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## POLAND IN COMMON AGRICULTURAL POLICY

<sup>a</sup>Jaroslav Kundera\*

<sup>a</sup>*Institute of Economics, University of Wrocław, Poland.*

### ABSTRACT

Poland has become the one of biggest beneficiary of Common Agricultural Policy (CAP) in the period of 2004-2013. It will also be the biggest recipient of grants from the CAP in the next budget period 2013-2020. The EU' agricultural policy is acting mainly to "correct" the mechanism of free competition to stabilize agricultural market and income of the farms producers. Taking into consideration the importance of agricultural production in the Polish economy, it is not possible to characterize fully the place of Poland in the European Single Market without analyzing the mechanism of the CAP. Therefore the main goal of this article is to analysis the effects of the Common Agricultural Policy, which exerted important influence on Polish economic development in the period 2004- 2013. Use by the Polish economy of the CAP' assistance was important not only for farmers' income, but also for modernization of agricultural infrastructure.

**Keywords:** Poland, CAP, Agriculture Policy.

### INTRODUCTION

The European Single Market extends also to the agricultural sector but, in comparison with industry and services, the introduction and operation of free trade in agricultural products was accompanied by the establishment of the Common Agricultural Policy. The Common Agricultural Policy (CAP) is the oldest common policy, and it has developed into one of the most important EU policies for both old and new member countries. It is the most expensive economic policy of the EU, which now accounting for about 42% of budgetary spending. According to art. 33 of the Treaty Establishing the European Community, the objectives of the Common Agricultural Policy are:

- a) To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production;
- b) Thus to ensure a fair standard of living for the agricultural community by increasing the individual earnings of persons engaged in agriculture;
- c) To stabilize markets;

- d) To assure the availability of supplies;
- e) To ensure that supplies reach consumers at reasonable prices (Anonymous, 2010) The emphasis of the early CAP was on encouraging better agricultural productivity, so that consumers had a stable supply of affordable food. It offered subsidies and systems guaranteeing high prices to farmers, thereby providing incentives for them to produce more. The CAP was very successful in meeting its early objective of moving the EU countries towards self-sufficiency. However, an effect of the CAP's interventions on the single market is that the EU has had to contend with almost permanent surpluses of the major farm commodities (wheat, sugar, milk, butter, wine). Some of agricultural products were exported with the help of subsidies, while others had to be stored within the EU. These measures of course had high budgetary costs and did not serve the interest of consumers as they had to pay higher prices on the market. CAP interventions distorted some world markets products and were intensively criticized by developing countries unable to export their agricultural products to the EU market.

Before enlargement the EU farm ministers adopted a fundamental reform of the Common Agricultural Policy. Now CAP is based on two pillars connected to each

\* Corresponding Author:

Email: [kun@prawo.uni.wroc.pl](mailto:kun@prawo.uni.wroc.pl)

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other: (1) market policy supporting farmer's income; (2) the rural development policy. The policy supporting farmer's income includes the system of direct payments from the EU budget as a form of grant for agricultural production. The main goal of the single payments is to guarantee farmers more stable incomes, because farmers' incomes used to be lower than those of urban residents. To receive direct payments, farmers must meet certain standards concerning animal and plant health, environmental and animal welfare and keep their land in good agricultural and environmental conditions. The system is known as decoupling, because it is no longer linked with value of production.

Farmers can decide what to produce knowing that they will receive the same amount of aids. The rural development policy provides support for strengthening rural production, its institution and environment. For the period 2007–2013 it is based on three main elements: a) improving agricultural competitiveness, b) improving the environment and supporting land management, c) improving the quality of life and diversifying the economy in rural areas. Fourth additional axes known as "Leader" is inspired by the former program Leader Community Initiative, which aims at implementing local strategies for rural development through local public-private partnership.

Agricultural land in Poland covers 15.9 million hectares (12% of the total arable land of the EU-15): 77% of which is arable area and 21.3% are pastures. Private farms occupy over 14.0 million ha. Farms from 5 to 10 ha accounted for 22% of all durable land, those from 10 to 15 ha for 9.4% and farms above 15 ha for 10.9%. Farms from only 1 to 2 ha accounted for a sizeable 25% of agricultural land. Before accession there were 1.8 million farms in Poland. However, only 750 000 were able to produce goods for the market and these farms produce about 90% of all agricultural production in Poland. The low productivity expressed as GDP per employee is due to the very high share of agriculture in employment. According to various statistical data the sector still accounts for about 15–16% of total employment in Poland (about 2 100 000 employed in agriculture, hunting and forestry). Taking into consideration the huge structural problems, that exist, Polish agriculture requires profound structural transformations. According to forecasts made before accession, only 10% of Polish farms hope for being able to cope with competition from the EU (Skotnicka-

Illasiewicz, 2009). What that forecast means for the present and future is that more 1.5 million jobs must be created in Poland's rural areas, if the output from 1 hectare of land in Poland is to reach the average output in the other member states. This gives some idea of the huge, but necessary costs of transformation and as well as the necessity of stretching rural reforms over a long time. Only though progressive reforms will be able rising unemployment in agricultural sector be cushioned and the concentration of land ownership commence in favor of emerging strong farms. However, it should be underlined, that inclusion of all these costs of transformation into costs of integrating of Polish agriculture with the EU Common Agricultural Policy and the costs of modernizing Polish agriculture is impossible to be made precisely. Accession to the EU has brought about costs for Polish agriculture, which are related to bringing the agricultural production in alignment with EU sanitary, health, veterinary standards. For example, in 2003 only 4% of farms supplying milk to dairies met the EU standards and the small suppliers of milk who did not provide class extra milk to the dairies were forced to give up their delivery (Mail, 2006). Polish agriculture made and is still making investments aimed at improving the quality of farm production. The effects of those investments are amplified by the coverage of Polish agriculture and rural areas under the "umbrella" of the Common Agricultural Policy creating a unique opportunity to improve the economic prospects of agriculture. The rise of some agricultural prices on Polish market has increased of income of farmers and profitability from agricultural production.

In 2004 the elimination of customs duties and other barriers in agricultural trade between Poland and the EU opened a market to Polish farmers, which was at least ten times bigger than the Polish market. This produced a positive impact on exports increasing and improving the trade balance with the EU members. The trade deficit between Poland and the EU in the agricultural sector reached 677.8 million euro in 2003, but in 2004 there was surplus of 850 million and this trend continued since the start of the post accession period. The highest growth of export developed in meat and milk products. In the 1990s only 18% of Polish beef production was exported, after accession beef export grew to 50%. One fourth of Polish poultry was exported to the EU partner countries, and the export of pork

outweighed pork import from the EU. In 2009-2012 this dynamic growth of exports decreased due to the financial crisis, but the trade balance was still positive. The most important importers of agricultural products from Poland were: Germany, the United Kingdom, the Czech Republic, and the Netherlands. Poland continued to be mainly an exporter of meat products including fish and fish preparation (25%), dairy products (12%) and fruit and vegetables (over 20%), tobacco and manufactured tobacco substitutes (6.4%), sugar and sugar confectionery (3.4%), and beverages, spirits and vinegar (3.1%).

Before accession, direct payments to agricultural producers were 4 times less in Poland than the average for EU countries. In 1998 producer support in the EU was 2002 USD per 2 ha of land and 895 USD in Poland. Hence, the problem of direct subsidies was one of the most vigorously disputed points concerning the integration of the agricultural sectors of UE member states. The European Commission opposed assigning the same direct aids, that the old member states received to the new members states, because it feared that doing so it would provoke a redistribution of resources at the expenses of the 15 member states (OECD, 1999). It was agreed in the Accession Treaty that Polish farmers would receive direct payments in the amount of 25%, 30% and 35% in the period 2004 and 2006 and these payments would increase progressively to reach full quota in 2013. Additionally, in the first three years funding reallocated from the EU funds devoted to rural development was used to supplement this level to 40% of full payments. At the same time the EU agreed to give Poland the right to provide extra top-ups on direct payments from the national budget in amount not exceeding 30% up to 55% in 2004, 60% in 2005, and 65% in 2006. While in the last four years before Polish accession to CAP the annual average level of subsidies to agricultural production was 863 million zlotys, in the five years following accession their average annual value was 9866 billion zloty, more than an eleven-fold increase (Kociszewski, 2009). The overall value of the support for this sector in Poland has grown from year to year: in 2005 Polish farmers obtained aids that was close to the previewed payments (preview payments in parentheses) amounting to 702 million euro (755.8). In 2006 the aid amounted to 811 million euro (881), 935 million euro (1140.8) in 2007, 1037 million euro

(1425.9) in 2008, 1 446 million euro in 2009, 1827 million euro in 2010 , 2504 in 2012 million euro and about 3.5 billion euro in 2013 ( see table no 1 ) . As a result direct aids to polish agriculture were higher than previously suggested, but still less than what was given to farmers in EU – 15 members states. For example in 2010 French farmers received 8420.8 million euro, German farmers 5772 million euro and Spanish farmers 5091 million euro.

Years	Direct payments in million euro
2005	702 ( 755.8 )
2006	811 (881.7)
2007	935 (1140.8)
2008	1037 (1425.9)
2009	1446 (1711)
2010	1 827 ( 1996.1)
2011	(2281.1)
2012	2504 (2566.2)
2013	3 500 (2851.3)

The result of the final agreement on direct payments is that Polish farmers have not been covered by all CAP regulations since the day of membership (100% direct payments). They had to operate under different, and worse competition conditions than did the farmers of the old 15 EU member states. In the EU average direct payments are 271 euro in the budgetary period until 2013. While Polish farmers obtained 214 euro per one ha, the direct payments in Holland and Belgium reached the level of 406 euro. Partial direct payments, and the consequence the lack of uniform competitive conditions in the whole single market provided for two separate agricultural policies operating for a temporary period, one within the area of old 15 member states and one within the new member states. As a result in the first years after accession benefits for the Polish agriculture were only minimal. The full integration of Polish agriculture will take place in the next budgetary period in 2013- 2020. It should be added that Poland has accepted the so-called "simplified system" of direct payments. That system means that all the types of agricultural area were supported by direct payments. The argument for introducing a "simplified system" instead of the standard system was that the standard system used in the EU-15 member states was too complicated to be used in the new member states. The simplified system significantly decreased the cost of its current agricultural administration in Poland. It is worth adding that due to introducing a different,

temporary system of CAP in new member states, helped the EU-15 to economize on the cost of enlargement. It has been calculated that as Poland was gradually covered with direct payments between 2004 and 2013, EU budget funds would amount to EUR 16.3 billion. The potential EU budget "savings" resulting from not covering Polish agriculture in 2007–2013 with full direct payments might approximately have been as much as 10.6 billion euro (Warsaw, 2003).

The lack of uniform competitive conditions between Poland and the EU in agriculture did not mean a lack of possibilities to compete. Positive effects upon income in Polish agriculture started from first years of accession. Benefits for the Polish agricultural sector arose from several sources. Firstly, direct payments to Polish farmers (in Polish zloty) rose year by year: from 442 zloty per ha for crop production in 2004, these payments grew to 483 zloty in 2005, 523 zloty in 2006, 562.09 zloty in 2010 and 710.57 zloty in 2011, 731.72 zloty in 2012 and 830.3 zloty in 2013. They were supplemented by 274.23 zloty per ha for basic crops. In 2010 Polish farmers received 346.43 zloty per one cow, 410.89 zloty in 2011 and 584.79 in 2012. Per one sheep Polish farmers received 105.91 zloty in 2010 and 123.11 in 2012 (Warsaw, 2005).

During the first five years after accession Polish farmers received 10 billion euro of direct aids while transfers from Polish budget were two times less at 22 milliard zloty. Growth of direct payments from the EU for small Polish farmers made up the main part of their agricultural income. For some small farms (those up to one or two hectare) direct aids accounted for 90% of their average agricultural income, while for medium-size farms from 8.2–16.5 ha direct payments accounted for between 31% to 84% of agriculture income Kwartalnik (2008). Secondly, contrary to critics the Polish Agricultural Information System (IACS) proved to be efficient in managing the direct aids to Polish farmers. In 2010 this system transferred direct payments 12.8 billion zloty to 1.2 million Polish farmers - 92% from 1.375 million Polish farmers. Thirdly, due to UE accession Poland was also covered by the other instruments of the Common Agricultural Policy. The Common intervention regime encompassed cereals, sugar and butter markets. CAP instruments aimed at guaranteeing minimum sale prices to farmers included such Polish crops as cereals, meat, milk, potato, starch, sugar, dried fodder, tobacco and fruit and vegetables. In

2012 outlays from the Agricultural Market Agency amounted to PLN 52.44 zloty for one ton of sugar, 2 785.45 zloty for one hectare of soft fruits, 162.1 zloty for one ton of vegetables. Fourthly, farmers became more interested in buying more land, thereby influencing the price for agricultural land. Before the financial crisis the price of one hectare of arable land rose by 140% in comparison with 2003, and the price of land sold by the Agricultural Property Agency increased 2.3 times (Wojdas, 2009). In 2003 12% of Polish agricultural land was set aside from production, after accession the percentage of unused land fell to only 3.5% of arable land fifthly, there was a rapid growth of Polish agricultural exports after 2004. The growth rate of agricultural exports to the EU-27 states was almost twice as much as the imports growth rate in the entire post accession period. The expansion of Polish export from 4 billion to 11.3 billion euro and the positive balance of trade in the agro-food sector with the EU member countries indicated that Polish farmers were able to compete on the single market even though they received only partial direct payments.

The cost of the adaptation of the CAP rules for the Polish agriculture was also important. It increased production cost due to the VAT increases on agricultural machines, construction materials, and higher prices for fertilizers. Polish farmers had to make necessary investments to modernize cowshed and milk storage, and to install modern ventilation, and lighting systems; these investments were required so that farms adhered to standards of environmental protection. Farms specializing in animal production required greater environmental investment such as building storage structures for waste. Farms producing eggs obtained a transitional period, in which to modernize or replace of cages for laying hens. All farmers were obliged to store adequately and safely all substance that could be dangerous to groundwater. The total investment outlays related to upgrading Polish agricultural production to meet EU sanitary, health, veterinary requirements were assessed at 1.709 billion euro. Capital expenditure on agriculture increased by about 70%. The largest part of this financing was used to modernize and upgrade method of milk production EAGGA, (2004).

In the theory of integration an equal level of prices shows complete integration between different markets. After accession to the EU there was relatively fast

process of prices convergence between Poland and the EU, although considerable differences still exist. On the pork market, prices tended to be equalized by 2004. The CAP common intervention system favored the equalization of prices on the cereals market. The prices of milk and butter in Poland have approached those same prices in Holland and United Kingdom. Beef price in Poland have reached 75% of the EU average. The price for sugar increased after accession, but after market reform in 2006/2007 the resulting fall in sugar prices brought about a decrease in sugar production in the EU as well as in Poland and later on to the growth of Polish prices and import.

It may be argued that Polish agriculture gained its most profits through participation in CAP taking into consideration the experiences of the new UE member countries. Without the CAP support for farmers to cover adjustment costs, the general rise of prices for agricultural products and growth of export would have cause this sector of Polish economy to face a few difficult years after enlargement. After 2004 agricultural production grew in Poland and was at maximum higher by 46% than in 2000 (Kałużyńska et al., 2009). The restructuring and modernization of Polish farms have been considerably accelerated. Sales of tractors supplies have increased by nearly 70% and sales of cultivators by 550%. The output of the biggest farms (those over 35 hectares) has been growing at a fast rate. Although in the period 2004–2009 the number of milk suppliers decreased from 355 to 195 thousand (Kałużyńska et al., 2009). Polish producers still fulfilled the milk production quota specified under the accession Treaty and reached of 8.5 billion liters.

Research done by the Agricultural University in Poznan indicates that after accession to the CAP the number of Polish farms decreased only by 148 thousands. About 420 thousands farmers in Poland still make a living from farms not larger than 2 hectares. So the integration of the Polish market with the single market under the umbrella of the Common Agricultural Policy was accomplished without any major economic and social problems. Maintenance of the existing agricultural policy provides incentives for continuing small and low- productivity farming. The development of the food industry has not done much to increase the outflow of labor from the Polish agriculture sector to other sectors as food industry and services. Although after accession to the EU, there was a dynamic increase

in buying land in Poland and a concomitant increase in prices, pessimistic forecast a dynamic increase in the land purchase by foreigners did not materialize.

The realization of agricultural integration proceeded better than had been anticipated and in all post-accession period. Benefits from the Common Agricultural Policy exceeded costs incurred in Poland (Przegon, 2009). The important element of CAP rules was the payment of direct aids to polish farmers. Due to the size of Polish farm a significant amount of direct payments became in effect social aids. Out of 1.8 million of Polish agricultural farms only 1.2% is bigger than 50 hectares but 31% are smaller than 2 hectares: such small farms are not able to produce goods for market. In the first years of accession direct aids in the amount of 50% of full payments prevented the economic situation of Polish farms from getting worse in comparison with that of the pre-accession period. In 2013 direct aids to polish farmers amounted to 78 % of the average direct payments to the farmers of the EU-15 member states. Due to the financial support of direct payments Polish farmers were the social group to really feel the beneficial effects of membership. The percentage of direct aids in the income of Polish medium-size farmers growing crops grew to as high as 67%. 70% of increases of income in Polish agriculture were attributable to increases of subsidies, while increase of exports and production, price, technical change, etc. accounted for the other 30%. A devaluation of Polish zloty against the euro caused the value of direct payments to grow steadily far more than nominal growth. In the new budgetary period 2013 – 2020 Poland should negotiate to receive 100% of direct aids. According to Commission proposition if a country received less than 90% of average direct aids it is eligible to receive compensation of 1/3 of the difference during seven year period. Small farms would be able to get direct aids in the range of 500 – 1000 euro yearly under the much simpler administrative regime.

#### **CONCLUSION**

Overall the Common Agricultural Policy was not able to profoundly change Polish agriculture into a more productive sector of the economy in a relatively short period of time. The simplified system applied by the EU was especially beneficial for farmers producing crops, who were not, supported by direct payment, for example those producing potatoes. The disadvantage of introducing this simplified system in Poland was that

excessive support was given to low effective farms located on infertile soils. The critics of this system concluded, that it gave no incentive to farm production to specialize in one crop, to boost agricultural investment and to commence the essential modernization of Polish farms. Farms engaged in wheat production were the farms that got the least benefits (about 70% of arable area in Poland). The economic situation of these farms has deteriorated since 2009 crops. Hence, the introduction of the simplified system meant for Poland that cereals producers were deprived, benefits as there was no support for grains farms with additional grants like in the EU-15. Past experiences of the CAP have also shown a drawback of this policy in this sense that subsidies were not useful with a view towards modernization. They were used mainly to direct aids and to delay rather than to modernize and assist the adjustment of farm production to the exigencies of changing market situation. Public aids for Polish farmers very often helped to increase private consumptions in small farms, rather than to boost investment. Hence continuance of the existing agricultural policy would provide incentives for continuing small and low-productivity farming. During the last 10 years the average size of an individual farm in Poland increased by only around 1ha. To become effective in the long run, Polish agricultural policy should try to shift towards a policy of rural development, farm concentration and support of higher quality and more mechanical, specialized agricultural production. The corrective mechanism of the Common Agricultural Policy is still needed in the long run perspective.

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