SCIENTIFIC INFORMATION

Problems of Polish agriculture in the process of integration with the EU

Problémy polského zemědělství v procesu integrace do EU

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On January 30, 2002, the European Commission (EC) made public its communication called "Enlargement and Agriculture: Successfully integrating the new Member States into the CAP SEC (2002) 95 final". Although it is only a proposal for the EU negotiating position in agriculture with all 12 candidates, it is very likely to become the basis for the future negotiation positions vis-à-vis the individual applicants. No other document before had touched off so much emotions and polemics in Poland. This time, the heated response had at least two reasons behind it: (1) the document is the first official, though only indirect, reply by the EC to Poland's negotiating position submitted in December 1999; (2) the EC proposals disagree with the expectations and aspirations of the Polish side. Before the analysis of the EC proposals, it is worth reviewing in general the main elements of Poland's negotiating position.

Poland, under its negotiating position of December 9, 1999, is applying for:

– Extension of the full scope of the Common Agricultural Policy (CAP) to Poland's agriculture;
– Production quotas reflecting the natural potential of environment-friendly agricultural production and ensuring stable incomes to the farming population;
– Inclusion of the Polish farm produce and food market into the Single European Market area.

Poland also declared that by the end of 2000, it would begin to bring up to the EU standards:

– Legal-administrative and institutional system of agricultural product markets;
– Border inspection system;
– System of records and trade in foodstuffs with non-EU countries;
– Supervision over food production and trading.

While declaring to adopt all acquis communautaire obligations upon the accession, Poland made the reservation that the readiness of the Polish government to implement the entire body of the EU law on the accession day was conditioned on the guaranteed access of the Polish agriculture to all of the CAP instruments, including direct payments.

In its "Enlargement and Agriculture" proposals, the European Commission stresses the following points:

– The applicant states will adopt the acquis communautaire as it is in force upon their accession; any transitional periods have to comply with the principles set out in the EU positions;
– The EU shall support the best it can the measures that the applicants implement to restructure and modernise their agricultural economies;
– The negotiations should pave the way to unlimited integration of the food sectors in the new member states with the single market and the extension to them of the Common Agricultural Policy;
– The EU's position should allow for the expenditure caps set by the European Council at the Berlin Summit in 1999;
– The proposals should not foreclose any future decisions related to the changes in the EU funding mechanism and the Common Agricultural Policy.

The biggest divergences between the Polish and the EC positions concern direct payments, production quotas and reference crops.

The EU proposes to introduce direct payments from a low threshold with a parallel support for structural transformations firstly in the form of rural region development programmes based on more favourable terms than those underlying such programmes in the present member states. The European Commission postulates a 10-year transitional period for arriving at the full level of direct payments. Thus, according to the Commission, direct payments should represent 25% of their full amounts in 2004, 30% in 2005 and 35% in 2006. The increases in the subsequent years should lead to the full scale of these payments to be reached in 2013.

The paper was prepared for the international scientific seminar on the occasion of the 90th anniversary of founding of the Research Institute of Agricultural Economics (RIAE) on the topic "Pre-accession strategy of Czech Agriculture on the way to the EU", September 27–28, 2002, Průhonice near Prague, Czech Republic.

According to the Commission, the new members may, in the first years of their membership, encounter problems in introducing the direct payment systems and therefore the Commission document sets out an alternative proposal to the standard system, i.e. a simplified system. The simplified system proposal is based on three principles:

– Payments would be extended to all farmlands with areas not below 0.3 hectares;
– Receiving payments would not be conditioned by the actual agricultural production, but maintaining the farmland in readiness for starting production;
– The simplified system would operate within a limited time horizon. It would stay in effect for the period of 3 years with the option of its extension by 1 more year two times. If the IACS is still not in place after that period, the simplified system may continue to apply but with direct payment rates being frozen at the level effective in the fifth year.

The Commission proposes that an applicant country may choose the standard or the simplified system. However, the choice of the system as it is in the current member states requires of an applicant the compliance with all the administrative and control procedures envisaged by the CAP regulations without transitional arrangements.

The concern on the part of the Commission, that Poland will not be prepared for that compliance, appears justified. The extension of the CAP instruments to the Polish agriculture is a complicated project not only for Poland but also the EU itself. This is due to the production capacities of Polish agriculture, low degree of specialisation, fragmentation of agricultural holdings, scope of integration of the food sector, etc. An important part of the CMOs is the intricate system of financial settlements with farm producers and processors. The Common Agricultural Policy requires a built-in administrative capacity for specific institutional arrangements. Meeting all these institutional requirements and acquiring an accreditation for them by the end of 2003 is an impossible challenge for Poland.

Despite some expediency of the simplified system, including less cost to completion and an automatic formula enabling Poland to fully absorb its allocated direct payment amounts upon the accession, we should do all in our power to minimise the duration of the transitional period, because the downsides of that solution becloud its worth to Poland. Under the standard system, direct payments apply to the areas under cereals, oil and leguminous fodder plants. On the other hand, the simplified system extends such payments to the entire area of farmland, which means an area twice as large. As the basis for the direct payment calculation is not going to change, the size of the payments per unit of area is tumbling. In short, the simplified system is falling significantly short of the competition levelling function and commercial farms that produce for the open market will receive much less.

Simulations made by the IERIGŻ (Institute of Agriculture and Food Economics) reveal that the extension of the CAP instruments to the Polish agricultural holdings, even according to the rules proposed by the European Commission, will increase the number of holdings capable of enlarging and modernising their production capacities from the present 175 000 to 273 000 that will work about 50% of the national arable land and provide gainful employment for about 13% of the agricultural population (Józwiak et al. 2002).

If the terms presented in Poland's negotiating position were accepted, the number of farm holdings with growth potentials would increase up to 424 000 working over 60% of the available farmland and employing over 22% of the Polish agricultural population.

The effects of the CAP applicability will be different for different groups of agricultural holdings. The IERIGŻ studies reveal that those to benefit the most would be the holdings that combine plant production such as sugar beet, vegetables and fruits with cattle breeding, and also fruit farms (orchard-keepers). On the other hand, the holdings engaged in the production of live poultry, cereals and rapeseed would be in a comparatively worse position (Ibid.).

The scale of the benefits would also depend on the holding size. At present, the area of the average holding in Poland amounts to about 28 hectares. If farm holdings of this size get the CAP treatment under the present regulations, their incomes will be higher by 91% than in non-agricultural jobs (Gomułka et al. 2002).

Production quotas, basis areas, reference crops and the caps on cattle and sheep populations present another group of negotiating problems at least as vital as direct payments.

The aim of the related values as proposed in the Polish negotiating position is to assure Polish agriculture of the best possible position upon the accession. If followed, the proposals of the European Commission would give Polish agriculture the possibility of increasing the output of many important farm products for at least a few years to come, but would also restrict production of some others (sugar, iso-glucose). If consumption grew in any of those restricted areas, Poland would have to fill the gap with imports, because Polish farmers could not go beyond the current quota limits. That is why Poland should apply for rolling production quotas on all products subject to the limits.

The applicant countries reacted with negative emotions to the Commission proposals as failing to meet the expectations, while the member states saw them as too generous. Now that the understandable period of heated reactions is over, the time has come for sober calculations where all arguments need to be allowed for.

An analysis of the Commission's proposals should go beyond the analysis of individual instruments. An emphasis on mechanism and policy effects in isolation from the opportunities and threats of the entire integration process would lead us to lose sight of entirety of the enlargement project and to limit our focus to specific cases. The effects of the integration will be there for entire Polish society, but not equal for all. Agriculture may benefit in two ways – directly from the CAP and structural funds, and, indirectly, from the expected acceleration of economic growth. Hence, the opportunities and threats should be considered and evaluated over a long as well as a short time horizon.

When examined over the short term, the Commission document with its suggested financial ratios should be measured firstly against the Polish annual budget expenditures on the agricultural sector, secondly, the financial amounts obtained by EU farmers, and thirdly, the possibilities of reasonable absorption of these financial resources by Polish agriculture.

In the recent years, the Polish budget for agriculture, including farmers' social security, has amounted to 16–18 billion PLN, and clean of the social security fund (KRUS), the annual budget spending has been 3–3.5 billion PLN. The Commission-proposed money would enable Poland to increase the agricultural spending by about 50%, an improvement quite impossible if Poland stayed away of the EU structures. On the other hand, this would be much less than what the EU farmers are getting. In direct payments, Poland would only receive 25%. This is violation of one of the fundamental solidarity principles of the EU, i.e. the equal treatment of all members.

The capacity to absorb the transferred funds is another story. Many economists peg this absorption capacity at about 4% of the GDP. An increase of the fund absorption capacity beyond that runs into institutional, infrastructure and human resources barriers. Although in theory any amount of money can be spent, the important thing is to spend the money in an affective, objective-determined manner. Despite huge social, economic and cultural investment requirements, the Polish agriculture's capacity to absorb financial resources is quite limited, as the experience of the recent years has shown.

An evaluation of the effects of the Commission's proposals over the long term is difficult. On one hand, the integration will promote the effects associated with the economic growth expectations, such as the creation of new jobs and a higher consumer demand to follow on the income growth, etc. These effects will spur the growth of agriculture directly and indirectly. On the other hand, the Commission's proposals carry solutions that give rise to justified concerns. Even if the solutions proposed for the first three years are motivated by the EU budget, approved in 2000, and the incomplete readiness of the applicant countries for the absorption of EU budget funds according to the rules prevailing in the EU area, the plan for transitional arrangements for as long as 10 years has no substantive foundation. Acceptance of such a long period on the proposed terms would pose a real threat to the competitiveness of many Polish commercial farms, including, above all, those that are now financially strong.

A long period of "incompleteness" also has a negative social and political tenor, all the more so as the substantiation that the Commission has offered for its proposals provokes a series of questions. One cannot accept the claim that if granted according to the present EU rules, direct payments would have an adverse impact on structural changes in the Polish agriculture. Such reasoning would have to entail the admission that the present proposals also perpetuate the incumbent structures and that, while failing to improve in a meaningful way the income position of the holdings, they restrict the potential for increased accumulation and hence competitiveness of Poland's agriculture. The agrarian structure in the EU is not homogeneous and its uniformity has never been and is not an objective of the integration. Thus, it cannot serve as the criterion for the duration of transitional periods in the accession process.

The "co-habitation" of different systems in the "old" and "new" member states after 2006 would lead to more intractable problems at a time of highly likely reform of the Common Agricultural Policy. The EU has not said what the CAP would be like after 2006. Thus, the proposal to maintain uneven agricultural policy mechanisms in the "new" and "old" member states in the perspective of 10 years should be seen as the evasion by the Commission of proposals to the new members for any eventual CAP reform measures up until 2013.

Even more debatable is the Commission's argument about the impact that direct payments would have on the income parity of the rural and urban population. No available estimates in Poland warrant the thesis that direct payments would bring about a "revolution" in such income relationship, but even if we accept the claim about the income parity reversal between town and country, one can hardly agree that it would trigger social upheavals or serious economic problems.

There is in Poland a long and growing acceptance of the view that it is necessary to differentiate in the agricultural policy instruments between the economic policy instruments addressing commercial agricultural holdings on one hand, and the rural area development policy instruments addressing rural inhabitants who for various reasons surrender jobs in agricultural production. The presented proposals recognise only to some degree the need for this differentiated influence on the processes of modernisation and restructuring in Polish agriculture. The proposals are addressed to all 10 candidate countries, where the roles and functions of national agricultures are different. Poland's agriculture, which for the past 50 years has evolved differently than in the other ex-socialist countries, is distinctively specific. Its specific character consists in, among other factors, big agrarian overpopulation and a large percentage of holdings that do not produce for the market. The proposed instruments fail to take account of these facts to an adequate extent. The funds proposed would not bring about a fundamental improvement of the agrarian structure of Polish agriculture, which the Commission itself also believes is indispensable.

In view of the present status and the transition growth modalities of Poland's agriculture, an economic policy should provide measures leading to a rapid improvement of labour productivity and other factors of production. Improvements in this area require solutions that will support:

– modernisation of agriculture, mainly through an increased rate of investments in new technologies,
– structural changes through the allocation of resources to more efficient holdings,
– higher standards of education.

These objectives necessitate a comprehensive policy towards agriculture and rural areas.

After the accession, these objectives will become eligible for support under the European Agriculture Guidance and Guarantee Fund (EAGGF) that can help to finance many programmes with direct focus on farm holdings, occupational training schemes, social projects and projects leading to the multi-functional development of rural areas. Such programmes can be further divided into three subgroups. The first includes the companion instruments that were made part of the CAP reform in 1992. They are:

– System of early retirement to accelerate the hand-overs of farms to younger generations of farmers. The support is conditioned on the definite withdrawal from agricultural activity and the hand-over of land to a successor. The maximum support cannot exceed 15 000 Euro per year or 150 000 Euro paid out as one-off lump benefit.
– Agro-environmental programmes for farmers who will pledge to follow environment-friendly practices beyond the normal husbandry requirements. Subsidies will be paid to each hectare under such agricultural production in the range from 450 do 900 Euro per year.
– Subsidies to forestry of 725 Euro per annum to continue for the period of 20 years will be due to farmers in return for forest plantings and growth maintenance for at least 5 years.
– Support for agricultural holdings located in naturally underprivileged areas, or holdings covered by specific environment protection restrictions – in the range from 25 to 250 Euro.

The second subgroup consists of instruments in support of modernisation and diversification of agricultural holdings:

– Aid to investments in holdings that are profitable and meet the minimum standards of environment protection, hygiene and animal welfare. The value of such public aid cannot exceed 40% of the investment project value (45% in case of young farmers and 55% in less-favoured areas). Aid will not be granted to support production limited by quotas or production for which there is no market.
– Assistance to young farmers (under 40), who take over for the first time a farm holding that promises growth and shows profitability. The aid consists of a one-off premium of up to 25 000 Euro or subsidised loans with partial coverage of investment project costs.
– Aid to extra-curricular occupational training schemes that go beyond the regular system of agricultural schools.
– Programme for produce, processing and sale – investments designed to improve efficiencies and competitiveness of food processing and trade. The total support from public sources cannot exceed 50% of the investment value.

The third subgroup includes such measures as:

– Land improvement
– Land concentration
– Development of agriculture-related services
– Merchandise marketing
– Conservation of rural heritage
– Diversification of rural area businesses
– Water management
– Development and improvement of agriculture-related infrastructure
– Development of tourism and handicrafts
– Protection of natural environment and landscape
– Reconstruction of production damaged by natural elements
– Financial management.

The CAP is likely to stay in effect for many years to come, though in its reformed shape, and third countries will continue to be hurt by it. The adverse effects of the CAP can be done away with either through a sweeping liberalisation of the CAP (an option on which non-EU countries have little influence), or through the accession to the EU and, in Poland's case, extension of the CAP instruments to Polish agriculture. Poland's status as the EU member will free Polish agriculture from the adverse effects of the EU agricultural protectionism.

So far, high custom duties have been the main protection of Poland's agriculture with its relatively low productivity. This protection will have to disappear upon Poland's accession, because custom duties are irreconcilable to the rules of the Single Market. The abolition of custom duties requires the immediate and full extension of the EU market support mechanisms to Poland: guaranteed price system, export refunds, etc. In practice, only commercial farms will benefit from these mechanisms.

The downsizing of direct payments for Polish farmers may spin off the negative after-effects in the sectors that are directly or indirectly related to the payment system (to mention cereals or beef), and the positive effects for feedstuff-based production lines. In general, however, one should say that even with the CAP instruments applying to them, Polish farmers could not expect to capture a significantly higher share of the retail prices that the consumers will pay for foodstuffs.

Analysis of the potential opportunities and threats of the integration process often overlook the fact that the Common Agricultural Policy assures producers of stable conditions in the long term. For Polish farmers, who have been buffeted by all too frequent changes of agricultural policy following market trends, stable conditions for production may represent a gain as important as financial aid.

The situation in Poland's farm and food market will largely hinge on the effects of negotiations with the position of the European Commission. The position to be eventually hammered out should represent a consistent and comprehensive programme, one that would, on one hand, allow for the many farm holdings that cannot stay afloat and would thus tap into the structural policy measures and instruments, while, on the other hand, treating financially strong, commercial holdings to financial and institutional measures that would enhance their competitive position. These solutions should be mutually consistent and complementary.

The negotiations under way should bring to the fore the major realisation that the closer fine-tuning together of agricultural as well as structural policy measures and instruments is paving the way to the seamless integration of the candidate economies with the single market area. The more funds go into the bridging of structural differences in the pre-accession period and upon the accession, the less social and economic strains will occur later and the less funds will need to be spent in the future.

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