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POTENTIAL ECONOMIC AND SOCIAL CONSEQUENCES OF INTRODUCING EU AGRO-ENVIRONMENTAL MEASURES IN POLAND

1. Introduction

The ecologisation of Polish agriculture should be an element of the process of integration with the European Union. This is connected with the necessity of harmonising environmental protection law to Community requirements. The introduction of appropriate legal acts in this area can have different consequences. In relation to the reduction of nitrogen emission, this involves a high level of infrastructure investments in farms. Implementing agro-environmental measures could bring benefits – payments to farmers who use environmentally friendly methods of production and incentives stimulating the restructuring and modernization of rural areas.

2. The general characteristics of ecological instruments within EU Rural Development Programmes

Environmental protection programmes in agriculture are among the most important elements of Rural Development Measures in the European Union. Regulation 1257/99/EU, implements further “accompanying measures” for rural development within the Common Agricultural Policy (CAP). These include financial support to farmers who agree to undertake particular activities protecting the environment or landscape. These programmes should contribute to a more balanced food market through an ecologically orientated extensification of agricultural produc-

tion. Broadly understood, agro-environmental programmes consist of financial support for organic farming, forestation of low quality arable land, programmes protecting bio-diversity (supporting pro-ecological actions on farms situated in area of great natural value – included in the NATURE 2000 network) and payments to farms in less favourable areas LFA-s (supporting agriculture in areas with difficult farming conditions, mainly in mountainous areas). All of these projects are financed from the Guarantee Section of the EAGGF (the European Agriculture Guarantee and Guidance Fund). They were introduced by the McSharry reform, developed by Agenda 2000 and aimed at including structural policy measures in the CAP. In this context, they could be an element of transforming CAP into CARPE (the Common Agricultural and Rural Policy for Europe).

The essence of Regulation 1257/99/EU is providing assistance in the implementation of regulations included in the codes of good agricultural practice and supporting ecological methods of agricultural production by compensating for the expenses incurred in environmental protection and also by giving small financial incentives [Zdanowicz, 1998]. Beside reducing the harmful impact on the environment, they should cause a decrease in the volume of production. 75% of the payments in the areas qualified as so-called objective 1 of structural funds (payment appropriations) and 50% in the remaining areas within the programme are co-financed from the EU agriculture budget. According to the results of pre-accession negotiations, EU co-financing was increased to 80%. The EU does not participate in the administrative costs connected with the realization of the programmes [Zdanowicz, 1998]. In 1998 the outlays on agro-environmental programmes accounted for 4% of the agricultural budget – 1727 million EUR. By mid-1997, 1.35 million contracts had been signed, which accounted for 17% of all EU land holdings. The contracts covered 22.3 million ha., which is 17% of EU arable land (6% in Spain). The average payment per ha. of arable land (AL) within the programme of environmental protection is 117 EUR/ha. in the EU as a whole (cf. 81 EUR/ha. in Spain). Presently, the „accompanying measures” (as a whole) form approximately 10% of expenditure from the Guarantee Section of the EAGGF (approx. 4 billion EUR per year). Transfers to agricultural modernisation and restructuring (inc. environmental protection investments) from the Guidance Section of the EAGGF comprise 10% of structural fund payments to objective 1 territories (approx. 2.9 billion EUR per year) [Guba, 2001, 10]. Data referring to chosen countries classified as objective 1 territories are presented in Table 1.

Table 1. Appropriations for accompanying measures of the CAP in chosen countries classified as objective 1 territories (million EUR per year)

Country	Agro-environmental programmes	Forestation of agriculture land	LFA	Early retirement	Total
Ireland	176.2	50.1	62.2	52.8	341.3
Portugal	87.3	50.4	50.8	7.8	195.9
Greece	42.9	8.3	40.9	48.9	140.8

Source: Guba, 2001a, 8.

Apart from the countries included in Table 1, significant funds from these instruments are obtained by: Spain (not classified anymore as objective 1) – 459 million, France – 760 million, Germany – 700 million. Assuming the maintenance of the present level of payments after accession, the level of outlays designated for Poland would be similar to those obtained in Spain (a country comparable to Poland in population and area). This would cost about 460 million EUR.

Other EU legal regulations concerning environmental protection in agriculture are: EEC Council Regulation 2092/91, dated 24th June, 1991, concerning ecological agriculture and labelling of its products and food-stuffs, Directive 86/278/EEC concerning environmental protection, and especially soil protection when using sewage sludge in agriculture, Directive 91/676/EEC concerning protection against water pollution by nitrates from agriculture, Directive 91/414/EEC concerning crop protection chemicals (pesticides). The realisation of agro-environmental programmes is supposed to help in fulfilling norms and implementing actions, which led to satisfying these norms. This particularly concerns the „Nitrate” Directive, 91/67/EEC, which includes norms on the amount of manure and rules of its use and underlines the necessity of the observance of the Good Agricultural Practice Code in areas exposed to agrogenic nitrate pollution (Environmentally Sensitive Areas -ESA-s). It also requires the designation of such territories in the member states.

3. Possibilities for agro-environmental measures in Poland

Poland, as a country aspiring to full membership of the EU and, consequently of the CAP, should take into account, the possible benefits from obtaining subsidies that the integration of Polish agriculture into the EU will bring. The rights of new and previous member states will not be the same during the first period of enlargement. The new member

states will receive only one quarter of the level of direct payments to agriculture that the present member states obtain. This percentage will increase by 5% a year (30% in 2005, 35% in 2006), so that all the member states will obtain equal support in 2013. The final results of the pre-accession negotiations led to the possibility of allocating some of the funding from rural development measures to direct payments payable from the national budget. In relation to the modulation mechanism, it is a "reversed" solution (the original proposition of the Commission included the possibility of reallocating a proportion of direct payments to "accompanying measures" [*Communication from...*, 2002, 2]). Thanks to this solution (reverse modulation), the level of subsidies to farmers in the new member states in the period 2004–2006 will attain the levels of 55%, 60% and 65% of the payments to EU–15 farmers, respectively. This should contribute to the improvement of farms' financial situation in the short period, but it does not promote the restructuring of rural Poland and reduces the possibility of a wide range introduction of CAP ecological instruments. This solution does not favour the improvement of the economic situation in a long-term perspective. As a result of this, the support for rural development programmes (2004–2006) was decreased by 0.5 billion EUR. It can be assumed that short-term economic benefits came into conflict with ecological goals [Kociszewski, 2003, 219–228]. One of the arguments for the solution adopted was the lack of adequate preparation of Polish administration to implement rural development programmes (this mainly refers to the Agency for Restructuration and Modernisation of Agriculture – ARiMR). This is a method of increasing the possibility of obtaining financial support, but only in the short term. Since such a solution has been accepted, the situation, in which this government agency is not efficiently prepared for its duties to be realized after accession, is more acceptable. In the light of the predicted reforms of the CAP, we can expect the strengthening of rural development measures and a decrease in direct payments. Consequently, the ability of Polish institutions to absorb these funds will not improve. The level of direct payments depends on the shape of the EU budget (including the CAP) after 2006. Probably, the levelling of subsidy payments will follow from decreasing subsidies to EU–15 countries and slowly increasing subsidies to new member states. It is reasonable to assume that they will not attain the present level of support. Payments connected with structural funds, in the case of agriculture connected with the EAGGF fund, may well be an opportunity. The tendency to increase the role of rural development at the expense of reducing direct payments has been clearly postulated by some of the member states. Such a reallocation is planned as an element of the forthcoming CAP reforms. Such change

should be beneficial in improving the competitiveness of Polish agriculture on the international market.

Taking into account the Common Financial Framework 2004–2006 written in February 2002, Poland could receive about 2.5 billion EUR in the years 2004–2006, (about 830 million EUR per year), including support for semi-subsistence farms. On account of the Commission offer, the subsidies for farm development should be particularly considerable – 1250 EUR per farm. The condition for its concession is a presentation of a farm development plan – its participation in the food market. According to the Commission there are 350 000 such farms in Poland, so the total subsidy should be about 437.5 million EUR per year. 356.5 million EUR would be available for other rural development programmes.

In the variant proposed by the author, ecological „accompanying measures” should be carried out on 10% of the total territory of arable land in Poland by 2009. It is possible that in the period 2002–2009 Poland could receive 735.4 million EUR for the realization of such activities [Kociszewski, 2002]. Additionally 183.8 million EUR should be designated from the national budget. These measures would consist of supporting organic agriculture, agro-environmental programmes (also in areas of great value to nature (Nature 2000 network) and LFA-s) and forestation programmes. Since the introduction of such a large number of agro-environmental projects could not be implemented simultaneously, they should be brought in gradually. If projects were realised on 4% of the arable land by 2006, the whole cost in the period 2004–2006 would be 220.35 million EUR, including 176.28 million EUR from the Guarantee Section of the EAGGF (7% of its funding proposed by Commission in February 2002 – 2490 million EUR). Ireland allocates approximately 52% of the funding from accompanying measures to this goal, which could be treated as a model solution. In relation to the Guarantee Section of the EAGGF, the „commitment” of a farmer was taken into account. The proposed range for the realisation of agro-environmental measures is a difficult, but possible, target and it is an appropriate way of absorbing financial support from the EU. As the result of the final round of negotiations and reallocation of some of the rural development funds to direct payments, EU funding for the accompanying measures (2004–2006) was reduced to 1978 million EUR (2375 million EUR including funds from the Polish national budget). In such a situation the percentage of these funds given to ecological activities in agriculture (proposed by the author) could be 8.9%.

This would be the plan until 2006 (over this period the size of support can be credibly foreseen). The full implementation of the plan would cover 10% of Polish arable lands by 2009. This means that between 2006

and 2009, Polish farmers should receive in total 705.12 million EUR, 293 million EUR per year (including 234.4 million EUR from EU sources). The reverse modulation mechanism will probably be in force only in the first three years of EU membership. Thus, taking into account the size of funds proposed in the Common Financial Framework 2004–2006 written in February 2002, funds given to agro-environmental programmes would make up 35% of the funds for accompanying measures. This is a great opportunity for a significant number of small and medium-sized extensive farms, especially in LFAs (where the payments are 25–200 EUR per hectare) and in and around protected areas. Subjects in other programs (agro-environmental, afforestation, early retirements programs) included in the CAP “additional measures” would receive 450–900 EUR per ha depending on the kind of activity. The farmers can receive different payments at the same time. For example – farmers in LFA can receive agro-environmental payments and support for organic farming. It should cause an improvement in the quality of ecological food – a chance to enter the Unified European Market. This particularly refers to labour-consuming agriculture (e.g. organic farming), and for this reason such funds could be an important factor in reducing unemployment [Guba, 2001, 16]. The area covered the programmes in Poland would make up about 8.2% of the territory obtaining funding for agro-environmental measures in the EU and these payments would be about 12% of total EU funding for agro-environmental projects.

These programmes include the forestation of agricultural land and the development of organic agriculture, which are planned within the scope of ecologisation. Forestation of rural areas could bring 60.9 million EUR to farmers and will enable environmentally friendly management of marginal land – a factor for improving the effectiveness of farms. The proposal of the author is that organic agriculture should cover 1.5% of the arable land funded by EU agro-environmental measures in Poland by 2009. Based on the author’s assessments, such funds would amount to 123.5 million EUR (98.8 million EUR from EU sources). The total value of all the ecological rural development subsidies in the discussed range and time period (2002–2009) would be 919.2 million EUR (735.4 million EUR from the EAGGF Guarantee Section). The remaining funds would be used to finance early retirements of farmers and supporting semi-subsistence farms. These funds do not include the administrative costs – 288 million EUR.

Apart from rural development measures financed by the Guarantee Section, structural programmes (especially the infrastructure investments) financed by the Guidance Section are also significant. The share of these subsidies in total structural funds is not equal in all member

states, so it could be higher in Poland – a country in which the restructurisation of agriculture is a particularly prominent problem. According to the Common Financial Framework 2004–2006 written in February 2002 these subsidies could amount to 1969 million EUR (1575 million EUR from EU sources), but this has to be put in the context of the National Development Plan and depends on the efficiency of municipal authorities, which have to be coordinated by the Ministry of the Economy, Ministry of Agriculture and Rural Development and Ministry of the Environment. Great responsibility is also held by institutions like AriMR, NFOŚiGW (the National Foundation of Environmental Protection and Water Management) and agricultural advisory centres. Perhaps, some kinds of investments could be financed within the Guarantee Section. Projects cannot be financed by both EAGGF sections at once. It was stated that after enlargement there would be so called “enlargement accompanying measures” – similar to pre-accession instruments (SAPARD).

The introduction of the act implementing Regulation 1257/99/WE is planned to coincide with the accession date to the European Union. At present, in some regions pilot agro-environmental and forestation programmes financed by PHARE and SAPARD are being implemented. Polish legal regulation concerning the use of mineral fertilisers has been adapted to EU requirements. However, the law concerning environmental protection includes only some of the EU directives and has yet to be accompanied by the necessary executive enactments. These facts show that there is no clear strategy of implementing EU regulations. Besides, implementation of these directives will be very expensive. The total cost of implementing the nitrogen directive is 3 billion euro. In this case, agro-environmental programmes should be widely and quickly implemented in such a way to enable the maximum utilisation of all the available funds from the EAGGF Guarantee Section. Poland's support for ecological agriculture should be continued, developed and combined with payments included in UE agro-environmental measures. There is a need to improve the organization of this type of agriculture and promote and distribute its production, as well as to stimulate the development of an eco-food market for which there is great demand. The demand for health food is rising in Poland, as well as in other EU countries.

4. Economic and social consequences

Some households will not be able to cope with the new working conditions. For most land holdings it will mean the necessity of giving up productive activities, which implies the need to create new workplaces.

Workplaces should be created outside agriculture in its strict sense in the process of modernising the food economy. This implies the development of the processing industry, the expansion of agro-tourism and biological husbandry. The formation of rural workplaces is a challenge for Poland, mainly due to the structure of the labour market. The high rate of unemployment clearly shows that shifting a large proportion of the 27% of the population employed in agriculture to towns is impossible. In this case, especially in the context of possible social consequences, the possibility of early retirement for farmers would lessen the shock of reforms. It would ensure a source of income for people leaving agriculture and also improve the structure of the agricultural sector. Small farms would be incorporated into large intensive farms. Apart from this, there is financial support from the Guidance Section for young farmers and professional schooling. Environmental services should create "green" places of employment through subsidies⁴ and the development of organic farming.

The introduction of EU ecological regulations into Polish agriculture is connected with great financial and organisational effort. However, it could lead to many benefits. The high cost of the necessary investments and of adapting laws and institutions to EU requirements should be treated as a necessary investment that will bring considerable benefits in the future. This will allow Polish agriculture to begin participating earlier in the Common Agricultural Policy and will create an opportunity for its civilisational development (modernisation and restructurisation). It will have a huge impact on the entire economy. Regulation 1257/99/EU makes the wide use of "agricultural" structural funds possible. It would be one of the sources of financing practical activities in the field of the ecologisation of "conventional" agriculture and would also contribute to the development of organic farming (Regulation 2092/91) that could compete under the conditions existing in Poland. Both instruments are factors stimulating multi-functional development of rural areas, which is the basis of the so called *European Model of Agriculture* presently being developed.

The setting up of the formal conditions of its functioning would enable an earlier and wider use of EU subsidies, which would greatly reduce the costs Poland has to incur to meet EU requirements concerning environmental protection. The estimate of the costs of adapting to the „nitrogen directive" is 3 billion euro. Due to this, part of the costs necessary to introduce ecological agriculture will be financed from EU sources. This will decrease the outlays connected with the adjustment process in both agriculture and environmental protection. Besides, regulation 1257/99/EU clearly propagates extensive, ecologically friendly methods

of production, which are frequently used in Poland. Encompassing many farms with agro-environmental programmes and related payments would enable them to survive and, consequently, would prevent many socio-economic problems. Implementation of the rules included in the Code of Good Agricultural Practice would contribute to limiting the unfavourable impact of agriculture on the environment. The introduction of agro-environmental measures could be relatively easy, due to the extensive nature of Polish agriculture. There is a low level of fertilisation of and concentration of livestock breeding. A major problem is the large number of farms and amount of arable land. For this reason the Commission requires the reduction of pollution levels, especially of nitrogen and phosphates. The appropriate way of ecologising Polish agriculture is by realising agricultural measures.

Support for semi-subsistence farms (1250 EUR per farm) is conditioned by drawing up a business development plan. This could be a significant barrier to participation in these measures (nevertheless the Commission assures there will be simplifications of the procedure aimed at helping farmers in restructuring farms) [Guba, 2001, 3]. In this context, an important task for advisory institutions is schooling the required staff and starting special services connected with drawing up business plans strictly adapted to the complicated requirements of the Commission. These activities should be coordinated with the advice required to help implement environmental programmes. Development of the private sector should be initiated in rural areas to enable the employment of both farmers and other local inhabitants, especially highly educated staff. Advice and assistance in drawing up projects would also be a source of income. There is significant potential in the countryside and small towns in rural areas where there are a lot of people studying law or economics at universities (mainly private). In the context of the high unemployment rate in such areas, this offers the opportunity of creating places of employment outside agriculture. This would be connected with multifunctional development of rural areas in Poland. Besides developing education, there is a need to improve the level of specialist agro-technical expertise. This is one of conditions for competition which will develop after accession [Fiedor, 2000, 265]. The intervention of the state is necessary in this field.

Both modernisation and restructuring investments financed by the Guidance Section and programmes connected with the Guarantee Section could bring multiplier effects, which have been observed as consequences of other structural funds. Funding gives the incentive to alleviate social problems connected with unemployment. They should also lead to a better environment, landscape protection in rural areas and

preserve cultural heritage. These measures should be coordinated with the development of eco- and agro-tourism (especially in areas of great value to nature). The elements of multifunctional development of rural areas make them attractive places to live in, as well as for recreation and regional cultures. Such are the objectives of modern agricultural policy, which is being transformed from a sectoral policy into a regional policy.

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