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The present and future aspects of the Common Agricultural Policy; the Polish position

Abstract. The paper deals with the future of the EU Common Agricultural Policy. The New Financial Perspective (2007-2013) is being discussed. The paper is supplemented by analysis of the impact of the 2003 reform on the most important markets. Final part of the paper deals with a presentation of Poland's position with regard to the future of CAP.
Key words: agriculture, Common Agricultural Policy, Financial Perspective

Introduction

The agreement reached by the EU-15 Ministers of Agriculture in Luxembourg (on 26 June 2003) and the EU Council Proposals of 22 April 2004 gave shape to Common Agricultural Policy (CAP) for years 2007-2013. The fundamental element of the new CAP implemented since 2004 is to separate direct payments from the structure and size of agricultural production, so called decoupling. Decoupling means replacing the existing specific direct payments to particular types (branches) of agricultural production with a system of uniform payment independent of production (Single Payment Scheme). Poland supported the assumptions of the CAP reform.

Other essential elements of the reform include the following:

- a decrease of the amount of direct payments for very large holdings with the purpose to allocate the financial means thus obtained to the enhancement of measures for the benefit of the rural areas (modulation)
- a financial discipline mechanism which will prevent CAP budget expenditure to overshoot the limits adopted by the EU Council at the Berlin summit in 2002
- linkage of the Single Payment Scheme (SPS) with payments specific to the defined directions of production with the obligation to meet specific standards and requirements by the holding (*cross-compliance*)
- introduction of an agricultural advisory system, with an aim to provide aid to agricultural producers in implementation of cross-compliance
- further reduction of the intervention prices in the dairy market in return for higher direct payments (in Poland – Single Area Payment Scheme)
- abandonment of intervention in the rye market
- abolishment of the quota system in the tobacco market
- increase of significance (scope and level of support) of rural development.

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Context of the consecutive Common Agricultural Policy reforms

From the point of view of the New Financial Perspective (NFP) 2007-2013 [Financial... 2006] the Common Agricultural Policy may be defined as stable. A constant level of expenditure in consecutive years until 2013 has been planned (financial discipline mechanism and the expenditures are predictable in the medium term perspective (October 2002 and December 2005 agreements on the financial perspective for the period 2007-2013), whereas their relative share in the EU budget is decreasing. The expenditure under CAP, rural development included, now amounts to 40% of the EU budget (as compared to 65% in 1990). In 2013 this expenditure will amount to 35%.

However, discussions associated with the NFP (2007-2013) negotiations as well as a possible change of political environment in particular EU Member States by 2013, imply that the next financial perspective (beyond 2013) involves a considerable risk of the EU agricultural budget reduction.

The alarming syndromes include the following: (i) reduction of the budget for rural development by about 20% as compared to the Commission proposal and (ii) voluntary modulation, i.e shifting of up to 20% of the budget from the 1st Pillar (direct payments) to the 2nd Pillar under the allocation of respective Member States, i.e. without the Community redistribution mechanism, so that the risk of Community policy re-nationalization with respect to agriculture and rural areas exists.

In the Section 2 of the New Financial Perspective *Management and maintenance of natural resources* (agriculture, rural development, fisheries and New Financial Instrument for the environment) an amount of EUR 293 105 million was agreed for the commitments for 2007-2013.

Table 1. Funds for the commitments under Section 2 'Management and maintenance of natural resources' of the NFP, 2004 prices, EUR million

Expenditure	Year							
	2007	2008	2009	2010	2011	2012	2013	2007-13
Commitments	54 972	54 308	53 652	53 021	52 386	51 761	51 145	371 244
including: Agriculture (1st Pillar) – market support and direct payments	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105

Source: [Financial... 2006].

In mid-March 2006 the European Commission presented the ultimate amounts of funds for commitments, including those under Section 2 of the NFP, which were the basis for reaching agreement with the European Parliament and the EU Council (for the so called Interinstitutional Agreement).

The commitments to CAP 1st Pillar for 2007-2013 also include EUR 7.978 billion allocated to market support and direct payments in Bulgaria and Romania.

Allocation for the new instrument of rural development (composed mainly of the amounts shifted from the funds intended for the support of the 'Convergence' objective regional component and of the amounts paid now under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund) will amount to EUR 69.75 billion

before modulation, out of which EUR 41.23 billion is now paid under EAGGF Guarantee Section. The Commission will allocate the total rural development expenditure, including the amounts shifted from EAGGF, and will ensure that at least EUR 33.10 billion is allocated to EU-10, Bulgaria and Romania. Out of the remaining EUR 36.74 billion, the amount of EUR 18.91 billion will be allocated to the EU-15 according to a schedule suggested by the Commission and agreed by the Council in accordance with the Regulation 1698 of 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) adopted on 20 September 2005. The remaining EUR 4.07 billion will be allocated to Austria (EUR 1.35 billion), Finland (EUR 0.46 billion), Ireland (EUR 0.50 billion), Italy (EUR 0.5 billion), Luxembourg (EUR 20 million), France (EUR 0.1 billion), Sweden (EUR 0.82 billion) and Portugal (EUR 0.32 billion), where the latter is not subject to co-financing obligation because of the special difficulties of Portuguese agriculture referred to in the EU Council Conclusions drawn from the Commission Report on Portuguese Agriculture.

Table 2 - Section 2 of the New Financial Perspective for 2007-2013 'Management and maintenance of natural resources', EUR million

Allocation	Year								Total 2007-2013	Difference 2013 vs. 2006
	2006	2007	2008	2009	2010	2011	2012	2013		
Market support and direct payments (Pillar 1)	43 735	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105	-7%
Rural development (2nd Pillar)	10 544	10 710	10 447	10 185	9 955	9 717	9 483	9 253	69 750	-12%
European Fisheries Fund	630	539	544	551	551	553	554	556	3 849	-12%
Other Fisheries	272	321	325	328	329	331	332	333	2 300	23%
Life+ (environment)	199	220	234	248	259	271	283	296	1 811	49%
Other	31	61	61	61	61	61	61	61	429	96%
Total Section 2	55 411	54 972	54 308	53 652	53 021	52 386	51 761	51 145	371 244	-8%

Note: All figures are in terms of 2004 prices, annual deflator of 2% was applied.

Source: [Financial... 2006].

Allocation for the new instrument of fisheries (composed mainly of the amounts shifted from the funds intended for support of the regional component of convergence, regional competitiveness and employment objectives) will amount to EUR 3.8 billion.

In negotiations of the Interinstitutional Agreement the European Parliament sought an increase of the EU budget by EUR 12 billion to finance the policies of high community added value (education, research, Trans-European Networks and border cooperation), whereas in opinion of the Presidency the amount is completely unreal. In opinion of the Council the expenditure under NPF could be increased only by about EUR 1.5 billion.

During the reconciliation meetings of the Council and the Parliament on April 4th 2006 an agreement was reached on the New Financial Perspective 2007-2013. In opinion of the Parliament and the EU Council the agreement takes into account the political requirements that are faced by the European Union and the necessity to achieve greater flexibility of budgetary measures.

Future of the Common Agricultural Policy in the context of Polish agriculture

Covering the agricultural markets by the Common Agricultural Policy (CAP) has resulted in a significant change of price relations in agriculture. Procurement prices of animal origin products increased significantly, especially in cattle and milk sectors, whereas procurement prices of cereals decreased. The decrease of prices of cereals has had a positive impact on the pig and poultry sectors. Lower revenue of farms concentrating on crop production on account of lower prices of cereals have been compensated by the direct payments scheme. The fluctuating prices and price relations were reflected directly by the results of foreign trade in the Polish agri-food products illustrated, among other things, by a significant increase in export of dairy products as well as poultry, beef and fruit and vegetables preserves.

- **Cereals market**

The years 2004/2005 and 2005/2006 were characterised by a rich harvest. The intervention system played significant part in the light of the excess of domestic supply over demand. Under this system Agricultural Market Agency bought in about 1 600 thousand tons of cereals for PLN 696 million. Problems with access to the EU support mechanisms for Community cereals export were noted at that time because of higher cost of transport to the target markets as compared to exports by other Member States. Poland intensely sought to take into account this factor when putting forward tenders for EU export subsidies in the European Commission and EU Council forums.

It should be taken into account that the last statements of the European Commission representatives suggest that the Community regulation of this market may undergo another reform. The criticism of the current intervention system emphasises the surpluses of cereals collected in certain EU regions, e.g. in Hungary and Poland. The possibility of further reduction of the intervention prices, and even further restriction of the scope of intervention, is suggested. Possible abandonment of export subsidies will be also considered.

- **Sugar market**

Including the sugar market into the common market organization improved the financial standing of the sector in the first two years of EU membership. At that time Polish governmental agencies purchased about 200 thousand tonnes of sugar from sugar producers under the title of intervention purchases for the amount of PLN 534 million and paid PLN 315 million of export refunds for nearly 270 thousand tonnes of sugar. At that time Poland actively participated in the debate on reform of this market, sought to maintain the previous

production (quota) level and to avoid deterioration of the national sugar beet growers' and processors' situation. The final European compromise could not be supported by Poland, yet it considered a number of Polish arguments, such as extension of the reform over time, maintenance of the intervention mechanism in the reform implementation period and lower price reduction. The Polish sugar beet growers will obtain compensation for reduction of the minimum price in the form of direct payments in the same amount as all other EU Member States.

Despite a hard criticism of the sugar market reform in Poland it might be that the limitation of sugar production in Poland will not occur, or it will, but to a very small extent. Certainly, Poland may produce sugar beet relatively cheaply, and its processing may be continued under new price conditions after a necessary restructuring. The National Sugar Company has much to do in this respect and faces a necessity to close down the least effective plants.

- **Fruit and vegetable market**

This EU market is characterized by a relatively low price support and a low protection against external competition. Support is provided mainly through agricultural producers organizations. During the first two years of the EU membership, the soft fruit sector was subject to an increasing competition of cheap imports from third countries. As a result of worse weather conditions in 2005 the fruit and vegetable production decreased and the prices generally improved. With the existing Community procedures, Poland has triggered the initiation of anti-dumping proceedings with respect to frozen strawberries import from China and submitted demands aimed at a stronger support of the soft fruit sector (payments for fruit directed to processing) and a more intensive support to producer groups.

Poland has actively participated in the ongoing debate on a reform of the fruit and vegetables market since its beginning in 2004. The debate gathered pace in last months of 2006. In the course of negotiations, Poland calls for increasing and streamlined support for producers' groups and organizations and for coverage of soft fruit intended for processing with direct payments. Poland is in a difficult situation as the largest producer of this kind of fruit, the country may face problems with obtaining adequate support. Whether or not this demand will be satisfied will also depend on the result of the present WTO round negotiations, which may considerably restrict the possibility of using this kind of payments in the future.

The efforts in this sector also focus on the relationships between producers and the processing companies. In this respect, it is necessary to disseminate solutions which will facilitate predictability of purchases and prices that farmers obtain for example under cultivation contracts. Success of these efforts depends to a large extent on the attitude of market participants because the possibilities of legislative solutions are highly limited in this respect.

- **Milk market**

In the first two years of the Polish EU membership the level of milk supply to processing plants exceeded the wholesale quota provided for in the Accession Treaty, i.e. 8.5 million tonnes. The strong position of dairy producers in the European market in terms of competitiveness contributed to an increase in production. In December 2005, in order to

ensure further development of the sector, Poland submitted a report entitled 'Restructuring of the situation of Polish dairy sector in 2000-2005' to the European Commission. At the same time Poland submitted a request to be granted a so-called restructuring reserve amounting to 416,126 tonnes. Positive evaluation of this report by the Commission became a basis for approval granted to a draft Commission Regulation on the release of the special restructuring reserve by EU Member States on May 11th 2006 at the meeting of the Management Committee for Milk and Milk Products. The possibility of launching this reserve as of April 1st 2006 resulted from the provisions of Council Regulation (EC) no 1788/2003 of September 29th 2003 establishing a levy in the milk and milk products sector.

Having regard to the expected overrun of the national reference quantity for wholesale suppliers in the marketing year 2005/2006, in January 2006 Poland undertook at the EU forum actions concerning the possibility of introducing a conversion of the unallocated national reserve for direct suppliers into reference quantities for wholesale supplies at the national level. Poland requested for a conversion of 100 thousand tonnes. Acceptance of this request would allowed to decrease the estimated overrun of the reference quantity in the quota year 2005/2006 to about 200 thousand tonnes. Additionally, a request for earlier launch of the restructuring reserve (as early as the quota year 2005/2006) was submitted.

In the long-term Poland, like other EU Member States, will face the dilemma whether or not to support preserving the system of milk production quotas after 2014/15. Evaluation of this issue will have to take into account a highly restrictive nature of the milk quota in Poland, as well as the fall in intervention prices of dairy products following the decisions already taken (Agenda 2000 and Luxemburg 2003) and rather optimistic forecasts of prices in the world market.

- **Meat market**

Reduction of the cereals prices (the main component of the feeding stuffs) favoured production of pigs and poultry. In both sectors the first two years of the EU membership brought a gradual increase in production which largely translated itself into increased exports (especially in the case of poultry). An increase in the pork production has caused a significant decrease in prices since September 2005. By the end of 2005, and particularly in the first months of 2006, the national demand for poultry decreased by about 20% because of the avian influenza among wild birds in some EU Member States, and in February 2006 also in Poland. A fall in prices and a reduction of turnover led to a crisis in the poultry sector, therefore Poland, like other Member States, called for providing this sector with support under CAP.

The crisis in the poultry market caused by the avian influenza, as well as occasional market slumps resulting from other problems falling within the scope of veterinary science and food safety, are indicative for a need to develop new instruments to prevent and alleviate the effects of such situations in the agricultural sector. Poland actively participates in the discussion initiated by the European Commission at the EU forum about the so-called crisis management. We supported this direction also by the common memorandum of the 12 EU New Member States, including Bulgaria and Romania.

Poland's position with regard to the future of the Common Agricultural Policy

During the last 15 years the Common Agricultural Policy (CAP) changed radically in response to pressures from the European society and its evolving economy. The 2003/2004 reforms marked a new phase in this process, introducing decoupled direct payments via the Single Payment Scheme (SPS) and the Single Area Payment Scheme (SAPS) in most sectors of the first pillar of CAP. Furthermore, the CAP increasingly contributes to heading off the risks of environmental degradation and to delivering many of the public goods that our societies expect. Producer support is now dependent on respecting standards relating to the environment, food safety and quality as well as the animal welfare. These issues are being addressed in the so called 'Health Check' of CAP, that is a review of the current policy which also responds to the new challenges for modern European agriculture.

Poland, in line with other EU Member States, prepared its position with regard to the basic issues of 'Health Check'. Poland agrees with the statements contained in the document of October 18, 2007, which presents the Common Agricultural Policy as a modern policy of the present, and taking account of the future conditions. Health Check of the Common Agricultural Policy will enable proper correction of its instruments, as well as a debate on the new challenges that CAP faces. It needs to be stressed that it is of key importance to Poland that the Common Agricultural Policy maintains its Community nature, while providing equal competition conditions in the enlarged European Union.

The present position directly formulates solutions which are the most beneficial to Poland by referring to the proposed evolution of the Common Agricultural Policy, while leaving the door open to further, more detailed work on specific instruments or to a change in the position depending on the progress and developments of the debate and other Member States' proposals.

Poland also believes that Health Check of the Common Agricultural Policy will enable an analysis of effectiveness of the European Union instruments for agricultural markets regulation, as well as an identification of challenges the Community faces in the field of Common Agricultural Policy.

There are three Polish priorities, stressed in our position .

- **Direct payments and cross-compliance**

Poland supports unification of direct payment rates within the entire EU.

The target direct payment scheme in the new Member States should take into account the lessons learnt in the scope of SAPS and SPS implementation. The target payment scheme should give the new Member States a possibility to choose not to introduce the complex mechanism of payment eligibility. However, it is necessary to provide a mechanism to enable transfer of payments along with a transfer of the holding (land) to the successor.

All Member States should have an equal opportunity to direct support in order to solve specific problems in the respective sectors (and regions), that is both the solutions provided for in Article 69 of Council Regulation 1782/2003 and a partial "coupling'.

Poland aims at obtaining a consent for extending the Single Area Payment Scheme application until 2013, that is until a simplification of the Single Payment Scheme (SPS) applied in the 17 EU Member States takes place.

Implementation of **cross-compliance** standards in Poland and other new Member States should be continued over time so as to enable the Member States to prepare their

control and sanction systems properly. Poland holds that implementation of the last area of requirements, Animal Welfare, should take place starting from 2013.

Poland supports the process of simplification of the cross-compliance requirements and will take active part in it.

The scope of requirements should be clear and comprehensible for farmers, and be based on verifiable and measurable criteria which cannot be assessed using subjective measures. According to Poland, efforts should be made to reduce the list of requirements without affecting the objective.

The process of meeting the requirements of Good Agricultural and Environmental Conditions (GAEC) (Annex IV to Council Regulation 1782/2003) should be adapted to the conditions of particular countries/regions and should be optional, which in particular applies to the requirements regarding crop rotation, permanent grasslands maintenance and minimum stocking density.

- **Support and promotion of renewable energy sources**

It could be achieved by utilisation of agricultural, industrial, communal by-products and waste.

Payments for energy crops need to be continued. There is a need to direct the aid to perennial energy crops on poor soils for the purposes of electric power production, production of biogas and **biofuel**, including the second-generation fuels. It will provide a possibility to limit competitiveness of the bioenergy sector vs. the products intended for food.

- **Support and stabilization of markets (safety net) and crisis management**

In Poland's opinion the years to come will involve increased price and production risks. Therefore we hold that maintaining the current market support system as part of the Community agricultural markets organisation is necessary to ensure an effective **safety net**.

In Poland's opinion it is necessary to consider an extension of the **milk production quota system** beyond 2015, as there are currently no grounds to claim that the system will not be effective and efficient from the point of view of the long-term CAP objectives.

In the context of *soft-landing* (securing some sort of satisfactory solution for milk producers, once milk quotas are lifted) there is a need to consider the scenarios of a milk quota increase by a value exceeding 2% (5% for instance). In Poland's opinion, the level of milk quotas should be increased as to ensure a smooth transition to the new situation for the largest possible number of holdings; and the funds possibly economised under the Common Market Organisation (savings on export subsidies and market intervention) should be used for the purposes of adjustment and modernisation as well as risk management in this sector.

Poland claims that the current system of intervention in the feed cereals market should be maintained. It is also necessary to modify the rules of granting support in the form of refunds on export of cereals, transportation costs including, to ensure equal level of the safety net within the whole Community.

Poland is in favour of retaining coupled support in several smaller sectors, such as **potato starch, flax, and hemp**. It is recommended to maintain coupled support in these sectors, since there is a risk of total production elimination, which would reduce the EU

agricultural production biodiversity and could have a negative economic and social impact on the regions where such production is located.

Poland is ready to cooperate in the preparation of the new community CAP-financed instrument for **crisis management**. What should be considered in particular is the instrument for co-financing the agricultural income insurance against fall in prices, damages resulting from bad weather conditions, plant and animal diseases.

Summing up, Polish priorities are: simple direct payments system, accompanied by simplified cross-compliance, support for bioenergy, and safety net for agricultural markets.

Meeting those, as well as other common priorities and values shall enable to reshape the CAP to the benefit of the whole united Europe, and to establish a sound policy fit for the 21st century.

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