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FINANCIAL TRANSFERS BETWEEN POLAND AND THE EUROPEAN UNION WITHIN COMMON AGRICULTURAL POLICY AGAINST THE BACKGROUND OF THE NEW MEMBER STATES' EXPERIENCES AFTER 2004

Summary: Since Poland has already been a member of the European Union for over six years, it is proper time to look closer at the benefits which participation in the Common Agricultural Policy brought to the Polish agricultural sector. The main aim of the paper is to present the value and dynamics of financial transfers between Poland and the EU within the CAP in 2004-2009 against the background of the countries which joined the EU after 2004. The analysis, which includes both transfers from the EU as well as the expenditure from national budget for the pre-financing of the CAP, proves that Polish agricultural sector is a net beneficiary of the Polish integration with the EU and plays a key role in the economic policy of the EU towards Poland.

Keywords: Common Agricultural Policy, agricultural sector, budgetary expenditure.

1. Introduction

In the first years of its implementation, the Common Agricultural Policy (CAP) of the European Union (EU) was orientated mainly on the market measures which were stabilizing agricultural markets by rising agricultural prices. Over a time, during numerous CAP reforms, the measures supporting rural development were receiving more and more attention and also starting to play an important role in the structure of the CAP support. At present, the CAP consists of two complementary pillars. The first pillar of the CAP contains policy measures aimed at supporting agricultural incomes of framers who provide agricultural goods on the market (e.g. area payments, export subsidies, aid for private storage). The second pillar of the CAP compensates farmers and rural areas for supplying public goods (e.g. setting up for young-farmers, support for semi-subsistence farms, agri-environmental payments). The priorities of the CAP, changing over time, new challenges related with the New Member States and global food problems contributed to the evolution of the CAP measures and the structure of its financing.

Until 2006, the CAP was financed from the European Agricultural Guidance and Guarantee Fund (EAGGF). Both CAP pillars were financed from the Guarantee Section of the EAGGF and from the each country's national budgetary measures. Structural programs were, in turn, implemented through Sectoral Operational Program "Restructuring and Modernizing of the Food Sector and Rural Development", which was financed from the Guidance Section of the EAGGF. In 2007, EAGGF was replaced by two new funds, each of which was supposed to finance one of the CAP pillars[1]. The measures of the first pillar are financed from the European Agricultural Guarantee Fund (EAGF) and the rural development (that is second pillar) from the European Agricultural Fund for Rural Development (EAFRD). Since their accession to the EU, the Eastern European Countries have been also included in the mechanism of the CAP and become beneficiary of the agricultural support measures. The main aim of this paper is to evaluate the share of the New Member States[2] (NMS) in the Community support for the Common Agricultural Policy, with a special attention paid to Poland.

2. Eastern European Countries in the Community agricultural budget

Between 2004 and 2009 expenditure from the European Agricultural Guidance and Guarantee Fund, European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development increased from the level of 48.4 billion EUR to 57.2 billion EUR per year (together over 321 billion EUR). The new member states from Eastern Europe received over 37.8 billion EUR, which constitute almost 12% of the aforementioned mentioned total expenditure. Share of the NMS in the Community agricultural budget increased from the 4.6% in 2004 to 17.8 in 2009. In the analyzed period the share of NMS in the expenditure from the Guarantee Section of the EAGGF and the EAGF was significantly lower than in Guidance Section of the EAGGF and EAFRD. In the first case, this share amounted up to 3.8% from EAGGF Guarantee Section and 10.3% from EAGF (see Table 1).

If one considers all EU Member States, it is easy to notice that between 2004 and 2009 the share of expenditure from EAGGF Guidance Section and EAFRD was systematically growing (from 7.6% in 2004 up to 24% in 2009); however, the EAGGF Guarantee Section and the EAGF were still playing the major role in the Community agricultural support. The yearly-average share of this expenditure accounted for 84.5% of total expenditure, in 2004-2006 it was 92.4% and 2007-2009 it declined to 77.1%.

[1] Council Regulation (EC) No. 1290/2005 of 21 June 2005 on the financing of common agricultural policy.

[2] In this paper we define the New Member States as those which become a member of the EU in 2004 (the Czech Republic, Estonia, Lithuania, Latvia, Poland, the Slovak Republic, Slovenia, Hungary) as well as those which joined the EU in 2007 (Bulgaria and Romania).

Table 1. The amount and share of transfers from the EAGGF (2004-2006) and EAGF and EAFRD (2007-2009) to the New Member States in the total expenditure on the Common Agricultural Policy (billion EUR, %)

Countries		2004	2005	2006	2007	2008	2009
		EAGGF Guarantee Section			EAGF[1]		
(a)	UE-8 in 2004-2006[2] UE-10 in 2007-2009	1720.8	3900.5	4408	2509.4	3526.8	4483.2
(b)[3]	UE-25 in 2004-2006 UE-27 in 2007-2009	44760.5	48928.2	49865.2	42120.9	42181.2	43454.1
% share of (a) in (b)		3.84	7.97	8.84	5.96	8.36	10.32
		EAGGF Guidance Section [4]			EAFRD[4]		
(c)	UE-8 in 2004-2006 UE-10 in 2007-2009	507.4	720	924.1	3766.4	5662.3	5703.7
(d)[3]	UE-25 in 2004-2006 UE-27 in 2007-2009	3662.1	3964.9	4193.1	9522.5	14645.8	13731.7
% share of (c) in (d)		13.86	18.16	22.04	39.55	38.66	41.54
% share of (a + c) in (b + d)		4.6	8.74	9.86	12.15	16.17	17.81

1) The expenditure from the EAGF presented in the table does not include the expenditure for the Sugar Restructuring Fund. This expenditure amounted to 551.4 million EUR in 2007, 1284.1 million EUR in 2008, and 3017.7 million EUR in 2009.

2) EU-8 includes: the Czech Republic, Estonia, Lithuania, Latvia, Poland, the Slovak Republic, Slovenia, and Hungary. EU-10 includes EU-8 and Bulgaria and Romania.

3) Expenditure together include: direct expenditure made by the Commission (EAGGF Guarantee Section in 2004 to 2006 and EAGF in 2007 to 2009) and Technical Assistance from EAFRD.

4) Expenditure from appropriations for commitment.

Source: authors' own calculations based on data from [*Agriculture in the EU...* 2011].

However, if one considers only the NMS (EU-8 in 2004-2006 and EU-10 in 2007-2009) those relations seem different. The yearly-average expenditure from the EAGGF Guarantee Section and the EAGF were also playing the major role in the Community agricultural support; however, their share (54.3%) was significantly lower than in the case of all Member States. The differences in the priorities for financing each CAP pillar are even more visible after considering only current financial perspective. Between 2007 and 2009 over a half (59%) of funds on agriculture and rural areas came from the EAFRD, that is from the measures from the second pillar.

In the structure of the Community expenditure on the CAP, one can notice an increasing significance of the second pillar measures, which results from the recent reforms of the CAP and global economy requirements. The measures from the second pillar play though an essential role in the modernization and restructurization process of the agricultural sector, which improves the competitiveness of the agri-food sector. Such a direction of the CAP changes face social expectations, in which it is often emphasized that agricultural policy should be joined up with the rural development policy and consider issues of quality and healthy food as well as biodiversity of environment [Czyżewski, Stępień 2011]. However, taking under consideration Old and New MS, there exists a significant asymmetry in those two fields of the CAP. In the Old Member States measures from the first pillar are still more important.

Between 2004 and 2009 Poland received over 16.2 billion EUR from the Community funds on the CAP, which accounts for 43% of all the funds on the agricultural sector in the NMS. In 2004-2006 Polish share in the Community expenditure on the agricultural sector accounted almost 49% of the funds for EU-8 and 3.8% of the total expenditure on agriculture. The transfers to Hungary amounted correspondingly to 16.7% and 1.3%, and to the Czech Republic 11.2% and 1%. The expenditure for Estonia was the lowest – only 2.2% of the total EU-8 funds for agriculture and 0.2% of the total EU-25 funds. In the current financial perspective, which is for 2007-2009, the Polish share in the Community expenditure on agriculture accounted for 40% of funds for the NMS and 6.2% of total funds. Romania received 14.5% of the EU-10 funds and 2.2% of the EU-27 funds, and Hungary correspondingly 13.1% and 2.0%. The share of Estonia was once again the lowest (1.7% of EU-10 funds and 0.3% of EU-27 funds) (see Figure 1).

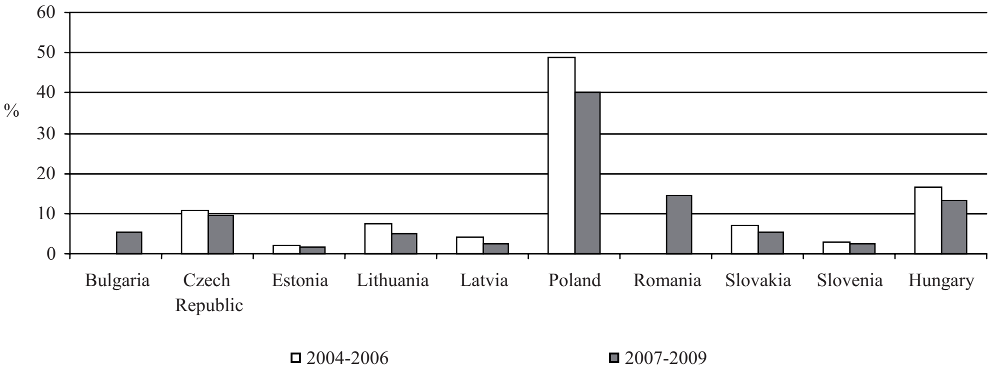

Fig. 1. The share of each New Member State in the Community expenditure on the CAP for all New Member States in 2004-2009[1)] (%)

[1)] The data for 2004-2006 include EU-8 and for 2007-2009 EU-10 (see the source in Table 1).

Source: authors' own calculations based on the same source as in Table 1.

Having considered total CAP transfers for Poland and its share in the CAP transfers for all NMS, one can assume that Poland is the biggest recipient of the Community support for the agricultural sector and at the same time the biggest gross beneficiary of the CAP among the NMS. However, this opinion might change after considering the size and structure of the agricultural sector in particular countries.

Such an analysis can be based for example on the funds received from the Rural Development Program (RDP) in the relation to the utilized agricultural area, the number of farms or the number of people hired in agriculture in chosen NMS.

3. Community funds on the first and second pillar of the CAP in the New Member States

Since the integration with the EU in 2004, Countries of Eastern Europe have been included in the mechanisms of the Common Agricultural Policy and have been able to use so-called "second pillar measures". In the first years of their membership in the EU, eight NMS were receiving these funds through the Rural Development Program 2004-2006. RD Program was financed in 80% from Guarantee Section of EAGGF and in 20% from the national measures. In the current financial perspective for 2007-2013, second pillar measures are available through Rural Development Program, which is financed from the EAFRD and also from the national budgets. The main aim of the RD Program is to support sustainable development of rural areas with respect to the economic, social, and environmental issues. For the RD Program 2004-2006, Poland received almost 3.6 billion EUR, 2.6 billion EUR of which came from the Guarantee Section of EAGGF (see Table 2). These measures

Table 2. The level of planned expenditure for Rural Development Program 2004-2006 and Rural Development Program 2004-2006 in the New Member States (million EUR, %)

Country	RDP 2004-2006			RDP 2007-2013		
	share of EAGFF		total expenditure[1)]	share of EAFRD		total expenditure[1)]
	million EUR	%	million EUR	million EUR	%	million EUR
Bulgaria	–	–	–	2 642.2	7.1	3 278.8
Czech Republic	542.8	9.6	678.5	2 857.5	7.7	3 670.1
Estonia	150.5	2.7	188.2	723.7	1.9	935
Lithuania	489.5	8.7	608.0	1 765.8	4.7	2 285.3
Latvia	328.1	5.8	410.1	1 054.4	2.8	1 383.9
Poland	2 866.4	50.7	3 571.8	13 398.9	35.9	17 417.5
Romania	–	–	–	8 124.2	21.8	10 097.1
Slovakia	397.1	7.0	520.7	1 996.9	5.3	2 597.1
Slovenia	281.6	5.0	353.1	916.0	2.5	1177
Hungary	602.3	10.6	754.1	3 860.1	10.3	5 256.8
Total	5 658.3	100.0	7 084.48	37 339.7	100.0	48 098.6

[1)] Total expenditure for RDP from Community budget and national budgets.

Source: authors' own calculations based on [*Rural Development...* 2003, p. 17; *Rural Development...* 2010, pp. 137, 229-256].

constituted over one half of all Community funds on RD Program for the EU-8 and were five times as high as the measures for Hungary, which were the second biggest beneficiary of RD Program. Estonia received the smallest share of the RDP funds (2.7%). In the financial perspective for 2007-2013, RDP envelope for Poland is going to amount to 17.4 billion EUR, 13.4 billion EUR of which comes from EAFRD. Poland, once again, is going to receive the highest share of total RDP funds for the EU-10 that is almost 36%.

Table 3. The community funds for rural development from RDP 2004-2006 and RDP 2007-2013 in selected Member States in EUR per hectare of utilized area, farm and average working unit

Country	EUR/farm[1]		euro/UAA[2]		euro/AWU.[3]	
	RDP 2004-2006	RDP 2007-2013	RDP 2004-2006	RDP 2007-2013	RDP 2004-2006	RDP 2007-2013
Bulgaria[4]	–	5358	–	866	–	5 344
Czech Republic	26 683	72 526	334	812	5 788	20 811
Estonia	5 105	31 008	237	798	5 376	22 567
Lithuania	2 249	7 668	246	667	2 327	9 802
Latvia	3 239	9 785	275	594	2 951	10 062
Poland	1 640	5 604	218	866	1 547	5 920
Romania[4]	–	2 067	–	591	–	3 684
Slovakia	12 793	28 945	429	1 031	7 114	21 874
Slovenia	4 577	12 158	727	1 874	5 985	10 941
Hungary	1 754	6 163	312	913	6 459	9 568

[1] Agricultural farm.
[2] Hectare of utilized agricultural area.
[3] Average working unit.
[4] Bulgaria and Romania have been members of the EU since 1 January 2007.

Source: for RDP 2004-2006 see [Fabisiak 2006, p. 68]. RDP 2007-2013 comes from authors' own calculations based on [*Rural Development*… 2010, pp. 59, 137].

Romania is going to receive almost 22% and Hungary over 10%. The smallest share accrues to Estonia (1.9%), Slovenia (2.4%), and Latvia (2.8%).

Having considered the total amount of rural development measures, which Poland is going to receive, one can assume that Poland is the biggest beneficiary of EAFRD. However, after considering the structure of agriculture in particular countries, the portrait of Poland against the background of the other NMS changes essentially.

The biggest differences in RDP funds in particular countries can be noticed with reference to the number of farms. Between 2007 and 2013 one farm in Romania will receive 2067 EUR from the RDP, while in the Czech Republic this value is going to amount even to 72526 EUR – that is 35 times more (see Table 3). One Polish farm will receive 5604 EUR, which is almost 13 times less than in the Czech Republic, but 2.7 times more than in Romania. Yearly-average, one Polish farm is going to receive over 800 EUR, which is more than in the previous financial perspective for 2004-2006, in which it could have received only 546 EUR.

The funds for financing measures from the second pillar can be also analyzed with reference to the number of utilized area hectares. RDP 2007-2013 measures per hectare are the smallest in Romania (591 EUR) and the highest in Slovenia (1874 EUR). On one hectare in Poland falls 867 EUR of RDP 2007-2013 funds, which gives an average of 124 EUR per year. However, in the previous financial perspective for 2004-2006, the value of RDP funds per hectare in Poland was the smallest and it amounted to 218 EUR, which gives only 72.5 EUR per year.

While considering the number of people hired in agriculture, one can notice that the highest amount of RDP 2007-2013 funds falls per one full-time employee (AWU) in Estonia (22567 EUR) and Slovakia (21874) and the lowest in Romania (3684 EUR). One Polish full-time employee is going to receive 5920 EUR, which is 3.8 times less than in Estonia but 1.6 times per year more than in the previous perspective for 2004-2006.

Granted by the EU, RDP funds related to the agricultural area, farms, and employee number present the structural diversification of the agricultural sector in particular NMS. However, the absorption effectiveness of RDP funds will depend not only on the level of granted funds, but also on its allocation and institutional solution. It means that its evaluation will be possible first in a longer perspective.

Table 4. The share of direct payments[1)] in the agricultural income[2)] in the NMS between 2004 and 2009 (%)

Country	2004	2005	2006	2007	2008
Bulgaria	–	–	–	31.0	40.9
Czech Republic	58.5	71.9	72.2	62.2	72.5
Estonia	38.8	43.5	54.3	44.0	53.9
Lithuania	32.3	34.6	37.3	31.0	33.0
Latvia	44.6	43.4	49.3	45.6	54.9
Poland	24.4	26.9	32.4	27.9	39.3
Romania	–	–	–	35.4	16.3
Slovakia	118.9	109.9	1261.1	92.2	101.7
Slovenia	48.6	46.6	57.4	51.2	53.6
Hungary	58.4	59.6	57.4	53.9	47.3
UE-8	62.9	72.3	103.1	70.1	71.4

[1)] Direct payments include: payments to crop production, animal production, other payments, payments to intermediate use, payments to inputs and decoupled payments.

[2)] The agricultural income includes an income from farming and direct payments.

Source: authors' own calculations based on FADN database.

Besides the measures from the second pillar, NMS have also received the possibility to use non-market measures of the CAP such as direct payments. From the available data from Farm Accountancy Data Network (FADN), it appears that in 2004-2008 the share of these payments in total agricultural income in NMS increased from the average of 62.9% in 2004 to 71.4% in 2008 (see Table 4).

The dependency of agricultural income from the direct payments is very diversified. Their share in the income of Polish farmers was systematically growing from 24.4% in the first year of Polish membership in the EU up to 40% in 2008. In the analyzed period, the lowest share of direct payments in agricultural income is in Lithuania, where only one third of agricultural income comes from direct payments. In the group of analyzed countries, Slovakia is an interesting case. The income received by farms in Slovakia only from farming was negative, that is why direct payments constitute more than 100% of the agricultural income in this countries (except for 2007).

4. Conclusions

The present analysis of the chosen financial transfers for the agricultural sector and rural areas in the Eastern European Countries enables us to draw the following conclusions:

- The share of NMS in the total expenditure from EAGGF (2004-2006) and from EAGF and EAFRD (2007-2009) was systematically increasing (also because Bulgaria and Romania joined the EU in 2007) from 4.6% in 2004 up to 17.8% in 2009. As far as the expenditure structure is concerned, in the current financial perspective almost 60% of those expenditure is dedicated to the measures from the second pillar, which reflects direction of CAP reforms. At the same time, the share of expenditure on the second pillar for all EU-27 countries amounts only to 23%, which proves an asymmetrical structure of financing different groups of countries.
- Poland receives nominally the biggest share of agricultural support from the EU agricultural budget among all EU-10 countries. Between 2004 and 2009, it obtained over 16.2 billion EUR, which account for 43% of total funds for the NMS (excluding Bulgaria and Romania). It proves that Poland has been the biggest beneficiary of Community transfers on agriculture and rural development.
- However, further consideration the structure of the agricultural sector shows that the advantages of Polish farmers in comparison to other NMS are not so obvious. For example, after recalculating the expenditure on RD Program per hectare, Poland is going to be granted 866 EUR per hectare of arable land, which is less than Slovakia, Slovenia, and Hungary. As far as the funds per one farm are concerned, the expenditure on RDP per one farm in Poland will amount to 5604 EUR, which is almost 13 times less than in the Czech Republic, but 2.7 times more than in Romania. One full-time employee in agriculture in Poland will

receive 5920 EUR, which is more than in Romania and Bulgaria, but 3.5 times less than in Slovakia or Estonia. However, one has to remember that complete results of RDP measures absorption and its division between particular programs in the EU-10 are going to be visible in the long run.

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TRANSFERY FINANSOWE MIĘDZY POLSKĄ A UNIĄ EUROPEJSKĄ W RAMACH WSPÓLNEJ POLITYKI ROLNEJ NA TLE NOWYCH KRAJÓW CZŁONKOWSKICH PO ROKU 2004

Streszczenie: Ponad sześcioletni okres członkostwa Polski w Unii Europejskiej stwarza okazję do przyjrzenia się korzyściom, jakie niesie z sobą uczestnictwo polskiego sektora rolnego w mechanizmach wspólnej polityki rolnej. Celem artykułu jest zeprezentowanie wartości i dynamik przepływów finansowych w ramach wsparcia rolnictwa pomiędzy Polską a Unią Europejską w latach 2004-2009 na tle pozostałych nowych krajów członkowskich. Przeprowadzona analiza, która obejmuje zarówno środki z UE, jak i środki na prefinansowanie WPR z krajowego budżetu, dowodzi, że polski sektor rolny jest beneficjentem integracji z UE i odgrywa kluczową rolę w polityce gospodarczej UE wobec Polski.