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Clearance Office: Office of Country and Regional Affairs (OCRA)

Date: 6/10/2009

GAIN Report Number: PL9010

Poland

Post: Warsaw

Polish farmers count benefits and losses after 5 years in the EU.

Report Categories:

Agriculture in the Economy

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Report Highlights:

Five years after accession to the EU, Poland has enjoyed extensive financial benefits from the Common Agricultural Policy injected into its agricultural sector that have translated into higher productivity for dairy, fruits, and vegetables, that are finding more export markets. While a net exporter overall, Poland has become a net importer with the EU-15 as those integrated, highly subsidized older EU member enjoy their competitive advantage from their developed agricultural base. The EU is in a shift towards recognizing these issues and if there is internal pressure to reform the CAP it comes in equal measure from consumers' concern about spending on agriculture and that present EU agricultural policy leaves the new member states at a disadvantage.

General Information:

International conference “Agriculture and Rural Areas -5 years since Poland’s accession to the EU”

Poland's Ministry of Agriculture and Rural Development held a conference April 28-29 2009 to mark the fifth anniversary of its accession to the European Union. Day one was dedicated to discussing the consequences of EU enlargement and the challenges that EU will have to take up in the near future, including the Common Agricultural Policy Health Check. During the plenary session scientists and economists presented studies of the effects of accession for Poland and the EU-12 countries as a group. This session addressed the similarities and differences among new member states in terms of EU membership effects. Researchers expressed that these differences are due to the diverse structure of agricultural sectors in Member States, and to differing macroeconomic conditions.

- Multifunctionality of agriculture and rural areas in an enlarged EU
- Challenges facing the agri-food sector in this time of financial and fiscal uncertainty
- An EU of two speeds? Post-accession experiences in the West and East.

The second day of the conference had a more political bent; logical, the decision-making process in the EU is highly politicized and not prone to using analytical data except opinion polls. The debate included speeches by the representatives of EU institutions, which play a lead role in shaping the CAP, including the Commissioner for Agriculture and Rural Development, Mariann Fischer Boel, a representative of the Czech EU Presidency – Deputy Minister of Agriculture of the Czech Republic, Mr. Jizi Urban, and Chairman of the Committee for Agriculture and Rural Development of the European Parliament, Mr. Neil Parish. During the session, speeches were also delivered by active participants in Poland’s accession to the EU in the area of agriculture and rural development, including Minister of Agriculture and Rural Development at the time of Poland’s accession to the EU in 2004 Mr. Jarosław Kalinowski, Poland’s chief negotiator in the area of agriculture at that time Mr. Jerzy Plewa (now at DG Agri), and Secretary of the Committee for European Integration Mr. Mikołaj Dowgielewicz. Academic views came from Professor Stefan Tengelmann – Director of the OECD Trade and Agriculture Directorate in the years 2002-2008 and by Professor Andrzej Kowalski – Director of the Institute of Agricultural and Food Economics. The Conference was followed by a meeting of Ministers of Agriculture of the Visegrád Group, plus Bulgaria and Romania.

5 years of accession in numbers

- After five years of EU member state status, exports of agri-food products have increased from eur 4.0 to 11.3 billion (2.8 times) and imports – from EUR 3.6 to 9.8 billion (also 2.8 times), while the surplus has increased 3.3 times, from EUR 0.4 to 1.5 billion.
- Trade with other EU countries has been developing even more rapidly. In 2003-2005 Polish exports to the EU-25 increased by 248% and imports to Poland increased by 212%.
- These statistics are overshadowed by the fact that Poland's trade has expanded with the EU-10/12 (new members); and has declined or underperforms for trade with the Westernmost EU-15.
- Current prices have been unfavorable for both farmers and food producers. Price growth indices for agricultural products and food prices are lower than inflation indices and input prices are higher and getting worse.
- After accession animal production has increased by 6.9% and plant production has decreased by 1.1%. Poland's real gains have come from development in fruits, vegetables, and dairy.
- A decrease in Polish consumption did take place only in the first year of accession. It was caused mainly by a large increase in prices of food and non-alcoholic beverages.
- There is still a low level of consolidation and concentration in agricultural production and food processing, low labor efficiency in the food industry and insufficiently active marketing and promotion of Polish agricultural and food products.
- There is an ambivalence on the farm about the “rural european-ization” of Poland: there is a high level of enthusiasm among rural residents and farmers for funding, but at the same time they reject the western lifestyle and prefer present traditional patterns. Poles will prefer the EU as long as they receive payments. One institute showed a poll that 3/5 of farmers are still EU skeptics.
- Analysts reported that the advantages for the EU-12 new members in future include: more room for growth in yields than in EU-15, more scope for structural improvements than in EU-15, and a better ability to adjust to new challenges.

What farmers think:

Skeptics were vocal when Poland joined the European Union five years ago. Research before accession showed that 69% of Polish farmers were anxious of their economic future. In 2002, only 37% of farmers expected that they would apply for, and receive, EU funds after the accession. In 2002, only 7% of farmers supported the negotiations, while 62% were critical. At the beginning of 2003, 45% of farmers supported the accession, but in March 2003 the percentage dropped sharply to 33% (at that time PSL – the ruling farmers' political party – left the government coalition). Just before the national referendum, 49% of farmers were against EU membership. Polish farmers expected that 70% of farms would fail (losing out against their competitors in the West) and food prices would soar. Most Poles, including farmers, are counting the benefits as they mark five years of membership. Poles support the EU (approximately 85% are pro-integration according to the Institute of Public Affairs). Farmers, who were the EU's toughest critics, have become some of its strongest supporters. Farmers are one of the biggest beneficiaries of EU funding; they can buy farm equipment or buy land. According to Polish government reports the average income for a Polish farmer in 2008 was 90% higher compared to 2000. The difference is huge between the standard of equipment now compared to five years ago. However the biggest problem is bureaucracy on EU funds that are hard to reach. Lately, farmers are more vocal about the differential subsidization of the member states and this fact has become front a center of their complaints to Polish agricultural decision makers. A key factor in the shift of Poland to a pro-European socialization of agriculture was the change in sugar markets. When sugar markets were liberalised at about the same time as accession, it became clear to the Poles that their goals to increase farm payments and the organization of farming policy would be in conflict with market reform influences in the Union. Poland's sugar beet production has dropped sharply and processing plants are stopped and rusting. Essentially, Poland is asked to accept a system of state intervention while that system is in decline and liberalising, a paradox of values.

Agricultural land market

Prices of agricultural land are expected to rise and higher subsidies have transferred into higher land costs. This trend was particularly visible in the first year after Poland's accession to the EU, when average land prices increased by 24.3%. In 2005 and 2006 prices grew 12% each year. The market heated up again in 2006 and 2007 increasing 31%. In 2008 it looks like land prices grew a similar amount.

A separate segment of the market is the sale of the land to foreigners. Since Poland's accession to the EU, the provisions on concluding such transaction were amended and the purchase of property by European Economic Area citizens (EU + Norway, Lichtenstein, Iceland) has been allowed. From 1990-2007 period, foreign expatriates received 22,500 permits for just 44,400 hectares of farm land. Much more common is to purchase land through a corporation with majority Polish shares or by having a Polish spouse. The market for agricultural land in Poland is not free and open.

Despite the dynamic growth of agricultural land prices in Poland, the land is still on average cheaper than the agricultural land in the EU-15. The best, prime Polish land is equal or as expensive. But less than 1.5 percent of land is traded each year. Among the new member states, the highest land prices were observed in Latvia (in 2007 by 51% higher than in Poland). This seems to confirm that in coming years land prices both in Poland and other Central and Eastern Europe states will continue to grow. In 2009 the increases will be much less that earlier due to a slump caused by a lack of credit on the farm.

Technical harmonization status

According to officials, Poland is 100 percent harmonized with EU sanitary regulations, as are the three Baltic Countries. There are, and will continue to be, differences in certain national regulations as countries are given leeway to implement rules. This can include different interpretations of EU laws and regulations at border enforcement and clearance points. EU regulations leave room for individual Member State decisions in many areas; one example is the different national approaches to modern crop genetics. On December 19, 2008, Poland notified to the EU Commission of the proposed text of its new law on cultivation genetically modified organisms. The law attempts to comply with EU regulatory authorities that have told Poland it must update its GM law, but the Ministry of Environment proposal creates new obstacles designed to prevent planting. Poland's Ministry of Environment and Polish EU Parliament members have

been very active in creating and advocating to other member states for EU wide bans of GMO crops and creation of GMO free zones. Poland represents one of Europe's most active governments against the adoption of agricultural biological science worldwide.

Transshipments of food products also tend to be administered differently each EU country, as rules can be interpreted and enforced differently not only by each Member State but also by regional inspectors at border points within one country.

The implication of the differences in Member States enforcement and regulations is that our activities and contacts with Member State country officials continue to be absolutely essential to ease the flow of US agricultural exports across EU countries and to handle the \$100 million plus of U.S. meat and poultry transshipments that enter our region heading to countries further east.

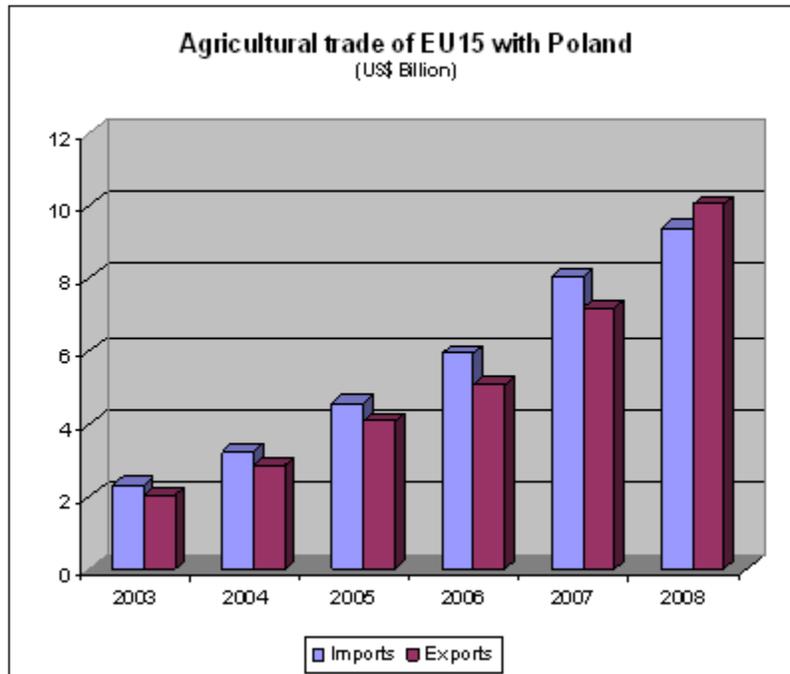
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Impact of EU accession on EU-15 trade of agricultural products with Poland

Based on FAS/Warsaw estimates EU enlargement in May 2004 had a significant impact on trade between former EU-15 countries and Poland. In 2008, after five years of EU membership, Poland became a **net importer** and the second largest importer (after the United States) of agricultural products (HS codes 00-24) from the former EU-15 countries. In 2008, Poland was the fourth largest exporter of agricultural products to the EU. Please note that in 2003 (one year before the EU accession) Poland was the fifth largest importer and exporter of agricultural products from/to the EU-15 countries.

Among former EU-15 countries Germany, Denmark, the Netherlands and France were the countries which benefited the most from Poland's EU accession. Within the last five years, exports of agricultural products from Germany, Denmark, the Netherlands and France to Poland increased by 600, 580, 490 and 370 percent, respectively. Please note that in the same period US exports of agricultural products to Poland increased from US\$92 to US\$164 million (78 percent increase).

While policy makers looking to complain about differential subsidization discuss how the unfairness of the CAP as it is applied to different countries. Of more immediate impact is the new trade flows of pork and dairy products Eastwards from the more heavily subsidized and organized old member states into developing economies like Poland's. Essentially this means that Poland's farmers are under extreme competitive pressure and must add to their productivity, marketing acumen, and consolidation to stay afloat.



Below, the chart shows that the accession to the EU has had a dramatic affect in promoting the growth of poultry production, but not in beef or pork. Pork markets in particular have been influenced by the extensive import of product from the Netherlands and Germany. Production of grains has also not risen though grain production has grown mildly in yields. Poland remains a feed grain deficient country that drags on further development for the animal sector.

Production of meat in Poland (Carcass weight equivalent)

