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Evaluating the Effects of the EU Common Agriculture Policy in a New Member State: The Case of the Czech Republic

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ABSTRACT *This article examines the impact of the CAP on the Czech Republic. Specifically, it focuses on implementation of the CAP and its economic, social and political effects, as well as the domestic debate about CAP reform. It argues that CAP implementation has gone fairly smoothly and the economic and social effects of the CAP have been generally positive or at least neutral. It also argues that while the CAP has had only a minimal impact on domestic politics, the domestic politics of agriculture could inhibit a strong Czech position in favour of CAP reform, even though the Czech Republic would generally benefit from further liberalization of the CAP.*

KEY WORDS: Common Agricultural Policy (CAP), Czech Republic, accession, CAP reform

Introduction

In the recent enlargement, perhaps no other European Union policy aroused so much anticipation and apprehension as the Common Agricultural Policy (CAP). The Central and Eastern European countries (CEECs) viewed CAP subsidies as a major financial benefit of EU membership, and in accession negotiations they fought hard to gain full access to CAP direct payments for their farmers. Within the EU, however, there were serious concerns about the administrative capacity of the CEECs to implement the CAP and utilize EU funds. Meanwhile, in the CEECs the CAP provoked fears of increased prices for food and agricultural land, and worries that CEEC farmers would be driven out of business by more efficient and competitive farmers from the old member states (EU-15). Nearly five years after accession, it is possible to initially assess the validity of these various hopes and fears.

This article examines the impact of the CAP on the Czech Republic, a new member state that acceded to the EU in May 2004. Specifically, it focuses on the implementation of the CAP and its economic, social and political effects in the Czech Republic, as well as the domestic debate about CAP reform. The article makes four main arguments: (1) Although there have been some problems, implementation of the CAP has gone fairly smoothly since accession, due mainly to successful pre-accession experience with EU agricultural

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assistance programmes; (2) Contrary to dire pre-accession predictions, the economic and social effects of the CAP have been generally positive or at least neutral, although the benefits of the CAP have been unequally distributed, tending to favour agricultural enterprises more than agricultural workers; (3) The CAP has had a minimal impact on domestic politics, except in instances where CAP requirements have affected traditionalist or nationally-sensitive issues; and (4) While overall the Czech Republic stands to benefit from liberalization of the CAP, the domestic politics of agriculture could inhibit a strong Czech government position in favour of CAP reform, mainly because of the strong opposition of Czech agricultural lobby groups, who have been organizationally strengthened by EU accession and the CAP.

The article begins with a brief look at the Czech agricultural sector before accession and the legacy of the communist period, before examining EU pre-accession support for Czech agriculture and the role of agricultural policy in the accession negotiations. It then examines how the CAP has been implemented in the Czech Republic since accession, especially the question of institutional and administrative capacity. The next section analyses the economic, social and political effects of the CAP, including its impact on party politics. The domestic politics of agriculture and its implications for the Czech Republic's position on CAP reform are then discussed, before the main findings of this study are summarized in the Conclusion.

Czech Agriculture before EU Accession

The development of the agricultural sector prior to EU accession was strongly influenced by the legacy of pre-1989 communist policies, as well as by transformation efforts in the early 1990s. While agriculture occupied a comparatively smaller share of the national economy in Czechoslovakia than in other socialist countries, it nevertheless employed 10.2 per cent of the workforce and represented 7.4 per cent of total GDP in 1987. In contrast to other socialist countries (for example, Hungary and Poland), Czechoslovakia exhibited an almost fully nationalized or collectivized agricultural sector (see Table 1). Private smallholders represented a negligible proportion of the overall agricultural output, with Czechoslovakia having the smallest such ratio of all socialist countries. While in communist Poland 78 per cent of agricultural land was managed by private farmers, two-thirds of Czechoslovak farm land was controlled by 1,024 farm cooperatives and the remaining third by 174 state farms. The consequence was a strong concentration of agricultural land in large farms, reaching higher levels than in any other socialist country except for the USSR (Javůrková & Rottová, 1989, pp. 101–102). The legacy of high land concentration has been maintained—although to a smaller degree—until today, and thus represents a characteristic feature of Czech agriculture. In 2006, 74 per cent of Czech farmland was managed by enterprises (of various business forms) cultivating more than 500 hectares (Křen & Valtýniová, 2008, p. 104).

The communist regime carried out a wholesale forced collectivization in several phases starting in 1949. Despite formal co-ownership by the cooperative farmers, collective farms in reality operated as state-owned and centrally managed enterprises (Nešpor, 2005, p. 29). Communist policies radically transformed the shape of agricultural production, which had historically been characterized by medium-sized commercial production in the Czech lands and small peasant production in Slovakia. The discontinuity in terms of collective or state ownership manifested itself in destroying the attachment of farmers to the land.

Table 1 Farm structure and land use in Central and Eastern Europe: comparison of pre-transition and post-transition levels.

	Share in total agricultural area (%)				Average size (hectares)			
	Cooperatives		Individual farms		Cooperatives		Individual farms	
	Before	After	Before	After	Before	After	Before	After
Poland	4	3	77	82	335	222	6.6	7.0
Hungary	80	28	6	54	4179	833	0.3	3.0
Czech Rep.	61	43	0	23	2578	1447	5.0	34.0
Slovenia	n.a.	n.a.	92	96	n.a.	n.a.	3.2	4.8
Estonia	57	n.a.	6	63	4060	n.a.	0.2	19.8
Romania	59	12	12	67	2374	451	0.5	2.7
Bulgaria	58	42	13	52	4000	637	0.4	1.4
Slovakia	69	60	5	5	2667	1509	0.3	7.7
Lithuania	n.a.	n.a	9	67	n.a.	n.a..	0.5	7.6
Latvia	54	n.a.	5	95	5980	n.a.	0.4	23.6

Source: European Commission (1998, p. 24).
Note: Post-transition records are based on 1995–1997 reports from respective countries.

Developments in Czech agriculture between the Velvet Revolution of 1989 and EU accession can be divided into two phases. The first phase (1989–1995) is characterized by a *rapid transformation* of the structures of ownership, production and employment in agriculture. In line with the prevailing neoclassical ideology of the liberal governments led by Prime Minister Václav Klaus, Czech agriculture underwent a triple change of ownership structure characterized by privatization, restitution (transfer of property to its pre-communist owners) and de-collectivization. The privatization of previously collective or state farms was to a large extent carried out by their communist-era managers. Due to the absence of laws and overseeing authorities protecting the legality of privatization, the former power wielders were permitted to enrich themselves often at the expense their own enterprises and the national economy (Majerová, 2000, p. 172). Nor did the restitutions help improve the ownership structure. Although the number of potential claimants was estimated at 3.5 million, in reality only 250,000 people reclaimed their property based on the restitution laws, with the majority receiving only very small areas of land not usually used for commercial production (Nešpor, 2005, p. 48). Furthermore, only a fraction of those who received their property back began to manage it themselves, while a majority rented the land to the cooperatives that had managed it before or to private companies.

Table 1 shows in comparative terms that while the proportion of total agricultural area administered by cooperative farms declined somewhat after 1989, it still remains the second-highest proportion among the accession countries, exceeded only by Slovakia. A similar ranking applies to the average size (in hectares) of cooperative farms, signifying a high degree of land concentration. In general, the restitution process has not created a strong commercially oriented stratum of farmers. It also contributed to the devaluation of farmland and impeded the restructuring of agricultural enterprises (Hudečková, 1995, p. 458). As a consequence, the majority of agricultural land managed today in the Czech Republic does not belong to the farmers who cultivate it; rather it is rented out by ‘hidden’ owners. Agricultural companies manage 94.8 per cent and family farms 63.7 per cent of rented farmland (Křen & Valtýniová, 2008, p. 104). A remarkable feature of Czech agriculture is that despite the ambitious privatization and restitution schemes of the early 1990s, there has been a persistence of traditional large-scale collective farm structures as opposed to small individually-run farms (Nešpor, 2005).

Overall agricultural production in Czechoslovakia/the Czech Republic declined sharply after 1989, resulting partly from the ownership restructuring, but also from the loss of previous markets in the socialist countries, the reduction of state subsidies and the chronic indebtedness of agricultural enterprises. The number of agricultural employees also dropped by 53.6 per cent between 1990 and 1995 (Křen & Valtýniová, 2008, p. 104). Employment in agriculture has been characterized by below-average wages accompanied by a perceived low level of public appreciation for farming jobs. In 1995, for instance, 73 per cent of farmers thought that their jobs lost prestige following the end of communism (Nešpor, 2005, p. 33).

The second phase (1996–2004) of Czech agricultural development before EU accession can be characterized as a period of *partial stabilization*. Although the number of those employed in agriculture had been decreasing steadily, this decline was not as stark as in the transformation period, with the number of agricultural employees dropping from 257,000 in 1995 to 151,000 in 2004 (Křen & Valtýniová, 2008, p. 105). As of 2008, agriculture employs only one-quarter of those it employed in 1989. The positive side of this decrease has been the growing productivity of the agricultural sector. Despite the accompanying slight decrease in the overall volume of agricultural production, Czech farms produce more output per worker than ever before. Total agricultural production decreased in 1994 to about 74 per cent of the average for 1989–1991, but stabilized at roughly this level for the rest of the 1990s (European Commission, 2002, p. 6).

Czech Agriculture and EU Accession

Although agriculture is the single most important target of EU funds allocated to the Czech Republic, its contribution to the overall economy is fairly small. While land used for agricultural purposes represents 54 per cent of the total area of the country, agricultural employees make up only 2.8 per cent of the total workforce (MZE, 2006a, p. 117). In most of the Czech Republic's 14 regions agriculture contributes only between 0 and 5 per cent of regional gross value (GVA) added; only in one region (Vysočina) does it contribute more than 10 per cent. These small shares of regional GVA reflect the relatively minor economic significance of agriculture compared to other productive sectors.

Agriculture was a major beneficiary of EU support even before accession. The most important mechanism of EU pre-accession support for agriculture in the CEECs was the Special Accession Programme for Agriculture and Rural Development (SAPARD). Financial aid from SAPARD covered two main objectives. The first aimed at increasing the level of preparedness of both farmers and administrative structures for CAP mechanisms, thereby improving 'absorption capacity' (the ability to utilize EU funds). This was accomplished by utilizing the same control mechanisms and administrative procedures for SAPARD that are common in the EU. In the Czech Republic, a total of 1,692 projects (out of more than 3,000 applications) worth €137.9 million[1] were approved and funded through SAPARD; in fact, the Czech Republic surpassed all other candidate countries in absorbing SAPARD funds and disbursing allocated expenditures

(MZE, 2005). The second goal of SAPARD was to improve the competitiveness of CEEC agriculture and foster the sustainable development of rural areas.

Agriculture was also a major topic in accession negotiations between the EU and the CEECs, which were completed at the December 2002 Copenhagen summit. The main provisions of the Accession Treaty regarding the CAP were as follows. Farmers from the new member states would have immediate (that is, after May 2004) access to CAP market measures, such as export funds and intervention mechanisms. Production quotas, reference yields and base areas were set for the new members based on recent historical reference periods (OECD, 2004, p. 7). For three years after accession, the new members would have the option of providing direct payments to farmers in the form of a Single Area Payment Scheme (SAPS), which disburses subsidies on the basis of hectares. In the final negotiations, the Czech Republic also managed to increase the financial resources available for rural development for 2004–2006 from €380 to €480 million, with the Czech government adding a further €120 million in co-financing.

Probably the most hotly debated issue at the Copenhagen summit was the distribution of direct payments to farmers. The Copenhagen summit agreed to a gradual phasing-in of direct payments to full levels over a period of ten years. The new member states would receive 25 per cent of full direct payments in 2004, 30 per cent in 2005, 35 per cent in 2006 and 40 per cent in 2007. Beginning in 2008, the annual increase would be 10 per cent. The accession agreement also allowed the new members to 'top-off' EU subsidies from their national budgets by up to 55 per cent in 2004, 60 per cent in 2005 and 65 per cent in 2006. Thus, in 2004–2006 Czech agriculture received €688 million in direct payments from the EU, with the Czech government permitted to add an additional 30 per cent. Until 2006, the national top-offs could be co-financed from EU rural development funds. However, beginning in 2007, the new members were allowed to use only their national budgets to top-off EU payments by up to 30 per cent above the applicable phasing-in levels of EU subsidies (Tupy, 2003, p. 11).

Implementing the CAP

The most important CAP implementing agency in the Czech Republic is the State Agriculture Intervention Fund (SAIF, *Státní zemědělský intervenční fond*). The SAIF administers financial support from the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Fisheries Fund (EFF) and the national top-ups provided by the Czech government. Support from the EAFRD was provided through two Operational Programmes (OPs) in 2004–2006: the Horizontal Rural Development Plan (HRDP) and the OP Rural Development and Multifunctional Agriculture (OP RDMA). The HRDP included support for Least Favoured Areas (LFAs), in which half of Czech agricultural land is situated, agro-environmental measures, forestry assistance and technical aid, the first two being by far the most important in terms of the volume of financing provided. In 2005, €203.8 million was disbursed through the HRDP, of which nearly €168 million came from the EU and the rest from the Czech government (MZE, 2006b, p. 35). In 2007 the HRDP and OP RDMA were combined into a single Programme for Rural Development (*Programme rozvoje venkova*).

Within the EAGF framework, the SAIF distributes direct payments to farmers through the hectare-based SAPS mechanism, administers the production quota system, administers price guarantees and disburses payments within the common market framework, which is supposed to compensate farmers for market fluctuations of supply and demand for agricultural commodities (SAIF, 2006). The SAIF was also responsible for administering the pre-accession SAPARD programme.

The adequacy and preparedness of administrative capacity was one of the key concerns regarding the successful integration of the CEECs into the EU in general and implementation of the CAP in particular. As the date of accession approached, it became increasingly apparent that some CEECs were ill-prepared for membership in the agricultural sphere. Some of the larger problems were exemplified by Poland, the largest accession state with the most significant agricultural sector. Not only did Poland suffer from a rising level of corruption that undermined the efficacy of its public administration, but key implementing agencies were understaffed and legal harmonization was far from fully achieved. Poland also lacked proper procedures concerning food, public health and animal welfare standards (Grant, 2005, pp. 58–59).

Although problems with administrative capacity were not as dire in the Czech Republic, there was still basis for concern. The Commission's 2003 report on Czech preparations for EU membership found several shortcomings in the area of agriculture (European Commission, 2003). Nevertheless, the Czech case demonstrates that early fears of institutional and legal problems in CAP implementation were only partially justified.

While the Czech Republic has been generally successful in adapting to EU requirements and creating adequate administrative structures, there have been some administrative impediments to the smooth implementation of the CAP. One example is the delayed opening of the application process for the agro-environmental part of the OP Rural Development, which is scheduled to disburse €252 million a year in 2007–2013 to provide support for sustainable agriculture and the preservation of bio-cultures. Although the Czech Republic was one of the first countries to submit its operational programme to the Commission for approval, bureaucratic delays resulted in the Ministry of Agriculture deciding not to open the application process until fall 2007, six months later than originally planned (Klimeš,2007). This decision posed severe financial problems for farmers who had planned on the earlier date, with affected farmers claiming that the delay threatened the distribution of EU subsidies on which they relied. The one-year delay (the projects were only able to begin in 2008) especially affected farmers in the LFAs, with Milan Urban, president of the Czech LFA Association, predicting grave financial consequences for farmers in these areas (Klimeš, 2007).

There have also been administrative problems with the disbursal of EU funds. These were noted in a report by the Supreme Audit Office (SAO, *Nejvyšší kontrolní úřad*), which analysed 42 projects submitted within OP RDMA in 2006 and administered by the SAIF. In its report, the SAO concluded that there were two major flaws in administrative procedure that affected the distribution of agricultural funds (Euractiv, 2006). First, it criticized the absence of deadline dates for application processing and for financial disbursement after the termination of projects. Second, the SAO criticized the definition of rules for distributing financial support. It found that the rules were constantly changing, even during the application phase, and that some rules were ambiguous and lacked precise interpretation. Other problems were found with respect to the information system used by the OP.

The situation for Czech farmers is made worse by administrative regulations imposed by their own government which are often stricter and more demanding than EU requirements. An example is the deadline for cutting grass meadows, something which

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entails additional costs for farmers and is not required by the EU (Havel, 2006). Beginning in 2009, Czech farmers will have to comply with 19 new CAP regulations, which cover the areas of animal welfare, environmental protection and workplace safety. The most powerful Czech agricultural association, the Agrarian Chamber (*Agrární komora*), has voiced its concern that the costs of complying with these regulations (which it estimates at CZK 36 to 72 billion) might force some farmers out of businesses (CPA 2008b). These micro-regulations are often petty and they number in the hundreds. Some critics also argue that administrative difficulties faced by farmers could be attributed to the Czech government's subservient 'euro-helpful' position during the final phase of accession negotiations and after, reflecting the lack of support for Czech agriculture from the government and political establishment (Veleba, 2007). This view is unjustified, however, in light of the share of EU funds destined for agriculture compared to other areas. In any case, it is up to the Czech government to simplify and rationalize its agricultural regulations now that the CAP has been fully adopted.

Economic, Social and Political Effects of the CAP

Economic Effects

The economic effects of the CAP in the Czech Republic are varied and complex. This section analyses the impact of the CAP on five main indicators: the structure and volume of agricultural production, the structure of external trade in farm products, the rate of agricultural employment, the market for agricultural land and agricultural prices.

First, the impact of the CAP on overall agricultural production is controversial. Jan Veleba, president of the Agrarian Chamber and a major critic of the CAP, has argued that EU accession has not stopped the long-term decline in agricultural production, and that it has even worsened this negative trend (Veleba, 2007; Línková, 2007). In particular, it is argued that increased imports from other member states have cost the Czech Republic domestic self-reliance in some key commodities, including meat, potatoes and fruit and vegetables. Imports of German pork, for example, rose by 60 per cent between 2004 and 2006. However, it can be argued that such views reduce agriculture to nothing more than a 'bread and butter' production factory, which stands in sharp contrast to ongoing efforts to diversify agriculture beyond mere food production (Havel, 2006). The current emphasis on 'multifunctionality' emphasizes alternative uses for agriculture, especially in the areas of tertiary services, tourism, or the amelioration of climatic disasters such as floods.

Moreover, available statistical data do not confirm these overly pessimistic claims regarding agricultural output. As Figure 1 shows, total agricultural output has undergone a slight positive change since accession, from €2.94 billion (CZK 93,671 million) in 2003 to €3.59 billion (CZK 101,773 million) in 2006. This positive trend applies equally to both animal and crop output. The exceptionally high crop output in 2004 can be almost entirely explained by very favourable weather conditions. Thus, EU accession has had only a minimal effect on the volume of agricultural output, if any. Instead, the volume of Czech agricultural production has been more significantly affected by other factors, the most prominent of which is weather conditions, which were extremely favourable in 2004 but moderately unfavourable in both 2005 and 2006.

Second, the impact of EU membership on the structure and volume of agricultural exports is also controversial. According to Veleba, accession and the removal of trade

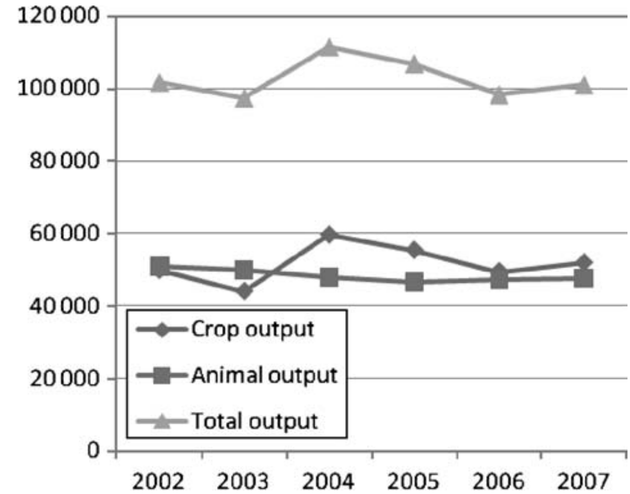

Figure 1. Agricultural production in the Czech Republic, 2003–2007; 2000 constant prices, CZK millions. (*Sources:* CZSO [2006a], CZSO [2008a]. *Note*: Preliminary data for 2007.)

barriers after May 2004 have reduced Czech farm exports to the EU market, while agricultural imports from other member states have increased. EU membership, he claims, has led to reduced agricultural self-reliance and a more difficult competitive position for Czech farmers; in other words, the disadvantages of EU membership for agriculture and the food industry outweigh the advantages (Línková, 2007, p. 2).

The empirical data does not confirm this pessimistic view, however. Mainly due to the abolition of tariffs within the enlarged EU and changes in duty rates applied to third countries, total Czech agricultural trade increased by €1.2 billion between 2003 and 2004, an increase of 24.7 per cent. This translated into a slightly smaller external trade deficit for agricultural commodities in this period, with the ratio of exports to imports rising from 64.1 to 70.4 per cent (Malcolm, 2005, p. 5).

The figures for 2005 confirm this positive trend. Between 2004 and 2005, Czech agricultural trade increased by 17.1 per cent, mainly due to increased exports (26.6 per cent), which outpaced the 10.9 per cent increase in imports (MZE, 2006c, p. 194). These developments further reduced the overall agricultural trade deficit from €1 billion in 2004 to €868 million in 2005, which in turn contributed significantly to an improvement in the overall trade balance. In 2005, for the first time in its history, the Czech Republic recorded a positive trade balance, €1.36 billion, compared to a trade deficit of €830 million in 2004 (MZE, 2006c, p. 195). Nevertheless, it can be expected that the share of agricultural trade in the overall trade structure will be decreasing, a pattern which is common for developed countries. The increased share of agricultural trade in 2005 can thus be regarded as a temporary exception that can be explained by the effects of EU accession and the implementation of the CAP.

EU accession has also transformed the regional structure of Czech agricultural trade. The main agricultural trading partner remains other EU countries, which accounted for 84.8 per cent of Czech exports and 89.2 per cent of imports in 2005 (MZE, 2006b, p. 16). However, some changes have occurred with respect to trade distribution within the EU, with the share of Czech agricultural exports to the EU-15 decreasing somewhat while exports to the EU-10 have increased. Furthermore, chiefly because of the favourable change in duty rates with third countries negotiated by the EU, Czech agriculture exporters have acquired a greater capacity to sell their products outside of the EU. The most remarkable increase in Czech agricultural exports has occurred with respect to developing countries. Exports to developing countries in 2005 increased by 64 per cent over 2004 and accounted for 7.1 per cent of total Czech agricultural exports (MZE, 2006c, p. 197). Agricultural trade balances have also improved with other non-EU countries, although to a lesser extent, thus indicating a positive trend of a greater geographic differentiation of Czech agricultural exports.

Third, the CAP has not affected the rate of employment in agriculture, which has been steadily decreasing since the early 1990s (see Figure 2). Instead, a steady decrease in agricultural employment has occurred in all years since accession. This tendency is equally pronounced for employment in farming, forestry and fisheries. This trend can be interpreted as a positive sign, however, since it implies that agricultural productivity per worker is steadily increasing.

The fourth economic effect of the CAP concerns its potential impact on the agricultural land market and the price of agricultural land. Before accession landowners expected an increase of prices. This expectation was shared by the Czech Land Fund, which accelerated sales of agricultural land to Czech citizens prior to accession (Němec & Kučera, 2007, p. 154). The government also offered to cover the interest rates of mortgage loans provided to agricultural businessmen, thus further supporting land sales. As is evident from Figure 3, the amount of agricultural land bought or sold between 1993 and 2001 was relatively negligible, with sales and acquisitions amounting to only 1.78 per cent of the total land fund. In the four years between 2002 and 2005, however, this amount substantially increased to 11.6 per cent, nearly ten times as much as in the earlier period (Němec & Kučera, 2007, p. 154). This large share of marketed agricultural land is well

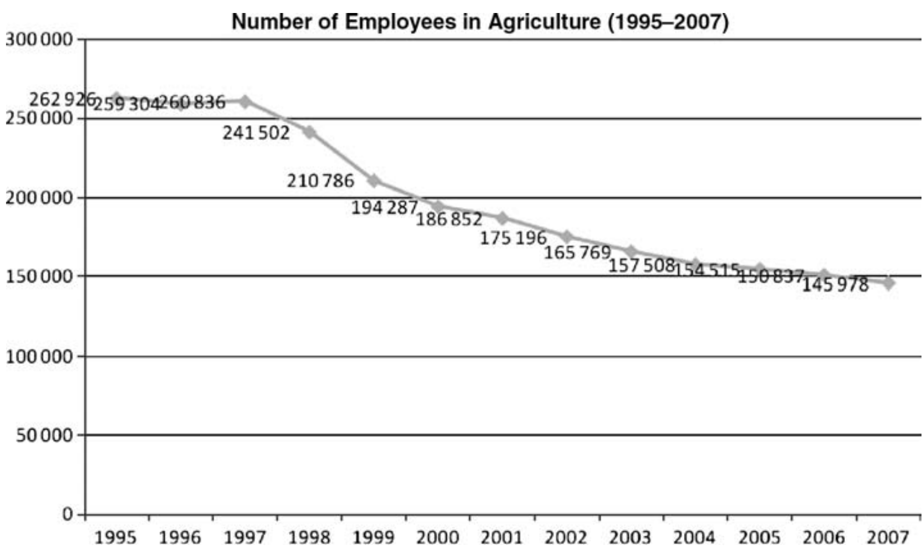

Figure 2. Number of employees in agriculture, 1995–2007. (*Source:* CZSO [2008b].)

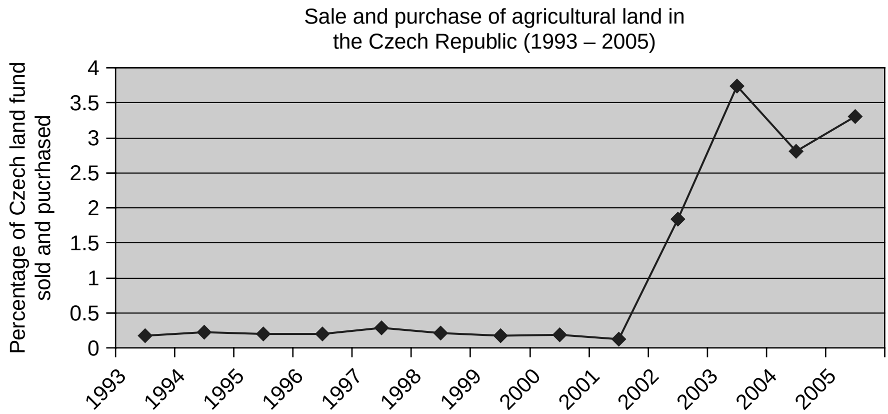

Figure 3. Sale and purchase of agricultural land in the Czech Republic, 1993–2005. (*Source:* Němec & Kučera [2007, p. 155].)

above the EU average, and in fact the highest among EU countries. This market structure thus had a direct effect on land prices. In stark contrast to prior expectations, however, the average price of agricultural land in the Czech Republic has actually *decreased* rather than increased as a result of EU accession (Němec & Kučera, 2007, p. 156). Czech land prices also remain roughly the same relative to other EU countries in the pre-accession period; that is, Czech land prices are many times lower than those in the Netherlands (24.5 times) or France (2.7 times), but higher than in most other CEECs (1.2 times higher than in Poland, and 1.7 times higher than in Slovakia).

Fifth, an early analysis of the CAP's impact on acceding countries predicted a 'dramatic' increase in domestic prices for many agricultural commodities after accession, mainly due to the opening of EU-15 agricultural markets, which was supposed to decrease the final consumption of agricultural products in the CEECs while production would rise. Furthermore, this scenario predicted that higher domestic prices in the CEECs would reduce exports to non-EU countries and decrease agricultural prices within the EU as a whole. In any case, consumers in the CEECs were supposed to face increased food prices (Fuller *et al.*, 2000, p. 25).

The post-accession experience shows that none of these predictions have materialized. Exports to non-EU countries have actually *increased* rather than decreased as a result of more favorable EU trading conditions. More importantly, no 'dramatic' rise in agricultural prices in the Czech Republic occurred. This is evident from Figure 4, which compares monthly producers' prices to the average of 2005. In the first year and one-half after accession there was a gradual decrease in agricultural prices. Beginning in 2006, prices again started to rise moderately; in March 2007 prices were higher by 11.8 per cent compared to the average of 2005, but similar when compared to May 2004 (CZSO, undated).

Social Effects

One of the greatest expectations surrounding the CAP was the presumed social and economic benefits accruing to farmers. After all, a disproportionately large share of EU

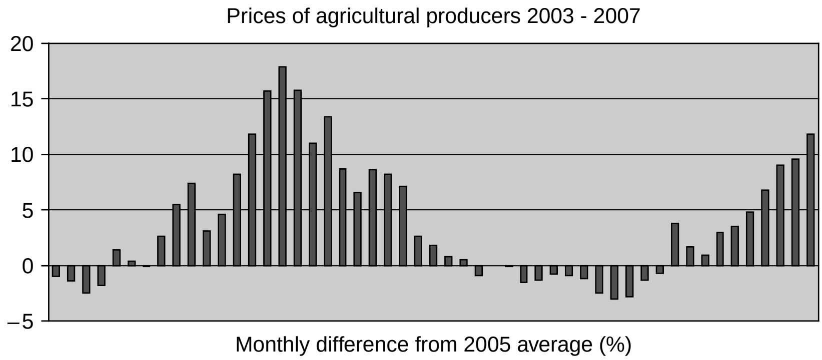

Figure 4. Prices of agricultural producers, 2003–2007. (*Source:* CZSO [undated]. *Note:* Average of 2005 = 100%.)

funds intended for the Czech Republic is focused on agriculture. This section explores whether these expectations have been met.

Public subsidies (including those provided by the EU) to agriculture increased sharply after accession. Public financial support for agriculture rose by 55 per cent between 2003 and 2004, while total government expenditures on agriculture (again including the CAP) increased by 27 per cent in the same period (Malcolm 2005). This increase was not as dramatic between 2004 and 2005, when subsidies rose by more than 15 per cent, totaling €1.08 billion in 2005 (MZE, 2006b, 3). As Table 2 shows, in 2005 nearly 40 per cent of total EU expenditures in the Czech Republic were provided through the CAP, compared to only 11 per cent the year before.

The agricultural sector benefited from increased public expenditure in two principal ways. First, subsidies have allowed investments in the technological modernization of agricultural equipment. Second, subsidies have stabilized the financial situation of many farmers. Czech farmers were on average in the red until 2003, with a net loss for the entire agricultural sector of €72.4 million (CZK 2.307 million) in 2003 alone (CZSO, 2003). This changed sharply in 2004, when a net profit of €281.9 million (CZK 8,989 million) was recorded. Profits slightly declined in subsequent years but increased again in 2007(see Figure 5).

Table 2 Allocation of EU expenditure for agriculture in the Czech Republic, 2004–2005.

	2004		2005	
	€ (millions)	% total EU expenditures	€ (millions)	% total EU expenditures
Agriculture	90.8	11.1	428.5	39.9
Direct aid	0.0	0.0	221.4	19.8
Storage	0.0	0.0	33.5	3.1
Rural development	86.0	10.6	146.0	13.6
Other	1.7	0.2	9.7	0.9
Total allocated expenditure (CZ)	815.3	100	1074.8	100

Source: European Commission (2006a, p. 35).

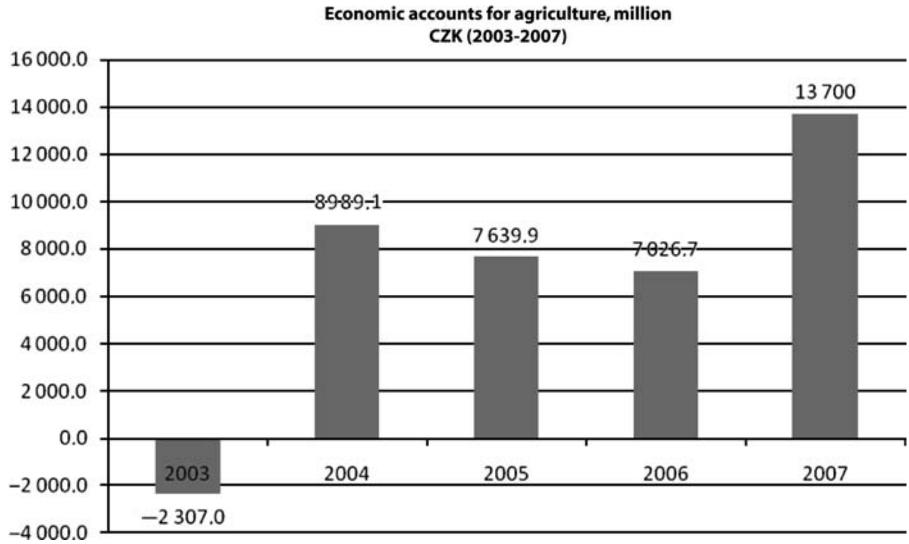

Figure 5. Economic accounts of Czech agriculture, 2003–2007. (*Source:* CZSO [2006d].)

The leap from overall losses to profits can be directly attributed to the substantial increase in public financial aid. The CAP has also created substantially better and more stable economic conditions for farmers compared to the pre-accession period (Vicenová, 2006). The downside of the huge share of subsidies in the profitability of agricultural enterprises is the over-reliance of Czech farmers on public aid. Especially in light of expected future CAP reforms, which will seek to reduce direct support to agricultural producers, this over-reliance might prove problematic. Nevertheless, in the short term, at least, Czech agriculture has benefited from an improved economic situation resulting from EU accession and the CAP.

Less clear-cut is the impact of CAP on the economic and social conditions of Czech agricultural employees. The Czech agricultural sector has been historically plagued by low wages, reflecting such factors as a disproportionately low percentage of skilled labour and the marginal contribution of agriculture to the overall economy. Agricultural workers earned only 71 per cent of the national average wage in 2005; a substantial decrease from 1993, when farm workers earned 86 per cent of the national average wage.[2] Below-average wages have contributed to the undervalued social position of Czech farmers.

If there was an increase in the social and economic welfare of agricultural employees after 2004 we would have observed an increase in agricultural wages relative to the national average wage. Figure 6 shows a time-series evolution of average monthly wages in the Czech Republic compared to agriculture wages between 1993 and 2005, revealing a general increase in the values of both indicators. In 1993, both the national and agricultural average wages were roughly similar (CZK 5,904 and CZK 5,100 respectively). However, the gap between these figures has been gradually and consistently growing ever since. Thus, in 2005 the Czech average monthly wage was CZK 19,024 (€639), compared to CZK 13,879 (€466) in agriculture. As the figure indicates, EU membership has not led to a more rapid increase in agricultural wages or helped to reduce the disparity between agricultural and non-agricultural wages. In other words, joining the EU has so far had only

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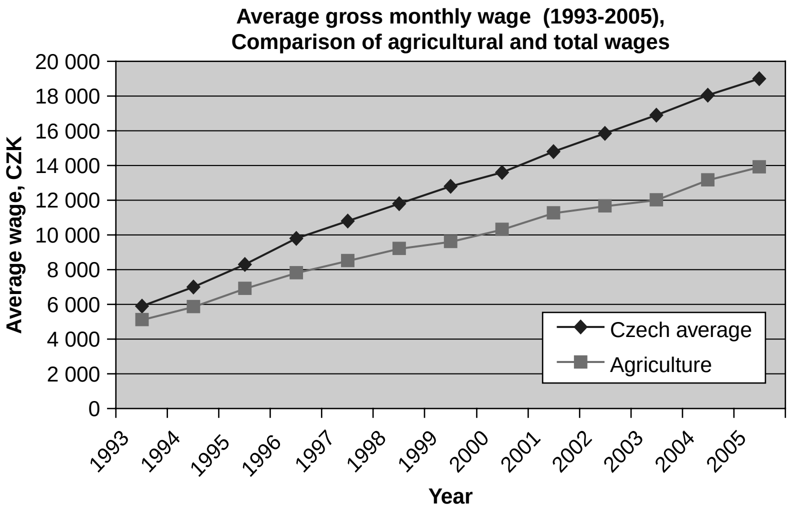

Figure 6. Average gross monthly wage, 1993–2005; comparison of agricultural and total wages. (*Source:* CZSO [2006e].)

a marginal effect on the economic welfare of Czech agricultural workers, and the CAP has not helped close the economic and social gap between agricultural workers and the general workforce.

Rural development is one of the key areas supported by the CAP ('second pillar' of the CAP), with €77.7 billion allocated for this purpose in 2007–2013 (Farmsubsidy.org, undated). In the Czech Republic, €2.5 billion will be distributed through the EAFRD in 2007–2013; with national top-ups, this sum will reach over €3.2 billion (MZE, 2006a, p. 166).

Rural development is obviously a long-term and multifaceted process, and thus it is difficult to evaluate the CAP's contribution to this process in the Czech Republic in the brief post-accession period. Nevertheless, there are no *a priori* reasons why the relatively beneficial effects of CAP rural development schemes in the EU-15 should not be repeated in the Czech Republic in the long run (Rizov, 2005). It has been found that CAP rural development support leads to effective income transfers and benefits community development. Furthermore, the current emphasis on 'multifunctionality' (which in practical terms shifts CAP financial support away from mere food production) has not led to a deterioration of the welfare of farmers. Rather, it is possible that farmers will benefit from improvements in community development as a result of such income redistribution (Rizov, 2005).

Less direct effects of the CAP on Czech society and especially the rural population could also be taking place. With the proliferation of investments into rural development and the gradual re-channeling of subsidies from commercial farming to other 'multifunctional' activities, it has been argued that profound social transformations in rural areas can be expected. Two competing theoretical approaches to understanding this development have emerged. The first of these is conceptually concerned with the emergence of a 'project class,' a social stratum of beneficiaries from EU agricultural (but also structural) policies. Specifically, 'projectification' could potentially bring about the restructuring of local power, the regrouping of the local policy arena and the emergence of the 'project class.' Indeed, the importance of such a transformation has already been noted for the Czech case (Kovách & Kučerová, 2006, pp. 3–4).

The second theoretical perspective uses the concept of 'social capital,' which emphasizes new patterns of cooperation within economic, social and political frameworks. Social capital has been formally defined as features of social organization, such as trust, norms and networks, which can improve the efficiency of society by facilitating coordinated actions (Chloupková & Bjornson, 2002, p. 246). Less formally, social capital is a valuable means to overcoming the problem of collective action and free riding. It has been argued that the potential of social capital in fostering Czech agriculture could be enormous (Chloupková & Bjornson, 2002, p. 248). From this perspective, the institutions, rules and procedures derived from the CAP could become effective tools for generating social capital. The new bargaining style within the CAP framework that includes various economic, social and political actors could better induce cooperative norms and behavior and prevent free riding. As a result, there have already been signs of increased cooperation between farmers with respect to forming stronger sales alliances but also more grass-roots cooperative efforts which tie together local municipalities and agricultural producers (Veleba, 2007).

The 'project class' and 'social capital' are theoretical concepts whose relevance should be tested empirically. Unfortunately, there is currently a lack of research that would prove or disprove either of these two competing approaches. Furthermore, the assumptions behind the neo-Marxist project class concept are inevitably at odds with the liberal Tocquevillean conception of social capital. Whether either of these two potentially vast social transformations in rural areas materializes or not will be seen only in a long-term perspective.

Political Effects

Given the small share of agricultural workers in the overall workforce and the concomitant small share of agricultural output relative to other productive sectors, agriculture and rural problems are rarely part of the mainstream political discourse in the Czech Republic. Their potential for political mobilization is significantly lower than in most other CEECs (especially, but not exclusively, Poland). Adoption of the CAP has thus not been accompanied by strong public attention.

The politics of agriculture rarely make it into the headlines. This contrasts with earlier experience in the 1918–1938 interwar Republic, when agricultural interests were represented by the most powerful Czechoslovak party, the Agrarian Party. It is equally incomparable with today's Poland, where the governing coalition in 2005–2007 was disproportionately dependent on the rural electorate. In the Czech Republic, the party with the closest links to the rural electorate, the Christian Democrats (KDU–ČSL), was not even granted the agricultural portfolio in the centre-right coalition government that was formed in 2007. Agricultural policy has also suffered as a result of 2006 electoral deadlock. The high turnover of Agriculture Ministers (altogether six different people headed the ministry between 2002 and 2008) has raised the issue of policy continuity amid rapidly changing political priorities, and it is symptomatic of the lack of concrete vision for the sector as a whole.

Insufficient political attention to agriculture and the CAP can be attributed to general public disinterest in agriculture and rural development. As a 2006 Eurobarometer survey

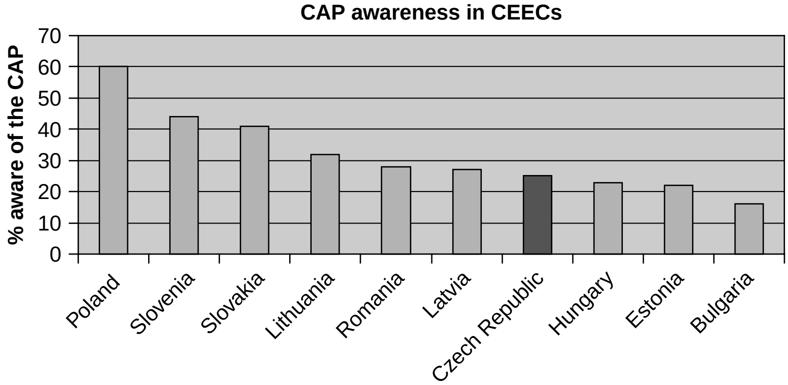

Figure 7. CAP awareness in the CEECs. (*Source:* Eurobarometer [2007, p. 14].)

indicates, there is a lack of knowledge about the CAP in the Czech Republic compared to the rest of the EU and other CEECs (see Figure 7). In the survey, only 25 per cent of Czechs gave a positive answer to the question: 'Have you ever heard or read about the common agricultural policy, the CAP, or not?' This contrasts sharply with Poles, 60 per cent of whom gave a positive answer, surpassed only by French (64 per cent) and Irish (61 per cent) respondents (Eurobarometer, 2007, p. 14).

On the other hand, issues of secondary importance connected with the CAP receive disproportionate media attention and harbour a potential for exploitation by political parties. Such issues are politicized chiefly when deep-seated Czech traditionalism and/or nationalism is at odds with CAP rules. One illustrative issue is the row over the product designation of a traditional butter spread (*pomazánkové máslo*), which does not qualify as 'butter' according to CAP regulations because of its low fat content (Novinky.cz, 2007).

One of the more controversial issues politicized on nationalist grounds is agricultural land sales to foreigners. Prior to accession, the Czech government had negotiated a seven-year transitional period during which foreigners were not allowed to purchase land. However, a recent government initiative will give foreigners the opportunity to buy land before the agreed 2011 deadline (Týden, 2007). This change is strongly opposed by non-government parties and some agricultural professional organizations, who argue that Czech farmers will be unable to compete with wealthier foreign farmers to purchase increasingly expensive agricultural land.

The potential for this sensitive issue to be politicized is obvious. For example, the chairman of the communist club of deputies, Pavel Kováčik (2007), defended his party's opposition to the land sales, arguing that it is not a 'demonstration of chauvinism but rather a defense [. . .] of Czech national interests, which the government betrays.' It is to be seen whether these expectations and fears materialize. According to the most recent figures, the sale of land to foreigners (trading companies with foreign capital) has thus far been entirely insignificant (Němec & Kučera, 2007, p. 160).

The Czech Republic and CAP Reform

At the EU level the CAP is undergoing a permanent reform, the final shape of which and its effects are hard to predict at this point. CAP reform was agreed upon in 2003 and its gradual implementation began in 2005.The key features of this reform include *decoupling* (breaking the link between subsidies and production), *cross-compliance* (making eligibility for direct payments conditional on compliance with environmental, food safety, animal health and welfare standards), and the emphasis on *multifuncitonality*. It should also be noted that these steps are insufficient for some analysts. Liberal critics of the CAP, for example, are skeptical about the value of 'multifunctionality,' which according to Kol and Winters (2004, p. 16) is merely 'another disguise to justify agricultural protection.' Nevertheless, current reform efforts are a significant step away from past protectionist practices towards a more liberalized policy.

Whether CAP reform will be successfully achieved in the Czech Republic remains to be seen, however, since not all reform priorities have begun to be implemented yet (most notably transformation of the payment scheme). However, some observations can already be made. Of particular relevance is the collective action dilemma faced by policymakers. Specifically, Czech agricultural policy is unfavourably characterized by extremely diffuse benefits and concentrated costs. This means that public goods produced by agriculture (such as low food prices, rural development or tertiary services provision) provide benefits for largely non-organized groups (consumers, the rural population, tourists or Third world populations). This is coupled with the aforementioned low level of public and political appreciation of agriculture. On the other side of the equation stand the increasingly better organized agricultural lobbying groups, which will pay the concentrated costs of ongoing and future CAP reforms. As previously mentioned, agricultural groups have acquired new organizational strength following EU accession as a result of the CAP, and thus are in a stronger position to resist reforms. This distribution of costs and benefits creates disincentives for collective action to promote policy change. Overcoming this dilemma is a major challenge for policymakers.

Two major issues have already signaled this difficult challenge. First, CAP reform has raised the issue of the payment scheme for direct payments to farmers, with Czech farmers strongly critical of the move from SAPS to the so-called Single Payment Scheme (SPS). During accession negotiations the Czech Republic negotiated the adoption of SAPS, which involves the payment of uniform amounts per eligible hectare of agricultural land, up to a national ceiling laid down in the Accession Treaty. This payment system favours the Czech Republic because of the large average size of its farms, a historical legacy of collectivization.[3] However, the 2003 CAP reform adopted an alternative scheme, the SPS, which was introduced in 2005 and already operates in most member states. The SPS 'decouples' the payment of subsidies from production, thereby guaranteeing farmers more stable incomes while allowing them to adjust production to suit market demand.

The switch to SPS in the new member states was originally scheduled to occur in 2009 but has taken place earlier in most. As of 2007, the Czech Republic was the last country to use the SAPS. The early departure from SAPS could pose special problems for the producers of some agricultural commodities in the Czech Republic, including hops. Sheep breeders also feel that the SPS will reduce financial incentive to raise sheep (Euractiv, 2007). The producer associations for both commodities have raised major concerns about the SPS and warned that its use might result in the closure of agricultural facilities. The Czech government lobbied extensively to prolong the use of SAPS, but its proposal to use SAPS for 2007 payments was ultimately rejected by the EU Agriculture Commissioner Marianne Fischer-Boel (Euractiv, 2007). Nevertheless, the issue will be high on the agenda of the Czech EU presidency in the first half of 2009 (CPA, 2008a).

The second issue associated with CAP reform concerns the planned reduction in sugar beet output and, correspondingly, sugar production in the EU though the drastic reduction of sugar quotas. With EU sugar prices currently three times the world market level, this move aims at increasing competitiveness in the sector and fostering its market orientation. The EU is also using its reduction in sugar production as leverage in the latest round of WTO trade liberalization talks; beginning in 2009, the EU sugar market will be completely open to 49 developing countries (European Commission, 2006b). The new measures include a 39 per cent cut in the guaranteed minimum sugar price and reduction in national quotas for sugar, with generous compensation paid to both farmers and sugar producers.

Due to these measures a Dutch company, Eastern Sugar, decided to close down its operations in the Czech Republic. With the departure of the company and closure of its three sugar plants, Czech sugar production will drop by one-fifth. The company's decision has raised protests from both political parties and agricultural lobby groups, who have stressed the negative consequences for the traditionally significant sugar sector, the further decline in Czech agricultural production and the loss of jobs. According to the Agrarian Chamber president, the Eastern Sugar issue is the first demonstration that CAP reform will be 'at the expense of the new member states' (Veleba, 2007). However, the whole episode might not turn out so badly. A Czech company has recently bought the sugar refineries with plans to reorient their production towards biogas, and most of the 400 jobs provided by Eastern Sugar will likely be preserved (iDNES, 2007). Meanwhile, Czech sugar beet producers will be provided €20.6 billion in compensation to help them restructure (Government of the Czech Republic, 2007a).

Both the payment scheme and Eastern Sugar issues demonstrate the difficult challenge that the agrarian lobby poses for Czech policymakers. At the root of opposition by Czech farmers on both issues is the traditionalistic view of 'agriculture-as-food-production' promoted by major farming associations. This view runs counter to both the recent EU reform trend and the imperatives of boosting the economic and social development of rural regions. The traditionalistic view is not shared by most Czechs, the majority of whom (55 per cent) favour granting more EU funds for the development of rural areas and the direct support of farmers at the expense of subsidizing agricultural production. In this sense, the Czech public seems to support the idea that agriculture should perform other, non-classical functions.

Some analysts have suggested that enlargement would reinvigorate internal EU reform efforts, by bringing new issues to the fore and changing the balance of decision-making power within the EU. However, there also seems to be agreement that such an impetus cannot be expected with respect to the CAP. Grant, for example, has argued that the new members are likely to be preoccupied with obtaining their share of existing funds rather than supporting further CAP reform (Grant, 2005, p. 59). This might indeed be the likely outcome based on the formidable resistance to CAP reform in the Czech Republic.

Nevertheless, the current centre-right government presents CAP reform as one of its main objectives. However, the coalition agreement signed in January 2007 does not specify a clear direction for such reform. Its focus is on the 'expenditure aspects' of CAP, although it is not clear from the document how much and in what direction CAP expenditures should be changed. The agreement is only specific on two aspects of CAP reform: first, reform measures should be subordinated to the ongoing WTO negotiations on agriculture; and second, reform should mitigate CAP's negative impact on the global agricultural market, with special attention to the trade interests of underdeveloped countries (Government of the Czech Republic, 2007b).

CAP reform will also play a major role in the Czech EU presidency in the first half of 2009, for which the Czech government has adopted the motto of ‘A Europe without Barriers,’ emphasizing the promotion of European competitiveness through the removal of existing trade barriers and expansion of the ‘four freedoms.’ In the document listing the Czech government’s priorities for its EU presidency, the CAP issue is tellingly subsumed under the rubric of EU budgetary reform. According to this document, the EU should substantially reduce CAP expenditures (and the share of the EU budget absorbed by CAP) by decreasing the amount and volume of public aid to farmers. Resources should instead be spent on research, education and the development of new technologies. CAP liberalization would also help the EU at the WTO negotiations, the document notes (Government of the Czech Republic, 2007c).

However, the Czech government will oppose the CAP ‘health check’ revision, which among other issues proposes to cut the amount of subsidies given to larger farms (those that receive more than €300,000 from the EU), something which would negatively affect the Czech Republic because of the large average size of its farms. The Czech government notes that these farms would lose 45 per cent of their subsidies above the set threshold, and it declares that the proposed cuts would negatively impact an estimated 800 farms in the Czech Republic (CPA, 2008a).

Nevertheless, there seems to be a basic political consensus that the Czech Republic has an economic interest in further liberalization of the CAP. Furthermore, such liberalization is projected both outwards (opening EU agricultural markets) and inwards (decreasing CAP subsidies and dismantling the quota system). The comparative advantage of Czech agriculture is associated with cheaper production costs than the European norm and a concentration of agricultural land in bigger farms. Such advantages could be better realized under a more liberalized system. The question for the Czech Republic, then, is not whether to liberalize the CAP but how and to what extent.

Conclusion

This paper has analysed adoption of the CAP in the Czech Republic and its economic, social, and political effects. From an institutional perspective, implementation of the CAP has been generally successful. This is true especially in comparison with Poland, which experienced severe problems ranging from insufficient administrative efficacy to the lack of legal harmonization. The relatively smooth adaptation of administrative structures could in part be attributed to prior successful experience with the pre-accession SAPARD programme. Nevertheless, some impediments to the effective disbursal of funds persist, including bureaucratic delays in programme openings and the insufficient legal definition of rules for distributing financial support. These problems are coupled with overregulation by the Czech government, which often imposes stricter standards on farmers than those required by the EU.

The economic effects of the CAP have been either positive or neutral for Czech agriculture and the Czech economy in general. Contrary to worst-case scenarios, which predicted a major decline in agricultural production, the CAP has had only a marginal effect on the volume of agricultural output. On the other hand, better access to EU markets, and new regulations and increased competition, have gradually transformed the structure of agricultural production. In terms of external trade, EU accession has increased imports of agricultural products and thus diminished Czech self-reliance in some commodities. However, the CAP has also led to an increase of Czech agricultural exports, contributing to a reduced trade deficit and fostering greater regional differentiation of agricultural exports. Overall, a large share of the improvement of Czech foreign agricultural trade can be attributed to the CAP.

The CAP has not reversed the trend of decreasing employment in the agricultural sector. This can be interpreted as a positive sign, however, since it implies that agricultural productivity per worker is steadily increasing. Expectations concerning EU accession, and specifically the CAP, have vastly affected the structure of the agricultural land market, contributing to a large amount of turnover in land ownership. However, due to this turnover land prices have unexpectedly stagnated or even dropped after accession. Finally, contrary to some early warnings, there has not been a dramatic increase in agricultural prices as a result of the CAP. The rise in prices has been only moderate and has not affected consumption patterns.

The CAP is expected to have a positive effect on the overall social and economic situation of rural areas. However, the social effects of any policy can be fully understood only in a longer term perspective than available for the current analysis. Czech agriculture and rural areas have undoubtedly benefited from the dramatic increase in public subsidies to agriculture. As a result of EU accession, Czech agricultural enterprises recorded a net profit for the first time in 2004. Thus, the CAP has helped to stabilize the financial situation of farmers. Nevertheless, a concomitant improvement in economic and social well-being of agricultural employees has so far not materialized. EU membership has not led to a more rapid increase in agricultural wages, nor has it helped bridge the growing disparity between agricultural and non-agricultural wages. Other potentially significant social changes have been stimulated by the CAP, including an increase in inter-group bargaining and the proliferation and reinvigoration of agricultural interest groups, with potentially positive effects on the formation of social capital. In particular, the new bargaining style within the CAP framework could induce more cooperative norms and behavior.

In terms of political effects, the CAP has not significantly affected Czech politics. This is largely due to the marginal economic importance of agriculture and insufficient public awareness of the CAP. Specific issues connected with the CAP, such as land sales to foreigners, tend to become politicized only when political traditions or national sensitivities are affected by CAP rules. Ironically, however, the lack of political capital generated by agricultural and rural issues might prove to be an obstacle to the successful adoption of CAP reform measures in the Czech Republic.

The implementation of CAP reform in the Czech Republic is characterized by diffuse benefits to the constituencies it targets and concentrated costs paid by the increasingly better-organized farmers that object to some of these measures. This distribution of costs and benefits creates disincentives for collective action to promote policy change, posing a major challenge for policymakers. The consequences arising from the opposition of Czech farmers to CAP reform have already been signaled by their rejection of the sugar reform and resistance to the SPS payment scheme. Nevertheless, the Czech Republic has a vested interest in further liberalization of the CAP and in modernizing rural areas by supporting non-classical functions of agriculture.

Notes

1 This and following figures were converted from Czech crowns (CZK) to Euros using ECB yearly average exchange rates.

2 Calculations based on CZSO (2006e).

3 The average size of farms in the Czech Republic is far above the EU norm; the great majority (92.2 per cent) of Czech farms use more than 50 hectares of agricultural land (MZE, undated).

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