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Czech Republic and the CAP Reform

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Report Highlights:

Czech Republic's initial reaction to the CAP 2014-2020 proposal appears to be open-minded but does reflect negative reservations towards the proposed capping of direct payments based on farm size and greening measures. Principle allies in the forthcoming CAP reform discussions likely will be Slovakia, other V4 countries, plus Romania.

General Information:

The Czech Republic perceives the CAP reform proposal as an initial document for further discussion with many changes and adjustments needed, rather than praises.

For Czechs the major points of disagreement are the proposed ceilings for payments and the proposed greening rules. The CAP proposal calls for earmarking thirty percent of funds allocated for direct payments (Pillar I) to greening and would require 7 percent of land be set-aside to qualify for such funds. EU Member States on record already as opposing or criticizing the current greening proposal include: France, Germany, Great Britain, Ireland, Poland, and Slovakia.

Petr Bendl, Czech Minister of Agriculture, noted a 7 percent set-aside would result in a loss in annual agricultural revenue of approximately 4-5 billion CZK (from $220 to $275 million). Annually, the previous two years, the total value of agricultural production in the Czech Republic reached around 100 billion CZK ($5.5 billion).

In the Czech Republic, the majority of agricultural land is rented. Farmers argue that to pay rent on land that would have to be set-aside would be inefficient. They note that there are already enough greening measures e.g. under cross-compliance requirements, and that such a high percentage of resources taken from direct payments for greening would lead to lower efficiency and lower competitiveness of their production.

The Czech Republic has the largest average farm size within the EU. Therefore, the proposal to cap the level of direct payments based on a farm size would be counter to its interests. Most farmers see the cap as a new form of discrimination as they would again get lower direct payments than their competitors in other EU member states. Some also point out that it would encourage large farms to devolve into smaller entities, which would negate their efficiency. Other member states on record as not in favor of establishing caps based on size include Slovakia, Romania, Germany, and Great Britain.

Minister Bendl summarized his review of the CAP proposal noting the reform would only be successful for Czech farmers if it reflects their previous defined goals of increasing their competitiveness and lowering the number of administrative burdens.

Many different points of view are emerging on the most discussed components of the proposal. Dr. Tomas Doucha, a respected economist from the Institute of Agricultural Economics and Information, commented that the capping of direct payments based on farm size would affect only one percent of Czech farmers, as the new proposal excludes the greening part of the payments from capping and takes into account the number of farm employees by deducting their cost as well. Therefore, the capping would influence only a few large farms with a small number of employees. According to Dr. Doucha, the capping provision could affect large farms with significant acreage of grass land, up to 10 thousand hectares, where the average acreage per employee is 100 hectares. That would translate to of the total 900 million EUR of direct payments Czech Republic is entitled to, the Czech Republic would approximately lose one percent, which is 9 million EUR.

Petr Havel, a Czech agrarian analyst, notes that CAP reform is criticized by politicians and farmers mainly because of the planned payment ceilings for large farms. However, Havel cautions Czechs against taking such a simplistic view of the proposal as there are many other ‘hidden’ risks to their interests in the CAP proposal. One is the proposed limit on possible payment recipients for the year 2014. Brussels wants to avoid speculative dividing of large companies (farms) into smaller ones because of payment ceilings through this provision. As such, it would prevent new entities from entering agribusiness in the next two years – Ironically, this provision would impact entry of new young farmers – (unless they buy a legal right to subsidies from an existing farmer), an age group the EU officially seeks to entice into production agriculture through its offering of financial support. Havel summarizes this action as an example of another bureaucratic step that would not improve the competitiveness of European agriculture.

Trading the rights for subsidies would, according to Havel, generate negative externalities, such as: increase bureaucracy and administrative burdens, lead to corruption and rise in land prices (subsidy payments would go to the farmer, not the land owner).

Havel also highlights the proposed payments for environmental purposes, which would reduce the subsidy payments by 30 percent, as counterproductive. He agrees with farmer arguments that there are already enough environmental measures mandated to achieve the desired preservation goals deemed by parts of society.