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Quo Vadis CAP. Polish agriculture after accession

Abstract: In March 2007 the European Union celebrated 50th Anniversary of the Treaty of Rome announcement. Its integral part is Common Agricultural Policy. The objectives of the CAP deal with the farmer and the consumer i.e., the society at large. It was widely recognized that increase of productivity lead to diminishing workforce in agriculture and depopulation of rural areas. However, it was not recognized that it would lead to overproduction and environment damage, as well. Over the last fifty years the CAP objectives has significantly shifted from production to environment protection. Until accession the EU the environmental concerns related to agriculture had not played a significant role in any agricultural decision. Generally, the “quality” of natural environment is much higher in the new EU member states than in the old once. Still, agricultural production has a profound effect on the wider environment. Agriculture also affects the basis for its own future through land degradation, salinization, the over-extraction of water and reduction of genetic diversity in crops and livestock. The paradox is that the farmers are paid for keeping natural environment healthy. There is evidence that cost of such policy are in large extent covered by the EU new members. Agriculture is a very capital intensive and very costly industry. A modern farm requires a lot of fixed assets as, agricultural land, different kind of buildings and machinery. It is obvious than price change in any of these factors has impact on cost of production. Polish accession to the European Union has had very strong influence especially on agricultural land prices and stagnation of farm restructuring.

Keywords: CAP, accession, environment, agricultural prices

Short introduction to EU Common Agricultural Policy

In March 2007 the European Union celebrated 50th Anniversary of the Treaty of Rome announcement. Its integral part is Common Agricultural Policy, CAP, developed by the Stresa Conference in 1958. The five objectives of the CAP as lay down in article 39 of the Rome Treaty deal with the farmer and the consumer i.e., the society at large. The farmer is expected to increase his productivity and the consumer can rely on sufficient supply at reasonable process. Stability of the market is thought to benefit both, the producer and the consumer. It was widely recognized that increase of productivity would lead to diminishing

workforce in agriculture and depopulation of rural areas. However, it was not recognized that it would lead to overproduction and environment damage, as well. In 1960's the Mansholt's Plan was introduced and the Community agriculture was slowly moving in the direction the plan has indicated. Over the last fifty years a following beliefs has shaped the CAP:

- the conviction that agriculture is essential to provide food security
- the belief that agriculture has a specific contribution to make to the stability of society
- the awareness that the landscape in Europe is to a large extent the result of farmers' work
- the recognition that agriculture is crucial for the preservation of the environment

From the above we can see that the CAP objectives have shifted from agricultural production issues to environment protection. In fact the only EU agricultural policy is to keep agricultural production on the same level. Much more important is agri-environmental policy which generally leads to agricultural production decrease. However, agriculture-related environmental problems in new UE members states are quite far from that of the 'old' UE member states. Until accession the EU the environmental concerns related to agriculture or/and landscape had not played a significant role in any agricultural decision and there are no strong grassroots-based environmental movements either. From the other side the "quality" of natural environment is much higher in the new EU member states than in the old once.

Still, crop and livestock production have a profound effect on the wider environment. They are main source of the water pollution by nitrates, phosphates and pesticides. They are also the main anthropogenic source of the greenhouse gases methane and nitrous oxide, and contribute on a massive scale to other types of air and water pollution. The extent and methods of industrialized agriculture, forestry and fishing are the leading causes of loss of the world's biodiversity. Agriculture also affects the basis for its own future through land degradation, salinization, the over extraction of water and reduction of genetic diversity in crops and livestock. The paradox is that the farmers, especially in old EU members countries are paid for keeping natural environment healthy. There is evidence that cost of such policy are in large extent covered by the EU new members.

Poland's experience after accession to EU

Agriculture is a very capital-intensive industry. On the average, one job in agriculture costs much more than one in the whole national economy. A modern farm requires a lot of fixed assets as, agricultural land, different kind of buildings and machinery. It is obvious than price change in any of these factors has impact on cost of production. Polish accession to the European Union has had very strong influence especially on agricultural land prices (see table 1–3).

Table 1. Cultivated land prices on the free market by regions in the period of 2000–2005

Item	Cultivated land total					
	2000	2001	2002	2003	2004	2005
	in PLN per ha					
POLAND	4786	5197	5042	5753	6634	8244
Region						
Dolnośląskie	3939	4319	4062	4868	4875	6941
Kujawsko-pomorskie	5386	5744	5587	6519	7721	12209
Lubelskie	4187	4478	4155	4963	5386	6361
Lubuskie	2958	3160	2950	3092	3561	4364
Łódzkie	4221	4684	4711	5339	6820	8982
Małopolskie	7069	7719	7163	7269	8451	8644
Mazowieckie	4917	5524	5517	6717	7805	9557
Opolskie	6209	6372	5603	5454	6262	7100
Podkarpackie	3431	3883	3818	4249	4522	4318
Podlaskie	4494	4796	5078	5575	6697	9410
Pomorskie	3533	4120	4854	5488	6906	9137
Śląskie	4343	5007	5264	7273	8416	8224
Świętokrzyskie	5189	5674	4879	5406	5950	6062
Warmińsko-mazurskie	3239	3485	3291	3499	4691	5737
Wielkopolskie	5776	6287	6276	7457	8568	13107
Zachodniopomorskie	3235	3780	3658	4073	4901	5057

Source: Central Statistical Office, GUS, Warszawa 2007.

Based on table 1 the following conclusions can be taken:

- There are significant differences in price increase before and after accession. In the period of 2000–2003 land prices increased by 20,2 percent, or 6.3 percent p.a. However, after accession the land prices rose by 43,3 percent, or 19,7 percent taken them annually. It means that annual pace of land prices growth was 3 times higher than before accession.
- Land prices rose in all regions
- There are significant regional differences in land prices level and increase. The highest land prices were, and still are, in the regions with most efficient agricultural performance e.g. Wielkopolska, Kujawsko-Pomorskie and Mazowsze.
- The lowest land prices are still in the region where majority of land belongs to the State Treasury. E.g. northern and western Poland.

Similar situation can be observed in land price changes, if they are taken according to land quality. This is presented in tables 2 and 3. Good quality meadows prices raised 1.6 percent p.a. and 9 percent p.a. after accession. As poor quality

Table 2. Market prices of good quality meadows in the period of 2000–2005, by regions

Item	Good quality meadows					
	2000	2001	2002	2003	2004	2005
	In PLN per ha					
POLAND	4883	4982	4515	5168	5770	6144
Region:						
Dolnośląskie	3532	3711	3547	5068	4501	4838
Kujawsko-pomorskie	3827	4348	4005	4799	6108	7763
Lubelskie	3284	4259	3609	4037	3926	4179
Lubuskie	2489	2620	2572	2927	3359	3476
Łódzkie	4295	4410	4040	4577	5800	6358
Małopolskie	6993	6999	5708	6782	7205	5760
Mazowieckie	5741	5823	5785	6314	7499	7818
Opolskie	4845	6029	3856	5680	4825	4726
Podkarpackie	3378	4109	3776	4135	4367	3281
Podlaskie	8311	5940	5723	6903	7886	9537
Pomorskie	4978	5367	5308	4533	7555	6430
Śląskie	5283	4447	5320	4565	5984	7143
Świętokrzyskie	5230	5825	4002	5210	4735	4055
Warmińsko-mazurskie	3399	2921	3334	3245	4626	4714
Wielkopolskie	5019	5020	4845	5290	6071	8085
Zachodniopomorskie	3721	3003	2369	2607	3287	3529

Source: Central Statistical Office, GUS, Warszawa 2007.

meadows prices change is concerned prices rose even quicker than that of good quality. Annual ate of growth was 3.5 percent before accession and 14.6 percent after accession.

We have to admit that after Poland’s accession to EU agricultural land prices rise much quicker than consumer prices. In 2004 CPI was 104,0 and in 2005–2006 102,1 and 101,0, respectively. It means, that there was no “shock price” after accession after accession, as is used to be in 1990 when CPI reached level of 585 percent. This situation was due to only slight changes in agricultural producers prices and very good crops, in 2004.

Very quick increase of agricultural land and real estate prices, in general, were caused by compensatory payments to farmers. In 2005 farmers received as subsidy ca. 7,6 billion PLN (1.9 billion euro) and their personal incomes increased by ca 40 percent. In the 2006 those payments were on similar level as in 2005 (according to Ministry of Finance there were no payments in 2004). This situation might be expected as land economics shows.

Table 3. Market prices of poor quality meadows in the period of 2000–2005, by regions

Item	Poor quality meadows					
	2000	2001	2002	2003	2004	2005
	In PLN per ha					
POLAND	2753	2712	2660	3049	3525	4003
Region						
Dolnośląskie	1701	1997	2305	3360	2658	3523
Kujawsko-pomorskie	2135	2186	2237	2561	2976	5429
Lubelskie	1971	2372	2093	2444	2768	2409
Lubuskie	1415	1605	1590	1776	1948	2132
Łódzkie	2319	2184	2295	2315	3698	3958
Małopolskie	4564	4771	3776	4744	5013	4139
Mazowieckie	3113	2845	3065	3411	3940	5121
Opolskie	2572	4061	2245	2628	2853	2884
Podkarpackie	1988	1741	2105	2189	2970	2117
Podlaskie	3531	2828	3288	3822	4540	6039
Pomorskie	1885	2866	2656	2779	5003	4219
Śląskie	3932	2361	3802	3555	4012	5735
Świętokrzyskie	3386	3374	2301	3181	2847	2322
Warmińsko-mazurskie	2167	1918	1793	2078	2702	2927
Wielkopolskie	2526	2514	2816	2990	3324	5268
Zachodniopomorskie	2205	2043	1596	1675	2122	2347

Source: Central Statistical Office, GUS, Warszawa 2007.

There are some severe repercussions of agricultural land increase. First of all, they have significant influence on farm economics, and especially on:

- Costs of production, e.g. rent paid by farmers who have leased state land rose in 2007 by 41 percent¹;
- Farm restructuring;
- Farm debt.

As farm restructuring is concerned the situation described above has stopped farm size growth. In some regions farmers do not cultivate land and do not sell their land, either. Demand on agricultural land is much higher than land supply. Compensatory payments have ruined Polish very young agricultural land market.

However, there are also good results of that payment scheme; land is very popular tool as a collateral for banking credit. Higher land prices make farmers more credible in that area.

¹ Source: Agency of State Property, ANR Warszawa 2007 (unpublished)

Perception of the UE accession by Poles

Polish citizens evaluate Polish accession to the European Union in different ways. It is very important how EU accession is evaluated by leading politicians and socio-economic groups. However, it is obvious that integration has both, positive and negative. One have to admit that majority of Polish farmers has accepted their presence in the enlarged Europe. According to Institute of Rural and Agricultural Development, in 2006 54 percent of Polish farmers had good opinion about EU agricultural support scheme and 34 percent had bad opinion about it. However, it is obvious that integration has both, positive and negative sides.

Positive aspects of it is as follows:

1. Huge EU consumer market; about 400 million consumers create new perspectives for Polish export;
2. New labour markets a new opportunity for unemployed in Poland including rural people;
3. Net money inflow in the next planning period 2007-2013, more than 60 billion euro, which mean 8.5 millions euro per annum;
4. Possibility to act together and solve global issue;
5. Possibility to act in a global political and economical environment.

Negative aspects of the integration could be as follows:

1. Integration issue; two EUs- old one (15) and enlarged 27
2. The same requirements and measures but different treatment e.g.:
 - Compensatory payments for new members at the 60% level of that of old members;
 - Lower production reference levels e.g. 3 t (189 Euro); Germany 6 t – 378 Euro per ha on wheat production
 - Production quotas (milk, grain, sugar etc.) in milk production level of 1952 year.
 - Weak protection of the national market
 - Very short adjustment periods in agri – environmental issues
 - Different treatment of the so-called soft-fruits (there are subsidies to peaches, grapes, oranges, olives etc. but no subsidies to growers of cherries, strawberries, raspberries. Poland is very large producers of those fruits. This situation is due to Polish politicians who participated in negotiations with EC who were not able to get better (equal) conditions for Polish farmers.
3. Huge costs of the adjustment of the Polish economy to European Union requirements. Adjustment only in the area of environment requires about 80 billion euro.

Future of agricultural policy in Poland

Generally speaking, present Polish agricultural policy depends mostly on that what does the European Commission create. However, there are also some general, domestic issues, which has an impact on that policy. These are as follows.

Because of very small share of agricultural GDP in national GDP (less than 3%) Polish countryside can no longer depend on agriculture alone. However, it is still very important branch of the rural economy. Some of 15% of total farm disposal incomes in Poland comes from agricultural industry. More than 15% of the total national employment is agricultural employment. Many farms have other than agricultural business activity and are called diversified farms. In 2005 there were altogether 190 000 diversified farms in Poland, which means than a bit more than 9% of the active Polish farms. Most of them deal with very simple activities like retail trade and transportation. Less than 40 000, out of 1.8 million farms offer agri-tourism services. Because of new EU Financial Perspective 2007-2013 Polish agrarian policy is basically, a blue print of the Common Agricultural Policy of the European Union. It is focused mostly on the financial and environmental issues. In that sense I would say, that this policy has two main goals, which could be formulated as following questions:

1. Who will become major beneficiary of the EU funds allocated to Poland (60 billion euro for the period of 2007–2013)?
2. How will be in charge of the funds, regional, local or government authorities?
3. How to implement new environmental regulations put on new EU members?

Future of the EU agricultural policy

According to a report of the European Commission, there are indications that the problems of unemployment or under-employment and poverty are increasing in remote areas in of the EU. In the enlarged EU-27 some four to six million full-time workers are expected to quit with agriculture by 2014. Furthermore, hidden unemployment on farms can amount to around five million persons. These trends highlight the major challenge for future agricultural and rural policy; maintenance of incomes of and viable communities in the less favored rural areas of the EU. According to EU Farm Commissioner Mariann Fischer Boel, in coming future farm incomes will increasingly depend on the market. The future of the CAP does not lie in continuing support of agricultural markets or even farm incomes. There will be increase in the number of part-time farmers who would need a second source of income to cope with the forthcoming cuts of EU subsidies and to survive the next decade. Farmers will have to look for sources of incomes other than agricultural ones. Farming during the weekend and having

a job in the nearest city, which already exists in some countries, will become normal.

The EU Commission expects that the continued restructuring and modernization of agriculture will place a heavy burden on the less favored rural areas. The future CAP reform will cover such issues, as: abolishing production quotas, set-aside, capping subsidies, elimination of country- specific arrangements and intervention for all cereals, further decoupling of direct payments to farmers and higher rate of compulsory modulation for direct payments. A single Common Market Organization) CMO) will be established for all agricultural products to replace existing 21 CMOs.

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