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Czech Republic

Trade Policy Monitoring

Recent Policy Developments and Updates

2003

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Report Highlights:

This report contains recent developments on:

- Decoupling,
- A 60% increase in the Ag budget for next year,
- Double profit agreement with EU
- Harvet update
- Pork prices
- Wine tasting won by an American Chardonnay

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1]
[EZ]

EU Accession: Simplified system of payments

Given the EU's agreement on decoupling, the Czech Republic will now modify their farmer support agricultural payments to coincide with the EU's system. Last month the Czech Government counted on the EU's current system of subsidies. With CAP reform the Czech Government adopted a system similar to the CAP's decoupled payments. This new, simplified system means that subsidies will be paid out on hectares farmed not on commodities planted. This payment system is closer to the reformed CAP and the adjustment to CAP after the accession will be smoother. It also enables farmers to react faster to the market situation. Plus, administration of the simplified system is easier. The downside of the simplified system will be a tougher competition for companies that focus on commodities heavily subsidized in the EU. Growers of hops, industrial potatoes and sheep breeders will receive less money through the simplified system than if the Czech Republic adopted the current EU system. The Ministry of Agriculture is contemplating a few exceptions on several commodities. According to the director of the Research Institute for Agricultural Economics (RIAE) the simplified system, with a maximum two exceptions (unspecified), would be ideal.

Adoption of the simplified system was decided in June after consultation with Franz Fischler, the EU Commissioner for Agriculture. Fischler pointed out that the Czech Republic will not be ready to use EU's current system of payments since it does not have the necessary structures such as the Agrarian Payment Agency or the Integrated Administrative and Control System (IACS) in place yet. By August 2003 all farmers have to register their areas with IACS. The Czech Republic will distribute direct payments on 3.8 mil. ha of agricultural land (the latest area number).

Czech Agricultural Budget:

This week the Czech government announced the first estimate of next year's state budget. The Ministry of Agriculture (MoA) will receive almost 60% more money than this year (2003: 14.4 bil. CZK, 2004: 22.88 bil. CZK). This increase in budget is to cover the increased costs necessary to support farm incomes consistent with payments to be received by other acceding country farmers. These payments are necessary to ensure Czech farmers compete with their acceding neighbors. The proposal counts with topping up EU agricultural subsidies to the level of 45% (4 bil. CZK). MoA asks for 55% and argues that other accession countries have already approved the full level (55%) of subsidies (e.g. Hungary) and that Czech farmers would not be competitive. The government is currently working on a reform of the state budget and plans to reduce a huge deficit so it is still very unclear if Czech farmers will receive more than 45% of subsidies. This year farmers may

count on additional 3 bil. CZK as a compensation for bad weather (cold winter, hot and dry spring).

Trade Policy: Double Profit Agreement

Double Profit, an agreement between the Czech Republic and the EU on liberalization of mutual agricultural trade prior to the accession, came into force on May 1, 2003 (will be valid for exactly a year, until the accession on May 1, 2004).

In general three types of concessions have been agreed:

1. duty free access for agricultural products from/to the EU to/from the CR by eliminating duty for items with former duty up to 10% (commodities covered include: some live animals, eggs, honey, garlic, peas, fresh, dried and canned vegetables, mushrooms, cider apples, cherries, plums, and other fruit, sunflower seed, mustard seed, poppy seed, hops, different kinds of oil, snails, molasses, jams, different kinds of fruit juices)
2. framework of quotas for sensitive commodities - a 2% share of domestic consumption was used as a basis for quota determination (commodities: e.g. dairy products, cereals)
3. liberalization of trade in the wine sector: quota for export from the CR to the EU is 13,000 hectoliters, quota for export from the EU to the CR is 20,000 hectoliters and in containers larger than 2 liters there is a special import quota of 300,000 hectoliters with a 25% preferential duty to fill the gap on the Czech wine market

Full liberalization was negotiated for the absolute majority of processed agricultural products. The only exceptions are sensitive commodities, which have duty free quotas. The EU has liberalized access to EU markets for 98% of commodities in the category of processed agricultural products originating in the CR. The sensitive items include certain chocolates and non/chocolate sweets with a high proportion of processed sugar, some baked goods, food preparations and modified starches. The Czechs liberalized access to their market for 80% of processed agricultural products made in the EU. Among the sensitive products are spirits, cigarets, pasta, sweets, yoghurts, and some food preparations. According to the EU, the CR will benefit twice as much from the agreement, since the EU will abolish both export subsidies and relatively high customs duty while the CR will only abolish lower customs duty as no export subsidies applies to processed products.

Harvest:

Czech Statistical Office (CSO) estimates this year's harvest to be by 8.8% lower than last year. Grain production will probably be around 5.6 mil. MT (last year 6.15 mil. MT). This is caused by last year's floods (August) and subsequent ploughing of winter crops.

According to CSO production of winter wheat will be by 30% lower than last year. Wheat production is estimated at 2.4 mil. MT. On the other hand production of spring barley should increase by 43% to 1.8 mil. MT. Lower production of potatoes is also expected, around 119,000 MT (75% of last year's). Rapeseed production will be around 70% compared to the previous year, around 496,000 MT.

Lower production is mainly a result of smaller areas. 300,000 ha of winter crops had to be ploughed due to long and cold winter. Part of this area was replanted this spring. Lower yields are a result of hot and dry weather in late spring.

In the past 10 years the difference between CSO's harvest estimate and the final number was around 4%.

Commodities:

Grain

For the first time the State Agricultural and Intervention Fund (SAIF) will probably not purchase grain from farmers. The final decision has not been made yet, however, there are three major reasons for SAIF not to intervene:

1. significantly lower harvest than last year
2. lack of finances (last year SAIF lost almost 1 bil. CZK, purchase price was 3,500 CZK/MT and SAIF exported it through trading companies for much less than that); farmers will receive money as a compensation for bad weather; an ongoing reform of the state budget
3. SAIF will not be allowed to have any stock of commodities when the Czech Republic joins the EU (May 2004) and the Fund is not sure it would sell grain by the end of April

Several agricultural organizations, mainly the Agrarian Chamber, lobby for the intervention purchase of milling wheat. They request minimal price of 3,200 CZK/MT, while market price will be around 2,800-3,000 CZK/MT.

Pork

Czech farmers have been protesting against continuing fall of prices of pork and demanded that the state start purchasing pork through the State Agricultural and Intervention Fund (SAIF). SAIF will not purchase pork, however, the state may help pork producers by funding private storage facilities. Low prices reflect higher supply than demand and the only reasonable solution would be reducing the number of swine. Farmers and pork associations met last week and finally settled on a price 30 CZK/kg in l.w. (Approx. 1.1USD/1kg) for which they will sell swine to slaughter plants.. Meat processors are pushed for the lowest price by retailers that can import pork from the EU for a lower price. Pork prices are traditionally lowest in the summer months so Czech farmers are looking forward to fall in hope that prices will increase.

Prices of pork in CZK (1 USD = 28 CZK) for 1kg in live weigh:

	Jan	Feb	March	April	May	June	
2002:		36	34	31	32	32	29.5
2003:		28	29	24	28.5	29	28

Wine:

Czech wine growers are planting new vineyards, which has to be finished by next May (EU accession). Last year there was over 1,000 ha of new vineyards, this year it will be 1,500 ha. In 2004 the Czech Republic should have around 15,000 ha of vineyards. The Wine Fund, funded by growers, distributors and importers, finances 25% of cost for new vineyards. The Fund also supports wine exhibitions and wine tourism.

So far the Czech Republic has 13,500 ha of vineyards and grows the following varieties (in %):

Veltinske zelene (white)	14.5
Muller Thurgau (white)	13.9
Svatovavrinecke (red)	9
Frankovka (red)	9
Rulandske bile (white)	5.1
Chardonnay (white)	3.4
Cabernet Sauvignon (red)	1.2

In the recent wine tasting, which took place in the National Wine Hall in Valtice, Southern Moravia, U.S. Wente was a winner. Among selected wines (only Chardonnay) were 10 foreign wines and 8 Czech wines. They were all purchased in a hypermarket and the most expensive was 250 CZK (\$9).

Here are the results (100 points - max):

	<i>points</i>	<i>retail price in CZK</i>
Wente, U.S. (!!)	82.7	249
Vinicole Valtice, Hungary	82.5	150
Jean d'Aosque, France	81.8	219
Povardarije, Macedonia	81.3	85.90
Vinicole Valtice, Hungary	80.0	98.90
Robertson Winery, South Africa	79.7	249
Vino Mikulov, CR	79.7	229
Maison Chandesais, France	79.3	229
Vinselekt, Milos Michlovsky, CR	77.2	159.90
J.P.Chenet, France	76.3	219
S.Orsola, Italy	74.5	199.90
Hodonin, CR	73.5	149/0.5l

F.Boranal, Hungary	72.3	79.90
Banska Bystrica, Slovakia	72.2	89.90
Agrosovin Borsice, CR	69.7	155
Movino, Slovakia	66.7	129.90
Vinium Velke Pavlovice, CR	64.8	94.90
Templarske sklepy Cejkovice, CR	55.0	127.90