

## **EFFECT OF SUBSIDIZING EXPORT OF AGRO-FOOD PRODUCTS AFTER THE ACCESSION OF POLAND TO THE EUROPEAN UNION**

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### **Abstract**

*Together with the accession of Poland to the European Union, the conditions of commodity exchange with the abroad have been considerably changed. Trade of Poland with the European Member State has been covered with the regulations of the Common European Market. Pursuant to the Accession Treaty, Poland has adopted *acquis communautaire* of the Community concerning trade policy, including all instruments and rules of common commercial policy, including external customs tariff and out-tariff measures as well as system of agreements with the commercial partners outside the European Union. Accession to the European Union meant the extension of greater protective barriers over Poland in the field of import of agricultural products from third countries and the possibility of taking an advantage of export subsidies to agro-food products exported to third countries on equal rights as other European Union entrepreneurs.*

**Key words:** Agriculture, Common Agricultural Policy, foreign trade, export subsidies

### **INTRODUCTION**

The agri-food products have always held an important position in Polish foreign trade structure. Agri-food trade plays a vital role in development of Polish agriculture and the whole economy. Suitably developed and export-oriented production is one of the sources of import financing, and gives a chance of gaining the high possible advantages of dealing on the world market. As far as surplus production is concerned, export contributes to capacity utilization more efficiently, as well as causes a growth of employment and investments. Import's role is to supply goods, which are not produced in Poland or enrich the market offer. Competing with domestic production, import can give incentives to simplification and modernization of production, quality improvement and production cost saving.

Together with world trade liberalization process, becoming Polish agro-food sector more and more open, and Poland's accession to the European Union, some dynamic changes in Polish agro-food trade were observed. They resulted from existing trade rules, as well as internal and external macroeconomic

conditions. Hence, the aim of the paper is to assess main trends and changes in commodity structure of Polish agro-food trade.

### **MATERIAL AND METHOD**

At the basis of this scientific paper served the informations from the Ministry of Agriculture and Rural Development from Warsaw, Agricultural Market Agency from Warsaw, Agency for Restructuring and Modernisations of Agriculture from Warsaw, Agricultural Property Agency, and data about investments from the Statistics National Bureau of Republic of Moldova, Ministry of Economy of Moldavian Republic, different groups of national and international experts and also our own researches in this domain, were applied the following methods: selective, comparison and tabular methods.

### **RESULTS AND DISCUSSIONS**

Polish agriculture is characterized by significant dispersion, as an average size of agricultural holdings is about 10,15 ha of agricultural land, and more than half of the holdings produce only or mainly for their own

use, thus reducing their expenses on the purchase of food as well as other family expenses. Such agricultural holdings of a relatively small area employ traditional production methods, consisting in limited use of mineral fertilizers and chemical plant protection products, as well as of industrial feed in feeding farm animals, especially cattle.

Despite these phenomena and the prevalence of soils with low usefulness for agriculture, Poland is an important European and global producer of agricultural and horticultural products, as well as products of animal origin.

Presenting a special interest in studying the experience of Poland for the state regulation viewing the problem of subsidies and the guarantees for the credits. Starting from the year 1994 Poland was supposed to regulate the program of "Agency for restructuring and modernization of agriculture" on regions. The level of sustaining the agriculture by the given program consists in offering the interests for the preferential credits: 10 % for the programs connected to the field of zoo-techniques for a period of 8 years; 6, 25 % - for the young farmers for a period of 15 years. Guarantees for the agricultural enterprises and for the ones of production processing in the measure of 80 % to the agricultural producers and till 70 % for the enterprises of processing the agricultural production.

Studying the mechanism of credits functioning, insurances, prices, dues and other economical factors that compose the mechanism of farming from Poland.

Structure of Polish agriculture has changed imperceptibly. Today the average number of Polish farms constitutes about 6-7 hectares. As a result of economical reforms from the last few years, there appears the trend to make the polarization of family sector of Poland – there is increasing the number of the small and big farms.

The agricultural sector is subject to governmental regulation in the developed, as well as in developing countries. Governmental regulation of agricultural markets in EU countries is directed towards the increase of living standards of rural population and the development of competition for agricultural products. The regulation of agricultural markets

for EU countries is based on the following principles: the abolition of any restrictions in trade between EU countries; the establishment of unique prices for products and agro-industrial mechanisms which contribute to their stabilization; the protection of internal market against third countries products; the farmers funding from the unique fund made from the participating countries contributions.

It is necessary to mention, that prices are one of the most important instruments of the economical mechanism of regulation for EU producers. Towards its price policy EU increased the level of food security and its own insurance with the main categories of agricultural products, to the reduction of imports, to the increase of exports and as a result to the improvement of its balance of payments.

The regulation of agricultural production and agricultural markets mainly suppose the establishment of a price interval according to the main types of agricultural products, prices at a higher level for producers and in the same time affordable for consumers. In this way is allowed prices variation, but only in the established levels without leading to negative consequences. In the same way for supporting the activity of agricultural farms are necessary large subsidies. The creation of such an interval needed the introduction of prices supporting system in the EU countries.

Poland also holds a leading position in production of berries (strawberries, raspberries and currants) and outdoor vegetables, such as: onions, cabbage and cauliflowers.

Soil and climatic conditions, as well as regional traditions, determine production specialization. In 2008, similarly as in 2007, there was an increase in agricultural production: however, pace of growth was definitely slower than in the preceding year when very good production results were achieved. Global agricultural production rose by 3,1% till 2007, which is an outcome of increased plant production (by 6,8%) and decreased animal production (by 1,5%).

Slower GDP growth in 2008 (by 1,9% when compared to 2007), resulting from economic slowdown and a considerably better tolerance of agricultural sector to the crisis – related

factors, led to an increased share of agriculture, hunting and forestry in GDP.

Since the EU integration, a growing demand for agricultural land has been observed, resulting in an increase in land prices. The growing number of transactions in land marketing differs regionally and is conditioned mainly by: supply, different agrarian structure, economic power of agricultural holdings and diversified reasons for purchasing land. The relatively smallest turnover has been observed in southern and central Poland, where holdings are most fragmented and where the custom of passing land to growing up children still predominates. The highest increase in prices has been observed in case of the cheapest land with no value for agriculture, which indicates that the demand for land is not associated with agricultural production.

Table 1. Average prices of farmland and meadows in private trade

	Price per 1 ha	
	Years	in PLN
Arable land	2000	4786
	2005	8244
	2008	15388
Fertile (wheat and beet root)	2000	6712
	2005	11001
	2008	18747
Medium (rye and potato)	2000	4920
	2005	8603
	2008	16096
Barren	2000	2725
	2005	5843
	2008	12222
Meadows good	2000	4883
	2005	6144
	2008	12489
Meadows poor	2000	2753
	2005	4003
	2008	9275

Source: Agriculture, CSO (GUS). Warsaw, 2009

Dynamic growth of average farmland prices continued also in 2008. However, the price increase was slightly slower than in the previous year – both in the private trade and in case of Agricultural Property Stock of the State Treasury. By the end of June 2009, the Agency sold 1.877 thousand ha, i.e. 62% of the land remaining in the Stock. The supply of land from the Agricultural Property Stock of the

state Treasury is declining; factors hampering the sales include reprivatization claims, which concern approx 500 thousand ha. Currently, the Agency has 315,5 thousand ha of land at its disposal which are planned to be sold or leased; however, only 215 thousand ha (68% of the total land) is fit for agricultural production. The agency, since the beginning of its activity in this area, has conducted approx 680 thousand tenders, including 20 thousand restricted tenders. In certain cases, existing leaseholders have the right of pre-emption.

Starting prices for the tenders are established on the basis of market criteria. In sale transactions of arable land constituting the Stock, the average price per 1 ha in 2008 mounted to PLN 12,540. In the first quarter of 2009, the average transaction price was PLN 13,666 per 1 ha, (Fig. 1).

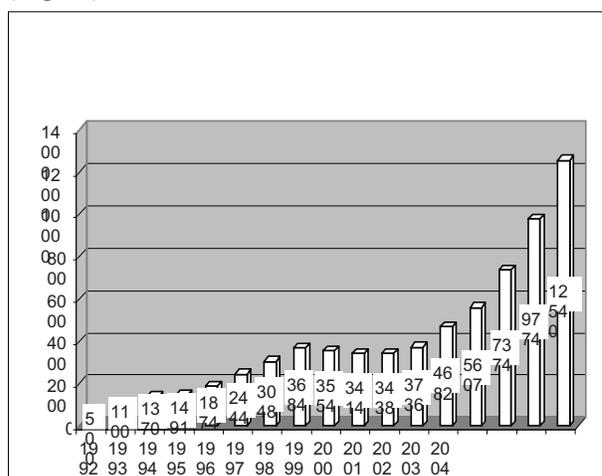


Fig. 1. Sale prices of agricultural property owned by the APA in PLN/ha

Source: APA

In 2008, the value of global agricultural production reached the level of PLN 82,96 billion and was by 3,1% higher than in 2007. The value of plant production, amounting to PLN 46,07 billion, was by 6,8% higher than previous year, while animal production, reaching the level of PLN 36,88 billion, was by 1,5% lower.

In 2008, market conditions for agricultural production deteriorated, especially in comparison with the previous year, which was particularly favourable in this regard. Agricultural economy and production in 2008

were influenced by increased cereals harvests and declining supply of slaughter pigs, which affected the prices of agricultural products in the country. Developing economic downturn on global cereals and milk markets was one of the main factors which led to the price decrease. The prices of means of production, on the other hand, were on the rise in 2008, as the prices of agricultural products rose slower than the prices of the means of agricultural production, the index of price relations (price scissors) declined from 107,7 in 2007 to 91,0 in 2008 (Fig. 2).

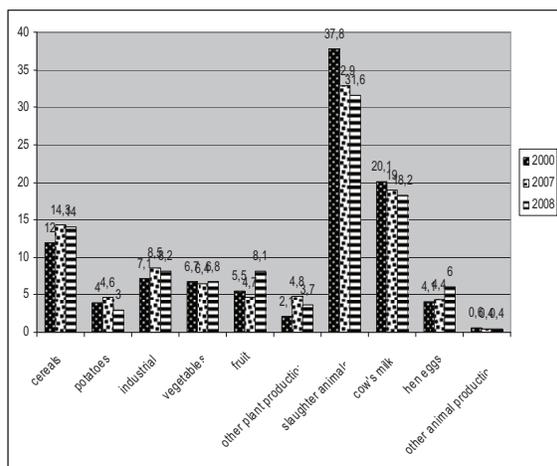


Fig. 2. Structure of commercial agricultural production in 2000 and 2007 (in % - current prices)  
Source: Agriculture, CSO (GUS). Warsaw, 2008

One of the most actual problem of the management of agricultural sector in Poland is organic farming. Organic farming is a system of farming based on balanced plant and animal production. Organic production combines best environmental practices, high degree of biological diversity and protection of natural resources with keeping high standards of animal welfare and production methods, all of which satisfy the requirements of consumers opting for products mate with the use of natural substances and natural processes.

The number of organic farms varies depending on the region. Mostg of them are located in south – east Poland, where farms are small in size and run by families.

Organic farming is the most environmentally friendly method of agricultural production, enhancing soil fertility and preserving landscape diversity. In order to enhance

biological activity and fertility of soil, crops are need to be appropriately rotated.

Recent years have witnessed a growing interest in organic food production methods all over the world, and especially in the EU. The world's area of organic farming exceeds 35 million ha, 20% of which is in the EU. Despite favourable conditions, Poland lags behind the EU average as regards organic farms and the area under organic farming.

## CONCLUSIONS

The experience of the EU countries demonstrates that in the conditions of market economy farmers' activity, the efficiency of the food economy complex, the improvement of economical and ecological sphere are subjects of governmental regulation of agricultural products.

For achieving these objectives is necessary to propose to governmental institutions responsible for regulation, development and control of agricultural sector the following actions:

- To implement the system of compensation payments and exports subsidies which demonstrated their high efficiency in protecting EU local producers and to increase exports of agro-food products;
- To undertake actions for government intervention on agricultural markets for purchasing agricultural products on guarantee prices according to the model of mechanisms implemented in EU countries.

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