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Administrative and environmental determinants of Agricultural Policy of the European Union

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SUMMARY

Development of Agricultural Policy of the European Union is a good example of historical and ideological changes that took place recently in Europe. At first largely socialist it has changed over the decades into a policy which promotes active participation. The increased spending on rural development has increased both awareness and, as a result, compliance with environmental standards.

ABSTRAKT

Administracyjne i środowiskowe uwarunkowania Polityki Rolnej Unii Europejskiej

Kształtowanie się polityki rolnej Unii Europejskiej stanowi doskonały przykład zmian historycznych oraz ideologicznych, które na przełomie lat następowały na kontynencie europejskim. W pierwszym okresie mieliśmy do czynienia z podejściem mocno socjalnym, które

to podejście zmieniało się w ciągu dekad na rzecz aktywnych postaw. Wzrost wydatków na rozwój obszarów wiejskich, spowodował wzrost świadomości, a tym samym wywołał skutek w postaci przestrzegania w większym wymiarze standardów ochrony środowiska naturalnego.

Since its implementation, the Common Agricultural Policy (CAP) has laid down a broad policy and regulatory framework for agriculture in Europe. Because this is an area of activity fully integrated at the Community level, it has replaced a large part of national legislation. The CAP has enabled the achievement of most of the objectives set out in the EC Treaty, mitigating at the same time the social impact of agricultural restructuring. However, both farmers and the administration must navigate a complex system of introduced regulations and measures, which may increase the risk of failing to meet the policy objectives, hinder the efficient use of EU funds and adversely affect the social acceptance of the CAP (A). Agriculture in the European Union is the largest user of agricultural land and the most important factor determining the quality of rural life and environmental quality. As an agricultural policy carried out by member economies of the European Union, the CAP was the first and, for many years, the only sectoral policy managed at a Community level, and its most fundamental provisions were contained in the Treaty of Rome in 1957.

The above-mentioned objectives resulted mainly from the contemporary situation in post-war Europe, the needs to secure appropriate levels of food production, as well as the transformation and modernization of the economies of European countries. The agriculture of six founding countries constituted an essential element of the economy, and in particular of the labour market.

The Common Agricultural Policy is based on two so-called pillars. The first pillar comprises intervention activities conducted in agricultural markets. The stabilization of agricultural prices and predictable income for farmers is achieved by use of individual markets within the framework of the so-called common organization of agricultural mar-

kets; and intervention such as subsidies for the storage of public stocks, export subsidies and import charges. In terms of finance, market policy is an essential part of support (over 88% of the agricultural budget in 2000-2006) under the Common Agricultural Policy.

The second pillar of the CAP comprises rural development policy of the European Union. Rural areas, which account for about 90% of the area, are an important element of economic development policy. European Union institutions, particularly the European Commission, have been emphasizing the role of rural areas for years in programming and strategic documents. The multi-functional importance of rural areas is discussed. Agriculture and rural areas, in addition to the provision of agricultural products, also generate other important services for the entire community, including but not limited to: environment protection, conservation of biodiversity and natural landscape values.

The implementation of the objectives of the Common Agricultural Policy and the use of instruments has led to widespread self-sufficiency of European agriculture and subsequently to the formation of surplus food since the seventies. The extent of its achievement of its objectives to secure adequate production levels resulted in its increased criticism. This criticism and the CAP's weaknesses resulted in a need for change.

The first attempts at reform were made in the 1960's. In 1968, the so-called Mansholt Plan was introduced, which assumed taking actions to reduce guaranteed prices and the introduction of elements of structural policy, which until then had been implemented by member states as national policies. Legislation was then adopted introducing the following structural instruments: aid for farms, compensation for farmers going on early retirement and aid for the improvement of professional qualifications. The biggest changes in the CAP took place, however, as a result of reforms carried out under the chairmanship of Agriculture Commissioner Ray MacSharry whose proposal was adopted in 1992, the main goal of which was to reduce production and costs due to oversupply and to send payments directly to producers, thereby bypassing retailers. The aim was also to correct the aid scheme. Un-

der the MacSharry reform, a fundamental change in the instruments of the CAP was made. The MacSharry reform reduced price support and, consequently, introduced direct compensation payments (called the Arable Area Payments Scheme), which were to compensate farmers for income losses due to the reduction in price support. The system of direct payments covered cereals (wheat, durum wheat, barley, oats, rye, triticale, buckwheat, millet and maize), oilseeds (rapeseed, linseed, sunflower, soybean) and protein crops (peas, beans grown for drying, snow peas, sweet lupins, broad beans). Direct payments are calculated as the product of the reference yield ratio (average grain yields achieved in the base period, excluding the highest and lowest yield, calculated for each region designated by a member state) to the actual yield and the rate of compensatory aid expressed in euro per tonne. Direct subsidies encourage producers to apply extensification of production since farmers with real yields lower than the reference yield receive relatively higher subsidies than farmers, who achieve higher ones.

The changes, the scope of which was defined by the MacSharry program, implied important systemic actions, leading to changes in the role of guaranteed prices and the growing importance of subsidies from the EU budget. The document, Agenda 2000, assumed a continuation of the Program and a pursuit of what the WTO imposed, i.e. less protection of markets against competition from abroad, lower export subsidies and income support for farmers not through prices but direct payments (B). The MacSharry program became an important stage in the transformation of the CAP, which had previously been a sectoral policy, into a policy of economic and social development of rural areas. Such a thesis may be formulated on the basis of the scope of programs, the purpose of which was the extensification of agricultural production, environmental protection and development of rural areas (C). The MacSharry reform also introduced new ways of controlling supply. New instruments were used, such as a rotational system of set-aside land and the reduction of stocking density per unit area. The reform modified the organization of individual markets of agricultural prod-

ucts (by organization, a set of different agricultural policy instruments used for each group of agricultural products such as grain, oilseeds, growing crops, tobacco, beef, mutton and milk should be understood). Additional changes, including the replacement of the variable import taxes with customs duties, were introduced in 1995 as a result of EU commitments made during the Uruguay Round of multilateral agreements of the World Trade Organization known as the Agreement on Agriculture of the WTO.

In 2003, a medium-term review of the Common Agricultural Policy was performed in accordance with Agenda 2000. The results of this mid-term review led to further reform. This reform, in principle, is a continuation of the 1992 reforms and continues the goals assumed in the reform under Agenda 2000. In 2003, further changes in the organization of the common agricultural market were proposed. The key element of this reform was the introduction of single farm payments decoupled from production, which, as connected with the manufacturer rather than with production, was to encourage farmers to be more market-oriented and to focus on the advantages of the market rather than dependence on policy instruments. A desire to simplify the administrative system of direct payments was also significant. Furthermore, with regard to direct payments, a principle of linking the single farm payment to the necessity to meet certain requirements (standards) at the farm level was introduced, called the principle of interdependence (cross-compliance).

Under cross-compliance, the farmer receiving direct payments is required to meet certain requirements regarding environmental protection, public health, health and safety, animal health and welfare as well as their registration and identification. In Poland, the cross-compliance requirements came into effect from 2009, both for direct payments, as well as selected instruments of Rural Development Programme (agro-environment payments and LFA).

As a result of multiple changes in the CAP, which often are compromises between the conflicting interests of member economies, this

policy became an extremely complicated set of rules and instruments, difficult to understand by farmers and costly to implement.

The new Regulation on the financing of the CAP maintains and stresses the importance of the basic principles introduced by the CAP reform of 2003:

- the modulation principle;
- the principle of financial discipline.

The principle of financial discipline involves an early warning system. This system is to rely on constant monitoring of the EAGF expenditure.

The design of the first and second pillar funding schemes, as a result of the 2005 changes, was very similar and in some respects uniform. The differences that were maintained between the two funds resulted from the fact that the EAFRD would have the so-called “separated” means (differentiated appropriations), which means that two different amounts for a given year would be determined: commitment appropriations and payment appropriations. On the other hand, EAGF funding would take the form of non-differentiated appropriations. Therefore, the expenses of the EAFRD would be subject to the rule currently in force within the Structural Funds, i.e. n +2 rule.

The institutional system for the payment function would be identical for the activities funded by the EAGF and rural development activities. It would be based on the accredited paying agency, the certification body and the accredited coordinating unit (in the case of accreditation of more than one paying agency). The unification of the institutional system for the payment functions within the EAGF and the EAFRD means that the payments for rural development measures must also be implemented by an accredited paying agency.

Since 2007, the development of rural areas has not fallen under the scope of structural policy and therefore the new regulation on rural development regulates that, which had been subject to the general Regulation on Structural Funds during the period 2000-2006. The Commission, following the adoption of a rural development program would

make the advance payment to the paying agency. This payment is to be 7% of EAFRD support allocated to the program, i.e. as much as it amounted to for all programs funded by the Structural Funds in the period 2000-2006.

A new solution is the statement of assurance signed by the person in charge of the agency. According to the Commission, the need to provide such an assurance by the head of the paying agency stems from the Commission's responsibility for the implementation of the EU budget. The Head of the Directorate General for Agriculture of the European Commission, responsible for the "agricultural" part of the budget, established certain procedures to ensure proper implementation of the budget in member economies. However, these procedures are based on years of process control, which also concerns the issue of settling accounts. This met with harsh criticism from the European Court of Auditors. Therefore, an idea was formed of introducing additional assurance of the system's proper functioning in a member economy. A statement of assurance from the person in charge of the paying agency should certify the proper functioning of management and control systems. This solution means that it is the management of the paying agency, which is responsible for disbursement in the first instance.

Another safety measure besides the statement of assurance signed by the person in charge of the paying agency would be certification performed by a certifying body. As a result, an independent analysis is carried out by the paying agency of the operation. The interests of the Community are also safeguarded by a provision stipulating the compliance of the paying agency's expenditure with Community rules (conformity clearance). In the case of expenditure that violates the principle of the Community, the Commission has the right to decide what amount can be excluded from support, which refers both to the EAGF and the EAFRD.

The European Union is one of the major players in the global agricultural market. It is the world's second largest importer of agricultural-and-food products Since the beginning of the establishment of

the CAP, it has been the subject of international criticism, particularly from the United States. This criticism has mainly focused on the use of CAP mechanisms for the protection of domestic markets and using protective barriers to imports from non EU countries. When analyzing the CAP in an international context, i.e. outside the confines of the European Union, particular attention should be paid to the role it plays in the forum of WTO member countries.

Thus, there are at least a few reasons for the reform of the CAP. An important reason is the growing internal criticism of the policy both by farmers, who criticize its inefficiency, and consumers, who criticize inadequate food safety (the emergence of BSE, dioxin contamination of feeds, etc.). Another dissatisfied group are taxpayers, who have come to realize that the high cost of the CAP (approximately 40% of the EU contribution) is transferred to a small group of policy's – farmers who make up only a small percentage of the population. The key elements of the new, reformed CAP include a mechanism for financial discipline, comprised of the reduction of direct payments when the set expenditure limit for the CAP is exceeded and in an increase of the role (scope and level of support) of rural development (D).

In the policy of the European Union, a clear trend to move away from narrowly understood agricultural policies can be seen, especially those supporting prices and income in agriculture, in favour of a policy of integrated rural development. By means of the decision on the reform of the CAP in 2003 and on the Financial Perspectives 2007-2013, the EU determined the future long-term course for the growth of agriculture in Europe, which was to be economically and socially sustainable, environmentally friendly and market-oriented. Most of the problems of the agricultural population cannot be solved only through the instruments of agricultural policy, on the other hand, the multi-functionality of agriculture, including the provision of public goods to society associated with the cultural and natural landscape of rural areas, should be appreciated and rewarded (E). In discussions on the shape of EU policies, a clear desire to hasten the implementation of the Lisbon Strategy

was indicated. As a consequence, issues related to innovation and new technologies may gain greater importance.

Poland's aim in the negotiations on the new financial perspective for 2007-2013 was to ensure an appropriate amount of resources, which would allow the use of instruments as soon as possible to eliminate the development gap between Poland and the so-called "old" member economies. Therefore, proper consideration of the specificity of new EU members was sought, especially of Poland's unique situation (i.e. having the highest proportion of rural population and the highest level of unemployment). That concerned, in particular, ensuring an appropriate amount of cohesive policy resources. In the context of the negotiations, it should be noted that the essential shape of expenditure under the CAP was established at the European Council summit in Brussels in 2002 (a spending freeze for the first pillar of the CAP until 2013 at the 2002 level). Poland accepted the arrangements of this summit, while stressing that the reform of the CAP must be interpreted in a way that does not discriminate against the new EU members. In the areas and in the scope of the mechanisms which were not covered by the transitional periods in the Accession Treaty, new EU members should be treated in accordance with the principles of the EU treaties, and so on an equal footing with current members. At the same time, during the negotiations, Poland sought to avoid cuts in spending on agricultural policy, including rural development. Poland's position was based on the assumption that a further reduction in the Community's agricultural budget below what was agreed in the so-called limit of Brussels, could lead to increased pressure on the application of national support instruments. Different levels of support depending on the financial capabilities of individual EU economies would lead to significant distortions of competition in the Single Market, much to Poland's detriment.

Poland advocated increased spending on rural development and the concept of establishing a single fund for rural development (European Agricultural Fund for Rural Development) proposed by the European Commission. The role of the second pillar of the CAP increased par-

ticularly in the context of the restructuring needs of the new EU members. Poland followed the premise that the CAP may have a positive impact on the modernization of Polish agriculture. It was proposed that, despite the creation of a single fund for rural development, the existing criteria for the allocation of resources among countries be preserved, because they were beneficial for Poland and other “new” members. Poland expected that the expansion of the second pillar of the CAP would take into account the specificities of rural areas of the new EU members, including, but not limited to, ensuring flexibility in national programming. Realizing that the lack of flexibility regarding the reduction of the first pillar of the CAP would lead to concentration of all the cuts in rural development, it was decided to agree to a small reduction in the first pillar’s spending, namely the inclusion of expenditure for Bulgaria and Romania to the Brussels ceiling, so as to reduce cuts in the second pillar of the CAP.

During the preparation of Council Regulation (EC) No. 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) at the Council Working Group, at the meetings of the Agricultural Standing Committee and the EU Council of Ministers, Poland emphasized the key challenges facing the EU after its enlargement, which was the principal argument for taking action in the area of cohesion policy, also in relation to rural areas. For Poland, it was a matter of great importance, particularly given the urgent need for investment in the agricultural sector and the processing industry.

Poland supports the current directions of the CAP reform, with a view that changes in the CAP should ensure the competitiveness of European agriculture, both at the national, Community and worldwide levels, as well as contribute to its sustainability. Poland opposes lower spending on agriculture and rural development from the Community budget and the renationalisation of the Community financing of the CAP and Rural Development Policy. Such actions would have a negative impact on competition in the single market and on the implementation of the objectives of structural policies. This is due to disparities in

the opportunities of support for the agricultural sector and rural development in national budgets and the importance of funds received from the Community budget for the modernization of agriculture and rural structural change in individual member states.

Financing the development of agriculture and rural areas lies in the genuine interest of Polish socio-economic policy. Thanks to the mechanisms of the CAP, Poland is able to modernize its farms and reduce the civilisation gap between the Polish and Western European rural areas. Not until 1990 did Poland, under market conditions, begin to transform its agriculture and food economy, and thus it is difficult to create comparable conditions of competition for food producers without substantial financial transfers. In addition, the CAP, by way of evolution, also supports non-agricultural economic activities of the rural population, thus contributing to the growth of social income and improving living conditions. The development of technical and social infrastructure financed through European budgetary sources is also a factor in the progress of civilization and enables multifunctional development of farms and local governments.

The years 2007-2013 are a period of financial perspective in the European Union. For the members this has meant the necessity to prepare program documents as the basis for the disbursement of financial means within the EU funds. This also applies to rural development policy, which, though not part of cohesion policy, is an extremely important element of European Union's policy formed through, amongst other things, financial support for specific mechanisms.

In accordance with the assumptions of the rural reform of 2007, support for rural development will be financed through a new fund - the European Agricultural Fund for Rural Development (EAFRD), established by Council Regulation No. 1290/2005 on the financing of the CAP.

The principles of policy support for rural development are set out in Council Regulation (EC) 1698/2005 of 20 September 2005 on support for rural development by European Agricultural Fund for Rural Development.

Following the establishment of the EAFRD, there was a merger of the existing financial instruments for rural development, currently implemented in two programs - the Rural Development Plan (RDP) and the Sectoral Operational Programme Agriculture SOP, into one coherent program. At the same time, the previous LEADER + Community Initiative, which required separate programming documents, was incorporated into rural development programs. In addition, rural development policy was separated from cohesion policy.

According to EU legislation, the activities undertaken within regional policy are intended to “promote the harmonious development of the Community” and “to strengthen its economic and social cohesion.” However, the primary burden of implementing the identified tasks rests with member economies, while the EU supports only national actions (F). The Lisbon Treaty adds a territorial element to the aforementioned strengthening of the cohesion in Article 158 TEC. Thus, based on accepted legal norms, measures have been correlated to lead to more active participation by the EU members in implementing the Community standards. The treaty legislation provides for it, and the legal norms contained in secondary legislation, referred to further in this paper, clarify the rights and obligations contained therein. Within the framework of specified powers, EU members may, at a certain level and under specified conditions, create their own national policies associated with the development of the country, including rural areas.

The adoption of the CAP in Poland was associated primarily with the implementation of relevant legislation and carrying out many changes at the institutional level. The implementation of the CAP in Poland began during the pre-accession period. During this period, Poland introduced legislation to implement the CAP instruments within the Polish legislature and was connected to the adjustment of the agricultural sector in accordance with the requirements and standards of the Community, or the introduction of similar solutions, most of which had functioned in the transition period until accession and were associated with preparation for the application of the CAP. Since Poland's

accession to the European Union, the adoption of legal provisions indicating the CAP took place in accordance with the principles governing the implementation of these provisions by all member economies. At the same time, it was an essential element of the implementation of the CAP to prepare its future beneficiaries for operating under new conditions and for using opportunities which stood open before them due to these conditions, both as concerns functioning on the Community market and the use of aid instruments under the CAP.

The most costly component of the adjustments for farmers and enterprises of the agricultural-and-food sector lay in meeting EU standards. Failure to adapt to EU standards could lead to a reduction in the number of food outlets in the single market or having to cease production all together.

At the farm level, it was necessary to adapt the technical conditions of agricultural production, especially in the area of animal production and, in particular, suitable living conditions for different groups of animals by providing lighting, ventilation and proper temperatures, providing sewerage equipment leading to adequate and tightly sealed tanks. A farm's compliance with minimum requirements for hygiene and sanitary conditions, as well as environmental and animal welfare, was a legal requirement after accession, and at the same time it conditioned the possibility of obtaining investment aid for the further development of the farm.

The primary indicator of the adaptation of a processing plant to EU hygiene requirements was the implementation of an internal control system based on HACCP (Hazard Analysis and Critical Control Points). Smaller plants were obliged to introduce the so-called Codes of Good Manufacturing Practice, and of Good Hygiene Practice.

In the pre-accession period, Poland alongside the other nine candidate countries became a beneficiary of the pre-accession programs. The European Union, recognizing the adjustment of the candidate countries to the *acquis communautaire* in the area of agriculture and rural development as being of particular importance and requiring much in-

stitutional and financial effort, prepared within Agenda 2000 proposals for support in this regard under the SAPARD Programme. The scope of areas and issues covered by the program, the manner of preparing an operational programme, the timeframe and the principles of monitoring and evaluation of the SAPARD Programme were specified in Council Regulation (EC) No. 1268/1999 (G). It was also determined that the implementation of the SAPARD Programme was to take into account the commitments made in the national curricula for the implementation of the *acquis communautaire*, as well as the assumption of basic principles of EU policies in the areas such as public procurement, state aid, environmental protection and the objectives of the CAP. Regulation 1268/1999 presented a list of 15 possible measures, which could be financed through the SAPARD Programme. The Community support under SAPARD program would be implemented based on multi-year programs prepared in accordance with the guidelines and principles of operational programs used in the framework of structural policy.

The SAPARD Operational Programme for Poland was prepared by the Ministry of Agriculture and Rural Development. All measures of the SAPARD Programme referred to the obligations under the NPAA which set out the priorities for adapting Polish agriculture and rural development in terms of the establishment and implementation of a coherent structural policy for rural development and agriculture, the harmonization of laws and structures of veterinary and phytosanitary administration, the modernization of the dairy, meat, fruit and vegetable processing sectors, organic farming and the preparation of the institutions to implement the CAP. The Coherent Structural Policy for Agriculture and Rural Development, adopted by the Council of Ministers in July 1999, defined the objectives of national policy towards agriculture and rural areas for the years 2000-2010, formulated on the basis of identified problems of the agricultural sector and rural areas, and taking into consideration the intensity of the adjustment measures before the declared readiness for Polish accession to the European Union.

The inclusion of the Polish market of agricultural food products in the single market and covering Polish agriculture with instruments and mechanisms of the Common Agricultural Policy both in the regulation of markets and production of the second pillar (i.e. rural development) was the subject of the accession negotiations. The negotiations lasted 2.5 years and were concluded on 13 December 2002. The area *Agriculture*, which also included the veterinary and phytosanitary issues, was the most difficult and most extensive area of negotiations. The most important issues negotiated in Brussels included the issues of production limits, which determine the possibilities of development of farms and of the whole sector, as well as the issues of financial conditions.

As a result of the accession agreement, Polish farmers have become beneficiaries of the organization of agricultural markets, including export subsidies, intervention purchases, structural policy and rural development and direct payments. In addition, Poland has maintained most of the instruments financed before accession from national funds, and mainly those instruments were withdrawn, which were to be funded from the Rural Development Plan. Since Polish accession to the European Union (i.e. since 1 May 2004) the Community budget has become the main source of financing support for agriculture. Meanwhile, direct payments and assistance instruments to support the restructuring of agriculture and rural development have become the most important instruments in terms of the scope of aid under two operational programs: the Development Plan funded from the Rural Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Sectoral Operational Programme “Restructuring and Modernisation of Food Sector and Rural Development” financed by the EAGGF Guidance Section, and forming part of the Structural Funds implemented in Poland.

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