EU Common Agricultural Policy

Jan Jedlička

EU Office of Česká spořitelna

EU OFFICE
Česká spořitelna, a.s.
Olbrachtova 1929/62
140 00 Praha 4
tel.: +420 261 073 308
fax: +420 261 073 004
EU_office@csas.cz
http://www.csas.cz/eu

Petr Zahradník
+420 261 073 019

Jan Jedlička
+420 261 073 484

Andrea Kadlečková
+420 261 074 491

Alena Smolíková
+420 261 073 308

ČESKÁ SPOŘITELNA

Contents:

Introduction

The Common Agricultural Policy is probably the most controversial activity of the Brussels leadership. The problems associated with this topic have once again become the centre of attention in relation to the expansion of the European Union by ten new member states. Hardly anyone now believes that European agriculture is functioning in a truly efficient manner. And the expenses for maintaining the entire system are reaching astronomical levels. The Common Agricultural Policy (CAP) constitutes the largest portion of the European budget; in 2004 it took up 45% (45.7 million Euros) of the entire budget. In comparison, the second most significant expense entry – regional policy, which has as its goal the elimination of sometimes abysmal differences in the economic efficiency of individual regions – swallows one-third of the total expenses.

Basic Characteristics of the Common Agricultural Policy

Since the very beginning of the European Community, common regulation of the agricultural product market has been its goal. The basic characteristics of the Common Agricultural Policy were defined as early as 1957 in the Treaty of Rome (Section 3, Chapter II, Articles 32 through 38).

At the time of its creation, CAP was truly progressive and useful. After the years of post-war renewal, its basic goal was to attain a level of growth of agricultural production in a manner whereby the member states could be self-sufficient as far as foodstuffs are concerned. The following are an exact list of the individual goals provided by the Rome Treaty:

- to increase agricultural productivity with the support of technical advances and by ensuring the rational development of agricultural production and the optimal use of production factors, particularly the labour force;
- to ensure the corresponding standard of living of the agricultural community, primarily by increasing the individual incomes of people employed in the agricultural industry;
- to stabilise the markets;
- to ensure a continuous supply; and
- to ensure deliveries to consumers at reasonable prices.

Thanks to CAP, foodstuff self-sufficiency was achieved after approximately ten years. Starting in the 1980s, however, the CAP application tools started producing a continuously increasing oversupply and at prices that exceeded those of the world market. CAP has been continually fighting this problem up to today.

Methods and Principles of CAP operation

The Common Agricultural Policy is established on the basis of three basic principles:

- **Unified agricultural market –** a common market for agricultural products at common prices allows the free movement of agricultural products between the member states and common borders for import to the European Union. Common hygienic and veterinary regulations, common competition regulations, etc. are also included.
- **More beneficial production with the other countries of the European Community** to the disadvantage of external competition – due to lower prices on the world market, it was necessary to implement import duties for the purposes of protecting European farmers. On the other hand, export subsidies help compensate for the differences in prices in the European Union and the prices on the international market, thus increasing the competitiveness of European products.

- **Financial solidarity** – financing from a common fund to which all member states contribute for the purposes of providing reimbursement for the expenses related to a common agricultural policy as well as payment for the opportunity of using its benefits.

Common Market Organisations

The Common Agricultural Policy is composed of what is defined as Common Market Organisations. These are basically sets of regulatory measures that are related to different sectors of agricultural production. Their purpose is to support the markets for specific agricultural commodities by means of various mechanisms that vary from product to product. Originally, Common Market Organisations were established for roughly one-half of all agricultural products; however, the number gradually increased and today they cover all products with the exception of potatoes, honey and some alcohol products.

BOX: Summary of Common Market Organisations (CMOs)

1. oils and fats;
2. live trees and other plants, bulbs, tubers and similar items, cut flowers and decorative greenery;
3. certain products as specified in Annex 1 to the Treaty on the European Community;
4. hops;
5. seed for sowing;
6. pork;
7. eggs;
8. poultry;
9. grains;
10. raw tobacco;
11. fish and aquaculture products;
12. dried fodder;
13. rice;
14. bananas;
15. fruits and vegetables;
16. products manufactured from processed fruits and vegetables;
17. beef and veal;
18. milk and dairy products;
19. wine;
20. flax and hemp grown for fibre;
21. sugar; and
22. lamb and goat meat.

European Agricultural Guidance and Guarantee Fund

A key role in the administration of the Common Agricultural Policy is played by the **European Agricultural Guidance and Guarantee Fund** (EAGGF), which is the main source for financing European agriculture. The fund was established as the result of the principle of financial solidarity, is a component of the total European Union budget and is used to finance all CAP expenses and some expenses for rural development. As the name of the fund indicates, it is separated into two sections:

a) The **Guarantee Section** finances the expenses of the Common Market Organisations (direct support, intervention measures, export subsidies, contributions towards warehousing) and some supporting expenses for measures in the areas of ecological agriculture and forestry management as well as for an early retirement program for agriculturists.

b) The **Guidance Section** consists of a structural fund that financially contributes to some projects focused on modifying the structure of and modernising rural areas: reconstructing and modernising agricultural homesteads, protection and support for the agricultural development of less fertile rural areas, providing assistance to young, start-up agriculturists, etc.

Main Instruments of the Common Agricultural Policy

The integrated instruments for regulating the agricultural market include direct payments, intervention measures (purchasing, sales, assistance for private warehousing), a quota system, export and import licenses, export subsidies and structural resources.

- Direct payments

Today, direct payments play a key role for farms. The large majority were originally implemented as compensation for pricing support, which was introduced through the reforms to CAP that took place in 1992. They are distributed within the framework of various common market organisations. The same rules for direct payments apply in all states of the European Union. The European Union often makes direct payments conditional on special requirements with regard to the environment and nature. Direct payments are a right, but they must be applied for.

The following direct payments are paid out within the framework of the current system: assistance for crops on arable land (grain, oilseed, protein feed crops, flax and hemp), premiums for suckling cows, special premiums for bulls and oxen, slaughter premiums, premiums for ewes, assistance for hops, sowing seed and others that are not applicable to the Czech Republic. The rate schedule for all direct payments is included as an annex to Regulation No. 1259/99.

- Intervention prices and purchases

The intervention price represents the lowest possible price level for the European Union internal market that agriculturists can receive for their production. Intervention prices are established by the Council for each fiscal year and are valid for the entire territory of the European Union. If the actual market price on the internal market decreases below the boundary of the intervention price, state intervention locations will start purchasing unlimited amounts of agricultural products at this guaranteed price.

For the most part, the purpose of intervention prices is to ensure market stability and to guarantee producers a certain price level. In the event of market imbalances (supply exceeding demand), the excess that exists on the market is either exported with subsidies to third countries or removed from the market through intervention purchases, specifically with the assistance of private warehousing.

This instrument is used mainly for grains, dairy products, beef, fruits and vegetables, sugar, pork, lamb, goat meat and wine.

- Quota systems

A quota represents the maximum guaranteed amount of production to which guaranteed prices are applicable. If this boundary is exceeded, there is a consequential decrease in prices for the following year. Quotas exist for milk, sugar, is glucose, potato starch and tobacco. The purpose is to limit overproduction in a specific manner and, at the same time, provide producers with guaranteed consumption and financial security within the framework of the quotas that are established.

- Export subsidies and import and export licenses for agricultural products and foodstuffs

Export subsidies are provided under certain defined conditions for selected agricultural products if they are exported to third countries. The amount of the subsidy is dependent on the export destination. Subsidies allow a certain level of competitiveness to exist for European agricultural products on the world market, as world prices are generally lower. In addition, trade with third countries is also addressed by agricultural import and export licenses. Export subsidies are linked with an export license and provide not only the right to export goods, but also the obligation to actually export a specific quantity of products of a certain quality within the established timeframe.

- Financial assistance from the Guidance Section of the European Agricultural Guidance and Guarantee Fund

This is the most significant instrument, also called the “second pillar of the Common Agricultural Policy” (see below), and is used to finance structural measures in agriculture and rural development.

Common Agricultural Policy Reforms

The main CAP instrument – support for agricultural production prices – celebrated success early. The living standards of agriculturists increased and in a relatively short time, led to increases in agricultural production and the elimination of food shortages in Europe. Whereas in 1962 the European Community was capable of producing only 80% of its food consumption requirements, today it is producing 120%. Conditions for maintaining the living standards of agriculturists and their families were also established. Their income solely from agriculture has increased by approximately 18% since 1992. Today, the European Union is the largest importer and the second largest exporter of agricultural products in the world. The situation for consumers has also improved – currently the average household outlays only 15% of the family budget for food and also has a wider variety of products to choose from than it ever had in the past.

A drawback was, however, the fact that agriculturists were interested in the largest amount of production possible without taking demand into consideration. On the one hand, between 1980 and 1986 the expenses outlaid by the Guarantee Section of the EAGGF doubled, but on the other hand, during that same period the excesses of the primary agricultural products increased by the infamous "mountains of butter" and "lakes of wine". The main problem with CAP was the fact that it was established on the principle of high guaranteed prices for production. This stimulated farmers to increase production in spite of the fact that demand was increasing at a much lower rate. The Union purchased the overproduction that occurred as a result and then either warehoused it or exported it to third countries with the assistance of export subsidies. As a result, expenses for maintaining the entire system grew and the difference between the higher prices within the framework of the European Union and the prices for the same production on the world market also increased. A secondary consequence was the decrease in competitiveness of European producers. In addition, as a result of prices tied to production volume, 20% of the largest and most productive farmers received 80% of the total subsidies flowing into agriculture and intensive agricultural methods in some areas led to excessive use of the soil and chemical fertilisers, which in the long run, led to environmental damage.

CAP Reforms in the Past

As a reaction, the member states decided that agriculturists would bear a portion of the expenses related to overproduction, which would encourage them to produce less. Over a period of time, a number of measures were prepared that, in the areas of milk and grain production transferred a portion of the liability for overproduction to agriculturists. In addition, "budgetary discipline" was introduced in 1988. This was a policy agreement that stipulated that the growth in expenses of the fund's Guarantee Section must be limited to 74% of the growth of GDP in the European Union.

These measures, however, proved to be insufficient. In 1992, McCarty's reform (named after the Agricultural Commissioner at that time) was implemented. Its aim was to decrease guaranteed prices in a manner whereby they would be closer to world market prices and to limit the area of soil that was cultivated. The decrease in agriculturists' income was compensated by direct payments. Supplemental financial assistance was designated for those categories of farmers that were most threatened by the reforms and for the support of less intensive agricultural methods.

The 1992 reforms proved to be successful. The portion of the European Union budget applied to agriculture decreased and there was a significant decrease in excess supplies. Without continuing reforms, however, the positive effects of the 1992 reforms would decrease. For this reason, in summer 1997, the European Commission presented its Agenda 2000, which contained a proposal for widespread reform of the Common Agricultural Policy. This reform was accepted in 1999.

BOX: Main principles of CAP reform included within the framework of Agenda 2000:

- **Lower price support** will lead to increased competitiveness – market support of prices will be limited to 15% for grains and 20% for beef. During 2005-2006, there will also be a 15% decrease in the subsidies for dairy production.
- **Solid living standard for agriculturists** – the decreased subsidies will be partially compensated by direct payments.
- **Strengthening the European Union's position in international trade** – focusing on larger markets will assist in the preparations for accepting new member states and will strengthen the European Union's position when negotiating at a global level.

- **Emphasis on quality** – the reform fully takes into consideration consumer interest in ensuring that foodstuffs are of a high quality and safe, that the environment is not damaged as a result of production and that agricultural animals are handled in a humane manner.
- **Integration of environmental protection goals** into CAP – the member states must implement the appropriate measures for protecting the environment.
- **New framework for rural development** – the second pillar of CAP. The new rural development policy has set as its goal the creation of a well thought-out framework for the future development of European rural areas. The rural development programs represent financial assistance systems that, on the basis of a uniform strategy, strive to strengthen agriculture and forestry, increase competitiveness between rural areas and protect the environment.
- **Decentralisation** – a portion of the direct subsidies for the beef and dairy product industries will be distributed from the European Union budget to the member states, which will then divided them according to their specific and regional needs.
- **Additional simplification of** CAP will take place in the area of legislation.

CAP Reform from June 2003

Unfortunately, even the ambitious reforms within the framework of Agenda 2000 proved to be unfruitful. In addition, the nearing expansion of the European Union by ten new member states, including Poland with its strong agricultural sector, would make the current Common Agricultural Policy impossible to finance under the existing regulations. An agreement on subsidy-based radical reforms to the European Union's Common Agricultural Policy is also a required prerequisite for the continuation of the Qatar negotiations of the World Trade Organisation (WTO).

The reform proposal prepared by a team led by Agricultural Commissioner Franz Fischler might be a large compromise, but it still represents the most radical transformation of CAP during its entire period of existence. A key element appears to be the elimination of the link between subsidies and the volume of agricultural production, which should prevent overproduction and force farmers to focus their production more on the needs of the market. On the basis of the reforms, as much as 75% of the agricultural crops produced should be independent of direct payments. Direct payments to large agricultural enterprises should also be decreased and the financial savings in that area will be allocated to rural development – an area that is constantly becoming more important.

The approved version of the reforms to the European Union's Common Agricultural Policy are not very appealing to developing countries, as these reforms will not prevent European countries from exporting subsidised products onto their markets. Criticism has also been voiced from the European agricultural lobby (primarily France), which is not interested in decreased or questionable generous subsidies.

Main Elements of CAP Reform:

Changes will start being implemented in 2005 through several sequential phases:

1) <u>Standard agricultural payments for assisting maintainable agriculture with a more significant market orientation</u>

A method of Standard agricultural payments will replace the majority of supplements paid out within the various Common Market Organisations. This implies that the vast majority of the European Union's direct payments will no longer be tied to production. In principle, agriculturists will receive this payment on the basis of referential amounts from the period of 2000 through 2002.

Those member states that consider it necessary to minimise the risks associated with the possible movement away from agricultural activities can maintain a validity of up to 25% of the current payments allocated per hectare of *arable land tied to production*. Another option is to maintain the validity of production ties for up to 40% of the supplemental payments for durum wheat.

In the *beef sector,* the member states can select from amongst the following options:

- to maintain up to 100% of the premium for suckling cows and 40% of the slaughter premium, or
- to maintain up to 100% of the slaughter premium and up to 75% of the special premium for cows.

In disadvantaged regions, it is possible to maintain the production ties for a maximum of 50% of the premium for *sheep and goats*, including the supplemental premium.

Should the member states wish, it were possible to maintain the production ties even for *assistance for dried grains* and for direct payments *in the most remote regions* and the Aegean Islands.

Payments for dairy products shall be not be included in standard agricultural payments until 2008, at which time the reforms for the dairy industry will already be fully implemented. The member states are free to implement the system as specified at an earlier date.

Supplemental special measures are applicable to other products, such as rice, durum wheat, starch or dried feed (see below).

The member states can themselves implement supplemental payments up to a maximum of 10% of the total amount of the standard agricultural payment for the purposes of supporting specific agricultural activities, which are important for the environment, quality production and marketing.

The new system will become valid in 2005. Member states can postpone their application for standard agricultural payments until no later than 2007.

2) <u>Strengthening environmental, food safety and animal and health welfare standards</u>

The provision of the standard agricultural payment and other direct payments in their full amounts will be conditional on the fulfilment of a certain number of mandatory standards in the areas of the environment, food safety, plant protection and animal health and welfare. In addition, meeting the standards in full will contribute to maintaining the rural landscape. If the requirements are not met, the amount of the direct payments will be decreased.

3) <u>New “Agricultural Advisory System”</u>

This is a service that will provide agriculturists with advice in the form of direct feedback on how to apply the standards and principles of optimal agricultural practices to the production process. Agricultural audits will include structured and regular inventories with the settlement of material flows and processes at the enterprise level and will be established for specific target areas (environment, food safety, animal welfare).

Use of the Agricultural Advisory System will be voluntary for the member states until 2006. Member states will be required to offer their agriculturists an advisory system starting in 2007.

4) <u>Strengthening rural development</u>

The European Union resources that are available for rural development will be significantly increased and the scope of European Union support for rural development will be further expanded through the implementation of new measures. It will be up to the member states and the regions to decide whether they wish to include the specific measures in their rural development programmes.

The accepted measures are meant to ensure better-addressed reactions to fears connected with the food safety and quality. They should assist agriculturists in adapting to the newly implemented demanding standards provided by European Union legislation and should also assist in supporting the strict standards implemented for animal welfare.

5) <u>New incentives for agriculturists aimed at increasing quality</u>

Agriculturists who participate in programs aimed at increasing the quality of agricultural products and applied production processes and who provide consumers the corresponding guarantees will receive incentive payments. Assistance will also be provided to groups of manufacturers for activities targeted at informing the public and promoting consumers about products that are manufactured according to quality assurance programs and in accordance with the above-specified measures. The maximum allowable public support will be equal to 70% of the allowable expenses for an applicable project.

6) <u>New support for assisting agriculturists in fulfilling standards</u>

This temporary parallel support will help agriculturists adapt to the newly implemented standards as provided by the sections of European Union legislation that have not yet been incorporated in national legislation in the areas of ecology, protection of public health and animal health, the protection of plants, animal welfare and work safety and protection.

7) Coverage of expenses that are outlaid by agriculturists for ensuring animal welfare

Support will be provided to agriculturists that commit to improving animal welfare conditions above the framework of general proper agricultural standards for a period of at least five years. This support will be paid annually according to the additional expenses and lost income related to these obligations.

8) More effective investment support for young agriculturists

The intensity of European Union assistance allocated for young agriculturists will be increased.

9) Decreased direct payments to large farms and the related intensification of support for rural development

In order to be able to finance the subsequent measures targeted at rural development, direct payments to large farms (those that have as of now been receiving direct assistance of more than EURO 5,000) will be decreased: by three percent in 2005; four percent in 2006; and by five percent annually during the period of 2007 through 2012. Farms located in the most remote regions are excepted.

For the purposes of dividing the resources that are obtained as a result of this decrease, one percentage point will remain in the member state from where the resources originated and the remainder will be distributed among the member states according to established criteria.

10) Ensuring financial discipline

The maximum limit for expenses for the Common Agricultural Policy, which was established at the Brussels Summit in October 2002, was confirmed. In 2007, a maximum of EURO 45 billion can be allocated to agriculture from the European budget; and for 2007, the ceiling for expenses is slightly higher (EURO 48.5 billion). Should estimates indicate that the calculated amounts, together with a reserve in the amount of EURO 300 million, be exceeded in the applicable budgetary year, the direct support measures will be modified.

11) Market stabilisation and improving the quality of the Common Market Organisations

Plant production sector

- *Grains*

The current intervention price for grains is being maintained. The basic portion for crops raised on arable land remains unchanged and the existing seasonal adjustment of intervention prices (“monthly increases”) will be decreased by 50%. Rye is excluded from the intervention plan (some countries may however claim an exemption).

- *Protein crops*

The current supplemental payment for protein crops will continue to be maintained and will be transferred to crop-specific payments according to area. These payments will be made within the framework of the new maximum guaranteed area (1.4 million hectares).

- *Support for energy crops – Carbon Credit*

The Commission is proposing support for energy crops in the amount of EURO 45 per hectare for areas with a maximum size of 1.5 million hectares. This support will be paid only to those regions whose production is covered by a contract between the agriculturist and the processing industry with the exception of cases in which the agriculturist performs the processing within the framework of a holding company.

- *Durum wheat*

The supplement for durum wheat (the raw material used for pasta production) in traditional manufacturing areas will be paid independently of production. The member states can opt to retain ties to production for up to 40% of the amount of this supplemental payment. The payment will be included in a standard agricultural payment. A new premium will be introduced for the improvement in quality of durum wheat.

- *Starch potatoes*

The current policy guarantees a direct payment to growers of starch potatoes. Forty percent of this payment will be included in a standard agricultural payment on the basis of previous deliveries for industrial processing. The remainder will continue to be maintained as a crop-specific payment for starch potatoes. The minimum price will remain in place, as will the production refund for starch.

- *Dried fodder*

Support in the dried fodder sector will be divided between the grower and the processing industry. Direct support for growers will be included in a standard agricultural payment on the basis of the quantity of previous deliveries for industrial processing.

Rice

One step will result in the decrease of the intervention price by 50%, which is in accordance with global market prices. The intervention will be limited to a quantity of 75,000 tonnes per year. For the purposes of stabilising income attained by producers, the current direct support will be increased more than threefold, which is the rate equivalent of the total compensation for grains ensuing from the 1992 reforms and the programs of Agenda 2000. The maximum guaranteed area will be based on the average of the years 1999 through 2001 or according to the current maximum guaranteed area, depending upon the lower of the two values.

Nuts

The current schedule will be replaced by a flat annual payment for a total area of 0.8 million hectares divided into established nationally guaranteed areas for growing almonds, hazelnuts, walnuts, pistachios and carob. The member states can use their guaranteed amounts in a flexible manner and can supplement the support through the established annual supplemental payment.

Dairy products

With the goal of securing a stable perspective for agriculturists in the area of dairy product production, the reform quota schedule for dairy products was extended to 2014 / 2015.

The Council decided to implement an asymmetrical decrease in milk and dairy product prices. The intervention price for butter will be decreased by 25% (7% per year during 2004-06 and 4% in 2007). The price for dried separated milk will be decreased by 15% (5% per year in 2006-06).

Intervention purchases of butter will be stopped when they exceed 70 thousand tonnes in 2004; starting in 2007, the limit will be decreased to 30 thousand tonnes. Purchases above the limit will only be made on the basis of a public tender process. The target price for milk will be eliminated and compensation will be established in its stead. A standard agricultural payment will be used for dairy products after the reform is implemented in full scope.

Reforms for olive oil, tobacco, cotton and hops

Reform measures for these commodities were not approved until April of this year. The principle behind them is also the weakening or total elimination of the link between direct payments and the produced amounts. In the case of tobacco, prior to the time that the payment system is totally modified, the member states can decide to maintain some payments that are connected to production for an interim period of four years. Starting in 2010, a certain portion of the existing payments to tobacco growers will be used for programs for financial restructuring in distressed regions. As far as olive oil is concerned, it was decided that the member states could maintain payments connected to production in an amount of up to 40%. For cotton, the connection to production was eliminated for 65% of the subsidies and 35% will be maintained as payment bound to the area in hectares. The member states can maintain 25% of the subsidies bound to production for hops and the remaining three-quarters will be paid out on the basis of area.

Impact of the Common Agricultural Policy on the Czech Republic

"The European Union of course isn't heaven, but it is far from being hell. Farmers will clearly be better off in the European Union," said European Agricultural Commissioner Franz Fischler in a speech aimed at farmers from the ten new member states. According to analyses performed by the European Union, only the implementation of market measures without any direct payments will most likely lead to increasing agricultural incomes by 30%. There is a flip side to every coin, however. Agriculturists in the new member states, including domestic farmers, will be exposed to hard competition from their European counterparts, from whom no protection will be provided by customs duties or quota measures within the framework of a unified internal market and who will receive 100% of the direct payments. An increase in expenses can also therefore be expected, primarily the cost of labour and soil.

The basic conditions for the application of the Common Agricultural Policy to the newly acceding countries were agreed on at the Copenhagen Summit in December 2002.

Direct payments

Direct payments will be implemented in the new member countries gradually over the course of the next ten years. After accession in 2004, agriculturists in these countries will receive 25% of the full amount in the EU-15; in 2005 this amount will increase to 30% and in 2006 to 35%. Starting in 2007, at which point Czech agriculturists will receive 40% of the direct payments in the EU-15, this share will increase by ten percentage points every year until 100% is attained in 2013. During the entire period of this gradual implementation of direct payments, the new member states will have the opportunity of increasing them by up to 30% above the valid value for that specific year (refer to the graph). The assistance can never exceed 100%. This means that in the years 2004, 2005 and 2006, the direct payments received by agriculturists in the Czech Republic can gradually reach 55%, 60% and 65% of their full amounts in the European Union. There are not, however, sufficient domestic budgetary resource to achieve this level. As of now, the available resources allowed this year's subsidies to increase to the 48% level. Thanks to the transfer of entries in the budget chapter of the Ministry of Agriculture, these levels will be increased up to 52% of the value of the payments in the "old" member states.

For using financing resources from the European Union, the Czech Republic will use a simplified system of direct payments called a "unified area payment". The system is based on the principle that the total financial package of European Union payments, calculated as the sum of all payments that can be claimed for a given year for individual commodities, will be divided amongst all the hectares of agricultural land that can be claimed; i.e., arable land, permanent grasslands, orchards, hop yards, vineyards and gardens.

The Czech Republic provided Brussels with measurements of 3.469 million hectares of agricultural land for which an amount of EURO 198.94 million was negotiated for this year. When the amount per hectare is calculated, it amounts to EURO 57.35, or approximately CZK 1,820, per hectare.

In addition, it is possible to use direct payments in the form of support for less favourable regions and regions with environmental (ecological) limitations, for which the amounts of assistance are higher.

After accession to the European Union, all agriculturists, including small farmers, will have the right to receive payments. The minimum area of land must be one hectare.

Market measures

Except for direct payments, Czech agriculturists will be able to take advantage of the other elements of CAP immediately upon accession, including market measures. The prices that agriculturists will receive for their products will be supported in the same manner as in the European Union: intervention purchases at intervention prices, protection of the domestic market with the assistance of import duties, export subsidies for excess supplies, private warehousing, etc. These measures act as a stabilising mechanism for the prices of agricultural products and the income of agriculturists.

An amount of EURO 300 million from European sources was negotiated for these market measures for the Czech Republic for the entire programme period of 2004-2006.

Negotiated production limits

The purpose of quotas is to maintain prices and limit excess overproduction. The level of negotiated production levels should not threaten the future of domestic agriculture due to the fact that, aside from sugar, it was possible to negotiate quotas that ensure a larger volume of agricultural production than is currently achieved. The establishment of basic areas and referential yields from plant production and the ceilings for premiums for agricultural animals are important for determining the maximum amount of direct payments.

Quotas agreed on for the Czech Republic

Oblast	*Results of negotiations*
Base area	2 253 598 hectares
Reference yield	4,20 t/ha
Milk	2 682 143 tons, (for 2006 reserve 55 788 tons)
Fat content of milk	4,21 %
Suckler cows	90 300 pieces
Sheep	66 733 pieces
Special premium for holding male bovine animals	244 349 pieces
Slaughter premium	483 382 pieces (adult cattle), 27 380 pieces (calves)
Sugar	454 862 tons
Starch	33 660 tons
Flax	1 923 ton (long fibre), 2 866 ton (short fibre)
Dried fodder	27 942 tons
Fruit and vegetable	12 000 tons (tomatoes), 1 287 tons (peaches), 11 tons (pears)

Structural measures

The European Union resources for structural measures will be used on the basis of two programme documents: the “Operational Programme Rural Development and Multifunctional Agriculture” and the “Horizontal Rural Development Plan”.

Operational Programme Rural Development and Multifunctional Agriculture

The programme is a continuation of the measures provided by the Sapard Accession Programme and is financed by the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG).

The goal of this programme is to strengthen the competitiveness of Czech agriculture and forestry production. It should contribute to protecting the environment and to permanently maintaining the level of rural development on the basis of sustainable agriculture with quality processing of agricultural products and adapting Czech agriculture to fit the European model.

The programme is divided into ten priorities, which are further separated into measures and sub-measures (refer to the table). The share of public resources (structural funds and the state budget) for financing the measures is in the range 50-100%. The total amount from European sources represents EURO 173.9 million and EURO 76.7 million has been allocated from the state budget).

The Czech Republic also decided to implement the community initiative LEADER+ within the framework of this operational programme, specifically within the framework of Sub-measure 1.2.4. – Rural Development, as during the programme period of 2004-2006, the Czech Republic will not be allowed to participate directly in this European Union programme.

Financial allocations to the Operational Programme in 2004-2006 (mil EUR, current prices)

Priority/Measure:	EU (EAGGF/ FIFG)	CR	TOTAL
1. Support for Agriculture, the Processing of Agricultural Products, and Forestry	97,5	53,7	151,1
1.1 Investments in Agricultural Assets and Agricultural Enterprises	78,4	46,0	124,5
1.2 Improving Processing and Marketing of Agricultural Products	10,0	4,3	14,3
1.3. Forestry	9,1	3,3	12,4
2. Rural Development, Fisheries and Vocational Training	73,4	22,0	95,4
2.1 Promoting the Adaptation and Development of Rural Areas	65,3	18,7	84,0
2.2 Vocational Training	1,1	0,4	1,5
2.3 Fisheries	7,0	3,0	9,9
3. Technical Assistance	3,0	1,0	4,0
TOTAL	**173,9**	**76,7**	**250,6**

Horizontal Rural Development Plan (HRDP)

The HRDP is financed from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. Its goal is to decrease the differences in the profitability of establishments in less favourable regions that are the result of different natural conditions, to increase the unfavourable age structure of agriculturists, to maintain soil fertility, to prevent soil erosion, and, to a significant degree, to ensure the use of agricultural land in accordance with the Principles of Proper Agricultural Practices. The HRDP's priority is to achieve the sustainable development of agriculture, rural development and related natural resources.

The program is divided into six measures (refer to the table). Eighty per cent of the resources required for the total expenses for the HRDP will be provided from European funds and the remaining twenty per cent will be financed from the national budget of the Czech Republic. No private resources are required. The total financial amount for the HRDP for 2004-2006 is estimated in the amount of 678.5 million EURO of which the contribution on the part of the European Union is EURO 525.8 million.

Financial allocations to the HRDP in 2004-2006 (mil EUR, current prices)

Measure	EU (EAGGF)	SR (MZe)	Celkem
1. Earlier End of Agricultural Activity	7,1	1,8	8,9
2. Less Favourable Areas or Areas with Environmental Constraints	243,7	60,9	304,7
3. Agro-environmental Measures	268,0	67,0	335,0
4. Forestry	16,5	4,1	20,6
5. Set-up of Groups of Producers	4,6	1,2	5,8
6. Technical Assistance	2,8	0,7	3,5
TOTAL	**542,8**	**135,7**	**678,5**

.

Administration of resources for Common Agricultural Policy in the Czech Republic

The Agrarian Payment Agency plays the key role in the use and overall administration of the agricultural subsidies from the European Union. Originally, it was thought that domestically the financial resources from the European Union funds should be the responsibility of two payment agencies. One would be the State Agricultural Intervention Fund, which would primarily focus on payments within the framework of the Common Market Organisations, intervention measures and the provision of export subsidies. The second payment agency would be a newly established institution, which would be primarily responsible for the administration of resources provided from the Guidance Section of the European Agricultural Guidance and Guarantee Fund.

In July of last year, however, it was decided to create one institution; this decision also meets European Union requirements for the smallest possible number of authorised agencies. The functions of a payment agency are to be performed solely by the State Agricultural Intervention Fund. It was not successfully accredited until last year, which resulted in criticism and concerns on the part of some agriculturists. The Ministry of Finance did not grant authorisation to this agency until 30 April 2004.