



SPECIAL ANALYSIS

EU Office / Knowledge Centre | July 2016



The transformation of the Czech agriculture after entry into the EU

Radek Novák

EU Office / Knowledge Centre

ERSTE 
Corporate Banking

Introduction

Since the entry of the Czech Republic into the EU, Czech agriculture has gone through a transformation period. On the one hand it has been exposed to the free European market and competition from all EU member countries, and on the other hand it has become eligible for generous operational and investment subsidies. In the period 2012-2014 those amounted on average to around CZK 38 billion per year, i.e. nominally three times more in comparison to the period prior to entry into the EU. A grant on the one improves the economic condition and profitability of agricultural enterprises, and on the other hand it makes them much more dependent on state support than on market conditions.

The criteria for obtaining support has in recent years been adapted to the behaviour of agricultural enterprises, which has resulted in a change in the structure of agricultural production – a reduction has occurred: the amount of livestock production, the acreage of crop commodities more demanding in terms of the amount and quality of work, and management and marketing intensive commodities (vegetables and fruit) and in regard to reducing the acreage of feed crops.

A further consequence of grants is the fall in pressure on increasing the effectiveness and productivity of production, including affiliating enterprises for improving their position on the market.

On the other hand, investment support (even though it's far from achieving the level of operational support) contributes significantly to the technical and technological modernisation of Czech agriculture.

The current state

The structure of Czech agriculture varies considerably from the absolute majority of EU countries. The economically crucial part of Czech agriculture is of a large-scale character with preponderance of hired labour and land, and with a relatively low degree of diversification activities. These characteristics create the potential for the utilization of economies of scale. On the other hand, they constitute greater sector sensitivity to changing market conditions. In some cases, they also worsen relations to the environmentally sound use of land. A disadvantage of Czech agriculture is also the relatively high proportion of disadvantaged farming areas (i.e. LFA - Less Favoured Areas).

The gross value added of agriculture, forestry and fisheries has in absolute terms an upward trend, and in regard to its share of the total economy (and in view of the growing economy as a whole) it had been moving along over the long term at around 2.5% (until a slump in 2009 and 2010) of gross value added.

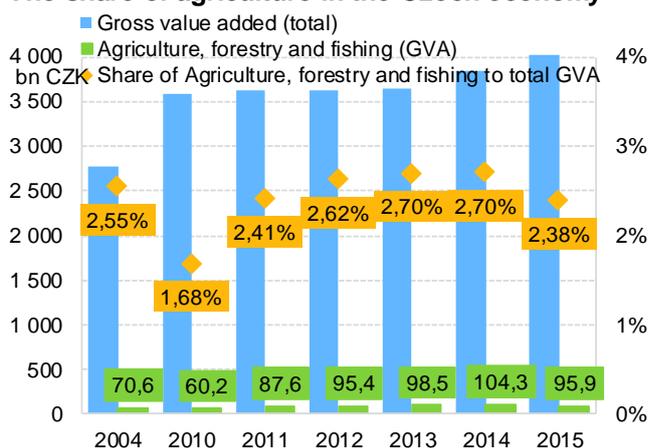
In 2015, agricultural GVA was over CZK 95 billion and contributed 2.4% to the total gross value added of the Czech economy. In comparison with European Union countries, Czech agricultural performance is slightly above the EU average.

Since 2004, i.e. since the Czech Republic joined the EU, the share of agriculture in gross value added in the European Union gradually decreased slightly from 2.0% to 1.6%. The GVA margin in Member States in 2014 was between 0.3% (Luxembourg) and 5.3% (Romania).

One can simply say that in Western countries agriculture generates (mainly due to the structure of their economies) a lower share of gross value added than in the eastern and southern states.

What has been typical for the development of agriculture in recent years is an increase in productivity. This is clearly perceptible not only in increasing gross added value, but also the diminishing number of workers in agriculture. In 2015, the average registered number of employees in agriculture was 97,800, representing 2.5% of the total workforce in the Czech Republic.

The share of agriculture in the Czech economy



Source: ČSÚ; current prices

The average wage in agriculture in recent years has mimicked (with a gradual progressive convergence) the slight growth in average wages throughout the economy, and in 2015 it reached CZK 21,478, i.e. roughly 80% of the average wage in the Czech Republic.

The gradual downward trend in the number of employees in agriculture, forestry and fishing has taken place virtually throughout the whole European Union. Since 2000, their number has decreased by more than 5 million to 11.3 million in 2014, compared to increased employment in all industries by 10 million employees.

The share of agriculture in employment in the EU in 2014 ranged from 1.2% (Luxembourg) to 29.4% (Romania), and the actual proportion of the European Union as a whole since 2004 decreased by 1.2 percentage points to 5.0 % in 2014.

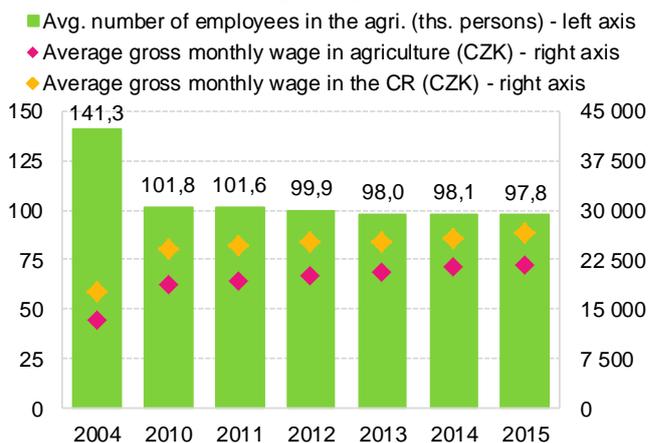
Czech agriculture is also characterized by a higher average age of workers than the average in the overall national economy. This is due to a slightly lower share in the „younger“ categories (15-24, about 5%) and a higher proportion in „older“ categories. This is clearly evident in the 50+ age group where the proportion of workers in the agricultural sector in 2014 reached 41.5%, whereas in the national economy it was less than 30%. The total number of employees in agriculture has been decreasing over the long term (by 30% since joining the EU in 2004 to 2015).

According to Czech Statistics Office data, the economic results of Czech agriculture have been positive in recent years - since 2011 the profit (excluding the record of 2014) has been around CZK 17 billion. Contributing significantly to this have been the subsidies paid out to farmers for production, which since 2008 have modestly increased (in 2015 they amounted to CZK 31.3 billion), so subsidies are helping Czech agriculture toward positive results and therefore profits.

Since the Czech Republic joined the EU, there has been a significant change in the form of Czech agriculture. While the area on which wheat, corn or rapeseed is grown increased significantly to 2015, the area for growing potatoes, vegetables or the numbers of pigs and poultry have decreased substantially.

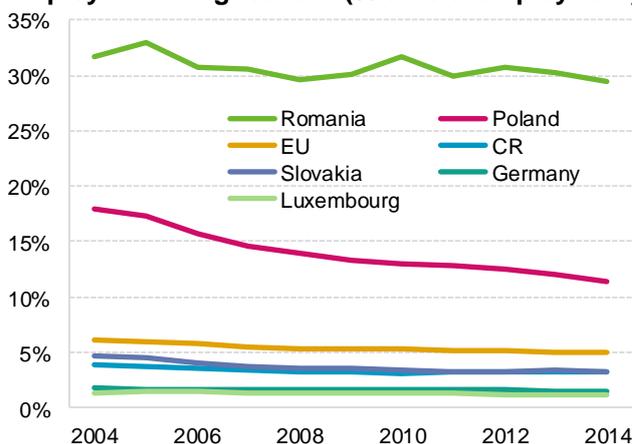
This is due in particular to the profitability of the production of given commodities, which is determined by agricultural producer prices and the price competitiveness of Czech producers, but also the strength of competitors from neighbouring states.

Employees and average wages



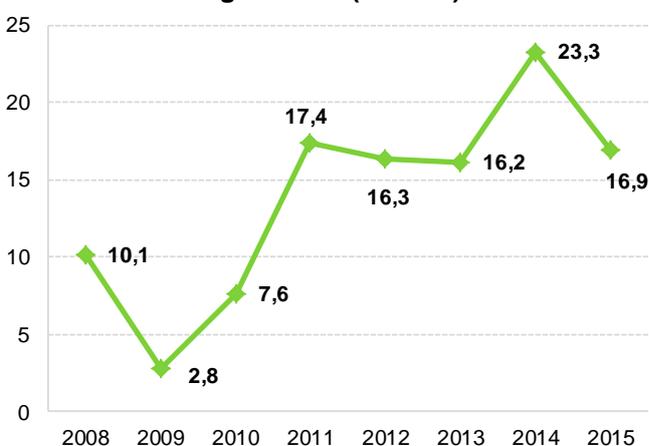
Source: ČSÚ; current prices

Employment in agriculture (% of total employment)



Source: Eurostat; data for Agriculture, forestry and fishing

Profit of Czech Agriculture (bn CZK)



Source: ČSÚ;

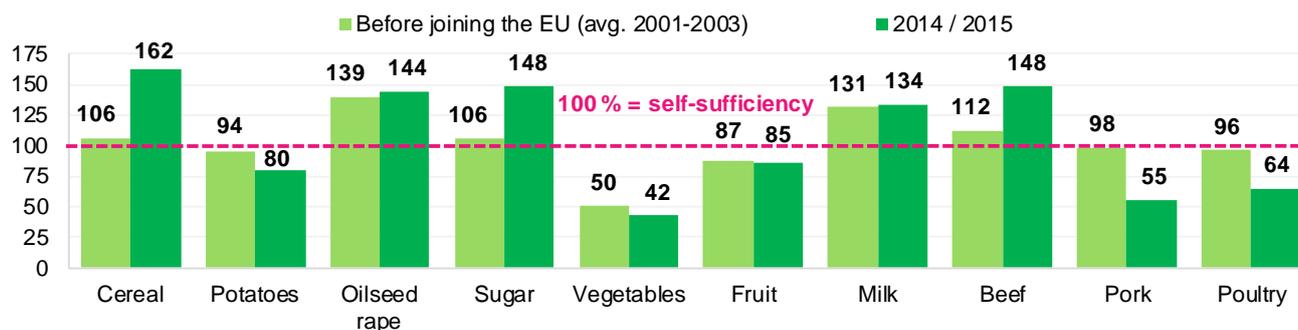
Czech agriculture after joining the EU

		Before joining the EU (2001-2003 avg.)	2015	Change
Cereal (total)	ths ha	1,547.1	1,403.4	-9.3%
<i>wheat</i>	ths ha	808.1	829.8	2.7%
<i>barley</i>	ths ha	512.0	365.9	-28.5%
<i>corn</i>	ths ha	67.6	93.6	38.5%
Potatoes	ths ha	42.8	22.7	-47.0%
Rapeseed	ths ha	302.7	366.2	21.0%
Sugar beet	ths ha	77.6	57.6	-25.8%
Vegetables	ths ha	20.4	9.2	-54.9%
Orchards	ths ha	17.9	15.6	-12.6%
Pigs	ths pcs	3,465.8	1,559.6	-55.0%
Cattle	ths pcs	1,525.3	1,407.1	-7.7%
Poultry	mil pcs	29.6	22.5	-24.0%

Source: ČSU, Ministry of Agriculture

The profitability of agricultural commodity production is reflected in the self-sufficiency of the Czech Republic, which is expressed in the share of domestic production and domestic consumption (in %). It is considerably positive in cereals, rape sugar and milk, and conversely strongly negative in vegetables, pork and poultry.

Self-sufficiency in basic agricultural commodities in the Czech republic (in %)



Source: The Ministry of Agriculture of the Czech Republic

Market development with land in the Czech Republic

The basic factor of production in agriculture is land. Its price depends on its future use. Farmers, who purchase agricultural land most often, are motivated by the effort to stabilize or expand their own agricultural business.

The purchase of agricultural land has recently become increasingly an investment plan. The important factors affecting the final price is the quality of land, its location, potential non-agricultural use and the nature of the transaction. Average land prices in the Czech Republic have been growing over the long term.

According to Farmy.cz, since 2004 it has increased by an average by 9% a year, although in 2014 it increased by 12.5% and in 2015 by as much as 16.5% to an average of CZK 16.26 per m² (the highest quality arable land in localities with strong competition, however, was also sold for CZK 30/m²).

The increasing price trend is also demonstrated by data from the Institute of Agricultural Economics and Information.

Average land prices should continue with a (slight) growth in percentage units in the future.

Landowners will in fact be increasingly aware of the price of their land, and interest (albeit lower) will continue from non-agricultural parties (and speculative investors), and above all the difference in prices of land in the Czech Republic and in neighbouring countries will gradually balance out.

Agricultural subsidies and regulation

The Czech agricultural sector is part of the European market and is subject to the rules of the Common Agricultural Policy (CAP). Its aim is to ensure sustainable food production and a stable food supply in the EU, while also addressing issues of food safety, the rural economy, animal welfare, social interests and the environment. In practice, the CAP regulates the distribution of agricultural subsidies in the form of direct payments to farmers, investment aid for rural development, as well as market measures. These, among other things, include the setting of import and export conditions (tariffs, quotas, subsidies) with third countries.

The last change in the Common Agricultural Policy related to the reform of the CAP for the period 2014-2020 (the new rules apply from 2015). Two pillars are preserved in the new CAP (direct payments and the Rural Development Programme), which, however, have more links to each other and thus ensure a more coherent effect of funding. The objectives of the reformed CAP include a greater emphasis on an environmentally friendly approach, a generation change in the countryside through support for young farmers and support for sectors or regions facing particular difficulties. The new CAP settings also allow Member States a greater degree of judgment over the targeting of funds, including transfers between pillars for direct payments and the rural development program.

As part of the negotiations on CAP reform the Czech Republic managed to abolish the mandatory capping that would have affected large farms. Furthermore, this relates to the same level of payment for sensitive commodities connected to production (i.e. coupled payments) for all member countries.

This means that Czech farmers are no longer disadvantaged by a different method of payment for commodities earmarked for this purpose. Restrictions for large enterprises in the Rural Development Programme were also eliminated. The Czech Republic then didn't use the opportunity to introduce a higher subsidy for first hectares (i.e. the principle of redistribution where European regulations allow a grant for the first 89 ha of a farm up to 165% of the basic rate of direct payments), but rather maintained a unified single rate of subsidy for all hectares. Large and small farms thus receive proportionally the same high subsidies (the principle of equal conditions for all, regardless of size).

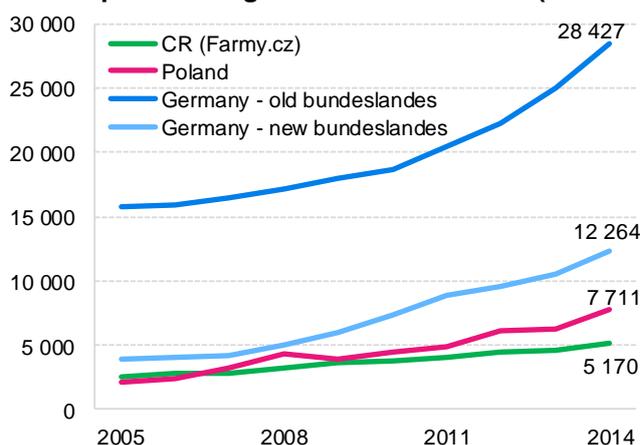
The State Agricultural Intervention Fund provides financial support to Czech farmers from European and national sources. Aid in the form of subsidies in interest on commercial loans, subsidized loans, loan collateral or insurance is provided by the Support and Guarantee Fund for Farmers and Forestry (PGRLF).

Future outlook

In the coming years, an expected moderate economic growth and strengthening private consumption will play into the hands of Czech agriculture. In addition, it will also be helped by the gradual shift of consumers toward local and higher quality production. On the basis of its Strategy to 2030, the Ministry of Agriculture intends to focus mainly on food self-sufficiency, which means support for livestock production, and the growing of vegetables, fruit and potatoes.

The EU Common Agricultural Policy will operate in its current form until 2020, up until which time Czech farmers should secure grant funds in the form of direct payments and investment funds from the Rural Development Programme. With climate change, problems with drought, the decreasing ability to retain water in the landscape and continued soil erosion, subsidies will be increasingly subject to 'greening', i.e. fulfilling conditions for agricultural practices suitable to the climate and environment.

Development on Agricultural Land Prices (EUR/ha)



Source: Farmy.cz, Statistisches Bundesamt, Bodenmarkt.info



The main issue of the CAP from a Czech perspective after 2020 will be how the EU will build on the current terms of subsidies in the Czech Republic, where all farms draw on support, including large industrial agricultural companies, which is contrary to the European approach based on small family farms.

The agricultural sector's challenge and opportunity is modern technologies. A range of advanced equipment and procedures are applied today, but in the future there will be more pressure for new technologies, such as electronic management, navigation systems, automation, robotics and data processing (i.e. Agriculture 4.0).

EU OFFICE / KNOWLEDGE CENTRE - Česká spořitelna, a.s.

Budějovická 1518/13b, 140 00 Praha 4

e-mail: eu_office@csas.cz

<http://www.csas.cz/eu>

Tomáš Kozelský – manager

e-mail: tkozelsky@csas.cz

tel.: +420 956 718 013

Jan Jedlička

e-mail: jjedlicka@csas.cz

tel.: +420 956 718 014

Tereza Hrtúsová

e-mail: thrtusova@csas.cz

tel.: +420 956 718 012

Max Wandler

e-mail: mwandler@csas.cz

tel.: +420 956 714 291

Radek Novák

e-mail: radeknovak@csas.cz

tel.: +420 956 718 015