

## **DIRECT PAYMENTS IN POLAND IN THE CONTEXT OF COMMON AGRICULTURAL POLICY REFORM**

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**Abstract.** The paper presents rules of calculation and administrative service of direct payments in Poland after the accession to European Union. There is a description of payments campaign in the period of 2004–2006 together with Polish model characteristic considering big number of the farmers and changing forms of farms support. There is a presentation of legal foundation of current payments system and their realisation through the Agency of Restructuring and Modernisation of Agriculture (Polish paying agency). Moreover one can find the level of individual quota of payments different for various crops and plants. Then it is a proposed reform of payments calculation presented connected with introduction of Single Payment Scheme (SPS) detached from the production gradually implemented in all member countries of EU. The conclusion of the paper comprise possible directions of Common Agricultural Policy evaluation influencing the level and structure of direct payments.

**Key words:** Common Agricultural Policy, direct payments, evolution, support system

### **INTRODUCTION**

Common Agricultural Policy is the only one such sophisticated European Union set of policy measures towards selected economy sector. Agriculture as the specific branch of economy became a subject of strong state intervention in the membership countries from 1962. Up till now the farms have been modernised, scale of the production has been increased and the number of employees in direct farming has been decreased. Nowadays the productivity of European agriculture is much higher and economic intensity is on high level. But the costs of these transformations occurred to be very high and mechanism of agricultural product prices maintain influenced the level of inflation in the most countries.

Thus in 1992 it was a beginning of agricultural policy reform through the changes in the measures from market ones into income support. Instead of prices subsidies and

intervention activities European Commission introduced direct payments system initially connected with the agricultural output but gradually depended on the used land area. After implementation of Luxembourg reform of Common Agricultural Policy rules of decoupling, modulation and single payment for the farm are introduced in the membership countries according to the needs of globalisation processes.

Poland accepted in the Accession Treaty the Single Area Payment Scheme (SAPS) which doesn't connect payments level with the production level and enables for adjustment support to the national agricultural policy directions. From 2009 next Luxembourg rule should be implemented in Poland and all EU countries-it means cross-compliance. The main concept of this instrument is to provide the payments only to the farmers running the production according to the natural environment protection standard, fulfil the rules of animal welfare and food safety requirements. It means that current good agricultural practices will be enlarged and number of individual controls will grow up.

In this context it is important to analyse current model of payments in Poland in the view of CAP changes and considering the amount of subsidies for Polish farmers.

The base of presented researches comprises statistical data of Agency of Restructuring and Modernisation of Agriculture (ARMA) that means the paying agency in Poland for direct payments.

During research program comparison analysis was used as well as descriptive statistics and deductive concluding methods for the confirmation of the hypothesis.

## **POLISH SAPS CHARACTERISTICS**

Poland has been using (from the beginning of 2004) simplified system of direct payments according to concept of Common Agricultural Policy reform presented in the following EU regulations: Regulation of the Council No 1782/2003, Regulation of the Commission No 795/2004, Regulation of the Commission No 796/2004, Regulation of the Commission No 1973/2004.

Main principle of this system is that farmers receive the support from European Union budget to the arable land area kept in good agricultural practices regarding basic ecological requirements. There is no need of agricultural production on these fields. All the details and rules of farming activity are determined in two Polish acts:

1. Regulation of December 18/2003 about direct payments to arable land (Official Journal from 2004 pos. 40 No 6 and pos. 386 No 42).
2. Regulation of December 18/2003 about National System of Producers Register, Farms Register and Register of Payments Applications (Official Journal from 2004 No 10 pos. 76).

Last update of these acts has been issued in January 2007 (Official Journal No 35 pos. 217) and introduced the conditions of payments authorisation:

- farmer should possess individual identification number given according to the system of national producers register,
- the area of agricultural land should be minimum 1 hectare. All the implemented plots should be a comprised land of minimum 0.1 hectare as an element of the farm,
- the land should be treated according to ecological standards described by Regulation of Ministry of Agriculture and Rural Development (Official Journal No 46 pos. 306).

First applications for direct payments in Poland have been collected in April 2004. That year was the first of Poland membership in European Union and paying agency (ARMA) system has calculated 1 400 370 applications all over the country for total crop area of 13 689 141.41 ha.

The second direct payments campaign in 2005 was characterised by increase of applications to 1 483 628 which means 6% up connected with 4% of area enlargement. The biggest applications increase was observed in Podkarpackie region (10%) and the smallest one in Opolskie district (0.3%). The biggest amount of applications were collected in Mazowieckie region (15% of total amount) and the smallest amount were observed in Lubuskie district (1.5%).

The third payments campaign in 2006 (March 15 till May 15) has brought total number of farmers applications 1 468 732 which means decrease of 0.1% comparing to 2005. It was possible to apply in the period of 25 working days after the official deadline (May 15) it means until June 9, 2006. But each day of delay caused the 1% of reduction of the farmers' payments (Table 1).

Table 1. Number of collected applications for direct payments during the campaigns of 2004, 2005 and 2006

Tabela 1. Liczba złożonych wniosków o płatności bezpośrednie w kampaniach 2004, 2005 i 2006

Regions	Number of applications in 2004	Number of applications in 2005	Change 2005/2004 in %	Number of applications in 2006	Change 2006/2005 in %
Dolnośląskie	61 459	63 195	2.8	61 160	-1.6
Kujawsko-Pomorskie	69 303	70 190	1.3	69 500	-1.0
Lubelskie	173 373	186 035	7.3	185 272	-0.4
Lubuskie	20 342	21 516	5.8	21 405	-0.5
Łódzkie	127 818	134 567	5.3	133 179	-1.0
Małopolskie	131 907	142 869	8.3	140 361	-1.8
Mazowieckie	207 851	223 438	7.5	221 577	-0.8
Opolskie	30 539	30 551	0.0	29 863	-2.3
Podkarpacie	119 279	131 511	10.3	130 125	-1.1
Podlaskie	80 675	84 691	5.0	84 303	-0.5
Pomorskie	39 091	40 668	4.0	40 273	-1.0
Śląskie	52 978	56 702	7.0	55 488	-2.1
Świętokrzyskie	92 108	97 212	5.5	95 989	-1.3
Warmińsko-Mazurskie	41 864	44 093	5.3	44 122	0.1
Wielkopolskie	122 592	26 042	2.8	125 083	-0.8
Zachodniopomorskie	29 191	30 348	4.0	30 032	-1.0
Total	1 400 370	1 483 628	5.9	1 468 732	-1.0

Source: Informatics and Telecommunication Department of ARMA, Warsaw 2007.

Źródło: Departament Informatyki i Telekomunikacji ARiMR, Warszawa 2007.

Total number of presently registered producers in Poland amounts 1.857 million of farmers. The range of Polish direct payments comprises of:

- single area payment to the arable land regardless the utilised crops kept in good agricultural practices e.g., arable land, pastures, meadows, orchards, long term crops, willow crop used to cane,

- accompanying area payment to the crops selected for support especially: corns, oil plants, string plants, bean, fodder plant, tobacco, hop and potato for the processing,
- sugar payments as the compensation for sugar beet producers because of sugar market reform calculated for 1 tone of output,
- energetic plants payments implemented in 2007 as the incentive for alternative (non food) usage of the crops.

This range of the payments can be flexible according to the priorities of National-Polish agricultural policy. In 2007 for example there has been introduced the mechanism of animal production farms support and higher payment for pastures and meadows for the owners of the herd minimum 0.3 Big Unit of an Animals per hectare (cows, sheep, goats and horses).

The level of financial support as far as direct payments are considered is the result of calculation of basic annual financial envelope for the membership country. Its size depends on arable land eligible for payments, it means on the sum of crops area, multian-nual plants, pastures and meadows and house garden and on the reference yield determining on the base of historical regional data. All these parameters were appointed for Poland at the level of June 30, 2003 and consecutive for the next references periods (Fig. 1).

As one can see from the Figure 1 in the first reference period (2004) the applied area offered by the beneficiaries differed from the reference area calculated with the use of

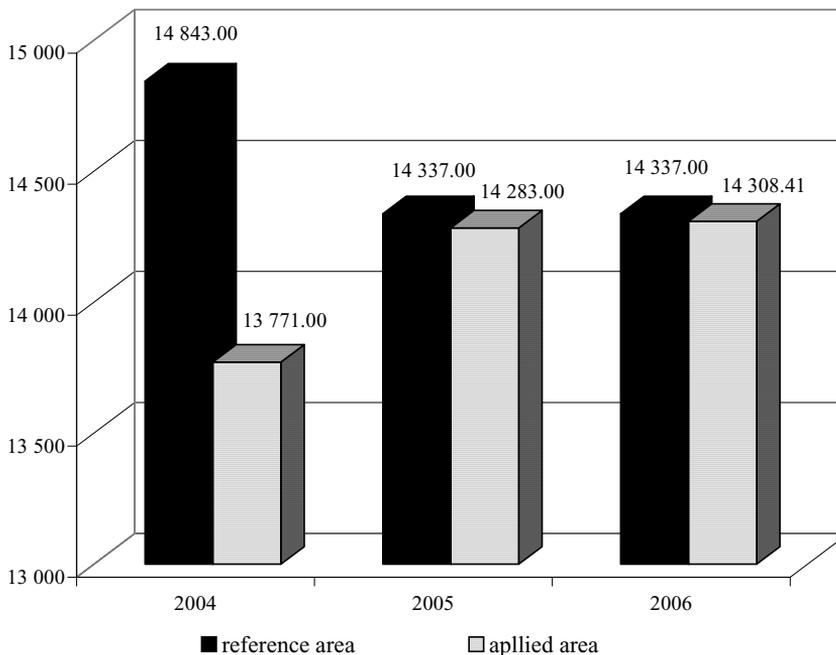


Fig. 1. Single area payment scheme. Reference area and applied area [in thousand ha]

Rys. 1. System jednolitej płatności obszarowej. Powierzchnia referencyjna i powierzchnia wnioskowana [w tys. ha]

Source: ARMA, Warsaw 2007.

Źródło: ARiMR, Warszawa 2007.

historical data. It was caused by the farmers mentality and their distrust for that kind of support. During next campaigns the farmers applied much eager to the agency and the observed area of eligible crops equalled with the reference land area.

The individual flat rate per hectare of payments increase in Poland year by year initially by 5% and from 2008 by 10% according to the phasing in principle and amounts determined part of the old membership countries level. The Accession Treaty enables the new membership countries for adding to these rate up to 30% of total support from the national budget. In this way with the shift of some funds of second pillar of CAP Polish rates of direct payments reached the level of 55%, 60% and 65% of old membership countries of EU in 2004, 2005 and 2006 and are going up to 2010 with the full compensation (Fig. 2).

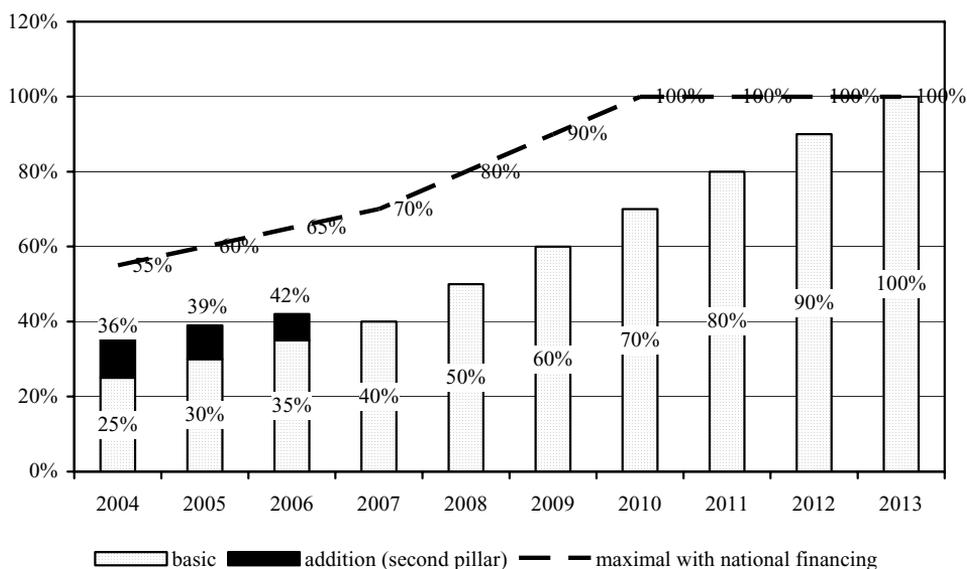


Fig. 2. Level of financial support in the area of direct payments in Poland in comparing to the old membership countries (EU-15)

Rys. 2. Poziom wsparcia finansowego w ramach płatności bezpośrednich w Polsce w porównaniu ze starymi państwami członkowskimi (EU-15)

Source: ARMA, Warsaw 2007.

Źródło: ARiMR, Warszawa 2007.

Total reference area for the whole country of Poland in the period 2004–2006 for single area payments differed from 14.34 mln of ha to 14.84 mln ha of arable land but for accompanying area payments from 12.58 to 13.01 mln of ha eligible for support. Total financial envelope for single payments in 2004 equalled 659 mln euros and gradually increased to the amount of 997 mln euros in 2006.

Individual flat rate was equal 210.5 PLN in 2004 and 276.3 PLN in 2006 but for accompanying payments adequately rate was 292.8 in 2004 and 313 PLN in 2006 per year and 1 hectare (Table 2).

Table 2. Campaigns 2004–2006. Single area payments  
Tabela 2. Kampanie 2004–2006. Jednolite płatności obszarowe

	2004	2005	2006
Reference area	14 843 000.00	14 337 000.00	14 337 000.00
Applied area	13 771 710.28	14 283 072.37	14 308 410.63
Surplus per-cent	0.00	0.00	0.00
Financial envelope (mln EUR)	659.95	823.166	997.483
Flat rate in euro	44.46	55.46	69.93
Flat rate after reduction	–	57.42	–
Flat rate in PLN	210.53	225	276.28
Euro price	4.73521	3.9185	3 9713
Number of collected applications	1.400.180	1.486.189	1.471.745

Source: ARMA, Warsaw 2007.

Źródło: ARiMR, Warszawa 2007.

This system provided for Polish farmers support in the farm cultivating basic crops in 2004 503.3 PLN per hectare and in 2006 – 589.8 PLN. While the farm is located in the less favoured area (poor soil) the benefits are increased of next 240–280 PLN.

Administrative procedures require preparing and organisation of accredited paying institution. In Poland this role is appointed to Agency of Restructuring and Modernisation of Agriculture. This public institution according to European Commission Regulation No 1663/1995 has to distinguish in its activity three functions run by separated organisational unit:

1. Payments authorisation function prepared in 314 local branches of ARMA.
2. Payments accounting function done by Central Office of ARMA in departments responsible for registering and reporting.
3. Financial transfers function executed by Finance Department in Central Office.

Farmers after receiving the registering number of their farms, bring the application for the payments to the local offices every year. Agency sends the application formula to each eligible farmer with the basic individual data regarding the agriculture land and visualisation of the plots.

While the application is delivered, agency clerk is obliged to implement it to the informatic system and control all the data. This phase of the procedure is called “administration control” in order to verify information from the system and from farmers. Check of the declared areas of particular plots and analysis of the last year application enables the authorisation of the support.

When the payment is appointed by administration procedure there are next steps of the agency activity performed. There are connected with on-spot control while the information about current cultivating crops are collected by the inspectors. Every single spot is usually measured and its area is compared with applications.

While the control on the farm is finished positively Agency calculates the level of support and prepares the administrative decision for the beneficiary. Afterwards the list of payments is prepared and the process of financial transfers starts. All the eligible amount of payments are sent to the farmers individual bank accounts (Fig. 3).

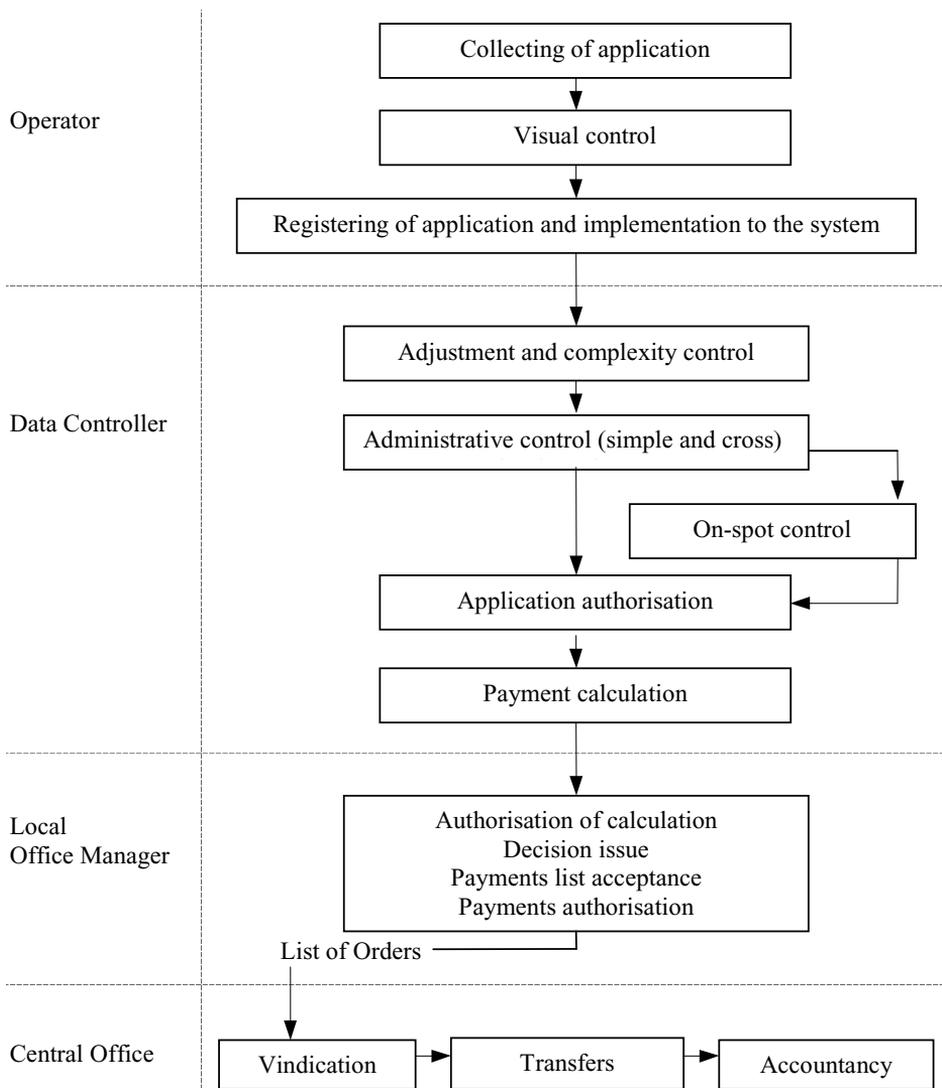


Fig. 3. Scheme of direct payments application service

Rys 3. System obsługi wniosków o płatności bezpośrednie

Source: ARMA, Warsaw 2007.

Źródło: ARiMR, Warszawa 2007.

All the procedures of direct payments service are executed by Agency of Restructuring and Modernisation of Agriculture during every year campaigns. Each of them starts with the printing of personally addressed application forms and is finished with bank transfers for the farmers. In Poland during 2004–2006 period quality of service has been increased which can be described by the ratio of number of transfers in the first 90 days of official date of beginning (December 1).

In the first 90 days of transfers of the campaign of 2006 the support were delivered to 1 153 928 beneficiaries in the area of single payments, accompanying payments and less favoured areas. They have been given total amount of 8 014 543 574.51 PLN it means 4.8 times more than the same time of campaign 2005 and 3.2 times more than in 2004 campaign (Fig. 4).

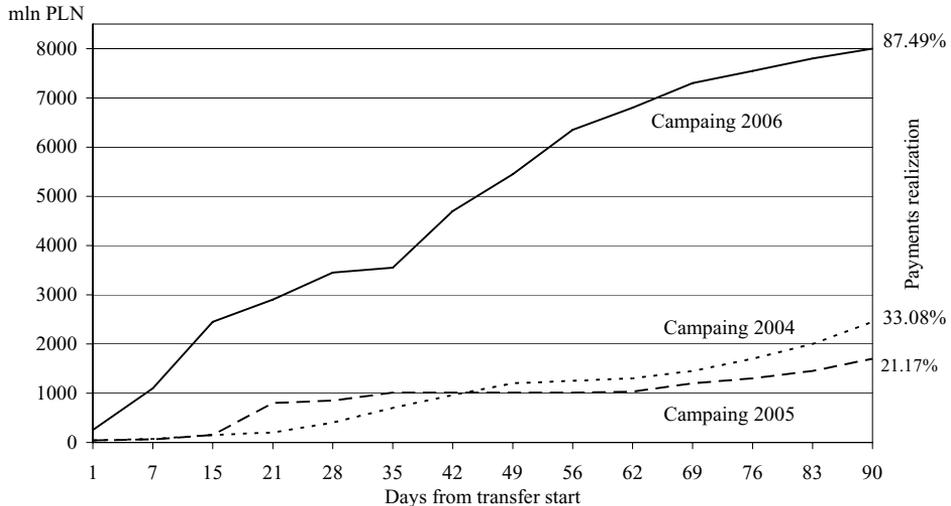


Fig. 4. Direct payments execution – comparison of three campaigns after first three months of transfer

Rys. 4. Realizacja płatności bezpośrednich – porównie trzech kampanii po pierwszych trzech miesiącach transferu

Source: ARMA, Warsaw 2007.

Źródło: ARiMR, Warszawa 2007.

In the field of single and accompanying payments in 2006 campaign until February 28, 2007 Agency paid out 6980 mln of PLN which equals 88% of total payments. This was 4.6 times more than during 2005 campaign and 2.8 times more than campaign of 2004. During analogical periods agency paid 39% total sum in 2004 and 23% of payments in 2005. Such poor indicators of 2005 campaign have been caused by the fact, that printing and delivering of individual applications forms were seriously delayed.

Anyway 2006 campaign was carried out specially carefully and intensively so the pace of administrative controls and on-spot controls together with financial transfers was really high. Thus all the non-controversial payments have been realised till the end of March 2007.

## DIRECT PAYMENTS EVOLUTION

Though the system of direct payments works quite effectively in Poland there is still a way to go on the road of reform. According to established rules of changes in Common Agricultural Policy the aim is to implement Single Payment System (SPS)

totally decoupled from the production. Moreover it is able to modulate payments for the biggest farms as well as ensure cross-compliance verification.

Foundations of this system are as follows:

- implementation of the payment title for the farmers determined on the base of reference period and annual financial envelope,
- obligatory set-aside of part of the land mainly with 10% ratio of arable plots,
- introducing of limits for the biggest beneficiaries that can shift some funds from direct payments to the rural development funds (about 3–5%),
- acceptance of provisional system of regionalisation which allows for different flat rate in the same reference area<sup>1</sup>,
- distinguish national (domestic) reserve from overall financial envelope (up to 3% of allocation) for other measures of support,
- implementation of cross-compliance principle considering control procedures and institutions co-operation.

Cross-compliance is a big challenge for the countries administration because of European Union law consisted of 19 regulations in the fields of: natural environment protection, animal welfare, agricultural products quality requirements, food safety and hygiene of the work. All these standards should be fulfilled by the farmers and effectively controlled by set of institutions. This will cause costs increase in paying agency that has to provide beneficiary service as well as integrated administration and control mechanism.

One can identify some serious risks in the cross-compliance implementation.

First it is social risk of SPS introduction. Many of the farmers currently receiving payments could not be able to conduct all the adjustment processes in particular areas of cross-compliance. Thus the member of beneficiaries can be decreased.

Another risk is connected with the SPS functioning in the Agency of Restructuring and Modernisation of Agriculture. Agency needs highly sophisticated information system supporting by computerised model of gathering and processing of all data. New task will be related to logical and formal checks of registers in different data bases. All agricultural land plots should be controlled not only from the direct payments scheme but also from the structural funds point of view.

Moreover in the process of beneficiaries farmers control apart from paying agency other institutions responsible for sanitation and veterinary safety of the production will take part which influence the level of the costs and will need lots of logistical effort in co-operation of the public units. Some European Union countries involved in these processes selfgovernments and local authorities as the integrator of the cross-compliance monitoring. In some cases special interinstitutional organisations are founded to administer whole procedures.

There is a necessity of construction of the legal and organisational foundations to prepare with co-operation of paying agency the integrated administration and control system based on computerised land register in the conditions of cross-compliance. Farmers should receive from that system detailed information considering requirements of natural environment managing, technical parameters of buildings and machinery and all standards needed in the official regulations.

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<sup>1</sup> Evaluation of CAP reform from Luxembourg FAPA 2003, Warsaw.

On the other hand control institutions has to be equipped with the legal, personal and technical assets for complex verification of the obligatory norms in the selected farms. There is an important task not only for the domestic purposes, but for European Commission analysis of the efficiency of Common Agricultural Policy. Estimated costs of administrative system adjustment in Poland are equal 90 mln PLN only in the field of informatic activities<sup>2</sup>. Average number of on-spot control farmers is evaluated for 15 thousand of units per year.

The number of Polish beneficiaries direct payments, sophisticated system of administration and lack of the clear future of agricultural policy in Europe are the premises to maintain current model of simplified area payments until 2013. That could be a solution for many threats and fears among Polish farmers to the end of present budget period.

Together with the new foundations of the agricultural and rural development policy in Europe single payment scheme could be implemented with all the legal, organisation and technical measures.

## CONCLUSIONS

Direct payments in Poland became the main instrument of agricultural policy by the transfer of significant support to the farmers. Integrated administration and control system has been developed gradually in the period of 2004–2006 and year by year its activity allows for fast transfers of eligible subsidies.

Common Agricultural Policy is still under evolution processes in the direction of simplification and increase of second pillar role.

One can predict four possible scenarios of the changes in the policy:

1. Significant reduction of total expenditures for CAP and rural development with the renationalisation of the measures.
2. Incorporation of the agriculture into system of other sector policies like fiscal policy, investment policy or scientific policy without any special preferences.
3. Sustenance of the current European model of agriculture support with small changes shifting priority from market measures to the income ones.
4. Division of the CAP into two separate systems:
  - kind of industrial policy for the large scale,
  - policy of ecological and income directions for the family farming (extensive production).

In the next 2008 there will be a beginning of the debate on principles and results of currently existing model of Common Agricultural Policy. Afterwards European Commission and membership countries will propose the future solutions of the objectives, measures and range in policy towards agribusiness and rural areas. Some elements of Lisbon strategy should be implemented into this scheme, it means liberalisation and world market orientation will be visible in particular decisions. European Union single market has been opened much wider in the context of World Trade Organisation negotiations.

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<sup>2</sup> M. Drygas, G. Spsychalski. Bariery i zagrożenia. *Nowe Życie Gospodarcze* No 1, 2006.

The priority of European policy is connected with the optimal usage of agricultural assets of particular regions with consideration of benefits for natural environment and rural society.

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## PLATNOŚCI BEZPOŚREDNIE W POLSCE W KONTEKŚCIE REFORMY WSPÓLNEJ POLITYKI ROLNEJ

**Streszczenie.** Artykuł przedstawia zasady przyznawania i obsługi administracyjnej płatności bezpośrednich w Polsce po przystąpieniu do Unii Europejskiej. Opis kampanii dopłat w latach 2004–2006 jest uzupełniony o charakterystykę polskiego modelu uwzględniającego dużą liczbę producentów i zmieniające się formy wsparcia gospodarstw. Przedstawiono podstawy prawne obecnego systemu dopłat i przebieg kampanii i ich realizacji w Agencji Restrukturyzacji i Modernizacji Rolnictwa wraz z poziomem stawek dla różnych rodzajów upraw. Następnie opisano przewidywane zmiany sposobu naliczania dopłat w modelu Jednolitej Płatności dla gospodarstwa, które wprowadzają stopniowo wszystkie kraje UE. W podsumowaniu zaprezentowano możliwe kierunki ewolucji Wspólnej Polityki Rolnej wpływające bezpośrednio na poziom i strukturę dopłat bezpośrednich.

**Słowa kluczowe:** Wspólna Polityka Rolna, płatności bezpośrednie, ewolucja, system wsparcia

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