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## The European Union's Common Agricultural Policy and New Member States: The Example of Reform and the Economics of Organic Agriculture in Poland

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***Executive summary***

*Organic agriculture can be a key element in strengthening rural areas and increasing high-quality, environmentally sound agricultural production, two goals that the European Union's revised Common Agricultural Policy now stresses. Polish officials in Warsaw and EU policymakers in Brussels must increase their collaboration in order to more strongly promote conversion to organic agriculture by Polish farmers, to get these organic products to large and eager Western markets (Germany, Poland's immediate neighbor to the west, is the EU's largest market for organic products), and to educate the Polish citizenry of the advantages of organic products.*

**Introduction and context**

The European Union's Common Agricultural Policy (CAP) is a collection of policy instruments implemented by the European Commission in order to regulate prices, guarantee incomes for European farmers, and secure a market for European agricultural goods. Since its entry into force in 1962, the complex elements that make up the CAP have undergone major changes in the past several years, to decrease distortion within the internal (European) and external markets for agricultural goods and promote new priorities in European agriculture. Supports for farmers and markets are now less tied to how much is produced, and more to which products are produced and how this is done – emphasizing practices that are environmentally sustainable and lead to high-quality, healthy products.

With the two recent rounds of EU enlargement in 2004 and 2007, the role of the CAP, especially the general philosophy of agricultural support for European farmers, has taken on new importance. Certain new Member States – Poland, Romania, and Bulgaria above all – have much larger agricultural sectors in terms of contributions to national GDP and employment. And the new Member States generally have agricultural sectors in which production methods and equipment are relatively less efficient, while they lack the necessary money and technical capacity for rapid modernization  to reach production levels comparable to those of the older, Western Member States (hereafter "EU-15").

Placed in the politically contentious context of EU spending, the need for major CAP overhauls is even more dire. EU citizens as well as politicians perceive –not completely incorrectly – wasteful or fraudulent spending in agriculture, and the percentage of the overall EU budget taken up by agriculture has historically been very high. Further, from an environmental point of view, agriculture as traditionally practiced under original CAP structures (where the highest yield equals the most payments) is neither environmentally sensible nor sustainable. This is why EU officials and Member State agencies must place special emphasis on reforms that stress the environmental health and sustainability of European agriculture.  In this way, conversion to organic agriculture makes great sense, especially for new Member States that in essence by default were “organic” or near organic during Communist times (when lacking the money to extensively fertilize crops, and only able to afford more traditional, “natural” methods of agriculture). Again, this specifically applies to the majority of smaller Polish farms, especially those in the eastern regions.

This policy brief examines ways that CAP reforms and “special treatment” that new Member States have received have affected the Polish agricultural sector. Further, this brief recommends a concerted and continuing effort on behalf of both EU and Polish officials to support and promote organic farming above all. Namely, through restructuring current subsidy programs, coupled with intense marketing to western EU and to Polish consumers to increase consumption of Polish organic products, Polish agriculture will better transition into the common EU market and at the international level.

Why is it important to focus on Poland? It is the largest of the new Member States, and the most vocal and influential at the EU level. It has large tracts of rural land, and the population of Poland’s rural areas is growing. Poland has also caused many problems in other areas of EU policy since its accession in 2004, slowing down progress and impeding policy cohesion and results. Make the transition of Poland’s agricultural sector into EU structures smoother, and the rest of the EU will have a much more willing and cooperative Poland to work with in other policy arenas.

**History of policy change and effects of 2004 EU enlargement on the CAP**

At its inception, the guiding principles behind the EU’s Common Agricultural Policy were to increase agricultural production through optimum utilization of labor; to ensure fair living standards for the agricultural community; to stabilize markets; to assure food availability; and to ensure that supplies reach consumers at reasonable prices.

The policy fulfilled these objectives well in its first few decades of application. But by the mid-1980s when European farmers had clearly reached self-sufficiency in many products, there was overproduction that led to wastefulness, environmental damage, and fraudulent use of CAP funds; and marketplace distortion that undercut smaller-scale farmers in other states, and led to inflated food prices for European consumers. These problems helped spur on EU policymakers to undertake key reforms in the 1990s.

Most important for our purposes here were the second and third waves of CAP reforms. The second wave entered into force in 1999 within a wider set of policy objectives titled “Agenda 2000.” The most important element as pertains to new Member States was the creation of “two Pillars” that would include all agricultural policy and funds. Pillar One includes direct payments to farmers – once dominated by price supports, now switching over to direct payments based on type of crop and sustainable practices. In contrast, Pillar Two emphasizes “rural development” funds to improve socioeconomic status of rural residents in struggling areas while also preserving unique elements of rural heritage. With agriculture (especially semi-subsistence farming) as a stabilizing factor in many rural areas in the new Member States, this emphasis on comprehensive rural development in the CAP is crucial for the New Member State agricultural sectors.

The third set of CAP reforms (“Fischler II”) occurred in 2003. Here, a single farm payment for EU farmers, independent from production, would be linked to the respect of environmental, food safety, animal and plant health and welfare standards ("cross-compliance"). A strengthened rural development policy –devoting more EU money to

Pillar Two instead of Pillar One objectives ("modulation") – and new measures to help farmers meet EU production standards were also key elements.

Of course, the enlargement of the EU weighed greatly on the EU agricultural policymakers as well. Following accession, there were 4 million additional farmers, and about 38 million additional hectares of agricultural land. Yet the new Member States' agricultural sectors are markedly less efficient than those of the EU-15. Although the 2003 round of CAP reforms was not officially tied to the pending enlargement to the east, there were two main differences in policy between the EU-15 and the new Member States that arose in the context of accession negotiations.

The first difference was between the Single Payment Schemes (SPS), available to the EU-15 only, and the modified, simpler Single Area Payment Schemes (SAPS), a more direct measure available to new Member States only. The SAPS policy utilizes uniform payments per hectare of eligible agricultural land; states can grant direct de-coupled area payments applied to the entire agricultural area of the country, without figuring out complex historical averages that are required for the SPS.

Although the new Member States could take advantage of SAPS, the Commission decided not to offer them the full amount of direct (Pillar One) payments that the EU-15 was receiving right away. This marks the second significant policy difference between the old and new Member States. Instead, new Member States at first receive 25% of the amount of CAP direct payments that the EU-15 is currently receiving from the time of accession (i.e., 2004 for Poland). After this, direct payments are increased incrementally annually, to reach final levels equal to those of the EU-15 in 2013.

To summarize the following new paradigm of CAP principles:

- Financial solidarity in the common market institution changed to socio-economic solidarity that focuses on poorer regions with structural handicaps.
- Protectionism and insulation from world markets changed to more liberalization of agriculture in world trade.
- Emphasis on intensive production changed to emphasis on quality, environment and sustainability.
- Income stabilization for farmers is still key, but now in the context of sustainable agriculture as a public good provision, and the need for income stabilization to enhance rural areas overall.

Implications of these paradigm shifts for the new Member States are as follows:

- With a stronger emphasis on fixing "structural handicaps in certain regions," this accords more attention and funds to those rural areas and smaller-scope farmers which need help the most.
- Removing the "insulation from world markets" and forcing a more competitive agricultural sector from the EU as a whole, and Member States individually, can hurt local farmers in the short-term, but remove inefficiency overall in the sector (in Poland, this is especially a problem).
- The emphasis on quality instead of yield alone can benefit the new Member States, where the large-scale modern equipment to produce agricultural yields as high as those in the EU-15 is currently not widely available and in many regions (Poland included) could take several years to fully acquire. Organic farming in the new Member States can help ease the pressure of standard concepts of modernization and agricultural industrialization, and is a

policy move that these governments should prioritize highly.

**Data: Poland's agricultural sector and EU agriculture overall**

Poland has over 2.4 million people employed in agriculture – 17.1% of total civilian employment. The number of agricultural holders in Poland younger than 35 years old is greater than in any other EU state: approximately 313,350 as of 2005, or nearly 33% of all under-35 agricultural holders in the EU. The number of agricultural holdings in Poland is over 2.47 million, second only to Romania. Concerning the average size of farms, Poland's are considerably smaller than the EU as a whole: approximately 6-8 hectares each compared to the EU average of 18.4 hectares, but with much variance among EU Member States. In terms of income pre-accession, Polish farmers lagged far behind their counterparts in other EU states, in that income for EU farmers was about 15 times that of Polish farmers. However, just one year after accession, agricultural incomes had increased by 74% in Poland, well above the average 53.8% annual income increase for all new Member States. And from 2006-2007 there was a 13.7% increase in real agricultural income per worker in Poland – the 7$^{th}$ largest increase in the EU. These last figures in particular indicate the importance of access to a common market and CAP funds for Polish farmers since Poland's EU accession. Poland's key crops are wheat, rye, barley, corn, potatoes, poultry, and pork. The percent of GDP from agriculture was 2.5% of GDP in Poland in 2005, greater than the EU-25 average of 1.3%; but this has decreased since the fall of Communism.

From the CAP, monetary transfers to Poland in 2004-2006 totaled about 20 billion zloty. Concerning **Pillar One payments,** these composed three categories in Poland: single area payment scheme (SAPS), Complementary National Direct Payments, and payments to energy crops. Concerning **Pillar Two payments**, domestic and EU funds totaled 89,800 million zloty. For rural development, the Polish Agency for Restructuring and Modernization of Agriculture, as well as cofinancing from the EU through the PHARE and SAPARD programs, provided the necessary funds.

**Current practice: Organic Agriculture in Poland**

According to a 2006 USDA article, which examines the situation of organic agriculture immediately following the 2004 EU enlargement:

- As of 2004, organic farms account only for 0.2% of all Polish farms and only 0.5% of all farmed area in Poland; as such Poland lags behind nearly all EU members in organic farming (EU averages in these parameters were 1.5% and 3.47%, respectively)
- The value of organic production in Poland is quite low (only a small number of farmers produce commercial quantities); from 2004, organic production represents only about 0.05% of all agricultural production in Poland

In comparison to other EU member states, Poland's current organic sector is among the weakest of all. Still, the share of area under conversion in Poland is between 50 and 60%; it ranked 6$^{th}$ in the EU in 2005 in this parameter, a strong indicator that there is already a concerted effort occurring in order to strengthen the state's organic sector.

What governmental policy measures and subsidies already exist at the national level? The Polish government has progressively intensified policy measures supporting organics over the last several years, as reported by the USDA's Foreign Agriculture Service in December 2006. For example, since 2002 Poland has subsidized inspection costs for organic farming based on farm size and also devoted funds to research, promotion and extension of organic farming. Poland's 2004 accession to the EU saw a change in subsidy structure; now, Polish organic farmers can also receive a per hectare subsidy depending on production type. The Agency of Modernization and Restructuring of Agriculture is the body that makes these payments to farmers. In addition, Ministry of Agriculture officials have indicated that further changes in subsidies are to come, transferring organic subsidies from less labor-intensive practices (meadows and pastures) to products requiring more labor effort: vegetables, orchards, and animals.

Despite these government efforts, the report indicates that Polish farmers' interest to transition from conventional to organic production is not as great as the Ministry of Agriculture had forecast. One reason is a current state law prohibiting the sale of organic products more than 100 kilometers away from the actual farm site.  Because of this, and the current costly and labor-intensive process of organic transformation, the Ministry's goal to increase Poland's percentage of organic farms to 3-5% of all Polish farms within the next few years is quite a challenge, and government officials must continue with concentrated policy efforts to boost the organic sector and incentives for farmers.

**Recommendations and conclusions**

Agencies and officials in Warsaw and Brussels must commit to the growth of Polish organic production even more than at present. Specifically, the Polish government should continue its subsidies, but retool them. Warsaw should more heavily emphasize subsidization of organic crops such as wheat, rye and corn – three of its top crops – as well as organic pork production. Poland can specialize in organic pork, because at the EU level there are currently relatively fewer organic pork producers than for other meats. Poland should also shift even more of their organic subsidies to the per-hectare subsidy (only in place since 2004) from paying for inspection and certification. While the latter is important to guarantee the quality of the organic products on the market, the former more directly benefits farmers and the economic health of their rural areas, acting as a true incentive for the farmers. Concerning the law that prohibits a farmer from selling organic production more than 100 km from the farm, the government must rethink this policy measure. The larger market by far is outside of, and not within, Poland; and changing the mindset of domestic consumers is a long-term challenge that in the short term will hurt Polish producers. Instead of being constrained by the 100 km rule, Polish organic farmers should be able to fully take advantage of the EU common market and the right to free movement of goods, labor, capital, and services – while retaining the official "organic" label on their products.

Another option is for the Polish government to inventory all of its expenditures on food (ministry cafeterias, military bases, any other national governmental food purchasing programs) and design policy so that all such programs must buy certified organic foods from Polish farmers.  This could help create economies of scale for organics, reduce the retail price of the premium goods, and increase the numbers of organic products in shops and in the public eye.

To summarize, policy promotion of organic agriculture is key within the changed context and paradigms of CAP policy. European agriculture under the CAP will now focus on rural development, products of high quality, and sustainability, and the organic sector –when given the right support and impetus from national and European institutions – can certainly accomplish these goals to the benefit of smaller-scale farmers. Several other features common to organic agriculture overall lend this policy recommendation considerable weight in Poland, as well:

- Organic agriculture is more environmentally sustainable in the long term and Poland has several costly environmental problems and worries already.
- Conversion to organic production will strongly encourage consolidation of smaller, inefficient land plots, as organic fields tend to be much larger than conventional fields; the high number of small land plots is currently a major hindrance to Polish agricultural efficiency, especially in the east.
- Organic agriculture is more labor-intensive, and will thus employ more workers than a total switch to modern industrialized agriculture; this can help address problems of high unemployment and structural weakness in rural areas.
- And finally, this will help Polish agriculture cultivate a niche within the EU. The largest market for organic products is immediately west of them, in Germany. Transportation costs of products to this market can be kept relatively low; and it is time for Polish producers and distributors to take full advantage of being within the EU's common market and area of free movement of goods, services, and capital.

As such, the implications of this policy are, in the short term, the transfer of much-needed funds directly to rural areas that must combat overall poverty and infrastructure problems, once they engage in organic agriculture. In the long term, these policies will help greatly improve agricultural efficiency, rural community stability and sustainability, and the value and image of Polish agricultural products abroad.

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