Agriculture and the Financial Framework of Enlargement
the Polish view

NOTE: This document is not the official position of the Polish government for accession negotiations. It only summarises some points of view expressed until now in the Polish internal debate.

THE MESSAGE

The Polish Government recognises the fact that the financial framework of enlargement should be based on the Berlin Financial Framework. The outcome of negotiations on agriculture and financial framework should, in the Government's view, be based on three major criteria – equal footing for Polish and EU farmers competing on the Common Market, addressing the problem of rural development and finding proper mechanisms and procedures assuring that Poland's net position in the first years of accession will be not worse than in the last pre- accession year. Fulfilment of these criteria is essential not only for the quality of Poland's membership in the Union but also plays a key role in convincing Polish society to approve the Accession Treaty in a referendum. It is in this light that additional flexibility left by Berlin Financial Framework – which was not fully explored in the Commission's document – should be viewed.

I. Agriculture

1. New and old Member States – equality of treatment is the key

The Government of Poland is of the opinion that transitional arrangements should not be extended into the next financial perspective (2007-2013). Such a position was taken - rightly – by the Commission on the issue of the Structural Funds. But for direct payments the Commission proposes a 10 year transitional period lasting until the end of the next financial perspective. As a result, Poland's position in the negotiations on the EU budget for years 2007-2013 would be seriously impaired. As a result, Poland will not enjoy a full status of a Member State. Moreover, our access to EU expenditure – accounting for 30% of EU budget – would be handicapped while, at the same time, we are supposed to assume full obligations as a budget contributor. This would provide a key argument to the opponents of Poland's entry to the EU, based upon the fresh memory of inequality between the satellites and centre. How can the Government explain it to Polish citizens?

2. Direct payments proposal and restructuring of Polish agriculture – is the Commission's argument right?

There is no doubt that the restructuring of Polish agriculture is necessary, even if in purely economic terms the need for restructuring is not greater than in several current Member States. However, unequal access to direct payments will have the greatest negative impact on the most modern sector of Polish agriculture, able to compete effectively on the EU market. As in the current Member States the greatest part of direct payments would go to the market-oriented farms. In other words, for those farms direct payments are indispensable to compete – on an equal footing – with EU farmers (as the Commission itself indicates - much better prepared for the competition than Polish farmers). For subsistence farming, direct payments due to the small size of farms and the low volume of production have very little importance (if any).

On the other hand, if the argument on direct payments and restructuring is right, why is the Commission suggesting topping them up by national payments?

3. "Even without direct payments Polish farmers will be better off than before the accession"

In the recent report prepared by the DG Agriculture, the Commission claims that, even without direct payments, accession will lead to an improvement of the income situation of Polish farmers. In 2007 a hypothetical Polish farm would yield, according to the Commission, 1.25 wage units outside agriculture instead of 1 in a baseline scenario without accession. Granting full direct payments based on a recent reference period would further improve the income situation - the hypothetical Polish farm would yield almost to 2 wage units.

But the Commission assumes in its calculations that prices in Poland are still lower than those in the EU whereas in reality most price gaps have completely disappeared or even been reversed. For example, prices for all cereals exceed the UE level by 6-21%. This deficiency influences the entire simulation's results. The convergence of Polish farm prices on EU levels will be driven even further by the real appreciation of Polish zloty against euro.

Furthermore the Commission has chosen for its calculations a hypothetical 20 ha farm that represents the country specific production structure. The number of farms with 20 ha of farmland in Poland is estimated at the 5%. This is definitely far from an average Polish farm.

According to our calculations, the adoption of a 25% threshold for direct payments in the first year of membership will result in a decrease in agricultural incomes in Poland, especially if the necessary modernisation and adjustment costs are duly considered. The relation of net income per person fully employed in agriculture on an average farm and an average national net remuneration would further decline from 35 in a baseline scenario to 32,3. Even if 100% of the payments were granted the income disparity would be reduced only by 5 percentage points reaching the level of 40.

4. Quotas and reference periods – do they leave enough room for modernising and restructuring?

The Commission's proposal would freeze the current pattern of agricultural production and eliminate competitive pressures. This, in turn, would leave us in a permanent net importer position and would allow no room for modernising and restructuring of agriculture. This would also entail high economic and environmental costs to the enlarged EU, due to maintaining intensive farm production in the current member states and under-utilising natural and economic potential in the new member states. The current level of production is the result of the transition process (where no financial means for support to agriculture was available), disruption in agriculture ensuing from the collapse of the state system (no recovery yet) and, last but not least, pricing out of Polish producers from domestic and foreign markets (CIS), by heavily subsidised exports from the EU.

II. Budget

1. Poland vis-a-vis the EU budget. Full obligations and only some rights.

The Commission insist that all the payments due to the EU budget should be made by Poland from the first year of membership. But at the same time it admits that immediately after accession Community expenditures in Poland will increase only gradually and it will take a number of years before they reach their normal level.

What is more, the Commission's approach to transitional period for direct payments has also budgetary implications. Even under the reference period provided for by the Commission 100% of direct payments due to new Member States would be approximately 4,7 billion euro. Since the

Commission proposes only 25% direct payments in the first year of membership new Member States would be deprived of transfers of approximately 3,5 billion euro. That loss will not be - even partly - compensated by the increased transfers under rural development programmes.

2. Should Poland assume that it would be better in absorbing EU money than current member states?

In many respects the first years of our membership will be comparable to the first years of a programming period of the structural funds for current member states. Therefore it should be noted that at the beginning of the current programming period the adoption of new programmes was severely delayed.

In 2000 only 13% of the appropriations for structural funds for 2000-06 was committed and 5% paid. These implementation rates were similar to those recorded in the previous programming period, 1994-99.

As for Objective 1 regions only about half of operational programmes were accepted. With regard to payments most Member States recorded a rate of around 7%, corresponding to the advance paid when the programme was adopted. But for those member states for which the programmes were adopted at the very end of 2000 the first payments were made in 2001.

Problems with absorption of structural funds occurred also in 2001. There were 10.5 billion of unused payments appropriations 50% of which were concentrated in Objective 1 regions. Even the Cohesion Fund had 1.1 billion euro of unused appropriations. The budget forecasts proved once again to be far removed the actual out-turn.

At the same time the Commission assumes that Poland and other candidate states will absorb 100% payments allocated for 2004. This can be seen from the Commission's proposal – new member states should contribute in 2004 5,5 bln euro to the budget while payments to those states for this year amount to 5,2 bln euro (after deducting 500 mln for administration which, according to the DCP, do not count for determining net position). This shows that even if Poland has an absorption capacity much higher than current member states there is no way that the lump sum solution (800 mln euro for 10 states compared to 1,5 bln euro in the first year to 3 states during the last enlargement of the EU) could remedy the significant deterioration of our budgetary position, in comparison to the last year before the accession. In other words, if our absorption capacity is equal to that of Member States, Poland would be a significant – up to 1 bln euro - net payer to the EU budget. All this will happen in the most difficult budgetary year – when a peak in servicing foreign debt and adjustment costs will combine.

Moreover for current member states the unused payments are carried over for the subsequent years. In 2001 there was still 16.6 billion euro of outstanding payments for the 1994-1999 programs. This extension creates a financial buffer – an opportunity that the new member states will not be able to avail themselves of.

Therefore, a lump sum solution – if left as in the Commission's proposal - will put Poland's finances in a very precarious situation, leaving aside the effect on public opinion (being a net payer to the EU budget in the period of significant reduction of public spending within the country).