

## MEAT MARKET IN THE CZECH REPUBLIC (Current Situation and the Probable Development)

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### *1. Introduction*

In my contribution I would like to make you acquainted with the present situation of the meat market in the Czech Republic with the probable development of this market in the short term and medium term horizon.

It is obvious, that the present situation represents some point (phase) in the process of transformation of the directive and administrative system both of production management and the distribution of meat and meat products-which in the Czech Republic (formerly in the Czech and Slovak Federal Republic) existed before November, 1989 - into the system of really operated market, heart and brain of which are price mechanism for balance of supply and demand. I will not anticipate the results but I feel that from my next words it will be clear that we are already more than half way towards our goal of a fully operational meat market.

In the interest of my contribution from the point of view of the coherence of the transformation in the sector of the meat production and the meat products, (both breeding of cattle and the companies of meat processing industry), with the transformation of the whole economy of the Czech Republic I feel it is important to concentrate upon three scopes of problems. Therefore I have structured my report into five parts. First of all there are some introductory remarks. In the second part I will try to characterize the meat market development in the Czech Republic and its systems of management during 1990-1993 in comparison with the starting situation in 1989 as a part of transformation process of our whole economy. In the third part I will shortly characterize the operations of the Federal Market Regulation Fund and the State Market Regulation Fund in Agriculture on the meat market which aims to stabilize this market. In the fourth part I will try to elucidate the principles of our access to the protection of the Czech meat market in conditions of the customs union with the Slovak Republic. And finally in the fifth part - at the end of my report - I will try to estimate the probable development of the meat market in the short time and the medium time horizon - until the end of the century - on the base of main inside and outside factors, which we will have to take into consideration in our republic.

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## *2. Meat Market in the Czech Republic in 1990-1993*

The rise and the development and the gradual stabilization of the meat market in the Czech Republic between 1990-1993 represents the process, of the total change of the social and economic system in the Czech Republic. Decisive inside determinant of this development was the accepted and provided strategy of the transformation of the directive and administrative managed allocational economy into the effective operating market economy in conditions of the system of representative democracy.

### *2.1. Inside and outside conditions - the reform strategy*

From the point of view of the start and development of the meat market in the Czech Republic the following factors played the main roles:

- starting of the process of the ownership transfers, that means privatization of the agricultural producers, meat processing companies, and privatization of wholesale as well as retail business. Processes, which are going slowly to the end;
- liberalization of foreing trade with cattle, meat and meat products as a part of the general strategy of the liberalization of foreing trade;
- the inside convertibility of the Czechoslovak and later (from 1993) Czech crown, which made it possible for all business subjects to buy foreing currencies for payments into foreign countries (with exception of property transfers);
- total liberalization of the prices of cattle, meat and meat products and services with the price exception of a few socially sensitive things such as the rent;
- principal changes in the system of non-direct taxes, which eliminated in several steps the subsidies of the consumer prices of meat and meat products with negative turn over taxes and finally the decision to introduce the 5 per cent meat consumption tax;
- disintegration of the export markets for agricultural products in the formerly socialist countries.

### *2.2 Characterization of the meat market*

Under influence of mentioned factors as well as some others started the forming of the meat market in the Czech Republic in the years 1990-1993.

Statistics show that the meat market was and also is created in the Czech Republic by production (supply) and by consumption (demand) of three sorts of meat: pork meat, beef meat and poultry meat. Other sorts of meat as for example fish or game meat present just marginal segment of the market.

In the period before November, 1989, our meat market was characterized by permanent and deep disproportion between production and consumption of all sorts of meat. I do not use the terms supply and demand intentional, because of the market as we know it from market economics, with exception os so-called gray or even black market, practically did not exist. Buying prices, wholesale and retail prices fixed by the administration together with the negative tax tariffs did not presented any effective motivation neither for cattle breeders and meat processing factories to step up production (for that they were too low) nor the consumers to limit their consumption (for that they were not enough high). Problems with meat supply were presentad fundamentally

as a political problem and their solutions were aimed into the administrative compulsion of producers to increase their production to the level which should provide bigger consumption and go over the level achieved in so-called developed capitalist countries.

The price liberalization, changes in the system of non-direct taxes and the disintegration of export meat markets in the formerly socialist countries led to the substantial increase of meat and meat products consumption prices. Traditionally in the past produced volumes of meat bumped against consumers demand barrier. Still not privatized business subjects both of primary production and in processing industries produced by the force of inertia practically the same production volumes. The clear result of the change in behavior of consumers by not very important changes on the side of producers led to the massive superiority of supply on domestic markets with possibilities of non-subsided sales on outside markets.

Agricultural producers as well as the meat industry companies adapted themselves very slowly to the changed situation by cutting of their production and supplies. Farmers, limited by the period of producing cycles of the individual sorts of meat as well as by difficulties on the way to be real businessmen with the main task to sell the meat instead of activities they formerly used to do. Meat industry companies had to try to survive the necessary selective phase and the extinguishment of surplus capacities even by not using all the built meat processing capacities.

In following years 1990-1993 was our meat market characterized by massive and permanent superiority of supply over demand. In consequence of such market situation there was a big pressure to reduce the purchase prices paid for cattle to the farmers and this pressure reached extremely high values especially in time when in consequence of biological cycles of cattle breeding was the superiority of supply over demand extremely striking. As second consequence there was essentially lower increase of meat and meat product prices in relation to the prices of industrial products and especially to the prices of services. It could be said that the increase of meat and meat product prices is about a half of the price increase of industrial products.

In consequence with the factors mentioned in paragraph 2.1. there was in the period 1990-1993 created step by step the market structure similar to that what was usual on meat markets in the standard market economies. From empiric ascertainment on quantity, structure and behaviour of the market subjects - cattle breeders, meat industry companies, wholesalers and retailers - as well as on mutual relations of the speed of changes in the area of buying, trade and consumer prices give us the possibility to state that the meat market is not at all the market with the best operating competition. From the point of view of buying prices it represents more oligopson and regional or even monopson market structure, while from the point of view of trade prices it represents the oligopol and regional or even monopol structure. Risks of defects in operation of such structured market are first of all in the fact that the meat industry companies will use their dominant position in relation both to the farmers and to the wholesalers and shopkeepers, to reduce the buying prices to the lowest possible level and at the same time to increase the trade prices as high as possible.

At present we can state that the situation on the market of the three main sorts of meat is already going to be step by step stabilized and that the meat market is going to the state of approximately balance between total demand and total supply. This

situation is indicated by substantially closer band in which vary the seasonal prices paid to the farmers, the trade prices and the consumer prices.

### *3. Stabilization of the meat market in the system of agrarian - market stabilization*

One of the measures which were used by the state agrarian policy as reaction to the rise and development of meat market so as it was shortly described in paragraph 2.2 was at first the establishment of so-called Federal Market Regulation Fund in Agriculture and later the State Market Regulation Fund in Agriculture.

#### *3.1 Function and Task of the State Market Regulation Fund in Agriculture*

State Market Regulation Fund in Agriculture (SMRFA) was established in accordance with the Act of the Czech national Council No. 472/92 Coll. Its operation started from January 1st, 1993, as continuation of the Federal Market Regulation Fund in Agriculture. Its activities are regulated by the mentioned Act, by the Status appointed by the Government of the Czech Republic in its Resolution No. 748 from 23.12.1992. and finally by the Standing orders of the Board of SMRFA, which was accepted on the meeting of the Board on 21.12.1993.

Purpose of the existence and the task of SMRFA is to contribute to the stabilization of business conditions by using of market conform instruments to the stabilization of business conditions in the area of agricultural producers as well as to the stability of food consumer prices by the sorts of food produced from the agricultural products registered in regulation. Under the term market conform instruments we understand just buying and sale. By the mediation of buying or sale absorbs SMRFA swings of market prices which are high over of deep under the so-called minimal guaranteed prices - prices which will guarantee to the better than average effective producers still minimal profit in the horizon of the economic year.

By filling of so understood task uses SMRFA four groups of instruments and in their framework then three groups of operations.

To the first group belong the alone existence of SMRFA, the including or excluding of the particular product to/from the list of products which are the subjects of regulation, the level of declared so-called minimal guaranteed price and the period for which was the concrete product included into regulation.

How should use the agricultural producer above mentioned information by his business decisions? Including of some product into regulation signalize the expected surpluses or the interest of State to be active on markets of such product. That is why should every producer of such particular product ask himself at first, if he should extend or reduce his production. An important information by such decision is for him so called minimal guaranteed price from the point of view to the production costs. If the price is lower than his production costs, then he should judge, if he will be able to produce with profit and if not, then he should reduce of eliminate such production. On the contrary, if he will be able to produce the respective product for such price, then he should increase his production.

In the second group of instruments of SMRFA, which represents the first type of operations, are the intervention purchases. With their help reacts SMRFA to the

situation of superiority in supply over demand which in its consequences leads to dramatic reduction or to the fall of buying prices. This operation uses SMRFA if there is a reasonable suppose that in horizon of one, two or three production cycles of the respective product will appear the contrary situation - the superiority of demand - which should in its consequences lead to the substantial consumer price increase. In such situation SMRFA then sells the products purchased for intervention prices on inside markets. Good example of such operation was the intervention purchase of food quality wheat after the harvest in 1992 and its sales during the period from January to June, 1993.

In the third group of instruments which represent the second type of operations are the subsidized exports. With their help reacts SMRFA to the situation of supply superiority which could again lead to the dramatic reduction or to the fall of purchase prices. However, SMRFA makes this step only then, if it can reasonably suppose that the superiority of supply will continue. In such situation is namely necessary to export the surpluses of the production to the outside markets of the Czech Republic. Export subsidy is then used to cover the difference between so-called minimal guaranteed price and the market prices reached by exports. Good example for such type of operation are just running subsidized exports of some milk products.

All business partners of SMRFA - both for providing of intervention purchases and subsidized exports - are chosen by the selection process on the basis of "Principles for Selection Process", appointed by the Board of SMRFA. Doings, terms and conditions of selections are announced in daily press and every businessman registered within the area of the Czech Republic has the possibility to apply for such selection.

The main criteria for the selection are: offered necessity of subsidy (in the cases of export); costs by purchase (in the case of intervention purchases); and the business reliability of the applicant.

The providing both of intervention purchases and subsidized exports runs then between SMRFA and chosen businessmen on the contractual basis in the framework of Business Code.

In the fourth group of instruments used by SMRFA to stabilize the agrarian market are the means for non-tariff protection of inside market against imports of agricultural products in such extent, which could mean important increase of supply superiority on the Czech market. This concrete instruments are: so-called balance-fees by imports; and import and export licences. Balance-fees are fixed on the basis of difference between certified import prices and prices, for which are the better than average domestic producers able to produce respective commodity. The list of products for which it is possible to exercise the balance-fee arose on the basis of negotiations on attachment of the formerly Czech and Slovak Federal Republic to GATT, and it contains about 330 items of the customs tariff.

The SMRFA uses balance-fee and fixes concrete tariffs in cases, when the protection of domestic producers only by customs tariff is insufficient, with regard to the certified import volumes in such extent and for such prices, that the stability of the market in the Czech Republic could be seriously endangered.

From the total number of about 330 items of the customs tariff, by which it is possible to practice balance-fees, are this fees at present practiced by ca 100 items.

By balance-fees is at present protected inside market, as follows:

- by living beef-cattle (12 items of customs tariff from the group 010290):
- by living sheep (2 items of customs tariff from the group 010410):
- by beef meat (6 items from the group 0201 and 8 items from the group 0202):
- by meat of sheep and lambs (14 items from the group 0204):
- poultry and goose meat (21 items from the group 0207).

In the framework of the agricultural offer which was submitted to the Uruguay Round of GATT accepted the Czech Republic the commitment of tariffication of all balance-fees for imports. That practically means, that from 01.01.1995 or from 01.07.1995, when the agreement comes into force, the Czech Republic will not use this instrument of non-tariff protection of inside market any more.

In coherence to the protection of the Czech agrarian-market allow me, please, some more remarks to the problems of protectionism, what means the non-adequate and non-reasonable protection against imports. In the area of agricultural products and food trade liberalization advanced the Czech Republic much further then the EC countries and the other countries of Middle and Europe.

That is evident from the following three facts:

- customs tariffs exercised on imports of agrar-products into Czech Republic are significant lower:
  - there are practically not exercised the non-automatic licences with quotas (with one exception exercised to imports of fresh apples from EC countries):
  - there are not exercised any other instruments of the non-tariff protection except of above mentioned import balance-fees as quotas, minimal import prices, lock prices and so on.

### *3.2 Summary of the Operations of the Federal Market Regulation Fund and the State Market Regulation Fund in 1992-1993*

In 1992 were classified for the market regulation bulls raised for meat, heifer raised for meat, and the beet quarters. In 1993 were classified for the market regulation bulls raised for meat, heifers raised for meat, beef quarters and pig halves.

Data on volumes of operations (in tons) and on the mode of their technical providing are as follows:

	1992	1993
1. Bulls raised for meat, heifers, beef quarters, pig halves		
1.1. Subsidised export	56.270	26.958
1.2. Intervention purchase (beef quarters)	2.734	1.947
1.3. Export of interventional buyed beef quarters	-	3.328
1.4. Intervention purchase of pig halves	-	12.806
1.5. Sales of pig halves on inside markets	-	646
1.6. Export of interventional purchased pig halves	-	8.242

#### *4. Conclusion - probably direction of the meat market development*

From that what was said until now on the meat market in the Czech Republic is clear that we were participants of the process in which:

a) the Czech market changed from administrative allocational economy to the good operating oligopol and oligopson market structures:

b) the Czech market, in respect to its balance, approaches step by step to the balanced market: after the time when it went from very unbalanced market (demand superiority in time before November, 1989) it appeared again in another very unbalanced market (this time supply superiority during 1990-1993).

I think that in the short term horizon of 1-2 years as well as in the middle term horizon until the year 2000 we can assume, that the meat market will be balanced and the State regulation steps will not be necessary. Risks of deepening of incidental negative consequences of the oligopol and oligopson market structures doubtless exist, but we hope that it will be possible to face them successfully in the framework of the space for further forming of the meat market in the Czech Republic, which will be determined by two groups of outside factors and by two groups of inside factors.

From the outside factors that will be the practical form of the operation of Common Agricultural Policy accepted by EU countries as well as the practical form of development of just closed Uruguay Round GATT Agreement.

From the inside factors there will be decisive the successful continuity of transformation of the whole Czech economy, because of only such development will be able to provide the means for incidental support to the business in the area of meat production. Important role will then yet play the pace of forming and mode of operating of "Agricultural and food lobby" as a natural part of the policy system of representative democracy.

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