

8. Agricultural Policy Dialogue Poland - Netherlands: Items for further discussion¹

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8.1 Introduction

In the meeting of delegations of Poland and the Netherlands in Warsaw in July it was agreed to prepare papers on issues to be discussed later on in September in The Hague as well as to prepare the 'Utrecht Conference' in October 2002. From the Polish side it was indicated that 'Factors conditioning competitiveness including the Mid Term Review of the European Commission' should be a central issue to be discussed in more detail. This paper contributes to that by discussing some key elements of agricultural and rural policy developments and by indicating the possible impact of policy developments on the agricultural sector in Poland and the Netherlands. The main aim of this paper is to provide information based on experiences and analyses, which can be used in the design of policies for the future as well as to formulate recommendations for the CAP in medium and long-term perspectives.

8.2 Agriculture in Poland and the Netherlands

The agricultural sector in both countries is quite different from each other. Yet, there are also some similarities with regard to agriculture and rural development. Their respective positions are important to have in mind in the process of evaluation and preparation of policy instruments.

Table 1 provides some basic information for Poland and the Netherlands. Polish and Dutch farm structures show big differences with regard to the number of farms and the value of production (output) per farm. Yet, there are some similarities too, for instance on the composition of the agricultural production. In both countries the production of milk, pigs and potatoes is important. In the Netherlands, however, horticulture (especially in glasshouses) is in economic terms more important than arable farming. In Poland arable farming is largely in the production of cereals, a situation quite similar to the situation in other EU countries (for instance France and Germany). In the Netherlands, however, arable farmers are more specialised on potatoes (with a strong position of seed potatoes), sugar beet, onions and a mix of other crops, such as flower bulbs and vegetables. The Dutch horticulture production (40% of total agricultural production) is using some 100 000 ha, which is only 5% of total agriculture area. Around 10 000 ha are 'under glass' (greenhouses using natural gas for heating). Excluding the horticulture sector would mean that Poland and the Netherlands have roughly speaking an equal value of agricultural production (some 10-12 billion euro). For this production however Poland has around ten times more land and at least 20 times more farms. Around 50% of the farms in Poland is not or only marginally producing for the market (subsistence farms). In the Netherlands such farms do not exist.

¹ This paper has been discussed at the meeting in The Hague, 26-27 September 2002

These figures (see also table 1) illustrate the gap in structure and development between agriculture in Poland and the Netherlands. Linked to this, with differences in the size of population (Poland has some 40 million, the Netherlands about 16 million inhabitants), the Netherlands has a much larger export volume of farm and food products. In addition, while more than 75% of Dutch exports is to other EU countries, for Poland nearly 50% of its exports is oriented to the EU. It is expected this will increase substantially after accession, partly because some neighbours, who are important markets for Polish products, will also join the EU market.

Table 1. *Some basic data of the economy and agriculture in Poland and the Netherlands*

Item	Poland	Netherlands
GDP growth	1% (2001)	1-2% (2001)
Inflation rate	6% (2001); 3% (2002)	4,5 (2001); 3% (2002)
Interest rate	15%	5%
Unemployment	15-20%	2%
Employment in agriculture	18%	3,2%
Agriculture in GDP	4%	2,1%
Number of farms (x 1.000)	1.800	90
Decrease of farms per yr	5%	3-5%
Agric. Area (mln. Ha)	18,4	2
Average farm size (in ha)	10	22
Composition of agriculture production (values, output 2001)	* Arable crops 38% (cereals 18%, potatoes 8%) * Horticulture 12% (mainly vegetables, fruits) * Animals 27% (pigs 18%) * Animal products 20% (milk 16%) * Agr. services 4%	* Arable crops 10% (cereals 1%, potatoes 5%) * Horticulture 40% (firstly ornamental crops) * Animals 23% (pigs 13%) * Animal products 19% (milk 17%) * Agr. services 8%
Agricultural output (in 2000, bln. euro)	12,3	19,2
Net value added (bln. euro)	3,5	6,3
Net farm income (bln. euro)	2,4	3,0
Net farm income per farm (x 1.000 euro)	1,3	33
Output per farm (x 1.000 euro)	6,8	215
Exports, agro and food products (bln. euro)	3,0	45
Imports (bln. euro)	3,2	26

Sources: FAPA, Central statistical Office, Warsaw; LEI, The Hague; Eurostat, Luxembourg

One of the reasons for the huge volume of Dutch agricultural exports is that exports are linked to high import volumes (for instance, handling, processing and re-export of coffee, tea, cacao, oilseeds as well as flowers and ornamental plants). The Netherlands has

developed these activities using its favourable geographic position (ports, rivers) near large markets (Germany, France, UK) in the Single market.

It is clear that Poland will have a different position in the European market in the coming years. Some specific aspects of the position of the Netherlands are perhaps not attainable given the geographic characteristics. On the other hand, Poland has the advantage of more 'natural' resources: the larger availability of land and space to develop agriculture compared with the Netherlands with a much higher density of the population and, as a consequence, many non-agricultural claims on the use of land. Linked to this and the present intensive production methods, the Netherlands has a number of major environmental constraints, which limits production expansion in some sectors (especially in the pigs and poultry sector).

8.3 Agriculture policy factors conditioning competitiveness

Next to issues such as the budget and environmental concerns, EU enlargement and WTO negotiations are triggering changes in the CAP. In the context of the policy dialogue between Dutch and Polish policy makers it is of interest to see what developments in the CAP can be expected and how these might affect the Dutch and Polish agricultural sector. The context to discuss these issues is that from 2004 onwards Poland and the Netherlands are both members of the EU. In this context it is important to find out which interests would be shared interests.

It should be acknowledged that besides agricultural policies many factors affect the development of the agricultural sector and its competitive position (see the paper discussing the factors affecting competitiveness).

Experiences in the Netherlands during the last century make clear that research, extension and education as well as land reclamation are good examples of instruments to improve the conditions for farmers to increase productivity and to expand the position in a more international market. Besides that it is clear that economic results in the farm sector benefit from sound general socio-economic developments, in which non-agricultural employment alternatives for the actual farming population are created.

The creation and development of the European Union and its Single Market gave many opportunities for the economy as a whole and to the farm sector in particular. The fast increase of agricultural exports from the Netherlands is an important indicator for this. The Single market gave opportunities for Dutch farming to specialise in products, as was discussed in earlier papers (July 2002).

The CAP was an essential political condition for the creation of the EU and the integration process in last decades. The CAP was instrumental to create free flow of goods among the EU member countries. On the other hand, the CAP contains many rules and regulations to accompany the (free) trade in the EU market. The CAP so far is the outcome of a political process to balance the interests of free trade on the one hand and on the other hand the protection of farmers as well as collective interests related, for instance, to environment and landscape preservation.

From this point of view it is very useful to discuss the following four policy instruments in the context of the future of the CAP and the interests of Poland and the Netherlands:

- market and price support and direct payments;
- production quota and mechanisms of supply control;
- state aid;
- sustainable production.

8.3.1 Market and price support and direct payments

Market and price support by guaranteed (intervention) prices has been the main EU policy instrument for agriculture in the period 1960-1993. The (McSharry) reform of the CAP in 1993 included lower prices for, amongst others, cereals and beef and the introduction of direct payments linked to hectares of eligible crops and to numbers of animals. Agenda 2000 decisions include a continuation of this policy from 2000 onwards, as well as an extension for milk, starting from 2005. The Mid Term Review (MTR) proposals include a decoupling of the direct payments. Farmers will receive an amount of money based on historical references per farm and as part of that per hectare of land regardless the crops produced on it or the animals on the farm.

Direct payments, as they were introduced, help farmers to maintain their income during the period that prices of products decrease. Small farmers who are not delivering products to the market also receive the payments. For them, the payments result in a higher income. However, direct payments in the EU are not adjusted for inflation and for increasing costs of production (higher prices of inputs and labour). To counter increasing costs, farmers may try to increase their productivity (yields per ha and per animal and production per labour unit). As far as this results in more production, the higher volumes of production may result in lower prices on the market, which may call for new adjustments (decreases) of intervention prices. The consecutive price decreases for cereal and beef since the late 1980s are examples of this process. So, direct payments linked to certain products have as a risk that markets deteriorate because the payments are linked to specific products without any relation to market demand. Furthermore, direct payments linked to the production of certain products may prevent farmers from allocating their production in the most efficient way, which is responding to market demands. Decoupling payments gives more room for that.

Countries with a high proportion of land in cereals and other crops with direct payments (oilseeds, protein crops) may benefit when direct payments will be decoupled. Poland is an example of such a country. Decoupling can stimulate a shift from cereals to more labour intensive and profitable crops, as cereals (and oilseeds and protein crops) face relatively low market prices and consequently have low added value. So, in fact decoupling direct payments offers the Polish arable farm sector better opportunities to develop a production structure related to the demands of the market than the actual EU system of direct payments linked to the acreage of cereals (and some other crops as well as the number of specific animals).

In the Netherlands only 10% of agricultural land is sown with cereals; most Dutch arable farmers produce cereals in rotation with other more profitable crops. The rotation is

necessary to prevent diseases and to diminish the use and costs of pesticides. In countries like the Netherlands, then, decoupling may result in lower prices of so far unprotected but important products (potatoes, vegetables). Dutch arable farmers fear a more intensive competition from countries presently more specialised in cereals and oilseeds. Furthermore, it is argued that decoupling would mean that farmers get no direct compensation or remuneration for their production and therefore will be more depended on political decisions. Such concerns, however, are not valid to resist the advantages of decoupled payments: the sector will become more market-oriented, the administrative burden of the system will be lower (for the farmer and governmental organisations) and it results in a better position to negotiate in WTO.

8.3.2 Production quota and mechanisms of supply control

Production quota

Production quotas were introduced in the CAP for milk (1984), sugar (since the 1960s), potato starch (after the CAP reform in 1992) and some other products. So far, they are not used for the majority of products. In fact the products concerned are processed by a decreasing number of factories that administer the volume of production per farm. Costs of controlling the production volume in this situation are not high. For instance, for cereals with many market outlets it would be much more difficult to manage a quota system.

In practice, however, the introduction of the milk quota in the Netherlands as well as in other member countries caused many disputes as regards the reference per farm. Many dairy farmers claimed an exceptional position. For a number of them their claims were based on recent investments in a new stall, others have had diseases of the herd resulting in lower than normal levels of production. To solve these problems the Ministry, advised by farmers unions, had to decide on criteria to be used in individual situations. The volume of (extra) milk quota allowed for such individual requests was around 2% of the national quota. This quota allocation could be realised by a reduction of all individual quotas. It is clear from this that the introduction of quota per farm results in conflicting interests among farmers when quotas are essential for the future of the individual farm and have a high (market) value.

Production quotas were introduced to maintain a certain guaranteed level of prices for producers. Concurrently, milk prices have not been adjusted for a long time. For efficient farmers the present price level is appropriate for having reasonable incomes as well as for investing in expansion of the farm. In countries and regions with good conditions for dairy farming prices for quota are relatively high as a consequence of the profitability of efficient farmers. However, the purchase of quota adds to production costs and this may undermine the position of the milk production and processing in such regions.

Seen that production quotas per member country were fixed on the base of production in the period before 1984, it has frozen the distribution of production amongst member countries and in most member countries amongst regions. This hinders an efficient allocation of milk production. This may be a disadvantage for countries as Poland with a high potential for dairy farming, as well as for the Netherlands with still opportunities to increase milk production, in part on arable land.

The discussion about the continuation of the quota system will centre around the positive aspects of maintaining the quota system, like the guaranteed prices at a reasonable levels resulting in acceptable producers incomes, and the disadvantages of the system such as disputes between farmers and governmental organisations in the period of introduction of individual quota, administrative costs, inefficiency of the allocation of production and extra costs for producers investing in increasing their production as well as higher prices for consumers and the necessity to maintain export subsidies to operate on the world market.

Set aside

Besides production quota, the EU introduced set aside of land to restrict the volume of cereals production. Different forms of set aside are applied, as a permanent obligation on a parcel of land or in rotation. It is difficult to oversee the impact of set aside on the volume of production. Farmers will select their less productive land for set aside and may intensify the production on the other for instance 90% of their land (slippage effect). Set aside of land may increase yields in the years ahead because the structure of the soil can improve.

Besides this remarks, set aside as such does not contribute to employment in and around agriculture (inputs, processing, services) neither to a more attractive landscape. In this context other forms of land use are more appropriate (management of landscape by contracts with allowances of the government). A system of direct payments under certain conditions (cross compliance) can stimulate this process and may create new economic opportunities and employment in and around the farm.

8.3.3 State aid

The EU Treaty of Rome (1958, articles 83-86) allows Member Countries to provide state aid only when approved by the European Commission. In fact for agriculture and agri-processing industry most of the stimulus to invest is related to directives of the farm structure policy and the general structure and regional policy of the EU. In other words, competition between Member Countries is fit in a common framework.

Some Member Countries, however, are more active in providing financial aid than others, depending on their ambitions, their (national and or regional) budget and priorities as well as the pressure of interest groups.

Sometimes the economic situation in the farm sector results in national decisions to support incomes by using specific, direct (amounts per hectare or animal or interest subsidies) or indirect measures (for instance, fiscal facilities) for all farmers or producers of specific products or in specific regions. Often such decisions are discussed and criticised by farm ministers of other countries as well as by farmers' organisations of other countries. The outcome of such a process is often that the member country in question can provide support under certain conditions to prevent unfair competition with farmers in other countries. In fact the European Commission then formulates the decision for this. Exceptional situations as drought and animal diseases with a severe damage to farmers income can justify such support.

Co-financing CAP

Linked to the budgetary costs of the CAP some countries are in favour of financing a larger part of the spending in their own country, for instance on direct payments. This means that these countries agree with a higher own responsibility for the development and support of the farm sector as well as for rural development. In fact this may weaken the financial solidarity among Member States, which is one of the principles of the CAP and the EU policies in general. At the same time, in a process that CAP is changing more and more from market and price support towards instruments stimulating a sound development of rural areas it is obvious that national concerns and interests get a larger weight. Specific local conditions may better be served by a larger (financial) responsibility of the national (and or regional and local) authorities. The shift towards more financial responsibility at national level bears the risk that the financially less favoured member countries (in the South and East parts of the EU) have less opportunity to create the desired policy for rural areas. Unfair competition may be the consequence.

As far as the market and competitiveness conditions of sectors are sensitive for specific policy measures it is necessary to have as much as possible an equal set of policy instruments. Progress in the development of common EU policies, for instance on non-trade issues (food quality, environment, animal welfare) as well as on fiscal and social policy will support this. This has to be guaranteed regardless the way of financing some elements of agricultural policy.

8.3.4 Sustainable production

Sustainable production can be defined in different ways but should relate to environmental and social-economical aspects. Sustainable production is often considered as a process to attain a more balanced situation between economic aspects (profit, income, employment, etc.) and the interests of the society in, for example as regards to agriculture, a pretty landscape and a minimum of emissions of pollution towards air, soil and water.

Over the last decades technical and economic opportunities to intensify agricultural production by using larger volumes of chemicals (mainly pesticides to protect crops, fertilisers to increase yields) have increased much. This resulted in environmental deterioration in a number of countries of the EU, mainly in regions with many 'high value crops' (potatoes, flower bulbs, vegetables). At the same time in some regions like in the Netherlands, Belgium and Germany, the density of livestock (in large part pigs and poultry on farms with often only few hectares of land, as well in some regions with a high density of dairy cows, for instance 4 per hectare) increased very strongly, resulting in a surplus of manure (minerals) for soil and water as well as emissions of ammonia.

In both cases measures were and still are necessary to adjust the agricultural production process and structure. It became clear that economic interests (incomes of farmers, volume of production of agro-industries) restrain a fast adjustment. Interest groups of farmers request often compensations of the government and only a small group of farmers is willing to restrict environmental deteriorating practices on a voluntary base.

For countries like Poland in which the farm sector moves towards a modern and larger scale structure, the experiences in old Member States may be worthwhile for the design of policies on the development of the sector. For instance, the use of chemicals such as

pesticides could be restricted by an intensive system of advice (extension, training based on research at experimental stations and experiences of farmers) to growers. The risk of an 'overuse' of minerals (manure) could be resisted for instance by rules on a maximum herd size in relation to the acreage of a farm (as in Denmark) or by requiring guarantees for a balanced outlet of manure (as in the Netherlands), both in combination with a set of initiatives to improve farm management.

Mid Term Review

The MTR proposals can support the development of a sustainable production:

- The decoupling of direct payments will finish the obligation to maintain the size of the herd cattle without losing premium rights;
- Lower cereal prices will decrease the advantages of regions importing cheap substitutes of cereals and more in general of farms buying compound feeding stuffs. This creates better opportunities for expansion in less intensive areas.
- Cross compliance with conditions set to production methods (controlled with a system of 'farm audits') will be implemented for farmers with direct payments above 5 000 euro.
- More money will be allocated for Rural Development Plans and structural policy instruments (second pillar).

On the other hand farmers may switch from cereals to crops with a higher use of chemicals and perhaps increase the use of these inputs to compensate the lower level of product prices.

Regulations and standards, preferably in a EU context on pesticides and minerals as well as agreements in the sector between farmers and the agribusiness (processing and distribution) are necessary to arrive in a more balanced situation. Codes of Good Farming Practices as well as (common) rules of super markets (united in EUROP) can support this under the condition that farmers experience remuneration for their efforts.

Organic production

Organic farming in the Netherlands is still a small part of total production (in 2001 some 1.5% of agricultural production value). So far, it is far behind Denmark and Austria, where some 10% of farms produce organically. Financial support based on the EU regulation help farmers to shift to organic production methods. Expansion of organic production is restricted because of bottlenecks in the markets (prices for organic products are relatively high and only a part of the consumers is willing to pay that extra for organic products) as well as limited labour supply (to pull out weeds in crops). The objective of the Dutch Ministry is to have 10% organic production in 2010. It is hoped that major stakeholders in the food chains, such as large retailers/ supermarkets and processors (dairies, slaughterhouses), will invest more in the marketing of organic products. Research activities of among others LEI are actually aiming to stimulate the collaboration between partners in the food chain. In the Netherlands SKAL standards act to control production.