

TRANSFORMATION STRATEGY FOR POLISH AGRICULTURE AND RURAL AREAS

**Comments on the panel discussion at the workshop jointly organised
by the Committee on Agricultural Economics of the Polish Academy
of Sciences, the Committee on Economic Sciences of the Polish Academy
of Sciences and the Research Council of the Polish Economic Society
on 15 March 2007**

The workshop materials compiled by Jerzy Wilkin*

The following researchers and policy experts took part in the panel discussion: Professor Katarzyna Duczkowska-Małysz – the research worker at Warsaw School of Economics and the former vice-minister of Agriculture and Rural Development, Professor Andrzej Kowalski – the director of the Institute of Agricultural and Food Economics-NRI, the researcher at Warsaw School of Economics, and the former vice-minister of Agriculture and Rural Development, Waldemar Guba, PhD – the director of the Department of Agricultural Markets of the Ministry of Agriculture and Rural Development, Andrzej Hałasiewicz, PhD – the director of the Foundation of Assistance Programmes for Agriculture (FAPA), Professor Urszula Płowiec – the chairperson of the Committee on Economic Sciences of the Polish Academy of Sciences and Professor Jerzy Wilkin – the chairperson of the Committee on Agricultural Economics of the Polish Academy of Sciences.

Also the members of both scientific committees of the Polish Academy of Sciences and the Research Council of the National Board of the Polish Economic Society as well as the invited guests attended the workshop.

Professor J. Wilkin fulfilled the role of a moderator. His opening speech included *inter alia* the following remarks. In general, economists are not particularly keen on discussing agricultural issues – that is why the opportunity to discuss the important problems of agricultural and rural development with a group of excellent economists, who represent various fields of specialisation, is very important. The general economics, or the economic theory, has some problems with agriculture resulting mainly from the fact that agriculture does not fit many economic concepts, it is governed by special laws, it is an object of various policies, which restricts the role of the market in this field of the economy. Leading economists often omit agricultural issues in their economic inquiries, although

* The original speeches were written down on the basis of the tape recording. They were slightly abridged, edited and translated into English. The changes were not authorized.

they are very important, not only from the viewpoint of the agricultural economy, but also the whole economy. The agricultural policy ceases to be a typical sectoral policy. It becomes an integrated policy, which covers many various aspects, e.g. ecological, commercial, social, cultural and many others. The agricultural policy gradually becomes a part of the integrated policy of development of rural areas, which encompass 85% of land in Europe. The meeting that brings together economists from quite different fields of rural development research is very purposeful, especially at the moment just before the next Congress of Economists and from a perspective of future changes to the Common Agricultural Policy of the European Union.

Professor U. Plowiec

According to the study prepared by the International Monetary Fund, in the middle of the twentieth century the significance of the developing countries in the global economy started to increase and since the beginning of the twenty-first century it has been increasing by leaps and bounds. The International Monetary Fund regards only the industrialised countries as the developed ones. Poland, although the European Union member state, is still included in the group of developing countries. The growing importance of the developing countries and the Doha Round (whose next stage was the Cancun summit in Mexico in 2003) show that the developing countries form the close partnership and are able to set conditions for the developed ones.

What are the conditions? The Doha Round was supposed to have been a round of the global trade liberalization, but in respect to many aspects, such as: industry, agriculture, services, foreign investments and other. Meanwhile, the developing countries in view of their reinforcement as a group, put forward a motion (on session in Cancun) to close the negotiations pertaining to agriculture. It was agriculture that became the most important sector for these countries. The theoretical premises for this position are as follows: commencing the Doha Round, the developed countries declared (with a big dose of hypocrisy, as usual) that they would support the development processes in the developing countries. However, these countries consider liberalisation of trade to be the best form of supporting development, especially liberalisation of the access to the market of the developed countries. The motion in Cancun was proposed on this background. Twenty countries joined together to protect agricultures of less developed countries (e.g. Brazil, Argentina, Mexico, Chile, Venezuela, China, India, Philippines, Pakistan, Indonesia, Thailand, Republic of South Africa, Zimbabwe and Tanzania). Brazil was chosen to be the leader of the group. Thus, a kind of coalition of Southern countries was formed and a new system of forces emerged in the world. Rich countries are accused of making the access to their markets difficult, which is true, whereas they demand liberalisation from poor countries. The lack of access to markets of the developed countries was reflected in the average customs duty in OECD in 2001 for agricultural products, which was 16%, together with a wide variety of instruments for supporting agriculture, while for industrial products in

the same group of countries only 3%. Moreover, in 2002-2004 the OECD countries spent ca. \$350 billion dollars for agricultural subsidies of which \$100 billion in the European Union, \$45 billion in the US and \$50 billion in Japan. In the financial perspective of the European Union for the nearest years, \$390 billion is appropriated in the budget for this objective, of which only \$90 billion for development. The remaining part – for direct payments. In 2000-2001 in the OECD countries, the agricultural producers received in a form of subsidies ca. 30% of their income, in Japan as much as 60%, in the European Union also 30% and in the USA 22%. Thus, the accusation that the developed countries defend themselves against cheap import of agricultural products seems to be well justified. What is more, the number of accusations is increasing. The developed countries are also accused of importing their products at dumping prices on a large scale with the application of various subsidies. Obviously, it is unfavourable for poor countries; according to the rough estimate, they are deprived of ca. \$40 billion of income annually this way. As regards custom duties, the level of 16% (ca. 20% in the OECD) is high, but it does not show the whole complexity of this phenomenon because it is only the average. In the OECD countries for example, the customs duty on rice import amounts to 411%, sugar – 100%, milk – 120%. In the European Union, the customs duty on pork amounts to 173%, on sugar – 154%, rice – 145%, butter – 118%. Therefore, these are products highly burdened with the customs duty. As a result of a determined and critical position of developing countries in Cancun, the negotiations on world trade liberalisation must have been suspended in July last year.

Recently, during the Davos summit, an attempt was made to return to agricultural issues, but the general opinions presented among others in “The Economist” indicate that: the organizations which play a prominent role in the global economy, e.g. large companies, are not interested in continuing liberalization issues on a world scale, because agriculture is an issue of marginal importance for them (2-3% of income of the large countries). Besides, the large and rich countries focus their attention on other problems now. In the case of the USA they are: the double deficit, the budget deficit of \$240-250 billion, the deficit in current turnover balance of \$ 800 billion. At the same time – the Iraqi conflict and new nuclear threats, i.e. North Korea and Iran. There is no climate there for continuing or considering agricultural issues giving them as much attention as they deserve. Also the European Union for the time being is not going to be absorbed in them too much, because according to the agreement between France and Germany, the present agricultural policy will be continued till the end of 2013.

Generally speaking, the developed countries are afraid of liberalisation with regard to both industrial and agricultural products. Such is the truth. It is particularly visible in the case of the United States. The matter is scarcely ever discussed in the European Union, but it becomes more and more visible. Furthermore, such questions as: who benefits the most from the Common Agricultural Policy of the European Union, are more and more often raised. Researches show that there is a great concentration of income, including subsidies, in hands of a small group of

farmers. Is it then necessary to continue the CAP? Re-nationalisation of both the agricultural policy and the cohesion policy of the EU is now promoted by many countries. Some researches lead to a conclusion that the cohesion policy proved to be rather ineffective and it should be re-nationalised. This decision should free the funds, previously intended for the implementation of the agricultural policy and the cohesion policy, for research and development, innovation and implementation of Lisbon Strategy objectives. The above view is shared by many economists in the European Union, although formally until the end of 2013 the status quo will be maintained.

Due to the fact that our meeting is dedicated above all to strategic issues, the expected situation after 2013 is worth considering. Appreciating the favourable situation for farmers' incomes under the Common Agricultural Policy, the attempts should be made to protect the farmers from a big shock they may experience after 2013. Therefore, it will be necessary to pull out the abundant workforce from agriculture, educate and prepare these people for alternative employment. It is an open question, to what extent the Common Agricultural Policy that we take part in, is really favourable for agricultural and rural restructuring, and to what extent it strengthens traditional structures. It seems the question is quite legitimate and results from a general overview of world situation.

Professor J. Wilkin

We are talking about the future situation today, the long-term strategy and the transformation of the Common Agricultural Policy, but mainly in the context of Polish agriculture and rural areas. Nevertheless, we must bear in mind that the inertia of the Common Agricultural Policy, and many other EU policies, causes them to change very slowly. One of the measures of the Common Agricultural Policy is the support for agricultural development in areas with unfavourable operating conditions, i.e. the so called LFA (Less Favoured Areas). This instrument is considered to be rather ineffective as well as very inert. Let us take as the example Luxemburg, which is the richest country in the world in terms of the level of economic development measured by GDP per capita. Almost all agricultural areas of Luxemburg are classified as the areas with unfavourable operating conditions. In very rich Luxemburg most farmers are entitled to the LFA support payments. The second problem is the time necessary for implementation of reforms. Big reforms, e.g. within the Common Agricultural Policy, require a long-term period. From this point of view, the year 2014 is near in time and we should consider the possible scenarios after 2013. We should also bear in mind that Poland has already gained full rights as a member state to prepare the concept of the Common Agricultural Policy, it gives us a historical chance to participate in shaping this policy. Poland is a relatively big country in the EU and an important one from the point of view of rural and agricultural areas. Another matter in question and an important challenge for economists is to consider the importance of various regulatory mechanisms. Professor Płowiec has told about trade liberalisation which brought the pressure on agriculture. The process of lib-

eralisation will be continued, of course, but it is necessary to remember that there are still possibilities and needs of combining various regulatory mechanisms, not only market mechanisms, but also regulations at national level, the European Union level and perhaps at global level. These issues require thought-out and coherent concepts. One may consider that liberalisation solves the problem because it more completely launches the market mechanism. But it does not. According to the institutional economics, it is obvious that the market will function relatively well provided that there is good institutional framework, and this framework is created to a large extent by activity of the state or e.g. the European Union. Supporting agriculture and rural areas in a new, more effective manner, requires certain institutional innovations. There have been very few such innovations in recent years. Also research offer in this respect is very poor. For example, one of the most interesting initiatives and institutional innovations was the implementation of the LEADER programme in the early nineties. The programme proved to be very interesting, very important and effective, but since then no programme which would fulfil similar role, even of supplementary character, was proposed.

The Common Agricultural Policy requires new legitimacy, both socio-political and economic. New grounds for the policy should be established. Many people ask themselves a question – what do we get, as a society, in exchange for 300 thousand zlotys received by this or by that farmer, and there are also farmers who receive even 1-1.5 million zlotys?

And the last point. When we talk about the Common Agricultural Policy, or the policy towards development of rural areas, the attention should be focused on the state's and European security, as well as the need for stability of agricultural policy and economic situation of farmers. In the agricultural policy of the USA and other highly developed countries, the increasing importance of such instruments is noted which in a sense protect agricultural incomes and stabilise the situation in agriculture. Changes, sometimes even shocks, are good and have stimulating effects, but sometimes they are also of destructive character. Therefore, I think that the anti-shock umbrella in relation to agriculture is rather necessary and worth discussing.

Andrzej Hałasiewicz, PhD

The debate on the Common Agricultural Policy, on agricultural policies, on the policy for supporting rural development is very necessary. New, upcoming programming period in the EU should be taken advantage of as an instrument of change of the situation of Polish agriculture and rural areas for the better. Also the policy-makers are agreeable to this idea. However, some decisions are made when the tool is used very passively. The example of an instrument which, properly applied, could be very useful, is the support for the LFA. We apply it in a very peculiar way. If this instrument was used e.g. only for mountain areas, it could change something. But if the resources are distributed to the half of the country's territory, then this tool practically ceases to play any role,

and moreover, the inflow of funds to the agriculture in an unjustified manner may cause disturbances of the economy. There are more examples. Let us look at the structural pensions – an instrument which could contribute to the improvement of the agrarian structure, but only on certain conditions. A farmer should be entitled to the structural pension provided that the transfer of his farm results in enlargement of another farm. But we are ready to pay farmers the structural pensions also for transferring farms to descendants. Then again a question arises, previously asked by professor Wilkin – what in fact do we pay the farmers for? What do we receive in return? Obviously, in return for the budgetary funds we should obtain the public benefit.

It has been already mentioned, that the economics, or the economic theory, does not explain some agricultural issues well. If we considered also non-agricultural services and goods provided by farmers, the situation would be even more complex. However, one of the most important problems is: how to define, measure and fix the value of public services rendered by farmers. The attempts to achieve these objectives have already been made, which is reflected in the instruments for supporting areas with natural handicaps. Also the so called agri-environmental schemes may be hold up as the example, when a farmer receives compensation or remuneration for environmental protection for the benefit of the whole society. But these instruments are still imperfect. It is worth underlining that the application of such instruments in Europe hinders the discussions within the World Health Organization, because nobody knows how to fix the value of these quality items which are important for us.

A broad debate on the Common Agricultural Policy – in my opinion – is necessary also for the reason that this policy will be reviewed in 2008. Soon a discussion on the next financial perspective of the European Union will begin and it is important that the matter should be settled by argument. As the member of the European Union, we should participate in a discussion to find a solution, which will be most advantageous for us, and also we should be ready to reach a compromise, e.g. concerning the CAP, if the advantages to be gained in another area would be important for the country as a whole. The debate with many participants should serve this purpose.

In the agricultural and rural policy, there are many “magic formulas”, veils, probably a little falsehood and hypocrisy. One of the major spheres of disagreement and ambiguity is the second pillar of the Common Agricultural Policy, concerning the development of rural areas. Of course, it ought to be defined what exactly should be understood by the development of agriculture or rural areas. In my opinion, in short, it means creation of non-agricultural jobs in rural areas, i.e. in villages and little towns. The development of rural areas, understood in such a way, is almost not supported by the second pillar in fact, or only minimally supported. What agriculture needs the most, especially in Poland, is the transfer of workforce from agriculture to other sectors of the economy. Our agriculture will not be competitive on both European and world markets if it is so labour intensive. Therefore, the policy is needed which could allow for the transfer of workforce to off-farm jobs.

LEADER – this instrument has been introduced in our country (in the current programming period, i.e. since the day of Poland's accession to the European Union) in slightly different form than in the old member states of the EU. It has been included in one of sectoral programmes which have been implemented. Many things have been said about the LEADER, underlining its importance and necessity, but when it comes to decisions, it turns out that the questions of funding or implementing this instrument have not been settled yet. It is worth emphasizing that the European Commission, when preparing documents for programming period 2007-2013, in the project for regulations included proposals for allocating resources to the so called priorities. There are four priorities: competitiveness of agriculture, land management and the environment, improvement of the quality of life and diversification of rural economy as well as the LEADER. Minimal allocations of funds were proposed, including minimal allocation to LEADER in the amount of 7%. However, it was the Polish minister of agriculture who led to the decrease of the minimal allocation for LEADER to 2.5%. Again, the instrument which would be of great importance in our country was not fully appreciated and taken advantage of.

Waldemar Guba, PhD

The influence of the Common Agricultural Policy on agriculture and rural areas in Poland is an important issue. Professor U. Płowiec has said about the estimations of transfers at the European Union level and such estimations can be made also for Poland. Some items of these estimations are quite simple: direct payments and transfers within programs for development of rural areas. Some are more complicated, e.g. transfers through price support, increasing agricultural prices. The overall transfers of funds for agriculture within the Common Agricultural Policy, according to estimations for 2004-2006, amount to over EUR 5 billion, i.e. ca. PLN 20 billion. In 2007-2013 this annual amount of support will increase to ca. EUR 6 billion, in real terms. This is of course support in addition to the transfers within the Agricultural Social Insurance Fund and the tax system. These amounts can be made comparable. They are similar to the gross added value of the sector, which amounted to EUR 6.4 billion in 2004. It indicates the great significance of support within the Common Agricultural Policy for the agricultural sector.

Another important element of the Common Agricultural Policy which is related to the above issue is rather egalitarian manner of distribution of this support – in connection with the number of farms participating in these systems. All farms in Poland, and those which have agricultural land, receive direct payments and there is the noticeable concentration of this support, because it is divided proportionally to the area of agricultural land (ca. 60% of direct payments is directed to 20% of all farms). The concentration of all support (through development of rural areas and support for prices) is even greater, similar to estimated at the EU level – i.e. one-fifth of farms receives ca. four-fifths of support. It is the main weak point of the Common Agricultural Policy due to a rather obvious dis-

crepancy between the concentration and one of the treaty objectives of the Common Agricultural Policy, i.e. the support for agricultural incomes.

Next issue related to the Common Agricultural Policy, and even more to participation in the single market, is the acceleration of structural changes in the system of agricultural production. In recent years the number of market-oriented farms, which participate in the market, has rapidly increased. The most visible effect of all these changes is the significant development of Poland's agricultural and food trade and it can be regarded as an aggregate indicator of all these changes. Participation in the single market and in the Common Agricultural Policy led to the unification of competition conditions. These processes revealed the hidden comparative advantages of Polish agriculture and the changes in this respect are very dynamic. The Doha Round is of fundamental importance as regards the impact of global processes on the Common Agricultural Policy. If the agreement is achieved, and such scenario is very likely, then the Common Agricultural Policy will have to change fundamentally – it means no export subsidies, easy access to agricultural markets, including European ones, and complete decoupling of support from production. In view of the above and in relation to global processes on the markets, the greater instability of agricultural markets can be expected. In a debate on the Common Agricultural Policy in the near future, the following issues should be discussed: the reinforcement of the structural policy for agriculture to ensure competitiveness of the sector, and the instruments for risk management and crisis management.

Consequences of the WTO Doha Round are of vital importance for the Common Agricultural Policy after 2013, as well as endeavours of the net payers to the community budget to reduce costs of agricultural policy in the European Union. There are many ideas, many concepts on how to achieve it and what should be done in this respect. There are many proposals: to abolish direct payments, to limit or co-finance them as well as the proposals for modulations, i.e. transfers between various components of the Common Agricultural Policy. Nevertheless, it seems that the termination of the Common Agricultural Policy after 2013 is improbable due to the significance of the transfers of funds for the agricultural sector. Another reason is that the Common Agricultural Policy is considered to integrate the Community. It is up to you to assess whether the opinion is true, anyway such views are formulated in political debates in the EU.

What can be the consequences of the possible changes in the decision-making process? If they result in re-nationalisation, i.e. the increase in the share of a member state in the financing, which process to some extent has already begun, as well as the transfer of some part of responsibility to the member states, we will see the return to more autonomous process of shaping the agricultural policy in Poland. It will bring the CAP to an earlier iteration that was financed by countries individually rather than collectively, of course within certain Community limitations, which will aim at ensuring equal conditions of competition (if complete freedom in this respect was left, some countries would be entitled to more support than others). It would have consequences for the

public debate in the country, which presently is rather the domain of politicians. Therefore, the responsibility of researchers for shaping the more autonomous agricultural policy would be greater in future.

As regards the interests and priorities of Poland concerning the Common Agricultural Policy, the new agricultural policy and their implementation, we would of course have the new state of affairs. We have been the beneficiaries of this policy in recent years. The CAP in the implemented form is a policy which was defined before our accession. Presently, we are on the eve of major changes in this policy and we have the opportunity to cooperate in shaping its new form. We have to take advantage of this.

The situation needs some comments on the political conditions, the political reality in the European Union as regards the Common Agricultural Policy. First, the directions of change in the CAP are strongly determined by liberalisation processes. It is generally known in which cases the Community have to fulfil its obligations within these agreements. In recent discussions on the exit strategy from the CAP, a priority of net budgetary position is taken as a criterion for evaluating various solutions by the member states. And the discussion on the CAP is dominated by this issue which hinders the classical approach to the process of defining the agricultural policy, i.e. objectives, measures and implementations.

Another difficulty poses big diversity of interests of the new enlarged Community. The 27 countries have different agricultures, different priorities in this respect and the Common Agriculture Policy turns out to be the policy of difficult compromises, where the main role in the decision-making process is played by the European Commission which puts forward proposals and finally what seems to be rational is not always decided on.

Professor Andrzej Kowalski

Generally people have many views and opinions on agriculture, sometimes completely opposed. It results from the fact, at least in the case of Poland that all the post-war strategies for agricultural and rural development had to seek compromise between social and economic objectives. The evolution of the Common Agricultural Policy proves that the economic policy and the social policy were interrelated. It is clearly visible that the Common Agricultural Policy in its present form has to be changed. There are two groups of premises. The economic ones indicate high costs of implementation of the CAP, including the increasing costs of storage of production surpluses. What are the social premises of reforming the CAP? Above all, it is ineffectiveness in solving income problems of farmers. Both the instruments and the policy objectives are constantly changing, but the income disparity does not decrease but on the contrary – it even increases. This, in turn, causes income stratification of farmers, which has just been mentioned by prof. Płowiec, dr. Hałasiewicz and director Guba.

In the Institute of Agricultural and Food Economics the researches are conducted on the subject in some departments. The research results show that the

direct payments received by the farms from 1 ha to 2 ha of size, which represent ca. 19% of all farms in Poland, amount to less than 2% of agricultural incomes, in the group of 2 to 5 ha (27.5% in Poland) – 7.5%, in the group of 5-10 ha (24% in Poland) – 17.4%. In the next group of farms sized 10-15 ha, which represent 12% of the farms in Poland – the direct payments amount to 16.4, in the group of 15-30 ha (13.1% of the farms) – 30% and in the group of 30 ha and more (4.4% of the farms) – 27.4%.

What is interesting is the share of direct payments in the total incomes of rural families. In the light of IAFE researches in the group of farms of 1-2 ha, the share of direct payments in the total incomes of the households amount to 1.6%, in the group of 2-5 ha – 4.2%, 5-10 ha – 10.2%, 10-15 ha – 16.2%, 15-30 ha – 18.1% and 30 ha and more – 21.5%. Therefore, the opinion that direct payments are the important source of support only for small farms is wrong. The question to be raised is whether it is necessary to change the Common Agricultural Policy? It is a widely held belief, at least the majority of politicians, economists and sociologists think so, that the CAP should not be re-nationalized, although the observations of the Polish agri-food market – the famous example of the intervention on the pork market or its lack – suggest that the process is proceeding. Supplementing strategic reserves and getting rid of them in a situation of stability and full market due to high storage costs depend on the market situation. On the one hand, it is said that the CAP should not be re-nationalized, on the other – the actions justify the thesis that the agricultural policy have to be shaped in the present conditions and solve problems of a given region and not the whole. I disagree with that and I shall try to show that we benefited from the Common Agricultural Policy. It is worth adding that less wealthy countries of the European Union would lose on re-nationalisation.

The views on liberalisation are more varied. In my opinion, in the liberalisation of agricultural market the agriculture is of secondary importance. The belief that the Doha Round means above all agriculture is unjustified. In fact, it means the introduction of industrial products of the economically strong countries.

What can be expected after 2013? The so called British point of view, which was often presented e.g. in the publications by prof. Wilkin, is very interesting. According to it, in a 10-15-year perspective, the agriculture will function in the free European market, like the other sectors of the economy and will be subject to the same rules of competition. The agricultural policy of the EU ought to have clear objectives and adhere to as well as be focused mainly on environmental protection and sustainable development of rural areas. The customs duties should be lowered and kept at the level applied in the other sectors of the economy (now it is ca. 4%), and moreover, such instruments as support to prices, export subsidies and all other subsidies for production or consumption should be eliminated.

Even if this proposal goes too far, the question arises whether the particular instruments not only these concerning environmental protection or sustainable development take into consideration a farmer, agricultures of the rich countries or also agricultures of the developing ones?

And a few more words on the external competition. We often underestimate it – if in the early nineties, someone argued that in a decade we would become a leader in milk and dairy products (including ones of the highest quality), that we would export them, e.g. ripening cheeses and other dairy products to France and the Netherlands, people would laugh at it. But it turned out that now we export them in big quantities. Some time ago people did not believe that China could become a serious competitor in the European market, now it is the case and this is why we should protect the market.

The expansion of agricultural production in countries like: Brazil, Argentina, Ukraine and Russia may affect much both the Polish and the global agricultures. The two countries, Ukraine and Russia are neglected, by thinking, not yet, not in this generation. Russia builds its large industry and the agri-food industry is developed in each region, which in turn has stimulative effect on agriculture. If we had succeeded, why Russia and Ukraine would not? Thus, another problem is, whether we should invest in agricultural and food industry of Ukraine and Russia or not. If there is money and a producer can be found – it is worth undertaking. To be honest, it may pose a competition for us in future, but it is a matter to be discussed later perhaps.

The 2-3-year period is too short to evaluate the effects of the membership. Poland's accession to the EU did not cause any exceptionally big production growth in agriculture, and the production variability was even greater during the three years than it had been before the accession, but it clearly affected growth in demand for production means. The use of fertilisers for crops of 2006 increased by over 20 kg/ha, despite the increase in their prices. It is difficult to say, to what extent it resulted from the direct payments and other funds and to what extent – from the economic situation which improved in 2005 and at the beginning of 2006. From the very beginning of the membership, the demand for pesticides was on the increase and the recovery in the market for agricultural machines and equipment was observed – not big perhaps, but clearly visible. In the last year, the share of expenses for tractors (which previously prevailed) decreased in comparison with the expenses for other agricultural machines and equipment, which is a positive tendency.

The opinions about the ability to compete are different. According to some of them, we are losing it because the balance of trade in agricultural products is decreasing. But the exports increase, whereas the balance results from further growth in imports of raw materials from other climatic zones. It is necessary to emphasize – it pertains both, to agriculture and industry as well as other sectors – that we do not try to gain the access to the new markets. The attempts to enter Japanese or Korean market, to which recently we have received certificates, give some cause of optimism, but it is not the scale we should aim at.

Answering the question whether we benefited from entering the European Union or not, IAFE estimates that the balance amounts to ca. EUR 6.7 billion. Moreover, this money was not wasted. The level of education is increasing, university centres were established in many cities. We can observe growth in

investments in rural areas, though in a small group of farms. The economic, technical and social infrastructures in the rural areas are changing. Rural inhabitants, as the only social group, create their own workplaces, and at the same time make investments in infrastructure of the area they live in.

Professor K. Duczkowska-Malysz

In my opinion Poland was not politically ready to adopt the Common Agricultural Policy. The association agreement was signed in 1991 and since then the shape of the Common Agricultural Policy of the European Union was known to us, what kind of a policy it was.

I would like to remind that the treaty of the European Community had already been signed and the objectives of the Common Agricultural Policy had been known as well as the grounds for creating this policy. The thing that was forgotten was that the Common Agricultural Policy was one of the community policies and that it was destined to implement both, general and detailed objectives. It is stated in the Article 2 of the Treaty establishing the European Community what is integration for and what is the purpose of all common policies, including common agricultural policy. What I want to say is that despite signing the association agreement, no coherent, socially acceptable national strategy was created, based on agreements and participation of rural society for taking advantage of the CAP and eliminating social and economic disparities in the countryside. It was not developed then and practically we still have not such a strategy.

We should have simply entered the single European market and should have been prepared for it. Indeed there are some positive effects of this. On the other hand, the modernisation mechanism was not developed although – as dr. Hałasiewicz has said – there are instruments which could play certain role, but they are not properly used. It would be interesting to know, why? The Strategy of the Common Agricultural Policy after 2013 is defined in the documents of the European Union, all we have to do is to read them and think what ought to be done to benefit from it. We can not resist global trends, which have their influence also on the situation in Poland. The certain phenomena and processes take place and we cannot stop them. We can only try to minimize social losses, because the attention should be focused mainly on people and on achieving the highest economic benefits. The political strategy orientated mainly towards granting benefits from the first pillar, towards obtaining by farmers the so called easy money, even in big amounts, released farmers from the responsibility for the future of rural areas, i.e. practically for what is most important to them, for the future of their own farms, local community they live in and of course for the future of the countryside. The EU mechanism informs, how to obtain funds from the European Union, but does not inform, how to make good use of them. Each beneficiary can spend this money as he or she wants. At the same time the strategies, programmes and projects are still not developed in Poland, which would utilise funds of rural areas, especially farmers, for the restructuring and modernisation of their own farms and the operating environment.

The strategy of dispelling farmers' fears was adopted, big amounts of money were promised, the pre-accession discussions were dominated by the topic of direct payments. And today, if we consider the effects of the Common Agricultural Policy, we talk mainly about direct payments. I do not want to say by that, that the results of Poland's membership to the EU and adopting the CAP are negative, on the contrary. As professor Kowalski and many other speakers have said, they can be even measured. I want only to say that we did not exploit to the maximum the EU agricultural policy and the available instruments. Indeed, if we look at the effects, the most important and most tangible ones are in the first pillar. Why in the first pillar? Because this pillar of the policy is based on regimes. We had to fulfil specific criteria, to prepare IACS system, to establish institutional framework, which was required by the EU, to improve food quality, to prepare control procedures etc.

Although the Polish agriculture entered the single market relatively well, now it tends to lose its comparative advantages. Among the issues we panelists have been asked to discuss, there are the examples of China and India. I would like to point out that it concerns not only China and India, although China, a member of the WTO, has absolute advantages in almost every field. Not comparative advantages, but absolute ones, and not only in trade, but also in capital investment. In relation to the above, to overcome "the Chinese problem" will be extremely difficult, if not impossible. If we take into account the WTO decisions, what follows from them? Third world countries want to participate in social, international division of work. They do not have *know-how* or capital, so they can offer only raw materials. Thus, for them, a problem pertaining to agriculture and introduction of agricultural products to markets of rich countries became a strategic objective. And what is included in the documents of the European Commission from the Doha Round? The European Commission did not examine proposals of the third world countries with due attention, though it was known at the time that soon they would have to be examined carefully.

If this WTO agricultural round starts to be implemented, it will bring the EU agriculture upside down, because the world prices will be determined by the relations: much of land and little of capital. The EU production is based on the contrary relations of little area of land (costly factor of production) and much capital (costly, as well). Thus, the costs of production in the European Union have to be high. If the WTO demands the elimination of export subsidies, when the competitiveness cannot be improved, there will be practically no chances for the Western European production to enter global markets according to the principle of pure competition. Even if the policy changes, if the support changes within the first pillar, it may give certain farms in the particular countries the competitive advantages. When farmers are not able to earn their living by the production of conventional food products, they will have a chance to find production niches, or to produce traditional products – all these European specialities, which could be sold to a specific group of rich people at high prices.

It is a pity we are not discussing the public aid today. In the context of the EU public aid (the financing of the CAP, either from the first or the second pillar, is a public aid) the funds are not for satisfying needs, but for achieving goals, and these goals will change. The public money should not be used to ensure any privileged positions, but to improve competitiveness and to encourage innovation. However, according to bank experts, the public aid for farms will exceed PLN 60 billion this year. What will be achieved for these funds in the long-term? How badly these aid is addressed, it is a typical consumption of the effects of economic growth. I do not think that any kind of intervention is needless, but that the action should be more consistent. The farmers in Poland do not pay, for example, income taxes. If they were covered by the income tax – and now, under the conditions of the growth and the benefits from the EU, the mechanism can be prepared including the compensations and the so called grossing-up, as well as divided into stages etc. – this modernisation mechanism would develop. For a farm is a small enterprise. Being that, it has the right to deduct revenue-earning costs. But if the strategy of supporting farmers is orientated towards snatching money from the budget, where it is possible and as much as possible, and if politicians strive for popularity this way, then we will miss our chances not only until 2013, but also after 2013.

Financing of the CAP have to change, because the member states, except for few countries perhaps, e.g. Poland (the positions of Bulgaria and Romania are still unknown) are generally not agreeable to financing of permanent surpluses of agri-food products from taxpayers' money or to increasing farmers' incomes not from agricultural production, but from subsidies. But the agricultural production does not generate sufficient income, as there are still too many small, inefficient farms, existing at the subsistence level. Also the disparities between rich and poor regions have not been narrowed down. The worst situation is in the case of farms situated in areas far from industrial or tourist centres, having no possibility to render agri-tourist services, as well as ones with soil of poor quality and badly managed. Hence, almost all the member states refuse their consent to the present shape of the policy. Nobody mentions it that now, in 2007, the European Agriculture Guidance and Guarantee Fund was divided in two and ceased to be a structural fund. It means that if the structural funds had legal status in the community legislation, which prevails over the national legislation, then there would be no agricultural funds, because they were absolutely not structural funds. Of course, I take the view that we should not think about re-nationalisation of the policy, because we would lose on it, as all poor countries would. It is already known, that the first pillar sooner or later will be eliminated as a support pillar, or significantly reduced. That is why the rural labour market is of key importance, preparing people for this labour market, changing their mentality. The state, of course, is responsible for formulating a programme concerning the above problems, but anyway one has to think about oneself.

To conclude – first, the objective development tendencies are independent from policy. Second, during the next 10-15 years there will be no radical change

in structures through this policy. However, the situation will gradually improve, but if Poland does not launch programmes with the use of available instruments, the second pillar and the modernisation mechanism, this money, for which we can actually modernize rural areas and give chances to people, will be used insufficiently or even wasted.

Third, this policy will cause further regional disparities of agricultural sector. The functions of rural areas will also diversify, not only because that, apart from food production, rural areas will fulfil other functions, such as agri-tourism, tourism, recreation, environmental care etc., but these functions will differ according to region. Surely, Southern Poland will have different countryside than Northern Poland. The disparity between social and living conditions in towns and in rural areas will be alleviated, unfortunately, it will not disappear completely. Taking into consideration the factors of production, this policy will contribute most to the improvement in use of the labour factor.

However, because the WTO does not allow the European Union to use the instruments of financing the production, while it allows to finance incomes, all instruments within the CAP will be directed towards development of such forms, such instruments, which will support incomes as a result, because we should remember that non-agricultural incomes increase very fast and only social transfers may lessen this difference.

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The participants' voices in the discussion

Professor A. Czyżewski

It is a joint meeting of the two scientific committees and we should realise, that both general economists and agricultural economists work on universal premises of the agricultural policy in the market economy. These premises can be found in the macroeconomic policy, the international trade and in the micro-economic policy. Firstly, the retransfer of economic surplus is needed, transferred out by the market mechanism from farmers to processing enterprises and consumers through the budget. Secondly, we need to adopt not only marketable but also institutional approach to the relations between agriculture and its environment. Thirdly, the principle of oscillatory movement, the fluctuations of fiscal and monetary policies in creating macroeconomic conditions. Next, we need the State response to regulations at the global, WTO and regional levels, i.e. taking these regulations into account in the national policy: purposefulness of this policy's orientation towards a strategic target and dual development of agriculture and rural areas. Also the use of the microeconomic mechanisms of specialisation, concentration, integration, cooperation etc.

In the opinion of our research team at the Department of Macroeconomics and Food Economics, the Poznan University of Economics, the possibilities of the change in the agricultural policy are in the context of dual development of Europe, i.e. agricultural and rural Europe and other. This dual vision of Europe

will cause the retransfers, on the one hand, to industrially specialised agricultural producers, and on the other this surplus will be paid in form of landscape rent or environmental rent, or educational. These non-agricultural sectors, which develop dynamically due to flow of capital and rents have to be properly redistributed in order to maintain the mechanism of the general growth balance.

I do not share worries about the future of the CAP, although it will change in terms of instruments, but not in terms of goals, because every European country expects the relatively sustainable development. And without agricultural and rural sectors such development would not be possible. However, the problems with the WTO or third countries should be properly dealt with. Professor Kowalski has been right that there is a very dangerous concept to replace effects of the CAP by the effects of industrial expansion to less developed countries, to gain the surplus there and to transfer the income to Europe and then distribute it among relatively poorer people. It is dangerous in a sense that it would negate a big part of European industrial development in fact.

Professor M. Kabaj

I would like to express my opinion on the issue of food surplus, which has been already mentioned here. I think that this food surplus in Poland is purely illusory. The future of agriculture and the future of agricultural production depend on both the domestic and foreign demand for food, but the domestic demand is decisive. The demand in turn, is determined by the income of population and the income distribution as well as the growth rate of this income and of course the population growth rate. The number of population does not grow, whereas one million six hundred Poles, according to the confirmed data, work abroad. The crucial issue is that in the period of transformation, an unprecedented polarization of income occurred in Poland, which no one had anticipated. And this is the decisive factor.

In the conditions of the disparity in incomes, obviously the rich people maximize their consumption, which is sometimes in excess of their needs, but they comprise a small proportion of consumers. From this point of view the future of agriculture depends on whether the demand of people within the lowest income bands will increase, because they represent great reserves of demand. If the structure of income distribution changes, the demand of the poorest groups will substantially increase, because the hitherto unsatisfied food needs will be satisfied. The first group with the lowest incomes above all includes the unemployed people, i.e. ca. 2.5 million people in Poland, of which 1 million in rural areas. Their income is low because only 13% of people unemployed receive the unemployment benefits and others live at the expense of their families. In the grey economy, according to CSO, income is very low. Two years ago, where the representative research was conducted by the CSO, the average monthly wage of men working in the grey economy was PLN 350, the average wage of women PLN 290. There is also a group of occupationally inactive people, who benefit from social aid. Their level of income is low, but among these 4.5 million peo-

ple, whose incomes are below the poverty threshold, there are many farmers and people living in villages or small towns.

Professor W. Józwiak

I would like to share with you the results of analyses I conduct on FADN materials, i.e. farms keeping accounts for the purposes of the Common Agricultural Policy. I analyzed data for 1997-2004 derived from some countries. Apart from Poland these were: Hungary, Austria, Germany, Denmark, Sweden. My remarks and comments concern speeches given by panellists. I wanted to ask the three main questions in addition to the questions suggested in the invitation. First, does the European Union want to have its own agricultural raw material? The answer is: if the European Union abandons the Common Agricultural Policy and this first pillar, Prof. Duczkowska-Małysz has told about, then some farms will have no chance to survive. The farms specializing in cereal production as well as milk farms and several other groups will quit, whereas vegetable farms as well as orchard farms and pig and poultry farms will conduct their production. This will be a disaster within agriculture. What will result from that, it is hard to anticipate. The future of certain groups of Polish farms can be also described against this background. Do all of them would have the chance in a situation when the European Union wanted to abolish, sooner or later, the support for incomes of the agricultural producers?

The second part of my remarks concerns the change of operating conditions. I wanted to draw your attention to the fact that we have to be prepared for the increase in global demand for agricultural and food products. Vernon Ruttan, the prominent agricultural economist, wrote about it in the mid-nineties. The great communities enter the market from the demand side: Chinese, Indian, Brazilian. Therefore, the demand will increase at the exponential pace, which means that prices on world markets, prices of agricultural articles to be exact, may rise rapidly. Such a situation may occur even at the end of the second decade of this century. The peak phase of innovation cycle growth is expected to end at the same time. After 2017 the trough phase will begin and then processes will proceed differently. Therefore, the world economy has about 10 years of the growth in demand for agricultural and food products as well as the increase in prices for them.

Third comment concerns the climatic change. It follows from my observations, and climatologists emphasize it as well, that the climate evolves in such a way that droughts lasting many weeks, particularly in summer, will occur more and more frequently, broken from time to time by heavy rains. What does it mean? It means that poorer soil will have to be irrigated. Farmers will have to invest in irrigators and sprinkling machines. If these droughts are broken by heavy rains, the so called cloudbursts, then the excess of water has to be drained off and the completely forgotten drainage systems have to be renovated and modernised. Thus, the agriculture will require a large investment.

Also wages, which have started to increase, are very important. In 2009 the balance of the number of young people entering the labour market and the num-

ber of people going to retirement will be negative. The wages will also increase at the exponential rate, unless the European Union decides to import cheap workforce from other areas of the world. The Polish agriculture, technological-ly backward, which takes advantage of the rent of cheap workforce, will cease to function, because work will become more costly, as has been just mentioned. The Polish farms will, therefore, require a huge investment to substitute work, not only hired, but also farmer's own work. If it is possible to earn PLN 10 an hour outside the farm and PLN 1.5 in the farm as it is now, then obviously people will leave agriculture.

And the last issue I would like to pay attention to. If we analyze the Polish farms against the EU ones, it turns out, that after 2004, 85% of them are characterised by a negative reproduction of capital. Only 15% of farms invest on such a scale and at such a rate, that they ensure themselves the extended reproduction. In other words, if this phenomenon is long-lasting, then during less than a hundred years, a big part of Polish farms (as many as 85%) will quit or change their character, will give up investing in technical means. The farms will rather try to utilise their area of land, to render contracted services and so on, conducting a completely different kind of activity. These 220-230 thousand farms, which currently invest and are characterised by the extended reproduction, will have to face climatic changes, the growing wages and the necessity to buy equipment to protect the environment, i.e. the expenditures that each farm has to incur in order to meet the conditions of the agri-environmental minimum, otherwise a farm will receive no budgetary support in form of subsidies. I wonder if the above mentioned 200 thousand Polish farms, which currently invest and have the extended reproduction, are able to deal with all these problems, will they have enough determination to face climatic changes, changes of wages and the requirements regarding agricultural and environmental standards of the EU? I have no answer to the question yet.

Final speeches of panellists

Professor K. Duczkowska-Malysz

We can expect that a coherent rural development strategy will be developed. On the one hand it will take into account the objective current tendencies in the global economy, pertaining even to the rich countries, with very good agricultures, and on the other hand – that the instruments available to Poland being the member of the European Union, will be combined with our national instruments so that we can support advantageous processes, and above all, educate farmers. Fortunately, farmers are satisfied with the membership in the EU and the changes that resulted from it. This good atmosphere around the membership in the EU have to be taken advantage of and from a perspective of future instruments, future strategy we ought to educate farmers to encourage them to deal with changes. Changes are necessary, and the only question is whether we will adapt well to them or not.

Professor A. Kowalski

I think we have paid too little attention to the relations of the agriculture with the economy, especially the effects of public finance reform on agriculture. It is an important issue and worth discussing with the participation of financial experts.

Poland is supposed to have the big potential for agricultural production. Most forecasts assume that the supply of agricultural raw materials in Poland will increase without investments by 3% a year, and the domestic and external demand is assumed to be about 1.4-1.7% a year. In certain groups the increase in income may even cause the decrease of expenditure for food, which is a well known economic rule. The main problem is the chance to move people between target groups rather than the big stratification. Regardless of the number of farmers who produce for the market, they have been long since oriented for modernisation and restructuring and can very efficiently take advantage of their chances.

W. Guba, PhD

The important problem, which has been discussed recently, is how development of bio-fuel sector will affect the demand for food and food prices. It is clearly visible that there is a competition between food prices and fuel security. In my opinion, there is no problem of food surpluses, it depends on the market, the food surpluses can be exported. The issue of competitiveness concerns above all the improvement of productivity through technologies, through the economies of scale along with the changes in real currency exchange rate, and this rule applies to every country, even China. It is known that they have to stop the policy of rigid exchange rate at last, as well as other countries, which now very quickly enlarge their production. I also think that agriculture will be able to function without support, although it is interesting what structures will appear and what will be the results of the sudden elimination of support, in terms of income polarisation and from the viewpoint of a big part of farms which would suddenly have to quit the production.

A. Hałasiewicz, PhD

There is often an alternative: whether to support agriculture or to allocate resources for the Lisbon Strategy. I would like to emphasize that the Lisbon Strategy means also the use of the resources which a given country has at its disposal. Among valuable and unused resources are human resources i.e. rural inhabitants who conduct agricultural activity and rather benefit from the GDP than contribute to it. Thus, if there is a way to better use 1.5-2 million rural inhabitants, the situation may really change. The impediment to development may then become a factor which stimulates it.

When observing worldwide trends, including the increasing demand for food in Asia, it seems that those markets will be very quickly conquered by an efficient Danish, Dutch or German system. In my opinion, the awareness of an European consumer, who is ready to spend more money for food of high qual-

ity, creates the increasing space for demand. Therefore, the chance for our agriculture is the European market for high quality products, all we have to do is to work out a proper system for distributing such products.

Professor J. Wilkin

Globalisation has many effects on the European agriculture, among others the commercial effects. New, important actors on the global market, e.g. China, Brazil and India will strongly affect economic condition of the European agriculture. In my opinion the fears of the tough competition of Chinese agricultural products on global and European markets are groundless. I think that China will be in the long-run a net importer of agricultural products, and there is the strong foundation of such thinking. China will import big volumes of food products from Europe. The considerable increase in demand is observed in China, caused by the improvement in the economic situation, and on the other hand – this country has very strong ecological barriers to the increase of agricultural production. During the last several years, the area equal to one of the biggest states in the USA ceased to be used for agricultural production simply due to erosion and similar phenomena. And this process together with intensification of production will increase. It is worth noting, that although this country has an absolute advantage due to drastically low labour cost, this situation may quickly change. Surely China will have strong position in electronics, but not in meat and milk production.

The second issue is the climatic changes. It is still a neglected problem. The rise in sea level is very fast i.e. by 1 cm a year, while a rise by 20 cm in certain areas means flooding of many thousands hectares. It should be also remembered that water resources, the access to water to be exact, is a growing barrier to agricultural development.

I would like to ask to pay more attention to this global context, which is often omitted in the Polish research, especially on agri-economic issues.

Professor U. Płowiec

In my opinion it is very important to know the position of the European Union. Whether it really wants to have its own agricultural raw material after 2013 or not. It is a very important question, especially in the context of our agriculture. The fact that under the second pillar we have no achievements is just embarrassing. A discussion on this subject is particularly needed.

The next problem I would like to mention is the competition. We cannot compete by cheap workforce, simply because it has already stopped to be cheap. The Chinese workers are still cheaper, but they have already become less competitive against ones from the other Asian countries.

We can observe also the great progress in research and development in China. About 1.3-1.6% of GDP is allocated to research and development there (0.57% of GDP in our country). About 700 thousand engineers and graduates of exact sciences start to work every year.

It seems that Poland should aim for the improvement in education. It is absolutely necessary, especially in relation to agriculture. And this perhaps should be the main direction of any actions in the near future.

Professor J. Kotowicz-Jawor

It follows from this discussion, which is very interesting and substantially saturated with various problems, that Polish agricultural sector in the conditions of the accession to the European Union and the implementation of the Common Agricultural Policy is characterised by: the lack of innovation, the slow and weak structural changes, the dual character of the sector's functioning and the big income disparity.

I do not think that the features are typical to the agricultural sector only; they have been characteristic to the whole Polish economy in the conditions of accession to the EU. Therefore, it is necessary to set out a framework for a renewed, dynamic rural development policy, which will be a key element in an overall autonomous strategy for the country's development.