

JOANNA MICHALCZYK

Wrocław University of Economics

THE IMPACT OF THE COMMON AGRICULTURAL POLICY ON THE DEVELOPMENT OF POLISH AGRI-FOOD SECTOR

Introduction

One of the main branches of Polish economy, where significant changes have occurred in connection with the accession to the European Union, is the agri-food sector. Integration with other member states has started, directed and given speed to many processes which are observed in agriculture and food industry.

Among others, they involve concentration of farms, adaptation of business conditions to the EU's standards, including first of all, the sanitary and hygienic norms. In food processing, modern technological solutions have been implemented, offered products' quality has been improved and their assortment has been widened and enriched. Furthermore, the turnover of the analysed sector's foreign trade has increased considerably, including exports to the Community's countries.

The aim of the publication is to indicate the impact of the Common Agricultural Policy on the future situation in Polish agri-food sector. It is worth noting that this policy's influence on business conditions of producers in the indicated area is the widest – because of the implementation of mechanisms for stabilising the situation in the individual agricultural markets and of structural policy.

For the purpose of the paper, following research methods were used: a descriptive method, an analysis and a synthesis of conclusions.

1. Chosen mechanisms of agricultural markets' regulation

Among many mechanisms of the Common Agricultural Policy (CAP), used in the regulation of the agricultural market, direct payments seem to play a special role. They enabled domestic food producers to equalize, at least in part (due to lower payments' level in relation to fifteen "old" member states), the conditions of competition in the common market by supporting their incomes. In retrospect, one can say that the choice of the simplified payment system proved to be appropriate, because it made obtaining the financial funds easier and more common. It became also a kind of social allowance for many small farms. Initially, it was decided that this type of subsidy system would be used for the first five years, with the possibility of earlier transition to the standard system. In practice, at the request of the country, the period of the simplified system's use was extended until 2013. It is worth noting that in the opinion of domestic beneficiaries, keeping differentiation of payments long in relation to fifteen "old" members states is unfair and denies the idea of the solidarity. Poland's position in this case, therefore, concerns the establishment of a uniform rate of payment per hectare for all member states. It would be introduced after 2013. The proposed system would be easy to manage, convenient for farmers and would allow to accomplish important goals of CAP.¹

Direct payments, apart from their impact on incomes, also have an effect on the growth of land prices and the increase of ground rents (due to the fact that that the growers are the beneficiaries of the support). It is also worth noting that they will affect in the long term the production structure and the farms' entity structure. Direct payments, through higher land prices, can boost its supply in connection with the reorientation of activities. In this way, it will be to a larger and larger degree the property of the most efficient producers. On the other hand, the demand for land can be partly inhibited by its too high prices.²

Positively must also be assessed the reorientation of direct payments towards their independence from the production and transition from the agriculture support to the rural development support. Such efforts are primarily used to promote sustainable agricultural development and for better adjustment to volume

¹ M. Adamowicz, *Ewolucja Wspólnej Polityki Rolnej Unii Europejskiej i jej perspektywy na drugą dekadę XXI wieku*, <http://mikro.univ.szczecin.pl>, 10.10.2010.

² W. Dugiel, *Wspólna Polityka Rolna Unii Europejskiej a polskie rolnictwo*, in: *Gospodarka Polski w Unii Europejskiej w latach 2004–2006. Wybrane zagadnienia*, ed. H Bąk., G. Wojtkowska-Łodej, SGH Warszawa 2007, pp. 302–304.

and structure of production. In turn, this causes that the EU agriculture, including Polish one, should be more efficient and better prepared for the challenges posed by globalization of the agricultural sector.³ In this context however, a major barrier is the current reference to the historical value of crops from twenty years ago (very low) in order to determine direct payments.⁴

Another favourable solution for Poland, connected with direct payments, was the preferential treatment of domestic agriculture with regard to the necessity of adaptation of such CAP instruments as modulation and cross-compliance rule. The latter has partly come into effect since 1 January 2009, but as to the modulation, it was meant to be used, according to the initial assumptions, only when the level of direct payments in the country (coming entirely from the EU's budget) will be equalized with the value in the "old" fifteen member states, i. e. in 2013. The present regulations of the European Commission relate to the implementation of the modulation in 2012, before the moment of receiving complete direct payments⁵. The adopted modulation rate is 3%.

As it seems, earlier introduction of the modulation mechanism in fifteen EU countries poses to Polish agriculture a compensation for the loss, which it suffered in connection with the granting of lower direct payments. It means a partial reduction of differences in the level of direct support among member states and, consequently, a better Polish producers' position in competitive environment.⁶ A worrying problem is maintaining the principle that the funds, accumulated because of the modulation, would be kept at the national level. This approach makes one think, that together with the successive enlargements of the Community the erosion of the idea of European solidarity progresses.⁷

Another important agriculture regulator is the production quotas system. In the case of Polish milk market, which since the moment it was included in the common market, has been characterised by a high development potential, the use of quotas has stabilised the producers' incomes indeed, but on the other hand – through limiting the growing domestic production of milk – has not allowed to

³ *Strategia rozwoju obszarów wiejskich i rolnictwa na lata 2007–2013 (z elementami prognozy do roku 2020)*, MRiRW, Warszawa 2005, p. 14.

⁴ A. Czyżewski, *Co dała integracja europejska polskiej wsi? W opinii ekonomisty*, in: *Polska wieś 2010. Raport o stanie wsi*, ed. J. Wilkin., I. Nurzyńska, Wyd. Nauk. Scholar, Warszawa 2010, pp. 166–167.

⁵ *Ibidem*, p. 167.

⁶ *Strategia...*, pp. 12–14.

⁷ A. Czyżewski, *op.cit.*, p. 167.

optimize profits. Because of the resignation of the market support or its modification, it has been decided to liquidate the limiting of milk production since 2015. However, it should be borne in mind that although omitting this tool will allow domestic producers to better respond to market needs and probably will not expose them to a fall in revenue due to strong demand for dairy products in the world, in the case of sudden deterioration of pricing conditions, providing a so-called safety net would be required. For Poland, the elimination of the milk quotas system will mean higher production in regions where operating costs are the smallest, together with lower one in areas with adverse natural conditions. Therefore, there is a necessity to create specific aid solutions for regions affected by the negative effects of the quotas system elimination.⁸

The liquidation of the production quotas system embraces also the potato starch market. Moreover, since 2013 the subvention for the starch production is going to be abolished and incorporated into the single payment scheme.⁹ In the case of the sugar market, where the quotas system is still in operation, further difficulties in the income situation of many growers can be expected. This is mainly because of sugar beet cultivation in the regions with the least developed industry and the highest unemployment level.

As for another very important instrument in the support of EU agriculture, i. e. the intervention purchases, it was decided to reduce it in the case of wheat (to 3 million tons at a price of 101.31 euros per tonne) and to eliminate it in relation to pork. For Polish side, the solution adopted to wheat seems to be not very satisfactory due to the fact that for example in the season of 2004/2005, the amount of the grain offered for purchase was more than three times greater than the set limit. In turn, in the case of pork total cancellation of the intervention appears to be unreasonable without providing a safety net (such a solution exists in the cereals market). It should be noted that this market is characterised by high volatility of demand and supply and by price fluctuations, and the fact, that in practice the intervention purchases have not been done for many years, should not prejudice their total abolition.¹⁰

Another issue, very important from the point of view of the modern global economy challenges, is the creation and implementation of a new approach to

⁸ *Ibidem*, pp. 167–168.

⁹ M. Tereszczuk, *Health Check – przegląd Wspólnej Polityki Rolnej*, in: *Ocena wpływu Wspólnej Polityki Rolnej na rynki rolne*, ed., R. Mroczek, IERiGŻ, Warszawa 2008, p. 202.

¹⁰ *Ibidem*, pp. 201–202; A. Czyżewski, *op.cit.*, p. 168.

risk management in agricultural production. Uncertainty of weather conditions, epidemics among livestock, long production cycles, changing production factors' prices, food prices volatility, fluctuations of exchange and interest rates, as well as the evolution of the Common Agricultural Policy rules (reduction of agricultural support measures, liberalisation of trade with third countries) force the necessity of establishing the Community's system of agricultural insurance against losses arising from these phenomena. As proposed by the European Commission, the insurance should be mandatory and financed within the CAP. Funds to achieve this objective would come from a reduction of direct payments by up to 10%. It is questionable, however, due to the fact that the differences in the ceilings of direct payments among the member states will cause the amount of financial support for agricultural insurance to vary. An issue to discuss is also an indication of areas where the insurance would be absolutely necessary, and where optional.¹¹

The new EU's agricultural policy should result in benefits for Polish farmers. This is because of the CAP simplification which is associated with lower management costs and an easier access to various support mechanisms, in particular to direct payments. In the latter case, a very advantageous solution for Polish side has become the consent of the European Commission to extend the period of use of the simplified system of support to the year of 2013, which gave the opportunity to make full use of negotiated direct payments. It is worth adding that the transition to the single payment scheme (SPS) will mean new, cost- and time-consuming adjustment processes.

It should be noted that to ensure national agri-food sector's competitiveness, it is necessary to continue the CAP mechanisms, among which the direct payments are the leader. Their special significance results among others from the specificity of agriculture comparing to other sectors of national economy and its strategic role in guaranteeing national food security. Poland, like many other EU countries, is committed to improving the mechanisms of the CAP (as opposed to their radical reform) and maintaining the current funding model based on the solidarity of the Community. Although changes in Polish sector in terms of adaptation to the requirements of the common market started many years ago, in the context of the challenges posed by globalization (increasing instability in world agricultural markets and progressing liberalisation of agricultural trade), they are

¹¹ W. Burkiewicz, R. Grochowska, Ł. Hardt, *Przyszłość polityki rolnej a przegląd budżetu Unii Europejskiej w latach 2008–2009. Materiał do dyskusji*, UKiE, Warszawa 2007, p. 89; A. Czyżewski, *op.cit.*, p. 168.

still needed and require huge expenses, and those from the national budget are insufficient. Moreover, because of the fact that Polish agriculture has the potential advantage over other EU countries, the adoption of greater freedom for the functioning of market mechanism in this area (through a reduction in price support) should not inhibit the development of the sector. It should however be noted that the price-cost advantages slowly cease to be the strengths of Polish agriculture, while importance is gained by such aspects as unpolluted environment, original recipes of manufactured commodities or the care for high quality and safety of produced food.

Discussing the impact of the CAP on the situation in Polish agri-food sector, it is worth to pay attention not only to the situation of agricultural producers but also of consumers. New agricultural policy, aiming to reduce the level of food market protection, begins to ensure prosperity, not – as so far – mainly to farmers (through subsidies and price support), but to a greater extent, also to consumers (through lowering the EU prices to the world level). However, on the other hand, the administrative pricing or quoting of the production prevents fluctuations in price, which in turn reduces the risk of farming. In this context, it is also important to create various types of risk management programs. In Poland, the most common form of solving the problem of risk in agriculture is so far the diversification of agricultural production.¹²

Regarding the effect of the CAP on the further development of the domestic sector in terms of instruments used for regulating trade with third countries, the necessity of complete elimination of subsidies in agri-food exports should not bring any serious difficulties to Polish exporters of dairy products (especially benefiting from this type of support). This is related to the Commission forecasts that say about the persistence of relatively high world market prices of milk in the coming years. In addition, in connection with the planned abolition of milk quotas after 2015 and their earlier increasing by 1% per annum in the period of 2009/2010 – 2013/2014¹³, generated products surpluses will be allowed to be sold in the Community. In the case of the sugar market, the elimination of production quotas has not been finally accepted (the position of Polish producers on this issue is unambiguous and expresses itself in the objection to the total release of this industry from the administrative rules). Thus, the removal of export subven-

¹² *Ibidem*, pp. 48–49, 89, 100.

¹³ R. Grochowska, *Zwycięzcy i przegrani w kolejnej próbie zmiany Wspólnej Polityki Rolnej*, in: *Ocena...*, p. 213.

tions for this product together with the ban on selling it within the Union over a fixed limit may have serious consequences for the domestic market's future. Not without significance for the industry's profitability are the so-called sugar subsidies. Their elimination after 2012, coupled with declining tariff protection of the common market is likely to considerably worsen the competitiveness of domestic sugar producers.¹⁴

In the context of global trade liberalisation, not only through a reduction in export subsidies, but also through lowering tariffs on agri-food products, the necessity of creating an already mentioned safety net, that would protect Polish agricultural market from unexpected disruptions, is strongly emphasized. Simplification of the CAP should therefore be accompanied by the development of new mechanisms for short-term use, especially in regard to the export-supporting tools, tariff instruments of market protection or special safeguard clauses. Polish government is interested primarily in sustaining export refunds and in extending the list of products to which special safeguard measures can be applied (e. g. apple juice, soft fruits, cherries).¹⁵

2. Regulations of the structural policy

Apart from instruments of strictly market nature, the development of Polish agri-food sector have been and will be affected to a higher and higher degree by regulations of the structural policy (which is the result of the CAP reform). Scheduled for the years of 2007–2013 Rural Development Programme (RDP) is a continuation of an earlier plan for the development of rural areas and *SOP Restructuring and Modernisation of the Food Sector and Rural Development*, carried out in 2004–2006. Worth paying attention, however, is an alteration of the direction of conducted actions. Earlier, social projects dominated over the ones of developmental nature. In practice, this meant a little impact of the EU measures on the structural transformation in Polish agriculture. In the next budgeting period, i. e. 2007–2013, the prevalence of social priorities over developmental ones has disappeared. Polish government directed the largest portion of funds to the actions of so-called axis I (out of existing four), which relate to promoting the development of the sector, and therefore, to the improvement of its competitiveness.

¹⁴ *Cukru z buraków nie będzie*, www.agro-info, 10.04.2011.

¹⁵ M. Adamowicz, *op.cit.*, p. 33.

Of particular interest are such actions as e. g. modernisation of farms, improvement of the processing base, early retirement (structural pensions) or support for the formation of producers groups. With regard to the RDP, particularly important is also the amount of subsidies granted to domestic entities, managing farms in mountain and less-favoured areas (axis II). Its value is equal to nearly half of the total support assigned for financing the second axis. In passing, it is also worth noting that among all the member states, Poland is the greatest beneficiary of the funds allocated for rural development from EU money (its share in the total amount is approx. 14%). Other countries were granted much smaller amounts, and their shares in the total pool of funds are below 10%.¹⁶

To sum up, the evolution of the CAP meets the expectations and the main problems of Polish agriculture. The emphasis on rural development is by all means expedient. A multifunctional approach to agricultural development and financing structural pensions by the EU is highly desirable. The former allows the entities to find a new place in rural space, the latter speeds up the rate of generations' conversion in the countryside. And both those activities are beneficial for Polish agriculture modernisation.

On the other hand, in the context of changes in the global economy and occurring challenges, the direction of the EU agricultural policy's reform is still a subject of many researchers' discussion. A slightly modified (comparing to previous solutions) path of the CAP reform was presented in the Commission Communication titled "The CAP towards 2020"¹⁷ dated 18.11.2010. It drew particular attention to ensuring food security of the inhabitants of Europe in connection with the escalating cases of market instability, also because of climate changes and rising demand for food. Upheld was the necessity of producing high quality, diversified, market-oriented food with respect for the environment. Simultaneously, under the rural development policy, increased was the emphasis on measures of overcoming climate changes, concerning the modernisation of farms, the improvement of their productivity and advancement of marginal regions. This would help to maintain the agriculture diversity in Europe. Furthermore, work was started on modifying

¹⁶ W. Dugiel, *op.cit.*, p. 310–316.

¹⁷ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, COM 2010, No. 672, pp. 1–17.

the method of direct payments, which should go to professionally active farmers, including small, environment-friendly farms.

Conclusions

The direction of the EU agricultural policy's evolution seems to be consistent with the expectations of most entities of the domestic agri-food sector. An exception may constitute the sugar industry, which (in the context of the world trade liberalisation through enhancing the access to the agricultural market, eliminating export subsidies and reducing domestic support in agriculture) is one of branches the least adapted to compete on the world market. It should also be noted that in addition to the Common Agricultural Policy, challenges posed by globalization have a significant impact on the future situation in Polish agri-food sector. It concerns mainly such fields as demographic, economic, socio-cultural, technological and natural ones.

The first one of the mentioned fields is associated with a progressive increase in world population and accompanying this phenomenon, rising consumption of agri-food products (UN forecasts show population growth from about 6.9 billion in 2010 to 8 billion in 2025 and approx. 9.15 billion in 2050¹⁸). In addition, there are also noticeable changes in the size of population in various parts of the globe. Progressive phenomenon of depopulation in some European countries, including Poland, and intense growth of the number of inhabitants e. g. in Asian countries (mainly China and India¹⁹) are likely to intensify even more the international trade in agri-food products. Together with the advancing liberalisation of world trade, there is formed a new map of the key nations involved in production and exchange of agri-food commodities. Countries, which role was of little significance until recently, gain in importance. These are, among others, China, India, Pakistan, Ukraine, Turkey, Brazil or Mexico. Their presence is a considerable challenge for current global food manufacturers, including Poland as a member of the EU.²⁰

Among the changes in the economic domain, the growing level of world population's wealth seems to be very important. Although there exist regions of

¹⁸ *United Nations: Development*, <http://esa.un.org>, 15.12.2010.

¹⁹ *Ibidem*.

²⁰ M. Sznajder, *Batalia o wyższą pozycję polskiego mleczarstwa w świecie. Cz. I.*, „Przegląd Mleczarski” 2008, No. 6, pp. 50–51.

visible poverty, the average index of overall welfare improves.²¹ With the rising standard of living in developing countries, changes in consumption patterns occur. The demand for more expensive food, processed to various degrees, increases. This type of phenomenon is an effect of living conditions' improvement, of continuous urbanization and of adaptation of nutritional habits, characteristic for developed countries.²² At the same time, the demand for basic foodstuffs is expected to diminish, although due to the rapid population growth (mainly in China and India) a fall in demand for this group of products should not be significant.²³ It should be noted that progressive transformation in patterns of consumption affects an increase in prices of food, including the base one. The phenomenon of agflation, i. e. an increase in prices of agricultural products (the term is a mix of two words: "agricultural" and "inflation"), covers the whole food sector.²⁴ In the case of basic products it arises mainly from the necessity of competing with the alternative production, i. e. with biofuels. Admittedly, the cultivation of energy plants protects against the greenhouse effect, but when it is carried on the areas available also for food production, it considerably reduces its supply and, consequently, increases prices.²⁵ Expected further inflation in the agri-food sector is going to induce a growing number of manufacturers to produce food more competitive in price terms – i. e. genetically modified. Its production and trade in European market, including Polish one, is still approached with great caution, however, due to its not fully explored impact on human health and on the environment. In this context, the development of production free of genetically modified crops, respecting the environment, present Polish agriculture in a very favourable light. Moreover, food prices' growth in recent years in the world make Polish agri-food exports relatively more and more profitable than sales in domestic market. This reduces the domestic supply and may additionally hoist prices.²⁶

²¹ *Ibidem*, p. 51.

²² P. F. Borowski, *Oddziaływanie globalizacji na sektor mleczarski*, „Przegląd Mleczarski” 2008, No 1, p. 39–40.

²³ J. Jankowiak, *Ceny żywności i energii nie wrócą „do normy”*, „Rzeczpospolita”, 10.06.2008, p. B10.

²⁴ P. F. Borowski, *op.cit.*, p. 39.

²⁵ D. Walewska, *Coraz droższa ropa i żywność*, „Rzeczpospolita”, 8.07.2008, p. B4.

²⁶ P. F. Borowski, *op.cit.*, pp. 39–40.

References

- Adamowicz M., *Ewolucja Wspólnej Polityki Rolnej Unii Europejskiej i jej perspektywy na drugą dekadę XXI wieku*, <http://mikro.univ.szczecin.pl>, 10.10.2010.
- Borowski P.F., *Oddziaływanie globalizacji na sektor mleczarski*, „Przegląd Mleczarski” 2008, No. 1.
- Burkiewicz W., Grochowska R., Hardt Ł., *Przyszłość polityki rolnej a przegląd budżetu Unii Europejskiej w latach 2008–2009. Materiał do dyskusji*, UKiE, Warszawa 2007.
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, in: The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future, COM 2010, No. 672.
- Cukru z buraków nie będzie*, www.agro-info, 10.04.2011.
- Czyżewski A., *Co dała integracja europejska polskiej wsi? W opinii ekonomisty*, in: *Polska wieś 2010. Raport o stanie wsi*, ed. J. Wilkin., I. Nurzyńska, Wyd. Nauk. Scholar, Warszawa 2010.
- Dugiel W., *Wspólna Polityka Rolna Unii Europejskiej a polskie rolnictwo*, in: *Gospodarka Polski w Unii Europejskiej w latach 2004–2006. Wybrane zagadnienia*, ed. H Bąk., G. Wojtkowska-Łodej, SGH Warszawa 2007.
- Grochowska R., *Zwycięzcy i przegrani w kolejnej próbie zmiany Wspólnej Polityki Rolnej*, in: *Ocena wpływu Wspólnej Polityki Rolnej na rynki rolne*, ed. R. Mroczek, IERiGŻ, Warszawa 2008.
- Jankowiak J., *Ceny żywności i energii nie wrócą „do normy”*, „Rzeczpospolita”, 10.06.2008.
- Strategia rozwoju obszarów wiejskich i rolnictwa na lata 2007–2013 (z elementami prognozy do roku 2020)*, MRiRW, Warszawa 2005.
- Sznajder M., *Batalia o wyższą pozycję polskiego mleczarstwa w świecie. Cz. I.*, „Przegląd Mleczarski” 2008, No. 6.
- Tereszczuk M., *Health Check – przegląd Wspólnej Polityki Rolnej*, in: *Ocena wpływu Wspólnej Polityki Rolnej na rynki rolne*, ed. R. Mroczek, IERiGŻ, Warszawa 2008.
- United Nations: Development*, <http://esa.un.org>, 15.12.2010.
- Walewska D., *Coraz droższa ropa i żywność*, „Rzeczpospolita”, 8.07. 2008.

WPLYW WSPÓLNEJ POLITYKI ROLNEJ NA ROZWÓJ POLSKIEGO SEKTORA ROLNO-ŻYWNOŚCIOWEGO

Streszczenie

Celem publikacji jest wskazanie wpływu Wspólnej Polityki Rolnej na przyszłą sytuację w polskim sektorze rolno-spożywczym. Warto dodać, że polityka ta najszerzej oddziałuje na warunki prowadzenia działalności producentów we wskazanym obszarze poprzez zastosowanie odpowiednich mechanizmów stabilizujących sytuację na poszczególnych rynkach rolnych oraz z zakresu polityki strukturalnej.

W związku z tym autorka przedstawiła w pierwszej części artykułu wybrane narzędzia WPR pełniące szczególną rolę w regulacji krajowego rynku rolnego. Są to: płatności bezpośrednie, system kwotowania produkcji oraz zakupy interwencyjne. Ponadto odniosła się do zmian WPR i ich wpływu na sytuację polskich producentów żywności. W drugiej części publikacji zwrócono uwagę na drugi filar WPR tj. politykę strukturalną, która także w istotny sposób oddziałuje na rozwój polskiego sektora rolno-spożywczego. Przejawia się to m. in. zwiększeniem nakładów finansowych na przedsięwzięcia rozwojowe poprawiające jego konkurencyjność.

Thumaczenie Joanna Michalczyk