production makes an imbalance with market demand. That is why there is a strong need that higher body, such as institution or government, need to participate on market regulation.

4.3 The promotion of agriculture

Agriculture in recent times need to deal with low interest of young people for farming, living in rural areas and keeping the social and cultural heritage or rural areas. One of the basic challenges of European Union was to suspend depopulation in rural areas and raise the standards of living in rural areas. These challenge should have been adopted by national governments and institutions.

The Czech Ministry of Agriculture appreciate how important role does the agriculture play in society. It makes various meetings and social programmes to promote the agrarian sector. These endeavours try to increase the awareness of basic functions of agriculture and its importance. The Ministry administrates several programmes and support various interest

group, which promote the significant role of agriculture. Promotion can be done by various manner:

- agricultural exhibitions, where can be presented agricultural products, explained living of farmers in rural areas etc.
- various competitions of in agrarian skills, such as competing in ploughing, promptness in picking fruit and vegetables etc.
- day of opened doors in agricultural enterprises, showing the public how processes in agriculture works
- educational activities for children and students to attract their attention on agriculture and rural areas

5 The Common Agricultural Policy

Common Agriculture Policy is one the oldest, most important and most controversial policies, which arises after Second World War. Since its establishment, it has been one of the most expensive areas of interest of all member states. The Common Agricultural Policy is a controversial topic, which split up opinions among the member states into many different, in some cases even opposing ideas, from variety of groups from different states.

The main reasons for the establishment of the European Common Agricultural Policy were:

- Insure a sufficient amount of food supplies for European inhabitants
- Provide higher quality of agricultural production
- Ensure food security through the controls of utilization of harmful substances in the food production supply chain
- Improve the production conditions, which were underdeveloped in the war-destroyed agricultural landscape of the post Second World War Europe compared to the developed agricultural industries in North America, which was not directly affected by war
- Ensure stable living and working conditions for people employed in agriculture and in agricultural connected industries

5.1 The origin of the Common Agricultural Policy

The roots of the Common Agricultural Policy go back to the early fifties of the twentieth century. That was a time when Europe was recovering from the aftermath and deep hits of Second World War. The creation of the Common Agricultural Policy was lead mainly by political and economic intensions. During that time, Europe was highly dependent on food supply from overseas.

France, being one of the largest agricultural producers in Europe, in search of new markets for their excess production was one of the main perpetrators of the Common Agricultural Policy idea. Because of rising needs for sufficient provision of food supplies in other European states, six of them, being France, Germany, Italy, Belgium, Netherlands and Luxemburg, decided in 1957 to found the European Economic Community by signing the Treaty of Rome. [Sonka, 2004]

The economical intensions of the European Economic Community helped in finding of collective solutions for common problems in the areas of agricultural production. Since agricultural production was not the same in all member states, it appropriately complemented itself across the countries. [Sonka, 2004]

5.2 Aims of the Common Agricultural Policy

The founding states defined the main goals of the Common Agricultural Policy which all aimed at securing food self-sufficiency in Europe. In 1958 the agricultural ministers of the member states and representatives and representatives of agricultural producers met in the Italian town of Stresse to set the basic goals of agricultural integration. The following main objectives were set:

- Increase in productivity through technological progress.

All member states had an interest in increasing agricultural productivity, supporting agricultural innovation and fastening the pace of technological progress to get at par with other developed countries, which were not impacted by the war conflict of the past years.

- Ensure fair living standards for farmers.

Efforts to control the quality of fair living standards and sufficient income levels.

- Market stabilization.
The control of imbalances in market demand, the ensuring of regular expedition for their products and control of agricultural stock levels.

- Ensuring of appropriate prices of agricultural products. [Neumann, 2004]

5.3 The principles of the Common Agricultural Policy

The official founding date of the Common Agricultural Policy dates back to 1st January 1962. Three basic principles of the Common Agricultural Policy, which were agreed on by the agricultural ministers of all the member states, went into force in this year. These are the following principles:

- The principle of single market.
It works on the principle of free movement of agricultural products between the member states within the European Economic Community. The main instrument to hold this principle in place is the compliance of market prices, which are common for the whole community. Further, the principle insures a free market, thus sets all quotas and customs aside.

- The principle of preference of inland products.
This principle creates protection of products originating from the Community member states against the imports of agricultural products originating from non-member states of European Union. This principle is assured by the creation of customs and volume quotas. Since the prices of agricultural products from non-member countries, where often lower than prices of agricultural products origination from within the community, the producers were incentivized by special export subsidies.

- The principle of financial solidarity.

The principle takes into account payments of subsidies to inland producers. The main aim of that is a motivation to increase the amount of agricultural production, the increase the quality of production and increase production effectivity. The costs of expenditures on the Common Agricultural Policy are shared equally across all member states through their contribution to the common budget.

5.3.1 The principal of subsidiarity

The institution of the European Union base their decisions on the principal of subsidiarity. By this principal it is secure that decision making process in EU is accepted as close to the citizen as it can be. At the same time this principal respect nation identity of member states. In reality, it means, that every public issue should be solved in that level which is capable of fulfilling the issue. The objectives are therefore solved at the level of municipality region, member states and those task, which are accordant to the whole Union, are solved at the level of the European Union institution.

“The subsidiarity principle is one of the central principles in the European Union context, laying down that political decisions in the European Union must always be taken at the lowest possible administrative and political level, and as close to the citizens as possible. Other than the areas where the European Union has exclusive competence, this means that the European Union can only act if it would be better to implement the legislation in question at European Union rather than at national, regional or local level.”

[FOLKETINGET - the EU Information Centre, 2008]

The defining of the subsidiarity principal went thru a development process gradually. In first decades the European Union didn't use expression subsidiarity explicitly. For the first time, the principal was define in the agreement about establishment of the European Union, which was done at 1984. The document explain that community will participate on

only on tasks in that cases, when the member states will not be able to implement appropriate measures.

The principal of subsidiarity should not derogate the authority of member states institutions or any other European Union institutions. It should respect the right of every subject of the European Union participating on the common topics. The principal allows, that the European Union institutions has wider competences on that issues where the circumstances demand this as necessary.

On the contrary, the principal limits or terminates competences when they are not justified anymore. Every proposed legislation of the community must be justified and it must be stated that it is in harmony with the principal of subsidiarity.

5.4 History of the Common Agricultural Policy

The Common Agricultural Policy was founded in recent times after Second World War. There were five states that could be concerned as a founder. During upcoming five decades, the Common Agricultural Policy stood in front of many challenges, which reacted on actual situation in agriculture. The development of Common Agricultural Policy was during the years influenced by many aspects – for example by single enlargements of European Economic Community, by situations on world market, by changing the attitude of protection nature and environment etc.

“The Common Agricultural Policy, launched in 1962 was the first major policy introduced by the European Union. Ever since, the Common Agricultural Policy has remained the largest and most expensive policy in the European Union. In 2013, the Union’s budget allocated around €57.5 billion (roughly £49 billion or \$76 billion) to the Common Agricultural Policy. This constitutes nearly 40% of the total European Union budget, although that figure has been declining in recent years; in 1970, the Common Agricultural Policy accounted for 87% of European Union

expenditures. Yet in recent years, the Common Agricultural Policy has been the centre of many policymakers' frustrations, for cost and efficiency reasons alike."

[Kraslow, 2013]

By Baldwin [Baldwin, 2008], the Common Agriculture Policy in first years was a dream of every politician. Common agriculture policy determined minimum purchasing money of agriculture products on world markets. That caused stable income for farmers and their satisfaction. This support of agriculture income suited to increase of social cohesion, one of the aims of the European Union. Such a big support caused the increase of agriculture production. In the beginning of Common Agriculture Policy, the increase was accepted positively. The sufficient production decreased dependency on agricultural products from world markets. Because the European Union imposed big tariffs on food import, system generated significant part of income to common budgets. Only ones, who could protest, were European consumers, which felt disadvantage of this policy causing higher prices of food.

But consumers were satisfied with this policy as well because of three reasons. First reason was that the average earnings grew rapidly – way faster than the prices of food. That meant that share of spending on food decreased. Second reason is connected with the recent war. There was a limited supply of food during war and food was given through a quota system. This memory on hunger was still recent. Bigger amount of food production and independence on world supply seemed like a good idea for a majority of European inhabitants. Third reason is connected with war as well. Consumers had mercy with farmers, who recovered from devastating impact of world war. People considered farming after war very problematic and were satisfied with the sufficient food supply. [Baldwin, 2008]

After Second World War, Common Agricultural Policy started to get a character of community. Definite advantage of common policy was that responsibility for the agriculture was transferred to the European Union institutions. By this transfer, member states avoided the role of negotiator between farmers and public consumers. On the other

hand, interest groups have a strong influence to Common Agricultural Policy. The basic principles of Common Agricultural Policy were food self-sufficiency, stabilization of incomes for agricultural producers, stabilization of markets and increasing of living standards of rural areas. Gradually added purposes about environment, welfare of animals, veterinary measures, food security or support of stagnating regions. [Konig, 2009]

At the end of sixties, it was clear that Common Agricultural Policy has many negative effects and set rules are not enough. Food insufficiency quickly replaced overproduction, financial difficulties with policy appeared and competitiveness of the European Union agricultural market slowly decreased. It was necessary to be solved immediately. [Konig, 2009]

5.4.1 Mansholt plan

The Common Agricultural Policy, introduced in the period after Second World War in member states, had the aim to insure sufficient production of high quality food and to insure food sufficiency. The political aims, which were meant to improve the agricultural situation in Europe, started to create negative aspects which were not expected by the previous treaties. In 1967, the council of agricultural deputies, authorized the Commission for drafting an analysis of the European agricultural situation.

The analysis pointed at several problems, which the Common Agricultural Policy will be facing and will be forced to deal with in the coming years. The main problem was finding a solution for overproduction of basic food. The biggest overproduction was in milk, sugar, wheat, fruit and vegetables. The solution was came in form of a proposal by Dutch Deputy of Agriculture and European Commissionaire Sicco Mansholt. In 1968 he submitted reforming document under the title Agriculture 1980.

This document try to solve the agricultural overproduction of food. The solving of this problem was further complicated by acceptance of three new member states, those were Great Britain, Denmark and Ireland. The Mansholt plan tried to deal with the overproduction by freezing the increase of common prices and introducing structural subsidies agriculture thru adjusted price politics. The aim was thus the modernization of agriculture sector and

improvement of agricultural productivity. In parallel, the plan attempted to limit the production controlled decrease of employed in agrarian sector and also by controlled production downsizing (the plan dealt with cutting the number of farmers by up to five million, limiting of managed agriculturally cultivated area shrinkage of the levels of Milk cattle by 3 million pieces).

The Mansholt plan represent the first attempts of competitiveness inside of community. This ambitious plans in encountered hugged waved of opposition thru agricultural rubes from economically strong member states, such as France. The consul of deputies decided of negotiate on a part of Mansholt plan right before the acceptance of joining of three new member states. The consul only agreed on a part concerning the complex modernization and leaving of farmers to pension. Based on the Mansholt plan, a broad discussion arose among member states. The problem concerning the agriculture sector remained.

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5.4.2 Seventies and eighties

The problems of agrarian sector remained. In 1975, there was firstly introduced the term of LFA which means Less Favoured Areas. This terms described areas with worst climate conditions and worst conditions for farming. There were adopted rules for providing subsidies for this areas and for subsidizing farming in this areas. Agriculture fought with an unemployment and monetary instability witch was partly caused by the previous realization of Mansholt plan.

The situation was deepened by devaluation by the value of Frank by 11% against the US Dollar. After that, France asked the communities to increase the price value of agriculture commodities. Community tried to react on that situation by adopting changes. It showed afterwards that these changes were not effective because among the years 1974 and 1979 raised the expenditures the Common Agricultural Policy by 23%. In the beginning of eighties, beside of the problems with overproduction, developed a big problem of the budget crisis.

“The main difficulty encountered by the common agricultural policy, after fifteen years of operation is the lack of sufficiently effective regulatory mechanisms whereby the development of production is geared to the needs of the internal and external markets. As the common agricultural policy is based essentially on mechanisms which support farmers' incomes by means of guaranteed prices or direct product subsidies, the continual increase in production engenders an uncontrollable rise in expenditure.”

[European Communities, 1980]¹

By the proposal of Margaret Thatcher, the agreement submitted in Fontainebleau provided discount on contribution to the common budget of Community. Situation was than even more complicated because of the accession of new member states (in year 1981 it was

¹ EUROPEAN COMMUNITIES, Commission. Reflections on the common agricultural policy. [online] Bulletin of the European Communities, 1981. See bibliography.

Greece, Portugal and Spain access in 1986). These states were accessing the Community right in the time of the financial and currency crisis.

Since the beginning of eighties, it was accepted the number of legislation rules protecting customer. Health and security of customers are protected by strict standards in food production. The European Union limits using of pesticides and it orders strict conditions for labelling of food and food industries product, their origin and the date of expiration. Strict rules affects the production of pharmaceuticals and cosmetics as well. The economics interests of the customers are protected measures against misleading advertising. Customer must be exactly informed structure of food. The rules providing high level of customer security contribute on positive health care, security, and it provides customers their right to have information. Every member state can introduce more strict measures.

5.4.3 Delors Packages

Complication inside the Community resulted into extraordinary Summit in Brussel in 1988. Imbalances between expenditures of the Common Agricultural Policy, leaving people from agricultural sector and unequal financing of agriculture resulted in acceptance of Delors Packages. The package implemented the decrease of expenditure of the Common Agricultural Policy by 5%, the decrease of guaranteed prices of agriculture products and accepting quotas to avoid overproduction. Losses of income for farmers were compensated by special payments from the Community budget. The Delors Packages had the positive influence on the development only temporarily. The prices of agricultural Commodities on world market are decreasing and the management of the Community will need to deal with new problems again, in close future.

Agrarian policy is criticized by other world interest group, particularly USA and other significant exporters of agricultural commodities. Situation in agriculture got worse progressively. The condition of the politics was unacceptable and it was necessary to introduce the increasing of quality in agricultural production. It was said by the Community that there is inadequate method of distribution subsidies into agriculture. The negotiations managed by the Irish commissioner for agriculture Ray MacSharry resulted in the agreement known as MacSharry reform admitted in 1992.

5.4.4 MacSharry reform

MacSharry reform needed to deal with problems mentioned above. The Community went through several problems, different from previous. The main reasons why MacSharry reform was introduced, are:

- Overproduction caused by the support of farmers within the Common Agricultural Policy which cost huge complication in storage of produce among. Increasing difficulties of export rules of agricultural commodities.
- The increasing differences in economic and social area between farmers among single member state
- Ecological and environmental burden on environment cost by intensive agriculture.
- Graduating conflict with the states outside of the community - the protection of internal market and trade quotas.

MacSharry reform was concern of successful change in the Common Agricultural Policy which brought positive development and unitary attitude. MacSharry reform also tried to increase cooperation of single member states within the realization of the Common Agricultural Policy. To need a challenge the reform there were a chosen those tools:

- To cut the link between agricultural subsidies and the amount of production that meant that farmer will not be subsidized for the amount of production. Instead of this he will receive a single payment and he is able to decide whatever crop he would like to grow.
- To decrease the price of the communities that the market is able to compete with the prices on world market.
- To give the soil into not using period (set aside system). Community set the volume of areas which should not be included as a farming areas.

Reform should be consider as a radical change in practicing the Common Agricultural Policy. The results of this reform were mostly positive. The biggest asset was the regulation of overproduction remaining from the seventies, setting out new rules to increase the quality of agricultural production and stabilizing the market with agricultural commodities in terms of world market trade.

MacSharry reform but also had its own negative aspect. New politics increased again the expenditures on the Common Agricultural Policy. Accordingly to that, it increased the level of administration and together with that it was unavoidable to introduce new dimensions of control of managing funds from the Community common budget.

5.4.5 The Common Agricultural Policy in nineties

European Community faced the pressure from USA in order to cancel customs, to limit import quotas significantly an overall decrease of European protectionism of own market against third countries. The result of these demands escalated into agreement known as Blair house accord. The agreement set key principles in trading between and European Community member states.

In November 1996, there was a conference in Irish town of Cork. The conference was called the Rural Europe – perspectives for future. The conference was discussing the decreasing function, of rural area on the whole community region insufficient agricultural education and technical improvement in agricultural production. It solved as well insufficient relationship to the environment. The conference set ten challenges on which should the community aim trough the support of rural areas.

In 1997 Amsterdam Treaty came into force. In the Treaty there were set new goals of the Common Agricultural Policy:

- To increase the productivity through support of technical improvement and modernization.
- To increase standard of living in rural areas, to ensuring satisfactory level of income for farmers corresponding to quality standard of living.
- To stabilize the market, which is able to react to fluctuation of demand and irregular behaviour of market.
- Regular storage and fluent supplying of agricultural market with agricultural commodities.

5.4.6 Agenda 2000

The next development of the Common Agricultural Policy was influenced by many other factors. In 1995 accessed new states (Austria, Sweden and Finland) to the European Union. Union is forced to react to agricultural specific of these states, especially to northern states.

Next big reason of applying new rules was the necessity to respect Amsterdam treaty. From previous happenings there was a strong need to reform the Common Agricultural Policy by cutting the price subsidies with the amount of production, changing to using the direct payments. In the history of the Common Agricultural Policy, there are challenges which are not solved till a recent time. The reform picked up main issues:

- Increasing the security of all agricultural commodities, increasing their quality and security of food.
- Supervising the quality and security of agricultural commodities.
- Ensuring honest and permanent income of agricultural workers and ensuring adequate standard of living by using subsidies for increase this standard.
- Supervising of adequate competitiveness on home markets, and trading on world market.
- Developing of new workplaces and work opportunities the developing alternative work places.
- Generation diversification of farmers, supporting the early leaving of established farmers.
- Providing care about farmer's families in rural areas.
- Securing improvement of innovations and other measures, providing rural development and it is diversity.
- Simplifying legislation processing.
- Keeping agricultural production on big areas.
- Decreasing different between wealthy and poor regions.
- Increasing the development of non-agricultural forms of production, especially management of countryside, management of environment.
- Increasing the development of social and cultural aspect of agricultural life. .

[Neumann, 2004]

Revolutionary reform in the history of Common Agricultural Policy should have been the reform Agenda 2000. Its definitive version was accepted in Berlin in 1999. This reform was unavoidable mostly because of the situation on world agricultural markets. Markets started to be saturated, prices of agricultural products decreases and competitiveness from USA and other states, such as Australia, Brazil, Canada, South African Republic raised rapidly. Subsidy programme seemed non-transparent and contra productive. [Konig 2009]

Accordingly there was wave of resistance by tax payers, who refused to contribute on non-transparent financing of agriculture. Still lasted financial complexity of whole policy and there was an overflow of agricultural production in domestic markets. It was necessary to increase competitiveness of European agricultural products in both domestic and international market, increase the quality of food and its security. Reform was necessary to simplify agricultural legislation to provide farmers better orientation. [Konig 2009]

Agenda 2000 should reflect changes in American law reforming local agriculture production. Basic idea of Agenda was aiming to sustainable development while respecting protecting the environment. There was set the term multifunctional agriculture for the first time. Agriculture should be aimed not only to the production, but as well to the non-agricultural activities and other environmental proceedings. The goal of reform was to build new European model of agriculture, which will be multifunctional, competitive and stabilising. The effect was to get closer to world market prices. [Konig 2009]

In Agenda there was firstly introduced the term rural development. Reform specified financial plan for Common Agricultural Policy for years 2000-2006 and tried to evaluate possible consequences upcoming enlargement of the European Union by the countries of middle and Eastern Europe. Agenda 2000 had big goals, but they were not entirely fulfilled. The European Union continuously fought with overproduction, direct payments were not transparent, subsidies were not sufficiently connected with farmer's effort and agriculture was still broad element in expenditures of the European Union. [Konig 2009]

Agenda 2000 tried to solve different forms and different aspects of agriculture in new accepting countries. The deal was to ensure equal management and production in agriculture to supervise identical quality of agricultural production and protecting the nature and environment.

Simultaneously with the Agenda 2000, agricultural production split into three Pillars. In second pillar there is newly introduced the concept of “Rural development”. The aim is to develop non-agricultural activities in rural areas, it means it is pointed to support agricultural in less favoured areas. The production should be modernised, diversified. It should leave the rural area as a heritage from previous times.

5.4.7 Fischler reform

On Agenda 2000 is linked new reform known as Fischler reform. This reform originated on the basement of report introduced to the European Union in year 2002. The report judges the recent achievement of the Common Agricultural Policy following from Agenda 2000. Some of the goals from Agenda were submitted, but lot of significant problems defined in Agenda lasted henceforward. Even with the disfavour of some member states, such as France, Spain, Ireland, Austria, Portuguese and Luxemburg, some of the new rules were introduced. This is known as a Fischler reform.

It was introduced the cancelling of connection between the amount of production with subsidies. It is known as decoupling. Till recent times the subsidising rules functioned as a connection of subvention the exact amount of production. The releasing of connection of subvention of amount insist in conversion to single payment scheme, or single area payment scheme.

Reform brings the change in which farmer took one payment except variety of different subsidies from different application. The farmers are thus allowed to produce by the needs of market. That means that farmers can decide about their own aim of production while keeping up the rules and standards submitted by Fischler reform.

“The 2003 reform is generally considered to have been the most radical in the history of the Common Agricultural Policy, in that it largely decoupled farm income support from production with the introduction of the Single Payment Scheme. There was some strengthening of the second

pillar (rural development) as a result of modulation diverting budget funds from direct income support.”

[Cunha, Swinbank, 2011]

The Fischler reform as well describes the principal of cross-compliance. The principal consist of keeping agricultural land in good conditions and managing with the soil thru obligatory ecological standards. The regulations prescribed by the European Union are designed to protect the environment to secure food security and to secure ethical management with animals.

The principal of cross-compliance watch for good management of rural areas, it introduces the evidence of animal breeding, it tries to prevent from diseases. In case of not performing this obligations, the reform sets the amount of penalisations and way of supervising and controlling of keeping these principles.

5.4.8 Health Check

Health Check consist in revision of keeping standards set by Agenda and Fischler reform. It also makes revision of agriculture for newly accepted countries. These are the Czech Republic, Slovakia, Poland, Hungary, Estonia, Latvia, Lithuania, Slovenia, Malta and Cyprus. This revision recommend other separation of direct payments from the amount of production in states, which kept the opportunity of direct payments connected to the amount of production.

Health Check also recommend financial changes in planning, for example increasing expenditures to specific spheres modulation of subsidies within different programs etc. Health Check also brings the help to set stores with specific problems it deals with decreasing of greenhouse effect, it solves the issue of climate change and modify standards concerning environment.

5.5 Actual evaluation

There are many different views on Common Agricultural Policy in recent times. Usually, the European Union policymakers try to defend the policy, while critics point on huge expenditures, which do not correspond with the benefits given by Common Agricultural Policy. For example, Cihelkova describes [Cihelkova, 2003] that the disability to agree on market conditions between the European Union and Australia:

Growing deficit of trade balance of Australia towards the European Union underlined necessity to release access of Australian agricultural producers to the European Union markets. The conflict is a prohibition of the European Union to import beef meat from Australia containing hormones. This prohibition causes big problems to Australia and simultaneously it is not objectively competent. The pressure of Australian government to release access to the European Union market is also strengthened by World Trade Organisation. [Cihelkova, 2003]

Although these contradictions would not be solved in the nearest future, both sides claims, that their relationship is healthy. They organise negotiations which should solve those conflicts. The example that agreement is possible is abandoning subsidies for exporting pork meat from the European Union. Australia adopted this decision with big enthusiasm, because it faced up competition of importing pork meat from Denmark on domestic market for a long time. [Cihelkova, 2003]

As Vlnas says [Vlnas, 2010], the agriculture does not have proper system of distribution and control system. This is what he claims:

“Today is support of European Union to European farmers the subject of aim dealing with strong critics from anti-globalisation groups, which rebuke to whole developed world that it deforms free trade. The OECD countries give support to agriculture only a part smaller than is gross domestic product of whole Africa. European Union agricultural strategy is criticised by European Union farmers as well.

Problem of European Union support consist of inadequate system of control mechanisms. The support received old farmers, which do not operate agricultural production any more, airport in Amsterdam and other objects not connected to agriculture.”

[Vlnas, 2010]

Simon Jeffery, the reporter from The Guardian magazine, join the number of critics of the European Union Common Agricultural Policy. He is intending about the efficiency of Common Agricultural Policy and its impact on the world market trade.

As well, there are often criticised the imbalances between member states. Many countries, especially southern countries, complain on the position of French farmers in the agriculture. The imbalance were not avoided till recent times.

Farmers in these states tried to solve the situation through protests, but former states, especially agriculturally strong France, always appeal to historical agreements submitted by all member states in that times.

That is why French agriculture has reasons to be satisfied, because it receives about twenty percent from funds of the European Union Common Agricultural Policy. Other states, like Great Britain, on the other side feel increasing pressure on growing demand on payments to Common Agricultural Policy. The majority of subsidised money is pumped by big international companies and food conglomerates. Those groups have minimal relationship to traditional agriculture.

France, as a big European agricultural producer, receive agricultural subsidies in significant amount. Common Agricultural Policy makes forty two percent of all European Union expenditures, which makes it the biggest program for supporting agriculture on the world. This price is very alarming for those countries, which are not very abundant for agricultural base material.

Developing countries and organizations providing international trade help even claims that this policy devastates international agricultural trade. The European Union is about to start reducing agricultural subsidies, but France gives a strong emphasis on effort that Common Agricultural Policy stays in positions it is in recent times.

“The European Union cannot use all its agricultural products, so it sells them cheaply to the third world. This undercuts local farmers, who cannot compete with the heavily-subsidised imports, and so distorts the market (though the European Union is not alone in this, as the US also dumps subsidised agricultural products on developing markets).

The Common Agricultural Policy has also been blamed for encouraging environmentally damaging intensive farming. Its commitment to guarantee prices makes it economically worthwhile to use all available land, with the aid of chemicals, to grow more crops than are demanded by consumers.

A policy of "set aside", where farmers are paid to leave land fallow, has attempted to remedy this, but overproduction persists.”

[Jeffery, 2003]

Negative evaluations about running the European Union are also claimed by other people. According to [Sonka, 2004], the European Union is only a saving community, where elements give attention one on another. He is sceptic about the distribution of payments in the European Union. As he claims, there should be a discussion about the meaning of paying to the common European funds and receiving the payments from the same common funds.

The question he asks consists of the amount of donation for concrete member state and reason why is specific amount given to that state. He points out that for example Germany pays to the common funds about 20 times smaller amount of money than it profits from the agrarian sector.

He points out that the same percentage of paying money from member states, depending on percentage of gross domestic product of member states isn't comparatively

fair. For states such as Germany and France there is a huge advantage in paying conditions based on quantification their proportion of GDP. [Sonka, 2004]

6 Authorised institutions and Funds

In the European Union and the Czech Republic, there are authorised institutions, which particularly pay out funds. The funds are designated for different purposes through the whole agricultural process. It involves producing of food, protecting the environment, increasing quality of life in rural areas and all other factors connected to agricultural production or rural area.

Financing of agriculture in Europe takes a huge part of the common European Union budget, it is therefore necessary to develop separate Institutions, Funds and Agencies, which individually provide payments from common funds.

6.1 The European Union institutions and Funds

Through the years, there was one, basic fund, which organised payment to agriculture from common funds for many decades. It has its own, different committees and agencies, which provide to the basic fund reports, statements and summaries, which function as a basement in decision making process and providing payments from common funds. The fund used to be called European Agricultural Guidance and Guarantee Fund.

6.1.1 EAGGF - European Agricultural Guidance and Guarantee Fund

This fund started its functioning in 1962. Basic principle was to increase agricultural productivity, introducing technical innovations and optimal usage of production factors, such as labour, land and capital. Second part was to look after good standard of living and good managing of countryside and environment. It was divided

into two spheres. First was guidance function. It made small part of the whole Fund budget, but this part was necessary for right development of agricultural sector. This is the general overview, which this fund financed:

- Increase the productivity in agricultural sector
- Increase the competitiveness of agricultural sector
- Implementing new technologies in production
- Increasing the standard of living for farmers and their families in rural areas, social aspect
- Increasing the work and life conditions in rural areas
- Protecting nature and environment, farming in accordance to principle of sustainable development
- Removing inequality in agriculture and rural areas for farmers
- Introducing same conditions for farmers from different member states
- Equality between men and women
- Decreasing expenditures on agricultural production while keeping or increasing crop yields (amount of production)
- Other aspects and challenges, through which the Common Agricultural Policy went through the years.

Second sphere, the Guarantee function, was providing to the European Union farmers direct payments connected to the amount of their production. The fund guaranteed the prices in which will the European Union institutions buy surpluses or it guaranteed the prices in which would be farmer able to sell surpluses on the world market in case he is not able to sell his production on the market by himself right due to surpluses.

This programme ended in 2006 and it was replaced by two new funds, which divided its previous mission into two parts and continued in analogical way. These funds are European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development.

6.1.2 EAGF - European Agricultural Guarantee Fund

This fund has role to organise direct payments for farmers in the whole European Union. It is the fundamental administrator of Common Agricultural Policy. It regulates agricultural market as well.

As regards expenditure managed jointly by the Member States and the Commission, the European Agricultural Guarantee Fund finances:

- refunds for exporting farm produce to non-European Union countries
- intervention measures to regulate agricultural markets
- direct payments to farmers under the Common Agricultural Policy
- certain informational and promotional measures for farm produce implemented by Member States both on the internal European Union market and outside it
- expenditure on restructuring measures in the sugar industry under Council Regulation
- programmes promoting the consumption of fruit in schools

[European Union, 2014]²

This fund is directly subordinated to European Commission. The Commission controls the payoffs of funds and controls the organization entirely. Fund have to provide Commission with a report every month.

² REGULATION (EU) No 1307/2013 of The European Parliament and The Council. [online] 2013. See bibliography.

6.1.3 EAFRD - European Agricultural Fund for Rural Development

This fund created simultaneously in 2007, same like European Agriculture Guarantee Fund. The main issue is to ensure rural development in rural areas in the whole European Union. The resources are assigned to those issues:

- to increase competitiveness of agriculture
- to develop rural areas and value of countryside
- to increase the quality of life in rural areas

For the implementation of this programme, member states will need to adopt at least four from six priorities, which were set by the European Union. Those six are:

1. “fostering knowledge transfer and innovation in agriculture, forestry and rural areas
2. enhancing the viability / competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management
3. promoting food chain organization, animal welfare and risk management in agriculture
4. restoring, preserving and enhancing ecosystems related to agriculture and forestry
5. promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors

6. promoting social inclusion, poverty reduction and economic development in rural areas”

[European Commission, 2014]³

The implementation is monitored and controlled. If any member states does not fulfil the terms and condition of fund, it can be paid only partly, or the payment can be entirely cancelled.

6.2 Institutions of the Czech Republic

Some of the applications for funding are processed on the European Union level, some of them are processed on national levels. Those, which are applied on the European Union level, are processed there, considered and approved, by executed by national institutions anyway.

The difference is in that if the application is given to national institution, or institution of the European Union. That means that subsidies are paid from budget of the European Union, or from national budgets. In the Czech Republic, there are institutions, which share the execution of payments. Those institutions are Ministry of Agriculture, State Agricultural Intervention Fund, Ministry of Regional Development and Ministry of Finance.

6.2.1 Ministry of Agriculture

It is a public administration body, which organise the management in agriculture, water enterprises, forestry enterprises and food industry. The main purpose of the ministry is to manage the legislation of production, which Czech producers have to follow. It manages the rural development.

³ EUROPEAN COMMISSION. Rural development 2014-2020. [online] See bibliography.

The ministry also works with an international relationship to agricultural connected institutions. It deals with the European Union, the World Trade organization in the area of agricultural commodities, the Food and Agricultural Organization etc.

It manages agrarian subsidies from the European Union, its allocation, separation and utilisation. It is also responsible for implementing the new European Union policies concerning agriculture. It manages the connection with the Permanent Representation of the Czech Republic to the European Union through The Ministry of Foreign Affairs of the Czech Republic.

The ministry controls the functioning of other bodies, for example those:

- Food Safety Information Centre
- State Agricultural Intervention Fund
- Czech Agriculture and Food Inspection Authority
- Institute of Agricultural and Food Information
- State Veterinary Administration of the Czech Republic
- State Phytosanitary Administration

[Ministry of Agriculture, 2014]⁴

Among others, Ministry of Agriculture administrates the implementing of a whole spectrum of regulations, directives and legislative changes. It executes the supervision of agricultural production, food industry and every relationship to environment.

No less important function is that it controls that there are reliable information on labels. These means the country of origin, the composition of food, allergenic

⁴ MINISTRY OF AGRICULTURE. Subordinated organizations [online]. Praha: Ministerstvo zemědělství, 2014. See bibliography.

compounds and all other important and compulsory information providing the customer the best rights for their free choice.

6.2.2 State Agricultural Intervention Fund

The State Agricultural Intervention Fund is an accredited paying agency - an administrator of financial subsidies both from the European Union and from the national financial funds.

Within the scope of the Common Agricultural Policy, the financial subsidy is granted from the European Agricultural Guarantee Fund and for a current programming period (2007 – 2013) also from the European Agricultural Fund for Rural Development. [State Agricultural Intervention Fund, 2014]

The Fund administrates the whole spectrum of payments connected to the agricultural production from the European Union and to the Czech national budget. It administrates for example these kind of issues: direct payments, export and import licences, guarantees, production quota system etc. It helps to introduce the principles of improving the competitiveness of agricultural sector, improving the standards of living in rural areas, improving environmental issues, sustainable development etc.

It has its own supervisory board and commissions where members of Czech Parliament are seated. It is governed by Czech legislative right and through this, there are developed regional departments in big cities around the Czech Republic (regional department in the city of Praha, České Budějovice, Ústí nad Labem, Hradec Králové, Brno, Olomouc, Opava).

6.2.3 The Ministry of Regional Development

The Ministry, such as other ministries, belongs to the system of central government authorities of the Czech Republic. It manages the whole spectrum of policies developing region, area, industry etc. Among others, it solves issues of regional policies, housing policies, investment policies, tourism etc.

Its role is also to execute funding from the European Union budget. It secures the activities connected to the European Union Cohesion policy in the Czech Republic, which aim is to decrease the differences between single regions within the Czech Republic and also to gradually increase the economical level of the Czech Republic towards the level of the European Union.

As well, it has a role of national coordinate institution, which brings the single frame for managing and providing financial aid from Cohesion funds in the Czech Republic and the European Union.

It administrates drawing subsidies of these European Union Funds:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

[Ministry of Regional Development, 2014]⁵

Being one of the member states of the European Union, the Czech Republic takes financial support from all European Union Funds. These funds are to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions, improving employment and education opportunities across the European Union, to reduce economic and social disparities and to promote sustainable development, to meet the challenges faced by our rural areas and to unlock their potential, to ensure that fishing and aquaculture are environmentally, economically and socially sustainable and that they provide a source of healthy food for the European

⁵ MINISTERSTVO OF REGIONAL DEVELOPMENT, Koncepce a strategie. [online] Praha: Ministerstvo pro místní rozvoj, 2014. See bibliography.

Union citizens, to foster a dynamic fishing industry and ensure a fair standard of living for fishing communities.

Because the agriculture is connected to variety of different, following sectors, the financial aid from the European Union is not administrated by the Ministry of Rural Development only at the area of agricultural production, but as well in all connected areas mentioned above.

6.2.4 The Ministry of Finance

The Ministry is charged to execute every financial operations in the state. According to agriculture and its connected issues, it secures the membership in international organizations and is responsible for negotiations about financial issues. It coordinates the receiving of financial aid from abroad.

The ministry has several sections, such as State Property Management, Taxes and Customs, Public Budgets, International Relations etc. All these sections deal with the whole spectrum of national finances, they solve tax policies, administration, accounting etc. Every section is consequently divided into departments. In the International Relations section, there is a department called European Union Matters, which coordinates the harmonization of national law with the law of the European Union. This department is responsible for:

- protecting interests of the Czech Republic
- developing, implementing and coordinating the concept of relations between the Ministry and the European Union
- implementing of the Stability and Growth Pact
- providing methodological guidance and systemically coordinating preparation of negotiations
- monitoring and analysing functioning of the Economic and Monetary Union

- it providing that the Unit takes care on bilateral relations with the European Union Member States and the European Union's relations with other countries
- all other relations connected to the European Union.

[Ministry of Finance, 2014]⁶

⁶ MINISTERSTRY OF FINANCE, Hlavní činnosti. [online] Praha: Ministerstvo Financí, 2014. See bibliography.

7 The accession of the Czech Republic into the European Union

In compare to the European Union, the Czech Republic had different system of agriculture, different economy and policy. It needed to prepare for the accession that meant to transfer the economy, change the policy and bring the national frame closer to the European Union. It had to adopt many changes in agricultural sector.

7.1 Situation before the accession

The Czech Republic works with the different agricultural system in comparison to the rules in the European Union. There were set different forms of agricultural subsidies distinct from the state institutions. The market with agricultural commodities is liable to national rules and the agricultural production was part of national liberal policy.

The basic difference of the Czech agricultural sector difference from the European Union and it is lower intensity of agricultural production. This was manifested in lower effectivity of the farm animals, higher fix costs of agricultural production, low production effectivity and the processing that follows. The Czech agriculture was affected by low effectivity of production also partially because of insufficient education of the farmers who did not use the technological innovation for the improvement of the agricultural conditions. . [Neumann, 2004]

At the same time, the Czech farmers unlike the farmers of the European Union, have to face lower support of their production by the state. Czech agriculture was marked out by the liberal attitude of the national governmental structures with the minimum of market regulations.

The Czech Republic lack a complex agricultural political agenda which orders the farmers with the long-term education, landscape care, management of the set-aside system, rural development of socio-cultural attributes of the rural. Agriculture with the lack of law regulations low standards of quality standards and lack of functionality of the agricultural market infrastructure. [Sonka, 2004]

However the Czech agriculture had number of benefits which were brought about by, for example, various historical developments. These developments put the Czech agriculture into a strong position, especially in regard to the extension of the agricultural lands that were managed as a whole by single body of the agricultural establishments.

The benefits of large technological establishments are that they enable the lowering of the manufacturing costs, more effective technological use as well as the use of labour. The standards of living and the costs of living in the Czech Republic are lower in comparison in the European Union, which is the reason why the costs of labour are lower in the Czech Republic. This enables this produce the agricultural product for lower prices. . [Neumann, 2004]

Czech agriculture has, in comparison to other states trying to enter to the European Union, comparable rates of employment as well as of the GDP in relation to the state budget. In other states entering the European Union along with the Czech Republic, there is higher dependence of agricultural production on the national economy whereas the Czech economy's dependency on agriculture production is comparable of average values of the European Union states, and therefore its' entrance is expected to be a smoother process. . [Neumann, 2004] [Sonka, 2004]

Common Agricultural Policy does not offer the member states extensive freedom in their own independent decisions. On the contrary it requires fulfilment of a series of requirements enabling the entrance of the European Union. Prior to the debates concerning the entrance to the European Union the Czech Republic did not include terms such as sustainable development, environmental protection. [Sonka, 2004]

The European Union emphasises the importance of the investment into agriculture. The European Union oversees the money invested into agriculture to make sure they

trickle down beyond the production phase in order to maintain a remaining capital for the rest of the spectrum of human impact on the environment. The European Union emphasizes responsible management of financial resources and a targeted division of resources into a variety of stages in the agricultural production. [Zahradnik, 2003]

The European Union requires upon its entering states to invest heavily into the development. This includes changes in the agricultural sector concerning landscape management and the protection of environment. It also requests the introduction of long-term sustainability into landscape and environment management, forest management and water resources instead of investing solely into the process food production. . [Neumann, 2004]

The diversification of agricultural activities lies in the introduction of new production methods based on ecological agriculture and production. The European Union recommends the development of artisan production in rural areas and creating new employment opportunities in regards to it, in order to develop the social aspects of agricultural production in the European Union. This is meant to be aided by the improvement of living standards in the rural areas. [Zahradnik, 2003]

The European Union recommends the introduction of processes enabling the possibilities to support and nurture the young farmers, such as having easy access to education. It also advocates processes that allow earlier retirement.

7.2 Preparation for the accession

The European Union developed several programmes to help new member states approach to the economies and structure of agricultural production. New member states had different agriculture, they fought with small efficiency of agricultural production. Before the entrance, they needed to receive financial aid to re-structuralize their agricultural sector and economy.

7.2.1 SAPARD – Special Accession Programme for Agriculture and Rural Development

This program was developed by the European Union to help the new member states to join the Community. This programme was set for ten new countries accessing the European Union in 2004. The Program started in 2002, all the applies should have been submitted by the end of 2003 and all financial support from the European Union funds should have been realised till the end of 2006, respectively all projects funded by this programme should be finished till the end of 2006.

The aim of the programme is to:

- Help with implementing the European Union law in the area of agriculture
- To deal with problems connected to sustainable development
- To deal with problems connected to rural areas

Between the main issues, which the Czech Republic dealt with, were to increase the competitiveness of agricultural production, reaching high food quality, finishing the restructuring of agricultural and processing institutions.

The main issue of the SAPARD programme was to help applying countries with implementing coordinates concerning agriculture valid in the European Union. Programme was supporting countries in setting laws in the field of Common Agricultural Policy and it dealt with specific law issues different from the European Union law. The programme was realized by concrete agencies in single member states, which admitted the requests for subsidies on single projects.

In the Czech Republic, the programme was realised by SAPARD Agency, which was isolated institution delegated by Ministry of Agriculture. The Ministry of Regional Development also took part in managing the Agency. The cash flow was executed and controlled by The Ministry of Finance.

The Czech Republic reached the full exhaustion of the European Union budget dedicated to SAPARD programme. Financial aid was applied in investments into agricultural properties, innovations, rural development. Program helped to increase the quality of agricultural

production as well as it helped to increase the non-production sector, such as social communities, protection of rural traditions, cultural heritage etc.

After the accession of the Czech Republic to the European Union, the programme transformed into Operational Programme Rural Development and Multi-functional Agriculture (OPRDMA). Through this fund, there is a possibility to access financial aid within analogical conditions. After the accession, the Agency went as a part of State Agricultural Intervention Fund.

7.2.2 PHARE - Poland and Hungary: Assistance for Restructuring their Economies

The program was developed originally for Poland and Hungary. During the time, other countries accessing the European Union in 2004 were engaged in this programme. It mainly consists of assistance and help of the European Union for joining of new countries. To goal was to reduce the depth of contrast of Economies in the Soviet bloc. The programme was analogical to SAPARD programme. Main issues were:

- to strengthen public administrations and institutions that they are able to function effectively and reliably inside the member states and the European Union
- to increase the connection between the European Union legislation
- to reduce the need for transition period
- to increase economic cohesion
- to increase social cohesion

The programme has quite a long history. It was introduced in 1989. During the years, it was reformed continuously. It changed from the demand-driven approach to accession-driven approach. That means that the programme changes from the demands which states asked the European Union, to the requests of the European Union on what the European Union requires from new states.

The PHARE programmes can be divided into these parts.

- National PHARE Programmes

- PHARE Cross border cooperation
- Multinational programmes implemented by the Czech Republic
- Multinational programmes implemented by the European Union

The assistance of the European Union is done through signing a Financial Memorandum, which are based on the Framework Agreement. This memorandum accurately define the amount and method utilized in accordance with the relevant program documents. Every financial memorandum also specifies the period of contracting and utilization, which is always divided into several years.

7.3 Request of the Czech Republic for membership in the European Union

In January 1996 the Czech government posted official request of accessing the European Union. It was one of the most important decisions in a short history of the independent the Czech Republic.

The accession of the Czech Republic to the European Union will significantly influence international position and it is national development. In 1997 the European Union published official status about ten countries from middle and Eastern Europe evaluating their situation and answering on their request on membership in the European Union. The European Union recommended that negotiations about the accession should be started.

The European Union published summarizing characteristic of the Czech Republic: the Czech Republic has democratic principles regime with sophisticated institutions which provide good state condition. The trade can be consider as a functioning market economy and it will be able to deal with a competition pressure within the European Union. The Czech Republic will have to make significant effort to deal with agriculture environment and energetics. The Czech Republic will have to adopt the European Union standards.

As Zahradnik said [Zahradnik, 2003], the Czech Republic was ready for accession in that times. The stadium of its agriculture was even better than agriculture of some of the member states. The economic indicators showed that for example Portugal, Spain or Greece had a worse stadium of agriculture than the Czech Republic.

The problem of the Czech Republic was the intensity of the agricultural production, which was 25 percent worse than the European Union average. On the other hand, Czech agriculture had a significant advantage in having the average 140ha acreage of farms, which was ten times bigger than the European Union average. That made the Czech Republic very competitive. [Zahradnik, 2003]

Czech farmers will have to understand, that accession to the European Union and common market will bring advantages and disadvantages as well. It will provide them agricultural subsidies, on the contrary the common market will bring bigger competition. The market will provide opportunities to realize trade in other countries, it will also mean bigger threats for less competitive farmers. [Zahradnik, 2003]

7.4 The Czech Republic as a member state

When the Czech Republic entered the European Union, there were a lot of expectations. Agriculture, being one of the most important policies in the whole European Union, should go through significant changes. The accession should bring economic growth, increasing food quality, increasing the standards of living in rural areas, implementing new directives in managing the environment and all other benefits.

The accession was conditioned by several factors. Among those, it was the approval of financial expenditures connected to enlargement. The negotiations successfully ended at the end of 2002 in Copenhagen.

The accession of the Czech Republic was also conditioned by ratification of all 25 European Union states. In 15 member states, the national Parliaments did the voting, in new member countries the voting was done through referendum.

7.4.1 The conception of Czech agriculture

The Czech government elaborated the document describing the stadium of Czech agriculture after the accession. The conception deals with the basic need of transformation the Czech agricultural policy to the policy of the European Union, known as Common Agricultural Policy of the European Union. The conception define basic strategies, visions and priorities for Czech agriculture.

The global situation in agriculture is described, there is described how the global situation will affect agricultural market in the European Union and the Czech Republic. Document finds, that there is an expectation of grow of global population, it points into more effective distribution of food in world and imbalances between the surpluses in Europe against poverty in African continent.

Document also points on a climate change and long term worsening of environment, dealing with floods, dryness and all other natural threats influencing the food quality and security.

The conception defines reaching the strategic challenges. As main issues, there are keeping sufficient amount of employment in agriculture, regular change of arable land into permanent grasslands, keeping national and cultural heritage, increasing the quality and cleanness of water, increasing biological diversity on increasing participation on renewable resources.

7.4.2 The adaptation of Czech agriculture

The Czech Republic started to enforce the system of regulation of agricultural market. By this it make a step forward to keep closer to system functioning in the European Union. It provided continuously first experience for Czech farmers with the principles of the European Union system, which the farmers will adopt in next years.

Czech farmers do not have to have reason for anxiety of accession to the European Union because the price level of food and other agricultural products is much lower than the average price level of food and agricultural products of the European Union. The immediate

economic impact of accession will be confrontation on food prices between the Czech Republic and the European Union. It means that enlarging of the European Union by the eastern states will represent one of the most troublesome problems solved in Common Agriculture Policy since its establishment. [Zahradnik, 2003]

Problem can make also farmers from member states, which probably can raise up with phobia, if their funds would be divided into larger area, which will cause the decrease of their living standards. Different environment in those regions can cause difficulties in accepting process. [Zahradnik, 2003]

7.5 The impacts of the accession

Accession of the Czech Republic to the European Union brought many advantages for Czech farmers. Especially the living standards increased significantly, the purchasing prices of agricultural commodities raised, and the options of foreign trade got wider.

There was a different impact of the accession in separate sectors. Generally, it did not stop the long-lasting decrease of the amount of agricultural production on the gross domestic product and it also did not stop decreasing the number of people working in agriculture. [Zahradnik, 2003]

The Czech Republic gradually assimilated to the market regulation controlled by the European Union. Trade with the other European Union member states forms the majority of the total international trade, and the common market of the European Union affects the domestic agricultural market in a significant way. The adaptation will be often complicated. [Zahradnik, 2003]

Accession of the Czech Republic to the European Union made direct competitiveness to the other member states. Conditions for awarding subsidies from the European Union and national budgets are different for every member state.

Conditions negotiated before the accession of the ten new member states to the European Union resulted in worse position for farmers in the new member states than farmers in the original member states. It took about a decade that subsidies into agrarian sector levelled up the amount of prices receiving by farmers in old member state countries. This reasoned into strong criticism of Common Agriculture policy.

8 Agrarian Subsidies in the Czech Republic

There are many different subsidies divided into many different areas. The dividing of subsidies is done by several aspects, such as funding of agricultural production or non-productive sector, allocation of funds, funding for company or farmer, private or public interest etc.

In all subsidies, there is given a strong emphasis on fulfilling all the Common Agricultural Policy goals:

- to maintain rural areas
- manage sustainable development
- protect nature and environment
- keep innovative attitude to agriculture etc.

Funding is distinguished by EU requirements, single fund programmes are influenced by different legislation and conditioned by keeping own directions. Funds are provided from both, national and EU funds. All subsidies are accessible in condition of cross-compliance. This control secures appropriate management with nature and environment, it administrate using of chemicals and pesticides in agricultural production and controls of sustainable development farming.

In this chapter, the thesis will analyse the real usage of agrarian subsidies in the Czech Republic. The data were collected from the official reports published by the Ministry of Agriculture of the Czech Republic [Ministry of Agriculture, 2006-2014]. These are called The Report of the State of the Agriculture of the Czech Republic, or alternatively The Green Report, and it is issued for each of the monitored year.

The period monitored in this thesis is from 2005 to 2012, as the first complete year of the Czech Republic being a member state of the European Union was 2005, and the data for the year 2013 are not yet available.

8.1 Direct Payments

Direct Payments is the primary instrument, which the European Union uses to directly subsidize farmers under certain support schemes. The principal meaning of subsidising agriculture is to promote agricultural production. This is, in the European Union, done primarily by Direct Payments, mainly in frames of the Single Payment Scheme (SPS) and the Single Area Payment Scheme (SAPS), which are described in the following subchapters.

“Direct Payments ensure a safety net for farmers in the form of a basic income support, decoupled from production, stabilising their income stemming from sales on the markets, which are subject to volatility. In order to maximise their profits, producers must respond to market signals, so that they produce goods that are demanded by consumers. Direct payments also contribute, in combination with cross-compliance, to providing basic public goods delivered through sustainable farming.”

[European Commission, 2014]⁷

8.1.1 SPS – Single Payment Scheme

This is the most widely expanded system of funding the European Union farmers, which was introduced in the 2003 reform of the Common Agricultural Policy of the European Union. The principle is to provide subsidies to a single farm no matter what the farmer produces.

This was introduced by the European Union to fight with the overproduction. The farmer decides by himself his spectrum of grown commodities. Paid subsidy will be designated independently on production portfolio.

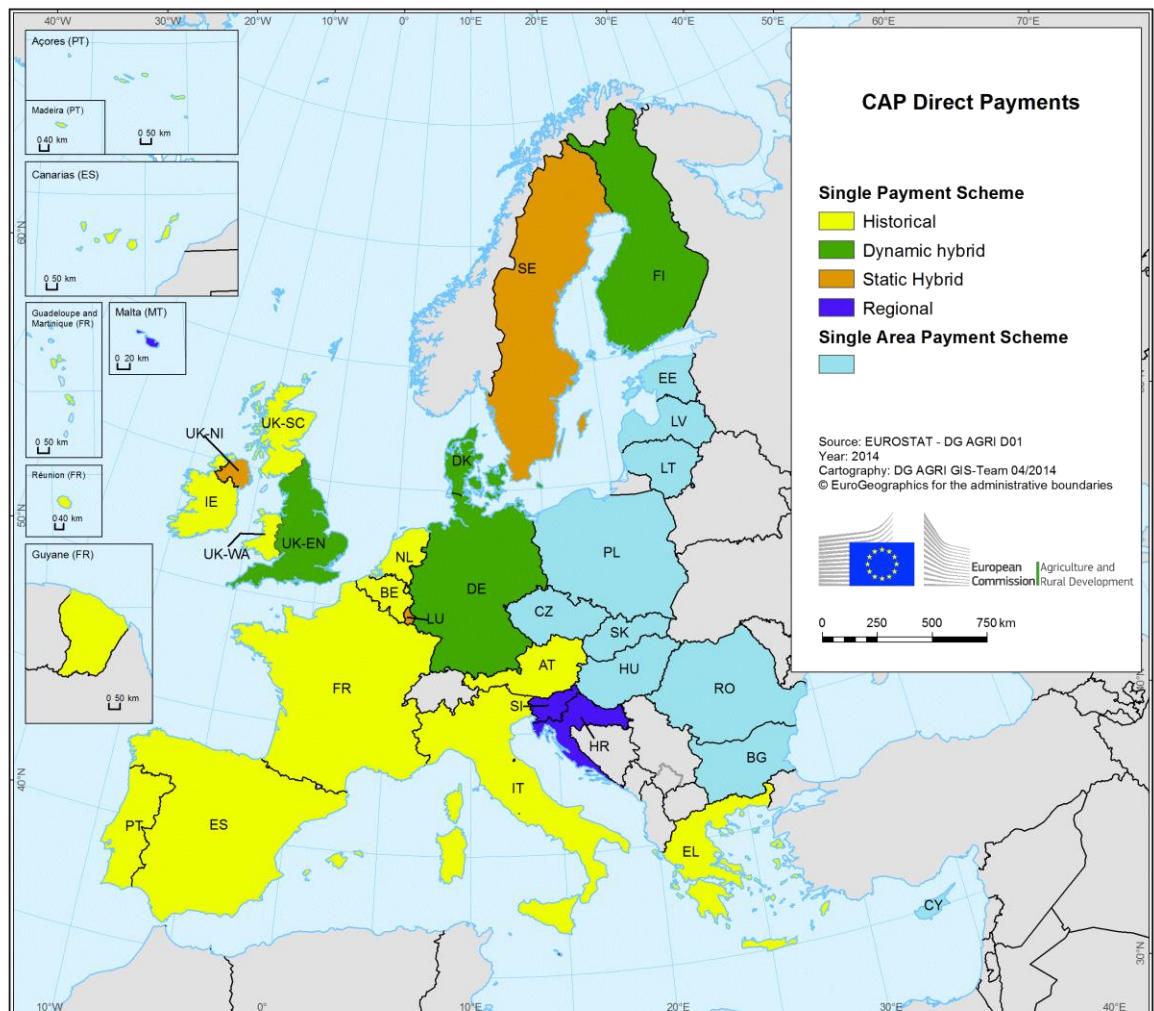
Thus, the producer can react on actual demand, farmer is not affected by seasoning. Because the farmer is provided with a single payment, there is an option to flexibly react on

⁷ EUROPEAN COMMISSION. Direct payments. [online] 2014. See bibliography

market demand without any administration burden and complications. The request is done by farmer annually.

8.1.2 SAPS – Single Area Payment Scheme

This form of subsidy contains the same principle like the Single Payment Scheme, but the subsidy is not given to farm, instead it is connected to area, where the farmer operates. The farmer has also the option to choose whatever crop will be grown or which animals will be raised. As previous, the request is done by farmer annually. The SPS and the SAPS are provided completely by European Union funds.



[Source: European Commission, 2003.]

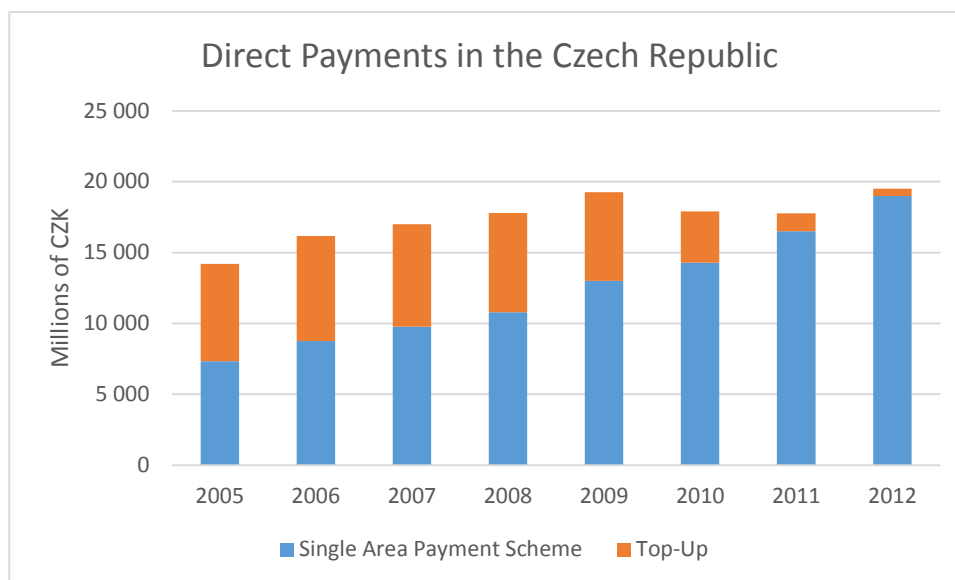
The SAPS is a simplified version of the SPS, which was introduced in order to act as a transitional scheme for the new member states. Currently, the SPS is applied by 17 member states, while the remaining member states are using the SAPS, as can be seen in the figure above.

8.1.3 Top-Up

This subsidies are supplement subsidies to the SPS and the SAPS. Its purpose is to even up subsidies for disadvantaged farmers in compare to farmers from other member states. Top-Up payment provides adding subsidies for those commodities, where its production is financially complicated and the SPS/SAPS subsidies are not satisfactory to cover the expenditures on production.

Top-Up is provided by The State Agricultural Intervention Fund. The payment is connected to the SPS/SAPS. If the payment in frames of the SPS/SAPS in not acknowledged, there is no possibility to administer the Top-Up payment.

The Czech Republic, among the member states entering the European Union in 2004, needed to accept a policy that provides only a partial amount of direct payments from the common European Union funds. This policy also provided an opportunity to level up the direct payments by national funds to reach the level of the other member countries. The following figure shows the overall amount of paid subsidies in the Czech Republic in frames of the Direct Payments. It also shows the continuous decrease of the relative portion of the Top-Up payments.



[Own calculations. Data From: The Reports of State of the Agriculture, Ministry of Agriculture.]

8.2 Subsidies into the rural development

Agricultural subsidies do not support only the production sector; the European Union more and more emphasizes the role of rural development. The policy makers in the European institutions realize increasing drain of the environment. Every new strategy of the European Union strengthen the importance of protecting the nature. For the recent period, the protection of nature and managing the sustainable development is supported by following programmes.

8.2.1 LFA – Less Favoured Areas

Farmer can also ask for the subsidy on less favoured areas. These are usually in worse conditions for farming. The subsidy is conditioned by acreage of farmed land, which must be evidenced as less favoured in Land Parcel Identification System. Agricultural land must be kept managed for the whole year in terms and conditions of cross-compliance, farmer must provide care on land and fulfil obligatory conditions of subsidies policy.

8.2.2 Natura 2000

It has same principle as Less Favoured Area subsidy, but the aim is to protect birdlife, bird regions and livelihood. Usually it is observed in National Parks, Reserved areas and protected regions. Agricultural land must be kept managed for the whole year in terms and conditions of cross-compliance, farmer must provide care on land and fulfil obligatory conditions of subsidies policy.

8.2.3 Rural Development Programme 2007 – 2013

This programme aims on development in rural areas in every scope. It helps to develop rural way on life, farming, social aspects in rural areas etc. It is one of the basic parts of Common Agricultural policy.

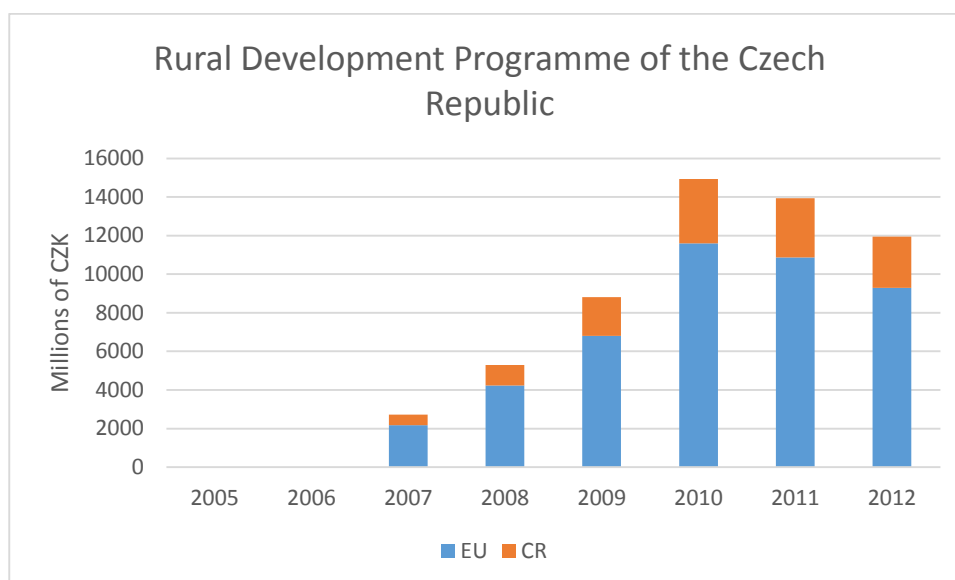
“The programme consists of 4 basic parts (groups of measures), each of them meeting some of its objectives, for example improving the competitiveness of the agricultural, food and forestry sectors falls within the first group of measures – Axis I, increasing biodiversity, water and soil protection and mitigating climate change is a joint objective of the second group of measures – Axis II. The task of Axis III is to improve the quality of life in rural areas and to encourage the diversification of economic activities there. Last but not least, the objective of Axis IV must be mentioned – helping the residents of rural micro-regions (applying the “from bottom to top” principle) to work out their local development strategy and to support the projects concerning development of the region they live in, the so called LEADER method.”

[Ministry of Agriculture, 2014]⁸

⁸ MINISTRY OF AGRICULTURE. Rural Development Programme 2007-2013 [online]. See bibliography.

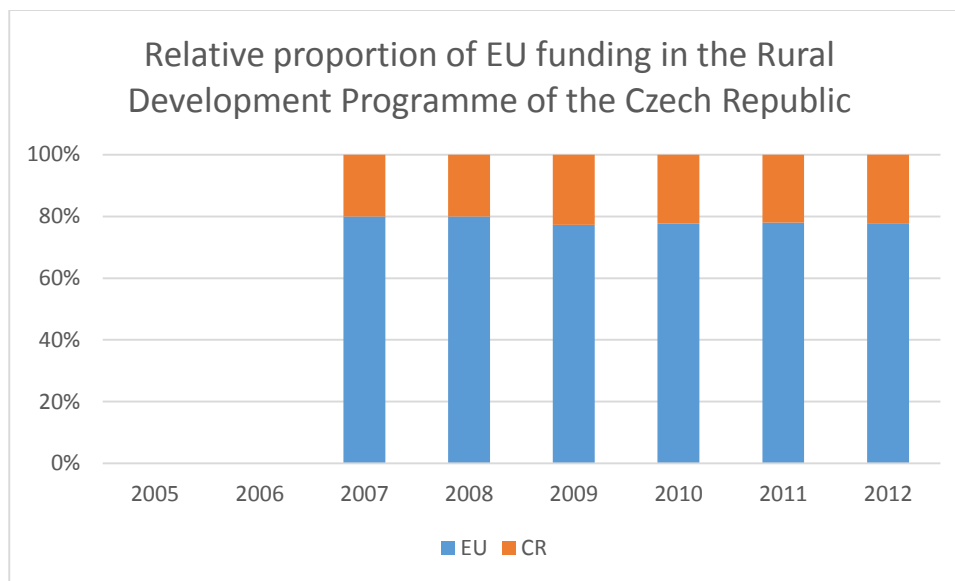
In the following figure, you can see the overall amount of paid subsidies in the Czech Republic in frames of the Rural Development Programme. The programme as introduced in the 2007, the paid amount was continuously increasing since this year. In 2010, the most amount was at its maximum, which was above 14 milliards CZK. In the subsequent years, the amount was decreasing, probably due to the lack of resources allocated for the whole period of 2007 – 2013.

The figure also reflects the fact, that the Rural Development Program is co-funded by the national budget of the Czech Republic and by the European Union sources. This is distinguished by the colour of columns in the figure.



[Own calculations. Data From: The Reports of State of the Agriculture, Ministry of Agriculture.]

In the following figure, the relative portion of the European Union funding in the Rural Development Programme of the Czech Republic is displayed, in order to compare the proportion of resources funded from the national budget and from the European Union funds. We can see that in the years 2007 and 2008 it was almost exactly 80%, while in the next years it was slightly less. The smallest proportion of the European Union funding occurred in the year 2009, when it amounted to approximately 75%.



[Own calculations. Data From: The Reports of State of the Agriculture, Ministry of Agriculture.]

The Rural Development Programme directly follows up on the Operational Programme the Rural Development and Multifunctional Agriculture and as well on the Horizontal Rural Development Plan. This programme finally replaced these predecessors. After 2008, the continuing long-term projects in frames of Horizontal Rural Development Plan were financed from the sources of the Rural Development Plan.

8.2.4 Horizontal Rural Development Plan

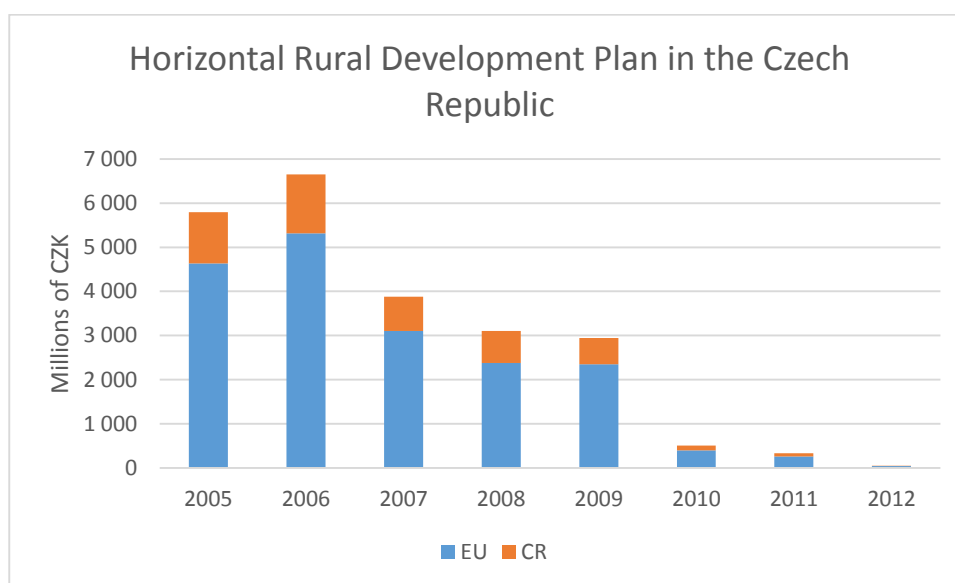
This plan was in force in years 2004-2006. Its main purpose was to protect the nature and support high value of nature and sustainable development, which follows basic environmental principles, which keep agricultural subsidies with small expenditures. It also help to increase the natural condition environment, hygienic issues and the conditions of animal welfare, keeping the functioning social structure in rural areas.

These aims can be summarised into one, main Goal: to keep sustainable development, rural areas and its national resources. As a part of the Plan, there are proceedings developed

in the programme. Those can be early ending of agricultural activities, Less Favoured Areas, areas with agro-environmental measures, forestry, technical aid etc.

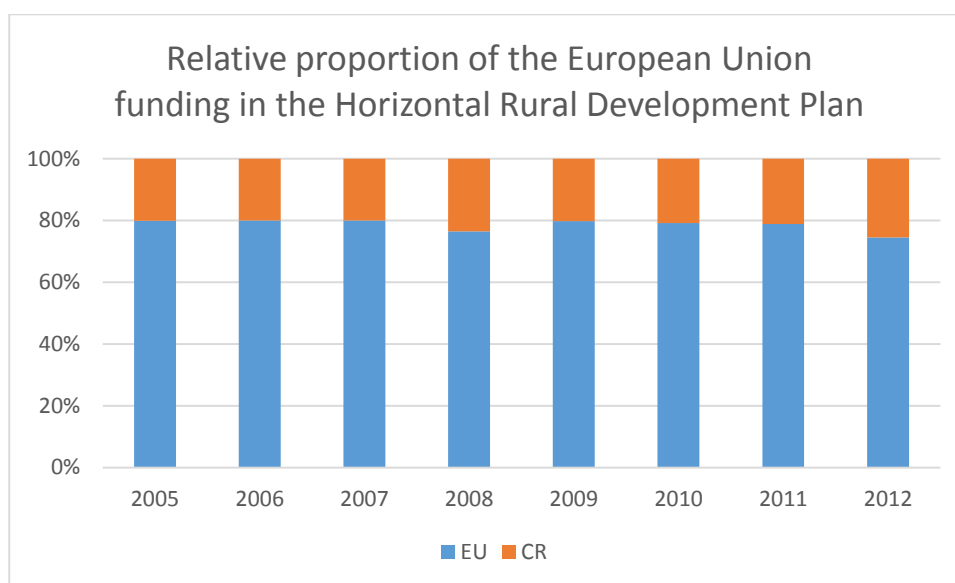
The following figure shows the overall paid subsidies in the Czech Republic in frames of the Horizontal Rural Development Plan. In this programme, the resources were drawn not only from the European Union funds, but also from the national budget. This is distinguished in the following figure by different colours.

It can be seen that this financing programme was the most used in its final year 2006, which is probably caused by the fact that in this year, not only the newly accepted projects were financed, but also the continuing projects from the previous years 2004 and 2005. Since 2007, only the continuing project were financed. It can be seen from the figure, that most of these projects were ended in 2009.



[Own calculations. Data from: The Reports of State of the Agriculture, Ministry of Agriculture]

To compare the relative proportions of the resources paid from the European Union funding and from the national budget, the following figure shows the structure of funding in the Horizontal Rural Development Plan in a relative scale. In most years, the relative proportion of the European Union funds was almost exactly 80%; only in 2008 and 2012 it was approximately 75%.



[Own calculations. Data from: The Reports of State of the Agriculture, Ministry of Agriculture]

8.2.5 Operational Programme the Rural Development and Multifunctional Agriculture

This operational programme was a document, which specified remedies co-funded by European Agricultural Guidance and Guarantee Fund, and also by Financial Instrument for Fisheries Guidance. It was a part of the Operational Programme Agriculture.

The aim was to support sustainable economic growth as well as growth of quality of living in rural areas. It was based mainly on securing the competitiveness of industry, securing work places and development of human resources. It also dealt with increasing

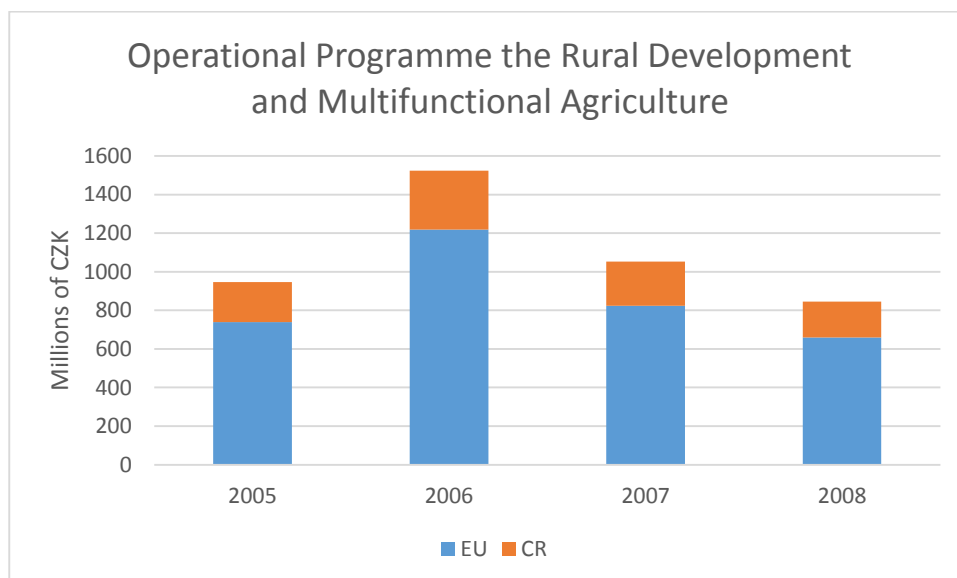
differences in social area, keeping cultural landscape, protecting and improving the environment.

Providing funds from this programme, which had its programming period from 2004 to 2006, was stopped in 2008. The overall amount of resources funded by this programme was 5.406 milliards of CZK.

The following figure shows the amount of subsidies paid in each year in frames of the Operational Programme the Rural Development and Multifunctional Agriculture. In a similar matter as in the case of the Horizontal Rural Development Plan, the maximum of resources was paid in 2006, which was the final year of the Operational Programme.

However, as the projects financed by the Operational Programme the Rural Development and Multifunctional Agriculture are not as long-term as in the case of the Horizontal Rural Development Plan, their financing didn't continue after the year 2008.

The different colour of columns in the following figure distinguishes the resources paid from the national budget and from the European Union sources. As in the case of the other two programmes for rural development, the relative proportion of the European Union sources usage was roughly 80%.

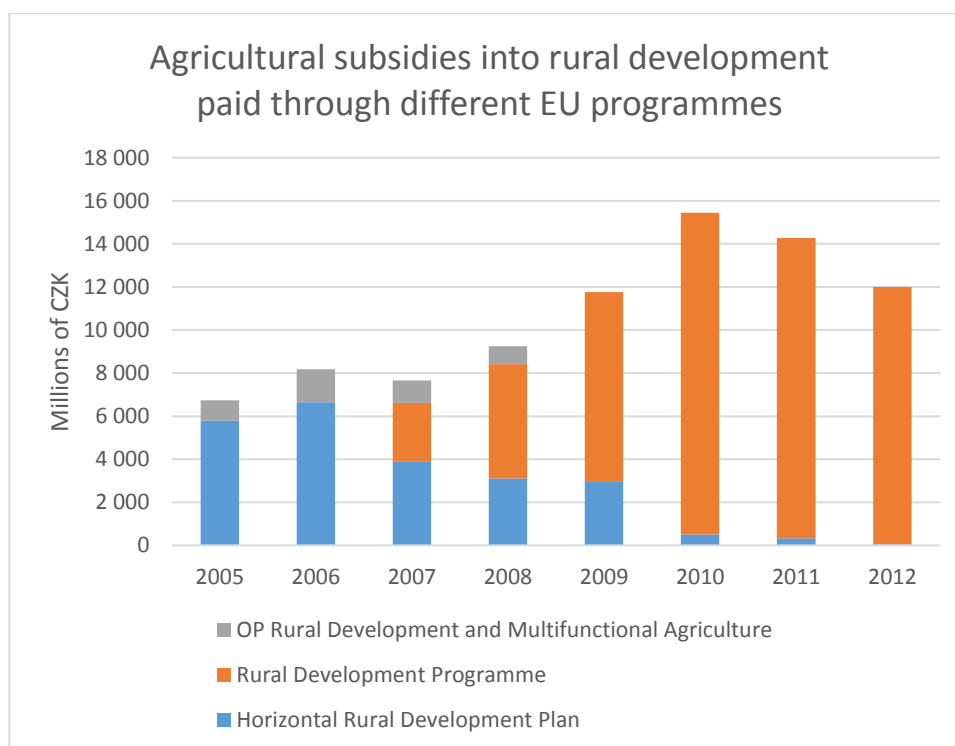


[Own calculations. Data from: The Reports of State of the Agriculture, Ministry of Agriculture]

8.2.6 Comparison of subsidies in different programmes

It is obvious that the total amount of subsidies spent into the sector of the rural development is more significant for the agriculture in the Czech Republic than the amount of resources allocated in frames of any individual financing programme. Therefore, the following figure shows the overall amount of resources paid the rural development in the Czech Republic in year of the monitored year. In its maximum in the year 2010, this amounted to 15.4 milliards of CZK.

The following figure also can be also used to compare the amount of resources allocated in frames of individual programmes for subsidies, which are distinguished by the colour of columns in the figure. It can be clearly seen, how the Rural Development Programme subsequently replaced the role of its predeceasing programmes between the years 2007 and 2009. Since the year 2010, the role of the Horizontal Rural Development Plan was negligible in the context of overall subsidies into the rural development.



[Own calculations. Data from: The Reports of State of the Agriculture, Ministry of Agriculture]

8.2.7 Rural Development Programme 2014 – 2020

This programme is directed by the strategic document Europa 2020. It develops the idea of previous period.

“In line with Europe 2020 and the overall CAP objectives three long-term strategic objectives for EU rural development policy in the 2014-2020 period can be identified:

- *fostering the competitiveness of agriculture*
- *ensuring the sustainable management of natural resources, and climate action*
- *achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment”*

[European Commission, 2014]⁹

The document helps member states to implement right approach to construction of national development plans, it tries to deal with the administrative burden and tries to improve the connection between rural development measures.

Most of the legislative approvals via reforms were done until the end of 2013. They were based on the public debate about shaping the Common agricultural policy for the future. The public debate was promoted by the European Commission’s Directorate-General for Agriculture and Rural Development.

The debate tried to answer no three basic questions. First, it tried to answer on what objectives should be for the next rural development policy. Second concerned how to make policy instruments more effective. Third tried to find an answer for the improvement of the policy management.

⁹ EUROPEAN COMMISSION. Policy Overview 2014-2020. [online] 2014. See. bibliography

Before the debate started, European Commission drafted several proposals and provided to member states, which could comment that proposals. The proposals were directly connected to the Europe 2020 strategy for growth.

New strategy have to manage the development policy for the upcoming period. There were various priorities in different states, such as innovation and the knowledge base in rural areas, facilitating a balanced age structure in the agricultural sector, promotion of local markets, improving water and soil management, creation of new small enterprises and job creation etc.

The priorities were broadly given by member states. Thus, there was a need to divide priorities in a focus areas. These areas should bring the overview of objectives of new plan for the next period.

Therefore, European Commission, based on the debate, divided the issues into these six priorities:

“Member States will have to build their rural development plans based upon at least four of the six common EU priorities.

1.fostering knowledge transfer and innovation in agriculture, forestry and rural areas;

2.enhancing the viability / competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;

3.promoting food chain organisation, animal welfare and risk management in agriculture;

4.restoring, preserving and enhancing ecosystems related to agriculture and forestry;

5.promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;

6.promoting social inclusion, poverty reduction and economic development in rural areas”

[European Commission, 2014]¹⁰

There are other funds, which take part in development programme for the period 2014-2020. These funds are the European Social Fund (ESF), the Cohesion Fund (CF), the European Regional Development Fund (ERDF) and the European Maritime and Fisheries Fund (EMFF).

¹⁰ EUROPEAN COMMISSION. Policy Overview 2014-2020. [online] 2014. See bibliography.

9 Conclusion

The thesis described a broad view on the Common Agricultural Policy and its subsidiary system. The subsidiary system is a large part of the European Union common policies, a very controversial issue since its introducing. Through the history, the Common Agricultural Policy went through many significant reforms and changes, which were comprehensively described in the fifth chapter of the thesis.

The thesis brought an overall review of authorised institutions and funds. The connection between them and their mutual interaction was explained. The differences in the policies, which define the way of dividing the funds between the national and the European Union budgets, were reviewed.

The situation before the accession of the Czech Republic to the European Union was summarized in the seventh chapter of the thesis. The impacts of the accession and the adoption of the European policies are mentioned.

In the eight chapter, the thesis analyses the real usage of agrarian subsidies in the Czech Republic in the whole period relevant for drawing subsidies from the European Union funds as a member state, which is from 2005 to 2012. The data for the years 2013 and 2014 were not published yet. The thesis focused on those kinds of subsidies, which have with the most significant role on the Czech agriculture. These are the Direct Payment subsidies and subsidies into the rural development.

In the Czech Republic, the Direct Payment subsidies from the European Union funds are realised mainly through the Single Area Payment Scheme, which is levelled up from the national budget by the Top-Up subsidies. The change of the structure of the direct subsidies from 2005 to 2012 is analysed.

The subsidies into the rural development in the monitored period were realised through various programmes. The analysis included the sources from the Operational Programme the Rural Development and Multifunctional Agriculture, the Horizontal Rural Development Plan, and the Rural Development Programme 2007 – 2013. The role of these three

programmes was compared in the thesis. Comparisons of the relative proportions of resources financed by the national budget and by the European Union funds were also performed.

The Common Agricultural Policy and the payment of subsidies to the farmers of individual European Union member states is a complex process of securing sufficient amount of food and providing competitive conditions in agriculture throughout Europe.

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