

Working translation

**The Polish Government position on the EC Communication *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future***

adopted on 4<sup>th</sup> February 2011

Warsaw

**The Government of the Republic of Poland is in favour of an ambitious reform of the CAP.**

Europe needs a policy to foster the development, not stagnation, of agriculture in EU-27. Thus, we need a real, not an artificial, policy reform. The CAP may not serve to preserve the current condition of EU agriculture – it should be more focused on improving the competitiveness of the sector on the international market. If the challenges faced by agriculture and the EU, pointed out in public debate, are to be addressed effectively, the CAP must be changed. The new CAP must be more market-oriented, and it must take account of public goods, including food security and sustainable development.

**The Government of the Republic of Poland is in favour of retaining the CAP budget on at least the current level.**

The objectives and tasks of agriculture and of the CAP require a sufficient budget which should be retained on at least the current level. The CAP is a dynamic and fully Community-focused policy of significance to European integration in its economic, social and political dimension. The CAP is also becoming the major Community policy responsible for the provision of supra-national public goods in a number of areas. The strong budget is necessary as CAP objectives will be extended to cover new Community challenges (and the majority of the current tasks will be preserved), and financial solidarity is essential for efficient functioning of the single market as well as for economic and social cohesion of the EU. It is necessary to fully retain the EU financing of the first pillar. We must also remember that the current CAP budget results, *inter alia*, from the current obligations of the EU in the WTO forum (of 1992) which reduced the possibility to support the sector through price sustaining tools.

The suggestion to retain the CAP funding at least at the current level should be viewed in the context of the Polish Government's objection to reducing the EU budget (reply of the Council of Ministers to the European Commission's Consultation Paper on EU budget review adopted on 8 April 2008).

**The Government of the Republic of Poland believes simplifying CAP should be one of key elements of the reform. Administrative costs incurred by the EU and national institutions, as well as by farmers, must be significantly reduced. Thanks to a simplification of CAP, its objectives, measures and effects will become more understandable to farmers and to the EU citizens.**

Simplification is possible without compromising the efficiency of actions, and it can be achieved by specifying the functions of the two pillars, also at the level of specific

measures and requirements, including control requirements. Simplification is of particular importance to Poland and other EU Member States dominated by small family-run farms. To achieve CAP simplification, declarations must be translated into specific actions.

**It is essential to change the criteria for the allocation of the first pillar between Member States. The current criteria linked with historical production should be abandoned and replaced with objective criteria linked with the current CAP objectives.**

The public debate explicitly proves that a levelling of direct support levels is one of the key elements of the current CAP reform. The utilised agricultural area should be the sole criterion, or at least a basic one among several objective criteria. This approach is supported *inter alia* by a suggestion to target a direct payment system more on environmental objectives as the utilised agricultural area is decisive in the scale of the instrument's environmental impact. The potential extension of the scope of objective criteria to include criteria other than farmland area must take into account the number of active farmers in relation to farmland area. The distribution of funds in a flat rate area payment throughout the EU would reflect the current and the future CAP objectives better than the current distribution method.

**The Government of the Republic of Poland is in favour of a multi-layer direct payment system with complementary support to LFA and sufficient flexibility of Member States.**

In order to simplify the CAP and to improve its efficiency and effectiveness, it is justified to combine all measures, which consist in annual area payments based on minimum requirements aligned throughout the EU (cross-compliance), in one/the first pillar. The measures, i.e. the following payments: (i) basic payments, (ii) payments for LFAs, and (iii) targeted and capped coupled support would allow achieving the CAP objectives, such as: food security, maintaining production resources of agriculture throughout the EU, and environmental protection, in connection with the aforementioned requirements. Due to the direct impact on farm income and thus on the farmers competitive position on the single market, it is essential to align the total support level in EU-27 countries under the first pillar with such a format.

The Government of the Republic of Poland is in favour of the following:

- Strengthening the environmental functions of direct payments by unifying the GAEC standards throughout the EU and committing all Member States to their implementation at the appropriate level. In Poland, direct payments are already effective in achieving environmental objectives as they impose a number of

agronomic requirements and ensure proper adherence to environmental legislation throughout the EU (Cross-compliance rule);

- Including support for LFAs in the first pillar as a component of the new direct payment system that would be mandatory for Member States, fully financed from the EU funds;
- Retaining the optional use of parts of national envelopes for coupled payments, which is significant for preserving agriculture in certain vulnerable regions and for implementing a number of tasks connected with sustainable development of agriculture in sectors of particular social or environmental importance (e.g. diversity of species, crop rotation, and maintenance of permanent grasslands).

The Government of the Republic of Poland also believes that in order to achieve the simplification of CAP, it should be considered reducing the frequency of submitting applications in the framework of payment system with such architecture to e.g. every 3-5 years for areas farmed by the same (active) farmers.

While the Government of the Republic of Poland is generally in favour of strengthening the environmental functions of direct payments, it believes that implementing this objective should not place an additional, disproportionate administrative burden on farms, in particular on small ones.

**The Government of the Republic of Poland is in favour of maintaining the possibility to use the Single Area Payment Scheme as an alternative for the scheme based on granting and transferring payment entitlements.**

The area scheme (resembling the SAPS) corresponds better to the functions of the new, multi-layer scheme indicated in the Communication, since the payment is related to the tasks performed on a specified area and does not result from entitlements reflecting historical conditions (reference period). It should be stressed that the SAPS, similarly to the SPS, fulfils the requirements of decoupling from production, as set out in the WTO Agreement.

**The Government of the Republic of Poland is of the opinion that a financial enhancement of the second pillar should be considered as a matter of course, and not treated merely as an option. It is also believed advisable to better balance the resources between the two CAP pillars. At the same time, the Government of the Republic of Poland supports the maintaining of the current criteria governing the distribution of funding for the second pillar between Member States.**

In order to accomplish the objective of long-term food security and to preserve international competitiveness (especially in the light of the debate on further liberalisation of trade), it is necessary to strengthen the support for modernising and restructuring farms through actions and measures under the second-pillar. The results of analyses focusing on agricultural accounting at the EU level indicate that in many Member States direct payments account for the majority or even the entirety of income of agricultural households, which does not encourage development.

At the same time, reducing the inequalities in agricultural and rural development between Member States remains a significant challenge and task for the Community. Therefore, it is necessary to maintain the current allocation rules governing the distribution of resources under the second pillar of the CAP, especially with regard to the resources that the EAFARD received through the cohesion policy, whose rules are based on the revised Berlin methodology adopted by the European Council in December 2005.

**The Government of the Republic of Poland supports the proposition of targeting direct payments to active farmers. The experience gained thus far proves that it is difficult, both technically and legally, to elaborate a single and coherent definition of the active farmer at the Member State level; therefore it is reasonable to search for an appropriate solution at the EU level.**

Taking into account the process of decoupling direct support from production and conditioning it on maintaining land in good agricultural and environmental condition (GAEC), all farmers who presently satisfactorily fulfil this requirement should already be considered active farmers. Hence, active farmers are those who contribute to providing public goods and services under the CAP through appropriate land management.

**The Government of the Republic of Poland finds capping support as interesting.**

Poland might support the initiative of capping the support for the largest holdings under the basic component of direct payments since it is consistent with the efforts to effectively achieve the Treaty objective concerning agricultural income. Such capping could be of a degressive character above a specified threshold value of support. Such a solution would be especially reasonable in the case of maintaining or possibly increasing the minimum requirements concerning good agricultural and environmental condition in order to ensure the possibility of implementing them over the entire farmed area. The resources mobilised in such a manner should be used for the purposes of restructuring

the smallest farms. Such an upper ceiling would be inapplicable to large holdings which create/maintain jobs at a specified minimum level.

**The Government of the Republic of Poland recognises that the CAP needs to take into account the potential, problems and needs of small agricultural farms.**

The Government of the Republic of Poland is of the opinion that also in the future the vast majority of family holdings in the EU will find it difficult to achieve the economic scale ensuring a sufficient income through agricultural production. At the same time, these holdings will still play an important role in delivering agricultural public goods for the Community thanks to, among others, their particular structural and technological characteristics (for example, mosaic structure of parcels and crops, traditional crop rotation and labour-intensive techniques and types of production).

In addition to the support in the form of direct payments, available also to small farms, restructuring of such farms should at the same time be supported under the second pillar-measures of the CAP. In particular, a new instrument should be created to enable the owners of the smallest farms to cease agricultural activity and transfer their land to viable holdings. Solutions should also be developed that will make it easier for such farms to access retail markets, including in particular their local markets.

**The Government of the Republic of Poland suggests that better coordination should be sought between the CAP and the financial, trade, climate and energy policies of the EU in order to ensure that the CAP effectively fulfils its objectives.**

The coordination with the EU's financial and trade policy requires appropriate Community support, that is, joining budget and market support, as a condition for providing public goods under the CAP within the scope specified in the Communication. As has been the case thus far, the CAP reform process calls for a proper balance between both elements of the first pillar, that is market management and direct support. This is because the prospective further liberalisation of agricultural trade within the WTO will involve a considerable decrease in the possibility of employing trade and intervention instruments to stabilise and support markets and agricultural income in the EU. It is therefore necessary to ensure the realisation of the CAP objectives with greater use of the EU budget resources. The vulnerability of the agricultural sector should be taken into account within the framework of the WTO negotiations with third countries concerning the conclusion of agreements in a free-trade area.

It should be remembered that agricultural production in the EU is subject to high standards of production methods, traceability, environmental protection and animal

welfare, which are often not applied to products imported into the European market. Imposing such standards is important also in the context of attaining the goals of the energy and climate package – imposing additional requirements on Community producers, for instance, for reducing greenhouse gas emissions at the stage of crop growing when third countries do not have a reliable system for controlling actual emissions resulting from biomass production would create condition of unequal competition . The EU's public support mechanisms for the agricultural sector should level the differences in competitiveness between the EU-originating and imported production, caused by the necessity to observe high standards by the EU producers.

**The Government of the Republic of Poland assumes that a better coordination between the CAP and cohesion policy should be sought in order to improve the effectiveness and to simplify the implementation systems.**

As coordination with the cohesion policy cannot undermine the internal integrity of CAP, it is necessary to maintain all the measures under the current second CAP pillar, and to draw attention to the potential for rural development within the cohesion policy. The comprehensive support offered by the rural development policy is an essential element of public support, which should be continued in order to achieve sustainable growth that will allow for maintaining the viability of rural areas and would contribute to improving the competitiveness of agricultural sector.

Debate on the future of rural development should also focus on the evolving Cohesion Policy, which should, in addition to the second-pillar instruments of the CAP, be an important trigger of changes in rural areas. Poland is in favour of greater consistency between the two policies at the strategic level, achieved principally through common guidelines for the principles of granting support and by equal treatment of beneficiaries of various funds. The coordination should also take place at the implementation level to ensure equal treatment of beneficiaries of both policies, and to reduce administrative costs related to the implementation of similar types of projects.

**The Government of the Republic of Poland is open to a discussion on increased targeting and broadening of the CAP second-pillar measures.**

The Government of Poland is generally in favour of targeting the second pillar at the new challenges of the CAP, including the environmental measures. At the same time, Poland stresses the necessity to uphold the crucial function of the second pillar that consists in supporting the modernisation of the agricultural sector and continuing the catching-up process. For Poland, further implementation of the instruments for promoting modernisation and improving the competitiveness of the agri-food sector and of rural areas is a priority. The second pillar should also support undertakings aimed at

diversifying the sources of agricultural income, including ventures relevant for sustainable development, such as developing renewable energy sources in agricultural holdings with the use of by-products and surpluses from agricultural production.

The Government of the Republic of Poland backs the proposition to support the development of alternative distribution channels, especially in the context of development opportunities for small farms producing mainly for local markets. This should be accompanied by support for development of a system of direct sales points, which would constitute a component of the support for distribution channels. Such support should not exclude simultaneous implementation of other measures aimed at enhancing the competitiveness of the agricultural sector through releasing land stocks and withdrawing from agricultural activity of smaller farms.

The Government of Poland is open towards the introduction to the CAP second pillar of risk management instruments concerning risks associated with production (epidemics of animal and plant diseases), market (major price fluctuations), and weather conditions.

**The Government of the Republic of Poland shares the view expressed by the European Commission that the 2009 crisis on the milk market underlined the key role played by the existing market management mechanisms in the area of supporting the market in a time of crisis. The future Common Agricultural Policy should maintain the effective market intervention system as a basis of the so-called “safety net.”**

In order to effectively counteract the negative effects of economic disturbances, resulting from, *inter alia*, opening of the Community market to external competition and growing instability on international agricultural markets, market management mechanisms cannot be abandoned. In some cases, a discussion should be held on broadening the scope of these instruments, and re-instating the already abolished instruments should be considered. The use of such mechanisms as the so-called “safety net” should be adjusted to the actual situation on individual markets, accounting for the level of production costs.

In the opinion of the Government of Poland an extension of the intervention period for selected markets should be considered, for example, in the case of the cereal market intervention buying-in should start on 1 September. The prolonging of the intervention period on the milk market, as an exception from the general rules, in the event of continued low prices should also be discussed. Moreover, an open catalogue should be established enumerating the measures and instruments available to the Commission in the case of price distortions on the internal market.



The Government of the Republic of Poland also believes that a private storage mechanism should be expanded onto those markets where intervention instruments were inexistent or were abolished.

**In the view of the Government of Poland, the export support mechanism should be used as long as it is allowed by the EU's international commitments.**

Export refunds constitute an effective rapid response instrument for a short-term improvement of the situation on agricultural markets. For this reason, the Government of the Republic of Poland believes that this mechanism should be maintained and used as long as it is allowed by the EU's international commitments. New ways of supporting the EU exports should be given consideration, such as export credits or increased promotion and protection of labels applied to the EU products.

**The Government of the Republic of Poland is in favour of maintaining the quota systems for sugar and milk production at least until the year 2020.**

Despite the crisis that struck the milk market in 2008 and 2009, the quota mechanism revealed to be an effective stabilising factor. This mechanism also strengthens the position of farmers towards the entities purchasing milk and allows for maintaining production in regions where it is of special importance, not only in economic terms. An instrument that has proved effective for many years should not be discarded.

Keeping the quota system for sugar and isoglucose will be the best possible security for the EU market against the concentration of production in a small number of countries that have good beet-growing conditions and a well-developed processing industry with available production capacity. The quota system should not provide for transferring quotas among Member States. The production charge functioning in this sector should be removed, or the resources thus gathered should be devoted to restructuring and innovation in sugar and isoglucose sector. Taking into account the progressing liberalisation of the world trade, the sugar sector requires actions increasing its innovativeness and competitiveness.

**One of the tasks of the reformed CAP is to improve the functioning of the food supply chain. The Government of the Republic of Poland is glad that the Commission indicated a need to resolve the issue of the current imbalance of bargaining power along the chain. The propositions aimed at addressing these problems should not, however, cause new tensions connected with possible distortions of competition or trade in agricultural products on the EU's internal market.**

The aim of the interventions within the food supply chain should be to achieve balance among the entities comprising it, including equal treatment at the moment of concluding agreements and later, when performing them. The position of farmers within the food supply chain is weaker and also to a large extent determined by their level of organisation and by fluctuations in the supply of agricultural produce on the market, on which the producers (farmers) have little influence. The support for their organisations should be maintained also in the future, and the solutions for support of producer organisations applied in fruit and vegetable sector could be introduced in other sectors.

It is also necessary to back farmers and their organisations in fighting dishonest agricultural market entities, both from the trade and processing branches, by means of appropriate regulations governing the conclusion and performance of trade agreements. The Government of Poland believes that the solutions such as the “code of good practice” might not be sufficient to eliminate the phenomena disrupting the proper functioning of the food chain at all its stages. Moreover, the transparency and functioning of the food chain at the processor-trader stage should be improved.

**In the opinion of the Government of Poland it is necessary to enhance, functionally and financially, the instruments supporting promotion of agricultural products, both on the EU and international markets.**

With regard to the promotion of agricultural products, identification of horizontal solutions within the common market organisation should be considered, as well as appropriate financial support in a form similar to those adopted in the reform of the wine market, i.e. based on multi-annual programming and fixed allocations for individual Member States. Modified (for instance through a broaden scope of products) and simplified mechanisms of promoting the right dietary practices in specific consumer groups should remain an element of the CAP.

**The Government of Poland is in favour of enhancing all the three quality systems applied currently in the EU legislation.**

Solutions should be introduced to (i) enhance the role of producer groups and of Member States in enforcing the protection of registered products, (ii) raise and clarify the level and scope of the EU indications, (iii) shorten the registration procedures. It is also important to strengthen the role of geographical indications of agricultural and food products in international negotiations and agreements, including on the WTO forum.

The Community quality policy should focus on health-related aspects of food production to ensure that quality products are delivered to the consumers at reasonable prices. Products imported to the EU should meet the Community requirements. In this

context, it is suggested that an obligatory system of products labelling should be introduced, that would clearly indicate whether a given product was produced in or outside the EU.

**The Government of Poland is sceptical about the possibility to use future markets and other derivative markets as risk management instruments.**

An appropriate level of development of futures market in the agricultural sector is a necessary condition for using these transactions effectively in price risk management. The Polish Government believes that at the current development stage of the EU futures exchanges, the future contracts cannot effectively replace “traditional” market management mechanisms applied in the CAP as a part of so called safety net. Futures contracts could be used to hedge against the price risk in those sectors where the scope of public intervention is small or has been limited (e.g. the pigmeat sector). In such a case legal framework for voluntary use of this instrument should be established at the Community level. It would also be necessary to guarantee proper control of transactions and to ensure the transparency of the entire financial system.

**The Government of Poland believes that the discussion on the future shape of the European Union agricultural policy should also account for the institutional determinants of the CAP decision-making process. The process of adjusting the current CAP baseline regulations to the Treaty of Lisbon can in no case set a precedent for determining the implementing and delegated powers of the European Commission in future legal acts of the reformed CAP.**

The Government of Poland takes the position that baseline legislation adopted by the Agriculture and Fisheries Council should play a leading role in drawing up a list of actions and areas of the EU legislation relating to agricultural activities, without detriment for the European Parliament powers provided for in the Treaty of Lisbon. The Government of the Republic of Poland also finds that the process of transferring the legislative powers of the Council to the level of European Commission is already exhausted. Intensification of this tendency could distract the Council away from creating the agricultural policy and applying mechanisms of response on the internal market by expressing the Council’s political will.