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PERFORMANCE OF POLISH AGRICULTURE IN THE LIGHT OF REFORM OF THE COMMON AGRICULTURAL POLICY

1. The condition and problems of Polish agriculture before accession to the European Union

1.1. Characteristics of Polish agriculture

Factors such as the contours of the land, climatic and soil conditions to a large extent determine the type of farming carried out. In Poland soils of average and low agricultural quality are prevalent. Land productivity is four times lower than on average in the 15 European Union (EU) member states. This is a consequence not only of the quality of soils and the climate, but also of a significantly lower use of agricultural inputs such as mineral fertilisers and pesticides.

Since 1990 a systematic decline has been observed in the share of agriculture, forestry and hunting in the Gross Domestic Product (GDP). This was a result of the lack of growth in agricultural production, while other sectors of the economy were expanding. Currently the share of agriculture in Poland's GDP does not significantly differ from the average share in the EU-15 countries (in 1999 – 1.8%). A significantly higher share is observed in Greece (7.1%) and Portugal (3.3%).

The share of commercial production in total agricultural production remained at around 60% over the 1999–2001 period. In Poland, a significant number of vegetable products are used directly on farms for production purposes (animal feed, seeds). Though on a lower scale, some animal products are used for direct consumption by the farm owners, in

order to reduce their costs of living (milk, eggs, meat). As a result, the share of vegetable production in total agricultural production is greater (52.4%), whereas animal products (63.1%) dominate in commercial production.

In 2001, the amount of agricultural land in Poland was 18.5 million hectares (in comparison to 2000, the amount of agricultural land diminished by 32,500 hectares) and accounted for 59.2% of the country's area. This figure corresponds to 13.5% of EU agricultural land. A greater area of agricultural land can be found only in France and Spain. The area of utilized agricultural land was 18.4 million ha, of which nearly 17 million ha was owned by the private sector. The area of fallow land increased to almost 1.3 million ha (on arable land in agricultural holdings).

Polish agriculture is composed of farm holdings that vary in terms of organisation, ownership, farm size and production level, as well as economic results. The average total area of a farm in Poland is 9 ha as compared to 19.4 ha in the EU. Smaller average sizes are to be found in Greece (6.2 ha) and in Italy (6.7 ha), and of a similar size in Portugal (9.4 ha). Basically, private farms dominate in Poland: 1,881,600 in 2001 (a year earlier 1,880,900) with an average size of 7.1 ha. State-owned, co-operative and corporate farms (nearly 5,000) occupy on average several hundred hectares. So, problems associated with farm fragmentation exist only on private farms.

The level of ownership of basic agricultural machines and devices has remained at a fairly constant level for the last few years (approximately 14 ha of agricultural land per tractor). The difficult economic situation of farms does not encourage purchase of tractors, machines and equipment, particularly expensive machines.

Agriculture in Poland has, to a large extent, preserved its traditional character. The majority of farms have a mixed production pattern and apply extensive methods of cultivation. The use of mineral and chemical inputs is relatively low. For the 2001 harvest, despite relatively high price increases for mineral fertilisers, the level of use of fertilisers increased to 90.8 kg NPK per hectare of agricultural land from 85.8 kg a year earlier. Preferential loans for purchasing fertilisers offered over the last few years, with interest rate support payments from the state budget, have led to increased demand for fertilisers. Also, the level of use of lime fertilizers and pesticides is several times lower than the average in the EU, which results in healthy food, but on the other hand the level of crop production is low and variable.

Since 2000 there has been net migration of people from urban to rural areas in Poland. After the Second World War there was intensive migration of the rural population to cities. In 2000 and 2001 more people

moved to rural areas than left these areas. Difficulties on the labour market – an increase in unemployment – make members of farming families who lose work in cities return to their family.

The number of people working in agriculture in Poland is much larger than in the EU-15 countries. In part this is due to methodological differences in counting workers of private farms. In Poland, people living on farms producing for their own needs, as well as those working on plots of an area from 0.1 to 1 ha of farmland, are considered as working on agricultural holdings. The number of people employed in agriculture, hunting and forestry in 2001 totalled 2.7 million people, i.e. 19% of total employment (the average rate is 4.5% in the EU-15 countries), whereas total employment in rural areas totalled 5.5 million people, i.e. 38.6% of the working population. At the end of December 2001, there were 1,328,700 unemployed registered at labour offices in rural areas, i.e. 42.7% of the total unemployed in Poland. Of the total number of unemployed in rural areas, some 1,070,900 people were not entitled to unemployment benefit. Thus, in total there are about 2.3 million unemployed in rural areas.

Sociological analysis of the attitudes and beliefs of rural inhabitants [*Rural Poland 2000...*, 2001] and farmers shows that Poland is a very rural country: in 1998 57% of adult Poles either lived in the country or acknowledged their rural origins, 4% came from towns, but lived in the country and only 39% said that they both lived and were born in towns. Mostly those whose incomes come only or mainly from agriculture declare themselves to be farmers by occupation – 95% and 81% of these groups, respectively. Analysis shows that farming is associated with hard physical work and low material status. It is not surprising then that as many as 65% of Poles interviewed by CBOS¹ in 1998 said that rural inhabitants have less chance of achieving a high social status. For decision-makers and those responsible for our negotiations with the EU it is very interesting that more than 40% of farmers and rural inhabitants believe that farmers would sell their land, if they could find another job. The low support of rural inhabitants for the idea of European integration is quite worrying – in 2000 48% of rural citizens and 31% of farmers.

One of the main factors limiting the development of rural areas is inadequate technical infrastructure in rural areas. For many years the construction of rural water supply systems, sewage treatment plants, roads and telephone networks has been co-financed by public funds from

¹ Polish Public Opinion Research Center

the Agency for Restructuring and Modernisation of Agriculture. To this end, the Polish government contracted two loans from the World Bank. Co-financing of the development of technical infrastructure has enabled the construction of the following: 22 telephone exchanges, 5.5 thousand km of sewage networks, 3,719 km of rural roads etc.

Mixed farming, with crop production accompanied by animal husbandry, prevails on most farms in Poland and the majority of them lack a clearly defined specialisation. In the group of larger farms with an area of over 50 hectares, over 38% specialise in plant production, 17% in animal husbandry and 45% of such farms are involved in mixed farming.

It is common knowledge that agriculture contributes to some of the world's most threatening environmental problems from global warming to the spread of toxic chemicals. The countryside in Poland, shaped by national and international policies biased towards large, specialised farms, has become less diverse biologically, as farmers plant increasingly uniform fields and rely on fewer varieties of crops. Direct impacts of agriculture on the environment include modification of land for agricultural purposes and by-products of production. Activities such as food processing, distribution and preparation use fossil fuels, wood fuel, refrigerants, and other inputs and generate waste. Indirect impacts include the effects of energy, materials and pollution entailed in constructing and maintaining equipment, transportation and storage facilities and other infrastructure used in food production, fisheries and related activities, as well as in supporting the populations involved in such activities. Also, agriculture is the largest single consumer of fresh water, although its share of total use has declined significantly during the past century. Of course, it is especially difficult to quantify the effect of such indirect impacts, to attribute them unambiguously to particular activities, and to ascertain whether the use of alternative resources would have resulted in a greater or lesser impact.

1.2. Major agricultural problems

The relationships of the prices of farm product to the prices of agricultural inputs have been unfavourable to farmers for many years. As a result, agriculture is in a difficult economic situation. Thus, the economic situation of farms is exacerbating. Financial support for agricultural production in Poland is considerably lower than in most countries, especially in the EU-15 countries. According to the OECD, in 2001 the support level expressed in PSE, i.e. a uniform and comparable measure of subsidies to agricultural producers (Producer Subsidy Equivalent), was 10% of total agricultural production, whereas it was 35% in the EU, 21%

in the USA and on average 31% in OECD countries. That is why intensive activities are being carried out to prepare Poland for the introduction of support instruments conforming to the Common Agricultural Policy applied in the EU. The process of adapting Polish agriculture to integration with EU agriculture is supported by public funding. In addition to financing the building of systems and institutions necessary after accession and introduction and implementation of EU legislation, investments are being financed to increase the competitiveness of the Polish agricultural sector. Despite such support, mainly from state budget aid for investment loans, investment remains at a low level, due to the difficult economic situation.

The level of technology used on farms suffers not only from low income and lack of capital. In addition, there is a lack of stable supply and demand resulting from inadequate links between agricultural producers and food processing plants and wholesalers. Also, there is increasing competitive pressure from foreign products, many of which are subsidised in the country of origin.

Despite some reduction in the unemployment rate in Poland over the last few years, unemployment continues to be one of the most critical problems in the countryside. Unemployment levels are higher in rural areas than in urban ones, due to the fact that since the beginning of the economic reforms, agriculture has taken up surplus labour from other sectors. This has contributed to rural overpopulation and the growth of hidden unemployment. Although the general level of agricultural employment is high, structural unemployment in rural areas is also high, leaving farmers with insufficient work opportunities outside mainstream agriculture. Therefore, one of the crucial tasks of economic policy is to create new jobs in rural areas.

The low level of education of the rural population causes additional difficulties in adjusting to the employment market. More than a half of the population have only a basic vocational or primary education and only 1.9% went through higher education. So, the Polish authorities should introduce some changes into the educational system, for example by including professional training on agricultural subjects and the basics of law, marketing, management, business etc. in teaching programmes implemented at vocational schools.

Poland has one of the highest numbers of farmers in Europe and Polish farms are very small on average. This has multiple social and economic effects, results in low incomes for farmers and their families and makes it impossible to accumulate investment capital aimed at improving efficiency. A farmer producing small quantities of different products thus finds it difficult to maintain product quality (this applies in particu-

lar to milk production) and to market his products efficiently. Farm size is also a determinant of the type of farming: more than a half of all family farms produce mainly or exclusively for their own needs. Marketable production accounts for only 57% of total agricultural output. Therefore, support for the purchase of land by young farmers to enlarge and equip farms should be an important instrument of Polish agricultural policy. Thus, financial support for loans taken for such purpose should be more freely available.

Insufficient technical infrastructure in rural areas of Poland constitutes another major barrier to development. This poorly developed infrastructure not only lowers living standards and productive capacity, but also discourages investment. Access to the employment market and education is affected by the quality of the rural transportation system. The development of roads will have a positive impact on the rural economy, providing, amongst other benefits, better access to supply centres and markets.

Polish rural areas and agriculture faces many other problems, which are extremely difficult to solve. That is why, a growing number of coherent programmes covering both agricultural and rural sectors are being implemented in Poland. The development of non-farming business activities in rural areas can lead to accelerated structural transformation in agriculture, thus enabling the outflow of labour force from agriculture and creating possibilities of supplementing the income of farmers. Such changes are necessary to complete structural transformations with respect to farm size, employment and production patterns in agriculture.

2. Directions of the reforms of the Common Agricultural Policy

2.1. Introduction

The CAP is comprised of a set of rules and mechanisms, which regulate the production, trade and processing of agricultural products in the EU, with attention being increasingly focused on rural development. Among the EU's policies, the CAP is regarded as one of the most important policy areas. Not only because of its share of the EU budget, the vast number of people covered and the extent of the territory directly affected, but also because of its symbolic significance and the extent of sovereignty transferred from national to European level.

The general objectives of a common agricultural policy were defined in the Treaty of Rome and the main principles were set out at the Stresa Conference in July 1958. In 1960, the CAP mechanisms were adopted by

the six founding member states and two years later, in 1962, the CAP came into force.

2.2. The origin of the CAP

The first causes of the origin of the CAP were post-World War II shortages, due to which European countries realised that assistance was urgently required by the agricultural sector for development and investment purposes within this area. Unfortunately, the problems associated with agriculture did not disappear and were not just short-term problems attributable to the war, but instead were ongoing and getting worse.

The problem that now exists is the declining importance of the agricultural sector and people who have remained within farming have been earning ever decreasing incomes. It is therefore necessary for governments to practice some sort of control over the agricultural market with methods such as price control and subsidies. These two methods fall under the Common Agricultural Policy.

The next problem is uncertainty, which is inherent and unavoidable in agriculture. For example, a farmer cannot accurately predict his output and he only provides his actual output. If this total output is more or less than farmers expected, then it will have an effect on price, due to the laws of supply and demand. Hence, a farmer cannot guarantee his own income and may well not carry out any new investments that would increase his production in the long run. So any support such as the CAP is essential.

Another problem with agriculture is that in modern economies people spend proportionally less on agricultural produce. In most modern economies, as incomes rise people focus more on luxury items and spend relatively less on more mundane agricultural goods. This means that the CAP is very much still a necessity and will continue to be well into the future, as incomes are likely to continue to rise. This is also a 'double-edged sword' for the agricultural sector, since while the average wage is increasing, the income of farmers is likely to decrease, since consumers buy relatively less and less agricultural produce. For this reason incomes within the agricultural sector will always lag behind those of other sectors.

2.3. Objectives of the CAP

The legal basis of the agricultural policy of the European Community (EC) was defined in Articles 32 to 38 in Chapter II of the EC Treaty.

The objectives of the CAP are clearly defined in Article 33. They are as follows:

- To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of all factors of production, in particular labour.
- To ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of people engaged in agriculture.
- To stabilise markets.
- To stabilise supplies.
- To ensure supplies to consumers at reasonable prices.

To be able to achieve the objectives of the Common Agricultural Policy (CAP), the member states came together at a conference in Stresa in 1958, and decided on the three underlying principles of the CAP:

- A single agricultural market, whereby products move freely between member states and a common frontier exists for goods imported into the EU. Also, common sanitary and veterinary regulations, common rules regarding prices and competition, to mention but a few regulations.

- Preference given to goods from the Community, which is the price advantage granted to EU produce. The prices of agricultural products within the EU have traditionally been higher than those on the world market. Therefore, to achieve this principle, custom duties have been imposed on imported agricultural products to bring them closer to EU prices. In parallel, export subsidies have compensated for the difference between EU prices and those on the international market and have thus helped European products remain competitive.

- Financial solidarity, according to which all member states contribute to the costs and share the benefits of the CAP.

The main mechanisms of the CAP, which are still in place today, were created in the light of these principles.

Firstly, Common Market Organisations, or CMOs were created. These are the regulations, which support the markets through appropriate mechanisms that cover the different sectors of production. Initially, a CMO was set up for approximately half of the agricultural products. This number has progressively grown and today we have a CMO for all agricultural products except potatoes, honey and certain spirits.

Secondly, the European Agricultural Guidance and Guarantee Fund (EAGGF) was established, which governs the agricultural budget, a necessary corollary of the principle of financial solidarity. It manages a large portion of the EU's total budget. It is used to finance all the expenses of the CAP and certain expenses for rural development measures.

2.3. CMOs and other CAP mechanisms

The design of the CMOs was changed from time to time over the period from 1962 to 1999. These reforms had an influence on the aims and means of organising the markets. CMOs may now be classified into five categories according to the support mechanisms they use.

1. CMOs with guaranteed prices and automatic intervention. These apply to sugar and dairy products, covering just over one fifth of the EU's total agricultural production. Minimum or guaranteed prices are paid to farmers by public intervention agencies in exchange for their products, when market prices are too low.

2. CMOs with guaranteed prices and conditional intervention. These apply to wine, pork and some fresh fruits and vegetables, covering approximately one fifth of the EU's total agricultural production. These involve a guaranteed price scheme, although it is applicable only in the event of a serious market crisis.

3. Mixed CMOs with guaranteed prices and direct subsidies to complement production. These cover cereals, rice, sheep meat, bananas, milk (from 2005–6) and beef (although from 2002 a conditional intervention scheme with a 'safety net' will be set up).

4. CMOs with direct production subsidies only. At a flat rate or proportional to the quantities produced or yields. These CMOs cover oil-seeds, protein crops, animal feed, tobacco, textiles, peas and beans, hops, processed fruit and vegetables, some fresh fruits and vegetables (asparagus and nuts), olive oil and olives, and cover approximately 10% of the EU's total agricultural production.

5. CMOs without direct production support. This mechanism offers only customs protection.

One of the main CAP mechanisms is the CAP price support mechanism.

The second very important mechanism of the CAP is the "green money" mechanism. Various agricultural support prices were fixed by the Council according to given units. For each member country there was a "green rate" at which support prices were translated into national prices. Green rates were needed for administrative convenience, the problem arising from volatile bilateral exchange rates. This implies that if a member country devalues/re-values its currency; its farm prices expressed in terms of the national currency would rise/fall. The "monetary compensatory amounts" system (MCA) is a system of border taxes and subsidies to compensate for changes in the relative prices of agricultural products across member countries resulting from devaluations/revaluations. But since the Euro became the single currency for most member

states, green rates have not been needed any more. But it is still important for European countries that do not use the single currency, for example for prospective EU members like Poland.

2.4. Financing the CAP

The Common Agricultural Policy (CAP) is funded by an EU central fund called the European Agricultural Guidance and Guarantee Fund (EAGGF). When the CAP was first introduced it was expected that the revenues collected from extra import duties imposed on non-CAP members would be sufficient to fund the EAGGF. However, a rapid rise in agricultural output has led to a reduction in imports to the EU and therefore to a reduction in receipts and revenues from imports.

The cost of the CAP has increased far beyond expectation and of the EU's \$72 billion budget 48% was required solely to fund the CAP, whilst the duty on agricultural imports made up just 2.4% of this budget. The Common Agricultural Policy is a very expensive form of protection, more expensive than was ever initially envisaged. The high cost of the CAP has led to member countries being required to make contributions to the EAGGF and so in effect it is the members themselves that are funding the CAP through their own contributions to the EAGGF.

The EAGGF is divided into 2 sections: the first section is concentrated on the first pillar functions (90% of the funds) and the second section is concentrated on the second pillar functions (only 10% of the funds). The functions of these pillars are clearly explained in Section 2.7. There is a plan to move some of the funds from the second pillar to the first pillar in the future, the value of these funds is going to be only \$10 million per year.

2.5. Positive aspects of the CAP

The CAP succeeded in reaching its initial goals: it encouraged both production and productivity, stabilized the markets, secured supplies and protected farmers from fluctuations in world markets. The CAP has been an important instrument in national and regional land use development. Farms have had to modernise, leading to new industrial activities, such as farm mechanisation, use of fertilisers, production of animal feed, etc.

The EU has reached self-sufficiency. In 1962, the Community produced only 80% of its food consumption; this has now risen to 120%. The growth in production has led to the expansion of the food-processing industry in terms of both quantity and quality and to increased trade with

other countries, so that the EU has now become the second largest exporter of agricultural products in the world, while remaining the leading importer.

As for consumers, they have seen great changes taking place in the level of food supply. Along with this food security, real price stability has come. Today, food represents only 15% of the spending of European households.

However, the CAP has been in some ways a victim of its own success and has gradually had to face an increasing level of criticism.

2.6. Pressures for changes in the CAP

EU farmers were producing more than the market could bear, creating a surplus. Indeed, some consequences of the original support mechanism were very negative. The system of helping farmers through increased prices and agricultural levies resulted in these embarrassing, highly publicized surpluses: the butter and beef mountains; the wine lakes; earlier on, the grain and sugar surpluses; and later on, the milk lakes.

As a consequence of this situation, EU spending on agriculture increased exponentially. Indeed, in the middle of the 80's, most of the important products (cereals, milk, and wine) have worryingly great surpluses. Hence, agriculture expenditure has continuously increased, although the resources of the Community are insufficient to fund these increases. The EAGGF budget has doubled between 1980 and 1984 and the CAP represents around 50% of the total European budget, even 65% in some years. Currently, the EU is trying to reduce the proportion of its budget spent on agriculture.

The economic and technical progress of the agricultural sector touches not only Europe, but also many other countries. This leads to a moderately but continuously increasing food supply.

As EU production has increased a lot, its internal market has become saturated. In 10 years, the European Community passed from a food deficit to self-sufficiency and then, in the middle of the 70's, to a food surplus. At the same time, possibilities for export to the world market became fewer and fewer.

There are more facts that show the ineffectiveness of the CAP. Agricultural support is distributed somewhat unequally between regions and producers, resulting in poor rural planning, a decline in agriculture in some regions and overly intensive farming practices in others, the emission of pollutants, animal diseases and poorer food safety.

The CAP is also very often not acceptable to the average citizen, to the consumer. Of course, the budget of the Common Agriculture Policy is

very high and it is probably sometimes really hard for the average citizen to understand, why he should pay taxes to increase agricultural production. The European Union government has to make the CAP more acceptable to the community.

The next problem, which is strongly related to the previous one, is the management of the CAP. At the moment, it has become far too complex and bureaucratic, and sometimes even almost impossible to understand. A new, more decentralized model has, therefore, to be developed, which grants the Member States greater freedom without any risk of distorting competition, or renationalising the CAP but with shared, clear ground rules and rigorous controls.

These are all internal pressures, but there are also very strong external pressures. The increasing power of the EU has intensified the competition between the EU and the largest exporters of agricultural products, especially the United States. Even if the single market is an attractive outlet for them, the EU policy of preferring its own produce is seen to be a barrier to exports. This point of view has created some difficulties during WTO negotiations. Demands from other countries, especially from the US during the Uruguay round of the GATT negotiations, have been directed mainly against the export restitution payments, which were regarded as serious obstacles to the promotion of fairer international trade, since they promoted the export of EU products. Relations with the US concerning the CAP are a problem the EU will have to solve in the future.

As a result of these pressures, the CAP has undergone several reforms.

2.7. Reforms

The first attempt at reform came just ten years after its creation. In 1968, the Commission published a "Memorandum on reform of the CAP", commonly known as the Mansholt Plan, named after Sicco Mansholt, who was Vice-President of the Commission and responsible for the CAP at that time. This plan sought to reduce the number of people employed in agriculture and to promote the formation of larger and more efficient units of agricultural production.

In 1972, structural measures were introduced into the CAP, with the aim of modernising European agriculture. But despite continued structural changes in the following years, problems persisted; the supply and demand of agricultural products were not in balance, resulting in an ever growing surplus.

In 1983, the Commission made a proposal for fundamental reform, which was formally expressed two years later with the publication of the

Green Paper on "Perspectives for the Common Agricultural Policy" (1985). This green paper sought to bring supply and demand into balance, to introduce new ways of reducing production in problem sectors and, generally, to analyse alternative solutions for the future of the CAP.

In 1988, the European Council agreed on a package of reform measures, including the "agricultural expenditure guideline", which limited the percentage of expenditure on the CAP in the overall budget.

In 1991, the Commission, with Ray MacSharry as the Agriculture Commissioner, put forward two discussion papers on the development and future of the CAP. These papers were the basis for a political agreement on reform of the CAP, adopted by the Council on 21 May 1992. The reform of 1992 marked a major change in the CAP and had as its principal elements: decreasing agricultural prices to render them more competitive on the internal and world market, compensation of farmers for the resulting loss of income, as well as other measures related to market mechanisms and environmental protection.

The reform of 1992 was generally regarded as successful, having positive effects on European agriculture. However, developments in the ensuing years – international trends, the enlargement of the EU, the preparation of the single currency causing budgetary constraints, the increasing competitiveness of products from other countries and a new round of World Trade Organization negotiations forced further adaptations of the CAP, in other words, more reform. Agenda 2000 was a step in this direction.

In July 1997, the Commission proposed reform of the CAP within the framework of Agenda 2000, which was a blueprint for future European Union policy, in view of the expected enlargement. Negotiations on Agenda 2000, including an agreement on CAP reform, were concluded at the Berlin European Council in March 1999. Agenda 2000 was the most radical and comprehensive reform of the Common Agricultural Policy since its inception. It built on the process begun in 1992 and provided a sound basis for the future development of agriculture in the Union, covering all the functions of the CAP: economic, environmental, and rural. These functions were divided into 2 pillars of the CAP.

The first pillar (traditional functions of the CAP) covers the functions stated below:

– Supporting the competitiveness of agricultural commodities on domestic and world markets. This should be ensured by sufficiently large price cuts that will guarantee growth of internal demand and increased exports from the EU. These price reductions are to be offset by an increase in direct subsidies in order to safeguard the income of farmers;

- Ensuring a fair and decent standard of living for the farming community;
- Improvement of food quality and safety;
- There is to be a new division of functions between the Commission and the Member States, concerning compensation in the form of direct payments (first pillar) or rural development measures incorporated into an overall programme framework (second pillar);
- The second pillar:
 - The formation of a new policy for rural development, which will become the second pillar of the CAP. For the first time, the foundations have been laid for a comprehensive and consistent policy of rural development, whose task will be to supplement market management by ensuring that agricultural expenditure is devoted more to spatial development and nature conservancy, the establishment of young farmers, etc. than in the past. Member states will be able to vary, direct aids are awarded to farms in line with criteria to be defined by each member state depending on the amount of labour employed on a farm. Money granted in this way is to be allocated by the member state to agri-environmental schemes;
 - The integration of more environmental and structural concerns into the CAP;
 - The creation of substitute jobs and other sources of income for farmers;
 - The simplification of agricultural legislation and the decentralization of its application, in order to make rules and regulations clearer, more transparent and easier to access.

The reform, as envisaged in Agenda 2000, will create conditions for the development of multi-functional, sustainable and competitive agriculture in the EU. Furthermore, its long-term objectives will not only have an effect on the applicant countries but are also intended to benefit future generations.

2.8. Prospects for the future

Since the Agriculture Agreement signed at the Uruguay Round of WTO talks, the EU has already done a lot to satisfy WTO commitments. EU subsidies to exports have been reduced, even more than required. Hence, in 1998 EU expenditure on export subsidies made up 9.4% of the total value of the agricultural exports, although in 1992 this figure was 55%.

But, even if the EU has not had major problems meeting WTO commitments so far, if further reductions are required these problems could

return. Moreover, WTO commitments on export subsidies will be negotiated in future rounds and the EU will be the primary target. Indeed, the USA and the Cairns group (an alliance of small and medium sized agricultural exporting countries which championed the causes of better access to the markets of advanced nations and less market disruption from their policies during the Uruguay Round) have already committed themselves to negotiating substantial reductions, even the complete elimination, of export subsidies during the next round.

The enlargement of the union is well underway. Accession negotiations have been formally closed with 10 candidate countries. The accession of the Central and Eastern European countries is significant from an economic perspective as a whole. In terms of agriculture, the enlargement is expected to double the agricultural labour force, as well as the area of arable land in the EU, and to add over 80 million food consumers to the internal market. It is important to say that the EU is already the most important trade partner in agricultural products for many of the candidate countries.

Enlargement will offer considerable opportunities to the candidate countries and help them to efficiently use their potential for agriculture production. However, the candidate countries have a long way to go before reaching this point. Agriculture in the applicant countries has many deficiencies and requires substantial restructuring and modernisation.

The EU has intensified activity supporting the restructuring process in the candidate countries and, among other measures, has introduced pre-accession instruments. The instrument for pre-accession aid to agriculture is SAPARD (Special Accession Programme for Agriculture and Rural Development), developed within the framework of Agenda 2000. SAPARD, which is designed to assist the candidate countries in agricultural development, will have an annual budget of 520 million euros for the period 2000-06. The objectives of this programme are:

- To establish a framework for supporting sustainable agricultural and rural development in the applicant countries during the pre-accession period;
- To solve problems affecting the long-term adaptation of the agricultural sector and rural areas;
- To help implement the *acquis communautaire* in matters of agricultural policy and related policies.

The adaptation of agricultural policies in candidate countries is a complex undertaking but the ongoing reform of the CAP, within the framework of Agenda 2000, facilitates this process.

2.9. Ecological problems

In the course of 50 years, agriculture in the EU has completely changed: a real revolution in the number of farmers and agricultural workers, in its structures, markets and technical modernisation has radically increased agricultural production. But to reduce costs in order to be competitive on the market, production was intensified, landscapes and land were modified, and agriculture used more and more water and a lot of chemicals fertilisers.

That is why the member states have made every effort to harmonise their national regulations concerning the environment: rules and norms on environmental protection are mostly set by the Community. These deal with natural, industrial and urban environments. The EU trend to reinforce the protection of the environment should continue in the future. Europe will now appreciate the positive functions of agriculture concerning the environment (space and landscape management, biodiversity...).

3. Polish agricultural and rural areas after accession to the European Union

As agricultural and rural policy have an important role to play in the cohesion of EU spatial, economic and social policy we should take the perspective of the Common Agriculture Policy to discuss the perspectives for Polish agriculture and rural areas in the light of Poland's accession. After Poland's accession to the EU, the potential of European agriculture will increase considerably, including the number of farms, employment, area arable land in the EU, production of a number of agricultural products suitable for a moderate climate. The structure of EU agricultural production and the importance of the respective agricultural production sectors will also change. Therefore, Poland considers it necessary to adapt the Common Agricultural Policy to the new circumstances arising from its accession, as was done in the case of the accession of other countries with significant agricultural potential.

The new rural development policy, now the "second pillar" of the CAP, aims to put into place a consistent and lasting framework for guaranteeing the future of rural areas and promoting the maintenance and creation of employment.

The principles are as follows [*CAP Reform...*, 2003]:

- the multifunctionality of agriculture; i.e. its varied role over and above the production of foodstuffs. This implies the recognition and encouragement of the services provided by farmers;

– a multisectoral and integrated approach to the rural economy, in order to diversify activities, create new sources of income and employment and protect rural heritage;

– flexible aids for rural development, based on subsidiarity and promoting decentralisation, consultation at regional, local and partnership level.

One of the main innovations in this policy is the method used to improve integration between different types of intervention to help ensure smooth and balanced development. The most important features can be defined as:

- a) strengthening the agricultural and forestry sector;
- b) improving the competitiveness of rural areas;
- c) preserving the environment and rural heritage.

The main directions for ensuring a viable future for European and Polish agriculture are not only improving in efficiency of farms and diversification of agricultural production, but management of nature and landscapes as well. Adapting production to market developments, researching new commercial outlets and adding value to agricultural products are all important factors which contribute to increasing the competitiveness of the sector.

From this point of view, it is clear that a high priority should be assigned to building sustainable rural communities consistent with social and economic justice, stewardship of the natural environment and broad distribution of wealth, to advance the vision of rural Poland through research, education, advocacy, organisation and leadership development. It is important to point out that striving towards sustainable agriculture is the responsibility of all participants in the system, including farmers, labourers, policymakers, researchers, retailers, and consumers. Each group has its own part to play, its own unique contribution to make in strengthening a community based around sustainable agriculture.

The core of this process should be a system of sustainable agricultural, which provides a reasonable rate of return to farmers, sustains farming families, agricultural infrastructure and rural communities, assures a reasonable rate of return to public and private providers of farm inputs, information, services and technologies, and adheres to social norms and expectations in terms of fairness and equity, regulations, food safety, and ethical treatment of workers, animals and other creatures sharing the agricultural landscape [Benbrook, 1999]. Only such a model of agricultural activity seeks to balance its three long-term goals:

– “quality of life” – to satisfy personal, family and community needs for health, safety and food;

– “environment” – to enhance finite soil, water, air and other resources;

– “economics” – to be profitable [<http://www.misa.umn.edu>, 2001].

whose fulfilment should lead to achieving the following specific objectives:

a) foster interaction among stakeholders of the food sector;

b) providing employment securing the economic viability of family sized farms;

c) enhance the capacity of grassroots to participate in policy development;

d) expand grassroot and national participation in national activities;

e) establish a mechanism for communication, information sharing, and dialogue at national, regional and local levels [<http://www.sustainableagriculture.net>, 2003].

Polish agriculture and rural areas face the enormous challenges of social, economic, and environmental restructuring. One of the ways of solving these problems could be the creation of better conditions for economic activities and employment outside agriculture. Support to enterprises and business initiatives in rural areas should be given by the following means:

– incentives to investors and businesspeople;

– an improved system of guarantees and securities for loans;

– preference to be given to investment projects that improve physical infrastructure;

– promotion of the countryside as an attractive place to invest;

– financial support and economic advice for setting up businesses;

– support for “self-employment” in the form of small loans or “micro-loans” [2003].

The development of non-farming business activities in rural areas could lead to accelerated structural transformations in agriculture, thus enabling the outflow of the labour force from agriculture and creating possibilities for supplementing farmers’ income. Such changes are necessary to complete structural transformations in terms of farm size, employment and production patterns in agriculture [*Government Plenipotentiary...*, 2002].

The Polish government elaborated The Rural Development Programme [*Rural Development Programme...*, 2004], an operational paper setting out objectives, priorities and rules for supporting the sustainable development of rural areas. The following are of the most significance:

1. Enhancing the competitiveness of agricultural enterprises

2. Sustainable development of rural areas

Ad 1. In order to enhance the competitiveness of agricultural enterprises in accordance with the assumptions underlying the sustainable

development of Polish agriculture and rural areas, the instruments envisaged under the first (traditional) and second (new) pillar of the Common Agricultural Policy must be applied to agricultural enterprises of diverse economic standing – from commercial to semi-subsistence farms, which may not be eligible for structural and investment support.

Ad 2. The increased competitiveness of Polish agriculture, which will be achieved as a result of modernising agricultural production, will involve more intensive usage of means of production, modernisation of machinery and adaptation of production space to new agro-technical requirements. It is feared, however, that unless accompanied by good farming practices, an improvement in the economic situation of agricultural holdings will entail the deterioration of the environment and the loss of agricultural landscapes of high value to nature, together with the cultural heritage of the countryside. As well as setting out the direction for the development of rural areas (not only in terms of farming production), the concept of permanent and multifunctional development requires that current needs are harmonised with those of future generations. Therefore, tasks involving nature conservation and the maintenance of stable rural communities by promoting equal opportunities for their development are given priority status. Dissemination of the concepts of sustainable rural development is one of the major goals of EU structural policies and the Common Agricultural Policy.

Despite the efforts that have been undertaken so far, restructuring of agriculture and food industries is still far from being complete, particularly in the livestock sector. The competitiveness of agriculture and the agro-food chain in Poland is generally much lower than in the EU.

The unfavourable farm structure in the candidate countries, i.e. in particular the large number of small farms and the existence of long-term semi-subsistence farming combined with the presence of an emerging commercial farming sector pose a range of administrative and economic dilemmas for the Common Agricultural Policy. This dualism of structures is likely to exacerbate political tensions during the restructuring process, since not only farm structures but infrastructure, services, and employment opportunities outside agriculture require development. The main barriers to structural changes in Poland includes the low profitability of agricultural production, together with a lack of employment in non-agricultural enterprises.

After accession the support for agriculture and rural areas will assume the three following main forms [*Analysis and evaluation...*, 2002]:

a) direct payments from the EU budget, resulting from Polish agriculture being fully covered by the CAP;

- b) co-financing of structural investments, aimed at structural changes in agriculture and rural areas;
- c) co-financing of undertakings proposed in national programmes for agricultural policy.

In discussions on the subject of the CAP encompassing Polish agriculture, a key role was occupied by the question of what are called direct payments (dependent on the structure of agricultural production in a given state, the share of directly supported products, the level of reference yields and the production level in the base period adopted as a basis to determine the value of direct payments) from the EU within the framework of MacSharry's reforms. In the future, these payments are to be made independent of (decoupled from) the current level of production and related instead to historical levels and/or to the non-agricultural functions of farms (protection of the natural environmental and scenery, tradition, etc.). As at present for farmers in member states, direct payments will be a conditional factor not only for acquiring income, but also for covering the costs of production. If Polish agriculture were not to be covered by these payments, producers in Poland would be exposed to unequal and unfair competition in the liberalised trade exchanges between Poland and other member states of the enlarged European Union. Above all, however, it should be stressed that these payments are an integral element of the CAP mechanism. Without these payments it would be unjustifiable to require Poland to introduce restrictive production limits in several of the chief agricultural sectors [*Stereotypes in the European...*, 2000].

The reform of the CAP would entail a gradual reduction of direct payments on average by 50% of its present value over 7 years in the future financial perspective (2007–2013). According to announcements so far, the means saved within such a reform would be totally or partially directed toward support for rural development (2nd pillar of CAP) and the financing of the EU enlargement [*Analysis and evaluation...*, 2002].

Such a transfer of financial means from direct payments towards rural development would have both positive and negative consequences for Poland. The positive consequences may include the fact that (a) the criteria for allocation of financial resources for rural development are more advantageous for Poland than the criteria for the allocation of direct payments, because the latter are allocated proportionately to the intensity of production, and the former are proportionate to the scale of structural problems in a country; (b) if the total level of support in the whole enlarged EU were decreased with all member states being treated equally and a higher level of funds for rural development in Poland were available than at present without any production ceilings, one could ex-

pect that the full competitive potential of Polish agriculture in the EU would be revealed. The fact that the funds for rural development require additional funding from the national budget is a negative consequence.

The main challenge for the future is to create a political and institutional environment that encourages vast numbers of individual smallholders, each faced with different endowments of resources, personal priorities, problems and opportunities, to take farm management decisions which contribute to a reduction in rural poverty, and to the more sustainable use of natural resources. It is worth pointing out, that farm holders have a great potential for experimentation, learning and exchange of experience and it is such innovation and learning that lies at the heart of the evolution of farming systems.. The principle hallmark of sustainable agriculture is the pursuit of a higher quality of life – for farmers, families, communities, for all people, both now and in the future. Sustainability means meeting the needs of the present while leaving equal or even better opportunities for future [http://agebb.missouri.edu/sustain, 2003] generations.

A major risk during the early years after accession is that the restructuring process and EU instruments will be associated with growing rural unemployment and poverty without being able to tackle the root problem of alternative sources of income directly. In this respect, measures that undermine semi-subsistence farming and its welfare function could be counter-productive, particularly if no other safety net is available [*Enlargement and Agriculture...*, 2002].

Polish agriculture and rural areas should direct support business investments, with the aim of modernising farm machinery, equipment and systems, to raise the incomes, living standards and working and production conditions of farmers.

In concrete terms, this must meet at least one of the following objectives:

- reduce production costs,
- improve product quality,
- preserve and improve the environment,
- encourage diversification in agricultural activities.

All rural development initiatives will be co-financed by the European Commission (via the European Agricultural Guidance and Guarantee Fund – EAGGF) and the member states. The four measures known as accompanying measures (agro-environment, early retirements, forestation and compensatory payments for less favoured areas and areas subject to environmental constraints) are co-financed by the Guarantee Section. These instruments require co-financing from the national budget

(20% in the case of Poland). For other rural development measures, the source of EU funding varies according to the regions concerned:

– In Objective 1 regions of the Structural Funds (the least developed regions) the source of funding is the EAGGF/Guidance section

– Outside Objective 1 regions, the source of funding is the EAGGF/Guarantee section

Sustainable development of agriculture and rural areas represents a multi-dimensional way of achieving recovery and improving the quality of life by limiting waste and pollution, conserving and protecting natural resources, making valuable connections between people, expanding collaborative strategies for solving complex social, economic and environmental problems and challenges facing rural communities, promoting cooperation and efficiency, and developing local assets to revitalise economies.

The strategic objective for Polish agriculture and rural development could be formulated as follows: developing a competitive knowledge-based and enterprise-focused economy that will be capable of long-term harmonious development, ensuring the growth of employment and the achievement of social, economic and spatial cohesion with the European Union at regional and national levels as quickly as possible.

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I. Introduction

We live in a world in which industrial civilisations using industrial methods of agricultural production have led to, and continue to contribute to, negative local and global changes in natural and physical environments, bio-diversity and human health. In our contaminated environment it is difficult to consider healthy food production. Lack of consideration for the environment and egoistic, linear thinking are characteristic features of present day farmers. It is necessary to realise that "earth" pollution, even if it is not permanent, affects all generations [Umiński, 1995, 17].

Poland, as a future member of the EU, has very favourable conditions for development with large amounts of acreage of unpolluted land, a wide variety of crops, and millions of workers in the countryside, who desire to earn a living. These factors can combine to ensure the fast reconstruction of Polish agriculture, and present certain advantages over other EU countries, where it is necessary to regenerate and recultivate land, due to the pollution created by chemical industries. The process of modernising Polish agriculture should take place at every level, on every farm, in every community, in every province. Only efficient and modern agriculture will be able to compete within the EU market.

The European Union expects from Poland a certain acceleration of agricultural modernisation, an increase in economic efficiency and competitiveness in agriculture. What the EU requires is more active farming