

# ISTOTA MOŻLIWOŚCI FINANSOWANIA POLSKIEJ GOSPODARKI ŻYWNOŚCIOWEJ W OKRESIE PRZEDAKCESYJNYM I PEŁNEGO CZŁONKOSTWA W UNII EUROPIJSKIEJ

## THE ESSENCE OF FINANCING POSSIBILITY OF FOOD IN THE PRE-ACCESSION TIME AND FULL MEMBERSHIP IN EUROPEAN UNION

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### Słowa kluczowe:

Agrobiznes – gospodarka żywnościowa – fundusze strukturalne

### Streszczenie:

W prezentowanym artykule poddano analizie możliwości wspierania finansowego polskiej gospodarki żywnościowej w okresie przedakcesyjnym i po 2004 roku przez fundusze strukturalne Unii Europejskiej. Na podstawie możliwości ich wykorzystania oceniono pozycję polskiej gospodarki żywnościowej w aspekcie wynegocjowanego Traktatu Akcesyjnego. Zaprezentowano możliwe programy wsparcia finansowego polskiej gospodarki żywnościowej w fazie pełnego członkostwa w Unii Europejskiej oraz ich wpływ na jej rozwój. W konkluzji stwierdzono, że środki finansowe pochodzące z Unii Europejskiej zapewnią możliwości rozwojowe przedsiębiorstwom pod względem modernizacyjnym i restrukturyzacyjnym. Przedsiębiorcy i rolnicy otrzymają dodatkowe środki na egzystencję w trudnym, wciąż trwającym okresie adaptacyjnym.

### Key words:

Agribusiness – food economy – structural funds

### Abstract:

The paper presents the possibilities of financial support of Polish food economy during pre-accession time and after 2004 by structural funds from European Union. The position of Polish food economy was established in the aspect of negotiated Accession Treaty. The programmes of financial support of Polish food economy and their influence on the development and regions of European Union during our full membership are also presented.

## **Introduction**

Poland – as the largest and the best agriculturally developed member of EU – was the one the longest negotiating the conditions of agriculture functioning and financing. The accession negotiations in the field of agriculture before the political and economic joint with the EU turned out to be very difficult, taking years, very emotional, with many controversial opinions and full of hopes for both sides. For Poland – the country with the higher potential of agriculture than economic potential [9, s.30]– the accession to the EU was supposed to open an internal market and the access to the market with 450 millions of consumers. The accession has also opened the access to the large budget aimed at the development of agriculture and the development of rural areas[9, 30], that is how food economy has become the beneficiary of the integration[10]. On the 13<sup>th</sup> of December, 2002, the negotiations concerned with integration in Copenhagen, Denmark, have ended. The problem of Polish agriculture, the conditions of its functioning and development has become one of the priorities that should be solved in order to close the last round of negotiations. Unfortunately, the negotiators of EU were tough, protecting the privileges of older EU members. Our country was the one applying for the access to Internal Market, and keeping that in mind negotiations should be prepared carefully. Many countries now are also applying for EU membership (e.g. Ukraine, Turkey) without any negotiating problems. Poland has entered the EU with the large potential in agriculture, food industry and in the sector of agribusiness. The most important problem was to protect the position of Polish agriculture in the EU market what should enable the possibilities of development and functioning within the world market.

Full membership of Poland has been a great opportunity to accelerate the dynamics of the social and economic development of agriculture that will change it according to business rules. The agriculture was the problem obstructing and elongating the accession negotiations. The discussions were based on hypothetical economic assumptions and analyses that did not give the proper projections of the future. The analyses and statistical expertises were concerned with direct additional payments and production quota establishing. Based on prepared earlier analyses the schedule of Polish agriculture accession to the EU and Common Agricultural Policy was faulty. Detailed cost-benefit analysis for the period 2004-2013 was presented by Janusz Rowiński in “Natolin Report”. He says that “...the long time of negotiations has a great impact on economic

count not only because of the better use of Common Agricultural Policy with time”. Yearly, the direct additional payments influence the presence in the European market and the development of agricultural farms during transition time. Rural areas financing clearly brings benefits. Regional development was the most costly with the limitation of finances for agricultural branch material markets. The basic areas of rural policy support are concerned with:

- the improvement of internal structure of farms from agricultural and food industry;
- the conversion and reorientation of productive potential of agriculture, in order to implement new technologies;
- the induction of non-food production and the diversification of economic activity;
- the stable development of forests and protection of agricultural scenery;
- the maintenance and empowerment of social groups in the rural areas;
- the maintenance and promotion of extensive systems of agricultural economy (low input);
- the eradication of social inequalities and the increase of employment and better use of local resources[7, 269].

The development of rural areas in enlarged EU has begun and was planned during early nineties. During that time there were established many rules of integrating mechanisms of market integration and farms economics with the structural instruments. In 1999 the basics of rural policy development for EU were established and the mechanisms of national and regional support were described. These were the problems with the key priority to the Polish food economy. It has to underlined that production quotas and “paraquotas” in EU have got very differentiated level and their exceeding causes very high financial penalties. The Polish position was concerned with the level of production observed at the end of the eighties and at the beginning of nineties, while it should be earlier properly discounted in order to considerate future economic possibilities.

The agreement on direct additional payments was also very important and the money was disbursed shortly after documentation presentation by farmers. The studies presented by W. Czubak show that in 2005 in Poland, during the first year of direct additional payments functioning, almost all eligible farmers presented necessary

documents and received the money[1,30-31]. According to the studies, Polish farmers in the years 2004-2006 received direct additional payments in the proportion of 36%, 39% and 42% of full EU direct additional payments. During next years the payments will be consequently increasing to reach 100% in 2013. Poland has got the possibility to co-finance the direct payments, but in the proportion not higher than 30% of full direct additional payment. This means that by the 2010 100% of direct additional payment will be possible for Polish farmers. However, it has to be mentioned that direct additional payments are concerned with two main fields of agriculture: agricultural crops – 70% of quota and meat breeding – 25% of quota.

As A. Czyżewski says, the budget[3,156-157] is the most important determinant of competitiveness, and the main reasons are:

1. The budget is higher every year and also the expenditures on agricultural sector and rural areas are increasing;
2. The cash flow between EU and Poland gives our country potentially positive net effect;
3. The legal acts from the past and the project of the budget shows that the Polish government consequently connects the development of agriculture and rural areas and agricultural markets with financial support from EU.

The development of agriculture of EU is strongly influenced by Common Agricultural Policy[2,94] instruments and the farmers' income increases by the system of its support from Unions' budget.

### **The assessment of Polish food economy in the aspect of Accession Treaty**

The construction of Accession Treaty was very disputable in the context of competitiveness of Polish agriculture and food economy during the initial period of membership. The fulfilment of payments from EU by Polish budget has accelerated the process of Polish agriculture modernization and its competitiveness on the European market. Although the support from EU was important for Polish farmers, the protection of older EU members has to be understood. That is why the transition period for new member countries was needed. Each of those countries had to fulfil the requirements in

order to fully participate in EU functioning. Today Poland is able to compete on the European market with its economic potential in agriculture and food industry.

Beside the direct payments, each Polish farmer from the moment of our accession to the EU has got the possibility to use structural funds. Also pre-accession funds were available, such as ISPA, SAPARD and Phare. The use of structural funds depends on farmers' initiative. The most satisfied group are beneficiaries of SAPARD fund from the sector of agricultural – food industry, because their market position today is very stable.

### **The programmes of financial support of Polish food economy during EU full membership**

There are two programmes of the development of food economy and rural areas with structural funds. Till 2006 we have had Sector Operational Programme “Restructurization and modernization of food sector and the development of rural areas” and Programme of Rural Areas Development. Rural areas use also sector operational programmes such as “The increase of economic competitiveness”, “Integrated operational programme of regional development – rural areas infrastructure” and “Human Resources Development”. The finances of Programme of Rural Areas Development are presented in Table 1.

**Table 1 Finances for the Programme of Rural Areas Development in the years 2004 – 2006 (w tys. euro)**

The table of Rural Areas Development Plan financing (miliones of EURO)		
Specification	Time of programming	
	2004 – 2006	
	Public expenses	EU part
Structural annuities	640,5	512,4
Low income farms support	376,3	301
Agricultural producers groups	25,4	20,2
Support of agriculture in the areas of unfavourable economic conditions (ONW)	976,8	781,4
Support of agri-environmental business and the improvement of animals well-being	348,9	279

Forestation of arable land	101,8	81,4
Farms adaptation to the EU standards	243,4	194,7
Technical support	34	27,1
Direct additional payments supplementation	705,3	564,2
Projects accepted according to Directive (KE) Nr 1268/1999	140	105
<b>In total</b>	<b>3592,4</b>	<b>2866,4</b>

Source: *Plan Rozwoju Obszarów Wiejskich, Ministerstwo Rolnictwa i Rozwoju Wsi, Warszawa 2004.*

Sector Operational Programme “Restructurization and modernization of food sector and the development of rural areas” and Programme of Rural Areas Development is working since 2004, and its main aim is to introduce the strategy of agriculture and rural areas development. The financing of this programme will be working to the end of 2008 from the budgets of the countries, local self-governments and European Agricultural Orientation and Guaranties Fund- Orientation Section (EAGGF) and privet budgets of investors. The programme acts as a tool needed to National Development Plan acting in the part of food industry restructuriazation and rural areas development. Two strategic aims of this plane are:

1. The improvement of competitiveness of Polish food and agricultural economy;
2. Balanced rural areas development, which is working in the frame of Sector Operational Programme “Restructurization and modernization of food sector and the development of rural areas” and Programme of Rural Areas Development and National Development Plan.

The implementation of those aims takes place through the support of changes and modifications in agricultural-food industry and through balanced rural areas development. The structural support has to be supplemented, because the Programme of Rural Areas Development is single. The supplementation can take place through:

- financial transfers from the funds aimed at infrastructure development (ERDF);
- employment and human resources development (ESF and ERDF);
- instruments of national support[6].

The implementation of above mentioned plans enables the modernization of Polish agriculture and food industry, what is proved to be cost-effective. Total amount of money for Rural Development Plan is 3592,4 million Euro. Part of this goes to the supplementation of direct additional payments (705,3 million Euro) and SAPARD Programme financing (140,0 million Euro[5]).

### **The influence of financial support on the development of Polish food economy and its branches.**

Evaluating the Polish agriculture functioning and food economy after three years of full membership it has to be noted that its position is being stable and satisfactory. The modernization is needed in order to develop the agribusiness. Good functioning of many Polish firms in the European market is an example for further changes.

The applications of farmers for support of the investments expend the funds of Agriculture Restructurization and Modernization Agency in Poland. Till 2006, farmers received 5,83 billion PLN[4]. These money largely helped to reach the competitiveness of EU market. Farmers in their applications declare the agricultural infrastructure development, breeding, cultivation, rural areas culture preservation and other strictly business actions, such as biomass production, consolidation of ground and water economy restructurization. In 2005 and 2006 Poland received 1,35 billion Euro, and till 2007 with the origins of European Agricultural Rural Areas Fund the sum of the support will be extended by 40% to reach 1,89 billion Euro. In 2005 500 thousand of firms were applying for those money. However, you should keep in mind that since 2007 EU does not support large farms, according to the strategy of agriculture development and then competitiveness and diversification of agriculture development.

The assumptions of Common Agricultural Plan mean benefits that enable better development and modernization of many branches important for agribusiness (e.g. food industry or infrastructure).

### **Conclusions**

The main aim of EU financial support is to enable development possibilities for Polish agribusiness in the aspect of restructurization and modernization, especially during transition time. The experience gained by beneficiaries can help the next farmers applying for finances.

The evaluation of situation, reactions of farmers and the effects observed lead to the following conclusions:

1. Many branches of Polish agriculture and food industry had to bear with high cost of adaptation to EU law and requirements. It concerns mainly such branches as meat, milk and poultry, in which only a few firms fulfilled the EU norms.
2. The agribusiness sector is still bearing with cost of legislative adjustment to the EU. It is a consequence of sanitary, veterinary and environmental requirements fulfilment. The cost of adjustment is also caused by world market changes.
3. The cost of adjustment should be carefully compared with benefits, especially during transition time.
4. The benefits from the accession to the EU are seen through the amount of money received by Polish farmers. These finances will be further supplemented from national budget.

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