NEW MEMBER STATES AND CROSS COMPLIANCE: THE CASE OF POLAND

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Abstract

The New Member States did not yet have to implement the full cross-compliance package. Currently the GEAC requirements in the conditionality clause for the direct payments. The SMRs will become part of it starting from 2009. This paper looks into the Polish case and looks whether timely implementation is feasible. Several factors are mentioned, indicating that this will be a hard task. The problems with implementation explain why the new member states are advocating a gradual phasing in of the SMRs.

Key words: cross-compliance, agriucltural policy

JEL classification: C01; C02; Q12; Q13

Introduction

On 1 May 2004, ten new EU member states started to implement CAP measures, including direct payments under the First Pillar of the CAP. Most of them (excluding Slovenia and Malta) chose to receive the payments under the Single Area Payment Scheme. There were several reasons behind that decision, one of which was the lower level of payments that farmers from the new member states received when compared to the payments for farmers of the EU 15.

When choosing payments based on the Single Area Payment Scheme, governments of the new member states became responsible for ensuring that farmers obtaining direct payments maintain their agricultural land in good agricultural and environmental condition (GEAC), especially if it is not used for production purposes. This requirement differs substantially from the standards that have to be fulfilled by farmers from the EU 15 as well as from Slovenia and Malta, which not only have to satisfy the GAEC requirement, but are also obliged to meet the other cross-compliance (CC) requirements (statutory and management requirements, SMRs).

By the end of 2009, eight new member states will have to change from the Single Area Payment Scheme to the Single Payment Scheme. Therefore, they should already work on specifying implementation rules for CC and SMR. At this moment, there is only limited information available on how respective new member states are trying to manage this task. This does not mean, however, that farmers in the new member states do not have to comply with standards introduced by legislation related to cross – compliance. In most countries they have to implement them, but the scope of responsibility differs. If farmers in the new member states (excluding Slovenia and Malta) do not meet their obligations in this respect, they are liable in administrative, civil and criminal terms, but it does not have any impact on the possibility of obtaining direct payments.

This paper analysis the challenges cross compliance imposes to the New Member States, by exploring the case of Poland. The paper is organized as follows. The remainder of this section provides some more basic information on Polish agriculture. Section 2 provides a discussion of the challenges the implementation of CC imposes to the policy maker as well as the required institutional capacity that has to be built up. The following two sections (Sections 3 and 4) focus on the implications of the implementation of cross-compliance for the for the cereals and the beef sector respectively. Particular challenges as well as potential impacts on farm profitability and competitiveness will be discussed A final section closes the paper, in which it is tried to draw some lessons and formulate some main conclusions.

Poland is a country with average agricultural land resources. In 2003, the Utilised Agricultural Area (UAA) was 16.2 million ha, i.e. it accounted for 51.7% of the total Poland's area. The area used for feeding purposes as expressed in UAA per capita is high as compared to the EU average and equals 0.42 ha. The large differentiation of farm size – from one hectare to several thousand hectares – constitutes one of the characteristic features of Polish agriculture.

Small farms are characteristic for the private sector, accounting for 94.8% of the total UAA. The public sector manages 5.2% of the agricultural land. The problem of agricultural holding fragmentation occurs solely in the sector of private (family) farms. Enlargement of the existing farms is a permanent process that began at the early 1990s. Despite this, due to the low profitability of agricultural production and capital shortages, the pace of agrarian structure change is slow. It has to be noted, however, that during the last years, the share of farms with more than 15 ha of UAA has significantly increased.

Polish agriculture is characterised by a fragmented structure and technical backwardness. 24.9% of agricultural farms (but only 14% of UAA) cover a consolidated piece of land, and 5.9% (15% of UAA) comprise more than 10 pieces of land (MARD, 2006). The high fragmentation of agricultural land and the low level of intensification in agricultural production constitute the most important factors that are decisive for the large biological diversity of the Polish nature.

According to the General Population and Housing Census and the Agricultural Census, conducted in 2002, 10 474 500 people, i.e. 27.4% of Poland's population, lived in households connected with a farm (area of more than 10 ares) user. 80%, or 8 504 900, people were inhabitants of rural areas. This implies that 58.2% of the total rural population was connected with farming through a common household (MARD 2003)[1]. Land productivity in Poland is lower than in the EU-15. It results from worse soil and climatic conditions as well as extensive production. Yields in Poland are approximately twice as low as the average yields in the EU.

According to the 2002 General Agricultural Census data, 935 200 agricultural holdings were involved in cattle rearing and breeding, i.e. 31.9% of the holdings of an acreage from 0.10 ha, 875 400 in cow rearing (29.8%) and 760 600 agricultural holdings were engaged in pig raising and breeding (25.9%). Despite an increase in the concentration of livestock production, it remains low and is conducive to environmental protection. As for slaughter animals, pigs dominate and the importance of poultry meat production is growing.

Changes in agriculture policy induced by EU accession

GAEC implementation

Although the harmonization of the Polish legislation with the European law began at the end of the 1990s, most of the activities were conducted only in the first years of the 21st century. Nevertheless, the level of adjustment is high, both in the area of environmental protection as well as agricultural activities. As was mentioned before, currently Polish farmers (who received direct payments) are obliged to only satisfy the GEAC requirements. The Act of 18 December 2003 on

[1] MARD, 2004: Agriculture and food economy in Poland – figures. Ministry of Agriculture and Rural Development (Warsaw).

direct payments for agricultural land (DU 6/2004.40) constitutes the basis for introduction of provisions on the requirements regarding the maintenance of agricultural land in a good environmental condition. Detailed criteria on the minimum requirements for the maintenance of agricultural land in a good agricultural condition are provided in the Regulation of the Minister of Agriculture and Rural Development of 7 April 2004 (DU 65/2004.60). These requirements became legally binding when Poland joined the European Union.

Institutional challenges

The discussion on further CC implementation in Poland is conducted only to a limited extent and by a limited number of partners. There are several public institutions responsible for implementation of CAP and its instruments in Poland. Most probably, also the following institutions will be responsible for SMR implementation:

- Ministry of Agriculture and Rural Development
- Agency for Restructuring and Modernization of Agriculture
- Agricultural Market Agency
- National Veterinary Institute
- Main Veterinary Inspectorate
- Institute of Fertilization and Soil Science in Pulawy
- Main Inspectorate of Plant Protection and Seed
- Center of Agriculture Advisory Services

The list of institutions involved in the implementation of the CC will certainly be longer and encompass among others, institutions connected with environmental protection, including:

- Ministry of Environment,
- Voivodeship Inspectorates of Environment Protection.

Currently the co-operation between these institutions is rather weak. There are often no common working groups dealing with cross compliance requirements and implementation in Poland. It is expected that there will arise problems on how to split responsibilities and competences between institutions dealing with agricultural problems and environmental ones. Previous experience shows that co-operation between agri - and environmental institutions could be one of the most important barriers for effective implementation of the new requirements. Environmental protection public institutions or environmental non-governmental organizations are practically excluded from the discussion, whilst the contribution of farmers is small.

Farm Advisory Service

Poland is in the process of reforming its agricultural advisory service. After the reform, there will be both state and private agricultural advisory services. The state system will comprise of:

- The Agricultural Advisory Centre in Brwinów, a state institution under the Minister of Agriculture and Rural Development with branches in Kraków, Poznań and Radom and
- 16 voivodship agricultural advisory centres under a relevant voivod.

The public agricultural advisory service currently employs over 5600 people, out of which around 3950 specialists and advisers that provide services to around 1850 thousand holdings, which gives an average of 470 farmers for one adviser. Both farmers and advisers believe that the system is not well-suited to provide services in the CC requirements implementation, and due to the large number of farmers per adviser, only a limited number of producers has access to advisory services of proper quality. The possibility to charge farmers for advisory services (introduced by the new act on agricultural advisory) raises further concerns with farmers. Although the Rural Development Programme 2007 – 2013 provides for subsidies for advisory services under the FAS (up to Euro 1500 and not more than 80% of qualified costs), it may be expected that a large share of small holdings will not make use of the advisory assistance[2]. This may impediment the CC requirements implementation in such holdings. A Task Force for Basic Requirements in Cross Compliance Management is instituted which is to prepare a detailed scope of the requirements to be met by Polish farmers within the SMR. The Task Force is an advisory unit by the Minister of Agriculture and Rural Development and it has been authorized to prepare guidelines for the CC implementation in Poland. Despite training and information activities conducted by some of the agricultural advisory centres, the preparation of Polish farmers and administration to fulfill the commitments resulting from the CC system has still to be judged as insufficient[3].

Monitoring and control

Institutional problems and the high cost of SMR implementation constituted the main reasons brought up by Poland in favor of postponing of the obligation to implement all of the CC requirements. In Poland, there are approximately 1.8 million holdings, circa 1.5 of these apply for direct payments, which, given a 1% sampling intensity, means that the inspection shall be

[2] This is even more probable given the fact that these costs will be refunded, which for the majority of small holdings with low income and without free financial resources constitutes a significant barrier in making use of the advisory services.

[3] This is why Poland and other new member states insisted that the transition period for fulfilling all of the CC requirements will be prolonged until the end of 2012, i.e. until farmers from the new member states obtain the same direct payments as farmers from the EU 15.

conducted in 15 thousand farms. This means that although Poland's share in the direct payments shall amount to circa 2.5 - 7% in the period between 2005-2012 (Regulation (EC) 583/2004), whereas its share in the inspection costs will amount to 15 - 20%.

Phased-in implementation

Institutional problems and the high administrative cost of SMR implementation constituted the main reasons brought up by Poland in favor of postponing or a more gradual phase-in of the obligation to implement all of the CC requirements. Another reason relates to the lengthy transformation process that the agricultural sector in Poland is undergoing. During last 17 years the situation in the sector changed several times, with new solutions, procedures and instruments introduced. Due to the sector's situation, the underdeveloped character of the Polish countryside, the small size of the holdings as well as the large significance of agriculture in Poland (not only from the economic point of view but also from the social, cultural and environmental perspectives) the process of adjusting to the Community requirements was very demanding and some of the tasks have not been completed yet. This limits the level of resources that agricultural administration can earmark for preparation to implementation of a new measure. Despite the efforts taken to adjust the Polish holdings to the requirements of environmental protection and wildlife welfare, there are still urgent issues to be dealt with.

There also exist additional, political reasons for the low involvement of public institutions in the preparation of CC implementation in Poland. Prior to the EU integration, farmers had constituted one of the social groups with the most negative attitude towards the accession. This resulted from the deep crisis in the Polish agriculture dating back to 1989 and farmers' concerns that after the EU accession their situation would aggravate. When Poland became an EU member and different CAP measures started to operate – first and foremost direct payments but also other measures of the I and II pillar – farmers' attitude towards the EU changed significantly – most of them started to support the country's membership in the Community. Highlighting the necessity to implement costly investments at the holding level could lower this support and drastically decrease farmers' backing for the current governmental coalition. Therefore, the authorities have been postponing the preparation process for CC implementation and have not been informing farmers on the future requirements, hoping that this could be passed on to the next governmental coalition.

Lessons and conclusions

It is tempting to draw lessons from the Polish experience and generalize these to the New Member States. However, since the character of the Polish agriculture is different from that in the remaining EU countries, one should be careful with generations. Nevertheless, there are several

issues where other EU countries (especially new MS) can benefit and learn from Poland's experience.

A first observation is that CC implementation is difficult from the institutional point of view as it requires abandoning the sectoral approach to economic management and strengthening of cooperation between institutions responsible for various areas of administration – rural development, agriculture, nature and environmental protection, water management, social policy, etc. Only common operation of these institutions will guarantee that the system developed will be based on requirements that are possible to fulfill, will be easy to control and enforce. It is also important to ensure public participation in the process – considering the experiences of farmers and organizations representing them may allow to avoid making mistakes, or at least to decrease the number of conflicts and the extent of criticism pertaining to the new obligations.

Secondly, CC implementation will require significant educational effort. The slow pace of work in introduction of this measure in Poland results, among others, from the concern that the new requirements will diminish the level of farmers' support for the European integration and the governing coalition. This results indirectly from the low level of farmers' knowledge on the Common Market requirements and the necessity of environmental protection in agricultural activities. The level of environmental awareness, among farmers, the whole society and also among politicians in Poland (as in all the new EU member states) is very low. Consequently, environmental protection is not given priority and sometimes has very low social support. Acceptance for such type of activities may be increased by development of environmental education, showing that environmental conditions of agricultural production influence yield quality, and in consequence, consumer's health as well as drawing attention to social benefits (also for farmers) that will be brought by environmental, sanitary and animal welfare requirements.

Implementation of new requirements necessitates time. Societies of the new member states underwent in last two decades a lengthy and substantial transformation process – first the system transformation and next the economic transformation (from the centrally planned to the free-market economy) and finally, the transformation related to the adjustment to the provisions and procedures binding in the European Union. This process covered also farmers, who had to adjust the management of their farms to the new conditions. In Poland, farmers constituted one of the few social groups who did not benefit for a long time from the transformation process. This situation changed only after the EU accession and opening of the CAP measures. Farmers expect that the harmonization of the state agricultural policy with the Common Market conditions will guarantee them greater transparency and stability of this policy. Therefore, they should not be surprised by an introduction of new solutions to which they have to adjust in a very short time. This holds true even when the CC requirements (GEAC and SMR) are not viewed as new

obligations for farmers in new member states. What will change are the consequences of failing to implement the CC requirements.

A long period that should be provided for implementation is necessary also due to the fact that the adjustment to the new regulations will require from farmers (or at least a significant part of them) conducting investments (frequently costly – e.g. implementation of the requirements of the Nitrates Directive or animal welfare provisions) or organizational/production changes. A long adjustment process will allow farmers to plan for the necessary activities that have to be undertaken at the holding level.

Polish experience shows also that CC introduction may force holdings to specialize (although at the moment there is no empirical data that would confirm this claim). It should be expected that at least part of the farmers that conduct mixed production, when forced to carry out adjustment investments, will choose only one, from their point of view the most profitable direction of the future production, in order to decrease the costs of the investments and will adjust their holdings to the CC requirements only for this type of production. In future, in order not to lose the right to direct payments, they will abandon all other production to which the holding has not been adjusted. This should serve as a guidance for the governments of the countries who plan to support the specialization of agricultural production.

The research conducted in Poland shows that the level of readiness for the implementation of the full CC requirements is not advanced. Although the EU provisions containing SMR have been transposed to the Polish legislation and are binding, the level of farmers' knowledge on the direction of changes in the agricultural policy is currently still relatively low. From that perspective the recent agreement on simplification and stepwise introduction of the SMRs (2009 and 2011) in the new member states is a welcome development for those countries[4].

[4] Council of the European Union. Press release, 5512/08 (Presse 16), 21 January, 2008, Brussels.