Horizontal economic integration within agribusiness in the Czech Republic: Past evolvement and future perspectives

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Abstract
Economic cooperation between legally independent agricultural business entities is not a brand new approach for their sustainable development both in the world and in the Czech Republic. The current most common form of economic cooperation among agricultural companies is their integration via so called groups of agricultural producers. Groups of agricultural producers have already existed in the former Czechoslovakia in 1930s as the sales cooperatives. The new evolvement of economic cooperation among self-standing agricultural businesses has arisen in the Czech Republic in 1990s in the context of free market economy formation. Czech Republics’ EU accession has boosted the incentives of economic cooperation within agricultural businesses after year 2004. The main reason for setting up the agricultural producers groups is a need for encouragement of agricultural companies’ competitiveness. The aforementioned incentives were strongly interconnected with subsidies of EU Common Agricultural Policy, namely accessible subsidies within programming period of years 2004 – 2006 and 2007 – 2013. The upcoming programming period of years 2014 - 2020 is opening intensive discussions towards utilisation of the CAP within the frame of proposed encouragements for a sustainable economic development for agricultural business entities. The article aims at explorative review of tools and instruments for sustainable development of farmers using horizontal economic integration in the Czech Republic.

Key Words
Horizontal economic cooperation, agribusiness, competitiveness, Common Agricultural Policy.

Introduction
The sustainable development of agricultural business entities not only in the Czech Republic, but in other EU member countries, as well is strongly interconnected with Common Agricultural Policy. The aforementioned policy provides different forms of subsidies for farmers both in form of operational and investment ones. So, agricultural subsidies help farmers from EU member countries to succeed in competition on commodity markets.

It is possible to claim that there is no business area more regulated and administratively bound than agriculture. This is, among other things, a result of a relatively complex system of agricultural supports stemming from the basic goal in Europe - the massive support of production of raw materials to the food production. Nowadays there are two basic cornerstones – production and rural support (Kraftová & Kovarník, 2012).
The EU regulations concerning the possibilities to create the rural development programmes in 2007-2013 left a great freedom of action on the national level. The specific character of the individual programmes corresponded to the level of development of the individual countries and the needs of agribusiness and rural areas resulting from that level (Sadowski & Czubak, 2013).

Nevertheless, only the EU subsidy schemes cannot ensure sustainable economic viability for agricultural producers. There can be identified the growing negotiating power of business partners within the commodity verticals, which is influencing above all the producers’ commodity prices. The possible approach for diminishing the negative consequences for individual agricultural producers is their horizontal integration within groups of agricultural producers.

Groups of agricultural producers have already existed in the former Czechoslovakia in 1930s as the sales cooperatives. The new evolvement of economic cooperation among self-standing agricultural businesses has arisen in the Czech Republic in 1990s in the context of free market economy formation. Czech Republics’ EU accession has boosted the incentives of economic cooperation within agricultural businesses after year 2004.

Objectives and methodology
The article aims at explorative review of tools and instruments for sustainable development of farmers using horizontal economic integration in the Czech Republic within the EU programming period of years 2007 – 2013. Additionally, there are drawn up future perspectives in this topical area under currently known results of decision making processes in accordance with upcoming EU programming period of years 2014 – 2020. The paper is based on the secondary research and main methodologies employed as analysis of documents, synthesis, abstraction and concretization. The main information resources employed are the reports of the Czech Ministry of Agriculture, databases of the State Agriculture Intervention Fund and working documents of the Commission, Council and Parliament of the European Union.

Results and discussion
The horizontal integration within agricultural business entities can be defined as partnership among several self-standing businesses at the same level of distribution chain. The aforementioned businesses are associated in the one established organized entity that can be called group of agricultural producers, respectively (Caputto & Minino, 1996).
The integration of European agriculture in the form of the CAP was one of the aims of the European Economic Community (EEC) in the 1950s. This corresponded even to the political aim of the EEC. Decisively, the target was a sufficient production and quality of agricultural commodities, as well as the creation of an efficiently functioning branch, which would increase the living standard of rural dwellers. Agricultural policy contributed to farmers by providing them subsidies, which helped to increase production. In addition to ensuring the agricultural self-sufficiency, the aim of the EEC was, from the beginning, the regulation of prices of agricultural products. A fundamental decision was price support, when farmers got guaranteed prices for their products as long as they do not go below a certain level (Abrahám, 2008).

Fulfilling of intensification CAP criteria to enhance agricultural production caused significant surplus of main agricultural commodities in early 1980s. Mentioned commodity surpluses were partly publicly stored in warehouses or exported outside of EU area. In this case, the problem of such a competitive disadvantage needed to be solved. This disadvantage was connected with higher agricultural commodity prices under CAP regime than world ones and it resulted in higher involvement of public budgetary costs. It also consequently distorted some other world commodity markets. Above all the CAP budgetary expenditures by encouraging agricultural commodity export did not have direct positive influence on domestic farmers and that is why it quickly became unpopular mainly by taxpayers. Politically driven pressure to reform subsidiary system of CAP started to grow hence the production limits on milk to reduce these surpluses were imposed in 1983. Another milestone in forming of CAP was public concern on agriculture’s environment sustainability during 1990s connected with Rio Earth Summit in 1992 and especially with so called MacSharry reform, that was answering the growing public demand for more environmentally oriented farming and it was also connected with effort to create European agricultural production more competitive within world market (European Commission, 2010).

On-going effort to reform CAP was done through so called “Agenda 2000” in 1999, which focused on European agriculture competitiveness and new element called Rural Development Policy. This Rural Development Policy aimed at effort to help farmers with restructuring their farms by diversification of their production and improving their product marketing. Moreover, Agenda 2000 imposed the budget ceiling for the CAP expenditures. Further fundaments of CAP reform were done in 2003 and can be stated, that agricultural entrepreneurs are not subsided from CAP to only produce commodity for food industry nowadays. So called Health Check that was approved by Council of European Ministers of Agriculture in 2008 as initially mentioned midterm review of CAP reform progress for programming year period 2000 - 2006 in the year 2003, mainly revised payment schemes under both pillars of CAP. The continuation of the
“Health-check” process stress up among a range of measures for instance abolishment of arable set-aside, increasing of milk quotas gradually leading up to their abolition in 2015, and conversion of market intervention into a genuine safety net (European Commission, 2008).

The primal reason for establishing the horizontal cooperation among individual agricultural entities can be found in the need for increasing competitiveness on agriculture commodity markets under the aforementioned consequences. There can be generally stated that groups of agricultural producers, which are currently established in the Czech Republic in comparison with other EU ones have insufficient share on the relevant markets. Moreover agricultural producers groups in other EU member states are integrated vertically, as well. So, it provides them closer involvement into the distribution chains.

**Horizontal integration of agricultural business in the Czech Republic before EU accession**

The new broader establishment of horizontally integrated groups of agricultural producers was identified in the Czech Republic after the year 1998. This period was connected with evolvement of purpose-built national subsidy schemes of the Ministry of Agriculture of the Czech Republic.

The aforementioned subsidy schemes were focused on encouragements for setting up the groups of agricultural producers and their operational activities\(^1\). There was set up a time condition regarding this type of subsidy schemes that limited it for period of 3 years after the initial set up. There were encouraged other activities of agricultural producers groups under the subsidy title of Ministry of agriculture in this period such as: technological development, development of the marketing structures and start-up encouragements for further development of integration activities among existing groups of agricultural producers.

There was another subsidy scheme apart from the Ministry of agriculture in the Czech Republic in the pre-accession period. This scheme was administrated by the state fund named Supporting and Garanting Agricultural and Forestry fund, which had been aimed at investment subsidies for established groups of agricultural producers\(^2\).

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\(^1\) Subsidy programme 10 according the principles for providing subsidies of the Ministry of Agriculture of the Czech Republic.

\(^2\) Subsidy programme Investments – Groups of agricultural producers, which were administrated in the pre-accession period in by Garanting Agricultural and Forestry fund. Garanting Agricultural and Forestry fund was established by Ministry of Agriculture of the Czech Republic in the year 1993.
Influence of Czech Republics’ EU accession on horizontal integration of agricultural business

The period of Czech Republics’ EU accession regarding the groups of agricultural producers is circumscribed with the subsidy programme named Horizontal Rural Development Programme (HRDP). This development programme has been simultaneously co-financed from the EU Common Agricultural Policy funds and from the budget of the Czech Republic. The measure Setting up of producers groups within the Horizontal Rural Development Programme enabled to encourage by financial subsidies the formerly approved or pre-approved groups of agricultural producers and partnerships among established groups of agricultural producers. There was set up the commodity area of interest regarding the aforementioned subsidy scheme under HRDP programmed. The count of most important agriculture producers groups in the Czech Republic and their commodity specialization\(^3\) at the end of the year 2004 is summarized in the Tab. I.

<table>
<thead>
<tr>
<th>Breeding of Animals</th>
<th>Fruit and vegetable</th>
<th>Milk</th>
<th>Cereals and Oil plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>20</td>
<td>38</td>
<td>161</td>
</tr>
</tbody>
</table>

Source: Ministry of Agriculture of the Czech Republic (2012)

The measure Setting up of producers groups under HRDP programme ended in the year 2011. So, currently there is no subsidy programme based on Common Agricultural Policy, which encourages organizing of individual agricultural producers in the Czech Republic. This fact can negatively affect the future perspectives of efficient economic cooperation among agricultural business in the Czech Republic.

Future perspectives of horizontal integration among agricultural business

The need for future sustainable economic development of agricultural business entities opens up the intensive discussion on this topic in accordance with the new EU programming period of years 2014 – 2020. The topic of economic horizontal cooperation among agricultural producers is discussed within the proposal for regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural development\(^4\).

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\(^3\) Report of the situation at the agricultural sector in the Czech Republic 2011.
\(^4\) Revised working document no. 17352/1/12 REV 1 following the Special Committee on Agriculture held on 10 December 2012
The aforementioned proposal for rural development stresses up the role of agricultural producer groups in the context of increasing competition and consolidation of downstream markets. The functions of agricultural producers groups are proposed to be in relation to the marketing of their products including in local markets. These proposed functions do not differ from the currently encouragement schemes. Nevertheless, only producer groups, which can be qualified as small and medium sized enterprises should benefit from this kind of support. Time duration of subsidising of groups of agricultural producers are proposed to be limited to maximum five years.

**Conclusion**

This article is aimed at explorative review of tools and instruments for sustainable development of farmers regarding horizontal economic integration in the Czech Republic within EU programming period of years 2007 – 2013. There was drawn up a frame of future perspectives in this topical area under upcoming EU programming period of years 2014 – 2020.

The identified subsidy schemes in the previous period of years and the current EU programming period were identified as very important according to encouragement for economic cooperation among agricultural business in the Czech Republic. There were identified subsidy schemes, which focused on encouragement of horizontal economic cooperation among individual farmers. Nevertheless, the broader evolvement of horizontally integrated agricultural business was identified in the period after the EU accession. The most common commodity specialization of agricultural producers groups in the Czech Republic in the time period after year 2004 were cereals and oil plants, breeding of animals, milk, fruit and vegetables.

The current proposal of the European Parliament and the Council on support for rural development by the European Agricultural Fund for Rural development in time period of years 2014 – 2020 assumes to continue in financial encouraging within cooperation of legally independent agricultural producers to foster sustainable development of farmers in the EU.

**Acknowledgement**

This article was worked out thanks to the Internal Grant Agency of FBE MENDELU within the project no. 23/2013

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