

## STRATEGIES AND DIRECTIONS OF DEVELOPMENT OF POLISH AGRICULTURE

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### Abstract

Article presents some major changes that have occurred in Polish agriculture in the past ten years and the strategies and directions of development of Polish agriculture. In the years 1990-2004 the principles of market economy have been introduced in Poland, which led to a drastic reduction of Polish agricultural income parity. Rural development was impossible without the financial support for agriculture and structural policy. After 1989, a number of strategic documents which were the basis for the development of agriculture and rural development were prepared, but due to limited budget for implementation their influence was inconsiderable. Since 1990, a number of pre-accession programs (preparing Poland for joining the European Union), supporting the development of agriculture and rural development were implemented. Among them, the most important were PHARE and SAPARD. Since 2004, after the Polish accession to the European Union two EU co-financed programs aimed at rural development and agriculture were introduced: Rural Development Plan 2004-2006 and Sectoral Operational Programme "Restructuring and Modernisation of Food Sector and Rural Development 2004-2006". Since 2007 another Rural Development Programme (for years 2007-2013) is being implemented. All those programmes have consistent strategic objectives: improving the competitiveness of the agri-food sector and sustainable rural development. Achievement of these objectives will primarily depend on the improvement of macroeconomic situation and the degree of utilization of EU funds.

The article uses data of the Ministry of Agriculture and Rural Development, Central Statistical Office, the Agency for Restructuring and Modernisation of Agriculture and FAO.

**Keywords:** *CAP, strategies, food industry, foreign trade, EU financing.*

### Introduction

The situation in Polish agriculture is highly dependent on socio-political circumstances, which have changed many times in the last decades. After the World War II agriculture in Poland underwent universal privatisation of property under the land reform, compulsory collectivization in the 1950s, and establishment of state agricultural farms in the 1970s towards the crisis in the 1980s and transformation into market-oriented economy in the 1990s.

Transformation into market-oriented economy has resulted in a number of political decisions, *inter alia* the liquidation of state agricultural farms – the symbol of socialist agriculture. In 1989 they stopped being financed, and in 1991 their liquidation commenced. The last state agricultural farm was closed in 1994. Undoubtedly, liquidation of state agricultural farms was the right decision on the one hand, since as a creation of socialist economy they couldn't function in its current form. However, opponents criticised the methods of liquidation. Some of the farms were in good economic shape and, after the reform, could adjust to the new economic reality. A significant argument against the fast liquidation

of state agricultural farms was the human factor, i.e. redundancy of thousands of people with no alternative livelihoods. The cost of unemployment benefits, activation programmes for unemployed people, and the social impact exceeded the cost of additional payments for unprofitable farms. Until now, however, the high unemployment rate is one of the most serious problems of Polish agriculture and rural areas.

The worsening economic situation in agriculture is also reflected in the research of the Institute of Agricultural and Food Economics, which prove that at the end of the 1990s farms had worse performance results in comparison with the previous years (Woś 2000; Skarzyńska, Augustyńska-Grzymek 2000). It was only after Poland's accession to the EU that some favourable symptoms appeared in agriculture.

### **Integration with the EU**

Integration with the European Union created new conditions in Poland for the development of agriculture and rural areas. Poland received access to EU funds as well as to other instruments that are available for all member states. These include: financing from the Common Agricultural Policy measures, access to direct payments, which have an impact on the agricultural income and the opening of borders, which on the one hand allowed to enter Polish products to new markets on the other hand forced the Polish agricultural producers to adapt to rules and standards prevailing in the common European market.

The implementation of tasks in respect of support for agriculture and rural areas in Poland, in accordance with the EU system, commenced under the SAPARD Programme. The experience gained and skills acquired during the implementation of the programme were used for the purposes of the implementation of agricultural and structural policy after accession. The aim of this policy is to effectively and consequently raise the level and quality of living in the rural areas. In order to achieve these objectives, State policy for rural areas should concern both agriculture, and non-agricultural development of rural areas. Support for the development of rural areas needs to be complementary and should be in line with other national policies and strategies that define main development objectives and priorities under Cohesion Policy in Poland.

In the first years of membership (2004-2006), two programmes co-financed by the EU which focused on the development of agriculture and rural areas were implemented after the Polish accession to the EU: 1. Rural Development Plan 2004-2006 (RDP 2004-2006), and 2. Sectoral Operational Programme *Restructuring and modernisation of the food sector and the development of rural areas, 2004-2006* (SOP "Agriculture"). The new Rural Development Programme (RDP 2007-2013) has been implemented in Poland since 2007. The total amount of public resources – both EU, and national – allocated to rural development under SAPARD, RDP 2004-2006, SOP "Agriculture", and RDP 2007-2013 is EUR 23.7 billion (Figure 1). Financial resources under the programmes implemented in the previous programming periods were used almost in their entirety. RDP 2007-2013 attracts beneficiaries just like the previous programmes; therefore, it is assumed that funds under this programme will also be used in their entirety.

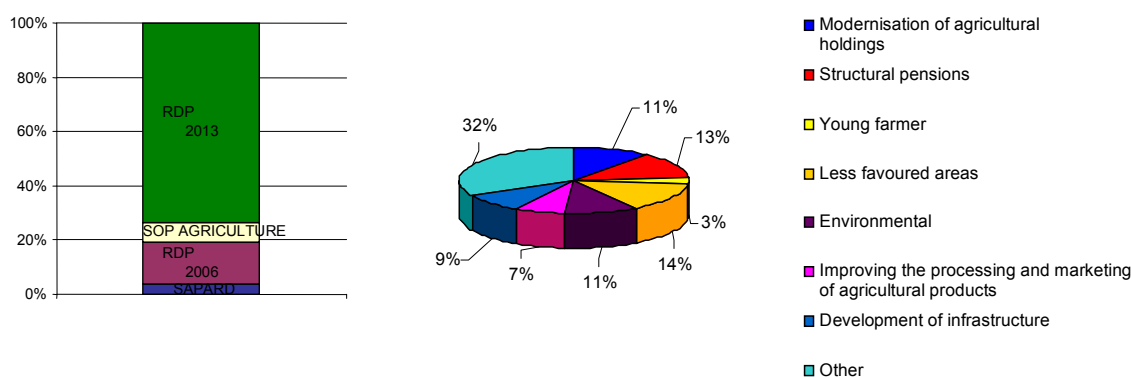


Figure 1. Budget of SAPARD, RDP 2004-2006, SOP "Agriculture" and RDP 2007-2013 in total and by measures.

*Source:* Allocation of available resources under the Annual Financing Agreements 2000, 2001, 2002 and 2003 to individual measures of SAPARD Programme; Information about the implementation and the results of the SAPARD Programme from [www.minrol.gov.pl](http://www.minrol.gov.pl); Summary financial Plan table with EUR changed after reallocation of resources 4/2008, December 2008 - information from [www.minrol.gov.pl](http://www.minrol.gov.pl), Resolution no. 45 of the Monitoring Committee for the Sectoral Operational Programme "Restructuring and modernisation of the food sector and the development of rural areas" of 5 July 2010. Table 3.1. Indicative allocation to certain rural areas measures (in EUR for the entire period), Rural Development Programme for 2007-2013, Ministry of Agriculture and Rural Development, Warsaw, March 2011.

Both the SAPARD pre-accession programme, and RDP 2004-2006, SOP "Agriculture" and RDP 2007-2013 have common strategic objectives, i.e.: 1. improving the competitiveness of the agricultural sector, and 2. sustainable rural development. These objectives are achieved by various complementary instruments (measures). Most of the measures implemented under RDP 2007-2013 are the continuation of measures implemented in the previous programming period, which determines the transparency of the policy towards agriculture and rural areas, and the consistency in achieving the EU programmes objectives. The most important rural development priorities are: (1) development of entrepreneurship and non-agricultural activity; (2) growth of competitiveness of farms; (3) development and improvement of technical and social infrastructure in rural areas; (4) improvement of the quality of human capital, and activation of rural population.

There is a great diversity of the measures under the programmes implemented in Poland – from strictly investment measures, social measures to those improving conditions and quality of living in rural areas. Such allocation of resources enables various restructuring and modernisation changes in agriculture and the food sector. However, too great dispersion of financing does not allow for focusing on the most important problems of Polish agriculture. At present, the next funding programme for the Common Agricultural Policy for 2014-2020 is being prepared. This will probably be the last period when the Member States will have access to considerable EU budget. It is therefore crucial to specify the type of measures to be supported, since that choice will probably shape the development of agriculture and industry for the next few years.

### Impact of the CAP on Polish agriculture

Financing from the Common Agricultural Policy budget has had influence, *inter alia*, on the production aspect of Polish agriculture. Both area and structure of use of agricultural land changed. In comparison to 1997, the area of agricultural land increased by 2.5% and amounted to 18,934 thousand ha in 2010 (Table 1). Arable land in 2010 constituted the area of 13,969 thousand ha (14,059 thousand ha in 1997), orchards – 292.4 thousand ha (261.8 in 1997), meadows and pastures – 3,931 thousand ha (4,136.2 in 1997). This indicates that

although the overall area of agricultural land increased, the area of arable land and meadows decreased in favour of orchards.

Table 1. Basic indicators of Polish economy and agriculture in 2010.

Specification	2010	Specification	2010
GDP per capita (EUR)	15 300	Share of agricultural import in import (%)	8,1
Population (million)	38	Net trade in agricultural products (EUR million)	2 593
Share of rural population (%)	39	Average area of a farm (ha)	10,36
Share of agriculture in GDP (%)	3,5	Arable land (ha million)	18,9
Share of agriculture in employment (%)	16	Arable land per capita (ha)	0,4
Share of agricultural export in export (%)	11,2	Plantations area (ha million)	10,4

Source: Data of CSO, Agency for Restructuring and Modernisation of Agriculture.

The total plantations area for harvest was 10.4 million ha in 2010. In comparison to the previous years, cereal (basic cereals with cereal blends, maize, buckwheat, millet and other) and forage crops cultivation area decreased. On the other hand, plantation area of oilseed rape and agrimony and field vegetables increased.

The structure of agricultural production in Poland has been changing over the years. Although livestock products (cow milk, pork and beef) are still at the forefront of production, there are significant changes in the structure of plant production. Livestock production accounts for over 50% of agricultural production in Poland. There has been strong growth in the production of poultry meat and eggs, particularly on farms producing on an industrial scale. Cereal production decreased (in comparison with 1995-1997), and the area of industrial crops increased (Table 2). This results from the demand on oilseed rape for energy purposes.

The change in the structure of agricultural production is the consequence of, *inter alia*, Poland's entry in the EU market, adjustment to its quality requirements, as well as demand for certain products that are exported, as presented in Table 2 herein.

Table 2. Average annual production of the most important products in Polish agriculture in 1995-1997 and 2008-2010 (in USD thousand and tonnes thousands).

Product	Value of production (USD thousand)		Quantity (thousand tonnes)	
	1995-1997	2008-2010	1995-1997	2008-2010
Cow milk, whole, fresh	3 449 782	3 739 656 /1/	11 820 500	12 383 733
Indigenous Pig meat	3 039 382	2 668 445 /2/	1 977 167	1 735 867
Potatoes	1 634 891	1 031 750 /5/	24 294 667	9 643 620
Indigenous Cattle meat	1 170 597	1 239 931 /4/	433 333	459 000
Apples	752 520	1 031 332 /6/	1 779 370	2 438 633
Sugar beet	674 477	421 354 /10/	15 680 400	9 795 740
Wheat	659 354	588 431 /8/	8 478 890	6 531 980
Indigenous Chicken meat	498 590	1 395 672 /3/	350 033	979 827
Hen eggs, in shell	322 346	498 250 /9/	389 655	601 743
Cabbages and other brassicas	272 723	186 306 /16/	1 822 503	1 245 007
Strawberries	251 094	260 768 /13/	184 998	192 126
Rye	215 663	263 194 /12/	5 746 543	3 477 250
Rapeseed	215 172	599 288 /7/	806 935	2 226 767
Carrots and turnips	200 254	211 680 /15/	802 622	848 420
Mushrooms and truffles	192 768	329 879 /11/	106 841	182 833

Notice: Figures in brackets in the "value of production" column – arranged according to the decreasing annual value in a given period.

Source: Author's own compilation based on FAOSTAT data.

### **Impact of the CAP on the income situation of farmers**

Poland's accession to the European Union significantly changed the conditions of agriculture, food industry and the broader market environment of the Polish food sector. Such changes resulted from extending the Common Agricultural Policy to Polish agriculture, which through direct payments system guaranteed the increase of farmers' income and improvement of their living conditions, as well as provided access to financial resources under the pre-accession programmes and structural funds that enabled to accelerate modernisation processes in farms and their adjustment to the new market circumstances. The CAP also provided a set of instruments for the regulation of agricultural markets which limited the operation of market mechanisms. Following the lifting of the customs border between Poland and other EU Member States on 1 May 2004, Polish food producers were provided with free access to a large but demanding EU market.

The most important instrument of assistance for farmers are direct payments, which have been granted to 1.4 million farms (88%) since 2004. The share of payments in farmers' income amounts to ca. 40%, which means they have a considerable impact on the improvement of farmers' income situation. However, they impede land trade between farms and, thereby, structural changes in agriculture. The acceleration of structural changes is the key issue for the improvement of productivity and profitability of Polish agriculture. Admittedly, the number of farms in Poland has been decreasing steadily and the average area of a farm increases. However, these changes occur very slowly. In 2011, the average size of a farm in Poland was 10.4 ha of arable land (Table 1), while only farms of 16 and more ESU (the average area in Polish conditions is 56 ha of arable land) are able to generate income enabling beyond-parity payment for own labour and extended reproduction of fixed assets. The share of these farms in Poland does not exceed 6% of the total number of farms entitled to apply for payments.

The competitiveness of farms is to be enhanced by investment instruments that improve the technical supply of labour and lead to improved quality of production and to its modernisation. Payments for investments were available to Polish farmers already before Poland's accession to the EU under the pre-accession SAPARD 2000-2003 programme, and after 2004 – under EU programmes (Figure 1). Those instruments are targeted and addressed to beneficiaries who need to ensure their effective use, thus only a small number of farmers have had the opportunity to take advantage of them (a total of ca. 90 thousand). However, the opportunity to obtain even up to 50% reimbursement of incurred investment outlays is not always conducive to rational decisions made by farmers and the achievement of intended goals, as the calculation of efficient use of capital and the machinery is carried out in a "discount conditions.

### **Impact of the CAP on foreign trade in agri-food products**

In the first years after accession to the European Union, the macroeconomic situation was favourable for Polish food economy, which accelerated Poland's economic growth. Foreign trade in agri-food products was the most dynamic and the fastest-developing sector of Polish food economy (Figure 2). After accession to the EU, sales in those goods nearly tripled, and since 2003 Poland has become a net exporter of food (a share of 4% in EU-27 exports in 2011). A great majority of Polish export (80%) goes to the EU market. Germany is the largest recipient of Polish food products among EU Member States, while outside the EU that role is played by Russia.

The competitive advantages of Polish food producers mostly stem from low costs and consequently the low price of products offered. In the long-term perspective, however, food

quality and safety as well as the ability to take pro-innovative action will play an increasingly important role.

The largest share in value of sold production of agri-food industry product as well as in the agri-food export have industries closely linked to agriculture, such as meat, fruit and vegetables and dairy production. The value of exports of products from these three sectors in the years 2000-2011 in Poland amounted to approximately 50% of the total agri-food exports. This shows the great importance of these sectors in creating a positive balance of trade in the Polish agri-food products, as well as for the development of the food industry, including agriculture.

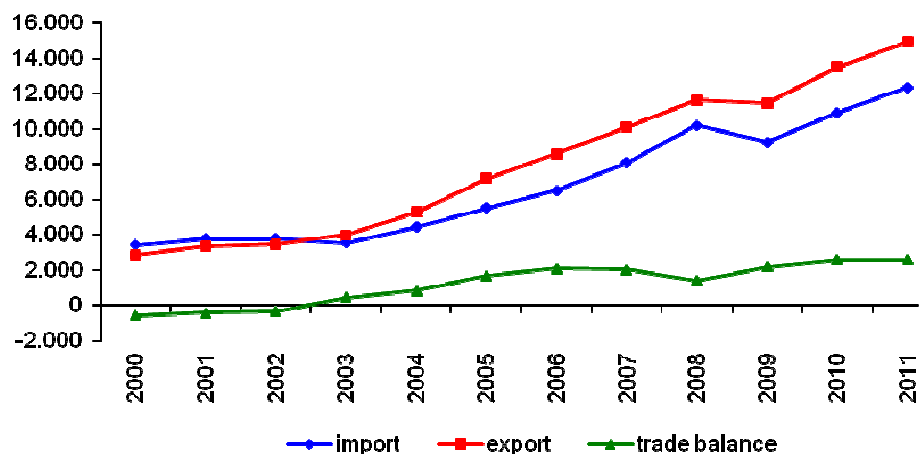


Figure 2. Foreign trade in agri-food products in EUR million.

Source: Own elaboration based on Eurostat data.

Between 1995 and 1997, Poland mostly exported products processed from fruit, the trade in which was almost unlimited, as well as skimmed milk. When Poland entered the European Union, barriers to trade with EU countries were lifted and EU customs tariff was adopted in trade with third countries, the structure of Polish exports changed considerably. Between 2008 and 2010, the greatest share in the value of Polish exports was attributed to cigarettes, but the production of cigarettes in Poland is based on imported raw material, so they were only re-exported. In the same years various types of food preparations and chocolate products were also important in Polish exports (Table 3).

Table 3. Poland's agri-food export (most important products) in 1995-1997 and 2007-2009.

Product	Exports value (USD million)		Quantity (thousand tonnes)	
	1995-1997	2007-2009	1995-1997	2007-2009
Fruit Prp Nes*	197 469	577 681	205 787	341 186
Milk Skimmed Dry	165 676	194 933	95 533	82 618
Sausages of Pig meat	148 111	130 419	96 410	37 090
Chocolate Prsnes**	145 622	738 114	43 811	133 844
Apple juice, concentrated	118 930	263 579	108 966	201 104
Sugar Confectionery	108 695	239 265	53 213	53 031
Pastry	75 838	703 103	43 843	215 392
Food Prep Nes***	75 429	886 613	43 371	265 785
Sugar Refined	54 963	204 787	172 252	313 646
Vegetable Frozen	54 655	264 894	103 406	349 268
Pig meat	50 548	345 093	36 037	157 431
Cheese of Whole Cow Milk	46 750	479 393	18 795	116 269
Cigarettes	30 790	1 225 705	5 801	88 101
Cattle meat	7 813	596 755	5 801	168 674
Chicken meat	34 823	478 357	10 482	217 944
Mushrooms and truffles	32 601	343 851	8 483	161 111
Turkey meat	2 168	290 619	575	80 969
Meat-Cattle Boneless (Beef & Veal)	10 249	268 344	2 270	63 015

\*Fruit, nuts and peel, including frozen, prepared or preserved, jam, paste, marmalade, pure and cooked fruits, other than those listed separately.

\*\*Includes sweetened cocoa powder, chocolate and other food preparations containing cocoa, as well as sugar confectionery containing cocoa in any amount. Excludes white chocolate.

\*\*\*Including both crop and livestock products. Inter alia: homogenized composite food preparations; soups and broths; ketchup and other sauces; mixed condiments and seasonings; vinegar and substitutes; yeast and baking powders; stuffed pasta, whether or not cooked; couscous; and protein concentrates. Including turtle eggs and birds' nests.

Source: Author's own compilation based on the data from the FAOSTAT.

The growth of agri-food exports was possible thanks to Polish entrepreneurs being well-prepared to accession, and to the restructuring of enterprises and adjustment of production to EU requirements. The strong competitive position of Polish food industry in foreign markets is evidenced by the share of food industry products in agri-food exports, which amounts to 80-85% (one of the highest values in the EU)(Szczepaniak 2011). However, in the light of the ever greater liberalisation of global trade and the growing importance of developing countries such as Brazil and China in the international arena, the position of Poland as well as that of the entire European Union both in agri-food trade and in food production may diminish.

### Conclusions

Upon Poland's entry to the EU, the transformation process in Polish agriculture and food industry became strongly dependent on the Common Agricultural Policy. Towards the end of the last century, CAP orientation shifted markedly – from a policy meant to support agricultural production towards a policy which supports the growth of competitiveness of European agriculture and the multi-faceted development of rural areas. Accession to the EU

and inclusion of Polish agriculture in CAP instruments have contributed to making the changes in both agriculture and the entire food industry more dynamic. Those changes followed for the most part from the strategy pursued towards agriculture and food industry, and supported by EU funds.

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