

DIRECT EFFECTS OF THE CAP IMPLEMENTATION IN POLAND - EXPECTATIONS UP TO 2020

Marek Wigier¹, Doina Darvasi²

Summary

When Poland accessed the EU it was covered by regulations significantly changing the conditions of food economy. Mutual opening of markets multiplied the possibilities of market outlets and contributed to the better competitiveness of economic entities. The launched public funds helped, for instance, to modernise farms and food industry businesses, improvement of their competitiveness, construction of infrastructure or multi-functional development of rural areas. This paper discusses the selected effects of the CAP implementation in Poland at the background of production and economic situation in the agri-food sector and the most important challenges.

Key words: *agricultural policy, interventionism, CAP implementation effects.*

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Introduction

At present, the global experiences prove that the market and the state have to co-exist and the state intervention should be always limited to support market mechanism and not replacement thereof. The state should interfere only when it has a clear advantage over the market mechanism; hence only when the market fails to protect the general interests of the society [Woś, 1995]. In the agricultural sector the intervention is manifested by state's involvement in the shaping of agricultural prices, awarding different types of investment grants or through the establishment of norms and standards.

The contemporary global economy often rejects the thesis on the perfect market [Czyżewski, 2007] thereby justifying the role of state intervention. When explaining the main reasons for intervention in the modern global agriculture J.E. Stiglitz [Stiglitz, 1987] and J. Wilkin [Wilkin, 2002] point to the high level of risk linked to agricultural activity and lack of

1 Marek Wigier, Ph.D., Institute of Agricultural and Food Economics - National Research Institute, Swietokrzyska Street no. 20, 00-002 Warsaw, Poland, Phone: 225-054-438, E-mail: wigier@ierigz.waw.pl

2 Doina Darvasi, Ph.D., Senior Lecturer, Ion Slavici University of Timisoara, Faculty of Economic Studies, Aurel Podeanu Street no. 144, 300569 Timisoara, Romania, E-mail: doinadarvasi@yahoo.com

efficiency as regards prevention of this risk. This risk results from e.g. changing climate conditions, lack of sufficient information and underdevelopment of agribusiness structures, including also consultancy. The need for interventions in the agribusiness sector is justified also by: the phenomena of external costs and effects, low price elasticity of supply, lower level of labour productivity than in other sectors of the national economy, low mobility of the workforce employed in agriculture, the need to provide public goods, implementation of the sustainable development concept.

The CAP constitutes an example of state intervention in the food sector, which among its instruments has market-based instruments (referring to supply and demand regulation) and non-market instruments (direct and indirect grants). The market-based instruments, related to price support, favour the biggest producers, in particular the most productive ones and producers of goods. Thus they fail to meet the criterion of fairness and providing support to the weaker as the reason for intervention [Rembisz, 2010]. The rural development programmes are an example of non-market instruments. As a an instrument of state intervention policy they provide an opportunity to stabilise the policy in several production cycles. They stimulate changes as regards the production structures, competitiveness improvement, environmental protection and multi-functional development of rural areas. Thus they constitute the basic instrument supporting the process of food economy and rural areas modernisation.

Current and future assumptions of the agricultural policy in Poland

The agricultural policy in Poland does not have a cohesive character. It supports agriculture based on the traditional and industrial model, organic farming and agriculture based on induced development and sustainable development [Woś, 2004]. The CAP objectives and mechanisms, as well as individual farms characteristics of the Polish agriculture indicate that in a long-run its pattern should be based on a dual model. Certain farms while maintaining the basic requirements of environmental protection should implement production methods ensuring high economic viability (industrial agriculture), other farms should base their development on methods more ecosystem friendly, which enable the use of the environmental and social and cultural assets at hand as socially sustainable agriculture [Woś A., 2004, Zegar J. St. 2002].

The integration with the EU created new conditions in Poland for the development of agriculture and food industry. Since 2002 the food economy has been supported with the resources of programmes co-financed from the EU budget that penetrate and complement each other. The total value of financial aid programmes (together with direct payments) for the agri-food sector and rural areas from the beginning of 2002 until the end of 2011

exceeded PLN 113 billion³. This comprises of SAPARD⁴ payments - ca. PLN 4.5 billion⁵, SOP "Agriculture"⁶ - ca. PLN 6.4 billion, RDP⁷ 2004-2006 – ca. PLN 11.1 billion⁸, RDP 2007-2013 – PLN 27.5 billion⁹ and almost PLN 63.5 billion from direct payments.

The above-mentioned programmes are characterised by certain continuity of general objectives, at the same time, gradually extending the forms of aid and changing the scope and value of provided support. The SAPARD programme aimed at preparing the Polish agri-food sector to the accession, especially as regards the adjustments to the sanitary, hygienic and environmental protection requirements of the EU. After 2004 the strategic objectives of the agricultural policy cover: competitiveness improvement of the agri-food sector, sustainable development of rural areas, improvement of the state of the natural environment, improvement of the quality of life and diversification of the economy on rural areas. The majority of measures implemented in 2007-2013 is a continuation of measures implemented in the previous periods. This is an evidence of policy continuity as regards implementation of the set objectives, but it does not mean that the very agricultural policy is cohesive in the long-term perspective. Because of the multiplicity of measures and objectives some of them are mutually exclusive and cancel each other out.

In the future innovations will remain the main sources of economic growth and competitive advantage generation. Their establishment and generation constitute an important growth factor for quality and efficiency. Although the competitiveness of the Polish agri-food sector can be assessed as rather high, in the long-term perspective its low innovativeness [Szczeplaniak, 2009] can pose a significant threat not only to the improvement of the competitive position, but also to keeping thereof. The agricultural policy should prioritise measures strengthening competitiveness and innovativeness of the agri-food sector. These measures gain even greater importance if we look at them through the prism of the forecasted global population growth (and thereby also demand for food) and natural constraints (especially as regards fresh water supply).

Sustainability and multi-functionality will also form important priorities of development in the future. This pertains to mobilisation of economic and social activity of rural residents, differentiation of activity to ensure alternative sources of income, shaping agricultural production patterns in line with the environmental requirements

3 All financial information concerning the implementation of programs financed by the EU are derived from monitoring data the Agency for Restructuring and Modernization of Agriculture, www.armir.gov.pl

4 Special Accession Program for Agriculture and Rural Development - SAPARD

5 The amount covers PLN 468 million of payments financed from the RDP 2004-2006.

6 Sectorial Operational Program "Restructuring and Modernization of the Food Sector and Rural Development 2004-2006"

7 Rural Development Plan

8 The amount does not cover payments from the SAPARD commitments and the payments of commitments moved to be financed from RDP 2007-2013

9 Together with the commitments of the RDP 2004-2006 - ca. PLN 9.2 billion.

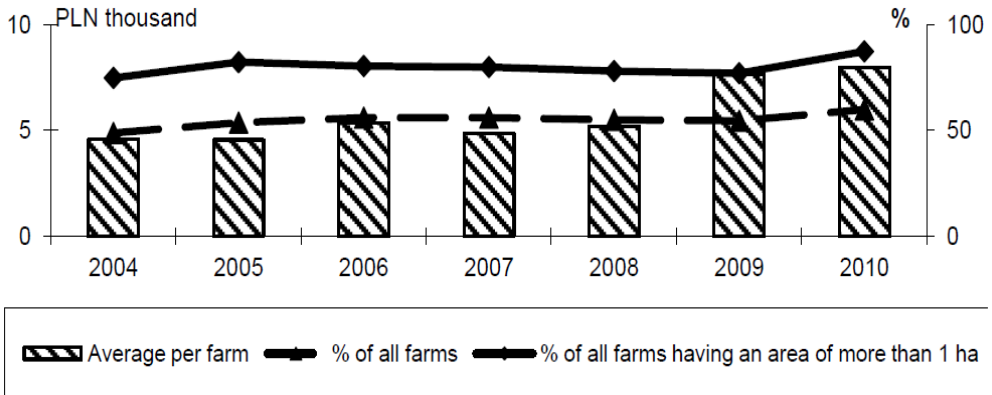
simultaneously keeping the landscape assets and biodiversity. We should aim at improvement of the life quality of rural residents, decreasing the unemployment and eliminating areas of social exclusion. Cohesion in three dimensions: economic, social and territorial, constitutes a key to sustainable.

Direct effects of the CAP implementation in agriculture

The EU funds had a significant share in the financing of transformations in agriculture until Poland’s accession to the EU. The direct payments are the most common type of support, each year about 1.4 million of farmers uses this form of support. The value of payments in the 2004-2011 period increased from ca. PLN 6 billion to PLN 14 billion per year. When calculated per one farm it reaches an average of ca. PLN 9 thousand, and this form of support is used by 87% of farms having an area of more than 1 ha (see Fig. 1). An equally important source of income (regardless of production, and only based on the farm’s location) are payments for less-favoured areas (LFA). Each year these payments benefit ca. 700 thousand farmers, i.e. half of those receiving direct payments. The land surface covered with LFA payments amounts to ca. 6.9 million ha.

The share of direct payments in the farms’ income amounts to ca. 40% [Floriańczyk Z., 2006). If we consider also other forms of direct payments, such as e.g. livestock payments or LFA, this share will be even greater. These payments are made to farmers on an annual basis. The manner of spending of the resources is not subject to settlement. Smaller farms usually allocate the granted payments to current needs and means of production (fuel, fertilisers), while the bigger ones also make investments.

Figure 1. Direct payments - amount of payments and share in the number of farms



Source: Authors’ own compilation based on the data of the Central Statistical Office (CSO) and the Agency for Restructuring and Modernisation of Agriculture (ARMA).

The resources earmarked for investments are also an important source of aid for farms. In order to obtain them a farm has to prepare a business plan and gain its acceptance from a body managing the programme. So far, the financial resources for investments in farms available under SAPARD, SOP “Agriculture”, RDP 2004-2006 and RDP

2007-2013 were used in their entirety. By 2002 a total of 15% of farms benefited from measures aimed at improvement of competitiveness of farms (see Table 1). The greatest share, i.e. 6% benefited from measure “Modernisation of agricultural holdings”, 5% from “Early retirement”, 2.7% from “Setting up of young farmers” and 1.3% from “Diversification of agricultural activities”. The value of grants is rather considerable (see Table 1), and in the current RDP 2007-2013 their average value as calculated per one beneficiary is even higher. In measure “Modernisation of agricultural holdings” it exceeded PLN 140 thousand, in measure “Diversification of agricultural activities” - PLN 84 thousand, and in “Setting up of young farmers” - PLN 66 thousand.

Due to covering farms with the CAP mechanisms most farmers have seen a rise in their income. The grants (mainly in the form of direct payments) were of basic significance for the rise in the income of farmers. In real terms the income from production factors per a person employed in the Polish agriculture full-time, increased in 2005-2010 by over 45%, and for the overall agriculture in EU-27 by 11.1%. The growth rate of income in family holdings of farmers was higher than in other socio-economic groups. The real income at the disposal of framers increased by 64.3%, while in total by 38.7% [Floriańczyk Z., Goraj L., Zegar J, 2011].

Table 1. Selected results of measures implementation under SAPARD, RDP 2004-2006, SOP “Agriculture” and RDP 2007-2013 in total

Measure	Beneficiaries	Resources paid in PLN million	% of farms in total	Amount of support per 1 beneficiary
Modernisation of agricultural holdings	80,794	7,188	5.95	88,967
Setting up of young farmers	42,310	1,736	2.71	41,030
Early retirements	73,924	7,136	4.73	96,531
Diversification of agricultural activities	17,846	1,136	1.34	63,656
Total	214,874	17,196	14.73	80,028

Source: Authors’ own compilation based on the data of the CSO and the ARMA.

An improvement of competitiveness in agriculture depends on structural changes (that predetermine the efficiency of production factors used) and on development of the entire national economy, especially in the context of capacities to create new jobs outside of. The rural development programmes, direct payments and changes in the entire economy accelerated structural transformations in agriculture, which consisted e.g. in concentration of production. This is evidenced by over 20% drop in the number of farms in 2000-2010, the greatest decrease, i.e. 25% pertained to the smallest farms in respect to area (1-5 ha UAA), while the number of the largest farms increased significantly. The average area of a farm (having UAA > 1 ha) increased by 13% ha, i.e. up to ca. 9.5 ha UAA. However, the greatest part of agricultural land still belongs

to the small and medium-sized farms (having < 20 ha UAA), and the distance between Poland and the main food producers in Europe remains huge in this field.

Direct effects of the CAP implementation in food sector

The period of Poland's membership in the EU for food industry is related to production, investment and trade recovery. The industrial food production in 2004-2010 developed at an average rate of 4.6% per year (6.3% up to 2007). This growth rate is slightly higher than the GDP increase (4%), and almost twofold faster than the commercial production of agriculture (2.5% per year), 2.5 times higher than the increase in the consumption of food, beverages and tobacco products (1.7%) and slightly smaller than the growth rate for industrial production in Poland (5.6%). At the same time, the growth rate of the value of food industry sales in Poland was among the highest in the EU (0.7% per year in the EU-27 countries). These changes helped to strengthen the Polish position on the European market. The production value of the food sector in Poland (ca. EUR 67 billion according to the Purchasing Power Parity of currencies) amounts to ca. 7% of the food and beverage production in the EU-27 countries. The fact that Polish food industry is an important partner and competitor for the EU producers of food and beverage producers is evidenced also by comparison with other indicators, such as: employment (in Poland - 458 thousand persons, i.e. 10.6% of EU-27 employment); value added (in Poland - EUR 9.4 billion, i.e. ca. 7.0% of the EU-27 level); total number of companies with the micro-enterprises sector (in Poland - 15.6 thousand, i.e. 5.0% of companies in the EU-27 countries).

The changes result in the branch consolidation. In 2000-2010 the number of active food industry plants producing food and beverages was gradually decreasing (by ca. 30%). The greatest decrease in the number of companies was noted in the micro-enterprises sector (by 36%), and the lowest among small and medium-sized companies (13% in each group). At the same time (although on a smaller scale), a drop was noted in employment (by ca. 10%). The greatest decrease of employment concerned micro-enterprises (by 22%), and in the sector of small companies the reduction was minimal or even showed an increasing tendency in some periods (in 2003-2008).

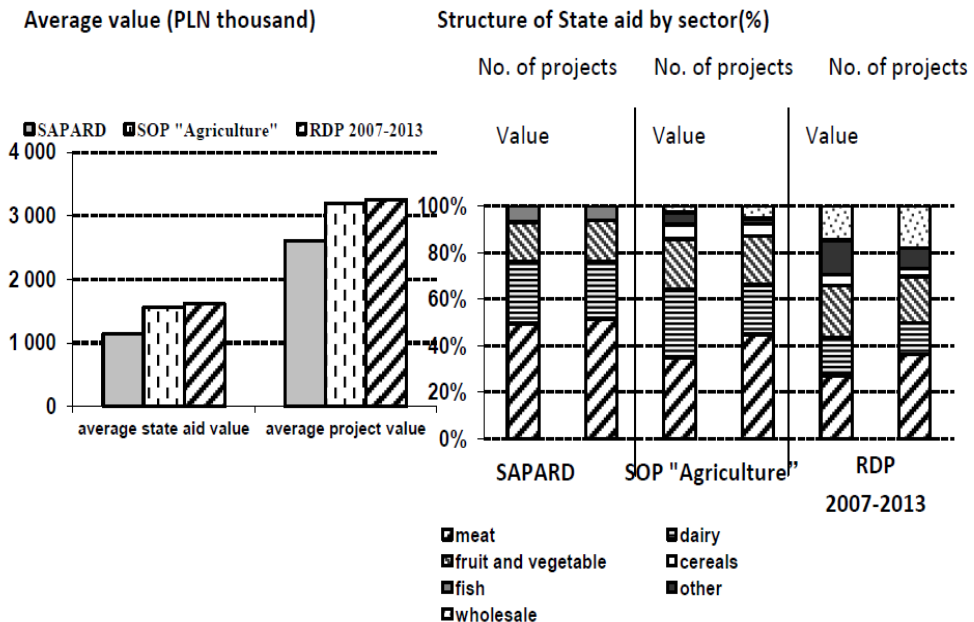
The privatisation of the food processing industry sector, structural changes as well as investments in modernisation and adjustment of the processing plants to the EU veterinary and sanitary norms and standards are the sources of their success on the domestic and foreign markets. The total value of investments in 2000-2010 exceeded PLN 68.5 billion. However, the share of the EU aid resources in this amount is slight and totals PLN 3.8 billion¹⁰, and by the end of 2013 the value of payments will reach ca. PLN 7 billion. The EU financial resources are still a catalyst for investments. In order to obtain co-financing an entrepreneur has to launch his own resources which, consequently, increases the final value of investment by three-four times.

¹⁰ PLN 4.1 billion up to October 2011

In 2011 grants were used by almost all food industry branches (including wholesale trade), but the main aid beneficiaries are still: meat, dairy, and fruit and vegetable sectors. The value of co-financing calculated per one investment project ranged from PLN 1 million to PLN 1.5 million (see Fig. 2). From launching of the SAPARD programme to the end of June 2011 almost 3.5 thousand investment projects were implemented in over 2.1 thousand processing plants. The aid effects as measured with the indicator of company’s survival on the market are more than satisfactory. The majority of entities that benefited from the EU aid still conduct production activity.

More than 40% of companies benefiting from the investment aid are medium-sized companies employing from 50 to 249 workers. In the 2002-2006 period the investment focused mainly on adjustments to the EU sanitary and veterinary requirements (ca. 80% of the investment value in the meat and dairy industry) In 2004-2008 the majority of investments (45% of their value) concerned improvement of the production quality and bringing new products to the market, while in the 2007-2013 programme they focus, above all, on value added growth (45% of the value) and bringing new products to the market. Such a change in the type of investments is an evidence of giving preference by the processing plants to measures increasing their competitiveness. Environmental investments have marginal character.

Figure 2. Average value of grants and state aid structure



Source: Authors’ own compilation based on the ARMA data.

State aid plays a significant, but less and less prominent role in the shaping of the pace and direction of investments in the food industry. Undoubtedly, it helped to strengthen the competitive position and increase export in the Polish food sector. The EU countries are

the largest outlet market of Polish agri-food products (an increase from 63% of the total export value in 2003 to ca. 80% in 2010). From the moment Poland became a member of the EU the Polish export of agri-food products grew by almost 3.5 times, import – by three times and foreign trade balance for these products by over 5 times. This resulted in a positive increase in the trade balance from EUR 0.5 billion in 2003 to EUR 2.6 billion in 2010. The structure of foreign trade in agri-food products is predominated by food industry products. The results of trade in these products have a decisive impact on the trade surplus generation. The share of intermediate products and ready products in the export shows a growing tendency. In 2010 the income on their sales constituted 84% of the Polish export of agri-food sector. For comparison, the share of processed products in the agri-food import amounts to ca. 70% of the trade value).

Conclusion

In the last decade the structural changes taking place in the Polish agriculture, food industry and rural areas became more dynamic. The most important among them cover: a drop in the number of farms with simultaneous growth in the share of the largest farms, which directly influences the increase in the average area of farms, drop in employment in agriculture and progressing production concentration and specialisation. The structural changes are, however, slow and cannot be efficiently accelerated due to non-agricultural circumstances.

In the food industry the investment boom started in 2003 and it was related to the need to modernise and adjust the Polish food businesses to the sanitary, veterinary, animal welfare and environmental standards of the EU. The investments made in the first period of membership in the EU enabled mandatory popularisation of quality management systems guaranteeing food safety. In 2008-2009 the investment expenditure were constrained, however, already in the next year first signs of the boom returning to this field were visible. Owing to the investments made the Polish food industry is counted among the most-modern in Europe and our companies can efficiently compete with producers from other EU countries.

The EU aid programmes made it possible to modernise several farms and processing plants, improve food safety and quality, increase the value added and innovation of production, as well as improve competitiveness on the international markets. The changes in agriculture and food industry do not follow only from covering Poland with the CAP, but also from the change in the market conditions. The impact of individual instruments is different. Starting from the greatest - direct payments, and ending with the slight significance of programmes supporting semi-subsistence farms or early retirement (minimal range).

The future agricultural development strategy should consider the process of farms polarisation into agricultural and non-agricultural activity. This polarisation concerns population, households and economic entities (including farms) operating on rural areas. The tendency of different areas of economic activity interpenetration becomes more and more intense. Support to economic development of rural areas provided in the form of public resources should be based on ensuring implementation of the concept

on shaping internal balance of these areas. It consists in maximisation of net benefits from economic development, at the same time, protecting the natural resources and ensuring restoration of the natural resources services in the long-term perspective - the sustainable development concept.

The debate ongoing on the EU forum and concerning the future of the CAP after 2013 indicates that this policy will play a key role in ensuring food safety, sustainable development of agriculture and rural areas, as well as natural resources management. It will be oriented at new Community challenges, for instance, related to: resources protection, climate change, water resources management, biodiversity, renewable energy or risk and crisis management. Still, food safety will remain the key challenge for the food sector not only in the EU, but all over the world. By 2050 global population figures will grow up to 9 billion making it necessary to increase food production by 70%, while the availability of scarce resources, particularly water, energy and land will be limited. This implies a growing pressure of the global markets on increasing the food production, risk of price fluctuations on agri-food markets, greater pressure on the natural resources. Food, just like in the past centuries will be of strategic significance. The future agriculture in Poland should take into account the aforementioned challenges.

However, in the future state aid should play a less significant role in the shaping of the pace and direction of investments. The state taking over the role of the regulator will force specific patterns of behaviour on economic entities. The beneficiaries using public funds will, by definition, be in a more favourable position as compared to those who do not obtain such grants. But the resulting substitution and income effects can cause a drop in efficiency and thereby competitiveness in the long-term perspective.

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