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**THE POLISH PERSPECTIVE ON 2008–9
EU BUDGET REVIEW**



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SUMMARY

Positive experience of EU membership has reassured Poland of the merits of an integration model based on social solidarity and a free market, which it wishes to continue. Poland's position focuses on three main areas: cohesion policy, Common Agricultural Policy and EU Neighbourhood Policy. It seeks to retain these, though receptive to change in response to new challenges facing the EU (e.g. demographic change, sustainable development, and alleviating effects of globalization). In view of the new EU tasks, Poland does not favour further reduction in the EU budget. Debate could be made more constructive by splitting off discussion of the revenue side. Greater autonomy for the own-resources system would facilitate debate and allow needful financial development of the new European policies.

INTRODUCTION

Poland has yet to present an official position paper on the EU budget review envisaged for 2008–9, although this was expected in the spring of 2008.¹ So the thinking process has started, and there are published expert opinions and statements from decision-makers that can serve as a guide to the Polish view and Warsaw's preferences. The main priorities for Poland have been outlined in a press release on preparation of the official position. With the debate on the future shape of the budget, Warsaw considers the issue to be strongly connected to views on the overall future of the EU. There are two main priorities outlined: (1) the principle of solidarity in internal-market issues and in foreign policy; and (2) the issue of new instruments in EU neighbourhood policy that express Poland's interest in maintaining close relations with Ukraine. As for own resources, it is unclear yet whether Warsaw will support the introduction of a European tax alongside the present system based on national contributions. However, there is a document on the Polish vision for the Common Agricultural Policy (CAP).² This shows that Poland, along with France, will remain an active participant on the debate of CAP reform, determined to retain the main structure, though open to constructive changes.

This paper is based mainly on expert opinion and only partly on official docu-

ments. The analysis seeks to further an understanding of the facts and circumstances that affect Polish motives when arguing during the negotiations. It tries to summarize the basic facts upon which the Polish position will be formulated, along with the main lines of argument likely to shape the future Polish position on the EU budget. The structure is as follows. Chapter 1 describes Poland's general priorities and the principles behind its stance. Chapter 2 briefly describes possible changes in EU cohesion policy and how these might influence the Polish position on reforming it after 2014. Chapter 3 turns to the plans for reforming CAP and the Polish view of these. Finally, there is a summary of the main findings and conclusions.

1) GENERAL PRIORITIES

The enlargement process has proved a success for the EU. An integration model based upon the principle of solidarity and a free market has acted as a "soft force" and catalyst behind the transformation process.³ The incentives for the acceding member-states to implement necessary reforms and the expectations that they will do so have given rise to an enlarged area of security, stability and higher living standards. Poland has enjoyed higher growth rates, disinflation, export impetus, and dynamic investment since accession. The public has been reassured about the merits of EU membership by net benefits to the country's budget, development prospects raised by the

¹ Europejskie Serwis Polskiej Agencji Prasowej. January 2008.

² Polska wizja.... 2007.

³ Serafin 2007.

structural funds, and new job opportunities in other member-states.⁴ So Polish opinion is based on positive experience in the early years of membership, generating higher economic growth, lower unemployment, and greater scope in the European economic sphere. For Poland as a converging country, the EU has largely brought solutions to her problems, not become part of the problem, as in many European countries. So it would be in Poland's interests to retain the present integration model based upon solidarity (as an economic integration model and in foreign policy) and a free market.

However, there are discernible threats to this model. Enlargement may be a solution in some areas of the European integration process, but it has become a source of deep crisis in others. There are fears generated by immigration from Eastern Europe, delocalization of Western companies, and unsolved structural problems in the euro zone, which have weakened the legitimacy of the Union in society's eyes and changed public views of it. "The EU, hitherto viewed as a community able to solve national problems in a globalized world, has turned into a community 'Trojan horse', weakening the nation-state and destabilizing the basis for security and social protection for the people on a national level."⁵ So as Poland devises its position paper on the future shape of the EU budget and the EU in general, it must display sympathy and understanding for the reasons behind this clear division in the basic view of the EU, between the "new" and the "old" member-states.

Review of the EU budget can act as a catalyst for wider debate on the future

model of the European Union. Should it be a model of a "liberal Europe" or a "social Europe"? The best way to strengthen the legitimacy of the EU in the public's eyes is to enhance structural reforms and achieve higher growth and level of employment. Structural reforms must start at national level, but there cannot be silence about the economic and social problems of a common market at EU level either. The problems of the losers of liberalization, e.g. aging industries and the least qualified workers, must be addressed at the EU level as well. Increasing the level of innovation by raising R&D expenditures helps the EU to simplify the challenges of globalization and to balance competitiveness. They do not, however, answer the fears of those who lose on globalization. At the EU level, a more active approach is needed to handle the conflict between the supporters of liberalization and supporters of the traditional social model. One answer could be to follow the example of the European Globalization Adjustment Fund and address the problems of certain social groups that lose by the globalization processes or the deepening of EU integration. Especially important will be discussions on the cohesion policy instruments, especially target 2. The European Social Fund serves to some extent as an instrument for compensating outplacement, which points in the same direction.

The Polish view is to support these new instruments and accepts new expenditure items. It is understood very well that the EU faces new challenges, such as rising energy prices, demographic changes, sustainable development, or alleviating globalization effects. So the debate has to address the questions of (1) what challenges the EU should try to meet, and (2) how current EU policies can be

⁴ Trzy lata.... 2007.

⁵ Serafin 2007.

adjusted to comply with these political priorities. The pertinent question when analysing the current EU instruments is what changes we want in various policies so that they respond better to our needs.

The Polish position will comply with the importance attached to addressing the new challenges facing the EU. However, it has also been said that the budgetary expenditures required for the new policy instruments should not entail abolishing or decreasing expenditures for present policies, especially not those for cohesion of growth and employment, or on CAP.

Poland considers all expenditure items currently financed from the EU budget to be important. The question of whether to abolish or retain the present policies should be raised in a context of analysing the value they add on a European level. The value-added test might take a twin-track approach. (1) It would be reasonable to carry out a subsidiarity test on whether member-states can finance and conduct certain policies. Less affluent member-states would be unable to finance cohesion policy or CAP from their national budgets. But the European budget has only secondary importance for expenditure on competitiveness (R and D, education) or external relations. (2) It would be reasonable to assess the value added of EU spending through such notions as economies of scale, spillovers and related externalities, and compliance with EU political priorities. But it has to be emphasized that the EU budget finances tasks that appear at Community level, aim to deepen integration in the common market, and are intended to benefit all member-states. So the revenue and expenditure sides of the budget do not express national interests. They serve (or

should serve) objectives to meet at Community level.

The principle of solidarity should not cease to function within the regional policy. Warsaw finds it important to work out new policy instruments in connection with competitiveness, such as for R and D objectives. But Warsaw finds it inevitable that these new instruments will widen the development gap between EU member-states and regions.

The EU budget review is an important step in the debate on the future shape of Europe. It would also be important in that debate, though, to tackle the issue of budget resources. The budget itself represents less than 1 per cent of the GNI of the EU. Although the number of member-states has increased, the size of the budget has shrunk. Poland would find any further reduction in the budget unacceptable. Most expert opinion sees between 1.25 and 1.5 per cent of EU GNI as an ideal budget size—a relatively small increase over the present size. The EU has to be redefined, but sufficient means to perform its tasks must be provided.

Polish experts find the present own-resources system overly dependent on national contributions. As a result, member-states perceive the EU budget through *juste retour* lenses. Paradoxically, a GNI-based own-resources system leads to numerous corrective mechanisms being introduced, so that the burden of financing the EU budget is unevenly shared between member-states. According to a Deloitte Consulting study for the European Parliament's Committee on Budgets,⁶ Portugal contributed 0.96 per cent of GDP to the EU budget in 2005,

⁶ Deloitte 2007.

while the UK contributed only 0.54 per cent (TOR excluded). The average contribution for the EU25 was equivalent to 0.8 per cent of GDP. There is a risk that a GNI-based system may lead to a situation in which the relative contributions of member-states correlate inversely with national wealth. Experts agree that the introduction of genuine own-resource would make the EU budget more autonomous. The official position, however, is not yet known. It is unclear whether Poland would support the introduction of such own-resource or what kind of resource is envisaged. As for the payment position of member-states, Poland firmly emphasizes that all correctives should be abolished.

It is widely thought in Poland among experts that the joint discussions on EU budgetary expenditures and revenues are drifting inevitably towards a *juste retour* logic and political deadlock. Hiving off the discussion of the revenue side would be more constructive. Greater autonomy of the own-resources system would facilitate future discussion and allow for the necessary financial development of new European policies. Giving up discussion of narrow national net-payment positions is a necessary precondition for developing the EU horizontal issues.

The Polish position reflects the outlook of a converging country for which economic cohesion is a priority that can be achieved more easily thanks to EU regional policy instruments. Agriculture is an important economic and social factor in the Polish economy, and so Warsaw will not be indifferent to reform of CAP.

The general Polish objective of retaining the integration model based on solidarity and a free market can only be kept up if the model has social backing

from the whole community. So it must be clear to Polish negotiators that a compromise solution is needed to change the general public perceptions of the EU. The Polish position will have to be devised carefully if it is to achieve the basic aims of Polish foreign policy of enhanced external security, faster convergence of the economy, and an increased political role in Europe. There is hope of this being understood by the official Polish negotiators, as politics in Poland since the elections of October 2007 have moved towards stabilization, while demagogic tendencies and extremism have been marginalized. This is a favourable turn for those who favour the EU, as a Polish stance based on facts instead of feelings can be formed. This, however, will not preclude the Polish negotiators from fighting bitterly for their country's interests. But more could mean less in this case. Keeping up actual policies could mean more than achieving a higher share in a policy instrument that soon ceases to function.

There are three main priority areas for the Polish government: the future of cohesion policy, the Common Agricultural Policy, and the EU Neighbourhood Instrument. These are the subjects of the next chapter.

2) THE FUTURE OF COHESION POLICY

Enlargement of the EU with less developed East European countries caused tensions well before the first wave of such enlargement in 2004. Two main policy instruments were basically under attack,

one being the EU cohesion policy instrument, representing the second largest slice of the EU budget (35 per cent in 2007–13, reaching €308 billion).⁷ Half this sum is earmarked for the new member-states, whose level of development measured in GDP per capita remains well under the EU average. Every fifth euro has been put at the disposal of cohesion policy intervention in Poland,⁸ which means that Poland has taken the role previously belonging to Spain, as the largest beneficiary of this EU policy instrument. It seems clear to the Polish side that the country must take an active role in the debate on this.

2.1. The main reasons for future reforms

The prosperity gap between the more developed EU member-states and the newly acceded ones in Eastern Europe has been significant and will remain so over the 2014–20 budgetary period. This means that the relative payment situation of the old EU member-states will change radically, especially with the accession of Bulgaria and Romania, and still more if the possible future inclusions of Croatia or Turkey are considered. Simulations of various scenarios have been prepared by

⁷ It has to be considered that this figure of 35 per cent of the EU budget represents only a small, 0.37 per cent proportion of the GNI of the EU, which does not seem much to devote to one of the main EU objectives, of increasing cohesion and reducing regional differences at European level, in pursuit of a more integrated European market.

⁸ *Przyszlosc....* 2006, p 12.

the research unit at the European Integration Committee in Warsaw.⁹

The basic scenarios are as follows:

If an unchanged cohesion policy were applied to the EU27, the expenditures of the “cohesion countries” would decrease by about 30 per cent and that of the EU10 increase by about 30 per cent. The biggest winners would be Bulgaria and Romania, whose allocations could increase by 70–80 per cent. The sum earmarked for cohesion policy would be 0.34 per cent of EU27 GNI. The share of the EU15 would decrease from 48 per cent to 33 per cent, while the allocation of the EU12 could rise from the present €175 billion in 2007–13 to €239 billion in 2014–20. The biggest losers would be Spain, Greece, Italy and Portugal, and the biggest winners Poland (up €25 billion), Romania (up €15 billion) and Bulgaria (up €5.3 billion). This would also mean expenditure was concentrated on the poorest countries, which could strengthen the approach of moving regional policy to a national level.

Under the scenario where real appreciation of national currency is excluded from the calculation, allocations to the EU10 could reach 18.5 per cent (as opposed to 30 per cent under the basic scenario). Poland could be entitled to €80.5 billion (as opposed to €92 billion euro).

A scenario taking into account the accession of Turkey would add a further increase in the sum for the cohesion policy instrument equivalent to 0.43 per cent of EU28 GNI. The allocation to the EU15 would decrease even more, from 48 per cent to 25.

⁹ *Urząd Komitetu Integracji, Departament Strategii i Analiz.*

With the accession of the ten and even more after that of Bulgaria and Romania, the “statistical effect” of post-enlargement macroeconomic reference data would worsen the situation for several regions. Some regions of the EU15 hitherto eligible for aid would no longer qualify in the EU27. Although these regions were not developing faster than the EU average, the statistical effect would be to mark them as “phasing-out” regions. According to Polish calculations, this effect could result in a 42 per cent decrease in the allocation for the EU15 during the 2014–20 budgetary period.

Retaining the present framework of cohesion policy in 2014–20 could boost the idea in several member-states of renationalizing the policy—returning to a national aspect instead of finding a solution on a Community level. Despite the qualification change in some regions, there are still unsolved development problems in some more developed countries (e.g. the Mezzogiorno in Italy, East German regions, some Greek regions, and some regions in Spain) that would curb initiatives to renationalize cohesion policy.

Statistics and empirical research¹⁰ show convergence in the EU at national level, but an unsatisfactory convergence process at regional level. Two considerations apply when trying to decide whether cohesion policy functions properly or not: (1) its effect on economic backwardness, and (2) its impact on regional development. But data on unsatisfactory convergence at regional level has to be handled with care. First, there is the natural tendency for economic activity to concentrate. Then there is the relatively small spending on cohesion-policy instruments (0.37 per cent EU GNI in 2007–13). It can be concluded

that the slow convergence at regional level or weak development performance by certain regions hitherto eligible for structural instruments do not necessarily support show that the instrument is useless. Regional disparities might be larger still but for this EU policy.

The question must be, on the other hand, tackled upon which areas these assets should be spent on. Nearly 30 per cent of cohesion policy funds have been spent on transport infrastructure. Here, researchers agree that such funds reinforce economic concentration instead of cohesion. While the development of telecommunication infrastructure, on the other hand, can do more for regional cohesion.

2.2. Possible changes in cohesion policy after 2013

It is clear from the above that retaining cohesion policy in its present form would bring about a clear shift of fund allocation from the EU15 to the new member-states. The European Commission puts special emphasis on the “visibility” of interventions within cohesion policy at a regional level. This is how the modification of the Berlin methodology or the creation of a stronger objective 2 in 2007–13 can be interpreted. There are three possible changes¹¹ to be expected from the Commission side: (1) further reduction of capping; (2) creation of special earmarked funds for member-states like Spain, Portugal or Greece; (3) increasing the budget for modernization tasks (*i.e.* such criteria as innovation).

¹⁰ European Commission 2004b; Grosse 2002.

¹¹ Przyszłosc.... 2007.

There could be new eligibility criteria included, such as overcoming development difficulties within the euro zone, for the benefit of such countries as Portugal, Italy, or Spain. There have also been proposals for basing eligibility for cohesion funds on something other than GDP per capita, such as unemployment rates, development delay, transformation problems of the economy, *etc.*

Cohesion policy often serves as a tool to improve the relative net position of a member-state's budget. This requirement might become less dominant if monies were earmarked for such countries. Furthermore, decisions in the field of CAP and the own-resources system would be very important for the cohesion-policy project.

A national approach was proposed by a group of countries (the UK, the Netherlands and Sweden) during the negotiations on the budgetary framework for 2007–13; it was suggested that an approach based on the convergence of member-states, not regions, should apply to cohesion policy. The regional/national debate will certainly be an important factor in the budget review as well.

2.3. Conclusions for Poland to draw

Polish calculations show the less developed new member-states would gain most if cohesion policy stayed in its present form. Poland, as in the 2007–13 budgetary period, would be a major beneficiary. On the other hand, the marked imbalance in funding between old and new member-states could encourage a national

approach and limit cohesion-policy spending.

It is not yet clear what the official standpoint of other new member-states will be. An alliance with Romania and Bulgaria seems feasible, and to a smaller extent with the Visegrád countries. Some new member states, however, have already expressed support for a national approach in cohesion policy. This is because retention of the regional approach would favour larger member-states, which always have less developed regions qualifying for funds, while the regional differences in smaller countries are balanced by the statistical factor.

It may seem that the Polish standpoint is a comfortable one, as the present shape of cohesion policy favours Poland. But analysis shows that other actors will definitely end up by changing it. So Poland may face a dilemma: agree with changes in eligibility criteria to balance the allocations while retaining the present cohesion policy, or support the present rules and framework, which would very probably lead to an introduction of the national approach. Expert opinion tends to favour the former.

2.4. Priorities for the Polish position in cohesion policy

The Polish position should obviously take these facts and calculations into account. Here is a summary of Warsaw's priorities in cohesion policy:

Poland will continue to support retention of EU cohesion policy. Continuing on the basis of the solidarity rule and the regional dimension would decrease re-

gional disparities, increase cohesion in the common market, and bring further benefits to all member-states in the form of faster economic growth and improvements on the labour market. This has to be put over as a positive-sum game, benefiting all EU member-states.

Poland would oppose any proposal to renationalize cohesion policy, which might be motivated by the desire of some member-states gradually to decrease its scope or even eliminate it. This would threaten Polish interests. It is also important for Poland that the policy considers all member-states, not just the newly acceded ones.

Poland will support the proposal to increase allocations linked to new challenges facing all member-states, or criteria that have a high value added at Community level. *e.g.* trans-border cooperation, trans-European infrastructure networks, challenges linked to completion of the Lisbon strategy, challenges of globalization and further market liberalization, and innovation needs for global competitiveness.

Allocation within cohesion policy, however, should later concentrate on Objective 1 areas, while developing operations in terms of funds and orientation needs, in relation to Objectives 2 and 3. New initiatives such as Interreg or Leader should also be considered.

Poland would like to promote further decentralization of EU cohesion policy, particularly by delegating the main competencies to the regions.

Poland would support simplification of the bureaucracy in managing cohesion policy, but without any decrease in high-standard monitoring and evaluation of public funds within the EU. Increasing

visibility should not mean more bureaucracy, but shorter procedures.

Poland would oppose reducing the present share of cohesion policy in the EU budget.

3) CAP REFORM

Reform of the Common Agricultural Policy was already a major issue of debate during the negotiations on the financial prospects for 2007–13. The review of the conformity of CAP with the assumptions of the reform of it set forth in Luxembourg in 2003 (the health check) and the EU budget review in 2008–9 will become catalysts for the debate on its future shape. A prominent role will be played by the WTO negotiations on liberalization of trade in food and agricultural products. Also making a major impact will be changing social expectations in member-states on food security, food quality, etc. So fundamental decisions on the post-2013 shape of cap can be expected in the next few years. Poland, as a major CAP beneficiary and a country where agriculture represents an important economic and social factor, is preparing to continue as a major player in the debates.

Many CAP opponents stress the high costs of this policy instrument, which absorbs 47 per cent of the common EU budget. Agriculture remains the economic sector to receive the greatest support, even though its share of GDP is very low (1.3 per cent in the EU15 and 2.2 per cent in the acceding EU10 in 2005). As a social factor, the role of this economic sector is decreasing, though still impor-

tant in certain areas. The proportion of the population it employed in 2004 was 3.8 per cent in EU15, but 12.5 per cent in EU10. From the data it is clear there is a significant difference in the role played by agriculture in the EU15 and in the newly acceded countries.

However, enlargement has brought progress to the agricultural sector in all member-states, facilitating trade within the EU and supporting modernization of agriculture in the new member-states.¹² So with the accession of the EU10, European agriculture has grown in importance in terms of area, production, and number of farmers. The fears of negative effects of enlargement on the agricultural sector have proved unfounded. Nevertheless, the productivity of the EU10 remains distinctly lower than that of the rest of the EU. There are significant differences within the EU10, as well, Poland being the country traditionally representing the least productive results in agricultural production.¹³

Agriculture employs 17.4 per cent of the workforce but contributes only 3.8 per cent to GDP, reflecting relatively low sector productivity. Agricultural land, unlike industry, remained in private hands under communism. Polish farming still shows a high degree of fragmentation of holdings, a high number of people employed, a prevalence of soils of average or low agricultural suitability, and relatively low use of industrial-scale means of production. The average holding of 12 ha is well under the EU average and 35 per cent of holdings are under 5 ha. Poland is the eighth largest

recipient of CAP allocations, but this share could increase after 2013.

Polish experts often stress the added value that CAP brings.¹⁴ If the EU had no agricultural policy at Community level there would be no single market for food products. The same applies to equal competition conditions, protection of the natural environment, and the ability to react rapidly to crises. Poland, in view of the importance of these advantages, gives top priority to maintaining the Community character of agricultural policy.

However, the Polish stance takes full account of the need to alter the shape of CAP and includes support for changing this policy instrument. Two main scenarios have been advanced by experts of the Strategic and Analysis Unit of the European Integration Office.¹⁵ The “evolutionary approach” would include such measures as introducing full separation of payments from production (decoupling), increasing the obligatory modulation rate of direct payments, limiting the amount of payments to the largest farms, gradually limiting interventions on agricultural markets, and moderately liberalizing trade. In the “liberal scenario” envisages eradicating direct payments and interventions on agricultural markets such as milk quotas, as well as significantly liberalizing world trade in farm products. The optimum scenario for European agriculture would seem to be an intermediate version.

Future agricultural policy, according to Polish experts, should:

- * create equal competition conditions for European agricultural producers, ena-

¹² European Commission 2006.

¹³ The comparison omits the newly acceded Romania and Bulgaria.

¹⁴ Burkiewicz, Grochowska and Hardt 2007.

¹⁵ UKIE: Urząd Komitetu Integracji, Departament Analiz i Strategii.

bling a single market for agricultural products to function;

- * not be fully subject to market rules, but further supported by the EU, due to the specific character of the sector;
- * be performed at Community level, with common rules and financing.

The instruments of the CAP system, however, should undergo simplification, and at the same time, there should be an attempt to address the new challenges facing European agriculture since Poland's accession, and in the light of further liberalization of agricultural markets.

It is also clear from the above that the new obligations related to environmental protection and veterinary conditions preclude a further reduction of CAP. The present size of the agricultural budget is the result of current reforms, thanks to which the policy has become more effective.

The following sub-sections summarize the Polish position on the main areas of debate about the future shape of CAP.

3.1. Indirect payments

According to the Polish position,¹⁶ the health check on CAP should lead to changes in the system that serve the interests of all member-states and can be backed up by the actual situations in them. Any simple "wish to slim the EU budget" or position against world trade-liberalization trends cannot serve as a reason for changing the present system of direct payments. In line with this general view, Poland would support a further shift in the main source of support

¹⁶ Polska wizja.... 2007.

within CAP to the first pillar: direct payments. Although the second pillar should gain importance, it should not be at the expense of the first. Poland would stress that support to farm income should continue to be effected through direct payments under the first pillar of CAP. Any reduction in direct support under the first pillar should be offset by expanding instruments to improve competitiveness under the second pillar.

Under the direct-payment system, a uniform rate should be applied to all 27 member-states. This would ensure uniform competition terms and simpler and more transparent management of the funds.

The Single Area Payment System introduced by Poland in 2004 is unlinked to production, and so not in contravention of competition terms. A change to the Single Payment Scheme (SPS) would add challenges and burdens for Poland, such as: a costly and complicated IT system, a management system for direct payments, preparation of farmers, and an administrative and advisory team to run the scheme. The Polish position would be that it was reasonable to allow the present system of direct payments (SAPS) to apply to new member-states until 2013.¹⁷

3.2. Modulation

The modulation mechanism introduced under the EU financial structures fulfils a role of transferring resources from the

¹⁷ According to the legal arrangements, new member-states may apply the SAPS up to the end of 2010 (Romania and Bulgaria up to 2011), with possibilities of extension. In the latter case, there will be the financial sanctions that freeze direct payments at 70 per cent.

first to the second CAP pillar (*i.e.* from single payments to agricultural area development). An important argument for this is that it helps farmers with programmes for development plans rather than with single payments. With new member-states, the modulation criterion is not compulsory so long as the full level of direct payments (end of phasing-in process) is attained. The Polish position is that funds from modulation should be applied on a wider scale, to decrease differentiation among farm areas in the least developed regions of member-states.

Poland would accept only with reservations the further increase in modulation from 5 to 10 per cent proposed by representatives of the European Commission. This would place extra burdens on the national budget (resources from CAP II require co-financing) and make available only low-level funding for cross-country allocations.

3.3. Cross-compliance

The political aim of introducing a cross-compliance mechanism is to create a system of controlling and sanctioning farmers in line with the expectations of EU societies. Only farmers who meet the standards can qualify for direct payments in full within CAP. Farmers from the new member-states should be handled on other terms. So Poland and other new member-states would find it reasonable to introduce cross-compliance standards at the same rate as direct payments increase to the full level. The mechanism should only apply fully when Poland also gets 100 per cent payments within CAP I, in 2013.

The aim of new member-states is not to arrange some derogation from the cross-compliance mechanism, but to ensure a fair, comparable situation among member-states. Poland would even accept a gradual introduction, starting in 2009, but with a two-year transition for applying various packages in Clause III (A. 2009/B. 2011/C. 2013).

3.4. Decoupling

The various payment systems used in the common market confuse competition terms in the Community. Poland attaches importance to making the payment system independent of production (decoupling) and used in all member-states at the same time, with uniform support.

3.5. Market instruments

Poland has huge potential for milk production. At present, there is booming demand on global markets and increasing prices obtainable for milk products, so that Poland should also try to achieve higher than present referential rates for production (milk quota). However, it is also understood that further liberalization of the agro-food trade under the Doha Round and further negotiations under the WTO will compel the EU to eliminate intervention mechanisms. This has served so far the purpose of supporting market prices, including production quotas, especially milk quotas. EU policy should support this process, while being conducive

to evolutionary liberalization of world trade.

With the aim of stabilizing the European agro-food market, Poland should try to benefit from export refunds for as long as possible, especially in the most sensitive sectors (*e.g.* cereals, meat and milk).

Poland will probably go for maintaining all intervention instruments in their present form, even if they have not been used for a long time. In crises that are not without grounds in the light of trade liberalization, such instruments could act as safety net. A new crisis-management system needs devising to reduce the use of market-intervention tools in the EU market.

3.6. Budget

The need to change the present shape of the budget is very well understood by the Polish side, which agrees that it should be reshaped in accordance with the new challenges facing the EU. In this respect CAP will be an important issue during the budget review. The expenditures of the European budget, however, should be looked at from a wider perspective, as part of public expenditure as a whole, and this will again be of special importance in relation to CAP. The new challenges that face EU agricultural policy call for further changes in order to respond better to globalization and social expectations. Poland well understands the need for change in this area.

On the other hand Poland opposes any such kind of change that would further reduce the expenditures within CAP, or due to which the common agricultural

policy would lose its community character.

During the debates on modernizing the Community budget, some have emphasized that the easiest solution with the direct payments would be to transfer the financing of them to national budgets. Re-nationalizing the financing of agriculture, however, would place a big burden of costs on the least developed member-states. National co-financing would not be a solution to the budget problems. It would only take agricultural expenditure out of the limelight. Retaining the Community character of agricultural policy remains a priority for Poland.

The discussions on the EU budget after 2013 should take into consideration the EU enlargement process and the new challenges related to integration and structural change. In this respect, CAP plays a decisive role, through its constructive character in building the common market. The future of agricultural policy and this part of the budget should consider what role this policy has in balancing regional disparities, building uniform terms of competition, and stabilizing the internal market. All these tasks can only be fulfilled at Community level.

The discussion on CAP should not concentrate on the question of what share in the EU budget can be earmarked for agricultural support. Instead, the question to ask is what changes should be implemented within CAP to make this policy better able to respond to social expectations and consumer needs, while remaining acceptable to farmers and taxpayers.

Radical reduction of agricultural support cannot be realistic in the light of further tendencies towards world trade liberalization. It would be perilous to reduce support while creating new obliga-

tions for farmers in terms of production quality and veterinary conditions, especially as these terms do not apply to non-European competitors.

The efficiency and scope of reforms and reform proposals so far have been limited by the fact that member-states have taken up negotiating positions dominated by thinking in terms of net position (for both budget payers and beneficiaries), while CAP requires actual reforms that serve the interest of all Europe. Let us not forget what enormous value is added to the European budget by the principle of solidarity.

4) EU NEIGHBOURHOOD POLICY

The EU neighbourhood policy is seen as a major area in the focus of the Polish position. Poland as a country with a long external EU border finds the maintenance of funds within this policy instrument especially important for two reasons: (1) Complying with obligations related to the Schengen Agreement places huge burdens on the national budget. (2) It is a question of national and international security to help the democratization process in neighbouring countries. Especially important in this respect are relations with Ukraine, Russia and Belarus. Poland supports maintaining good relations and supporting economic growth and political stabilization in neighbouring countries that will probably not be offered full membership status in the near future, but may be candidate countries later. EU neighbourhood policy should be shaped in a regional context. Warsaw hopes very

much to continue to take an active role in this Community task.

5) CONCLUSIONS

In the light of the positive experience of EU membership since 2004, Poland has been reassured about the merits of an integration model based on solidarity (in the sense of an economic integration model and of foreign policy) and a free market, which they would like to maintain further. The Polish position focuses on three main areas: cohesion policy, the Common Agricultural Policy, and the EU neighbourhood policy. They would like to retain these Community instruments, although Poland seems to be open to constructive changes in accordance with the new challenges facing the EU (e.g. demographic changes, sustainable development, or alleviating globalization affects). During the debate, they would propose addressing the questions of (1) which challenges the EU should try to answer, and (2) how current EU policies can be adjusted to comply with these political priorities.

Poland attaches importance to all expenditure items currently financed from the EU budget. It can be observed on the one hand that less affluent member-states would be unable to finance the cohesion-policy or CAP commitments from their national budgets. However, the European budget has only secondary importance for expenditure on competitiveness (R and D, education) or external relations. Furthermore, the EU budget finances tasks that appear at Community level, aim at deepening integration in the com-

mon market, and are for the sake of all member-states. So the revenue and expenditure sides of the budget do not express mere national interests. They serve objectives that must be realized at a Community level.

Due to the new tasks facing the EU, Poland would find further reduction of the budget unacceptable. Separation of the discussion on the revenue side would make the debate more constructive. Greater autonomy of the own-resources system would facilitate future discussion and allow for necessary financial development of the new European policies.

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