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Commission I

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Pologne

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Common Agricultural Policy, New Rules of WTO and Regional Equilibrium

I. General Features of Polish Agriculture (Question No.1)

Poland is a country of lowlands: nearly 96% of its territory is located below 350 m. above the sea level. Agricultural land occupies approximately 51% of Poland's territory (the total territory of Poland is 313 thousand km^2). Moreover, permanent green land occupies some 12% of the territory. Hence, approximately 63% of Poland's territory is in agricultural use. The total surface of agricultural land is above 19 million hectares, having decreased by over 2 million hectares since 1995. Woods and forests occupy approximately 29% of Poland's territory (as of 2005). In spite of the fact that such acreage makes Poland the third EU country in terms of agricultural resources, following France and Spain, the quality of Polish agricultural land is low: only 25% of Polish agricultural land is classified as soil of good quality (categories I-III of soil).

Agriculture is an important sector of Poland's economy. Following integration of Poland into the European Union, the role of agriculture has become even more important. Poland has got many regions where main economic activities relate to the agricultural sector. The share of agriculture in the global product and in the Gross Domestic Product is at 5.0% and 4.5% respectively (compared to 8.7% and 7% in 1995). The share of agricultural investments in total investments is at 2.2 % (3.3% in 1995).

A. Structure of Farms

There are 1.7 million holdings in Poland, with at least 1 hectare of agricultural land, classified as farms. The farm average size has been systematically growing, and currently is amounting to some 10 hectares. Agriculture is different in different regions of Poland in terms of agricultural skills, practices, as well as the quality of soil and water. Traditional way of farming still prevails. Family farms with manifold production are still in majority. Highly specialised farms have got a small percentage share in the total number of farms, and are present only in certain areas of Poland.

The structure of farms in terms of their size is also different in different regions of Poland. All together, small farms between 1-5 hectares exceed 50% of the total number of farms. However, they farm only 20% of the total agricultural land. Farms above 20 hectares (including the biggest ones) are at 6%, but they farm some 35% of the agricultural land. Average farms (5-20 hectares) are approximately at 35% and farm approximately 46% of the agricultural land. The farm average size also differs from region to region.

The current agricultural structure is, to a large extent, the result of two historical processes: (i) partitions of the Commonwealth of Poland by the three neighbouring countries back in the 18th century [After partitions, Poland as such disappeared from the political map of Europe for more than 120 years to regain independence in 1918], (ii) the communist agricultural reform and re-collonisation of areas included into the Polish territory after the World War II. Taking into consideration certain features due to these historically and socially driven processes, there are four main agricultural regions in Poland, their borders corresponding roughly to the old borders of partitions.

The first region, or actually a group of several administrative regions, so called *voivodships*, is <u>the South-East of Poland</u>. These are areas which used to belong to the Austrian Habsburg Empire. In that region, there is a very strong prevalence of small farms (1-5 hectares). Many of these are part-time farmers who have some non-farming jobs. The average farm size in this region is 3.2 hectares – 5 hectares of agricultural land (in individual voivodships).

The second region is the group of voivodships located in <u>the Eastern part of Central Poland</u>. These areas belonged to Russia during the period of partitions. There the farm structure is more diversified: more fragmented in the Southern part (6.5 – 6.7 hectares), less fragmented in the Northern part (7.3 – 11.2 hectares). That region may be considered a region of farms of average size.

The third region is the group of voivodships located in the Western part of Central Poland (the former Prussian partition). Private farms there are well consolidated and characterised by high level of agricultural production. The share of bigger farms in this region is quite high. The average farm size is at 11. 1 – 12. 5 ha.

The fourth region is the group of voivodships located in the North and in the West of Poland. These are areas that were included into the Polish territory after the World War II. The average farm size in these voivodships is between 9.7 – 16.9 hectares. In spite of arrival of many settlers, the agricultural sector in this region remained to a large extent state-owned and state-managed till the break down of the communist system in 1989, followed by introduction of many political and economic reforms. In the North, especially, state-owned farms had 30-50% of the total agricultural land during the communist period while in other parts of Poland they were insignificant.

Such strong historical influences can also be seen in relation with the volume of farm production: the lowest in the former Russian partition (with some exceptions), the highest in the former Prussian partition.

There have been important changes in the farm size structure since 2002. The number of farms below 20 hectares has decreased (by some 10%), together with the area farmed by such farms, while the number of farms above 20 hectares has increased.

From the point of view of the agricultural market, Polish farms can be divided into three categories: (i) farms which produce only for on-farm consumption (so called *subsistence farms*), (ii) economically strong farms which produce high volumes for the market, (iii) farms which sell some of their production in the market.

The number of farms which produce high volumes for the market notably grew in the years 1992-2005 (from 6. 8% to 16. 1% of the total number of farms).

The process of polarization of Polish farms is clearly advancing.

B. Agricultural Production

1. Crop production

Agricultural land in Poland is mainly comprised of arable land (77%), amounting to 12 million hectares (92% in use). Green land is at 21%, fruit-growing at some 2% and the remaining 5% are fallows.

Crop production is an important component of the Polish agricultural sector, including mainly grain, root crops, especially potatoes as well as fruit and vegetables. Thanks to favourable climatic and soil conditions Poland is currently the biggest producer of potatoes and the fourth producer of rape-seed in the European market. Sugar-beet is also traditionally important for Polish agriculture.

2. Animal Husbandry

Animal husbandry in Poland, as compared to agriculture in most Member States, is still characterised by small volumes and fragmentation of production.

Production and processing of red meat is one of the biggest sub-sectors of Polish agriculture. Pork and beef is 33% of the total product of Polish agriculture sold off-farm. Milk and eggs are also very important.

The milk-processing sector is undergoing consolidation.

In spite of structural fragmentation in the area of animal husbandry, fast polarization of farms is taking place: while there are still many farms keeping agricultural animals for the sake of on-farm consumption, the growing number of market-oriented farms by increasing the number of animals, increase their share in the total production.

II. Implementation of the Common Agricultural Policy (Questions No. 2, 3, 4 and 5)

A. CAP Implementation during the Pre-accession Period

The European Agreement, signed on 16 December 1991 in Brussels (and entered into force on 1 February 1994), has started big reforms of the Polish agricultural legislation. Under the Agreement, Poland committed itself to harmonise Polish future legislation with the Community legislation.

However, considering that the Agreement was not settling the question of Poland's membership in the European Union, such commitment had quite a narrow scope in the field of agriculture. It was actually restricted to provisions which either regulate or facilitate free trade in agricultural products.

In 1993 things changed, as following the Copenhagen summit, the European Union opened to Poland the possibility of entry into the EU. Adjustment of Polish law to *acquis communautaire* has become then a condition of the membership.

The scope of adjustment of Polish agricultural legislation has been defined in detail both by the European Union and by Poland (the White Book of the European Commission, the National Plan of Preparation to the Membership in the EU, the National Integration Strategy, 1997 and the Time Schedule of Adjustments of Polish Law to the White Book's Recommendations, 1997).

Legal provisions subjected to such adjustment can be divided into three categories:

First to be adjusted were veterinarian and phytosanitary provisions of technical nature, setting minimum standards for agricultural products in the field of quality, health and hygiene. It was considered a priority to introduce legal solutions that would facilitate free trade in agricultural products between Poland and the Community and guarantee at the same time protection of human health and animal health.

Progress in adoption of the EU standards in this respect was very swift, and soon they were fully adopted or at least well-advanced.

The second group of legal provisions to be adjusted was comprised of provisions regarding common market organisations and interventions, including price interventions. To introduce CAP mechanisms Poland needed to set up a proper administrative and institutional framework.

First of all, it was necessary to establish and accredit paying agencies responsible for disbursement and controlling of spending under CAP schemes. Poland accredited two paying agencies: the Agricultural Market Agency (ARR) responsible for market interventions and the Agency for Restructuring and Modernisation of Agriculture (ARiMR) responsible for structural schemes.

Adjustment to *acquis communautaire* proceeded in a different way in different agricultural markets.

The third group was comprised of legal provisions of structural nature, setting the legal framework for modernisation and restructuring of agricultural structures (i.a. early retirement for farmers, afforestation of agricultural land, organisations of producers, etc.).

B. CAP Implementation in the framework of the Accession Treaty

The Accession Treaty, signed on 16 April 2003 in Athens, has defined fundamental conditions of Poland's membership regarding agricultural and food sectors. Under the Treaty, Poland has basically adopted the entire *acquis communautaire* in the area of agricultural law, with transition periods in some cases. These transition periods are to safeguard Polish agricultural sector in the first years of membership in the EU. They relate to several issues of key importance for Poland, in particular: milk quotas, direct payments, sale of land to foreigners and some issues related to vet/phytosanitary control.

Production quotas, in particular milk quotas and sugar quotas, were tough negotiation items, considering that they were to decide about the future potential of growth.

In the Accession Treaty, Poland's milk quota was set at 9380 thousand tons, i.e. much less than applied for by Poland (13 million tons). Such quota has limited opportunities of growth of this sector, and Polish farmers were punished for exceeding it already in 2006. The Treaty allowed for one year of transition period following Poland's entry into the EU (for allocation of individual quotas to milk producers) during which penalties were not applied to those producers who exceeded their quota.

As regards Poland's sugar quota, it is also much below expectations, and the ratio between Quota A and Quota B is very unfavourable for the future growth of this sector. Quota B for Poland is set at 5%, compared to the average 20% in the old 15 Member States, which means that in future Poland is likely to import sugar from other Member States.

Direct payments were another difficult negotiation item. Following lengthy and tough negotiations with the European Commission, eventually the new Member States received direct payments in the smaller amount than the old Member States. Ten year transition period is foreseen to reach the full amount. Diversification of aid within the enlarged EU is a step back from equal treatment of competitors within the Single Market.

It was originally proposed that direct payments in Poland would be paid at 25% (2004), 30% (2005), 35% (2006) and 40% (2007) of the amount paid in the old Member States, reaching

100% in 2013. Only later, following Poland's protest, it was agreed that these amounts would be topped up with money from the 2nd pillar and from the state budget.

According to the Treaty, Poland during the first three years of membership (with possibility of extension by another two years till 2008) implemented a mixed system, i.e. Simplified Area Payment System supplemented with additional payments. Under this system there are two categories of payments: related to the acreage of agricultural land, and related to the volume of production.

Farmers receive basic payments for the acreage of agricultural land they farm. These basic payments are not linked to the type of production nor to the production intensity. They are paid also for such crops (e.g. potatoes) which are not subsidised under CAP in the old Member States. Consequently, grain producers receive smaller support as compared to the old Member States, while bigger support is given to extensive production.

Additional payments from EU funds for rural development and from Poland's budget may be paid out only for such types of production which are subsidised in the old Member States (i.a. grain, oil seeds, tobacco, hop, flax, cattle and sheep).

Under the Simplified System there is no obligation of set aside.

Hence, the Simplified System, as compared to the standard system of direct payments, is also supporting crops which are excluded from direct payments in the old Member States. Thus, it is more beneficial for farmers who grow crops excluded from the standard CAP support (in spite of their significant acreage). Polish farms receive these payments also for pastures and meadows used for forage. This way, during the first years of membership support is given to Polish producers of beef and mutton, two products highly supported in the old Member States.

Another important item of negotiations regarding agriculture was transition period for acquisition of agricultural real estate by citizens of other Member States.

Since 1 May 2004, the general principle laid out in the parliamentary act of 24 March 1920, that a foreigner in order to acquire a real estate in Poland, or in order to acquire a share in a company which owns or perpetually leases a real estate in Poland, shall require a permit, does not apply to natural nor legal persons domiciled / having their seat within the European Economic Area (the UE, Island, Norway and Lichtenstein). However, according to the Treaty, during the first 12 years after Poland's entry into the EU (i.e. till 2 May 2016), persons from the European Economic Area shall still apply for permit by the Minister of Interior Affairs and Administration in case of acquisition of an agricultural real estate or a forestry real estate.

The Accession Treaty has defined certain derogations from transition period arrangements. For persons from the European Economic Area the permit is not required in case of acquisition of agricultural real estates located:

- in the North-West of Poland: after 7 years from the signing of the lease agreement by the buyer, if the buyer was personally engaged in farming on that real estate and legally domiciled in Poland;
- in other regions of Poland: after 3 years from the signing of the lease agreement by the buyer, if the buyer was personally engaged in farming on that real estate and legally domiciled in Poland

After the transition period acquisition of agricultural real estates will be subjected to the same rules for citizens of Poland and citizens of other Member States.

Considering that it was difficult for Poland to meet all sanitary and veterinary standards on the date of accession, the Accession Treaty set transition period for adjustment to the EU standards for some milk-processing plants (till the end of 2006), the meat-processing plants (till the end of 2007) and fish-processing plants (till the end of 2006). During the transition period products from such plants could be marketed only in the domestic market.

As regards milk, the Treaty allowed for marketing of milk below the EU standards till 1 May 2007.

C. CAP Implementation after 2003 Reform (Questions No. 3 – 5)

CAP reform conducted in 2003 referred to the old Member States as they had been implementing CAP before that date.

Poland, a member of the EU since May 2004, having applied the Simplified System of Area Payment under the Accession Treaty, was not subjected to 2003 CAP reform.

Thus, applying the Simplified System, Poland has never been able to choose among various types of direct payments related to production.

III. CAP in the context of WTO (Questions No. 6, 7, 8, 9, 10, 11 and 19)

The need to implement GATT/WTO arrangements w as one of main reasons of re-orientation of CAP, i.e. its shift from support of agriculture to support of rural areas.

The deep reform of CAP conducted in the framework Agenda 2000 followed the policy of shifting support from agricultural production to support of farmers' incomes, sustainable development of rural areas, protection of natural environment and high quality of food. The reform has introduced the rural development policy (the second pillar of CAP), i.e. schemes aiming for environmental goals, diversification of economic activities in rural areas and creation of non-farming jobs.

> *There were proposals during the Quatar Round to stop all export refunds and subsidies alike, including export loans with maturity exceeding 180 days. Other export schemes were proposed to be restricted in order to avoid interferences with international trade in food products. Similar restrictions were proposed to be adopted in relation with state export agencies, particularly in case of their trust practices. Rules regarding aid in the form of food were proposed to be reviewed, to avoid situations in which local products marketed by beneficiaries of that aid were pushed out from the market by such supplies.*

The Community declared its readiness to review and re-design the *Green Box*, i.e. measures which do not interfere with trade in agricultural and food products, or interfere with it minimally, but strongly objected all proposals of termination or reduction of these measures. The reform of CAP initiated in 2003 was aiming at such modification of the Community's aid that would allow for inclusion of the EU schemes into the *Green Box* or into the *Blue Box* (internal measures supporting reduction of production, such as set aside scheme), and not into the *Amber Box* (measures that interfere with free trade).

In the context of WTO negotiations, starting from 2003, the EU has adopted a series of legal provisions allowing for decoupling of direct payments from production, giving more freedom to farmers in their farming choices.

The Single Payment System was to strengthen the EU position in trade negotiations within WTO. Single farm payment and single regional payment, as well as the principle of cross-compliance (linking the award of direct payment with fulfillment of certain requirements and standards) have been introduced. The reform has also introduced so called modulation, i.e. gradual reduction of direct payments by shifting funds from direct payments to rural development, and financial discipline, i.e. reduction of direct payments in those Member States that exceed the CAP expenditure ceiling. *De minimis* principles have been adopted regarding aid for agriculture and fisheries: Member States are allowed to provide such aid in the amount not exceeding € 3000 per capita during three years without notification to the European Commission. Funds have been shifted from the first pillar of CAP to the second pillar, and the overall CAP budget has been reduced.

In 2004, the EU trade policy was reviewed in the context of WTO negotiations. CAP reform continued, aiming for increased market-orientation and reduction of CAP-related expenditure, i.a. by means of decoupling. However, in spite of gradual reduction of the scope of aid, and in spite of increased competitiveness of EU agriculture in the world market, the EU continued to have big surpluses of certain agricultural products. According to WTO, the level of protection of the EU agriculture was still high, as EU tariffs for agricultural products were on average at 10-16.5%, the share of aid in incomes of EU farmers was at 36%, while CAP-related expenditure was exceeding 40% of the EU budget.

Doha negotiations were suspended in 2006 due to disagreement between the parties, slowing down the process of liberalisation of trade in agricultural and food products, intended to support the growth of developing countries.

The European model of agriculture, described in the strategy of the Community for the years 2007-2013, is based on the model of sustainable agriculture which embraces three components: (i) farming and food-processing, (ii) protection of natural environment and (iii) development of rural areas. Following CAP reforms and adoption of the concept of sustainable agriculture, the Community is now shifting its assistance from support of incomes (common market organisations, access to the internal market, export subsidies) to support of development of rural areas. Nevertheless, some WTO members consider that the EU model is still a protectionist one, as CAP tools continue to privilege the EU internal agricultural production and to protect the EU internal market from imports of agricultural products.

Questions No. 7 - 10

As regards CAP implementation after 2003, it has to be reminded that according to Annex II, Article 1b, paragraphs 9 and 11 to Poland's Accession Treaty (Official Journal L 236 of 22.09.2003), till the end of 2008 (with possibility of extension by the European Commission, if introduction of the standard system of direct payments is deemed impossible), our country is not subjected to principles laid out in Regulation 1782/2003 (with later amendments), hence rules brought about by 2003 reform do not apply to Poland.

Question No. 11

Considering disproportions in development of agriculture between different Member States, and between different regions of the European Union, created i.a. by uneven re-distribution of the Community resources which CAP has been directing (unevenly) to various agricultural subsectors, it has to be said that the EU membership in GATT/WTO has got certain positive impact on regional equilibrium within the EU.

In the context of WTO negotiations, the EU has been systematically shifting funds to support more sustainable development of rural areas. In line with Marrakech arrangements, under the second pillar growing funds are being allocated to protection of natural environment, food quality and safety, animal welfare, etc. (*Green Box*).

Secondly, WTO impact is reflected in re-orientation of support directed to agriculture: from indirect forms (prices) to direct ones.

WTO impact on Polish trade in agricultural and food products within the Community has been indirect. The real and direct impact on this trade has been exerted by the outcome of accession negotiations regarding production quotas, especially the milk quota and the sugar quota. Although these issues are regulated by the Community law, while allocating national quotas the EU was applying the principle of equilibrium in individual agricultural markets.

IV. Regional Arrangements (Questions 12 – 18).

With its entry into the EU, Poland ceased its membership in regional trade organisations. Since 1 May 2004, Poland's trade relations, including trade in agricultural and food products, with third countries are subjected to regulations and agreements signed by the European Union.

In the nineties Poland was a member of CEFTA (Central European Free Trade Agreement), an organisation which aim was to improve co-operation in our region of Europe. After the fall of communism and liquidation of The Council for Mutual Economic Assistance (COMECON), there was a crisis in co-operation and trade between countries of Central and Eastern Europe, while on the other hand there were many factors favouring such co-operation: the market of some 65 million consumers, a similar consumption model, similar demand and natural geographic closeness.

Since early nineties, three countries have been particularly active, both politically and economically: Poland, the Czechoslovakia and Hungary. In February 1991, in Visegrad, these three countries signed a declaration of co-operation during the European integration process (so called Visegrad Triangle). It was then decided that such co-operation would take the form of consultations, without any institutional framework (which were proposed by the Polish side). The parties to the declaration obligated themselves to eliminate trade barriers and to harmonise activities aiming for integration with European economic structures.

The following step was made in December 1992 when new CEFTA was signed in Kraków between Poland, the Czech Republic, Hungary and the Slovak Republic. In 1996 CEFTA was joined by Slovenia, in 1997 by Romania, and in 1999 by Bulgaria.

CEFTA was based on the following rules:

- creation of free trade area for all categories of industrial, agricultural and food products
- gradual elimination of trade barriers (tariffs, import quotas, levies, internal taxes which discriminate free trade)
- adoption of the time schedule of liberalisation.

CEFTA was based on the principle of symmetry and equivalency of mutual benefits. Transition period proceeding full liberalisation of trade was planned to take 8 years. Actually, CEFTA free trade area was to apply to industrial products only. In relation with agricultural and food products only limited liberalisation was foreseen. As regards trade in agricultural products, regulations of the Visegrad Group remained into force, protecting the three countries from external competitors, while each country was entitled to carry out its own agricultural policy. Thus, in the field of agriculture the principle of *standstill* (banning introduction of new tariffs and similar measures, and rising the existing ones) has never been enforced.

Generally, it can be said that CEFTA has exerted positive influence on the economic growth of its member countries. The agreement has stimulated economic co-operation and trade, especially in case of agricultural and food products. In 1997, the overall turnover of trade in agricultural and food products was at 2.4 billion of US dollars, and compared to 1994 increased by twice. As regards CEFTA agricultural trade with Member States of the EU, its balance was negative. CEFTA biggest trade partner was Russia (as well as Byelorussia and Ukraine for Poland). Within CEFTA Hungary and the Czech Republic were the biggest exporters while Slovenia and Poland were the biggest importers. As regards trade in agricultural and food products, grain was ranked the first, followed by oils and fats, processed fruit and vegetables, soft drinks and alcohol beverages, meat, sugar and processed-meat products.

Question No. 15

CEFTA should be seen as a consequences of the series of Association Treaties signed by Central and Eastern European countries with the EU. It was aiming at stimulation of their active economic integration into the EU. In order to join CEFTA, each country had to sign bilateral agreements with all CEFTA members, make association/trade arrangements with the EU and be a member of WTO. The aim of Association Treaties was to provide technical and financial assistance to countries on their way to the European integration and to set a framework for their future accession. CEFTA should be considered a foreground of the future membership these countries in the European Union which facilitated their adjustment and accession into the EU.

Summary

CAP implementation in the pre-accession period was based on three groups of legal provisions: (i) provisions that were facilitating free trade in agricultural products between Poland and the EU, assuring protection of human and animal health; (ii) provisions regarding common market organisations and interventions, including price interventions, as well as provisions which established administrative and institutional frameworks, allowing to introduce CAP mechanisms into the Polish law; (iii) structural regulations, creating the legal framework necessary for modernisation and restructuring of the agricultural structure.

Under the Accession Treaty, Poland has basically adopted the entire acquis communautaire in the area of agricultural law, with transition periods in some cases. These transition periods relate to several issues of key importance for Poland, in particular production quotas, direct payments and sale of agricultural land.

Following lengthy and tough negotiations with the European Commission, eventually the new Member States received direct payments in the smaller amount than the old Member States. Ten year transition period is foreseen to reach the full amount. Diversification of aid paid out within the enlarged EU is a step back from equal treatment of competitors within the Single Market.

Poland has implemented a mixed system, i.e. Simplified Area Payment System supplemented with additional payments. Farmers receive basic payments for the acreage of agricultural land they farm. These basic payments are not linked to the type of production nor to the production intensity. They are paid for crops (e.g. potatoes) which are not subsidised under CAP in the old Member States. Additional payments from EU funds for rural development and from Poland's budget may be paid out only for such types of production which are subsidised in the old Member States (i.a. grain, cattle).

Under the Simplified System there is no obligation of set aside.

Having applied the Simplified System of Area Payment, Poland was not subjected to 2003 CAP reform. Thus, Poland has not chosen among various types of direct payments related to production.

The need to implement GATT/WTO arrangements was one of main reasons of re-orientation of CAP, i.e. its shift from support of agriculture to support of rural areas. Considering disproportions in development of agriculture between different Member States, and between different regions of the Community, created i.a. by uneven re-distribution of the Community resources which CAP has been directing (unevenly) to various agricultural subsectors, it has to be said that the EU membership in GATT/WTO has got positive impact on regional equilibrium within the EU. It was also partly due to WTO negotiations, that the European model of sustainable agriculture was adopted, embracing three components: (i) farming and food-processing, (ii) protection of natural environment and (iii) development of rural areas. Funds have been systematically shifted to the second pillar and aid schemes modified in a way allowing for their inclusion into the Green Box. WTO impact is also reflected in re-orientation of support directed to agriculture: from indirect forms (prices) to direct ones

WTO impact on Polish trade in agricultural and food products within the Community has been indirect. The real and direct impact on this trade has been exerted by the Accession Treaty provisions regarding production quotas. With its entry into the EU, Poland ceased its membership in regional trade organisations which used to regulated trade in agricultural and food products.