

THE DOMESTIC SUPPORT FOR THE POLISH AGRICULTURE IN EU MEMBERSHIP CONDITIONS

Doctor hab. Alina Danilowska
Associate Professor, Warsaw University of Life Sciences, Poland

The aim of the paper is to evaluate the forms, scope and role of the domestic support for the agriculture in conditions of functioning of CAP system. The Poland's accession to the European Union has offered for the Polish agriculture the access to the vast range of measures of the support provided under Common Agricultural Policy. But, the system of domestic support which existed before accession remain in nearly unchanged form. Preferential credit is the main tool of the domestic support. It is popular among the farmers although the decrease in the number of taken credits has been observed since 2008. The popularity of the preferential credits stems from their vast range of the aims they can finance.

Preferential credit, Common Agricultural Policy, support for investment

Introduction. The Poland's accession to the European Union has offered for the Polish agriculture the access to the vast measures of the support provided under Common Agricultural Policy (CAP). Although, the CAP is the one of the key policies of EU with very different tools and large budget, there is still a space for the domestic support for this sector of economy. In Poland till accession to the European Union, the system of the financial support for the agriculture existed. The preferential credits were the core element of it.

The aim of the paper is to evaluate the forms, scope and role of the domestic support for the agriculture in conditions of functioning of CAP system.

The examination focus on some problems like: (i) what is the forms and aims of domestic support in comparison with CAP measures, (ii) what are the

terms of the support, (iii)) what is performance of the domestic support in EU membership conditions.

Materials and methods:

The examined period covers years from 2004 to 2011

The data to the analyses is taken mainly from the state agency - Agency for Restructuring and Modernization of Agriculture (ARMA) and the Central Statistical Office.

In the analyses some methods are used of which the descriptive and comparative methods are the main. They are supported by statistical method.

The characteristics of the Polish agriculture as a subject of the agricultural policy. The agricultural sector in Poland consists from the 1 5580 thousands of private farms exciding 1 ha of average size 10,0 ha in 2010 [7]. Only about 50% of farms are those which due to their activity on the market of agricultural product could be considered as commercial. Other farms are of subsistence or semi subsistence character. Beside the farmers running by individuals, the farms running by entities of the other legal forms conducted the activity. In 2011 number of agricultural producers entered into the register of producers was estimated at 12756 [8]. Although the share of the farms (individual and others) bigger than 50 ha in farm structure was low – 1,6% , in 2011 they owned about 28,7% of agricultural land [8]. The sector's share in economy employment is estimated at 16,7 % [7]. It does not consistent with the share of agriculture in creating GDP which was estimated at 3,5% in 2011 [7]. The data illustrates that the efficiency of the agricultural sector is rather low. It stems from complex reasons: technological, educational and structural. They can be treated as barriers of the improvement of the efficiency and technological progress as well as the competitiveness. The low efficiency and small area of a typical farm are the important reasons of the low agricultural income.

There are some reasons of the support for agriculture. Ackrill (2000) enumerates: short term variability of farm income, the fall of farm income relatively to income in other sectors in economy in long term, concern for balance of payments or problems in adaptation of new technologies. At the present time, the securing the provision of public good by agriculture like agricultural landscapes, farmland biodiversity, water quality carbon storage air quality, resilience to flooding and biodiversity, maintenances of rural landscape, is considered as an important reason for intervention [3, 5, 6].

Forms and aims of domestic support for agriculture in comparison with CAP measures. After introduction of the market economy till accession to the EU, the agriculture in Poland was supported mainly in the form of preferential credits. The system of maintaining such credits was established in 1993. It involves banks, special state agency - Agency for Restructuring and Modernisation of Agriculture (ARiMA) and the Advisory Centres for Agriculture. The State Agency was responsible for the running the system. Banks allowed credits from their own resources on their own risk, and the adviser centres were responsible for the evaluation (financial and formal) of the investment projects. The support has taken the form of subsidies to the interest on credits granted to the farmers. Banks allowed preferential credits in the frame-

work of so called credit lines. The table 1 illustrates the terms on the most popular credit lines.

1. The terms of preferential credits from the most popular credit lines in 2003 (31 December)

The credit line	Interest rate paid by farmer	Grace period (years)	Farmer's contribution in the financing of the investment (%)	Maturity (years)
Basic investment credits	1/2 of bank interest rate, min 3%	2	20-30	8
Credits for land purchasing	1/4 of central bank discount rate, min 1.2%	2	20-30	15
Credits to young farmers	1/4 of central bank discount rate, min. 1.2%	2	20-30	15
Credits for working capital	0,35 of the central bank discount rate, min 2%	-	-	1 – 2

Source: [4]

The terms of preferential credits were advantageous for farmers in comparison with terms on commercial credits especial in the case of interest rate. But it varied between lines. For example in the case of basic investment credit, the farmer paid only 25% of central bank discount rate while, in the case of basic investment credit, half of interest rate established by bank.

In the years 1994-2003 (till Poland's accession to EU) banks granted nearly 290 thousands of investment preferential credits of value in nominal terms estimated at 16,4 billions of the Polish zlotych². Moreover, farmers were offered preferential credit for current means of production. Every year, 300-400 thousands of farmers took this kind of credit.

For first three years of the membership in EU till July of 30, 2007, the system of preferential investment credits operated on unchanged rules on the ground of the so-called "existing aid" whereas, the credits for working capital were granted only to the end of 2004.

After this period, the system had to be adjusted to the guidelines of Community concerning state support for forest and agricultural sectors in 2007-2013. The introduction of the ratio of intensity of support (the maximal level of subsidies per agent) was introduced as important novelty. The regulation set up the limit of maximal value of credit subsidies at 40-75% of credit value, for example in the case of credit line "young farmer" - 50%. The number of credit lines was decreased to 7 but the most popular lines have been continued. However, in the following years the number of credit lines increased and was amounted at 12 in 2011. What's more, in 2010 the new kind of preferential credit was introduced - credit with the partly repayment of borrowed capital.

² about 5 billions of USD dollars but this estimation is not precise because of the immense changes in exchange rate of the Polish currency.

Since May of 2007, the domestic aid for farmers and agricultural product processors has taken form of:

- subsidies to interest on investment loans and natural disaster loans provided by the banks that have concluded specific agreements with the Agency;
- guarantees and surety for repayment of the investment loans, “natural disaster loans” and students loans;
- partial repayment of the borrowed capital³.

The list of the aims of the state support includes:

- investment in farms and food processing;
- restoration of the agricultural production in the farms which suffered due to natural disasters;
- education of inhabitants at of rural areas at higher schools;
- collection and liquidation of carcass.

Investment encompass vast range undertakings like construction of buildings, purchasing of machinery, equipment, means of transport, agricultural land, establishment of new farm, undertakings of producer groups. The investors are offered preferential credits granted by banks, or credit guaranties offered by ARMR.

Agricultural production is tightly connected with the nature and is especially sensitive for the occurrences of the natural negative phenomena. Every year, some thousands of farms suffer due to different kind of natural disasters of which the flood and drought are the most common phenomenon. In the case of natural disaster, affected farms are eligible to preferential credits for working and investment capital and to guaranties granted by ARMR

The young people living in rural areas face different barriers to the higher education. The financial barrier is one of the most important of them. Polish students are offered preferential student credits but banks granting such credits require the collateral. To overcome this barrier, students from rural areas can get the guaranty of the repayment by ARMA.

The liquidation of death animals is very expensive and ARMA is responsible for the help to farms in this area.

The terms of the most popular credit lines in 2011 are presented in table 2

After the EU accession, the terms of the preferential credits remained advantageous for farmers. The interest rate paid by farmers were generally lower than inflation rate in economy or price indices of investment goods and service purchased by farmers. In 2011 they were amounted at 103,1⁴ and 103,4 respectively. The grace period is very useful in the case of investment credits and the level of support intensity was quite high especially in the context of the rather low bank interest rate.

³ Regulation of the Council of Ministers of 22 January 2009 concerning the detailed scope and directions of ARMA's activities and the methods of their execution (Journal of Laws No. 22, item 121)

⁴ inflation rate estimated as price indices of gross domestic product

2. The terms on preferential credits from the most popular credit lines in 2011 (31 December)

Credit line	Interest rate paid by farmer	Grace period (years)	Credit's maximal contribution in the financing of the investment	Maturity (years)	ratio of support intensity
Basic investment credits ¹	1/2 of bank interest rate ² , min 2% (in 2011 – 3,80%)	2	80% , no more than 4 000 000 PLN	8	40%, or 50% for farms located in mountains or less favoured areas
Credits for land purchasing	1/4 of bank interest rate ² , min 2% (in 2011 – 2,00%)	2	80% , no more than 4 000 000 PLN	15	40%, or 50% for farms located in mountains or less favoured areas
Credits to young farmers	1/4 bank interest rate ² min 2% (in 2011 – 2,00%)	2	80% , no more than 4 000 000 PLN	15	50%, or 60% for farms located in mountains or less favoured areas
Credits due to natural disasters	0,1% - if farmer has insurance, 3,85% - if not	2	100% of the restoration needs or 100% of value of income decrease	4 or 5 or 8 – it depends on the aim of credit	80% or 90% for farms located in mountains or less favoured areas

¹credits for farmers

² in the case of these credit, interest rate could not cannot exceed 1.6 central bank's rediscount interest rate

Source: Annual Report on Activity of the ARMA in 2011, ARMA, Warsaw 2012.

As aforementioned, the membership in EU gave the Polish farmers access to the support under the Common Agricultural Policy. The terms and aims of the support are established for the 7-years periods called financial perspectives. Poland enter EU during the continuation of financial perspective 2000-2006, so the program of the support was prepared for the period 2004-2006. It took the form of Rural Development Programme for 2004-2006 (PROW 2004-2006) and Sectoral Operational Programme (SOP). Farmers get access to the same measures like in "old" 15 EU countries and measures designed for new members. The measures were aimed at very different effects. Only some measures like support to semi-subsistence farms, support for adjustment of agricultural holdings to the EU standards, investment in agricultural holdings, setting up of young farmers supported farm modernisation directly. The support had a form of subsidies to investment expenditures. In financial perspective 2007-2013 the system of CAP was reformed and the support for the agriculture is granted under the Rural Development Programme for 2007-2013 (PROW 2007-2013). It offers 21 measures under four axes but as in former financial perspective, the direct support for the investment has been offered generally under measures: "setting up young farmers" and "modernization of farms". The scope of the aims of investment that can be subsidised under these measures has been rather vast. The subsidy in the measure "setting up

young farmers” equals 75 000 PLN (about 25 000 USD) whereas in measure “the modernization of farms” can cover 40-75% of the value of investment⁵.

Performance of the domestic support in EU membership conditions.

In years 2004-2011, more than 123 thousands of preferential credits were granted in the frame of the three of the most popular preferential credit lines.

It is remarkable that during the first three years of the EU membership the number of the credits was several times higher than in the following years. It can stem partly from the possibility of getting the support in the form of subsidy to investment undertaken by farmers under some CAP measures, however, farmers had already such possibility in the former financial perspective. Farmers were especially interested in the credit line for young farmers. The terms on these line regarding the scope of credit aims and repayment, were the most advantageous. In effect, the share of credits granted under this line was amounted at 44% of credits under aforementioned the most popular lines. The number of the agreement made with farmers in the frame of measures: “setting up young farmers” and “modernization of farms” in years 2004-2011 (during the financial perspectives: 2004-2006 and 2007-2013) was amounted at 105488. So the number of beneficiaries of these measures was lower than number of main preferential credits⁶.

3. Number and value of preferential investment credits by credit lines in 2004-2011

Year	Basic investment ¹		Young Farmers		Purchase of land	
	Number	Value (mln PLN)	Number	Value (mln PLN)	Number	Value (mln PLN)
2004	4 670	267.0	7 659	883.4	6 077	254.4
2005	4 535	277.6	8 365	1 064.8	6 267	332.5
2006	5 102	413.5	9 933	1 421.2	6 377	460.1
2007	3 305	422.8	10 616	1 625.8	5 227	497.5
2008	1 150	146.5	6 223	1 078.0	4 719	524.1
2009	936	120.9	3 082	631.4	5 564	706.2
2010	1 210	168.1	3 761	882.8	5 792	802.5
2011	1 108	158.3	4 862	1 164.9	6 562	1030.0
Total	22 016	1 974.7	54 501	8 752.3	46 585	4 607.3

¹ granted only to farmers

Source: Own calculation based on Annual Report on Activity of the ARMA in 2004-2011, ARMA, Warsaw 2005-2012.

The preferential credits can be treated as an alternative to the CAP measures way of financial support for the investment in agriculture. They can be used in cases of investments which cannot be supported under the measures offered by PROW, due to aims and subject of investment or characteristics of the applicant. The purchases of the agricultural land is example of

⁵ The level of the support depend on the age of the applicant and the classification of the localization of the farm. The farmers under 40 years old and farms located on less favoured areas are preferred.

⁶ The number of borrowers is lower because one farmer can take some preferential credits.

such investment. The annual number of credits from the line ‘purchase of land’ was stable during the examined period and was at the level before the accession.

Conclusions. In conditions of the Poland’s membership in EU, the domestic support for the agriculture plays very important role in modernization and restructuring this sector of the economy. In examined period, the credit line for young farmers played the most important role among others line. The system of preferential credits works parallelly to the measures of CAP. Introduction of the support under CAP did not eliminate the interest of farmers in preferential credits, although the decrease in the number of granted credit was observed in the second part of the examined period. The main tool of the domestic support is different to support under the CAP because the subsidies are connected to the repayable instrument – credit, whereas, the repayment of the investment expenditures is the main tool of CAP. The using of the credit (still the preferential credit) to the financing investment forces investors to the very careful assessment of the profitability of the investment. In the case of subsidies in the form of repayment of the part of the expenditure, the problem of the profitability and efficiency is not crucial and the risk of investment occurs in the form of rejection of the subsidy because of the improper fulfilment of the requirements connected to the applied measure. It can be said that support in form offered by CAP is more advantageous for framers, however the scope of it is not so board as scope of the preferential credits

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