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**INSTITUTE OF AGRICULTURAL  
AND FOOD ECONOMICS  
NATIONAL RESEARCH INSTITUTE**

**Key conditions  
of supporting agriculture  
in the EU in the period  
2014-2020**

**no 62.1**

**Warsaw 2012**



**COMPETITIVENESS OF THE POLISH FOOD  
ECONOMY UNDER THE CONDITIONS OF  
GLOBALIZATION AND EUROPEAN INTEGRATION**

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2014-2020**





INSTITUTE OF AGRICULTURAL  
AND FOOD ECONOMICS  
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# **Key conditions of supporting agriculture in the EU in the period 2014-2020**

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COMPETITIVENESS OF THE POLISH FOOD  
ECONOMY UNDER THE CONDITIONS OF  
GLOBALIZATION AND EUROPEAN INTEGRATION

**Warsaw 2012**

This publication was prepared as a contribution to the research on the following subject  
**Budget grounds for improvement of the competitiveness of the Polish agriculture**  
within the framework of the research task *National and the EU "rural budget" versus  
finance and functioning of the Polish agriculture and the national economy*

The report is aimed at presenting the key determinants of the EU support towards agriculture in the next programming period. First part of the report presents the basic macroeconomic conditions influencing the potential for financing the common agricultural policy in the period 2014-2020. The second part is devoted to the discussion of the current rules and the scale of supporting agriculture by the EU member states within the framework of the national state aid. The last part focuses on the Polish spending on the agricultural sector and potential for reallocating these funds.

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## Introduction to the report

The European Union still works on the final shape of the Multi-Annual Financial Framework (MFF) for 2014-2020<sup>1</sup>. At the same time, there are discussions on the regulations governing the functioning of the Common Agricultural Policy (CAP)<sup>2</sup> and other policies in the next programming period.

In light of the current economic crisis and the public debt crisis that are affecting many countries of the Community, the debate on the future of the EU budget is even more important. Issues of public finances, faced by the EU countries, cause that politicians are trying even more intensively to seek the achievement of their assumptions about the scale and shape of the MFF. Politicians from countries that are net contributors generally seek to reduce or at least freeze the EU spending. By contrast, the countries obtaining substantial support from the Community, the net beneficiaries, try to get at least as many resources as in the current financial perspective.

Considerations related to the need for fiscal consolidation result in limited possibilities to increase national support for the agricultural sector. Additional barriers are formed by the EU rules relating to granting the national State aid.

This report was prepared as part of the long-term task of the IAFE-NRI "National and EU agricultural budget in view of finances and functioning of the Polish agriculture and the national economy". The aim of this paper is to present the key determinants of agricultural support in the EU in the next programming period. The work overlooks the issues related to the EU's commitments undertaken in the framework of the WTO. The focus is on issues relating to the scale of the funds allocated to the agricultural sector. The study consists of three parts. The first part presents the basic information about the macroeconomic situation and the state of public finances in the EU and the existing arrangements for the MFF 2014-2020. The second part is devoted to the discussion of the current rules and the scale of agricultural support in the EU in the framework of the national State aid. The last part focuses on the Polish spending on the agricultural sector and possibilities for reallocation under these funds.

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<sup>1</sup> The amount of the EU budget for 2014-2020 will be determined at the EU summit, which will take place on 28-29 November 2012. The starting point for the debate on the summit is the report prepared by the Cypriot Presidency which presents the current state of negotiations (Council of the European Union (2012), Multiannual Financial Framework (2014-2020). Negotiating box, 13620/12, Brussels).

<sup>2</sup> The Danish Presidency (first half of 2012) prepared a report summarising the discussion on the reform of the CAP in the period of its leadership in the EU (Council of the European Union (2012), CAP reform: Presidency Progress Report, 8949/12, Brussels).

# **1. Macroeconomic situation and the state of public finances in the EU and multi-annual financial framework for the period 2014-2020**

## **1.1. Macroeconomic situation and the state of public finances in the EU**

The financial and economic crisis has transformed in many countries of the European Union into the crisis of public finances. The difficult economic situation, combined with a very large debt, causes that typical solutions and instruments do not work. Therefore, both at the Community and national level, there are new measures being taken to provide economic growth and decline in government debt. It seems that the traditional instruments of macroeconomic policy, especially fiscal policy instruments, are not the solution to the crisis.

The economic situation has improved in recent years compared to 2009, when among the EU countries only Poland recorded positive growth rate (Table 1). However, the projections for 2012 and the next year do not indicate a significant improvement. Moreover, the negative projections for the global economy signify the more difficult conditions for economic recovery by the Member States. As set out in the title of the report of the International Monetary Fund (IMF), the world has to deal with high levels of public debt and sluggish economic growth<sup>3</sup>. Forecasts for economic growth in the world in 2012 and 2013 prepared in July 2012 have been reduced in subsequent months. As pointed out in that report, there is an increasing uncertainty about the prospects of the global economy. In this light, the previous forecasts of the European Commission for GDP growth in the EU can be regarded as excessive. However, there are very large variations in terms of national development prospects of the Community. Nevertheless, interdependencies and relationships between the EU countries are now so large that macroeconomic condition depends not only on the national situation, but also on the situation in the EU countries, which are closest to a given country in economic terms.

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<sup>3</sup>International Monetary Fund (2012), World Economic Outlook October 2012 - Coping with High Debt and Sluggish Growth, Washington.

Table 1. GDP growth in the EU-27 in 1995-2013 (in percent)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	3,0	1,9	2,8	-3,8	2,3	3,1	0,8	1,7
Belgium	2,6	2,0	2,1	-2,8	2,3	1,9	0,0	1,2
Bulgaria	-0,7	5,4	6,4	-5,5	0,4	1,7	0,5	1,9
Cyprus	4,8	3,5	4,2	-1,9	1,1	0,5	-0,8	0,3
Czech Republic	2,2	3,6	5,7	-4,7	2,7	1,7	0,0	1,5
Denmark	2,8	1,5	1,7	-5,8	1,3	1,0	1,1	1,4
Estonia	5,7	7,3	5,7	-14,3	2,3	7,6	1,6	3,8
Finland	4,5	3,1	3,2	-8,4	3,7	2,9	0,8	1,6
France	2,4	2,0	1,6	-2,7	1,5	1,7	0,5	1,3
Germany	1,6	1,1	2,2	-5,1	3,7	3,0	0,7	1,7
Hungary	2,4	4,2	2,2	-6,8	1,3	1,7	-0,3	1,0
Ireland	9,9	5,7	3,2	-7,0	-0,4	0,7	0,5	1,9
Italy	1,8	1,5	0,9	-5,5	1,8	0,4	-1,4	0,4
Latvia	3,8	7,4	6,9	-17,7	-0,3	5,5	2,2	3,6
Lithuania	4,5	7,0	7,1	-14,8	1,4	5,9	2,4	3,5
Luxemburg	4,8	4,2	4,4	-5,3	-2,7	-2,2	-2,4	-1,7
Malta	4,5	1,5	3,7	-2,7	2,32	2,1	1,2	1,9
Netherlands	3,9	1,7	2,8	-3,5	1,7	1,2	-0,9	0,7
Poland	6,0	3,2	5,4	1,6	3,9	4,3	2,7	2,6
Portugal	3,9	1,5	1,1	-2,9	1,4	-1,6	-3,3	0,3
Romania	0,4	5,4	6,4	-6,6	-1,6	2,5	1,4	2,9
Slovakia	4,3	3,9	7,8	-4,9	4,2	3,3	1,8	2,9
Slovenia	4,3	3,7	5,1	-8,0	1,4	-0,2	-1,4	0,7
Spain	3,7	3,6	3,0	-3,7	-0,1	0,7	-1,8	-0,3
Sweden	3,4	3,0	2,5	-5,0	6,1	3,9	0,3	2,1
United Kingdom	3,3	3,3	1,8	-4,4	2,1	0,7	0,5	1,7

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece.

Source: Own compilation based on data from the European Commission in documents with symbols COM (2012) 302-328.

An important indicator of the economic situation and the GDP growth rate is the level of the output gap, i.e. the difference between the actual and potential level of gross domestic product in the year that constitutes a point of reference. In almost all EU countries during the current crisis, the output gap is negative, which gives evidence of the under-utilisation of production capacity (Table 2).

Table 2. Output gap in the EU-27 in 1995-2013  
(in percentage of GDP in fixed prices of 2000)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	-0,1	0,0	1,0	-2,9	-1,8	-0,1	-0,6	-0,3
Belgium	-0,2	0,6	1,5	-2,3	-1,2	-0,4	-1,4	-1,3
Bulgaria	-1,7	1,6	3,7	-3,4	-4,1	-3,1	-3,3	-2,5
Cyprus	-1,3	0,9	1,1	-0,6	-0,9	-0,6	-1,9	-2,0
Czech Republic	-3,1	-2,1	4,6	-1,7	-0,9	-0,8	-2,1	-2,2
Denmark	0,5	0,5	2,3	-5,0	-4,0	-3,1	-2,3	-1,4
Estonia	-8,4	3	9,1	-9,8	-7,7	-1,5	-1,9	-0,8
Finland	0,2	0,8	2,7	-6,3	-3,8	-2,1	-2,1	-1,5
France	-0,6	2,2	2,0	-2,8	-2,5	-2,1	-2,8	-2,7
Germany	-0,3	-0,1	0,6	-3,8	-1,4	0,0	-0,9	-0,8
Hungary	-2,1	0,5	3,1	-5,1	-3,9	-2,3	-2,7	-2,0
Ireland	2,3	1,9	1,5	-5,9	-4,9	-2,7	-1,2	0,9
Italy	0,2	1,1	1,5	-4,3	-2,5	-2,0	-2,9	-2,3
Latvia	-2,6	-0,9	9,0	-10,3	-9,4	-4,3	-3,1	-1,5
Lithuania	-5,8	-0,7	7,2	-9,9	-8,4	-3,3	-2,5	-1,4
Luxemburg	-0,8	2,2	2,4	-4,2	-2,7	-2,2	-2,4	-1,7
Malta	0,3	1,0	-0,7	-2,4	-1,3	-0,4	-0,2	0,4
Netherlands	0,0	0,0	0,9	-2,7	-2,1	-2,1	-3,7	-3,9
Poland	-0,4	-0,3	1,3	-0,7	-0,8	-0,2	-0,9	-1,5
Portugal	0,7	1,3	-0,2	-2,8	-1,5	-2,7	-4,6	-4,0
Romania	-4,2	-2,8	7,2	0,4	-3,2	-2,8	-0,37	-3,3
Slovakia	-0,4	-2,6	3,8	-1,6	-0,8	-0,5	-1,4	-1,1
Slovenia	0,2	0,4	4,4	-3,5	-3,2	-3,2	-4,4	-4,1
Sweden	-1,5	0,3	2,0	-5,6	-1,4	0,4	-1,0	-0,6
Spain	-1,0	1,6	1,1	-4,4	-4,6	-3,8	-4,4	-3,6
United Kingdom	0,0	1,8	2,1	-4,3	-3,1	-3,3	-3,7	-3,1

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece.

Source: As in table 1.

As for the inflation rate in the EU, its level of price growth in 2011 was in most countries much higher than the average in 2000-2008 (Table 3). It is expected that in 2012 the rate of inflation will be lower than in the previous year. The lowest inflation rate was recorded in 2009, the year in which all EU countries, except Poland, recorded negative economic growth.

Table 3. Inflation rate in the EU-27 in 1995-2013 (percent)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	1,2	1,8	2,3	0,4	1,7	3,6	2,4	2,0
Belgium	1,3	2	2,8	0,0	2,3	3,5	2,9	1,8
Bulgaria	10,6	6,4	8,2	2,5	3,0	3,4	2,6	2,7
Cyprus	2,3	3,1	2,7	0,2	2,6	3,5	3,4	2,5
Czech Republic	7,1	2,5	3,2	0,6	1,2	2,1	3,3	2,2
Denmark	1,9	2,1	2,2	1,1	2,2	2,7	2,6	1,5
Estonia	10,2	3,5	6,5	0,2	2,7	5,1	3,9	3,4
Finland	1,1	1,8	1,9	1,6	1,7	3,3	3,0	2,5
France	1,3	2,0	2,1	0,1	1,7	2,3	2,1	1,9
Germany	1,0	1,5	2,2	0,2	1,2	2,5	2,3	1,8
Hungary	16,5	7,1	5,4	4,0	4,7	3,9	5,5	3,9
Ireland	2,2	4,1	2,7	-1,7	-1,6	1,2	1,7	1,2
Italy	3,0	2,5	2,5	0,8	1,6	2,9	3,2	2,3
Latvia	4,8	3,2	9,7	3,3	-1,2	4,2	2,6	2,1
Lithuania	10,5	0,6	5,8	4,2	1,2	4,1	3,1	2,9
Luxemburg	1,1	2,8	3,4	0,0	2,8	3,7	3,0	2,0
Malta	3,3	2,6	2,6	1,8	2,0	2,4	2,0	2,2
Netherlands	1,7	3,0	1,7	1,0	0,9	2,5	2,5	1,8
Poland	11,3	4,3	2,6	4,0	2,7	3,9	3,7	2,9
Portugal	2,6	3,3	2,6	-0,9	1,4	3,6	3,0	1,1
Romania	74,6	26	7,1	5,6	6,1	5,8	3,1	3,4
Slovakia	7,2	7,8	3,2	0,9	0,7	4,1	2,9	1,9
Slovenia	8,1	6,9	3,6	0,9	2,1	2,1	2,2	1,7
Spain	2,8	3,2	3,5	-0,2	2,0	3,1	1,9	1,1
Sweden	1,4	1,9	1,8	1,9	1,9	1,4	1,1	1,5
United Kingdom	2,0	1,2	2,6	2,2	3,3	4,5	2,9	2,0

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece.

Source: As in table 1.

In recent years the EU Member States noted a significant increase in the unemployment rate (Table 4) along with the unfavourable economic conditions. Particularly alarming situation is in Spain, where now close to one quarter of the population of working age is unemployed. The growing problem of unemployment, especially among young people, has a very negative impact on the public mood and reduces public support for significant budget cuts, especially in social spending.

Table 4. Unemployment rate in the EU-27 in 1995-2013 (percent)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	4,2	4,1	4,6	4,8	4,4	4,2	4,3	4,2
Belgium	9,2	7,5	7,8	7,9	8,3	7,2	7,6	7,9
Bulgaria	13,3	16,0	7,9	6,8	10,2	11,2	12,0	11,9
Cyprus	3,2	4,2	4,4	5,3	6,2	7,8	9,8	9,9
Czech Republic	5,5	8,0	6,2	6,7	7,3	6,7	7,2	7,2
Denmark	5,7	4,9	4,0	6,0	7,5	7,6	7,7	7,6
Estonia	10,0	11,2	6,0	13,8	16,9	12,5	11,6	10,5
Finland	12,9	9,2	7,4	8,2	8,4	7,8	7,9	7,7
France	10,7	8,7	8,7	9,5	9,8	9,7	10,2	10,3
Germany	9,0	9,0	9,5	7,8	7,1	5,9	5,5	5,3
Hungary	8,7	6,0	7,5	10,0	11,2	10,9	10,6	9,6
Ireland	9,4	4,3	5,0	11,9	13,7	14,4	14,3	13,6
Italy	11,2	8,8	6,8	7,8	8,4	8,4	9,5	9,7
Latvia	16,6	11,9	7,3	17,1	18,7	16,1	14,8	13,2
Lithuania	9,6	14,1	6,0	13,7	17,8	15,4	13,8	12,7
Luxemburg	2,7	3,1	4,6	5,1	4,6	4,8	5,2	5,9
Malta	6,0	7,3	6,7	6,9	6,9	6,5	6,6	6,3
Netherlands	5,4	3,6	4,1	3,7	4,5	4,4	5,7	6,2
Poland	12,0	18,6	12,1	8,2	9,6	9,7	9,8	9,6
Portugal	6,3	5,9	8,7	10,6	12	12,9	15,5	15,1
Romania	5,6	7,1	6,7	6,9	7,3	7,4	7,2	7,1
Slovakia	13,1	18,5	12,6	12,0	14,4	13,5	13,2	12,7
Slovenia	7,1	6,4	5,5	5,9	7,3	8,2	9,1	9,4
Spain	17,2	11,2	9,3	18,0	20,1	21,7	24,4	25,1
Sweden	8,6	6,3	6,8	8,3	8,4	7,5	7,7	7,7
United Kingdom	7,0	5,0	5,3	7,6	7,8	8,0	8,5	8,4

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece.

Source: As in table 1.

Another important indicator of the macroeconomic situation of the EU is the level of net exports in relation to GDP. The situation of individual countries varies greatly (Table 5). But it is clear that most countries of the Community are net exporters, with economies whose condition is strongly linked with the situation in other markets.

Table 5. Net exports of goods and services in the EU-27 in 1995-2013  
(in percentage of GDP)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	-0,3	3,2	5,1	4,8	4,3	3,0	3,0	3,1
Belgium	3,8	4,5	3,1	2,7	2,7	1,7	1,2	1,3
Bulgaria	0,8	-8,9	-18,2	-8,8	-1,9	0,7	1,1	0,4
Cyprus	-0,8	-0,4	-5,9	-5,7	-6,3	-3,1	-1,9	-1,9
Czech Republic	-2,9	-1,0	2,7	4,1	3,2	4,1	4,8	5,0
Denmark	4,0	5,9	3,4	3,8	5,3	5,3	4,6	4,5
Estonia	-8,9	-5,6	-7,6	5,8	6,9	4,9	3,7	3,6
Finland	7,8	8,2	4,4	1,6	0,9	-0,5	-0,7	-0,6
France	2,1	1,0	-1,3	-1,8	-2,3	-2,9	-2,9	-2,7
Germany	1,0	3,2	6,0	5,0	5,5	5,1	4,5	4,3
Hungary	-0,3	-2,8	-0,4	4,9	6,5	7,4	9,0	10,5
Ireland	12,2	15,3	9,8	15,5	19,1	21,5	23,6	25,1
Italy	3,5	0,9	-0,5	-0,5	-1,9	-1,5	-0,4	0,6
Latvia	-7,7	-11,0	-17,5	-1,5	-1,4	-3,9	-4,5	-5,3
Lithuania	-10,3	-6,1	-10,6	-1,5	-1,3	-1,5	-2,3	-2,6
Luxemburg	18,9	21,2	30,2	31,1	31,2	29,5	27,7	28
Malta	-9,0	-1,6	-2,7	-1,2	1,4	4,9	5,0	5,5
Netherlands	5,1	6,3	8,2	6,8	7,5	8,1	8,7	9,3
Poland	-2,8	-3,7	-2,3	0,1	-1,2	-1,1	-0,5	-0,7
Portugal	-8,3	-8,9	-9,0	-7,4	-7,2	-3,9	-0,5	0,7
Romania	-6,4	-7	-12,3	-6,0	-5,2	-5,1	-6,2	-5,9
Slovakia	-6,7	-4,5	-3,0	-0,8	-1,3	2,6	2,7	3,2
Slovenia	-1,9	-0,9	-1,5	1,4	0,6	1,0	1,4	2,6
Spain	-0,1	-2,8	-6,0	-1,9	-2,1	-0,6	1,6	2,9
Sweden	6,8	7,0	7,5	6,5	6,3	6,2	5,6	5,8
United Kingdom	-0,3	-2,4	-3,1	-1,8	-2,5	-1,8	-1,1	0,2

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece.

Source: As in table 1.

Crucial to the level of foreign trade is the exchange rate level. In comparison with 2000, the real effective exchange rate (REER) in most EU countries increased (Table 6). The decline in exchange rate and thus increase in the price competitiveness of exports was recorded in the UK, Sweden, Germany and Poland.

Table 6. Real effective exchange rate in the EU-27 in 1995-2013 (2000 = 100)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	110	99,7	100,3	102,8	100,5	100,7	100,9	100,5
Belgium	109,2	104,4	109,9	114,3	112,1	114,1	113,9	114,1
Bulgaria	86,8	108,4	126,0	153,7	158,1	162,4	163,6	166,5
Cyprus	106,7	108,3	118,8	121,9	118,0	120,2	116,7	115,6
Czech Republic	92,5	117,9	147,9	155,8	159,3	162,5	159,1	158,7
Denmark	106,3	107,2	119,1	130,6	125,1	123,4	120,0	119,0
Estonia	96,8	107,9	140,7	162,9	151,5	151,0	150,8	153,1
Finland	112,9	104,5	110,0	120,7	115,4	115,2	113,7	114,0
France	110,0	104,7	112,7	115,2	113,4	114,6	113,3	113,2
Germany	93,8	98,7	100,4	90,5	98,9	96,7	94,2	96,0
Hungary	87,6	98,9	100,3	83,3	86	85,9	89,2	89,6
Ireland	108,5	109,3	135,4	140,4	126,7	120,4	112,8	109,9
Italy								
Latvia	103,4	110,5	123,0	129,3	124,7	124,0	119,7	120,1
Lithuania	82,6	103,3	124,3	131,1	119,9	118,5	115,6	114,4
Luxemburg	87,9	93,3	127,0	145,5	129,0	131,0	129,0	127,2
Malta	114,7	100,6	96,8	98,3	94,2	94,7	94,4	94,6
Netherlands	103,6	107,5	112,3	116,9	113,7	113,5	112,6	111,9
Poland	99,3	105,0	112,0	113,4	110,4	109,1	103,2	101,8
Portugal	71,4	95,8	138,7	141,3	150,4	152,5	147,3	148,8
Romania	92,3	105,1	137,0	168,1	163,1	160,6	158,0	156,5
Slovakia	105,5	102,5	106,1	115,5	114,1	113,6	111,0	108,8
Slovenia	102,4	97,8	96,2	87,4	92,7	96,0	96,9	97
Spain	104,7	105	118,3	122,2	116,4	113,3	108,0	105,5
Sweden	96,2	120,1	140,6	132,2	127,9	130,9	125,7	128,2
United Kingdom	107,3	107,2	119,5	125,0	121,2	121,7	120,0	119,6

\* In 1995-2008 the average for the period, in 2012-2013 forecast. The table does not contain data for Greece and Luxembourg.

Source: As in table 1.

According to studies by A. Bénassy-Quéré, S. Béréau and V. Mignon<sup>4</sup> on the equilibrium exchange rate of the Euro, which were based on the concept of fundamental equilibrium exchange rate (FEER) and behavioural equilibrium exchange rate (BEER)<sup>5</sup>, the Euro exchange rate was overvalued in 2005. The

<sup>4</sup>A. Bénassy-Quéré, S. Béréau V. Mignon (2008), Equilibrium Exchange Rates: a Guidebook for the Euro-Dollar Rate, CEPII Working Paper No. 2/2008, Centre d'Études Prospectives et Informations Internationales, Paris.

<sup>5</sup> FEER is a method of estimating the equilibrium exchange rate at which the medium term macroeconomic equilibrium is achieved, which refers to the state of the current turnover bal-



scale of overvaluation for FEER is very sensitive to the assumptions taken, hence the very wide range of overvaluation – from 6.3 to 46.9%, while for the BEER revaluation 4.7-9.5%.

After 2008, the REER of Euro was depreciated. In the case of Germany, the Euro is undervalued, while in the other countries of the area it was considerably overvalued in 2011 (Table 6). In Greece, this exchange rate is also probably overvalued<sup>6</sup>. The overvaluation of the exchange rate in these countries limits the opportunity to increase exports outside the Euro area. Furthermore, the weaker Euro would lead to inflation and wage growth in Germany, which would allow the other Euro area countries to increase exports exchange within the EU.

According to Z. Darvas<sup>7</sup> an important source of the current crisis of the Euro area is the inability of certain Member States to balance their external positions, which may cause loss of external solvency. Indeed, the data on net international investment position shows a very unfavourable development in the Euro area countries most affected by the crisis (Table 7).

Table 7. Structure of the net international investment position in selected EU countries in 2011 (in percentage of GDP)

Item	Greece	Ireland	Portugal	Spain
Net foreign direct investment	5	31	-18	0
Net portfolio investment in equity securities	6	-451	-7	-8
Net portfolio investment in debt securities	-10	264	-10	-43
Net other investment (mostly loans)	-84	53	-76	-45
Net financial derivatives	1	5	-1	1
Reserve assets	2	1	10	3
Net international investment position (sum of the above positions)	-79	-98	-103	-92

Source: Own compilation based on Z. Darvas (2012), *op. cit.* Table 1.

According to Z. Darvas, at present it is necessary to introduce the macroeconomic policy in the Euro area, which will include:

- reduction of wages in the countries of southern Europe,
- increase in the growth rate of wages in the countries of northern EU,

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ance and the level of savings for investments in the economy. BEER binds the real exchange rate with a set of basic economic variables in the econometric model, which allows for the estimation of the equilibrium exchange rate for certain values of economic variables in the long run. Comprehensive description of these and other popular estimation methods for the exchange rate can be found in the study: R.L. Driver, P.F. Westaway (2004), Concepts of equilibrium exchange rates, Working Paper no. 248, Bank of England, London.

<sup>6</sup> Z. Darvas (2012), Intra-euro rebalancing is inevitable, but insufficient, Bruegel Policy Contribution, issue 2012/15, Bruegel Institute, Brussels, p. 7.

<sup>7</sup>*Ibidem.*

- introduction of structural reforms to speed up the process of adjusting the level of wages in southern Europe,
- introduction of an expansionary fiscal policy in the countries of northern Europe, or at least reducing the rate of fiscal consolidation,
- measures aimed at weakening the Euro<sup>8</sup>.

As regards the necessary structural reforms, they need to be made up of two inextricably linked components. Microeconomic adjustments include regulations and activities affecting the business climate, the flexibility of markets, especially the labour market, the issues related to banking, innovation of economy and education system. However, macroeconomic adjustments relate primarily to changes in productivity, competitiveness of prices and wages and the balance of external turnover<sup>9</sup>.

However, the need to weaken the Euro is not only dictated by the desire to increase the international competitiveness of the economies of the Euro area, but also by the observation of the decreasing importance of trade with the Euro area countries in the total trade of the countries in the area. This is confirmed by data concerning Spain and Germany, where the share of exports to the Euro area countries in the total exports of these countries decreased during the period 1999-2011, respectively, from 61 to 53% and from 45 to 38%<sup>10</sup>.

Following the financial and economic crisis, many EU countries faced the crisis of public finances. All EU countries had budget deficits in 2009, and in most of them the deficits also increased sharply compared to previous years (Table 8). It is worth noting that the highest level of deficit was recorded in 2009, not only in the countries affected the most by the crisis of public finances, namely Greece, Portugal and Spain, but also in the UK. It is believed that the country's lack of similar problems now faced by the southern EU countries is due to the fact that the United Kingdom enjoys greater reliability among foreign investors.

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<sup>8</sup>*Ibidem*, p. 10.

<sup>9</sup>Cf. Z. Darvas (2012b), The euro crisis: ten roots, but fewer solutions, Bruegel Policy Contribution, issue 2012/12, Bruegel Institute, Brussels, p. 4.

<sup>10</sup>Z. Darvas (2012a), *op. cit.*, Table 3.

Table 8. Budget deficit in the EU-27 in 1995-2013 (in percentage of GDP)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	-3,2	-1,7	-1,3	-4,1	-4,5	-2,6	-3,0	-1,9
Belgium	-2,5	0,0	-0,8	-5,6	-3,8	-3,7	-3,0	-3,3
Bulgaria	-3,2	0,2	1,4	-4,3	-3,1	-2,1	-1,9	-1,7
Cyprus	-3,5	-3,9	0,2	-6,1	-5,3	-6,3	-3,4	-2,5
Czech Republic	-5,6	-5,1	-2,1	-5,8	-4,8	-3,1	-2,9	-2,6
Denmark	-0,9	1,3	4,6	-2,7	-2,5	-1,8	-4,1	-2,0
Estonia	-0,2	0,7	0,9	-2,0	0,2	1,0	-2,4	-1,3
Finland	-1,5	4,2	4,1	-2,5	-2,5	-0,5	-0,7	-0,4
France	-3,4	-2,8	-2,8	-7,5	-7,1	-5,2	-4,5	-4,2
Greece**			-9,8	-15,6	-10,7	-9,4		
Spain	-4,2	-0,4	0,3	-11,2	-9,3	-8,5	-6,4	-6,3
Netherlands	-1,6	-1,0	0,2	-5,6	-5,1	-4,7	-4,4	-4,6
Ireland	0,8	1,4	-0,7	-14	-31,2	-13,1	-8,3	-7,5
Lithuania	-4,4	-2,3	-1,3	-9,4	-7,2	-5,5	-3,2	-3,0
Luxemburg	2,8	2,7	2,0	-0,8	-0,9	-0,6	-1,8	-2,2
Latvia	-0,9	-1,9	-1,4	-9,8	-8,2	-3,5	-2,1	-2,1
Malta	-7,5	-6,4	-3,2	-3,8	-3,7	-2,7	-2,6	-2,9
Germany	-3,9	-2,7	-1,2	-3,2	-4,3	-1,0	-0,9	-0,7
Poland	-4,1	-5,0	-3,3	-7,4	-7,8	-5,1	-3,0	-2,5
Portugal	-4,2	-3,8	-4,5	-10,2	-9,8	-4,2	-4,7	-3,1
Romania	-3,5	-2,6	-3,0	-9,0	-6,8	-5,2	-2,8	-2,2
Slovakia	-6,5	-6,4	-2,5	-8,0	-7,7	-4,8	-4,7	-4,9
Slovenia	-3,4	-3,0	-1,2	-6,1	-6,0	-6,4	-4,3	-3,8
Sweden	-2,1	0,7	2,6	-0,7	0,3	0,3	-0,3	0,1
Hungary	-6,5	-6,0	-6,5	-4,6	-4,2	4,3	-2,5	-2,9
United Kingdom	-2,3	-1,0	-3,5	-11,5	-10,2	-8,3	-6,7	-6,5
Italy	-4,4	-2,8	-3,1	-5,4	-4,6	-3,9	-2,0	-1,1

\* In 1995-2008 the average for the period, in 2012-2013 forecast.

\*\* In the case of Greece, the column 2005-2008 presents the deficit in 2008.

Source: Own compilation based on data from the European Commission in documents with symbols COM (2012) 302-328 and Eurostat (2012), Newsrelease, Euro indicators, 149/2012.

Also, the budget deficit in 2009 increased sharply in most Member States (Table 9). It should be noted that Italy has a relatively low budget deficit compared to other EU countries. However, when it comes to government debt, Italy, like Greece, has debt exceeding 100% of its GDP.

Table 9. Level of public debt in the EU-27 in 1995-2013  
(in percentage of GDP)\*

Member state	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Austria	66,3	65,8	62,6	69,5	71,9	72,2	74,2	74,3
Belgium	122,1	102,0	88,3	95,8	96,0	98,0	100,5	100,8
Bulgaria	87,4	54,4	20,0	14,6	16,3	16,3	17,6	18,5
Cyprus	56,2	65,3	60,4	58,5	61,5	71,6	76,5	78,1
Czech	13,8	25,3	28,3	34,4	38,1	41,2	43,9	44,9
Dania	65,4	48,8	32,7	40,6	42,9	46,5	40,9	42,1
Estonia	7,1	5,3	4,3	7,2	6,7	6,0	10,4	11,7
Finlandia	52,3	43,3	37,6	43,5	48,4	48,6	50,5	51,7
Francja	58,2	60,3	65,8	79,2	82,3	85,8	90,5	92,5
Greece**			112,9	129,7	148,3	170,6		
Spain	64,7	52,5	39,8	53,9	61,2	68,5	80,9	87,0
Netherlands	69,0	51,9	50,7	60,8	62,9	65,2	70,1	73,0
Ireland	63,7	32,9	30,2	65,1	92,5	108,2	116,1	120,2
Lithuania	15,9	21,8	17,2	29,4	38	38,5	40,4	40,9
Luxemburg	7,2	6,3	8,3	14,8	19,1	18,2	20,3	21,6
Latvia	12,5	13,9	13,0	36,7	44,7	42,6	43,5	44,7
Malta	46,9	62,8	64,6	68,1	69,4	72,0	74,8	75,2
Germany	59,1	62,2	67,1	74,4	83	81,2	82,2	80,7
Poland	42,8	41,8	46,7	50,9	54,8	56,3	55,0	53,7
Portugal	54,3	53,3	66,5	83,1	93,3	107,8	113,9	117,1
Romania	14,1	22,7	13,6	23,6	30,5	33,3	34,6	34,6
Slovakia	33,8	45,3	30,5	35,6	41,1	43,3	49,7	53,5
Slovenia	22,0	27,0	24,6	35,3	38,8	47,6	54,7	58,1
Sweden	70,3	52,6	43,7	42,6	39,4	38,4	35,6	34,2
Hungary	68,5	56,6	66,9	79,8	81,4	80,6	78,5	78
United Kingdom	48,5	39,2	46,3	69,6	79,6	85,7	91,2	94,6
Italy	117,2	105,8	105,1	116,0	118,6	120,1	123,5	121,8

\* In 1995-2008 the average for the period, in 2012-2013 forecast.

\*\* In the case of Greece, the column 2005-2008 presents the deficit in 2008.

Source: As in table 7.

One should also pay attention to the short-term situation in the EU. From this perspective, more important than the overall level of public debt is the value of liabilities maturing in the coming years. In this case, the period 2012-2014 would be most unfavourable for Italy, where the obligations maturing during this period amount to about one quarter of GDP (Table 10). In the case of Greece and Portugal, the highest level of maturing obligations relates to 2012, when they reach about one fifth of GDP.

Table 10. Gross financial needs of selected EU countries in 2012-2014  
(in percentage of GDP)

Member state	2012			2013			2014		
	A	B	C	A	B	C	A	B	C
Austria	5,6	2,9	8,5	6,3	2,1	8,4	8,8	1,8	10,6
Belgium	16,4	3,0	19,4	17,5	2,3	19,8	17,2	1,5	18,7
Bulgaria	1,6	1,1	2,7	2,6	1,1	3,7			
Czech Republic	9,0	3,2	12,3	9,3	3,0	12,3	10,1	2,8	12,8
Denmark	7,8	3,9	11,7	8,5	2,0	10,5	7,8	1,9	9,7
Finland	7,2	1,4	8,6	7,2	0,9	8,1	7,5	0,3	7,8
France	13,8	4,7	18,5	15,9	3,5	19,4	15,4	2,8	18,2
Germany	8,1	0,4	8,5	7,9	0,4	8,3	5,4	0,3	5,7
Greece*	21,4	7,5	28,9	12,9	4,7	17,6	14,0	3,4	17,4
Hungary	13,8	2,9	16,7	15,2	3,7	18,9			
Ireland**	4,3	11,6	15,9	5,7	8,7	14,4	6,5	6,0	12,5
Italy	27,4	2,7	30,1	23,5	1,8	25,3	23,8	1,6	25,4
Latvia	4,3	1,3	5,6	4,2	1,5	5,7			
Lithuania	5,7	3,3	9,0	5,6	2,9	8,4			
Netherlands	10,4	3,7	14,1	11,3	3,2	14,5	11,8	3,6	15,4
Poland	8,1	3,4	11,5	8,4	3,1	11,6			
Portugal	22,4	5,0	27,4	17,3	4,5	21,7	19,7	2,5	22,2
Romania	8,7	2,2	10,9	8,8	1,8	10,6			
Slovakia	7,5	4,8	12,3	10,0	2,9	12,9	9,7	2,9	12,6
Slovenia	3,3	4,6	7,9	3,3	4,4	7,7	5,8	2,8	8,6
Spain	15,6	7,0	22,6	15,6	5,7	21,3	15,5	4,6	20,1
Sweden	4,4	0,2	4,7	2,5	0,2	2,7	5,2	-0,2	5,1
United Kingdom	6,9	8,2	15,1	7,4	7,3	14,7	9,4	5,8	15,1

A - liabilities maturing, B - budget deficit, C - total financial needs

\* level of maturing liabilities assumes 90% share in the debt swap programme

\*\* deficit includes the state budget deficit, other cash needs of the state and the cost of bank recapitalization

Source: Own compilation based on: IMF (2012), *Fiscal Monitor October 2012. Taking Stock. A Progress Report on Fiscal Adjustment*, IMF, Washington, Table 8 and Table 9.

As regards the income side of public finances, at the beginning of the current crisis, many EU countries have clearly increased the tax burden on consumption, while mitigating the burden on the labour and capital. In the following years they also raised personal income taxes. These changes were caused by the need to raise budget revenues. This increase, however, can have negative consequences when it comes to stimulating economic prosperity<sup>11</sup>.

<sup>11</sup> More on the subject see: J. Kudła (2012), *Zmiany struktury wpływów budżetowych w wybranych państwach Unii Europejskiej w latach 2008-2010* [in:] J. Sokołowski, M. Sosnowski, A. Żabiński (ed.) „Finanse publiczne”, Prace Naukowe Uniwersytetu Ekonomicznego

In recent years, many EU countries introduced many arrangements to consolidate public finances. The most commonly used instrument is the rule of balancing the budget relating to cyclical adjustment (Table 11).

Table 11. Institutional arrangements for fiscal policy in selected EU countries

Member state	National fiscal rules*					Independent Fiscal Council	Medium-Term Budget Framework
	Expenditure rule	Revenue rule	Budget balance rule		Debt rule		
			Cyclically adjusted or adjusted over the cycle	Non-cyclically adjusted			
France	+	+	+				binding
Greece			+			+	indicative
Spain	+		+		+		indicative
Ireland			+			+	indicative
Lithuania	+	+	+		+		indicative
Latvia			+				indicative
Germany	+		+				indicative
Poland	+		+		+		indicative
Portugal			+			+	indicative
Romania	+		+			+	indicative
Hungary			+		+	+	indicative
United Kingdom			+		+	+	indicative
Italy			+			+	indicative

\* Transnational and regional rules not included

Source: Own compilation based on: IMF (2012), *Fiscal Monitor* ....., Table 5.

Individual EU countries have introduced in recent years a number of different types of actions to consolidate public finances. These include both the income side and expenditure side of national budgets (Table 12). Most activities were taken by states most affected by the crisis of public finances.

Table 12. Fiscal policy instruments introduced during the current crisis in chosen EU member states

	Instrument	France	Germany	Greece	Hungary	Ireland	Italy	Latvia	Lithuania	Poland	Portugal	Romania	Spain	United Kingdom
EXPENSES	Public wage freeze/reduction			+	+	+	+	+	+	+	+	+	+	+
	Control of the size of civil service	+		+	+	+	+	+	+	+	+	+	+	+
	Savings from pension-related spending	+		+	+	+	+		+	+	+	+	+	+
	Savings from health care-related spending	+		+	+	+	+	+	+		+	+	+	+
	Reduction in social benefits		+	+	+	+	+	+	+	+	+	+	+	+
	Reduction in public investment			+		+	+	+	+		+	+	+	+
	Other expenditures	+		+	+		+	+	+		+	+	+	+
	Increase in personal income tax	+		+		+	+	+		+	+		+	+
	Increase in corporate income tax	+	+				+				+		+	
	Increase in capital gains tax					+	+	+		+	+		+	+
REVENUES	Increase in social security contribution rates	+		+	+		+	+		+		+	+	+
	Increase in value added or sales tax	+		+	+	+	+	+	+	+	+	+	+	+
	Increase in excises	+		+	+	+	+	+	+	+	+	+	+	+
	Increase in property tax			+		+	+	+	+		+		+	
	Improvement in tax compliance			+	+	+	+	+	+	+	+	+	+	+

Source: Own elaboration based on: IMF (2012), *Fiscal Monitor* ..., table 4.

It should be noted that the situation of the Euro area seems to be particularly associated with the level of confidence in the markets. A good example is a comparison of Spain and the United Kingdom. The situation of public finances in both countries is similar. However, in November 2011, the 10-year bonds of Spain bore interest rate of 6.5%, while that of UK only 2.3%<sup>12</sup>.

Monetary union was to release its member countries from the problem of the so-called impossible trinity presented in the Mundell-Fleming model. This model indicates that the country cannot simultaneously maintain the following three elements:

- independent monetary policy,
- fixed exchange rate,
- free movement of capital.

It must choose at most two elements from the three. By way of forming a monetary union, the EU countries liquidated foreign exchange risk between themselves.

In light of the current crisis in the Euro area, most often indicated design flaws of the monetary union's new trilemma<sup>13</sup> for the Euro area, as presented by J. Pisani-Ferry (figure 1), include:

- no co-responsibility for the debt based on Article 125(1) of the Treaty on the Functioning of the European Union (TFEU)<sup>14</sup>,
- ban on loans to the EU from central banks (Article 123(1) of the TFEU)<sup>15</sup>,
- interdependence between states and banks operating in them (Table 13). This interdependence makes the Euro area countries particularly vulnerable to liquidity crises and financial crises.

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<sup>12</sup>J. Pisani-Ferry (2012), *The Euro Crisis and the New Impossible Trinity*, Bruegel Institute, Brussels, p. 11.

<sup>13</sup> It is not about Dani Rodrik extended trillema associated with globalization, which has been discussed in detail in the article: D. Rodrik (2000), *How Far Will International Economic Integration Go?* Journal of Economic Perspectives—Vol.14, No. 1, pp. 177–186.

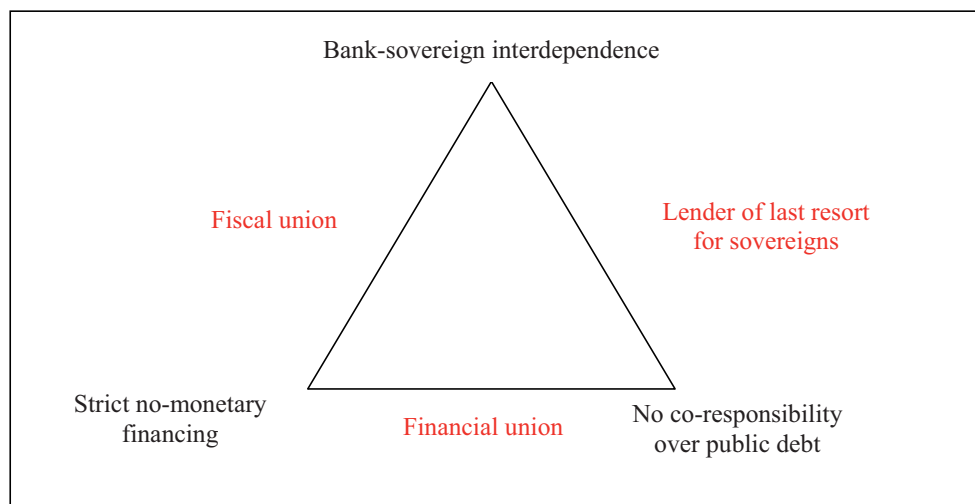
<sup>14</sup> “The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.”

<sup>15</sup> “Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as ‘national central banks’) in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.”



A way to solve these problems is to create a fiscal, financial union, and entrust the role of the bank of last resort for countries forming the union to the European Central Bank.

Figure 1. Fiscal policy instruments introduced during the current crisis in selected EU countries



Source: Own compilation based on: IMF (2012), *Fiscal Monitor ...*, Table 4.

Table 13. Structure of public debt by entities that are creditors of debt in selected countries in 2011 (in percentage)

Country	Domestic banks	Central bank	ECB	Other public institutions	Other resident institutions	Non residents (exc. ECB)
France	14,0	n.a.	-	-	29,0	57,0
Germany	22,9	0,3	-	0,0	14,1	62,7
Greece	19,4	2,6	22,9	10,1	6,5	38,5
Ireland	16,9	n.a.	16,1	0,9	2,4	63,8
Italy	16,7	4,8	6,4	-	29,3	42,8
Portugal	22,4	0,8	11,2	-	13,5	52,1
Netherlands	10,7	n.a.	-	1,1	21,4	66,8
Spain	27,0	3,2	5,4	10,2	20,0	34,2
United Kingdom	10,7	19,4	-	0,1	39,5	30,2
USA	2,0	11,3	-	35,5	19,9	31,4

Source: J. Pisani-Ferry, *op. cit.*, table 1.

## 1.2. The EU multi-annual financial framework for 2014-2020

Before discussing proposals for the MFF 2014-2020, we should pay attention to how small is the scale of public expenditure of the EU compared to the expenses of its Member States. Expenditures in the EU represent only 1.9% of total public expenditure carried out jointly in the EU Member States (Table 14), which is fifty times smaller than the total expenses of the members of the Community. It should also be noted that public spending in the EU countries exceeds in total 50% of the Community GDP.

Table 14. Scale of public expenditure in the EU and its Member States

Item	Public expenditure		
	EU	MS	total
Sum (mln euro)	118 345	5 985 115	6 103 460
Percentage of GDP	1,0	50,9	52,0
Percentage of total public expenditure	1,9	98,1	100,0
Percentage of total public expenditure excluding health and social security	3,5	96,5	100,0

Source: A. Barbier-Gauchard, E. Rubio (2012), *Projet „Comment mieux dépenser ensemble”*. *Mieux dépenser ensemble analyses et recommandations*, „Notre Europe” Institut Jacques Delors, tableau 1.

Such large differences in expenditure levels are also reflected in their structure (Table 15). It is especially vividly illustrated by spending on agriculture, fisheries and rural development. In the EU, these expenditures have the largest share in the total expenditure from the Community budget and account for more than half of them. However, in the national budgets they account on average only for 1.1% of the funds, which gives them 14th position in the structure of expenditure in terms of their share in the total expenditure. It should be noted that, taking into account the amount of public spending of the EU and its members, at a given share of agriculture, fisheries and rural development in the budgets, the spending on agriculture from the EU amounted to EUR 60.7 billion, and in the Member States to more than EUR 65.8 billion.

For comparison, in Poland the state budget expenditure on agriculture<sup>16</sup> accounted for 1.8% of budgeted expenditures for 2012 and 13.2% of expenditure in the budget of the European funds distinguished under the Polish Budget Act, which in total gives 4.0% of public expenditure made in Poland. However, as regards the structure of sources of funds for agriculture, 62.8% came from the EU budget<sup>17</sup>.

<sup>16</sup> Section 010 "Agriculture and hunting".

<sup>17</sup> Own calculations based on the draft Budget Act for 2013 established by the Council of Ministers on 27 September 2012.

Table 15. Structure of public expenditure in the EU and the Member States with the exception of spending on health and social security (percentage)

Specification	EU	Member States
Agriculture, fisheries and rural development	51,3	1,1
Regional cohesion	24,6	10,0
External relations	6,2	0,0
Administration	5,7	16,5
Research and development	5,6	3,0
Education	1,5	21,6
Competitiveness and innovation	1,4	4,6
Transportation	1,1	5,1
External aid	0,7	1,9
Freedom, security and justice	0,7	7,3
Citizenship and culture	0,3	4,6
Environment	0,3	3,1
Energy	0,3	0,2
Communication	0,2	0,1
Residential construction	0,0	4,4
Defense	0,0	6,1
Public debt	0,0	10,2
Total	100,0	100,0

Source: A. Barbier-Gauchard, E. Rubio (2012), *op. cit.*, tableau 2.

Work on the final shape of the EU's multi-annual financial framework for 2014-2020 came in the final phase. Currently under discussion are proposals of the European Commission of July 2012, the proposal of the Cypriot Presidency of October 2012, and the proposal of the President of the European Council, Herman van Rompuy, of November 2012 (Table 16). In July 2012, the European Commission presented a new version of the MFF 2014-2020, stripped-down to EUR 75 billion in relation to its proposal of June 2011. In October 2012, the Cypriot Presidency presented a proposal reduced by a further EUR 60 billion. The EU President Herman van Rompuy also submitted his proposal, where the reduction of funds in relation to this year's European Council proposal was to reach EUR 81 billion.

Table 16. Main proposals for the MFF 2014-2020 (as of 1.12.2012)

Specification	MFF 2007-2013	EC 7.2012	Cypriot Presidency 10.2012	H. van Rompuy 11.2012	Van Rompuy vs. EC	
					in mln euro	in %
Smart and inclusive growth	437 778	494 763	472 811	462 147	-32 616	-6,6
of which: competitiveness	89 363	155 520	146 317	152 652	-2 868	-1,8
of which: cohesion	348 415	339 243	326 494	309 495	-29 748	-8,8
Sustainable growth: Natural resources	413 061	386 472	378 972	364 472	-22 000	-5,7
of which: Market management and direct payments	330 085	283 051	277 401	269 852	-13 199	-4,7
of which: Rural development		92 213	90 816	83 666	-8 547	-9,3
of which: Fisheries/LIFE		11 208	10 755	10 954	-254	-2,3
Security and citizenship	12 216	18 809	18 109	18 309	-500	-2,7
Global Europe	55 935	70 000	64 650	65 650	-4 350	-6,2
Administration	55 925	63 165	62 629	62 629	-536	-0,8
Compensations	862	27	27	27	0	0
Total commitments	975 777	1 033 224	997 186	973 222	-60 002	-5,8
Moved inside MFF		14 498			-14 498	
Large scale projects (ITER)		8 548	Heading 1	Heading 1	-8 548	
Emergency aid reserve		2 450	Heading 4	Heading 4	-2 450	
Agriculture crisis reserve		3 500	Heading 2	Heading 2	-3 500	
Total MFF		1 047 722	997 186	973 222	-74 500	-7,1
Outside MFF		43 819	40 679	37 582	-6 237	
Solidarity fund		7 000	5 250	5 250	-1 750	
Flexibility instrument		3 500	3 395	3 500	-	
Globalisation adjustment fund		3 000	1 715	1 848	-1 152	
European Development Fund		30 319	30 319	26 984	-3 335	
Total budget		1 091 541	1 037 865	1 010 804	-80 737	

Source: Own elaboration based on A. Matthews (2012b) MFF baton passes to Van Rompuy: further cuts proposed compared to Commission proposal, [www.capeform.eu](http://www.capeform.eu) and [http://www.europarl.europa.eu/ftu/pdftpl/FTU\\_1.5.2.pdf](http://www.europarl.europa.eu/ftu/pdftpl/FTU_1.5.2.pdf).

At the summit at the end of November 2012, the heads of EU Member States have not come to an agreement as to the final amount of funds to be allocated to the MFF 2014-2020. The next summit is scheduled at the beginning of 2013. It is expected that it will delay work on the final shape of not only the Community budget, but also the reform of the EU actions in key areas of its activities and the preparation of national and regional programmes co-financed from the EU funds.

It should be also noted that, in accordance with the Lisbon Treaty, the European Parliament (EP) plays an important role in shaping the CAP. Work on the final solutions will be carried out under the so-called trilogues (negotiations between the Commission, Parliament and Council). This additional element can also have significant impact on the delay in the work. Already, work is delayed in the EP. Adoption of the report on the European Council proposal was to take place in November 2012, but was postponed to the end of January 2013, which is not surprising given the fact that over seven thousand amendments were submitted to the European Council proposal.

At the summit, President H. van Rompuy presented another proposal, which contained even greater cuts in the MFF 2014-2020<sup>18</sup>. This proposal envisaged an increase in the amount of funds allocated to cohesion policy by more than 10.6 billion compared to the first proposal of the President. With regard to CAP, there were no plans for changes in the level of expenditure on rural development policy. However, in the case of spending on the first pillar, it was expected to increase to EUR 8 billion compared with the first proposal of van Rompuy.

This last proposal should be referred to the most important instrument of the CAP – the direct payments. Particularly interesting here is the amount of payments in countries where the current rate is less than 90% of the EU average and the level at which this average will remain. The level of funds allocated for direct payments is not specified in the second proposal of H. van Rompuy. According to A. Matthews<sup>19</sup>, the average rate of payment in the EU will drop by 2.3%, which also takes into account the accession of Croatia to the Community. With this decrease this rate will be at the level of 262 EUR/ha. Currently in the EU-12 countries the payment rate is lower than the average for the whole of the EU, but only in four of them the rate of payment would be lower by over EUR 50 than 90% of the average rate in the EU (Table 17). Reduction of one third of the difference between the rates in countries with payments of less than 90% of the EU average would not cause the rates to reach the level of the EU average.

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<sup>18</sup> European Council (2012), European Council (22-23 November 2012) – Draft conclusions.

<sup>19</sup> A. Matthews (2012), No decision on MFF budget at first attempt. Text available at: <http://capreform.eu/no-decision-on-mff-budget-at-first-attempt/>.

Table 17. Amount of payments in the countries with the lowest rate on the basis of the second proposal of H. van Rompuy (EUR/ha)

Country	Rate of payment	Difference between the rate of payment and 90% of the EU average	Rate increased by reducing the gap by 1/3
	(1)	(2)	(3)=(1) + (2)x1/3
Finland	231,3	4,5	232,8
Sweden	229,6	6,2	231,7
Bulgaria	227,8	8,0	230,5
Spain	223,7	12,1	227,8
United Kingdom	223,7	12,1	227,8
Poland	210,2	25,6	218,9
Slovakia	200,9	34,9	212,8
Portugal	189,5	46,3	205,2
Romania	179,0	56,8	198,3
Lithuania	140,5	95,3	172,9
Estonia	114,2	121,6	155,5
Latvia	92,5	143,3	141,2

Source: Own elaboration based on A. Matthews (2012b).

The crisis of the European Union is now not only economic, but also political. During the debates on the future of the public finances of the Community and the fate of the European integration project, one can still expect a big change not only in the level of resources allocated to the CAP, but also significant modifications to the initial Commission proposal.

## 2. State aid for agriculture in the European Union

One of the key elements of European integration is the single market. In order to ensure equal conditions of competition to entities from all Member States, the EU legislation specifically sets out the rules for granting State aid from public funds.

Also in relation to agricultural support, the national aid rules are specifically defined and are usually subject to modification in subsequent financial perspectives. Also in relation to the currently prepared solutions for the programming period 2014-2020, there are plans to make changes to the legislation on State aid, both in agriculture and in other sectors. The European Commission has not yet presented a proposal in this regard, it has just announced that the changes will focus on the simplification of the functioning of national support mechanisms, especially the way of notifying them to the European Commission.

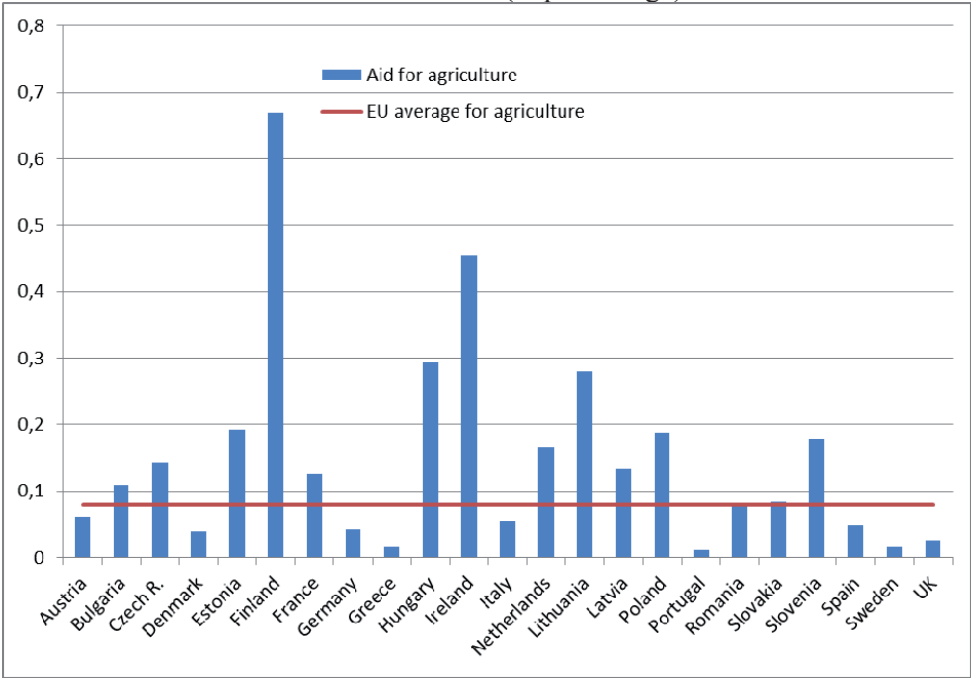
Currently, the basic rules and the documents governing the granting of State aid in the agricultural sector are:

1. Commission Regulation (EC) No 1857/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to State aid to small and medium-sized enterprises active in the production of agricultural products and amending Regulation (EC) No 70/2001 (OJ L 358, 16.12.2006);
2. Commission Regulation (EC) No 1535/2007 of 20 December 2007 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the sector of agricultural production (OJ L 337, 21.12.2007);
3. Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation) (OJ L 214, 9.8.2008);
4. Community guidelines for State aid in the agriculture and forestry sector 2007- 2013 (OJ C 319 of 27.12.2012).

The scale of support to agriculture in the form of national State aid instruments varies greatly across the EU. In 2010, the average scale of domestic support in the EU reached 0.1% of GDP (Figure 2). The highest level of support in relation to GDP was recorded in Finland, where it amounted to 0.67% of GDP. Ireland was ranked second (0.45%) and Hungary third (0.29%). In Poland, the national support was almost twice as high as the average for the EU-27 and reached 0.19% of GDP. The lowest level of domestic support was

found in Portugal, where it amounted to 0.01% of GDP. In Greece (0.02%) and Sweden (0.03%) it was also very low.

Figure 2. Share of domestic support for agriculture in the GDP of selected EU countries in 2010 (in percentage)

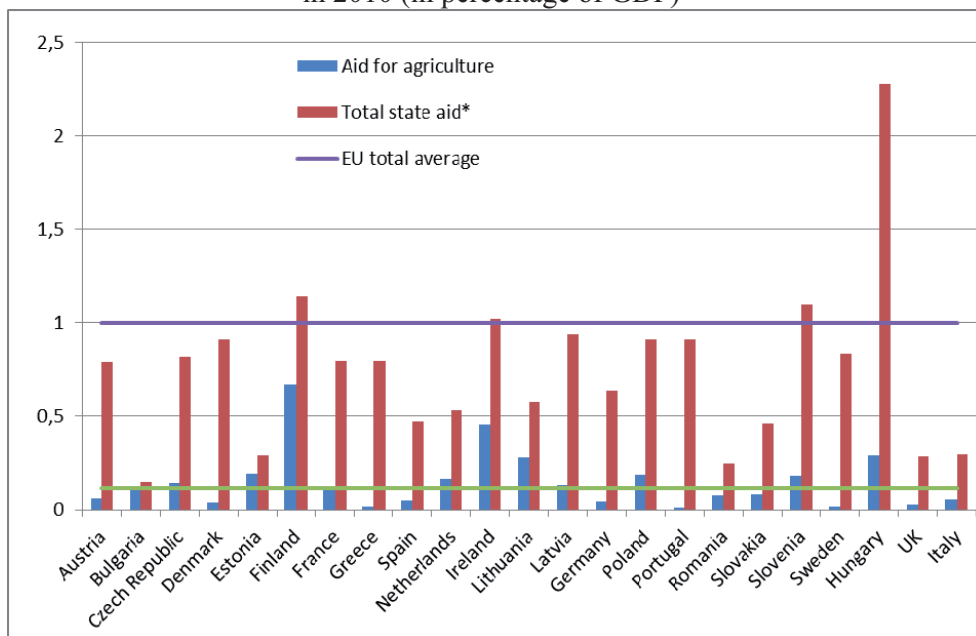


Source: Own elaboration based on EC's data.

Also in relation to the total amount of State aid granted by Member States in 2010, support for agriculture ranks low (Figure 3). The share of agriculture in the public support (with the exception of support associated with the economic crisis) on average in the EU amounted to only 0.08% of GDP and accounted for only 13.3% of State aid in the European Union. The highest share of aid to agriculture in total State aid was recorded in Estonia and Finland. However, in Estonia the total aid was more than two times lower than the average in the Community, and in Finland it was almost twice as high. The lowest share of agriculture in total public support was in Greece, Portugal and Sweden. In all three countries agriculture received less than 2% of the total funds allocated for State aid. Differentiation in the approach of the Member States to support of economy and agriculture is enormous. In most cases, it can be noted that a significant level of domestic support is also reflected in the relatively high support for agriculture.



Figure 3. Share of aid to agriculture in total national aid in selected EU countries in 2010 (in percentage of GDP)

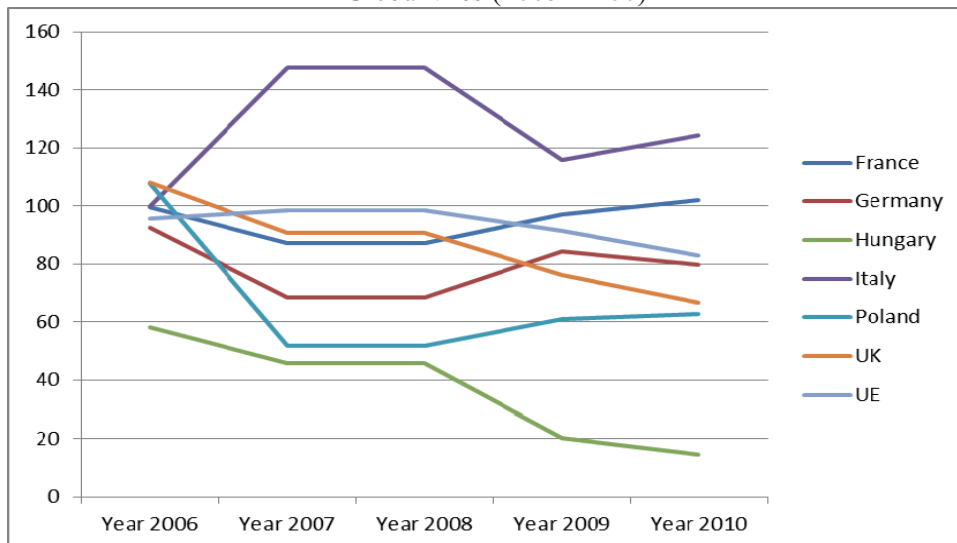


\* Total state aid excluding state aid connected with current economic crisis.

Source: Own elaboration based on EC's data.

In most of the EU-27 countries in the 2005-2010 period there was a significant decrease in the level of support to the agricultural sector under the State aid. Only in Italy there was an increase in support for agriculture in relation to its value before the crisis. The remaining countries reduced their support for the agricultural sector. However, change in the scale of support is not a sufficient basis to assess the trend in State aid for the agricultural sector. No less important is the structure and scope of support instruments. These issues will be discussed separately for each of the EU Member States in the following section.

Figure 4. Change in the level of domestic support for agriculture in the selected EU countries (2005 = 100)



Source: Own elaboration based on EC's data.

An important point of reference for State aid intended to support the agricultural sector is the scale of support received by individual countries under the Common Agricultural Policy. Since the beginning of the crisis, the amount of State aid for agriculture in comparison with the support obtained from the CAP significantly decreased - from over 25% to 17.5% (Table 18). However, when analysing the data one should bear in mind that in the case of the Member States of the Community, which in 2004 joined the EU, in 2007 there has been a lapse of many instruments of State aid which under the Accession Treaty could have been implemented by the end of April 2007. Therefore, in 2007, in many of these countries there was the accumulation of expenditure on domestic support. Later, the level of support was greatly reduced, which also had an impact on the overall scale of expenditure. Limiting the scope of support, however, does not explain such a large decrease in the amount of State aid. The more important factor was the steady increase in the amount of funds received from the CAP through the systematic raising of the scale of transfers for direct payments received by the new members of the Community.

It is also important to remember that the amount of funds received from the CAP also depends on the absorption capacity of funds for rural development. Therefore, depending on the rate of use of funds under the second pillar of the CAP, the total annual amount of funds received by the Member States is different. A more stable point of reference, at least for the EU-15, is to compare the scale of State aid with funds received from the first pillar of the CAP.

Table 18. Ratio of State aid for agriculture and support from the CAP in the 2007-2010 period (in percentage)

Member state	State aid/CAP*				State aid/I pillar*			
	2007	2008	2009	2010	2007	2008	2009	2010
Austria	15,5	13,3	12,3	11,6	22,8	21,6	21,4	20,9
Belgium	12,8	13,7	15,2	13,6	13,7	14,9	16,4	15,0
Bulgaria	98130,0	49,3	45,3	6,9	98130,0	115,9	70,8	13,4
Cyprus	84,4	79,4	196,6	43,9	119,3	108,9	278,6	60,2
Czech Republic	40,9	36,3	24,5	19,5	63,9	55,4	41,0	33,7
Denmark	11,0	9,1	10,4	8,5	11,0	10,0	11,0	9,0
Estonia	40,7	31,3	19,7	17,3	67,2	68,0	54,0	41,4
Finland	155,4	153,5	160,8	135,2	243,5	221,9	214,3	201,3
France	21,8	22,3	22,6	23,7	22,6	24,5	24,6	26,0
Greece	11,1	7,7	8,2	1,2	12,2	8,8	8,7	1,4
Germany	13,8	17,8	12,9	10,4	15,8	20,3	15,0	12,4
Hungary	120,7	90,7	31,9	20,4	189,0	117,0	52,8	30,2
Ireland	22,9	68,6	43,6	41,2	29,4	87,3	54,3	53,2
Italy	18,7	15,8	14,1	14,7	20,4	18,1	15,2	16,7
Latvia	121,3	5,0	17,0	9,3	121,3	14,9	39,0	24,4
Lithuania	45,6	38,3	18,2	14,8	78,6	51,7	38,9	28,1
Luxemburg	55,2	40,2	41,1	39,2	76,9	53,8	56,1	56,5
Malta	35,6	21,7	39,7	9,5	35,6	23,5	41,3	11,2
Netherlands	59,9	69,4	67,6	80,8	62,7	71,0	69,8	86,6
Poland	25,7	31,0	23,1	19,0	45,4	49,0	36,8	32,3
Portugal	1,7	1,9	1,7	0,7	2,3	3,0	2,2	1,2
Romania	15848,8	52,6	53,5	6,4	15848,8	115,0	104,4	13,7
Slovakia	14,5	19,3	13,6	8,5	20,9	38,8	31,4	20,3
Slovenia	55,5	51,7	34,4	31,7	161,0	123,1	79,3	70,8
Spain	12,5	10,8	9,4	7,5	12,5	12,6	10,4	8,5
Sweden	16,3	11,0	13,0	5,0	22,5	13,8	14,9	7,0
United Kingdom	14,3	12,3	12,8	10,4	14,9	14,1	14,1	12,1
EU-27	25,2	23,6	21,1	17,5	28,8	28,7	25,1	21,9
EU-25	22,5	22,7	20,2	22,0	25,7	27,0	23,7	27,2
EU-15	20,0	20,9	19,3	17,8	22,2	24,2	21,7	21,0

Source: B. Wieliczko (2012), *Impact of economic crisis on the amount of State aid for agriculture in the EU*. Article prepared for the conference "Food economy as a sector of the national economy" organised by the Warsaw University of Life Sciences, 6 December 2012, table 2.

In the context of changes in support for the agricultural sector in the EU, one should also note the change in the level of income received by farmers and the change in the share of direct payments in the income (Table 19). In the analysed period agricultural income changed significantly. At the same time, the share of direct payments was quite stable in the EU-15, while in the new

Member States it grew rapidly due to the gradual introduction of this instrument of support.

Table 19. Average annual change in the rate of "annual income from the factors of production in agriculture" in the selected EU countries in 2002-2010 (fixed prices, value of 2005 = 100) (1) and "share of direct payments in the income from the factors of production" in 2002-2010 (2)

State	1 2			2002-2006	2005-2010	2002-2010	2005-2010 (2002-10 = 100)
	2002-2006	2005-2010	2002-2010				
<b>EU-15</b>							
Austria 3,0		-0,4	1,5	71,1	65,4	67,4	92,0
Denmark 4,3		-11,0	-4,9	51,0	64,9	59,4	127,3
Finland 1,6		4,4	3,5	113,2	110,8	110,5	97,9
France -4,7		0	-2,2	44,1	44,9	44,3	101,8
Germany 4,6		-3,5	-4,2	52,7	49,7	50,6	94,3
Greece 8,5		2,4	5,3	32,7	39,4	36,6	120,5
Italy -0,1		0,0	-0,4	23,4	27,4	25,7	117,1
Netherlands 3,2		0	0,1	13,6	15,5	14,3	114,0
Portugal 1,6		1,5	0,1	38,5	44	41,5	114,3
Spain -3,4		-3,2	-3,0	26,8	29,4	28,1	109,7
Sweden 4,2		1	3,5	73,6	69,6	71,6	94,6
United Kingdom	0,1	5,4	3,4	50,3	47,0	47,6	93,4
<b>EU-12</b>							
Bulgaria 1,8		10,1	7,2	4,4	21,4	15,8	486,4
Czech Republic	13,3	1,7	7,2	49,0	71,8	63,0	146,5
Hungary 14,9		3,9	8,7	40,7	51,6	46,2	126,8
Latvia 24,0		0,0	10,0	46,8	61,9	55,8	132,3
Lithuania 16,0		4,1	10,1	40,4	51,1	45,8	126,5
Poland 16,5		6,4	10,1	30,1	42,9	38,0	142,5
Romania 3,4		-1,1	-4,4	8,6	14,4	11,8	167,4
Slovakia 8,3		1,5	4,6	53,5	76,0	69,3	142,1

Source: Z. Floriańczyk, W. Rembisz (2012), *Efektywność i produktywność polskiego rolnictwa w porównaniu do rolnictwa państw UE w latach 2002-2010*, „Problemy rolnictwa światowego”, Zeszyty Naukowe Szkoły Głównej Gospodarstwa Wiejskiego w Warszawie, vol. 12 (XXVII)2012, Zeszyt 1, Wydawnictwo SGGW, Warsaw, pp. 53-62.

As mentioned above, the analysis of State aid granted to agriculture in the EU requires not only the assessment of the scale of changes, but also of the support structure and the nature of aid instruments used. The next section presents the data for each of the Member States. Contrary to previous announcements, Commission has not yet published data for 2011, so the last analysed

year is 2010. To ensure the transparency of the chapter, Member States are discussed in alphabetical order.

The names of instruments correspond to the classification used by the European Commission. In many cases, there are instruments of the same name; they were singled out because of the fact that they have been introduced on the basis of other regulations. However, this does not affect their character, therefore for simplicity, they are combined in the present study in a single instrument, which in each case is indicated in the respective tables.

Austria in 2002-2010<sup>20</sup> used 21 different categories of agricultural support from public funds, which are distinguished by the European Commission (Table 20). In 2010, it used more support mechanisms than in 2002, but the total amount spent on this support was more than 1/4 lower. In 2002, the most important instrument of support, taking into account the level of expenditure, were the funds expended in connection with animal diseases, which should be largely considered as random expenditure forced by natural phenomena whose occurrence and scale cannot be predicted. In 2010, the expenditures for this purpose amounted to only 2.9% of spending on State aid for agriculture, which indicates that in 2010, the need to support farmers for animal diseases was much lower. In 2002, an important part of support for the agricultural sector was technical support to agriculture, aid for investments in farms and on insurance premiums paid by farmers in connection with farming activities. In 2010, the decline in spending on support related to animal diseases allowed an increase in aid for insurance premiums. This increase was related not only to participation in the support, but also the amount of funds allocated for this purpose. A similar situation occurred in the case of investments in agricultural holdings, although the absolute amount of support here was not high.

In Belgium, during the analysed period, there were as many as 25 different categories of State aid designed for agriculture (Table 21). The level of support fell by about 30%. In 2002, the share of spending on instruments related to the occurrence of adverse natural events (including diseases of plants and animals) in the total spending on State aid for agriculture was only a few percentage points. However, in 2010 it increased more than twofold, driven by more than twofold increase in the share of expenditure on animal diseases in the State aid. Also, the absolute value of support more than doubled. Moreover, the expenditure on technical support increased as well. However, spending on research and development drastically decreased, more than three times, which resulted in a more than twofold decrease in the share of this measure in the support structure. As regards the other categories of support, there were no significant changes.

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<sup>20</sup> In the case of EU-15, the analysed period covers the years 2002-2010. In the countries which joined the Community in 2004, it is shorter and covers the years 2004-2010. In the case of Bulgaria and Romania it is limited to years 2007-2010.

Table 20. Expenditure on State instruments of aid for agriculture in Austria in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events	6,23	3,25	20,88			2,14				0,0	0,0	0,0
Animal diseases	42,69	25,19	8,38	3,99	3,34	3,06	3,45	3,13	4,53	10,6	148,0	131,3
Animal welfare commitments						0,11	0,03				0,0	0,0
Conservation of traditional landscapes		0,01	0,01	0,01	0,01	0,01	0,05	0,06	0,06		600,0	120,0
Encouraging quality products	14,84	15,73	14,9	12,14	11,74	11,23	11,03	11,53	9,92	66,8	88,3	89,9
Environmental protection	20,88	24,19	31	22,31	20,59	18,42	18,85	19,07	18,74	89,8	101,7	99,4
Forestry					0,39	2,45	1,32	1,87	0,96		39,2	72,7
Insurance premiums*	25,89	25,79	26,71	26,34	25,87	24,92	25,98	32,48	39,77	153,6	159,6	153,1
Investment in agricultural holdings*	29,04	13,16	8,46	7,88	6,21	21,88	25,11	25,49	29,96	103,2	136,9	119,3
Investment in processing and marketing	8,37	13,89	17,49	15,61	19,06	21,02	13,12	4,61	4,34	51,9	20,6	33,1
Land reparcelling	5,68	4,99	4,38	4,13	4,71	5,98	3,64	4,5		0,0	0,0	0,0
Livestock sector*	19,5	17,87	16,12	14,28	16,02	14,57	12,69	14,51	10,57	54,2	72,5	83,3
Natural disasters or exceptional occurrences	0,11	0,14	0,14	0,32	3,31	0,59	0,05	3,79	2,05	1863,6	347,5	4100,0
Other	1,8	2,28	1,43	1,54	9,58	10,42	11,89	11,08	8,47	470,6	81,3	71,2
Plant diseases and pest infestations		0,09		0,02		0,3	0,18	0,07	0,09		30,0	50,0
Production of quality agricultural products									1,43			
Investment (art. 4 70/2001)			1	1,72	5,53	1,36	1,54				0,0	0,0
Remedy for a serious disturbance in the economy									0,93			
Research and development	0,68	0,49	0,52	0,44	0,36	0,3	0,4	0,11	0,05	7,4	16,7	12,5
Setting up of young farmers								0,67	0,73			
Technical support*	33,7	36,19	34,75	31,84	32,33	31,44	31,21	27,18	22,76	3,9	4,1	3114,4
TOTAL	209,41	183,26	186,17	142,57	159,05	170,20	160,54	160,15	155,36	74,2	91,3	96,8

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: Own elaboration based on EC's data.

Table 21. Expenditure on State instruments of aid for agriculture in Belgium in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events							2,16	14,67				0
Adverse weather conditions	0,01	1,19	6,94	2,31	0,11	0,02	0,04	0,03	0,02	200,0	100,0	50,0
Advertising	2,91	2,41	2,47	2,19	2,99	1,61	3,56	3,82	2,21	75,9	137,3	62,1
Agri-environmental commitments						2,82	0,06	0,44	1,05		37,2	1750,0
Animal diseases	11,48	15,96	44,48	31,18	30,33	25,96	32,13	26,86	24,07	209,7	92,7	74,9
Closing capacity	9,33	35,3	4,87							0		
Early retirement						3,57	3,36	2,96	2,43		68,1	72,3
Encouraging quality products	1,02	3,48	2,9	1,37	0,61	2,41	0,98	1,03	1,16	113,7	48,1	118,4
Environmental protection	0,16	0,11	0,08	0,12	0,13	0,08	0,07	0,06	0,07	43,8	87,5	100,0
Handicaps in certain areas	10,19	10,08	9,3	8,83	8,7	7,96	0,03			0,0	0,0	0,0
Investment in agricultural holdings*	16,51	15,95	15,65	11,93	13,08	12,47	18,77	14,7	9,45	16,51	15,95	15,65
Investment in processing and marketing	23,12	9,2	9,71	0,05	0,11	0,02		0,27		0	0	

Table 21. Expenditure on State instruments of aid for agriculture in Belgium in 2002-2010, and their change in 2010 compared to previous years (cont.)

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Land reparcelling	4,25	3,6	1,46	1,37	1,36	1,29	1,37	1,03	1,12	26,4	86,8	81,8
Livestock sector*	19,33	18,72	19,41	17,94	18,43	18,21	17,56	19,11	25,74	133,2	141,3	146,6
Other	0,11	0,2	0,16	0,13	0,11	0,11	0,13	0,15	0,27	245,5	245,5	207,7
Plant diseases	0,01	0,01	4,86	0,37	0,09	0,09	0,08	0,11	0,22	2200,0	244,4	275,0
Producer groups					0,02							
Production of quality agricultural products						0,06	0,43				0	0
Relocation of farm buildings									0,43			
Remedy for a serious disturbance in the economy									0,47			
Research and development	33,15	37,61	25,76	30,57	24,52	9,33	8,99	10,11	9,67	29,2	103,6	107,6
Rescuing firms in difficulty		0,05	0,02	0,04	0,03							
Setting up of young farmers	0,39	8,45	5,28	6,26	6,16	4,56	5,46	5,24	1,49	382,1	32,7	27,3
Start-up of producers groups	0,43	1,15	0,97	0,66	0,54	0,6	0,08	0,03	0,02	4,7	3,3	25,0
Technical support*	13,68	9,3	9,52	16,14	12,68	14,19	15,91	16,96	21,98	160,7	154,9	138,2
TOTAL	146,08	172,77	163,84	131,46	120,00	105,36	111,17	117,58	101,87	69,7	96,7	91,6

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.



In the case of Bulgaria, there was a huge drop in State aid for agriculture, which was directly related to the accession to the EU and the gradual introduction of the Community arrangements regarding State aid for the agricultural sector (Table 22). It should also be noted that at the beginning of the analysed period the number of applied categories of support was not large compared to many countries which have been the members of the Community for a longer time. Compared to 2007, national spending on aid to agriculture in Bulgaria in 2010 accounted for only less than 20%. At the same time, more than three quarters of funds spent in 2007 was classified as "other", i.e. to a group of instruments that are not typical forms of support in the EU. In 2010, with much reduced expenditure on support, this category accounted for just over 16% of the aid. In 2010, an important element of State aid to agriculture was support for serious economic disruption, which was directly related to the economic crisis. Support under this category amounted to more than 30% of the total State aid. A key instrument of aid to agriculture was support for investments in agricultural holdings. In 2007, their share in spending on State aid exceeded only 9%, and three years later it was over 47%.

In Cyprus, the level of State aid to agriculture was subject to very large fluctuations during the analysed period (Table 23). Finally, in 2010, it accounted for only 43% of the amount in 2004. Important changes pertained also to the instruments of support. A number of new instruments were introduced, which meant reducing the importance of many previously used support mechanisms. Still, the most important category of the instruments is "other instruments", to which 45% of funds is allocated. Insurance premiums have become an important element of support; allocation in this category amounted to almost 13% of aid in 2010. Also aid to animal sector increased significantly; its share in total support was almost 11%.

In the Czech Republic the intended level of domestic support for agriculture fell by nearly 20% in 2004-2010 (Table 24). Throughout the analysed period the leading instrument was tax exemption. Its share in the State aid for agricultural sector increased from 24% to 42%, which translates also into an increase in the amount of funds allocated for this purpose. However, support for investments in agricultural holdings significantly decreased. Both its share in total aid and the amount of allocated funds decreased. The share of this instrument in the total support fell from 32% to 10%, and the amount of funds related to this instrument decreased almost fourfold – from EUR 80 to 21 million. In 2009, a new instrument was introduced which has a prominent place in the current structure, as it was allocated more than 9% of support. This measures involves funding insurance premiums related to agricultural activity.

In Denmark, there are few categories of State aid. In 2002, only three categories of instruments were used, and in 2010, seven (Table 25). The increase in the number of support mechanisms was not accompanied by an increase in support. The total amount of aid during the 2002-2010 period dropped nearly two-

fold from EUR 161 to 91 million. In 2002, over 90% of State aid to agriculture was intended to technical support. The share of this instrument dropped to less than 30% in 2010 with the introduction of new categories of support. Currently, support to research and development is crucial; its share in total spending on domestic support for agriculture is 40%.

As in Denmark, State aid for agriculture in Estonia involves a small group of instruments (Table 26). In 2004, the funds were spent only on five categories of support, and in 2010 on six. The total amount of State aid decreased during the period by almost one quarter. During the whole period most important was tax exemption, whose share in the total support was nearly 90%. In 2004, the most important instrument, except tax exemption, was support associated with natural disasters, which accounted for over 5% of spent aid. In 2010, an important part of the support was the aid to farmers engaged in livestock production. Support pertained to issues related to animal diseases and the development of this type of farming.

As already mentioned, Finland supported its agriculture to the greatest extent under the State aid. This support was reduced more than twofold in the period 2002-2010 (Table 27). However, the change was not directly related to the current economic crisis. It was not introduced in phases either. The sharp decline in the amount of support to agriculture occurred in 2003, when the total expenditure on State aid to agriculture decreased by more than twofold. In subsequent years the decline was not as dramatic. In the analysed period the structure of support was substantially altered. In 2002, the largest share of aid was channelled through the instruments in the category "other instruments". This support was close to 63% of the disbursed funds. However, in 2010 the share of this group was only less than 1% of the amount of support. The importance of support under the category of "animal sector" more than doubled, which means that the decrease in the amount of support for this instrument amounted to less than 20%. Also the importance of technical support increased from 6 to 18%, and thus the amount of aid increased during this period.

In turn, France is one of the few EU Member States where the level of State aid for agriculture increased. During the period it amounted to over 25% (Table 28). France applies many categories of support, however, most of them are allocated small amounts. Most of these measures were implemented during the analysed period. The basic instrument of aid is the support for investments in agricultural holdings. The level of funds allocated to this category of support practically has not changed, which means that this category of support has lost its importance in the French State aid for agriculture and its share fell from 67% to 53%. In 2002, more than 16% of State aid was earmarked for animal diseases. However, in 2010 it accounted for only 3%, which means that the need for this kind of support to the agricultural sector decreased. Also support related to adverse weather conditions decreased almost 40-fold.

Table 22. Expenditure on State instruments of aid for agriculture in Bulgaria in 2007-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)				Change (in %)	
	2007	2008	2009	2010	2010/2007	2010/2008
Adverse weather conditions	4,76	12,69		0,6	12,6	4,7
Employment	5,67	5,24	3,7		0	0
Encouraging quality products	0,13	0,1	0,08		0	0
Forestry	0,13	0,14			0	0
Insurance premiums				0,27		
Investment in agricultural holdings	18,55	11,57	6,22	18,6	100,3	160,8
Investment in processing and marketing	4,37	2,71	0,11	0,06	1,4	2,2
Livestock sector*	10,93	12,53	13,06	1,18	10,8	9,4
Natural disasters	0,01				0	
Other	151,7	161,66	136,71	6,28	4,1	3,9
Production of quality agricultural products				0,37		
Remedy for a serious disturbance in the economy				11,78		
Start-up of producers groups	0,01				0	
TOTAL	196,26	206,64	159,88	39,14	19,9	18,9

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 23. Expenditure on State instruments of aid for agriculture in Cyprus in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events					1,69					0
Adverse weather conditions					2,38	61,92	0,36			15,1
Advertising		1,22	1,76		0,05	0,06	0,06			120,0
Agri-environmental commitments				2,05	0,87	0,77	2,24		109,3	257,5
Animal diseases				1,02	2,37	0,38	0,26		25,5	11,0
Closing capacity	4,19	1,86	0,75	0,52	0,14		0,89	21,2	171,2	635,7
Encouraging quality products				0,98					0	
Environmental protection				0,52	8,2	0,19	0,3		57,7	3,7
Forestry				8,92					0	
Insurance premiums*	5,13	3,22	4,03	3,49	5,39	3,38	3,41	66,5	97,7	63,3
Investment in agricultural holdings*	6,34	3,26	2,71	8,77	3,43	0,6	0,59	9,3	6,7	17,2
Investment in processing and marketing	0,44	0,01	0,43	1,14				0	0	
Land reparcelling					1	1,23	1,3			130,0
Livestock sector*	1,07	0	0	2,69	3,19	2,73	2,85	266,4	105,9	89,3
Natural disasters	12,9	5,11		0,33	0,46	35,1	1,54	11,9	466,7	334,8
Other	29,35	7,8	1,59	2,21	0,65	1,42	11,78	40,1	533,0	1812,3
Plant disease*	1,56	1,49	0,08	0,1	0,13	0,14	0,16	10,3	160,0	123,1
Relocation of farm buildings					0,1	0,16	0,35			350,0
Rescuing firms in difficulty							0,32			
Start-up of producers groups					0,55					0
Technical support	0,95	0,33	0,44	0,06	0,01			0	0	0
TOTAL	61,93	24,3	11,79	32,8	30,61	108,08	26,41	42,6	80,5	86,3

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 24. Expenditure on State instruments of aid for agriculture in the Czech Republic in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Consultancy		0,36	0,57		0,02					0
Adverse climatic events				0,43					0	
Adverse weather conditions						0,17	0,26			
Agri-environment commitments							0,15			
Animal diseases	13,73	16,14	13,76	11,9	9,96	8,98	10,26	74,7	86,2	103,0
Conservation of traditional landscapes					0,04	0,08	0,09			225,0
Encouraging quality products	0,34	6,69	13,29	5,63	4,84	4,43	3,52	1035,3	62,5	72,7
Environmental protection	1,85	0,8	1,04	3,33	3,43	3,22	1,17	63,2	35,1	34,1
Employment	3,28	2,99	2,95					0,0		
Forestry	29,78	25,29	25,69	22,94	27,54	23,83	20,48	68,8	89,3	74,4
Insurance premiums						17,4	18,79			
Investment in agricultural holdings*	80,5	42,53	57,85	47,13	37,84	25,56	21,17	26,3	44,9	55,9
Investment in processing and marketing			19,15	11,47	8,42	5,22	6,58		57,4	78,1
Livestock sector*	18,77	19,53	19,5	18,07	16,36	16,04	16,38	87,3	90,6	100,1
Natural disasters			4,04	0,16			1,26		787,5	
Other	15,05	13,57	15,26	19,77	27,03	14,15	14,1	93,7	71,3	52,2
Plant diseases	18,62	18,64	17,43	8,21	4,71	2,6	1,87	10,0	22,8	39,7
Producer groups					0,01	0,01				0,0
Remedy for a serious disturbance in the economy	0,91							0,0		
Research and development	3,7	3,24	4,02	5,53	12,8	13,43	12,54	338,9	226,8	98,0
Tax exemptions	59,67	63,97	62,3	61,4	60,82	60,95	66,15	110,9	107,7	108,8
Technical support*	2,94	3,14	3,41	8,55	8,9	10,1	10,03	341,2	117,3	112,7
TOTAL	249,14	216,89	260,26	224,52	222,72	206,17	204,8	82,2	91,2	92,0

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 25. Expenditure on State instruments of aid for agriculture in Denmark in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Advertising								18,48	9,39			
Animal diseases*	13,61	5,99	3,49	7,46	2,48	2,79	1,52	15,1	10,36	76,1	371,3	681,6
Environmental protection	0,57	0,56	0,62	4,65	5,62	5,45	5,43	6,31	5,24	919,3	96,1	96,5
Forestry				0,01	0,04	0,06	0,04	0,05	2,26		3766,7	5650,0
Investment in agricultural holdings							0,7					0,0
Research and development		1,13	1,07	1,01	0,98	0,92		36,38	37		4021,7	
Technical assistance*	146,83	130,7	116,76	120,95	116,4	110,39	98,2	37,74	26,44	18,0	24,0	26,9
TOTAL	161,01	138,38	121,94	134,08	125,52	119,61	105,89	114,06	90,69	56,3	75,8	85,6

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 26. Expenditure on State instruments of aid for agriculture in Estonia in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Animal diseases*	0	0	0	1,2	1,04	0,83	0,73		60,8	70,2
Encouraging quality products	1,27	1,8	2,84	2,76				0	0	
Environmental protection				0,25					0	
Insurance premiums					0,01	0,01	0,02			200,0
Investment in agricultural holdings*	0	1,08	1,08	0	0	0	0,02			
Livestock sector*	1,32	1,25	1,15	1,53	1,43	1,43	1,53	115,9	100,0	107,0
Natural disasters	1,86		2,04					0		
Start-up of producers groups		0,58	0,55							
Tax exemptions	31,58	23,46	19,81	19,82	25,27	26,63	24,54	77,7	123,8	97,1
Technical support*	0,07	0,16	0,16	0,25	0,61	0,66	0,75	1071,4	300,0	123,0
TOTAL	36,1	28,33	27,63	25,81	28,36	29,56	27,59	76,4	106,9	97,3

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 27. Expenditure on State instruments of aid for agriculture in Finland in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events												
Adverse weather conditions	2,95	2,09	21,37	2,49	5,67		2,04	0,55	0,33			16,2
Advertising	4,88	4,92	4,9	4,88	4,61	3,89	3,51	1,06	0,18	0		0
Agri-environmental commitments	35,33	36,45								3,7	4,6	5,1
Animal diseases		3,19		0,82	0,14	0,06	0,05	0,15	0,06	0		
Early retirement	153,92	156,94	154,76	154,46	152,17	148,42	145,87	144,74	132,8	86,3	89,5	120,0
Forestry	67,43	77,12	74,16	73,56	71,7	67,86	71,62	86,97	87,68	130,0	129,2	122,4
Handicaps in certain areas				130,9	129,78	126,31	123,85	121,97	119,1	94,3		96,2
Investment in agricultural holdings*	125,58	121,99	85,91	213,92	226,82	263	142,83	133,66	110,42	87,9	42,0	77,3
Investment in processing and marketing	2,69	2,32	2,85	3,32	3,39	0,76	0,22	0,98	0,03	1,1	3,9	13,6
Land reparcelling*	3,13	3,3	4,93	5,01	4,3	4,18	3,22	3,0	3,2	102,2	76,6	99,4
Livestock sector*	531,66	539,66	626,95	524,69	516,64	441,49	439,29	431,52	431,44	81,1	97,7	98,2
Natural disasters	0,11		0,88	0,35						0,0		
Other	2191,54	188,97	195,65	164,55	121,76	76,18	21,7	16,91	11,67	0,5	15,3	53,8
Plant diseases	1,42	2,09	1,03	1,29	1,03	1,24	1,58	2,67	1,68	118,3	135,5	106,3
Remedy for serious disturbance in the economy									21,79			
Setting up of young farmers*	38,4	31,94	47,79	46,58	43,15	44,51	36,46	30,55	32,62	84,9	73,3	89,5
Tax exemptions				9,57	13,18	13,08	13,82	18,36	18,82		143,9	136,2
Technical support*	220,35	239,96	245,91	245,88	243,34	235,32	236,28	238,00	232,52	105,5	98,8	98,4
TOTAL	3504,97	1532,93	1553	1796,19	1764,5	1689,3	1385,18	1364,75	1314,76	37,5	77,8	94,9

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.



Table 28. Expenditure on State instruments of aid for agriculture in France in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events							117,61	90,41	25,48			21,7
Adverse weather conditions	78,23	479,53	869,74	107,99	137,42	169,18	7,66	1,32	2,09	2,7	1,2	27,3
Advertising	32,38	32,18	22,79	24,23	33,66	25,7	22	17,35	22,41	69,2	87,2	101,9
Agri-environmental commitments						0,74	4,94	9,54	20,03		2706,8	405,5
Animal diseases*	312,74	295,37	173,03	132,76	86,31	97,01	93,67	112,34	71,73	22,9	73,9	76,6
Animal welfare	0,29	0,72	0,3	0,27	0,18	0,27				0	0	
Closing capacity		5,54	6,54	1,91	6,12	5,92	5,04	3,82	1,96		33,1	38,9
Conservation of traditional landscapes					0,1	0,07	0,06	0,05	0,03		42,9	50,0
Early retirement*	12,07	12,79	6,46	4,68	8,57	3,48	0,38	2,82	2,66	22,0	76,4	700,0
Encouraging quality products	21,98	29,29	17,59	39,79	44,35	12,34	12,28	5,41	4,71	21,4	38,2	38,4
Environmental protection	3,91	9,29	8,31	6,31	5,02	8,14	8,16	6,85	5,19	132,7	63,8	63,6
Innovation	9,52	17,67	12,04	11,6	11,18	7,39	9,21	2,9		0	0	0
Insurance premiums*	5,86	7,55	4,66	18,06	14,1	19,32	32,54	11,66	0,06	1,0	0,3	0,2
Investment in agricultural holdings*	1241,18	1488,92	1657,56	1759,78	1723,19	1263,24	1271,2	1266,95	1246,26	100,4	98,7	98,0
Investment in processing and marketing					0,13	0,19	0,4	7,18	11,35		5973,7	2837,5
Land reparcelling							0,01	0,02	0,05			500,0
Livestock sector*	2,06	2,3	2,46	2,18	1,9	164,71	154,36	172,81	93,38	4533,0	56,7	60,5

Table 28. Expenditure on State instruments of aid for agriculture in France in 2002-2010, and their change in 2010 compared to previous years (cont.)

Instrument	Expenditure (in million euro)										Change (in %)			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008		
Natural disasters		21,95	42,78		0,61	0,02		157,45	175,21		876050,0			
Other	42,48	91,61	88,93	83,99	77,91	37,16	37,05	33,35	27,1	63,8	72,9		73,1	
Outermost regions	0,59	0,4	2,42	0,53	0,39	36,76	9,92	34,36	13,22	2240,7	36,0		133,3	
Plant diseases*	3,8	3,16	0,88	0	0	0,34	0	0,78	0,12	3,2	35,3			
Producer groups		0,07	0,16		0,42	0,32	0,23	1,42	2,21		690,6		960,9	
Production of quality agricultural products					0,86	0,61	2,38	2,92	1,66		272,1		69,7	
Investment (art 4 70/2001)								0,15						
Relocation of farm buildings								0,14	0,31					
Remedy for a serious disturbance in the economy								4,92	299,87					
Rescuing firms in difficulty		0,08	1,29			7,1	1,59	2,93	2,22		31,3		139,6	
Research and development	4,47	8,11	129,67	118,72	135,69	124,3	122,6	17,46	20,29	453,9	16,3		16,5	
Setting-up of young farmers*	33,43	47,36	47,88	39,63	54,21	63,46	72,65	86,24	83,83	250,8	132,1		115,4	
Start-up of producers groups				0,11	0,53	0,67	0,99	0,53	0,31		46,3		31,3	
Tax exemptions							167,9	101,76	134				79,8	
Technical support*	35,28	42,98	45,11	30,97	28,49	25,07	35,44	39,64	52,98	150,2	211,3		149,5	
TOTAL	1840,27	2596,87	3140,6	2384,51	2371,34	2073,51	2190,27	2195,48	2320,72	126,1	111,9		106,0	

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: Own elaboration based on EC's data.

In Germany the level of state aid fell by over a half (Table 29). Currently over a half of support is devoted to tax exemptions, an instrument not used at the beginning of the analysed period. In the year 2002 over 2/3 of the agricultural support was spent on environmental protection, an instrument currently of a marginal importance.

One of the countries with the smallest scale and the number of aid instruments used in agriculture is Greece. In 2002, it used only one instrument of State aid (Table 30). It was support related to natural disasters, i.e. support closely related to random factors. This category of support functioned throughout the period, and the scale of funds allocated for this purpose was related to the needs. Since 2004, support is also related to the occurrence of adverse weather conditions. The only instruments unrelated to the natural and climatic conditions were structural pensions in 2007-2009. The instrument was planned for three years and was not re-launched in 2010.

More than six-fold decrease in the amount spent on State aid instruments in Hungary in 2004-2010 is largely connected, as in many other new EU countries, with adjustments resulting from the Accession Treaty (Table 31). However, the reduction of support in recent years is directly related to the need to reduce public expenditure. As regard the structure of aid, the role of tax exemption increased during the period. In 2004, it was an instrument of marginal importance, but in 2010 its share exceeded one quarter of the total aid. The importance of support for investments in agricultural holdings dropped several times; initially it exceeded 3/4 of support, and now has dropped below one quarter of the total amount of support.

In Ireland the initial level of agricultural support was 1.3 billion in 2002 and the value of aid fell sharply in subsequent years (Table 32). The lowest level was reached in 2005, when it was only EUR 0.14 billion. In the following years, it gradually began to grow, and in 2008 soared to EUR 1.1 billion, only to fall again over the next two years (this time in connection with the economic crisis in Ireland). The structure of support in this period also changed. In 2002, more than 85% of funds were allocated for technical assistance. Currently, less than 4% of the aid is allocated for this purpose. At present, the leading category of assistance, in terms of spending, is the support for investments in agricultural holdings. In 2010, almost 48% of domestic support for agriculture was allocated for this purpose. Currently, the funds for farmers in areas with difficult conditions for agricultural activities are an important element of support. This category of support was allocated 17% of the aid in 2010.

Italy is the only country in the EU where the level of State aid for agriculture during the period increased more than twofold (Table 33). Even in recent years, the support was higher than at the beginning of the crisis. The structure of support underwent only minor changes except for a significant decline in the share of support for investments in agricultural holdings in the total support and the introduction of aid related to serious economic disruptions.

Table 29. Expenditure on State instruments of aid for agriculture in Germany in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse weather conditions	0,87	0,96	0,8	0,53							0	
Advertising	9,26	10,56	19,79	18,72	18,49	16,69	26,22	24,81	21,02	227,0	125,9	80,2
Agri-environmental commitments	0,49	0,49	2,43	1,86	1,94	12,43	23,11	11,7	14,05	2867,3	113,0	60,8
Animal diseases*	50,83	48,57	51,76	48,66	46,76	49,01	90,62	82,91	52,16	102,6	106,4	57,6
Conservation of traditional landscapes							0,02	0,65	0,03			150,0
Early retirement	0,87					0,05	0,03			0,0	0,0	0,0
Encouraging quality products	19,59	22,8	21,47	20,5	17,23	5,29	23,75	20,15	14,21	72,5	268,6	59,8
Environmental protection	1104,95	835,16	59,88	47,64	40,64	106,63	84,98	41,19	30,67	2,8	28,8	36,1
Employment	0,89	0,67	0,5	0,32	0,16	0,08	0,03	0,02		0,0	0,0	0,0
Forestry	22,71	26,37	31,48	30,59	42,17	40,11	43,31	12,93	3,01	13,3	7,5	6,9
Horizontal aid	5	2,91	38,93	40,42	29,87	20,96	62,78	13,95		0,0	0,0	0,0
Insurance premiums									0,34			
Investment in agricultural holdings*	75,2	49,21	155,75	158,74	170,09	100,28	94,25	14,93	7,27	9,7	7,2	7,7
Investment in processing and marketing	0,52	9,71	20,5	30,86	12,42	7,16	24,13	4,6	1,88	361,5	26,3	7,8
Livestock sector*	213,68	118,74	479,7	391,39	424,19	202,15	397,19	122,25	55,79	26,1	27,6	14,0
Natural disasters	3,95	142,1	306,07	256,62	179,36	26,17	30,8	5,53	23,57	596,7	90,1	76,5
Other	52,36	53,93	59,51	40,81	37,49	36,25	19,46	6,52	0,58	1,1	1,6	3,0
Natura 2000						0,08	0,32	0,12	0,46		575,0	143,8
Plant diseases*	0,14	0,15	0,1	0,08	0,04	0	0	1,77	0	0,0		
Producer groups				0,05	0,12	0,57	0,23	0,2	0,13		22,8	56,5
Production of quality agricultural products						0,69	2,37	2,25	1,55		224,6	65,4
Investment (art. 4 70/2001)				0,09	1,95	3,03	4,83	1,35	1,54		50,8	31,9
Rescuing firms in difficulty					4,25							
Research and development	34,97	46,01	46,34	61,8	35,89	37,72	48,27	55,45	56,41	161,3	149,5	116,9
Restructuring firms in difficulty	2,6	1,98	4,04	0,71	0,55	0,58	0,24	0,2	0,15	5,8	25,9	62,5
Setting up of young farmers								0,81				
Start-up of producers groups	1,68	3,64	2,24	4,1	4,46	0,75	0,28	0,54		0,0	0,0	0,0
Tax exemptions						139,13	137,72	402,53	395		283,9	286,8
Technical support*	28,39	36,86	157,72	156,09	141,61	85,11	41,96	27,19	27,91	98,3	32,8	66,5
TOTAL	1628,95	1410,82	1459,01	1310,58	1209,68	890,92	1156,9	854,55	707,73	43,4	79,4	61,2

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 30. Expenditure on State instruments of aid for agriculture in Greece in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse weather conditions			4,29	60,98	141,99	112,73	13,33	12	12,02		10,7	90,2
Early retirement						196,86	161,89	149,43			0	0
Investment in processing and marketing							25,13					0
Natural disasters	32,91	199,15	116,6	30,26	3,79	16,34	24,39	65,53	23,82	72,4	145,8	97,7
TOTAL	32,91	199,15	120,89	91,24	145,78	325,93	224,74	226,96	35,84	108,9	11,0	15,9

Source: Own elaboration based on EC's data.

Table 31. Expenditure on State instruments of aid for agriculture in Hungary in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events				22,18	14,65	9,58	27,06		122,0	184,7
Adverse weather conditions				42,78	49,18	40,03	27,41		64,1	55,7
Advertising	4,3	6,4	2,96	2,62	4,44	3,86	3,23	75,1	123,3	72,7
Animal diseases*	4,81	3,04	5,77	5,67	16,1	5,7	3,78	78,6	66,7	23,5
Animal welfare					31,49	33,56	16,31			51,8
Closing capacity	46,96							0		
Early retirement	20,16	33,15	53,96	37,43	41,49	43,94	23,34	115,8	62,4	56,3
Encouraging quality products	1,79	2,98	1,27	3,03	1,15			0	0	0
Environmental protection			0,03							
Employment	20,68	4,14	0,73	0,68				0	0	
Forestry	0,98	1,55	1,22	1,5				0	0	
Investment in agricultural holdings*	1370,16	1402,56	878,16	616,52	342,86	145,3	66,25	4,8	10,7	19,3
Investment in processing and marketing	2,9	2,28	5,05	9,16	8,19	9,98	10,16	350,3	110,9	124,1
Land reparcelling	3,86	0,81	1,03	0,84				0	0	
Livestock sector*	10,27	4,23	4,48	3,2	3,25	20,2	21,09	205,4	659,1	648,9
Natural disasters	202,65	168,81	71,61	42,78	8,9			0	0	0
Other	14,51	231,07	14,53	8,84	2,29	1,95	2,5	17,2	28,3	109,2
Plant diseases*	0,92	0,09	0,46	0,62	0,15	0,18	0,17	18,5	27,4	113,3
Investment (art. 4 70/2001)		0,17	0,09							
Remedy for a serious disturbance in the economy							1,29			
Research and development	7,76	9,03	6,03	6,45	7,48	5,51	5,52	71,1	85,6	73,8
Risk capital		0,36								
Setting up of young farmers		0,04	0,06	0,02					0	
Start-up of producers groups	12,4	2,22	2,13	2,02				0		
Tax exemptions	87,48	91,2	88,85	87,76	68,6	79,66	79,51	90,9	90,6	115,9
Technical support	0,79	0,53	0,51	0,44	0,45	0,63	0,4	50,6	90,9	88,9
TOTAL	1813,38	1964,66	1138,93	894,54	600,67	400,08	288,02	15,9	32,2	47,9

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 32. Expenditure on State instruments of aid for agriculture in Ireland in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events									3,96			
Advertising	8,12	6,99	7,4	8,29	7,07	7,53	8,63	9,49	9,31	114,7	123,6	107,9
Agri-environmental commitments							290,29					0
Animal diseases*	56	65,72	11,62	6,69	1,77	29,38	39,57	34,89	26,39	47,1	89,8	66,7
Animal welfare							29,68	28,76	31,43			105,9
Early retirement*	6,23	6,06	13,87	11,59	11,17	16,86	33,62	9,06	8,15	130,8	48,3	24,2
Encouraging quality products	2,3	1,41	0,53		0,02					0		
Environmental protection	1,85	0,24	0,08	0,18	4,65	0,26	0,35	0,3	0,31	16,8	119,2	88,6
Forestry	14,67	8,38	8,11	10,61	13,67	14,99	25,8	34,61	44,3	302,0	295,5	171,7
Handicaps in certain areas						118,96	107,59	117,81	121		101,7	112,5
Investment in agricultural holdings*	38,89	24,03	18,52	23,96	22,85	94,95	439,18	346,33	332,05	853,8	349,7	75,6
Land reparation*	0	0	0	0	0	0,74	0,75	1,27	6		810,8	800,0

Table 32. Expenditure on State instruments of aid for agriculture in Ireland in 2002-2010, and their change in 2010 compared to previous years (cont.)

Instrument	Expenditure (in million euro)								Change (in %)			
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Livestock sector*	51,37	34,56	20,87	22,5	21,97	22,76	26,06	17,54	9,55	18,6	42,0	36,6
Natural disasters			0,1				32,43	46,08	16,05			49,5
Other						3,06	3,46	2,1	2,63		85,9	76,0
Natura 2000					0,11	0,91	1,15	2,19	3,77		414,3	327,8
Production of quality agricultural products								0,55	0,45			
Investment (art4 70/2001)						0,28	0,47	0,76	0,22		78,6	46,8
Research and development							0,12	0,72	0,43			358,3
Setting up of young farmers*	15,08	28,1	22,44	32,7	50,9	50,05	69,38	44,94	50,59	180,0	101,1	72,9
Technical support*	1143,74	26,53	26,55	26	25	27,48	31,45	28,69	25,41	2,2	92,5	80,8
TOTAL	1338,25	202,02	130,09	142,52	159,18	388,21	1139,98	726,09	692	51,7	178,3	60,7

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: Own elaboration based on EC's data.



Table 33. Expenditure on State instruments of aid for agriculture in Italy in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events								1,81	2,3			
Adverse weather conditions	0,3	136,87	29,16	68,97	88,52	125,45	60,31	60,44	12,13	4043,3		
Advertising	13,73	9,52	7,31	12,27	12,79	13,92	10,47	23,76	8,99	65,5	64,6	85,9
Agri-environmental commitments	0,95	5,07	28,93	39,07	20,47	20,14	10,47	8,4	7,16	753,7	35,6	68,4
Animal diseases*	57,28	7,17	52,6	14,21	8,44	15,49	18,19	25,64	20,49	35,8	132,3	112,6
Animal welfare	1,82	0,98	0,79	0,95	5,89	5,81	5,44	8,92	8,67	476,4	149,2	159,4
Closing capacity			5,64	4,29	1,23							
Conservation of traditional landscapes					0,02		0,12	3,75	5,02			4183,3
Encouraging quality products	1,34	7,4	11,98	15,27	15,68	13,97	8,64	9,27	4,84	361,2	34,6	56,0
Environmental protection		0,32	9,4	15,3	13,02	19,92	4,82	4,35	4,97		24,9	103,1
Forestry			1,36	2,21	2,68	2,99	4,51	10	49,2		1645,5	1090,9
Handicaps in certain areas	54,04	32,86	46,9	27,97	41,1	27,34	30,85	9,29	15,56	28,8	56,9	50,4
Insurance premiums*	0,31	12,1	11,72	12,84	18,8	12,28	204,15	111,35	175	56451,6	1425,1	85,7
Investment in agricultural holdings*	54,86	47,88	59,46	96,01	112,82	156,72	127,91	152,51	95,87	174,8	61,2	75,0
Investment in processing and marketing	40,77	12,53	53,16	69,65	59,65	43,76	50,61	12,69	6,63	16,3	15,2	13,1
Land reparcelling*	103,67	73,19	97,98	133,27	138,59	125,08	125,32	129,97	118,9	114,7	95,1	94,9
Livestock sector*	3,81	3,62	8,52	13,82	17,21	18,65	21,78	20,85	23,88	626,8	128,0	109,6
Natural disasters	1,8	14,14	5,05	4,98	1,59	0,97	2,76	1,52	0,14	7,8	14,4	5,1
Other	24,38	36,39	92,53	59,82	29,44	252,48	37,89	29,59	82,37	337,9	32,6	217,4
Plant diseases*	4,4	5,95	5,9	18,74	14,75	10,15	9,75	8,08	38,2	868,2	376,4	391,8
Producer groups				0,03	0,06	0,03	0,31	0,44	0,51		1700,0	164,5
Production of quality agricultural products			0,1	0,02	0,04	0,81	4,35	4,2	5,02		619,8	115,4
Investment (art. 4 70/2001)	2,47	2,13	1,12	2,12	11,57	11,81	15,29	5,05	1,24	50,2	10,5	8,1
Remedy for a serious disturbance in the economy												
Rescuing firms in difficulty				0,09				0,4	8,51			
Research and development	13,26	12,44	10,83	12,68	10,12	31,62	13,74	29,07	31,27	235,8	98,9	227,6

Table 33. Expenditure on State instruments of aid for agriculture in Italy  
in 2002-2010, and their change in 2010 compared to previous years (cont.)

Instrument	Expenditure (in million euro)										Change (in %)	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Restructuring firms in difficulty								5,6	5,44			
Risk capital	0,87			0,87	2,39	3,63	0,22	0,05			0	0
Services of general economic interest							2,02					0
Setting up of young farmers*	0	0	2,81	5,57	5,1	7,96	4,29	2,97	3,86			90,0
Start-up of producers groups			547,02	5,34	0,57	3,46	12,76	3,05	0,52			4,1
Tax exemptions	15,71	31,07	39,4	40,83	43,67	52,27	45,51	36,21	44,38	282,5		97,5
Technical support					1,34	2,72	11,51	27,74	30,8			267,6
TOTAL	395,77	451,63	1129,67	677,19	677,55	979,43	844,94	748,03	812,09	205,2		96,1

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: *Own elaboration based on EC's data.*

In Latvia, the State aid for agriculture increased rapidly in 2006 and reached to EUR 142 million (Table 34). However, the crisis that affected the country meant that in 2008 the amount of funds allocated for State aid was more than seven times lower than a year earlier. In the next two years, the level of support was higher, but still much lower than in 2007. Changes also occurred in the structure of support. In 2004, an essential element of support for agriculture was support for investments in agricultural holdings. Almost half of the funds was allocated for this purpose. In 2010 this category of support was allocated only 5% of the aid. The most important instrument of support introduced in 2010 was tax exemption. The value of aid under this instrument accounted for 60% of the total amount of aid for Latvian agriculture. During the whole analysed period support for the livestock sector was very important. The share of this instrument in all of support was above 20%.

In Lithuania, the amount of public funding allocated to State aid for the agricultural sector changed over the analysed period (Table 35). The highest level was reached in 2007, when it was nearly EUR 140 million. As in other countries, which joined the EU in 2004, in 2007 it was necessary to terminate the national support instruments, which under the Accession Treaty could have been continued temporarily<sup>21</sup>. Ultimately, State aid declined over the period by about 20%. During the period the crucial support category was tax exemption. Its share in the total amount of support in 2004 was 62%, and in 2010 was even higher, reaching almost 77%. The only instrument whose importance significantly increased in the 2004-2010 period was co-financing of insurance premiums, which now accounts for almost 6% of State aid.

In Luxembourg, in the 2002-2010 period, the level of State aid for agriculture dropped sharply and in 2010 accounted for only 40% of the amount allocated for this purpose in 2002 (Table 36). The structure of the support also changed. In 2002, the key instrument of support was support for investments in agricultural holdings. This purpose was allocated more than 36% of support in 2002. In 2010, the share of this instrument in the total amount of domestic support for agriculture was only 3%. In 2010, the most important category of support, which accounts for almost 56% of the funds, was the instruments of the category “other instruments”. However, the decrease in the total amount of support caused that this group of measures was allocated smaller funds than in 2002. In 2010, the role of technical support gained in importance and the amount of support increased.

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<sup>21</sup> It should be noted that the elimination of a given instrument does not have to involve a complete abandonment of a given category of support. Often it was enough to make certain modifications to the previously functioning instrument.

Table 34. Expenditure on State instruments of aid for agriculture in Latvia in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events						0,01	0,02			
Adverse weather conditions	0,5		35,16	0,56				0	0	
Advertising							0,09			
Agri-environmental commitments						0,04	0,22			
Animal diseases	0,23	0,12	1,62	1,72				0	0	
Encouraging quality products	0,01	0,44	0,33	0,35	0,19	0,07	0,25	2500,0	71,4	131,6
Environmental protection			1,4	0,69	0,59	0,61	0,61		88,4	103,4
Forestry		0,69	0,32							
Insurance premiums		0,1		0,43	0,37	0,26	0,27		62,8	73,0
Investment in agricultural holdings*	19,55	36,9	42,01	17,57	0,07	7,37	1,27	6,5	7,2	1814,3
Investment in processing and marketing	1,14	1,52	2,06	2,14				0	0	
Livestock sector*	10,12	12,48	30,6	15,41	6,68	21,42	5,3	52,4	34,4	79,3
Natural disasters		0,9								
Other	3,39	21,1	19,98	19,45				0	0	
Plant diseases	0,05	0,38	0,58	0,33	0,11			0	0	0
Research and development	1,89	3,31	2,71	2,3		0,74	0,61	32,3	26,5	
Tax exemptions							14,39			
Technical support*	2,41	7,46	5,08	5,54	1,4	0,95	0,57	23,7	10,3	40,7
<b>TOTAL</b>	<b>39,29</b>	<b>85,4</b>	<b>141,85</b>	<b>66,49</b>	<b>9,41</b>	<b>31,47</b>	<b>23,6</b>	<b>60,1</b>	<b>35,5</b>	<b>250,8</b>

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 35. Expenditure on State instruments of aid for agriculture in Lithuania in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse weather conditions		0,62	3,46	39,71					0	
Animal diseases	0,65							0		
Encouraging quality products	6,48	3,65	3,42	1,71				0	0	
Environmental protection	0,38	3,65	2,59	5,49				0	0	
Insurance premiums*	0,78	1,29	2,47	5,16	5,56	6,7	4,7	602,6	91,1	84,5
Investment in agricultural holdings*	8,14	6,72	8,73	9,64	6,83	5,19	3,58	44,0	37,1	52,4
Livestock sector*	7,91	7,57	7,97	7,74	9,01	6,09	2,69	34,0	34,8	29,9
Natural disasters	0,13	0,66	0,52	0,2	2,14			0	0	0
Other	7,22	3,67	6	3,44				0	0	
Plant diseases*	0,17	0,4	0,56	0,56	0,51	0,28	0,11	64,7	19,6	21,6
Production of quality agricultural products				0,02	0,15	0,43	0,02		100,0	13,3
Investment (art4 70/2001)				0,23	0,27				0	0
Remedy for a serious disturbance in the economy							1,77			
Research and development	1,9	2,21	0,97	0,91	1,08	0,56		0	0	0
Start-up of producers groups			0,01	0,06		0,18	0,23		383,3	
Tax exemptions	63,31	63,43	46,8	54,1	61,15	63,43	61,2	96,7	113,1	100,1
Technical support*	4,1	3,39	3,17	3,27	3,17	2	0,99	24,1	30,3	31,2
<b>TOTAL</b>	<b>101,95</b>	<b>98,55</b>	<b>89,14</b>	<b>137,4</b>	<b>95,43</b>	<b>91,56</b>	<b>79,99</b>	<b>78,5</b>	<b>58,2</b>	<b>83,8</b>

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 36. Expenditure on State instruments of aid for agriculture in Luxembourg in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008	
Adverse weather conditions	0,58		8,06							0			
Advertising	0,97	1	1,1	1	0,99	1,07	1,11	0,95	1,3	134,0	121,5	117,1	
Agri-environmental commitments								0,15	0,37				
Animal diseases	9,51	1,54	0,43	0,41	0,97	1,1	0,78	0,26	0,26	2,7	23,6	33,3	
Encouraging quality products	0,58	0,61	0,4	0,48	0,36	0,35	0,23	0,22	0,18	31,0	51,4	78,3	
Environmental protection	2,01	1,96	2,08	2,23	2,24	2,2	0,85	1,17	0,8	39,8	36,4	94,1	
Forestry	0,06	0,06	0,07	0,08	0,07	0,07	0,18	0,18	0,24	400,0	342,9	133,3	
Insurance premiums	0,75	0,72	0,94	0,96	0,92	0,98	1,17	1,11	1,02	136,0	104,1	87,2	
Investment in agricultural holdings	18,65	31,31	21,62	17,68	15,81	5,78	0,49	0,75	0,63	3,4	10,9	128,6	
Land reparcelling	0,21	0,05	0,19	0,13	0,15	0,18	0,1	0,14	0,15	71,4	83,3	150,0	
Livestock sector	1,19	1,14	2,36	0,93	0,88	0,95	0,9	0,95	0,95	79,8	100,0	105,6	
Other	14,41	13,84	13,21	12,86	12,24	12,3	11,22	11,91	11,31	78,5	92,0	100,8	
Research and development	0,07		0,02		0,05	0,02	0,04	0,03	0,02	28,6	100,0	50,0	
Technical support	2,52	3,31	3,69	3,18	3,23	3,29	1,91	2,1	3,12	123,8	94,8	163,4	
TOTAL	51,51	55,54	54,17	39,94	37,91	28,29	18,98	19,92	20,35	39,5	71,9	107,2	

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: Own elaboration based on EC's data.

Domestic support to agriculture in Malta covers only a few categories of instruments (Table 37). Its level in the period fell by more than 40%. As for the structure of the support, it is now dominated by support for investments in the marketing and processing of agricultural products. In 2004, the share of this instrument in total aid exceeded 51%, and in 2010 already 91%.

The Netherlands is also among the countries with a large number of different categories of agricultural support. During the study period, domestic support for agriculture fell by more than 15% (Table 38). The total amount of support in 2002 amounted to over EUR 1 billion and declined steadily until 2006, when it reached the lowest value during the period and amounted to EUR 0.4 billion. In subsequent years, support grew almost continuously and in 2010 was close to EUR 0.9 billion. The most important elements of support are funds for environmental protection and for research and development. Expenditure on both of these categories are 1/5 of the Dutch State aid for agriculture in the studied years. Support for the category of "investments in agricultural holdings" during almost the entire period was the instrument of marginal importance. However, in the last year its importance rapidly increased, and expenditures for this purpose accounted for almost 31% of State aid for agriculture.

The amount of domestic support for agriculture in Poland also declined (Table 39). The basic element of support is tax exemption. During the study period, its share in total spending on State aid fell from 61 to 47%. The share of expenditure on support for investment in agricultural holdings also dropped. An important element of Polish State aid to agriculture over the whole analysed period was the support for facilities to young farmers.

In Portugal, State aid for agriculture is very limited, both in terms of its scale and scope. In 2002, Portugal used only three categories of support, and in 2010 only one (Table 40). The amount of aid in 2002-2010 decreased dramatically and in 2010 was more than six times lower compared to 2002. In 2010, the only instrument of support was associated with the occurrence of adverse weather conditions.

In the case of Romania, by 2010 the level of State aid fell nearly twelve times (Table 41) since the accession to the EU, which resulted in large part from agricultural support implemented under the CAP. The number of aid instruments significantly decreased and the structure of expenditure changed. More than half of the funding in 2010 was allocated to support under the category of "other instruments", and almost all of the remaining amount is tax exemption.

State aid for the Slovak agriculture increased more than 2.5 times over the period (Table 42), although in the last two years it fell by a dozen or so percent. As in many new Member States, the most important instrument is tax exemption which constitutes more than 3/5 of support. In the analysed period, the greatest increase was in support for forestry. There are also new aid instruments, including co-financing of insurance premiums and support for the livestock sector.

Table 37. Expenditure on State instruments of aid for agriculture in Malta in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Investment in agricultural holdings	0,18	0,1	0,23	0,52	0,09	0,11	0,08	44,4	15,4	88,9
Investment in processing and marketing	9,85	12,67	15,26	11,94	10,29	11,54	9,86	100,1	82,6	95,8
Livestock sector	0,17	0,1	0,16	0,08	0,12	0,1	0,1	58,8	125,0	83,3
Other	5,39	5,85	3,84	3,52	2,43	1,19	0,6	11,1	17,0	24,7
Outermost regions	0,06	0,04	0,05	0,06	0,05	0,03	0,01	16,7	16,7	20,0
Remedy for a serious disturbance in the economy	3,34	4,47	3,7	3,36	1,92	20,36	0,16	4,8	4,8	8,3
TOTAL	18,99	23,23	23,24	19,48	14,9	33,33	10,81	56,9	55,5	72,6

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.



Table 38. Expenditure on State instruments of aid for agriculture in the Netherlands in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008	
Adverse climatic events							11,43	2,34				0	
Adverse weather conditions	0,62	1,31	0,24		4,08	0,07	0,44			0	0	0	
Advertising	40,71	36,54	35,79	33,21	70,08	82,8	75,53	66,81	88,41	217,2	106,8	117,1	
Agri-environmental commitments						16,91	24,45	17,82	20,64		122,1	84,4	
Animal diseases*	96,73	165,99	29,57	24,05	19,66	30,9	16,77	19,77	48,77	50,4	157,8	290,8	
Closing capacity	0,97	1,01	1							0			
Conservation of traditional landscapes				1,29	1,37	0,04	0,95	0,73	0,83		2075,0	87,37	
Early retirement	4,18	3,39	2,92	2,33	1,94	1,56	1,32	1,09	0,89	21,3	57,1	67,42	
Encouraging quality products	13,39	13,8	9,32	10,31	5,77	5,24	4,35	3,63	9,23	68,9	176,1	212,18	
Environmental protection	213,79	79,93	158,14	87,68	12,87	58,33	253,19	316,31	180,58	84,5	309,6	71,32	
Employment			0,05	0,05	0,02	0,02	0,07	0,32	0,28		1400,0	400,00	
Forestry	43,54	55,92	64,06	76,94			9,2	11,2	12,32	28,3		133,91	
Handicaps in certain areas						7,25	6,86	6,26	5,68		78,3	82,80	
Insurance premiums	0,1						0,29			0		0	
Investment in agricultural holdings*	5,94	7,69	8,62	6,9	4,02	20,24	32,19	36	271,04	4563,0	1339,1	842,0	
Investment in processing and marketing	1,53	2,1	1,35	1,4	1,88	0,94	1,54	2,42	1,44	94,1	153,2	93,5	
Land reparcelling*	78,62	79,06	66,73	62,67	65,56	63,57	1,15	19,4	8,35	10,6	13,1	726,1	
Livestock sector*	0	0,18	0,22	0,22	0,19	0,18	0,05	0	0		0	0	
Natural disasters		7,21				0,07	0,01	0,04			0	0	
Other	160,42	158,57	167,63	160,52	0,6	180,62	3,33	8,23	4,6	2,9	2,5	138,1	
Plant diseases	7,3	7,65	7,63	6,71	1,97	4,4	1,76	1,69	2,17	29,7	49,3	123,3	
Production of quality products							0,05	0,53	0,47			940,0	
Investment (art. 4 70/2001)			0,13	0,11									
Relocation of farm buildings					4,71	13,2	18,2	25,65	26,97		204,3	148,2	
Rescuing firms in difficulty		0,02		0,02									
Research and development	222,24	234,42	237,27	240,31	221,28	206,9	229,34	206,71	199,16	89,6	96,3	86,8	
Restructuring firms in difficulty	111,03	70,61	45,17	2,44	3,32	0,65	0,06			0	0	0	
Technical support*	2,31	4,34	0	0,08	0,81	2,41	1,6	5,56	3,26	141,1	135,3	203,8	
TOTAL	1003,42	929,74	835,84	717,24	420,13	696,3	694,13	752,51	885,09	88,2	127,1	127,5	

Source: Own elaboration based on EC's data.

Table 39. Expenditure on State instruments of aid for agriculture in Poland in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events				8,72	68,66	62,6	55,06		631,4	80,2
Adverse weather conditions	11,79	5,48	12,38	8,42				0	0	
Animal diseases	32,48	36,34	48,22	56,05	48	35,04	57,52	177,1	102,6	119,8
Early retirement	2,19	2,1	2,02	1,49	0,64	0,07		0	0	0
Encouraging quality products	0,54	2,31	3,89	8,49	17,49	14,82	15,2	2814,8	179,0	86,9
Environmental protection	3,45	4,18	2,81	0,41				0	0	
Employment	0,69	0,44	0,16	0,08	0,05	0,02	0,01	1,4	12,5	20,0
Forestry	10,65	10,79	10,81	10,52	18,49	20,78	38,68	363,2	367,7	209,2
Insurance premiums			2,78	8,52	39,28	20,41	24,19		283,9	61,6
Investment in agricultural holdings*	147,07	153,17	96,29	76,81	69,45	60,89	43,71	29,7	56,9	62,9
Investment in processing and marketing					1,45					0,0
Natural disasters	35,57	19,99	149,1	39,74	45,03	22,64	17,18	48,3	43,2	38,2
Other	35,11	45,23	13,81	21,79		0,43	0,71	2,0	3,3	
Plant diseases	2,12	2	1,64	0,44	0,38	0,67	0,8	37,7	181,8	210,5
Production of quality agricultural products				0,04	0,01		0,01		25,0	100,0
Rescuing firms in difficulty	1,93	0,79	0,73	0,14			0,93	48,2	664,3	
Research and development	43,02	36,1	35,73	36,79	28,61	23,61	24,7	57,4	67,1	86,3
Restructuring firms in difficulty	1,21	0,48	0,32	0,11		0,15		0	0	
Setting up of young farmers	77,48	81,59	62,15	73,02	104,65	77,06	72,81	94,0	99,7	69,6
Start-up of producers groups	0,93	1,46	1,1	0,69	0,46	0,23	0,1	10,8	14,5	21,7
Tax exemptions	638,5	656,98	695,04	196,9	269,58	305,24	312,45	48,9	158,7	115,9
Technical support			0,46							
TOTAL	1044,73	1059,43	1139,44	549,17	712,23	644,66	664,06	63,6	120,9	93,2

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 40. Expenditure on State instruments of aid for agriculture in Portugal in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse weather conditions	38,65	31,93	41,88	17,95	15,43	15,04	21,3	15,91	8,97	23,2	59,6	42,1
Forestry			0,11	0,13		0,02					0	
Natural disasters						0,1					0	
Other	2,02	1,83	1,46	0,8	0,74	0,83				0	0	
Rescuing firms in difficulty	18,09	5,72	0,96	0,02						0		
TOTAL	58,76	39,48	44,41	18,9	16,17	15,99	21,3	15,91	8,97	15,3	56,1	42,1

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 41. Expenditure on State instruments of aid for agriculture in Romania in 2007-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)				Change (in %)		
	2007	2008	2009	2010	2010/2007	2010/2008	
Adverse climatic conditions				0,66	0,02		
Animal diseases	5,86	4,91	0,99		0	0	
Encouraging quality products	0,27				0		
Investment in agricultural holdings	16,7	29,21	22,91		0	0	
Livestock sector	4,55	11,58	10,95		0	0	
Meeting standards	0,04	0,03	0,02		0	0	
Natural disasters	553,7	3,43	3,38		0	0	
Other	508,7	461,88	579,14	47,62	9,4	10,3	
Plant diseases	3,48	8,67	3,96		0	0	
Start-up of producers groups	0,27	0,05			0	0	
Tax exemptions		25		44,11		176,44	
Technical support		0,15	0,21			0	
TOTAL	1093,57	544,91	622,22	91,75	8,4	16,8	

Source: Own elaboration based on EC's data.

Table 42. Expenditure on State instruments of aid for agriculture in Slovakia in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events				3,73					0	
Adverse weather conditions	0,21	0,18	1,53						0	
Animal diseases*	0,32	0,26	0,11	0,12	0	1,75	2,71	846,9	2258,3	
Forestry	0,4	0,18	0,03			5,42	8,21	2052,5		
Insurance premiums*	2,24	1,69	1,71	0,82	0,94	2,5	3,72	166,1	453,7	395,7
Investment in agricultural holdings*	0	0	0,03	0,03	0,49	0,24	0,06		200,0	12,2
Investment in processing and marketing	1,45	0,99	0,08					0		
Livestock sector*	0,88	3,89	3,87	1,34	2,66	5,25	2,52	286,4	188,1	94,7
Natural diseases					6,86		2,69			39,2
Other	0,96	2,56	1,84					0		
Plant diseases							0,03			
Production of quality agricultural products			13,49	0,66					0	
Remedy for a serious disturbance in the economy							1,31			
Research and development		0,68	0,56							
Tax exemptions	14,66	29,08	24,56	26,1	52,96	53,89	34,18	233,1	131,0	64,5
Technical support*	0,86	0,94	0,34	0,08	0,16	0,13	0,13	15,1	162,5	81,3
TOTAL	21,98	40,45	48,15	32,88	64,07	69,18	55,56	252,8	169,0	86,7

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Slovenian State aid for agriculture decreased by almost half during the analysed period (Table 43). Instruments and support structure remained largely unchanged, although the role of agriculture significantly increased. In addition to aid for forestry, important instruments include technical support and aid for the animal sector, including issues related to animal diseases. New instruments involve financing of insurance premiums.

In Spain, there are many categories of State aid for the agricultural sector. The amount of State aid for agriculture increased almost three-fold over the analysed period (Table 44). However, since 2006, when it reached the maximum level and was more than five times higher than in 2002, its value was steadily decreasing. The structure of support also substantially changed. In 2002, more than 23% of funds were earmarked for investments in processing and marketing of agricultural products. This category of support in 2010 was marginal; its share in the total amount of support in 2010 was 0.3%. The most important was the financing of insurance premiums. For this purpose Spain spent more than 59% of the total amount of aid for the agriculture in 2010.

In Sweden, the level of domestic support to agriculture declined during the period by more than 20% (Table 45). The level of support increased more than twofold in 2006 compared to the previous year, followed by a sharp decline in the last few years. However, the structure of support remained relatively stable. The biggest changes concerned the growing importance of support relating to animal diseases and decline in aid for environmental protection.

In the UK, State aid for the agricultural sector dropped by more than half (Table 46). As for the structure of support, there was a decrease in importance of expenditure on research and development. However, there was an increase not only in the share, but also in the amount of support for animal diseases, i.e. the support for random, rather than structural nature.

As shown by the overview of the dynamics and structure of domestic support for agriculture in the 2002-2010 period, condensed for the new Member States to the period of membership in the EU, the public support for the sector is generally decreasing. It appears that changes in the level of domestic support are not associated with the level of funds generated by the country under the common agricultural policy. Changes in the structure are diverse, but in many countries, the role of co-financing of insurance premiums has increased. It is difficult to see the relationship between the level of economic development and the scale of support or the general attitude of the state to the scale of its involvement in the economy. Relationships should rather be seen in the structure of agriculture and the strength of the agricultural lobby. Taking into account the value of agricultural production, this sector is supported the most within the framework of State aid in Finland, and the least in Portugal (Table 47).

Table 43. Expenditure on State instruments of aid for agriculture in Slovenia in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)							Change (in %)		
	2004	2005	2006	2007	2008	2009	2010	2010/2004	2010/2007	2010/2008
Adverse climatic events					4,51	0,08	0,01			0,2
Adverse weather conditions							0,91			
Advertising	1,13	2,04	2,06	1,9				0	0	
Animal diseases*	16,65	10,33	10,64	9,01	12,25	11,16	8,65	52,0	96,0	70,6
Conservation of traditional landscapes				0,04	0,04	0,03	0,03		75,0	75,0
Encouraging quality products	0,22		0,2					0		
Environmental protection	0,08							0		
Employment	0,59		0,19					0		
Forestry	24,42	24,18	22,56	22,97	23,2	22,42	22,26	91,2	96,9	95,9
Insurance premiums*	0	0	1,96	4,73	7,14	0,61	6,22		131,5	87,1
Investment in agricultural holdings*	10,35	8,84	7,59	3,24	3,86	4,04	3,87	37,4	119,4	100,3
Land reparcelling				0,01	0,01	0,01	0,01		100,0	100,0
Livestock sector	11,19	11,88	10,64	11,48	11,26	10,88	10,71	95,7	93,3	95,1
Natural disasters	20,61	8,15	11,31	9,88	1,61	0,26	0,01	0	0,1	0,6
Other	0,33	1,64	1,30	0,00	0,03	0,03	0,01	3,0		33,3
Plant diseases	0,01	0,05	0,07	0,17	0,04	0,03	0,14	1400,0	82,4	350,0
Research and development	0,02	0,02	0,01	0,02	0,01	0,01	0,02	100,0	100,0	200,0
Restructuring firms in difficulty			0,17							
Setting up of young farmers		2,25	3,75							
Start-up of producers groups	0,82							0		
Technical support*	29,72	20,39	15,78	15,45	12,09	11,58	11,6	39,0	75,1	95,9
TOTAL	116,14	89,77	88,23	78,9	76,05	61,14	64,45	55,5	81,7	84,7

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: *Own elaboration based on EC's data.*

Table 44. Expenditure on State instruments of aid for agriculture in Spain in 2004-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse climatic events						46,88	56,96	26,03	1,14		2,4	2,0
Adverse weather conditions	17,56	31,19	32,15	32,88	33,64	53,48	19,04	9,54	8,74	49,8	16,3	45,9
Advertising	2,34	3,16	5,98	6,77	5,78		0,82	0,85	0,73	31,2		89,0
Agri-environmental commitments						0,78	30,72	33,21	14,78		1894,9	48,1
Animal diseases*	21,68	20,81	19,84	22,81	25,38	41,3	37,9	33,61	41,26	190,3	99,9	108,9
Animal welfare									0,99			
Closing capacity		0,07	0,09	0,01								
Conservation of traditional landscapes								0,59				
Early retirement	7,61	9,4	8,72	7,43	7,23	5,7	4,93	4,08	3,56	46,8	62,5	72,2
Encouraging quality products	3,74	3,3	4,07	5,27	177,54	13,19	6,75	10,54	6,79	181,6	51,5	100,6
Environmental protection								0,23	4,42			
Employment					0,2	0,53	0,47	0,2	0,26		49,1	55,3
Forestry	6,21	4,03	7,1	6,14	7,83	5,18	3,9	0,92	1,68	27,1	32,4	43,1
Insurance premiums*	0	246,54	245,59	281,96	313,69	304,76	350,26	303,59	302,21		99,2	86,3
Investment in agricultural holdings*	23,1	39,29	51,06	57,84	78,96	39,86	52,18	55,71	43,81	189,7	109,9	84,0
Investment in processing and marketing	41,58	39,74	43,23	49,51	111,37	85,1	41,18	6,17	1,38	3,3	1,6	3,4
Livestock sector*	16,63	16,23	17,58	15,85	9,98	8,84	10,67	14,76	13,64	82,0	154,3	127,8
Natural disasters	0,25	0,65	0,03	21,26	43,38	12,92	6,14	7,56	0,45	180,0	3,5	7,3
Other	0,05	0,01	0,02	1,68	0,36	0,33		13,4		0	0	

Table 44. Expenditure on State instruments of aid for agriculture in Spain in 2004-2010, and their change in 2010 compared to previous years (cont.)

Instrument	Expenditure (in million euro)									Change (in %)		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Outermost regions								4,04				
Plant diseases*	4,64	4,51	2,21	2,26	18,57	35,44	19,19	13,3	8,05	173,5	22,7	41,9
Producer groups		0,28	1,12	4,31		0,83	3,08	5,29	7,86		947,0	255,2
Production of quality agricultural products					0,17	1,81	10,69	6,44	9,23		509,9	86,3
Investment (art. 4 70/2001)				2,69	59,58	10,57	11,57	4,68	3,68		34,8	31,8
Relocation of farm buildings				1,05	2,78	3,08	2,6	3,68			0	0
Research and development	1,25	1,56	1,88	1,57	1,94	3,77	1,93	5,3	1	80,0	26,5	51,8
Setting up of young farmers						0,86	1,62	0,67	0,89		103,5	54,9
Start-up of producers groups	4,57	5,44	5,36	6,45	8,07	2,45	1,47	3,42	1,97	43,1	80,4	134,0
Technical support*	23,13	23,67	28,35	19,95	33,69	55,22	62,67	52,62	29,62	128,1	53,6	47,3
TOTAL	174,34	449,88	474,38	547,69	940,14	732,88	736,74	620,43	508,14	291,5	69,3	69,0

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.



Table 45. Expenditure on State instruments of aid for agriculture in Sweden in 2002-2010, and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Advertising	0,6	0,6	0,61	0,6	0,59	0,68	0,03	0,03	0,13	21,7	19,1	433,3
Animal diseases	15,14	20,82	10,71	13,74	16,52	16,07	17,03	17,11	16,62	109,8	103,4	97,6
Encouraging quality products	0,01	0,01	0,14	0,01	0,01			0,03	0,09	900,0		60,0
Environmental protection	25,11	24,07	28,29	28,34	24,77	27,76	26,01	64,33	6,88	27,4	24,8	26,5
Forestry	3,66	2,96	2,5	1,48	1,85	2,1	1,99	2,77	2,04	55,7	97,1	102,5
Investment in agricultural holdings	1,27	0,59	0,44	0,54	0,55	0,18	0,19	0,24	0,18	14,2	100,0	94,7
Land reparcelling	0,31	0,32	0,36	0,35	0,34	0,33	0,44	0,44	0,43	138,7	130,3	97,7
Livestock sector*	14,61	13,82	10,54	12,51	12,21	12,32	16,32	15,95	11,77	80,6	95,5	72,1
Natural disasters				2,27	139,98	107,36	37,06	7,25	9,73		9,1	26,3
Other	0,01								0			
Investment (art. 4, 70/2001)							0,77	1,07	1,21			157,1
Research and development	0,95	1,01	0,2	0,72	0,08	0,23	0,92	0,33	0,25	26,3	108,7	27,2
Tax exemptions	3,61	3,55	3,54	3,5	3,55	1,98	1,95	2,12	2,1	58,2	106,1	107,7
Technical support*	0,86	23,6	24,22	25,16	1,9	1,82	0,2	0,21	0,18	20,9	9,9	90,0
TOTAL	66,14	91,35	81,55	89,22	202,35	170,83	103,06	111,88	51,61	78,0	30,2	50,1

\* joined a number of different instruments of the same name operating under different regulations or support programmes

Source: Own elaboration based on EC's data.

Table 46. Expenditure on State instruments of aid for agriculture in United Kingdom in 2002-2010 and their change in 2010 compared to previous years

Instrument	Expenditure (in million euro)										Change (in %)	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/2002	2010/2007	2010/2008
Adverse weather conditions					5,32	0,64					0	
Advertising	18,59	21,93	41,01	30,61	28,31	33,76	22,17	17,25	5,13	27,6	15,2	23,1
Agri-environmental commitments			0,33	0,43	0,67	0,56	0,58	1,09	0,9		160,7	155,2
Animal diseases*	97,18	178,98	170,04	176,24	202,8	234,17	178,35	161,13	181,27	186,5	77,4	101,6
Conservation of traditional landscapes						0,24	1,44	1,44	4,01		1670,8	278,5
Early retirement	0,16	0,18	0,35	0,02						0		
Encouraging quality products	80,29	91,97	90,16	45,36	18,73	17,38	5,46	2,53	2,68	3,3	15,4	49,1
Environmental protection	106,19	112,85	132,14	123,11	164,87	45,21	45,8	30,19	27,68	26,1	61,2	60,4
Forestry	34,44	43,55	30,58	26,02	23,38	17,65	12,9	12,29	7,35	21,3	41,6	57,0
Investment in agricultural holdings*	45,66	46,92	47,45	27,1	43,02	37,47	50,65	91,52	5,16	45,66	46,92	47,45
Investment in processing and marketing	56,87	49,98	49,64	0,53	9	5,82	3,74	2,57	3,58	6,30	61,51	95,72
Livestock sector*	1,1	2,2	5,43	10,71	11,44	5,82	3,01	4,07	1,43	130,0	24,6	47,5
Natural disasters								2,3	0,28			
Other	9,19	9,99	9,51	4,87	5,2	4,45	4,89	3,86	4,04	44,0	90,8	82,6
Producer groups						0,07	0,07				0	0
Production of quality agricultural products							1,59	0,98	1,55			97,5
Investment (art4 70/2001)						0,16	2,14	11,4	9,91		6193,8	463,1
Remedy for a serious disturbance in the economy									0,33			
Research and development	379,79	375,79	349,11	155,04	132,02	116,1	86,23	75,59	80,27	21,1	69,1	93,1
Setting up of young farmers*	0,16	0,19	4,3	0,09	0	0	0,46	0,63	0,72	450,0		156,5
Start-up of producers groups	4,12	4,5	15,98	3,2	0,58	1,25	0,75	1,06	0,49	11,9	39,2	65,3
Technical support*	158,62	175,13	181,74	54,06	61,82	67,16	71,13	51,56	70,62	44,5	105,2	99,3
TOTAL	992,36	1114,16	1127,77	657,39	707,16	587,91	491,36	471,46	407,4	41,1	69,3	82,9

\* joined a number of different instruments of the same name operating under different regulations or support programmes  
Source: Own elaboration based on EC's data.

Table 47. Ratio of State aid for agriculture and the value of agricultural production in 2008-2010

Country	Value of agricultural production at producer prices (in EUR millions)			Ratio of State aid for agriculture and agricultural production (in percentage)		
	2008	2009	2010	2008	2009	2010
Austria	6196	5574	5998	2,6	2,9	2,6
Belgium	7370	6680	7523	1,5	1,8	1,4
Bulgaria	4073	3340	3422	5,1	4,8	1,1
Cyprus	603	634	654	5,1	17,0	4,0
Czech Republic	4616	3555	3931	4,8	5,8	5,2
Denmark	9009	8383	9352	1,2	1,4	1,0
Estonia	595	514	610	4,8	5,8	4,5
Finland	3323	3224	3382	37,4	38,2	35,6
France	64098	58985	63544	3,4	3,7	3,7
Germany	50042	43679	45950	2,3	2,0	1,5
Greece	9659	9271	9640	2,3	2,4	0,4
Hungary	7587	5650	5918	7,9	7,1	4,9
Ireland	6092	4999	5577	18,7	14,5	12,4
Italy	45979	41951	42517	1,8	1,8	1,9
Latvia	914	747	869	1,0	4,2	2,7
Lithuania	2018	1590	1792	4,5	5,3	4,2
Luxembourg	298	255	281	6,4	7,8	7,2
Malta	119	117	114	10,8	12,7	29,2
Netherlands	23783	22187	24295	2,9	3,4	3,6
Poland	20514	16143	18060	3,5	4,0	3,7
Portugal	6127	5760	5929	0,3	0,3	0,2
Romania	16372	12424	14035	3,3	5,5	0,7
Slovakia	2064	1678	1699	3,1	4,1	3,3
Slovenia	1166	1050	1101	6,5	5,8	5,9
Spain	38758	35086	38170	1,9	1,8	1,3
Sweden	4688	3895	4827	2,2	2,9	1,1
UK	23883	20671	22691	2,1	2,3	1,8
EU-27	359947	318040	341880	3,3	3,4	2,8
EU-25	339501	302277	324423	3,3	3,3	2,9
EU-15	299306	270599	289677	3,1	3,1	2,8

Source: B. Wieliczko (2012), *Impact of economic crisis on the amount of State aid for agriculture in the EU*. Article prepared for the conference "Food economy as a sector of the national economy" organised by the Warsaw University of Life Sciences, 6 December 2012, Table 6.

### **3. Expenditures on the agricultural sector in Poland in the central budget and the budgets of voivodes in 2000-2012, and the possibility of their transfers in the context of anticipated changes in the CAP 2014-2020**

#### **3.1. Introduction**

The authors of this work aimed at answering the following questions:

- to what extent the long-term trends in expenditures on the agricultural sector in the central budget and the budgets of voivodes correspond to directions of the proposed amendments to the Common Agricultural Policy for 2014-2020?
- what follows from comparing the structures of the EU and domestic support for Pillar I and II in 2007-2013?
- can we refer to convergence as regards directions of the aid?
- were there any differences between the proportions of the EU and domestic expenditures on the Pillar I and II?
- was there any significant convergence in the level of spending from specific headings funded from the national and EU budget and what is the possibility of their continuation?
- what are the proposals for transfers – rationale and scope?

The study will run on three levels. The first of these will concern the evaluation of structures and dynamics of spending on the agricultural sector from the central budget and the budgets of voivodes, as well as the links between individual budget headings. This will be the basis for proposing a possible "vertical" transfers of funds disbursed from the local level to the national level, or decentralisation, regionalisation of budgetary expenditure on the agricultural sector, justified by the CAP reform. The second level is associated with the assessment of the structure of agricultural budget divided to agriculture, rural development and agricultural markets and budgets of voivodes, together with the assignment of budget headings to selected parts, which will correspond to assigning them to Pillar I or II of the CAP. This will allow us to answer the question whether the national budget should be targeted at one of the Pillars, thereby complying with the "spirit" of the reformed CAP, or should it compensate for the identified deficiencies. The third layer determines the quantification of interdependences between expenditure from the national and EU budgets.

## 3.2. Expenditure from the central budget and the budgets of voivodes<sup>22</sup> on the agricultural sector

### 3.2.1. Central budget

Central expenditures on the agricultural sector are budgetary resources directed to the sector that remain at the disposal of the Minister of Agriculture and Rural Development. The analysed time period is divided into three sub-periods: first – determined by integration with the EU (2000-2003), the second covers the years after accession (2004-2009), and the third, when *Bank Gospodarstwa Krajowego* (BGK), took over the operation of the established budget of resources (since 2010). Thus, since 2003 spending in the agricultural budget inspired pessimism. It was hard to recognise that agriculture was the preferred policy of the government – the share of spending on the agricultural sector in budgetary expenditure showed stagnation oscillating at around 2.2% of the total expenditure and registering dangerous drops, as in 2002, to the level of less than 2% (see Figure 5). One can also consider that the situation of the agricultural sector deteriorated since the beginning of the transformation of Polish economy and negligence taking place over the years testify to the progressive marginalization of the problems of agriculture, rural areas and agricultural markets in subsequent state budgets. By 2003, the economic situation of farms in comparison to non-agricultural environment had not improved, on the contrary, civilization gap for most of them grew and degradation deepened. Expenditure projected in the budget acts were not able to alleviate the fundamental problems of agriculture and Polish rural areas, such as disparity of income, education or the condition of social infrastructure, despite the fact that together with expenditure on the social sphere – the Agricultural Social Insurance Fund (*Polish: Kasa Rolniczego Ubezpieczenia Społecznego - KRUS*), their share in the budget amounted on average to 10.8% [Czyżewski, Matuszczak 2011].

Since 2003, agriculture has clearly "bounced back", which was reflected in sustained and real growth in budget spending on the agricultural sector and also change in the existing relationships and trends. The average share of spending on agriculture, rural development and agricultural markets along with KRUS did not actually change (marginal decrease by 0.2 percentage point), but the relationship of development spending to social spending has changed. For the first time, there has been a chance to directly improve the income of farmers and reproduction processes on their farms due to more than doubled spending (4.5%) on agriculture, rural development and agricultural markets from the national budget. Breaking the recessionary situation in Poland was achieved by improving the macroeconomic conditions of economy, in which we have seen a chance to halt the growing degradation of Polish agriculture and rural areas. Increased

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<sup>22</sup> The national budget for agriculture is at this stage divided into central budget (CB) and voivodeship budgets (VB).

budgetary outlays were obviously not able to immediately solve the basic problems of the agricultural sector in Poland, as this required many years of consistent agricultural policy. Moreover, at this point one must also consider the support from the EU budget, whose main beneficiary is the agricultural sector – in 2006 – 43.3% of the EU funds supplied the discussed sector; in the following years it was respectively: in 2007 – 43.28%, in 2008 – 41.49%, in 2009 – 48.49%, in 2010 – 35.9%, in 2011 – 31.9%, and in 2012 – 29.8%. No doubt it had a real impact on the development and accumulation processes of domestic farms.

Table 48. Expenditure on agriculture, rural development, agricultural markets and KRUS in the national budget in 2000-2012

Description	Prior to accession to the EU				
	2000	2001	2002	2003	average
Expenditure on agriculture, rural development and agricultural markets (PLN million)	3,759.6	3,470	3,261.3	4,428.9	-
Share of spending on agriculture, rural development and agricultural markets in total budgetary expenditure (%)	2.43	1.9	1.98	2.29	2.2
Share of spending on agriculture, rural development and agricultural markets and KRUS in total budgetary expenditure (%)	11.49	10.6	10.68	10.36	10.8
After accession to the EU					
	2004	2005	2006	2007	2008
Expenditure on agriculture, rural development and agricultural markets (PLN million)	5,729.4	7,999.5	8,379.1	17,137	19,617
Share of spending on agriculture, rural development and agricultural markets in total budgetary expenditure (%)	2.89	3.29	3.74	6.62	6.32
Share of spending on agriculture, rural development and agricultural markets and KRUS in total budgetary expenditure (%)	10.69	10.22	10.43	12.47	11.4
	2009	2010	2011	2012	average
Expenditure on agriculture, rural development and agricultural markets (PLN million)	19,380	12,901	12,704	11,571.6	-
Share of spending on agriculture, rural development and agricultural markets in total budgetary expenditure (%)	6.02	4.45	4.04	3.52	4.5
Share of spending on agriculture, rural development and agricultural markets and KRUS in total budgetary expenditure (%)	11.32	9.83	9.09	8.34	10.6

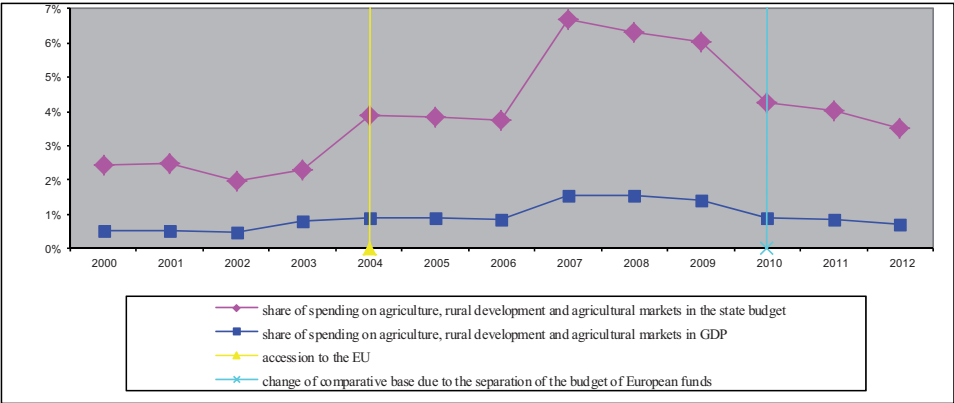
\* thick line indicates the implementation date of the budget of European funds

Source: own elaboration on the basis of annual agricultural budget opinions for 2000-2012, prepared by A. Czyżewski in the form of reports for the Chancellery of the Senate of the Republic of Poland, based on the analysis of the drafts and implementation of budget acts for the relevant years.

After 2010, the situation has changed, but only from an accounting point of view – there has been a change in the functioning of the agricultural budget, as the Bank Gospodarstwa Krajowego (BGK), took over the operation of the

European funds budget created on 1.01.2010, and thus became a central institution handling income and expenditures resulting in settlements with the EU. This has resulted in the separation of these funds from income, spending and the deficit of the state budget. Thus, only in the accounting terms, there has been a drop in the share of spending on agriculture, rural development and agricultural markets after 2010 (see Table 48), because the actual expenditure on these headings along with the budgets of voivodes and the specific provisions in 2010 were actually higher by 28.84% as compared to the previous year.

Figure 6. Share of spending on agriculture, rural development and agricultural markets in the state budgets and GDP in 2000 - 2012 (%)



\* comparisons to previous years related to the provisions of the budget acts  
 \*\* spending on the agricultural sector is spending on agriculture, rural development and agricultural markets along with the budgets of voivodes and specific provisions, excluding funds for co-financing and pre-financing of the EU objectives and programmes as well as KRUS  
 Source: as in Table 48.

Yet, in 2011-2012, these funds were reduced in real terms respectively by 7.55% and 12.9% as compared to the previous year. However, these funds increased by expenditure on KRUS give in 2012 the share lower by 8.34% – than in previous years, which amounted to 9.1% in 2011 and 9.83% a year earlier.

### 3.2.2. Budgets of voivodes for agriculture

The concept of voivodeship spending on the agricultural sector is understood as units and activities financed from the budgets of voivodes. Their general division applies to current expenditure, investment and co-financing of projects from the EU funds<sup>23</sup>. More detailed expenditures are those on institutions such as: voivodeship agricultural advisory centres, voivodeship inspectorates for

<sup>23</sup> This item is in the budgets of voivodes since 2004, the year of the Polish integration with the EU.

agricultural and food quality inspection, voivodeship inspectorates for plant health and seed inspection, voivodeship and powiat veterinary inspectorates, the National Fisheries Service. As for the tasks to be undertaken within the budgets of voivodes, we may mention: geodetic and management work for agriculture, water management, water law companies, plant protection, the fight against infectious diseases and monitoring chemical and biological residues in animal tissues and products of animal origin, removal of natural disasters.

Analysing the relationship of agricultural spending from budgets of voivodes and agricultural expenditures from the central budget, we can see it has been deteriorating. In the pre-accession period, voivodes had similar nominal amounts each year (which means that in real terms they were getting lower), and after the integration we can observe that the average annual increase in agricultural expenditure was 11%. However, this was not enough, **with central expenditure on the sector growing faster, to maintain their share in voivodeship spending at 1/4 - as indicated in Table 2, it decreased to 1/5. This may indicate a growing importance of objectives in the central budget under conditions of the CAP implementation. This should be considered to be a general trend in the EU.** This can be observed when under the EU agricultural policy we have to do with its formal centralization (Directorate-General for Agriculture) and when, at the same time, there is a clear pressure to decentralize (Directorate-General for Regional Policy).

Table 49. Relationship of expenditure in voivodeship budgets in agriculture and hunting section to central expenditure\* on the agricultural sector in 2000-2012

Description	Prior to accession to the EU				
	2000	2001	2002	2003	average
Relationship of expenditure in voivodeship budgets in agriculture and hunting section to central expenditure* on the agricultural sector	0.247	0.213	0.248	0.211	0.23
	After accession to the EU				
	2004	2005	2006	2007	2008
Relationship of expenditure of voivodeship budgets in the agriculture and hunting section to central expenditure* on the agricultural sector	0,251	0,276	0,451	0,113	0,046
	2009	2010	2011	2012	average
	0.112	0.156	0.170	0.198	0.197

\*Relationship of part 85 to the sum of 32, 33 and 35 in budget acts.

Source: as in Table 1.

Agricultural policy is generally coordinated at the domestic level, especially under Pillar I, but still some competition is visible below the domestic level, which could be the basis for the inference that "the CAP seems to be an ideal candidate for regionalisation" [Trouve, Berriet-Sollec 2010]. It should be noted that such ideas appeared already in the 1980s, when the idea of "Europe of the Regions" emerged. Unfortunately, the decision-makers at the national level fiercely defended their role as supervisors and agents in all regional rela-



tions in the EU<sup>24</sup>, which does not mean that today we must reject the possibility of a co-ordination along the line region-state-European Union [Elias 2008; Keating 2008]. This would result, *inter alia*, in a proposal for their reallocation, as well as reallocation of resources, to the regional (voivodeship, powiat) level, which is discussed in another part of the study.

**By studying the structure of spending on agriculture in the budgets of voivodes, we can see that until the time of Polish integration with the EU, spending volume on objectives envisaged for implementation in the budgets of voivodeships was characterized by stagnation. One may even recognise that although nominally the funds did not change, in real terms they were reduced. The situation was reversed after 2005, when from year to year a relatively high increase was noted. For eight years of Polish membership in the EU voivodeship budget expenditure almost doubled.**

Table 50. Structure and dynamics of expenditure in budgets of voivodes in agriculture and hunting section in 2000 - 2012

Description	Prior to accession to the EU				
	2000	2001	2002	2003	average
<b>Total expenditure</b> (PLN thousand), including:	679,680	662,002	623,569	632,752	
<b>Dynamics</b>	-	0.97	0.94	1.01	<b>0.98</b>
<b>Structure</b> , including: current expenditure	0.84	0.85	0.84	0.88	<b>0.85</b>
capital expenditure	0.16	0.15	0.16	0.12	<b>0.15</b>
After accession to the EU					
	2004	2005	2006	2007	2008
<b>Total expenditure (in PLN thousand)</b> , including:	668600	658212	900013	1152259	789741
<b>Dynamics</b>	1.06	0.98	1.37	1.28	0.69
<b>Structure</b> , including: current expenditure	0.86	0.91	0.78	0.57	0.88
capital expenditure	0.14	0.09	0.22	0.03	0.06
co-financing of projects from the EU funds	-	-	-	0.40	0.06
	2009	2010	2011	2012	average
<b>Total expenditure (PLN thousand)</b> , including:	1,289,491	909,397	1,120,250	1,159,052	
<b>Dynamics</b>	1.63	0.71	1.23	1.03	<b>1.11</b>
<b>Structure</b> , including: current expenditure	0.62	0.87	0.71	0.69	<b>0.77</b>
capital expenditure	0.02	0.03	0.10	0.10	<b>0.09</b>
co-financing of projects from the EU funds	0.36	0.10	0.19	0.21	<b>0.22</b>

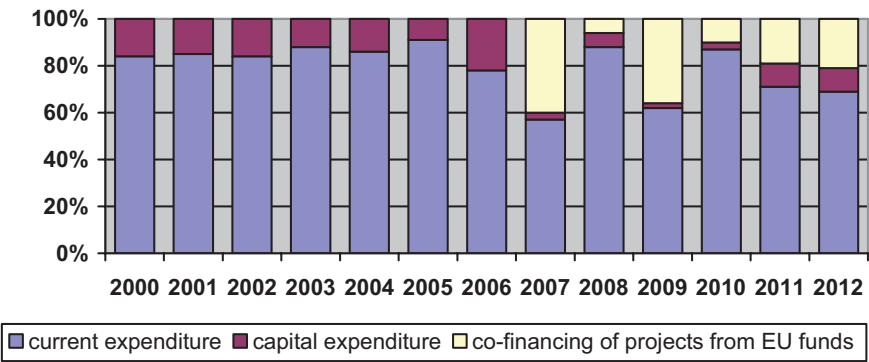
Source: as in Table 48.

Also interesting is the structure of expenditure in the budget of voivodes in agriculture and hunting section, in which until 2005 there was a relatively stable division into current expenditures (85%) and relatively low capital expenditure (15%). **2006 brought a radical change with increasing share of capital**

<sup>24</sup> A. Elias, *Introduction: Whatever happened to the Europe of Regions? Revisiting the regional dimension of European politics*, "Regional and Federal Studies" 18.5, 2008, pp. 483-492 and M. Keating, *A quarter century of Europe of the Regions*, "Regional and Federal Studies" 18.5, 2008, pp. 629-635.

expenditures, and a year later EU funds were involved in the financing of voivodeship budget headings, which resulted in prominent increase in the share of investments. Therefore we can refer to a noticeable substitution of current expenditure with capital expenditure, as well as some complementarity of domestic investment spending with the EU funds. Projects co-financed from the EU funds made it possible to implement a much greater number of projects in the field of geodetic and management works, as well as land reclamation for agriculture. One should also note that the EU budget takes over implementation of some of the headings, which greatly relieves the national budget.

Figure 7. Structure of expenditure in the budgets of voivodes in agriculture and hunting section in 2000-2012



Source: as in Table 48.

Considering the dynamics of the expenditure for the individual headings in the budgets of voivodes in agriculture and hunting section, it is noticeable that the most stable expenditures over the period in question are the expenditures on budgetary units and entities (see Table 51). **Heading, which needs to be distinguished due to the highest, doubled spending growth in the post-accession period, as compared to the time prior to the integration, is the financing of water law companies and management. Especially the latter has been significantly supported by the investments covered by both national resources and especially by the relatively fast-growing EU funds.**

The position of the other two important directions of financing from the budgets of voivodes seems unchallenged, despite fluctuations in the level of expenditure, i.e. plant protection and animal infectious disease control and geodetic and management work for agriculture. Although there was no systematic increase in the expenditures for these purposes, but an abrupt growth in their level.

**Notable is the fact that with the implementation of the CAP, the number of headings is increasing, not only in the central budget, but also –**

**although to a lesser extent – in the budgets of voivodes.** We are talking primarily about the tasks carried out under the RDP (for voivodes, but carried out by the offices of the marshal, which include the consolidation of land and water resources management) and dealing with the consequences of natural disasters, as well as financing through EU projects.

Table 51. Dynamics of expenditure in budgets of voivodes in agriculture and hunting section in 2000 - 2012

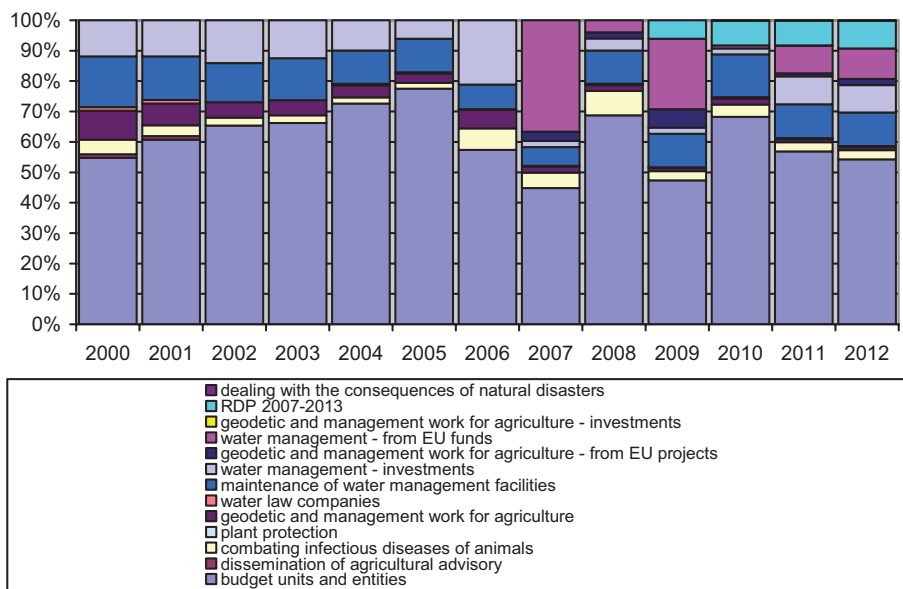
Description	Prior to accession to the EU				
	2000	2001	2002	2003	average
Budget units and entities	-	1.08	0.94	1.06	<b>1.03</b>
Plant and animal-protection, fight against diseases, consultancy	-	0.80	0.64	0.98	<b>0.81</b>
Geodetic and management work for agriculture	-	0.76	0.67	1.00	<b>0.81</b>
Management, water law companies	-	0.82	0.85	1.01	<b>0.89</b>
After accession to the EU					
	2004	2005	2006	2007	2008
Budget units and entities	1.44	1.04	1.01	1.00	1.06
Plant and animal-protection, fight against diseases	0.95	0.88	3.34	0.82	0.76
Geodetic and management work for agriculture	1.01	0.87	2.44	0.32	0.78
Management, water law companies	1.03	0.81	2.19	0.73	0.81
	2009	2010	2011	2012	average
Budget units and entities	1.11	1.04	1.01	1.01	<b>1.08</b>
Plant and animal-protection, fight against diseases	0.67	0.87	0.88	0.95	<b>1.43</b>
Geodetic and management work for agriculture	2.92	0.87	1.06	0.83	<b>1.03</b>
Management, water law companies	3.42	0.76	4.31	1.07	<b>2.03</b>
RDP 2007-2013	-	0.96	1.19	1.10	<b>1.08</b>
Dealing with the consequences of natural disasters	-	-	0.38	3.33	<b>1.86</b>

Source: as in Table 48.

Considering the detailed structure of expenditure for various headings in voivodeship budgets, we see that the greatest and slightly growing share is for the activities of budgetary units and entities (more than half; see Figure 8).

Increasing bureaucracy can be considered as a disturbing trend, but it should be remembered that during the period in question, the scope and value of the tasks operated by units subordinated to voivodes increased. Second, assuming the criterion of the volume of funds spent, is the item related to **water management – maintenance, as well as investments, where we also observe an increasing share (from about 1/5 to 1/4), but mainly thanks to much fluctuating investments from the EU funds, which in a significant part substitute domestic investments in this area.** It is also worth to mention the item associated with geodetic and management work for agriculture, for which the share of expenditure over the period in question remains at about 5%.

Figure 8. Structure of expenditure on individual headings in voivodeship budgets in agriculture and hunting section in 2000-2012



Source: as in Table 48.

Another notable fact is that the responsibilities of voivodes include supervising and partly also spending on institutions carrying out tasks related to the agricultural sector. They include: voivodeship agricultural advisory centres (AACs) (expenditures are included in the item budgetary units and entities), Agricultural and Food Quality Inspection (AFQI), Plant Health and Seed Inspection (PHSI), voivodeship veterinary inspectorates, poviats veterinary inspectorates. The PHSI expenditures have relatively greatest dynamics in agricultural budgets, which may be related **to the extension of the powers and duties, e.g. on the implementation of and compliance with increasingly stringent environmental protection instruments, which can be seen in the announcements of the CAP reform in many of the proposed instruments, ranging from green-ing payments, direct payments to the principle of cross-compliance.**

As for the AACs, they foster the development of agriculture through their knowledge and consulting experience, including a comprehensive agricultural consulting; they also work with cooperatives, producer groups, agribusiness companies, manufacturers associations and institutions of agricultural environment. All this makes that AACs can become in many cases a decisive link in the development of agriculture in the region, they can also significantly overcome existing barriers in solving technological problems and essentially support agricultural producers. Their role related to the implementation of research, information and education programmes for agriculture and rural development is im-

portant, as well as their broad activity in environment protection and rural landscape. **In the light of the above tasks the excessive fluctuation of budgetary expenditure on agricultural consulting is confusing, especially in the context of the new tasks arising from the evolution of the CAP. It is possible that this is an indication of change, as in highly developed countries, where for many years there has been a tendency to reduce the role of state consulting in favour of financial or commercial advice.** Currently, advisory centres are financed from budgetary grants and income from business activities (e.g. bookkeeping, business promotion, publishing, rental of premises) and revenue from other sources. The relatively stable budget subsidies do not prevent increased revenues from other activities. One can also consider that these units are forced to demonstrate thrift and initiative in raising funds. We must also remember that consulting in rural areas, in addition to AACs, is provided by many other institutions, such as chambers of agriculture, cooperative banks, associations and research institutes and private consulting firms. Number of pieces of advice provided by these companies significantly increased, especially since 2002 with the advent of the EU funds and the need to prepare relevant applications for the EU subsidies. **It should be noted that, the new CAP reform will increase the role of AACs because of the need for the implementation of measures under priorities relating to the implementation of the Europe 2020 strategy in the agricultural sector, which include: promotion and transfer of knowledge and innovation, promotion of competitiveness, organisation of the food chain, or promotion of social inclusion and economic development in rural areas.**

Another institution, the Agricultural and Food Quality Inspection, under the official control of food in Poland protects not only the interests of consumers and food producers, but also participates in the implementation of national food policy. Commercial quality control of products is an important element of the system to guarantee the quality of food placed on the market and the economic security of consumers and producers. The AFQI activities mainly include consumer protection and the fight against faking food products, elimination of unfair competition and promotion of high quality Polish food through the promotion of quality marks and certificates. The dynamics of spending related to the quality of raw materials and of agricultural products ensured by the AFQI collapsed after the integration with the EU. Until accession, since 2000, spending showed a relatively high growth rate. This may be associated with an increase in funds for veterinary inspectorates, including voivodeship and poviats units, which took over part of the competencies of the above institution (e.g. checks associated with the implementation of quality assurance systems in agribusiness enterprises). **However, there is no justification for restricting funds for this objective in the face of increasing prevalence of food quality safety hazards and the expected expansion of tasks in relation to veterinary inspections, e.g. as part of implementation activities or cross-compliance control.**

In the light of this analysis, the authors conclude that there is a need to increase expenditures primarily for those purposes in the agricultural sector, which have the largest reception area and longest effects. **Thus, the following "vertical" shifts should take place that concern the increase, at the regional level, of:**

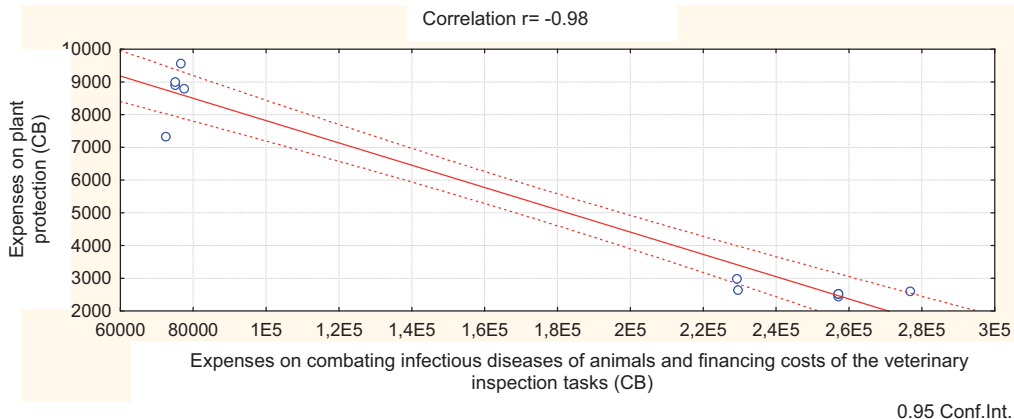
- **resources for regulation of water, according to the emerging growth trend seen for several years;**
- **spending on geodetic and management works, which could have a positive impact especially on rural development;**
- **resources to voivodeship and poviats veterinary inspectorates, whose role, specifically controlling, under the directives on animal welfare is growing.**

Authors' research experience in the assessment of agricultural budgets indicates that the increase in spending on these objectives could be financed from specific provisions and the Agricultural Property Agency (from the Agricultural Property of the Treasury).

### **3.2.3. Relationships between the selected headings in the central budget and the budgets of voivodes**

The next step of the analysis was to verify whether there are correlations between headings financed from the central budget and the budgets of voivodes. The first significant correlation concerned the long-term relationship between funds for fighting against infectious diseases financed from the central budget (CB) and the protection of plants funded from the same source (CB), where the correlation ratio was -0.98. This may indicate the fact that budget designers treat these two headings as substitutes in financial terms, although they refer to different actions. In the analysed period there was a significant decrease in expenditures related to the protection of plants in favour of significant increase in funds for combating infectious diseases and co-financing for veterinary inspection tasks. **In the light of the financial competitiveness of budgetary objectives and under conditions of limited resources associated with the current needs, this can be a result of task preferences, e.g. prevention and control of bird flu, BSE and other zoonotic diseases, which Poland and other EU countries have to deal with.**

Figure 9. Spending on combating infectious diseases and co-financing of veterinary inspection tasks (CB) versus expenditure on plant protection (CB) in 2000-2012



Source: as in Table 48.

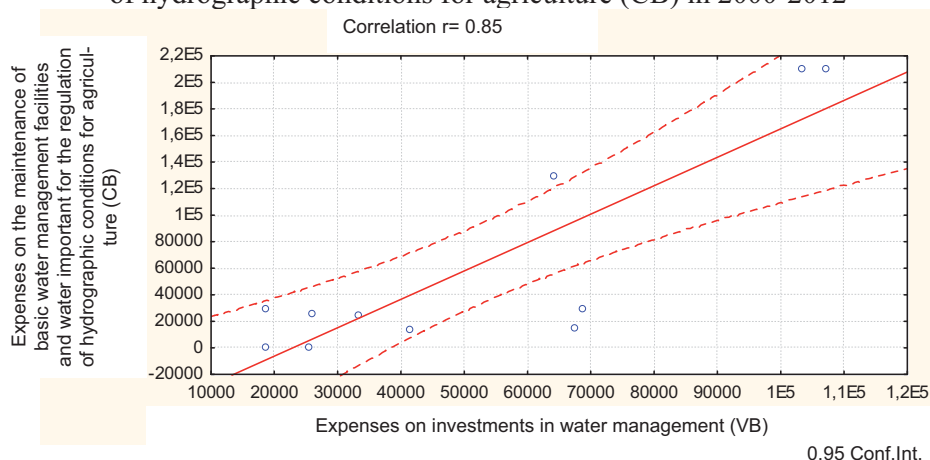
A similar relationship also referred to the relationship of expenditure on combating infectious diseases (CB) and plant protection financed from the budget of voivodes (VB), where the correlation rate was -0.95. **These situations put a prerequisite that plant protection was marginalized for a long time, both at the level of central and voivodeship expenditure.**

Another important and highly correlated (0.85) relation is found in expenditures for investments in water management devices (VB) and the maintenance of basic water management facilities and water important for the regulation of hydrographic conditions for agriculture (CB) (see Figure 10).

**Both targets have been recognised for years, and spending for them increased. This should be viewed as a positive development, since the ordering of matters relating to the regulation of hydrographic conditions and investment in water management facilities in the face of more frequent flood events has become a matter of pressing concern.**

A similar correlation (0.73) we find in relation of spending on water law companies (VB) and the maintenance of basic water management facilities and water important for the regulation of hydrographic conditions for agriculture (CB), which can also be justified by a complementarity of funds from both the central budget as well as the budgets of voivodes.

Figure 10. Investment in water management (VB) versus maintenance of basic water management equipment and waters essential for the regulation of hydrographic conditions for agriculture (CB) in 2000-2012



Source: as in Table 48.

### 3.3. The national and EU spending on the agricultural sector in the light of Pillar I and Pillar II of the CAP

Agricultural budget is divided e.g. to expenditure implementing the needs in respect to agriculture, rural development, agricultural markets<sup>25</sup> and within the remit of voivodes. Below (see Table 52) is an assessment of the structure of spending on agriculture, rural development and agricultural markets. Expenditures on individual parts are different and vary depending on the needs and objectives of agricultural policy. The above analysis shows that over the analysed period there have been significant changes in both the quantity and quality of budget allocation. Firstly, the allocation within the various parts did not follow uniformly. However, it can be concluded that by 2006, the proportions of spending were fairly balanced.

<sup>25</sup> The analysis in this case begins in 2000, when the Act for that year introduced a new division - in accordance with the provisions of the Act on the activities of government, the budget of the Ministry of Agriculture and Food Economy situated so far in part 19, covered three new parts of budget classification: part 32 - office of the minister for agriculture, part 33 - office of the minister for rural development, part 35 - the office of the minister for the agricultural markets.



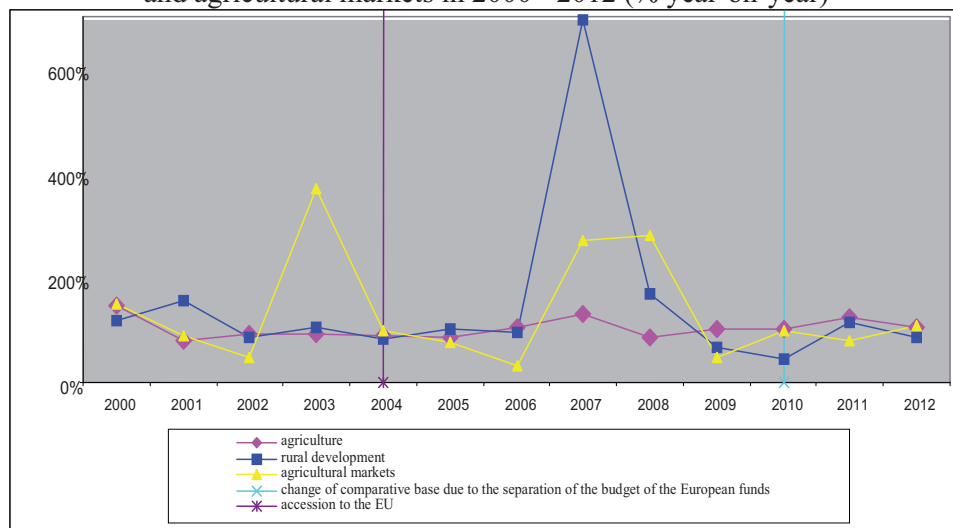
Table 52. Structure of spending on agriculture, rural development and agricultural markets in 2000-2012 (%)

Description	Prior to accession to the EU				
	2000	2001	2002	2003	average
Agriculture	31.1	21.8	26.5	19.7	<b>24.8</b>
Rural development	42.1	57.4	61.1	52.7	<b>53.3</b>
Agricultural markets	26.8	20.8	12.4	27.6	<b>21.4</b>
	After accession to the EU				
	2004	2005	2006	2007	2008
Agriculture	20.2	19.9	25.2	6.6	3.3
Rural development	50.1	55.7	65.7	88.6	88.7
Agricultural markets	29.7	24.4	9.1	4.8	8.0
	2009	2010	2011	2012	average
Agriculture	5.1	10.2	11.6	13.6	<b>12.9</b>
Rural development	89.2	78.2	80.2	76.4	<b>74.8</b>
Agricultural markets	5.7	11.6	8.2	10.0	<b>12.4</b>

Source: as in Table 48.

Since 2007, there has been a significant change in the structure of spending in the parts in question of the agricultural budget – the share of rural development clearly increases at the expense of the other two items. This may be a result of the CAP, putting more and more emphasis on rural issues. It is also significant that the share of spending on that objective, although relatively high from the beginning, has almost doubled over thirteen years, while the share of expenditure on agriculture declined 6-fold, and for agricultural markets declined 2.5-fold. Analysis of the standard deviation in the individual parts of the agricultural budget indicates a higher variability of the tested values after the integration with the EU, especially in the case of expenditure on rural development. Similar conclusions can be drawn by analysing the dynamics of these expenditures. The biggest changes occurred in expenditure on rural development, which increased especially in 2007, mainly due to expenditures on ARMA (financing projects with the EU funds, i.e. RDP, but also direct payments), as well as on restructuring and modernization of the food sector and on rural development, while expenditures on agriculture were relatively the most stable.

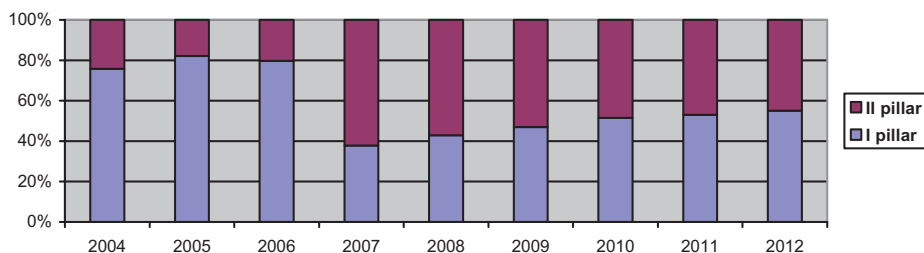
Figure 11. Dynamics of expenditure on agriculture, rural development and agricultural markets in 2000 - 2012 (% year-on-year)



Source: as in Table 48.

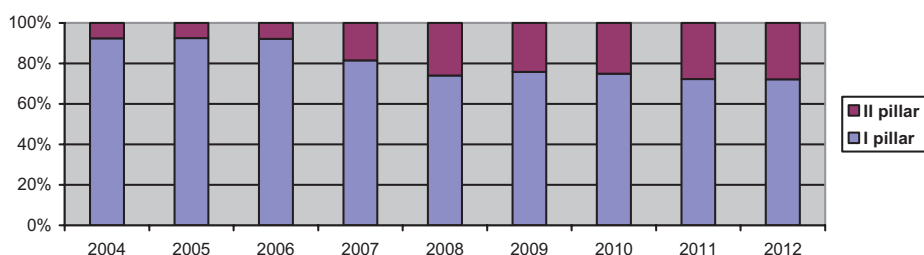
Looking at the agricultural budget from the perspective of the CAP, one can assume, that the actions and instruments relating to agriculture and agricultural markets, and the budgets of voivodes, correspond to Pillar I of the CAP, while those related to the development of rural areas are closer to Pillar I. At this point, it is necessary to note that government spending on rural development already includes additional direct payments supported by ARMA, which will be allocated to Pillar I (along with an adequate share of spending on the current activities of the Agency), while other expenditures, including especially the RDP 2007-2013 will be treated as consistent with the actions of Pillar II of the CAP. **Aggregation of relevant financial headings from the national budget, complementary with the above Pillars, indicates that 4/5 of the national funds supports activities related to agriculture – Pillar I, and the rest – 20% – are funds related to the implementation of Pillar II, mainly the financing of the RDP 2007-2013. Detailed observation of the last three years, which is possible thanks to the separation of the budget of the European funds, shows a slight increase in the share of expenditure on Pillar II from 19% to 22%. It should be noted here that the structure of the distribution of funds received by the Polish agricultural sector from the EU suggests that Pillar II received nearly half of the total funds, i.e. twice as much (see Figure 12). Thus, the financing structure of individual Pillars is not consistent.**

Figure 12. Structure of spending on Pillar I and II from the EU budget for Poland in 2004-2012



Source: European Commission, Agricultural and Rural Development DG.

Figure 13. Structure of spending on Pillar I and II from the EU budget in total for 27 countries in 2004-2012



Source: as in Figure 12.

However, the structure of the national expenditure on individual Pillars is proportionally similar to their overall structure in the EU-27 (see Figure 12), where the support is significantly higher for Pillar I, although the share of spending in Pillar II is increasing.

### 3.3.1. Pillar I

The main expenditures in Agriculture are funds flowing to the agriculture and hunting section, among which we can aggregate expenditure on: environment protection<sup>26</sup>, progress in agriculture<sup>27</sup>, sanitary and veterinary tasks<sup>28</sup> and

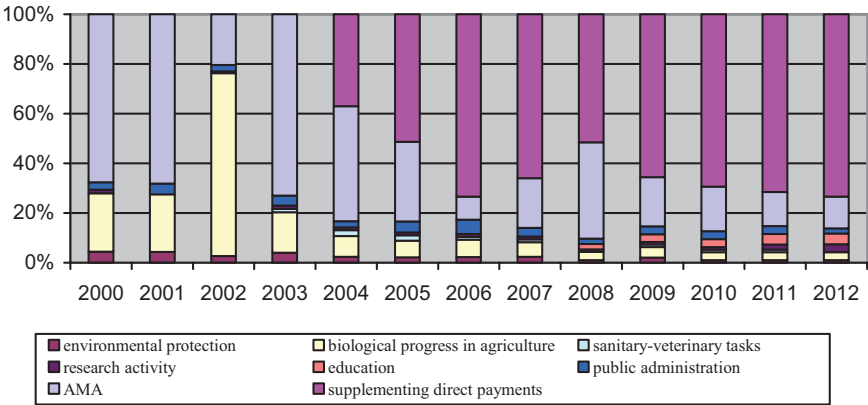
<sup>26</sup> Expenditure on environmental protection means aggregated funds from the central budget to: the National Chemical-Agricultural Station, protection of plants and organic farming.

<sup>27</sup> Expenditure on progress in agriculture means aggregated funds from the central budget to: biological progress in plant production and biological progress in livestock production.

<sup>28</sup> Expenditure on veterinary and sanitary tasks means aggregated funds from the central budget to: Chief Veterinary Inspectorate and border veterinary inspectorates.

scientific and research activities<sup>29</sup>. Another significant item is the expenditure on education (especially on agricultural vocational schools) and public administration operating in these areas. In the part of Agricultural markets, 95% of funds is earmarked for the tasks carried out by the Agricultural Market Agency (AMA). One should also add the expenditure on supplementing direct payments written in the part Rural Development and applicable to Agency for Restructuring and Modernisation of Agriculture (ARMA).

Figure 14. Structure of expenditure on different headings related to agriculture and agricultural markets in the national budgets in 2000-2012



Source: as in Table 48.

In the total envelope of national resources allocated for the purposes complementary with the activities in Pillar I of the CAP, most funds are allocated for supplementing direct payments (see Figure 14), which is particularly evident in the last few years, when Poland fully exploits the possibility of complementing the EU payments with national budgeting, in the maximum amount permitted under the Treaty of Accession. One should be aware that despite the growing share of this support in the national budget, in 2012, 90% of the funds allocated for direct payments in Poland will come from the EU budget, and the remainder (10%) will be financed from national funds.

Another important item is the financing of AMA activities. It is worth noting that this share is decreasing in the studied long-term perspective, which coincides with the nominal decrease in the amount of funds provided for the implementation of the CAP by the AMA. Spending on public administration shows a relatively stable share, with almost tripled amount since the integration with

<sup>29</sup> Expenditure on research activities means aggregate funds from the central budget to: the Research Centre for Cultivar Testing, the State Animal Breeding Centre and R&D activity and science (from part 730).

the EU. A characteristic feature of the developed market economies is the growing number of institutions correcting imperfections of the market mechanism. This leads naturally to the growth of the public administration that supports these entities. This trend is observed especially in the overgrown bureaucracy of the EU. It is also the case of national entities. One should note a clear increase in expenditure on public administration in all parts of the agri-food sector, especially in 2000-2006. The dynamics of this budget heading was one of the relatively highest. **It is interesting that in the agricultural budgets there were years, in which funds for the implementation of the key objectives of agricultural policy were restricted, and expenditure on public administration increased. Another thing is that a closer examination of budget acts and budgets of voivodes and reports of the Supreme Audit Office on budget performance, shows that the increased administrative expenditures were often necessary to efficiently obtain the EU funds.**

Expenditures on education pertain to the financing of agricultural schools, vocational schools and training for teachers in these schools, as well as the operation of boarding houses and dormitories. In the post-accession period expenditures associated with these budgetary headings significantly increased, which is an important pro-development activity fitting in with the idea of economic growth based on improving the quality of human capital. After the Polish accession to the European Union and the availability of the EU funds, agricultural education has become more attractive. The transfer of the farm in exchange for early retirement, purchase of land, payments for young farmers, and even investment loans, require agricultural education. Many schools are not prepared to carry out basic tasks resulting from the integration with the EU. The essential criteria of their verification are the learning facilities (farm, school workshops, agricultural equipment, etc.), staff, boarding and catering facilities. Unfortunately, the need for allocation of financial resources to many institutions creates a situation under which none of them is financed in full. The situation is slightly different in case of schools and institutions of regional and supra-regional importance, which after the reform in 1999 remain under the responsibility of the Minister of Agriculture. In the Act of 27 June 2003 amending the Act on education and certain other acts, it was proposed to introduce new solutions for schools of regional and supra-regional importance. The powers to establish and operate public schools and institutions of regional or supra-regional importance have been transferred to voivodeship governments. At the same time the said act introduced a transitional provision, under which by 31 December 2005, the Minister responsible for agriculture could take over from the poviats (by agreement) the management of agricultural schools and institutions of regional and supra-regional importance, along with powiat property in the hands of schools and in-

stitutions<sup>30</sup>. The Minister of Agriculture and Rural Development, having financial resources, can support schools and the agriculture institutions in improving learning facilities for vocational training. This legislative change is reflected in the level of real spending on education, which since 2006 initiated an upward trend that should be noted as a positive development. Unfortunately, the impression remains that it has been done at the expense of biological progress. The continuing trend of many years to reduce budget spending especially on budget headings associated with biological progress is worrying (there was almost 3.5-fold average decrease when comparing the period before and after integration). Analysis of expenditures for activities related to biological progress in agriculture is not optimistic. There are indications to argue that an increase in funds for co-financing and pre-financing of the EU programmes and payments often took place under conditions of decreasing or non-increasing financial support from the national budget for these expenditures. It was observed that "in exchange", during most of the analysed period, social spending on KRUS increased, just like revenues from abroad for funds to support biological progress indirectly<sup>31</sup>. The former did not have a significant impact on biological progress in agriculture, because they mainly secured everyday social and consumption needs of beneficiaries, the second influenced, and often but not explicitly forced biological progress. The common denominator for many of listed headings is the relation to the progress in quality and novelty and the type and quality of performance. It seems, however, that it was too early to recognize that EU support will be sufficient to compensate for the reduction in domestic spending. It was not appreciated that today a widely understood biological progress and investments in quality and knowledge largely determine the competitive markets, including agriculture markets. **It is expected that with the assimilation of the principles and objectives of the EU Common Agricultural Policy and EU structural funds, this will become popular enough that short-term savings trends will disappear in the coming years in favour of quality and progress in agriculture, supported by the national budget. This conclusion seems to be justified, especially when it comes to competitiveness, innovation and "knowledge-based agriculture" in the reformed CAP.**

One should also mention funds spent on environmental protection, which are declining, but their level remains relatively stable. Protecting the environment is an extremely topical issue in current discussions at the national and EU

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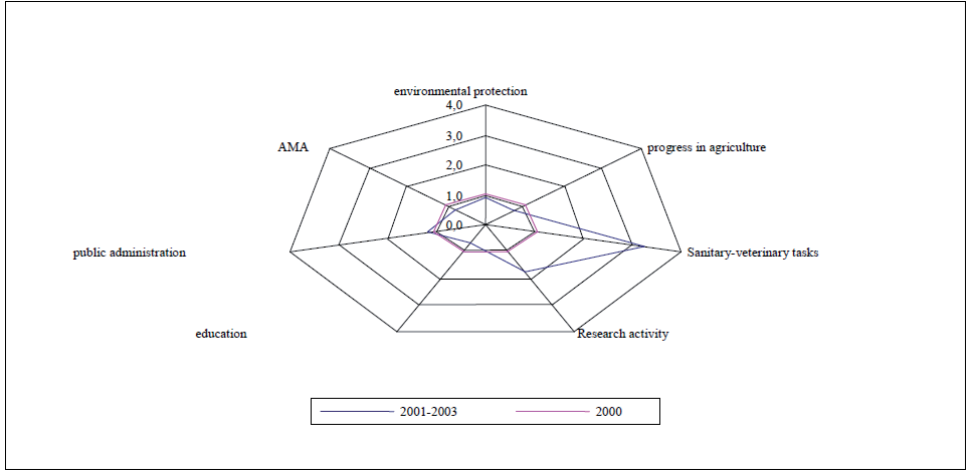
<sup>30</sup> And here is a paradoxical situation: old schools of the Ministry of Agriculture, which - fighting for survival - introduced other "non-agricultural" programmes of study or formed secondary schools, could not be taken over by the Minister of Agriculture, because there were already typically agricultural schools (associated schools).

<sup>31</sup> Examples include funds from the EU funds aimed at restructuring the agricultural sector (e.g. SAPARD), which forced biological progress through the need to purchase a better quality seed and livestock (e.g. when upgrading or building a new barn one purchased the most productive dairy cows).

level, in particular in the framework of the reformed Common Agricultural Policy. **As a result of environmental pressure, in which the farmer is the key link, the range of agri-environmental programmes and instruments to encourage "greening" of the EU actions keeps expanding. In addition, this issue is positively reflected in budget expenditure, so one must maintain this trend.** The relatively high growth in the central budgets can be seen in case of expenditure on organic farming and the State Chemical-Agricultural Station. It is related to the extension of the powers and duties of the above mentioned bodies, even if related to the implementation and observance of increasingly stringent environmental protection instruments.

Considering the changes that have occurred in the analysed budgets, and that may suggest further shifts in the state budget, one should point to the dynamics of separate headings. Three approaches have been adopted. The first concerns the relation of pre-accession dynamics (2001-2003) and the first year of analysis – 2000, to show changes in the financing of specific objectives in light of the upcoming integration with the EU (see Figure 15).

Figure 15. Growth in domestic spending on budgetary headings identified with Pillar I of the CAP - 2001-2003/2000

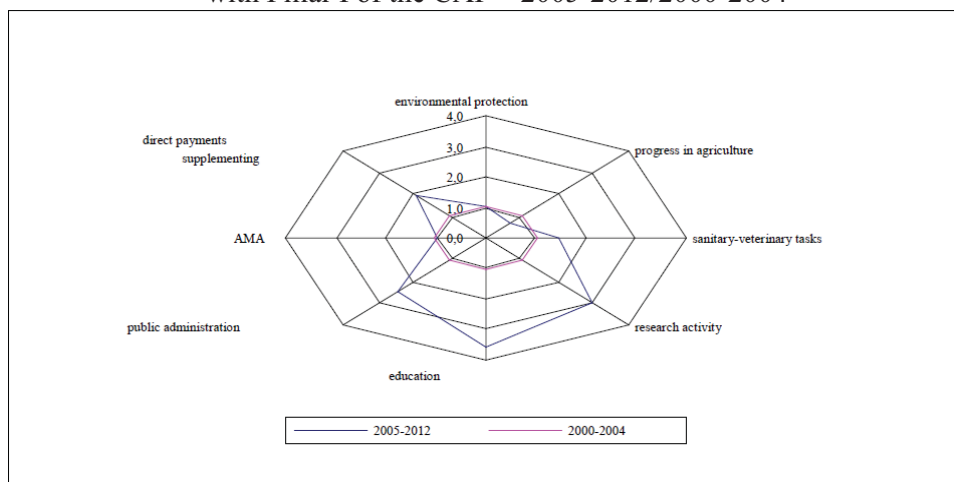


Source: as in Table 48.

It was observed that the strongest growth occurred in the case of two headings – namely the sanitary-veterinary tasks that needed to be supported mostly because of the creation of border veterinary inspectorates and the need to seal the borders of the expanding EU, and research activities in which there was a marked increase in spending on the following institutions in the pre-accession period: the Research Centre for Cultivar Testing and the State Animal Breeding Centre. A slight increase occurred in case of expenditures on administration, and a decrease was recorded in expenditure on education and progress in agriculture.

Another approach consisted in comparing dynamic indices in the post-accession years (2005-2012) with the pre-accession period (2000-2004), to indicate how integration "accelerated" or "slowed down" the national spending on selected objectives (see Figure 16).

Figure 16. Growth in domestic spending on budgetary headings identified with Pillar I of the CAP – 2005-2012/2000-2004



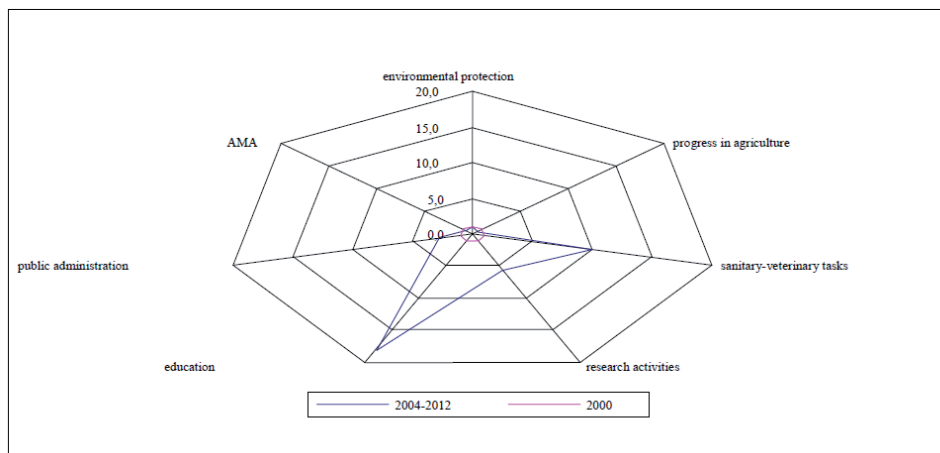
Source: as in Table 48.

The most dramatic increase was observed in the case of expenditure on education – in the figure the scale of this phenomenon is reduced by tenfold, so as not to "blur" the other changes, however, it was a very significant increase, the reasons for which were mentioned above. After the integration the trends observed in the period immediately before accession became established, i.e. the increase in spending on research activities (mainly through the emergence of the new budget item – Science), a clear increase in spending on administration, and systematically increasing funds for complementing direct payments. Once again, cutting down funds related to biological progress in plant and animal production should be assessed negatively.

The last approach to comparisons concerns the changes that have taken place during the analysed period in relation to the year 2000, which was treated as the reference year (see Figure 17). The largest absolute gains related to four types of expenditures on: education, sanitary and veterinary tasks, scientific and research activities and public administration. However, the mentioned biological progress in agricultural production had been expressly depreciated. It can be considered that expenditure on market interventions (by AMA) and environment protection showed peculiar stability.



Figure 17. Growth in domestic spending on budgetary headings identified with Pillar I of the CAP – 2005-2012/2000-2004



Source: as in Table 48.

It is also worth mentioning the selected correlations that took place in the analysed budgets between expenditure converging with those of Pillar I, where substitution and complementarity are clearly visible phenomena. The first strong correlation is for expenditure on administration in agricultural budgets, which is a response variable strongly and negatively dependent on spending for biological progress in agriculture and market intervention, and positively on the amount of the state supplementary payment.

$$\text{expenditures on administration} = \text{PLN } 64,960 \text{ thousand} + 0.03 \times \text{supplement to direct payments} - 0.04 \times \text{expenditures on AMA} - 0.02 \times \text{expenditures on biological progress in agriculture}^{32}$$

It is reasonable to argue that rising costs associated with national supplementing of direct payments (which, moreover, are positively correlated with the amount of subsidies from the EU funds, as well as funding for other national objectives financed from the EU budget) entails expansion of administration to be able to acquire and manage the substantial flow of funds. However, there is an irresistible impression that increase in administration occurs at the expense of other headings financed from the national budget, such as the above-mentioned progress in agriculture and expenditures on AMA tasks. While in the case of the latter expenditure there is a kind of substitution of national expenditure with the EU expenditure, in the case of progress it is difficult to talk about any compensation.

<sup>32</sup> Multiple progressive regression method was used;  $R^2 = 97.6\%$ , distribution of residuals normality was verified by Shapiro-Wilk test.

Another interesting correlation is shown by a positive relationship between expenditure on state supplement to direct payments and on education (within the remit of the Ministry of Agriculture). A possible interpretation is that the effect of significantly increasing spending on education, mainly in secondary and vocational schools related to agriculture, is acquiring practical knowledge and skills on European funds and how to get them, which entails the need for greater participation of national funds in the process.

$$\text{supplementing direct payments} = \text{PLN } 453,211 \text{ thousand} + 16.2 \times \text{expenditures on education}^{33}$$

Justification from the other side is also reasonable, namely that the growing stream of national subsidies (along with the EU subsidies) encourages or even forces the need for a reliable and extensive education, particularly of young people who see their future in agriculture, which has been recognised and reflected in the increasing expenditure, as mentioned above.

### 3.3.2. Pillar II in ARMA spending

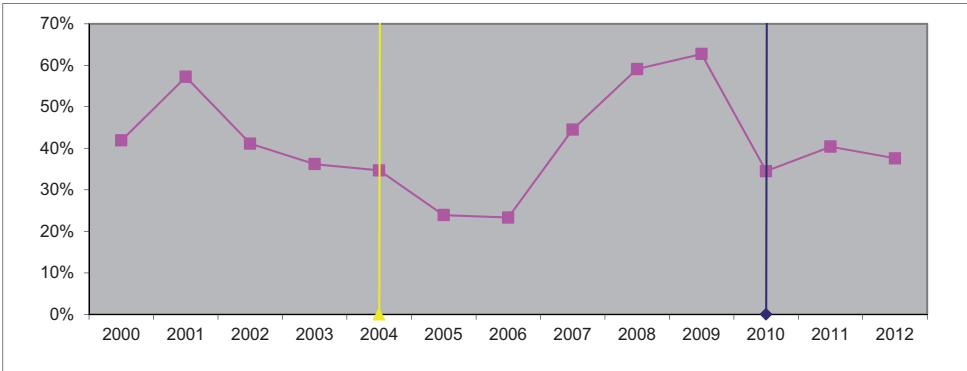
Pillar II of CAP is consistent with the activities in the budget task Rural Development (part 33), i.e. mainly funds for the operation of ARMA, and within it especially for the RDP. Agency for Restructuring and Modernisation of Agriculture is central to the structural transformation of the countryside and agriculture. Its support fosters, *inter alia*, development of agricultural policy focused on income, and consequently the multifunctional rural development. Considering the total amount of funds allocated to the activities carried out by ARMA, one can say that before the accession to the EU, they were too low to cause noticeable modernisation and development changes. Budgetary resources allocated to the paying agency in absolute terms increased steadily, but their share in both the overall budgetary expenditure and spending on the agricultural sector varied considerably (see Figure 18). The average share of spending on ARMA in total budgetary expenditure during the same period increased 2.7 times. Before the integration with the EU, ARMA faced considerable problems – budget spending for statutory objectives of the Agency was limited and most of the expenditures involved substantial liabilities from previous years, which resulted in insufficient resources to conduct current and new activities. It was hard to understand because ARMA soon converted into a paying agency supporting e.g. the Integrated Administration and Control System of the Common Agricultural Policy in the EU, and awarded funds limited opportunities to prepare for this role. In

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<sup>33</sup> Same as above, multiple progressive regression method was used;  $R^2 = 82\%$ , distribution of residuals normality was verified by Shapiro-Wilk test.

the light of the growing income disparities of farms in the pre-accession period, consistent reduction in aid for farmers was incomprehensible. It also contradicted the official declarations of the government on measures to improve the financial situation of farmers [*Pakt dla rolnictwa...*, 2000].

Figure 18. Share of expenditure on ARMA in spending on the agricultural sector in total<sup>34</sup> in 2000-2012 (%)



Source: as in Table 48.

The largest programme implemented by ARMA is the Rural Development Programme. Its main goal is to "implement multifunctionality of agriculture and rural areas". It assumes economic empowerment of farms and increase in economic competitiveness of the agri-food industry, while ensuring mechanisms that differentiate economic activity in rural areas. Important objectives of the programme also include protection of the environment and improvement of the quality of life in rural areas [Szalczyk, Matuszczak 2010]. Financial support mechanisms (measures) in the programme implement four priorities for rural development, which reflect the four groups of support mechanisms (thematic axes) (see table 53). The measures under Axis 1 are focused on human and physical capital in the agri-food and forestry sectors (promoting transfer of knowledge and innovation) and on quality production. Axis 2 supports the protection of natural resources and traditional forms of management in agriculture. Axis 3 supports development of local infrastructure and diversification of economic activities in rural areas. Axis 4 implements the Leader programme and supports the bottom-up, local approach to rural development.

<sup>34</sup> Spending on the agricultural sector in total defined as expenditure on: agriculture, rural development, agricultural markets, budgets of voivodes, specific provisions, spending in other parts of the budget act.

Table 53. RDP 2007-2013 financial plan broken down into thematic axes (EUR)

Description	Total public contribution	EAFRD amount	Share of EAFRD contribution
Axis 1. Improving the competitiveness of the agricultural and forestry sector	7,486,199,222	5,486,649,500	75%
Axis 2. Improvement of the environment and the countryside	5,377,112,631	4,446,801,216	80%
Axis 3. Quality of life in rural areas and diversification of rural economy	3,500,061,142	2,635,527,440	75%
Axis 4. Leader	787,500,000	630,000,000	80%
Technical assistance	266,600,000	199,950,000	75%
Total	17 417 472 995	13 398 928 156	76%

Source: Rural Development Programme 2007-2013.

It should be emphasized that RDP 2007-2013 is the main source of financial support for the transformation of Polish agriculture, processing and marketing of agricultural products. The beneficiaries of the programme are mainly business entities operating in the field of agriculture, agri-food processing or non-agricultural economic activities (only microenterprises) in rural areas. Beneficiaries also include organisations of local governments responsible for the development of technical infrastructure in rural areas.

The programme covers 21 measures and technical assistance (see Table 54). Most of the measures are a continuation of support mechanisms available in 2004-2006 under the "Plan for rural development" and the "Sectoral Operational Programme Restructuring and Modernisation of the Food Sector and Rural Development". As mentioned above, the share of spending related to the development of rural areas from the national budget is estimated at about 20%, and differently, in the EU funds, support for Poland for Pillar II reaches 45%. So in conclusion it can be seen that in the face of competition of budgetary purposes (due to funding) it is legitimate to say that the Polish government used the opportunity of the maximum complement of direct payments, targeting the stream of funds at providing support to Pillar I, which is not consistent with the trends noticeable in the EU, where more and more emphasis is placed on the development of rural areas. **It seems that the latter measure will be strengthened under the reformed CAP, as the greening of direct payments will allow continuation of 30% of national funds to be allocated for supplementing a single payment per hectare subjected to convergence, which is expected to be mandatory, but not subject to limitation.**

Table 54. List of measures under the RDP 2007-2013

Measure	Implementing Entity	Expenditure
<b>Axis 1 – economic</b>		<b>EUR 7,486.2 million – 43%</b>
Setting up of young farmers	ARMA - RO	40.0
Vocational training for persons employed in agriculture and forestry	FAPA	420.0
Early retirement	ARMA - PO	2,549.6
Modernisation of agricultural holdings	ARMA - RO	1,849.07
Increasing the added value to basic agricultural and forestry production	ARMA – Headquarters	932.0
Improvement and development of infrastructure related to the development and adjustment of agriculture and forestry	VG	637.5
Participation of farmers in food quality schemes	ARMA - RO	80.0
Information and publicity	AMA	30.0
Agricultural producer groups	ARMA - RO	140.0
Use of advisory services by farmers and forest owners	ARMA - PO	218.0
Commitments for 2004-2006 from Supporting semi-subsistence farms	ARMA - PO	590.0
<b>Axis 2 – nature</b>		<b>EUR 5,377.1 million – 31%</b>
Support of management in less-favoured areas (LFA)	ARMA - PO	2,448.8
Agri-environmental programme and non-production investments	ARMA - PO	2,314.8
Afforestation of agricultural and non-agricultural land	ARMA - PO	513.5
Restoring forestry production potential damaged by natural disasters and introducing appropriate prevention instruments	ARMA - RO	100.0
<b>Axis 3 – social</b>		<b>EUR 3,500 million – 20%</b>
Diversification into non-agricultural activities	ARMA - RO	345.6
Basic services for the economy and rural population	VG	1,541.3
Village renewal and development	VG	589.6
Establishment and development of micro-enterprises	ARMA - RO	1,023.6
<b>Axis 4 – Leader</b>		<b>EUR 787.5 million – 4.5%</b>
Implementation of Local Development Strategies	VG	620.5
Implementation of cooperation projects	VG	15.0
Running the Local Action Group	VG	152.0
<b>Programme handling</b>		<b>EUR 266.6 million – 1.5%</b>
Technical assistance	ARMA – Headquarters	266.6

ARMA - RO – regional offices of ARMA, ARMA - PO – ARMA poviát offices, FAPA – Foundation of Assistance Programmes for Agriculture, VG – voivodeship governments (offices of the marshal)

Source: own elaboration based on the RDP 2007-2013 document.

Such action in some sense is explained by the fact that a relatively large volume of the EU funds for Pillar II, flowing to the newly admitted EU-10, compensates for national deficiencies in this field. **Although the reform of the CAP provides for the transfer of funds between the pillars, but it seems that under Polish conditions the direction of flow from the Pillar I to Pillar II will dominate. There will also be a limit in the amount of support (capping) that a farm can get. The funds "saved" in this way will remain in the Member State, transferred to rural development (Pillar II), to be used by individual farmers for innovation and investment as indicated in the "Europe 2020" strategy, as well as for operational groups of the European Innovation Partnership.**

### 3.4. Summary

The above considerations give rise to the following statements:

- Long-term trends in expenditures on the agricultural sector in the central budget and the budgets of voivodes **to a relatively large extent correspond to the directions of the proposed amendments to the Common Agricultural Policy in 2014-2020, which is reflected, for instance, in the increasing importance of objectives in the central budget and the increasing number of headings in the budgets of voivodes.** These expenditures (e.g. related to the regulation of hydrographic conditions) **are often complementary** to the EU funds flowing to the agricultural sector for investments, **they are also often substituted by funds from the EU;**
- **Another directional convergence of national funds is also visible in their increase and adaptation related to expansion of powers and responsibilities of the institutions responsible for the implementation and compliance with environmental protection instruments,** which are present in the announcements of the CAP reform in many areas, from the greening of direct payments to the principle of cross-compliance;
- In the face of the reformed CAP one can observe an **increasing role of AACs because of the need for the implementation of measures under priorities relating to the implementation of the Europe 2020 strategy in the agricultural sector,** which include: promotion and transfer of knowledge and innovation, promotion of competitiveness, organisation of the food chain, **or promotion of social inclusion and economic development in rural areas;**
- Reformed CAP focuses on **competitiveness, innovation and "knowledge-based agriculture",** so one should expect that **in the following years the tendency for short-term savings at the expense of quality and biological progress in agriculture,** supported by the national budget, **will disappear;**
- There has been a **significant convergence between the level of expenditure on specific headings financed from the national and the EU budget,**

**which are expected to be continued** – this concerns above all actions financed by the EU;

- It is suggested that **the following "vertical" shifts concerning the increase at the voivodeship level should take place: funds for regulation of hydrographic conditions, according to the trend of growth observed for the last several years; spending on geodetic and management works, which could have a positive impact especially on rural development; funds for voivodeship and poviats veterinary inspectorates, whose role in controlling the compliance with the directives on animal welfare is growing;**
- Comparison of the structures of the EU and national support for Pillar I and II in 2007-2013 shows that **4/5 of national funds supports activities related to agriculture – Pillar I, and the rest – 20% – are funds related to the implementation of Pillar II**, mainly the financing of the RDP 2007-2013. Detailed observation of the last three years, which is possible thanks to the separation of the budget of the European funds, shows a slight increase in the share of state expenditure on Pillar II from 19% to 22%;
- It should be noted that the structure of the distribution of funds received by the Polish agricultural sector from the EU suggests that Pillar II received nearly half of the total funds, i.e. twice as much. Therefore, the share of spending related to the development of rural areas from the national budget is estimated at about 1/5, and differently, in EU funds, support for Poland for Pillar II reaches 45%;
- maximum supplementing of direct payments by the Polish government resulting in directing funds to support Pillar I was forced by the income situation of Polish farmers. This, however, was not consistent with the noticeable trends in the EU, where more and more emphasis is put on rural development, which is expected to be continued after 2013.

## Summary of the report

The report presented crucial conditions relating to the possibility of promoting agriculture in the European Union in 2014-2020. The focus was on the scale of support both from the common agricultural policy as well as from domestic sources. In addition, it presented the changes that have occurred in the level and structure of State aid for agriculture in recent years. The report did not discuss the issues of CAP instruments, because it is a topic widely discussed in many publications on the CAP, including the 2011-2014 Multiannual Programme report from 2011 prepared under the task "National and EU agricultural budget in view of the finance and functioning of Polish agriculture and the national economy".

The first part of the report discusses the economic situation and the state of public finances in the European Union. Economic conditions and the need for fiscal consolidation are the main determinants of opportunities to support the agricultural sector in the coming years. Moreover, they have a decisive influence on the attitude of the Member States in the negotiations on the multi-annual financial framework of the European Union.

The second part presents the issues related to the possibility of supporting agriculture under the State aid. It points to changes in the scale and structure of agricultural support from national funds. State aid is in most countries of the Community only marginal and is considered as a supplement to support obtained from the Common Agricultural Policy. In this context, an important issue is the scale and structure of the support under the CAP. The reform of the policy does not provide for major changes at the level of the entire agricultural sector. However, for some types of agricultural activities it could lead to major changes. This primarily applies to the market of milk and sugar. It should also be borne in mind that the proposal of the European Commission provides for levelling of direct payments in a given country or region. For Poland, currently applying the same rate of direct payments, it does not mean any changes. However, in the case of the EU-15, there may be a very large-scale shifts in support to individual agricultural holdings.

The third part of the report focuses on issues relating to Poland. The analysis applies to agricultural expenditure in the state budget. The aim of this study was to determine the possibility of shifts in spending on Polish agriculture in the context of the external environment, especially the scale of support from the Common Agricultural Policy.

Based on the analysis made in the report, it can be said that the scale of support for European agriculture, taking into account a total of EU and national funds, will be less than in the 2007-2013 period, and at best will not change. In the light of changing tasks imposed on agriculture, as determined by the EU strategy "Europe 2020", and with the increasing need to support the sector in situations of sudden adverse natural events and market distortions caused by



concerns about food security, the changes in the structure and nature of support are inevitable. In addition, the more urgent need is to increase spending on research and development, resulting not only from increasing competition from non-EU countries, but also from climate change, to which the sector must adapt.

In connection with new tasks and limits of the scale of available aid, it is necessary to increase the efficiency and effectiveness of aid instruments, and thus to improve the quality of the support monitoring and control. Already at the stage of spending it is possible to significantly improve the quality of the transfer of funds. The study by the European Court of Auditors (ECA) shows that in the case of agricultural support implemented under the European Agricultural Guarantee Fund, errors occurred in 39% of transactions in 2011 examined by the ECA. However, in the case of the European Agricultural Fund for Rural Development errors were detected in 57% of the transactions.

Increasing the efficiency and effectiveness of aid to agriculture requires a number of actions. The starting point should be precise determination of the purposes of aid instruments and the target group of beneficiaries of these activities. Only by focusing support on key tasks it is possible to ensure the effectiveness of aid. It should also be borne in mind that the ultimate goal should be to raise the competitive potential of the agricultural sector.

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