DIRECT PAYMENTS AND THEIR IMPACT ON THE LAND MARKET IN POLAND

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Abstract

The article makes an attempt to answer the question: how direct payments affected the land market in Poland? The first part of the article explains the theoretical aspects of direct payments as an instrument of agricultural policy and their prospective effectiveness. Also the special character of the solutions adopted by Poland in relation with the use of this instrument was shown. The second part presents the main problems of the land market in Poland, taking into account both the supply and the demand factors of this market. The third part concentrates on searching for the cause-effect relations between the direct subsidies and the changes in the land market in Poland. They suggest, among others, that the forecasts regarding the retaining of land in households have been confirmed in practice.

Key words: Direct Payments, Land Market, Agriculture Policy, Structure of Agriculture

JEL: Q10, Q15, Q18.

Introduction

Direct payments are currently the main mechanism of supporting the agricultural incomes in the European Union. They were introduced for the first time in 1992 within the frames of the reform of the common agricultural policy of Ray Mac Sharry. However, Agenda 2000 improved their role. The primary goal of direct payments was to compensate the farmers the decrease of their incomes caused by the significant decrease of the prices. This meant a significant change of the means of supporting agricultural incomes, as indirect support realized with the use of the agricultural prices' policy was being abandoned in aid of direct forms of financial support for farmers. This is certified by the fact that in 1991 the share of agricultural expenses for subsidizing export and internal intervention amounted to nearly 90% of the total expenses for WPR, and currently circa 70% of these expenses are direct payments (GUBA, PISKORZ 2002, page 21).

Thanks to the accession of Poland to the European Union, polish farmers were given the opportunity to participate in the instruments of the Common Agricultural Policy. One of such instruments are the direct payments. In terms of popularity and the scale of financing, it is undoubtedly the most important instrument. Its influence effects are also diversified.

The article makes an attempt to answer the question: how direct payments affected the land market in Poland?

The adopted study method was, above all, the descriptive analysis method, the method of comparative analysis and deduction. The main materials subjected to studies were statistical materials, the source of which was data from the Main Statistical Agency (Główny Urząd Statystyczny (GUS)), Agency for Agricultural Restructuring and Modernization (ARiMR) as well as the Agency for Agricultural Real-Estates (ANR). This material covered data regarding the agricultural structure of Polish agriculture and its changes, land circulation, land prices etc. The studies take into account years 2002-2007, and thus the period, which covers both the state of the land market from before accession and after.

The first part of the article explains the theoretical aspects of direct payments as an instrument of agricultural policy and their prospective effectiveness. Also the special character of the solutions adopted by Poland in relation with the use of this instrument was shown. The second part presents the main problems of the land market in Poland, taking into account both the supply and the demand factors of this market. The third part concentrates on searching for the cause-effect relations between the direct subsidies and the changes in the land market in Poland. They suggest, among others, that the forecasts regarding the retaining of land in households have been confirmed in practice.

Direct payments as an instrument of agricultural policy

Direct payments and their essence

As it has been highlighted in the introduction, direct payments are currently the most important instrument of agricultural policy. Their main purpose is its evolution, leading towards making it independent from the structure and size of agricultural production.

The primary changes in the system of direct payments were made in 2003 during the Luxemburg summit[1]. By virtue of the new solutions, direct payments were replaced by the Uniform Farm Payment (JPG) or Uniform Regional Payment (JPR). These payments are independent on the size and type of production. It only depends on (along with payments for certain production lines) the obligation to meet certain standards by the farm within the frames of cross-compliance.

According to the assumption, introducing a uniform payment will allow replacing most payments functioning within the frames of organization of various agricultural markets of the EU, thus these payments in most cases are not determined by the necessity of conducting a specified type of agricultural or animal production. Thus, in the lands with the right to payments, one may conduct any type of agricultural activity, with the exclusion of multi-year crops, production of fruit and vegetables as well as potatoes other than starch. The amount of the uniform payment per farm was supposed to equal to the average amount of direct payments received by the farm during the reference period 2000-2002.

In special situations, for instance of concern for maintaining production in certain regions, or out of concern for environmental protection or improvement of quality of production, the member states have the possibility of using the so-called specific payments or additional payments.

An alternative system to Uniform Farm Payment is the Uniform Regional Payment system. It is based on a division of the regional financial envelopes (whole or its part) between all the farmers from the region, including those, who did not collect payments in the reference period. JPR, just like JPG, are attributed to agricultural lands and permanent green lands. However, multi-year crops, forests and non-agricultural use lands are excluded from the system. In the lands entitled to payments, farmers can produce fruit and vegetables with the exclusion of multi-year crops such as orchards, raspberries and currants, tree nurseries, and additionally production of non-starch potatoes.

The common element of both systems is the obligation to fallow part of the lands. Also the modulation rule was extended. According to new solutions all the amounts of direct payments payable to a farmer in the given calendar year will be decreased by 3% in 2005, by 4% in 2006 and by 5% annually in years 2007-2012. Farms, annual payments of which do not

[1] Their normative reflection was contained within the Disposition of the Council (EC) from 29 September 2003 establishing the common terms of direct support within the frames of common agricultural policy and establishing specific support systems for farmers. Dz. Urz. UE 2003, L 270/1.

exceed 5 thousand EUR and all agricultural producers from the new member states, are an exception by the time they achieve the EU-15 payment level. Just like in the previous regulations, the savings stemming from the adoption of the modulation rule will be directed at supporting the development of rural areas (Płatności… 2004, page 7-8).

Another common solution for both systems is the extended cross-dependency rule. Within its frames a farmer receiving direct payments will have to conform to the specified requirements in the field of standards of environmental protection, vitality of men and animals, deification and registration of animals, notification of animal diseases as well as the requirements in the field of well-being of animals. Additionally, the farmer's obligations regard the necessity of maintaining the land in good agricultural culture, according to the requirements of environmental protection based on the minimum requirements set out by the member states[2]. Realization of this rule is subjected to control in randomly chosen farms. In the case it is found that the farmer does not abide by the cross-dependency rule, various types of penalties have been planned depending on the nature of infringement and its effects. However, they usually are based on lowering the due payments including an exclusion of the farmer from the payment system[3].

New EU member states received the possibility of selecting the system of direct payments between the standard system functioning within the EU-15 countries (SPS) and the simplified system. The essence of the simplified system boils down to using payments per an agricultural land hectare, regardless of the type of agricultural production. This system, named the Uniform Area Payment (SAPS), thanks to easier access to payments, is more beneficial to the new member states, as it increases their capability of absorbing the financial means. Additionally, it is less restrictive in relation to the scope of supported products, as it enables supporting the production of fruit and vegetables, multi-year crops and non-starch potatoes, increasing the decision-making field. Its advantage is also the lack of requirement of land fallowing and using two types of payments, meaning the primary type for all the authorized UR and supplementary payments for crops supported in the standard system of direct payments. Also exemption from the modulation and cross-dependency rule is important (Płatności… 2004, page 9-10).

Specification of direct payments in Poland

During the negotiations regarding Poland's membership in the European Union a decision was made, that Polish farmers will be included in the simplified system of direct payments. This system is based on financial support of agricultural holdings, awarded

[2] These requirements shall not be identified with good agricultural practice rules.
[3] For instance, the penalty for neglect results in reducing the payment by maximum 5% and in the case of reoccurring neglect - by 15%, and intentionally not abiding by the requirements of the rule may end with an at least 20% reduction of the payment. The means acquired from the penalties will be transferred in 75% to the EFOiGR Guarantee Section, and in 25% - to the member state. See. (Ocena… 2004, page 9-11).

proportionally to the surface of the crop, regardless of the type of agricultural activity. This system was to function for the first three years of membership, with the possibility of extending by another two years (a maximum of 5 years)[4]. According to the act from 18 December 2003 the system of area payments consists of two elements, so-called Uniform Area Payment and Supplementary Area Payments. Uniform Area Payment is awarded to agricultural lands maintained in a good agricultural culture, and the Supplementary Payments are used in the form of payments to the surface of the specified plants. In 2004 they covered the so-called I sector - other plants, the list of which is determined annually by the Government by means of a disposition[5] and the II sector covering hop-plants. According to the act from 11 March 2004[6] payments for crops of tobacco and potatoes for starch are executed by the Agricultural Real-Estates.

Uniform Area Payment according to the Accession Treaty could not exceed - 25% in 2004, 30% in 2005, 35% of the union subventions level in year 2006. The Supplementary Payments could increase the Uniform Area Payment, and the maximum level of supplementation of the direct payments could not exceed, respectively 55% in 2004, 60% in 2005 and 65% of the union subvention's level in year 2006. The Uniform Area Payment is financed in full from the EU budget. The financial envelope for Poland in 2004 for this payment amounted to 659,95 million EUR. However, the supplementary payments in sector I were financed from the part of means from the Development Plan for Rural Areas (PROW) as well as from the state budgetary means. In the II sector the supplementary payments were fully financed from the state budget's means. The financial envelope for the Supplementary Payments in 2004 amounted to 804,509 million EUR for sector I and 0,483 million EUR for sector II (ARiMR… 2004, page 96-97).

The amount of the direct payments in the given calendar year is determined as the product of land surface declared by the agricultural producer and successfully verified by ARiMR and the payment rates per 1 ha of agricultural land.

According to the stipulations of the Accession Treat, agricultural lands, which on 30 June 2003 were maintained in good agricultural culture qualify for Uniform Area Payments, regardless of whether they were cultivated or not. This surface includes (according to the European statistical classification - EUROSTAT) agricultural lands, permanent green areas, multi-year plantations and household gardens. Poland's reference surface giving the right to direct payments amounts to 14,8 million ha. The supplementary payments allow increasing the incomes of farmers in farms, which have the right to Uniform Area Payments and which cultivate plants, the production of which is supported by the EU. The base surface of

[4] Thanks to good results of using the uniform area payments (SAPS), the Commission agreed to extend the period, in which the direct payments will be paid within the frames of this system by the end of year 2010.
[5] In 2004 this sector covered cereal, oil plants, protein-rich plants, pod plants, nuts, fibrous and oily linen, fibrous hemp, plants intended for sowing materials (selected species) and plants intended for fodder (selected species).
[6] Act from 11 March on the Agency of Agricultural Market and organization of certain agricultural markets (Dz. U. nr 42, poz. 386).

agricultural lands for supplementary payments for sector I amounts to 13,0 million ha. The base surface for sector II amounts 2,2 thousand ha.

Direct payments are given to owners of agricultural holdings, as well as persons, who possess agricultural lands for other reasons e.g. lease, usage and lending. The person authorized to acquire direct payments to agricultural lands is the beneficiary, who:

- has an entry to the register of producers)has the identification number issued by ARiMR);

- has an agricultural holding, which includes agricultural lots with total surface no less than 1ha;

- maintains the agricultural holding in good agricultural culture;

- applied for direct payments to agricultural lands within the designated date.

The minimum surface of the agricultural holding giving the right to acquire direct payments to agricultural lands is 1 ha, and this surface must consist of agricultural lots qualifying to payments, with surface of no less than 0,1 ha.

Polish land market and it's evolution in 2002-2007

Main determinants of the polish land market

Territory of Poland occupies 31269 thousand ha. From that agricultural land represents 18208 thousand ha (58,2%), forest land represents 9200 thousand ha (29,4%), built-up areas water areas and other areas represent together 3861 thousand ha (12,4%). Before the agricultural reforms in Poland the private sector possesses 78,6% area of arable land. But now after privatization private sector posses 99,8% of agricultural land.

Owners of agricultural land can be: individuals, legal entities, the State and the municipalities. The first period of transformation, was completely liberalized and the owner of lands could become each Polish citizen (with the exception of foreigner). But in the face of integration processes this situation were changed, and were introduced some limits. According to the main determinants of current Polish agricultural politics, a family farm was creating as a central point. The family farm is leading by an individual farmer, in which the total area of arable land is not over 300 ha. An individual farmer is a physical person who: owns or leases agricultural properties, brings in by himself, has agricultural qualifications, lives in the borough which includes his properties and land.

Before the integration process in Poland appeared a fear of attempts of speculation on land market, mainly caused by large disproportions of land prices between "old" and "new" UE members. To counteract some law limits were introduced. They obstructed the accession the speculation capital from the other countries to the land market. Now we have the mechanisms which regulate the land market. From 16 July 2003 starts the regulations on land market. New norms make possible to intervene on private agricultural land market in the direction of supporting family farms and to oppose excessive land concentration. In order to this, two new instruments could be used: the preemption right (in the case of selling contracts) and the law of repurchasing (in the case of other contracts transferring belongings for example: donation, bringing possessions to the company). The legislator provides some exceptions from using these treaties and so the preemption right can be executed if: there was transferring agricultural properties as a result of enlarging the family farm appears (to 300 ha), turnover is made within the family, the property is bought by a leaser (a 3-year leasing is obligatory). In agreement with law the Agency, during transactions, should be informed by sellers or notaries and it has one month for examination the case. Essential limitations in the issue of acquirement of land were introduced in relation to foreigners.

It is possible for foreigners to buy lands, lease lands and establish joint stock companies. EU inhabitants are allowed to buy land after 3 or 7 years lease depending on provinces in which these lands are situated. Citizens of other countries will be allowed to acquire lands not until 12 years from the day of Polish accession to EU. EU inhabitants can by land in Poland without special permission if it concerns plots under 1 ha, lands are not near the border and buyer live in Poland over 5 years or it's marriage is polish citizen. The foreign individuals can also to inherit land. Legal entities can buy the lands after getting special permission.

According to the legislation all children can inherit land, but the successors also can be the other members of the family or other persons. The problem is that sometimes there are too many successors of a small piece of land. It is important that there is no limitation in disintegration of lands and they can be divided into very small lots.

The agricultural land are mainly used by owners. But we must notice that in Poland we have state lands and in the end of 2007 there were 122,4 thousand active leasing contracts for 1838,7 thousand hectares state lands (but for the end of 2007 more than 345,6 thousand hectares state lands were not developed). Generally 23,4% of agricultural area is leased and it concerns state and private lands. Usually individual farmers are lessees, but in some cases agricultural cooperatives lese lands.

In Poland we have specific situation because land lease contract mustn't be written. Most of the lease contract are not written and only few of the contract are written and registered in the Local Authority.

There are no limitations of lease period in private contract. But when the private farmer lease lands from the state the minimum is three years and the maximum is ten years.

Polish farmers pays land taxes and it depends from the acreage and quality of the soil. Generally there are no taxes for the agricultural producers and their activity. Only in the case of the special production (special list) and over farming activity there are taxes.

System of real estate evidence provides that property rights should be registered in a Land and Mortgage Book (Land Register). Within the Ministry of Justice in the structure of the Court there are 379 Land Register Offices. The main role of the Land Register Offices is to register property rights. The second institution which register real estate is The Agency for Restructuring and Modernization of Agriculture. The main role of the Agency is to support agriculture and rural development. The Agency deals with the implementation of European Union programmers and provides national support. To do this Agency maintain in electronic mode a central archive with real property lots.

Circulation with agricultural land and land prices

In the first period of the transformation the main source of the land in the land market was state fund which was created after collapse of the state farm system. But now most of this land was managed. By the AWRSP (Agency of Farm Property of the Ministry of Treasury) which in 2003 was transformed in Agricultural Property Agency (APA). During the process of the transformation the Agency took over into Agricultural Property Stock of the State treasury properties of total area 3762,1 thousand hectares from state farms and 601,9 thousand hectares of the National Land Fund. Total, from the beginning to the end of December 2007 the Agency took over 4723,1 thousand hectares.

After taking over and transformation state farms, the Agency distributed these possessions mainly through selling and leasing. From the beginning, the Agency offers in 600 thousand auctions about 2,8 million hectares for sale and over 7,1 million hectares for lease (some of lands were offered several times). Reaching over than 305,1 thousand contracts to the end of 2006 the Agency leased 4526,5 thousand hectares. Some of them were passed and in the end of 2006 there were 134,2 thousand active leasing contracts for 1892,1 thousand hectares. From the beginning to the end of 2006 the Agency sold 1694,0 thousand ha (35,9% of all lands) for about 190 thousand buyers. It contributed to form larger individual farms (average was about 4 hectares for a contract) and create about 5 thousand farms and enterprises. But we must state that over 88,1 thousand buying contracts (46,4% from all selling contracts) concern plots bellow 1 hectare and about 74,5 thousand selling contracts (39,2% from all selling contracts) concern plots from 1 to 10 hectares. That means that Agency sales mainly small plots. For the future distribution 386 thousand hectares of land is left, the main part of which possesses little agricultural usefulness. The rest of the land were developed mainly trough transferring the lands to: the local governments, the State Forests, churches and other institutions. Despite of the big activity of the Agency on the land development, for the end of 2006 more than 386 thousand hectares were not developed.

When executing the regulations on shaping the land market, the Agency makes an assessment of the transaction of sales (transactions regarding extending the existing agricultural holdings run by persons with proper qualifications are excluded from the assessment). The main task of the Agency in this regard is limiting the acquisition of lands by entities not dealing with farming, which do not personally run agricultural holdings and preventing excessive concentration.

Since the beginning of the act's operation (16 July 2003) by the end of 2007, the Agency received 408 thousand contracts transferring ownership of agricultural real-estates for assessment, and the contracts regarded circa 667 thousand ha. The Agency used its pre-emption right towards 483 purchasers (12,2 thousand ha). At the same time one needs to emphasize that the majority of contracts filed with the Agency regarded transactions for lots below 1 ha, which impeded the Agency's work, not contributing to more effective shaping of the agricultural land and structures' market.

As the result of the sales/purchase transactions, the land prices are shaped. In Poland the land prices in private transaction were higher than state lands (table 1).

Table 1. Prices of lands in 2002-2007

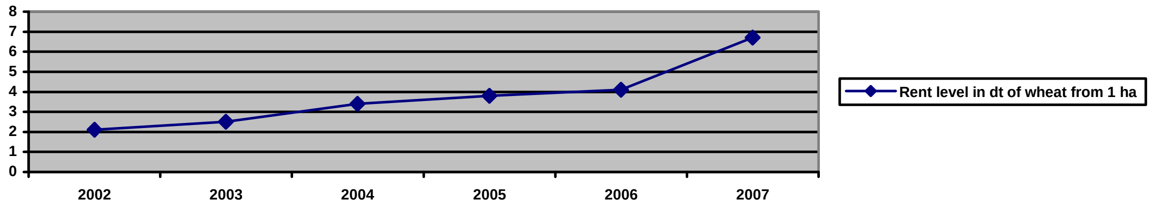
Years	Average price of state land		Average price of private land	
	(EURO/ha)	Previous year = 100%	(EURO/ha)	Previous year = 100%
2002	825	102,9	1261	97,0
2003	942	109,5	1438	114,1
2004	1120	119,0	1659	115,3
2005	1422	126,9	2061	124,3
2006	1816	127,7	2323	112,7
2007	2443	134,5	3155	135,8

EURO = 4 PLN
Source: Own calculation based on data from APA and data from http://www.stat.gov.pl/bdr/bdrap.strona.indeks.

It can be stated that in Poland the traditional family farms weren’t destroyed, land prices are higher than in other countries. Now we can observe the fast increase of the land prices and probably the fastest increase will take place after the seven-year transitional period. Because the land starts being treated as a place of a long term capital investment. In recent years the land prices grew on average by 30%, which may suggest that in certain areas they are nearing the maximum level, which will affect (lower) the number of sales transactions.

A just as high dynamics is shown by rent set by Agricultural Real-Estates for the lands it manages (drawing 1).

Drawing 1. The rent level for ANR lands (in dt of wheat from 1 ha)



Source: Own calculation based on data from ANP.

Changes of the area structure of farms

In years 2002 - 2007 one may observe the following in terms of the farms' area structure (table 2 and 3):

1) Lowering the number of the smallest farms, both below 1 ha and in the 1-20 ha area group

2) Growth of the number of farms above 20 ha, especially in the group of large farms from 30 to 50 ha and the largest farms above 50 ha

3) Growth of the agricultural crops area in farms above 20 ha, the largest in the group from 30 to 50 ha and a drop in the group of above 50 ha

4) The number of farms above 20 ha in 2007 amounted to just 7% of the general number of farms above 1 ha

5) Most agricultural land in Poland is possessed by small and very small farms.

Table 2.The area structure of farms in Poland in years 2002-2007 (number of farms)

List	Agricultural holdings					
	2002	2005	2007		Difference (2007-2002)	
	Number in thousands			in %	In thousands	in %
General	2916,3	2707,8	2573,4	X	-342,9	-11,8
Below 1 ha	960,1	921,1	765,3	X	-194,8	-15,4
Above 1 ha total, including:	1956,1	1786,7	1808,0	100,0	-148,1	-7,6
1-2 ha	517,0	447,0	422,6	23,4	-94,4	-18,3
2-3	281,2	258,7	273,8	15,2	-7,4	-2,6
3-5	348,7	326,7	340,5	18,8	-8,2	-2,4
5-7	216,8	197,2	205,2	11,3	-11,6	-5,4
7-10	210,1	191,3	194,9	10,8	-15,2	-7,2
10-15	182,7	167,8	166,6	9,2	-16,1	-8,8
15-20	83,9	77,2	77,6	4,3	-6,3	-7,5
20-30	64,3	64,4	65,4	3,6	+1,1	+1,7
30-50	31,7	34,7	37,4	2,1	+5,7	+18,0
50 ha and more	19,8	21,5	24,1	1,3	+4,3	+21,7
Average surface of the farm (in ha of agricultural land) in general	5,8	5,9	6,3		+0,5	+8,7

above 1 ha	8,4	8,7	8,8	+0,4	+4,8

Source: Own calculation based on: (Użytkowanie… 2007) and (WILKIN, NURZYŃSKA 2008, page 31).

Table 3. Area structure of agricultural holdings in Poland in years2002-2007 (surface)

List	Agricultural holdings					
	2002	2005	2007		Difference (2007-2002)	
	Number in thousands			in %	In thousands	in %
General	16899,3	15906,0	16177,1	X	-722,2	-4,3
Below 1 ha	596,5	378,4	330,8	X	-65,7	-16,6
Above 1 ha total, including:	16502,8	15527,6	15846,2	100,0	-656,6	-4,0
1-2 ha	752,3	638,0	613,4	3,9	-111,9	-15,4
2-3	685,0	628,5	667,7	4,2	-17,3	-2,5
3-5	1354,2	1267,3	1323,2	8,4	-31,0	-2,3
5-7	1279,3	1165,4	1211,6	7,6	-67,7	-5,3
7-10	1752,3	1597,2	1626,6	10,3	-125,7	-7,2
10-15	2216,0	2036,8	2021,8	12,8	-194,2	-8,8
15-20	1440,4	1328,1	1335,2	8,4	-105,2	-7,3
20-30	1541,2	1552,5	1572,1	9,9	+30,9	+2,0
30-50	1181,4	1304,5	1397,2	8,8	+215,8	+18,3
50 ha and more	4327,7	4009,4	4077,4	25,7	-250,3	-5,8

Source: Own calculation based on: (Użytkowanie… 2007) and (WILKIN, NURZYŃSKA 2008, page 31).

The transformations in the area structure of agricultural holdings are largely dependent on the flow of land between agricultural holdings, and the agricultural land concentration rate depends on the depend and supply of lands. According to J. Zegar (ZEGAR 2003) the size of potential demand and supply of agricultural land is related with the separation of the so-called groups of progressive and degressive farms (MAŚNIAK 2007).

The progressive holdings (developing) include above all things farms, which produce mainly for the market, which are supported mainly from agriculture, and run by owners in their production age. Their development capabilities are determined by the possibilities of increasing the production potential, improving the effectiveness of the means of production, which is related, among other things, with increasing the farm's surface.

Table. 4. Agricultural holdings and agricultural lands * according to types of holdings in 2002.

List	Number of holdings		Agricultural lands	
	Thousand	%	Thousand ha	%
In general	1951,7	100,0	14216,2	100,0
Producing mainly for the market	914,7	46,9	10870,8	76,5
Without production and auto-supply	1037,0	53,1	3345,4	23,5

* agricultural land in individual holdings above 1 ha, without physical persons' partnerships.
Source: Own calculation based on (MAŚNIAK 2007, page 305).

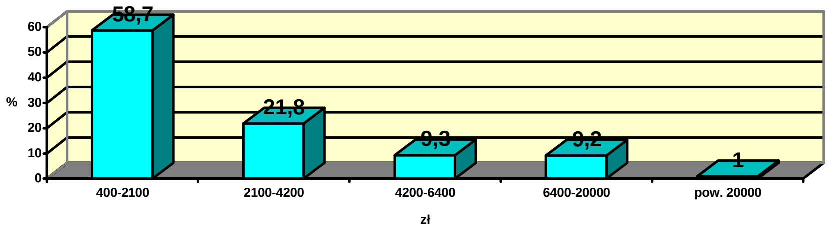
The group of digressive holdings (not developing) include holdings without goods' production, producing exclusively for their own needs. The resources of land possessed by these holdings determine the limits of potential supply of agricultural land (MAŚNIAK 2007).

According to the date from the Agricultural Records from 2002, only 47% of farms in Poland produced mainly goods (table 4)[7]. From the general surface of agricultural lands, they possessed ca. 76% of lands. However, the remaining ca. 24% of agricultural lands, were possessed by agricultural holdings producing mainly for their own needs. This means, that the potential supply of agricultural land in the private market included ca. 3,3 million ha (circa ¼ of all lands) (MAŚNIAK 2007). Selling land by degressive holdings and purchasing it by progressive holdings could increase the production and income capabilities of agriculture.

Effect of direct payments on the land market in Poland

As it has been emphasized earlier, the role of direct payments in the European Union has been growing systematically. In 2000 the expenses for direct payments financed from the EFOiGR Guarantee Section amounted to 25,5 billion EUR constituting 62% of the total expenses of this Section, however, in 2003 they amounted to 29,7 billion EUR, and amounted to 67%. The division of payments between the member states was diversified and depended, above all things, on the surface of lands with agricultural purpose and on animal production. Also the uneven distribution of direct payments deserves attention, which is certified by the fact, that only 20% of the general amount of means transferred to farms via the direct payments' system, gets to 80% of beneficiaries. This means that mainly large-surface holdings use the payments (Report… 2004)[8]. A similar situation is in Poland (drawing 2). For almost 59% of the general number of farms, the payment amount does not exceed 2100 zł, and for the next 22% - 4200 zł. Just 1% of the general number of holdings receives payments exceeding 20 thousand zl.

Drawing 2. Structure of farms according to the amounts of received direct payments



Source: Own calculation based on (SZURA 2006, page 313).

The studies regarding the forecast effects of integration of Poland with the European Union for agriculture show, that "the expected level of direct payments, especially after their supplementation from the state budget, should improve agriculture's income situation, even in the case of unbeneficial developments in the price-cost situation" (POCZTA 2003, page 177), which one has to agree with. Even in the first year, within the frames of JPO an amount of

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[7] Holdings producting mainly to the market, i.e. with annual sales value of 3 thousand zł and more.
[8] The factor decreasing this unevenness is the modulation rule, covering the member states.

2852,4 million zł was paid to farmers, who in 2004 filed applications for direct payments [9]. In the next years this support systematically grew (table 5).

Table 5. The number of filed applications for direct payments and executed payments in years 2004-2007 (state on 30.04.2008*)

List	Campaign 2004	Campaign 2005	Campaign 2006	Campaign 2007
Uniform Area Payments – JPO	1 400 37	1 483 628	1 468 614	1 452 665
Executed payments in million zł	2 852,4	3 138,7	3 877, 0	3 299,0

* Campaign 2007 started on 3 December 2008, should end by 30 June 2008.
Source: (Sprawozdanie… 2007).

One can also see clearly the effect of payments on the economical situation of farms (table 6). For small farms the support from payments is a small share in income, however one needs to bear in mind that in the vast majority of cases, these holdings have incomes from sources other than agricultural. In the FADN trial the share of these holdings amounts to circa 5,5%, and in Poland - over 55%. In the case of holdings, the surface of which exceeds 50 ha, payments amount to almost 1/5 incomes. And it seems, that only in this case they can constitute an important financial support allowing making farm restructuring and modernization investments, which, undoubtedly, the payments were supposed to be used for.

Table 6. Structural and economical changes of agricultural holdings from the FADN observation point in years 2005-2006 (according to holdings' surface)

List	Years	In FADN trial	Holdings according to surface in ha					
			< 5	5-10	10-20	20-30	30-50	> 50
Income from family holding (in zł)	2005	21942	25499	10240	16796	29651	48324	105994
	2006	59170	67992	22882	32847	53052	77930	140988
JPO in zł	2005	3122	643	1469	2689	4623	6871	19727
	2006	7475	632	1991	3685	5990	9362	24771
Share of JPO in holding's income in %	2005	14,22	2,52	14,34	16,00	15,59	14,21	18,61
	2006	12,63	0,92	8,70	11,21	11,29	12,01	17,56
Holding's surface in ha	2005	16,4	2,9	7,7	14,1	24,0	37,5	104,4
	2006	31,3	2,6	7,8	14,8	24,5	38,2	107,7

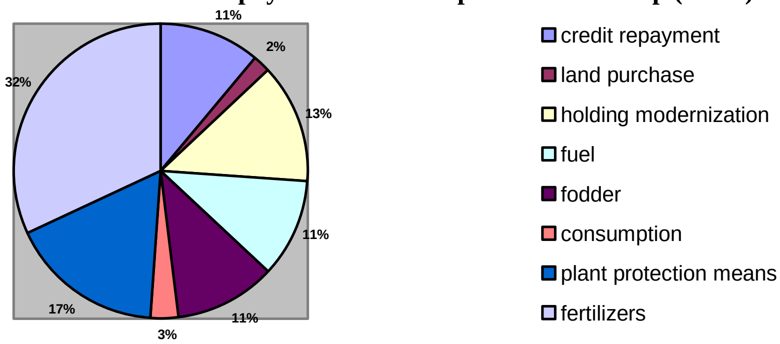
Source: Own calculation based on: (Wyniki… 2007) and (Wyniki… 2008).

Confirming this thesis requires detailed analyses. However, the studies conducted by J. Wilkin and I. Nurzyńska suggest that in Wielkopolska, characterized by the largest agriculture development factors in the country, direct payments are used rather for financing current operations of the holding and consumption (drawing 3) (WILKIN, NURZYŃSKA 2008, page 32). Only 15% of the payments is used for purchasing of land and modernization of the farm.

[9] Data of ARiMR.

How does the situation look in the predominating small farms in Poland? Payments constitute support, rather social in nature.

Drawing 3. Structure of distribution of direct payments in wielkopolskie voivodship (in %)



Source: (WILKIN, NURZYŃSKA 2008, page 32)

Direct payments constitute almost half of the financial means supporting agriculture. From the conducted deliberations one may also conclude that they affect the income situation of agricultural holdings. However, do they affect shaping of the surface structure of agriculture? It is common knowledge that the development direction of the agricultural land market, determining its reallocation, depends on the individual decisions of its users. These decisions are affected by external and internal economic and demographic conditions as well as the state's agricultural policy (MAŚNIAK 2007). Agricultural holdings, which do not produce for the market, constituting a prospective source of supply of agricultural lands, due to the performed functions and external financing, is above all under influence of the agriculture's surroundings. The economical situation of agriculture itself is of lesser importance. The significant economic development rate, creating new possibilities, encourages the owners of such holdings to sell and rent their land resources, or on the contrary. The unbeneficial economic conditions usually limit the availability of land in the market and solidify the existing structure of its usage.

The agricultural policy of the state significantly affects the demand and supply of agricultural land. State protectionism towards agriculture may have significant impact on the so-called stagnation holdings, which generate incomes over short periods of time. The possibility of acquiring an economic excess, also in the form of direct payments, will usually maintain the economic attractiveness and encourage to keep the holding. the limitations in agricultural holdings' land circulation, being the direct effect, may however make concentration of land in larger holdings impossible (MAŚNIAK 2007).

Also the studies of J. Dewbre and C. Short lead to similar conclusions (DEWBRE, SHORT 2002). The studies suggest that direct payments, although their effectiveness is slightly higher than the price supporting instruments, in a long term cannot ensure proper income transfers for the agricultural sector. This is the consequence of a division of benefits which in the case of area payments capitalized in 46,3% in the price of the land owned by the holding, and only 0,7% constitute the incomes of the workforce employed by the holding. The remaining part of 45% is attributed to land owners, renting the land (and thus having nothing in common with agriculture), in 2,5% it supports the suppliers of means of agricultural production and agricultural services, and in 5,4% - it constitutes the alternative costs including lost benefits from involving the resources of the holding in another activity (The Incidence… 2002). The above-presented results were acquired after adopting certain assumptions, meaning: in the cost structure of a holding 20% are the land costs, 20% work force costs and 60% are the costs of purchasing the means of agricultural production. The production potential was specified as 50% of own lands and 75% of own work force. The flexibility of land supply was adopted at the level of 0,10, own workforce - 1,0, means from purchase 1,50, production - 1,0. Also certain assumptions were adopted regarding the earlier support level. As on average Polish agricultural holdings do not meet the assumed criteria, due to, above all things, almost 90% ownership of lands and just as high percentage of own work force as well as different conditions of production, it is difficult to relate the presented results to the general of Polish holdings. Nevertheless, one may agree that a large portion of the payments is capitalized in land. This is certified by triple growth of its price, that occurred in years 2002-2007. In many regions of Poland this growth was even higher, with simultaneous limitation of land supply. This means, as a consequence, a growth of the ground rent even for land, which has not been used in agriculture for many years. The above-stated thesis is confirmed by studies conducted by A. Sikowska, indicating that agricultural lands with low quality classification had the greatest price dynamics, which suggests extra-agricultural motivation when purchasing the land, and the demand is shaped, above all, by the expected financial benefits resulting from the ownership rights (ground rent, possibility of acquiring subventions for forestation etc.) (SIKORSKA 2007, page 2).

The deliberations conducted in item 3.3 suggest that during the last 6 years the area structure of holdings was subject to slight changes. Although the directions of these changes are appropriate, which means a decrease both in the number and surface used by very small holdings (especially less than 2 ha), the number and surface of medium holdings increases (especially in the range of 20-50ha), however the pace of these changes is insufficient. One needs to remember that the percentage of holdings above 20 ha constitutes just 7% of the general number of holdings. Admittedly they use circa 44% of the total surface, the average surface of an agricultural holdings (above 1ha of agricultural land) amounts to just 8,8 ha. Thus, it is difficult to conclude that the agricultural structure underwent significant changes. Undoubtedly, one of the reasons for this state are the direct payments. Many owners of small holdings decide to only lease the land, whilst retaining the right to the payments. Thus, it is highly probable that introducing payments per farm, though having a lesser effect on the land market, and especially its prices, will significantly affect the structure of farms.

Conclusions

The purpose of this article was an attempt to answer the question: how do direct payments affect the land market in Poland? Although due to the limited access to data it turned out to be impossible to adopt the quantitative methods identifying the dependencies and correlations between various variables, in an indirect way one may indicate certain phenomena, which undoubtedly intensified due to Poland's accession to the EU, and along with it the Common Agricultural Policy's instruments. Direct payments among these instruments, dependent on the agricultural land surface, are the most common instrument, as they regard over 1,4 million agricultural holdings in Poland and they support them, on average, with the amount of 3,5 billion zł annually. Thus, both the structure and the commonness as well as the scale of this instrument must cause many effects, also in the land market. The most important include:

– over-triple growth of average land prices both in private and state-regulated circulation, being the consequence of domination of demand over supply of land;

– over-triple growth of rent in lands of the Agricultural Real-Estate, caused by limitation of supply of agricultural land;

– significant growth of prices of lands with low quality classification, suggesting a growth of ground rent;

– low rate of outflow of land from small holdings supported mainly from extra-agricultural activity, for which the payments are usually social transfers.

Consequently, one may conclude that the payments have realized one of the agricultural policy's goals so far, the income goal. Shouldn't they, however, stimulate the agriculture's restructuring and modernization processes, necessary from the point of view of increasing the competitiveness of Polish agriculture?

Faced by such conclusions there is the question of the future of direct payments? What functions should they perform? Only income? Should the system of payments per farm be introduced, their effect on the land market will be weakened; will it not stop the slow, but progressing changes in the agricultural structure? There are over 1,8 million holdings with surface of above 1 ha, of which less the a half produces mainly to the market (and exclusively to the market - only 20%). Should all the farms receive payments in such a situation? A finally the ultimate question: can an entity, which possesses several hectares of agricultural land, leases it and supports itself exclusively or mainly from extra-agricultural sources, be called a farm? Answers to these questions, though difficult, must be determined. Only then can the rationality and effectiveness of public spending be increased, with benefits not only for farmers, but all EU citizens.

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