



MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

COMMON AGRICULTURAL POLICY AFTER 2020 – POLISH PRIORITIES

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Introduction

The Common Agricultural Policy (CAP) is the only fully Community EU policy, important not only for farmers and food producers, but also for rural residents and EU consumers. Through subsequent reforms, this policy has met new challenges, becoming an integral part of the EU strategies and economic policies which include the EU into global efforts for the sustainable development.

This paper presents the point of view of the Polish Government on the future of the EU agricultural policy. It takes into account the current, still preliminary nature of the EU discussion on this subject.

The first exchange of views on the shape of the CAP after 2020 was held during the informal meeting of the EU Ministers of Agriculture on 29-31 May 2016 in Amsterdam. The EU ministers of agriculture also met in Chambord (France) on 1-2 September 2016 and discussed the Brexit effects for the agricultural sector. During the meeting of the ministers of agriculture of the Visegrad Group countries and Bulgaria, Romania and Slovenia, held in October 2016 in Warsaw, the CAP benefits (also in the context of the EU budget) were considered and a need to continue the CAP in a manner guaranteeing the level playing field on the EU single market was discussed. The first formal exchange of views in the EU Council for Agriculture and Fisheries was held on 6 March 2017.

Detailed proposals for the CAP for the years 2021-2028 will be presented by the European Commission at the turn of 2017 and 2018, first in the communication, and then in the legal drafts. The new shape of the CAP will be decided upon by the governments of the Member States (EU Council for Agriculture and Fisheries) and the European Parliament.

The fully Community nature of the CAP and a wide range of objectives and public tasks it implements justifies a substantial share of this policy in the EU budget. Important are also the ever-changing external conditions – both sectoral (e.g. increased volatility of agricultural markets) and the international commitments of the EU (e.g. on climate change, UN sustainable development goals or further trade agreements of the EU).

The Polish priorities regarding the future CAP, as presented in the paper, are based on Polish experience, analyses and evaluations of this policy, studies of national and foreign scientific institutions and the conclusions from the ongoing debate in the EU.

It is essential that the new solutions provide a level playing field on the single market and are consistent with the Treaty principle of equal treatment of EU citizens on the grounds of nationality (Article 18 of the TFEU) and do not violate the non-discrimination principle among producers within the EU (Article 40(2) of the TFEU). Such a position is also presented by the Polish Parliament (Resolution of the Senate of the Republic of Poland, 16 February 2012, Polish Monitor item 111, Resolution of the Sejm of the Republic of Poland, 25 April 2012, Polish Monitor item 295).

The paper also presents the criteria to be followed by Polish Government in assessing further proposals for the CAP. The Polish position will be updated at the further stages of the EU process.

Common Agricultural Policy after 2020 from the Polish perspective

1. **The CAP is a wide-ranging, fully common EU policy, which is one of the foundations of the European Union.** It implements the growing catalogue of public objectives and through consecutive reforms responds to new challenges. The CAP is responsible for the conditions of competition on the single market, while determining the predictability and stability of agricultural activity in the EU.
2. The CAP also in the future should provide the EU society with high-quality food, i.e. assure food security, while contributing to achieving the **sustainable development** goals, including maintaining land, water, and air resources as well as biodiversity in a good condition for future generations.
3. The **CAP budget** should reflect the **high European added value of this policy**, especially as the basis of the single market of agricultural and food products and in the social, environmental and EU cohesion terms. The reduction in the CAP budget in relation to the GDP of the EU-27 would limit the CAP's effectiveness in achieving the Community objectives.
4. Providing a **level-playing field to compete** on the single agri-food market is an important task of the future CAP. For this purpose, it is necessary to, inter alia, depart from the historical criteria of allocating the resources for direct payments and complete the process of **equalising the level of direct payments** among the Member States.
5. The Treaty objectives of the CAP, particularly with regard to **stabilising the agricultural markets**, must be implemented effectively so as to prevent crisis situations in agriculture. This requires the more active use of the common organisation of agricultural market measures. It is also necessary to **improve the functioning of the market chain and prevent protectionist practices** emerging on the EU single market.
6. As the link between the EU and the global market is growing, the level and **stabilisation of farm income**, especially in case of small holdings, will strongly depend on direct support and income diversification. In turn, larger commercial holdings need more effective **instruments to manage production and price risks**.
7. It is necessary to strengthen financing of the CAP's second pillar and maintain existing **cohesion criteria of** budgetary allocations for this pillar. Also, it is necessary to involve other EU policies for rural development.
8. The current legal arrangements leave room for further **modernisation of the CAP in an evolutionary manner**, without fundamental changes in the structure of this policy. Real simplification of both individual measures and of the CAP itself for the period after 2020 requires, inter alia, greater **confidence in the Member States** with regard to the planning, implementation and control in accordance with the principle of subsidiarity.
9. There is a need to **coordinate the CAP with other EU policies** (inter alia, trade, environment, climate, energy, development, cohesion, competition, public health), which increasingly affect agriculture and the food production sector. The implementation of ambitious objectives with regard to other EU policies will not be possible without the ambitious and fully common agricultural policy.

I. Need for the strong and fair CAP after 2020

1. In the face of global challenges and the growing uncertainty, the EU Common Agricultural Policy also in the future should provide the EU society with security of supplies of high quality food, while stabilising the conditions of agricultural activity, supporting its competitiveness and taking care of the sustainable rural development.

— The CAP is responsible for implementing its Treaty objectives, unchanged since 1957 and accepted by all the Member States. The CAP has evolved over the years to meet new challenges while maintaining the continuity of support, strengthening the market orientation of EU agriculture and extending its public functions.

— Volatility of global markets and increasing opening of the EU to the international competition, requires predictable solutions under the CAP, especially stable financing, and a common approach to solving cross-border problems.

2. Poland opts for the budget, which reflects the high European added value¹ of the CAP and its public objectives. The budget should guarantee the full Community nature of this policy.

— The challenges facing EU agriculture and rural areas are of Community nature and require joint action. The answer to these challenges at the national level only would not guarantee the expected effects or would lead to distortions of competition. Decisions on the budget should take into account that the CAP also contributes to strengthening the political, economic and social cohesion of the EU.

— The CAP guarantees functioning of the common market of agri-food products which is one of the key achievements of European integration. The role of this policy in providing a level playing field increases because the capacities of national budgets are differentiated and the protectionism on the single market is growing.

— The CAP and the single, competitive EU market contribute to the cohesion of the European Union by narrowing the development gap among Member States' agri-food sectors and rural areas. Investments from the CAP funds enhance economic and social convergence and the single market allows the Member States (especially the less wealthy ones) to use their comparative advantages in the sector. Polish experience shows that the CAP also contributes to levelling-out the developmental differences between rural and urban areas.

— The size of the CAP budget should reflect the changes in the agri-food sector, including a decrease in the level and increase in volatility of agricultural prices, weakening position of farmers in the market food-chain and the different impacts of EU trade

¹ The European Added Value, in general, means additional benefits from the activities (policies) implemented at the European level in relation to the effects which would be achieved by separate policies of the individual Member States in a given area. This term is closely related to the principle of subsidiarity, according to which the EU takes over these tasks which it may implement more efficiently than the governments and regions of the Member States. The concept of the European Added Value has emerged in the EU debate in the context of reviewing the budget of the EU Multiannual Financial Framework. So far, no uniform criteria for evaluating the European Added Value have been established at the EU level.

agreements in Member States and across the sectors of the economy. We should also note that the level of support for agriculture in the developing countries has increased², and the new U.S. administration has announced returning to the protectionist policy.

- The CAP is no longer exclusively a sectoral policy. It is involved, directly or indirectly, in implementation of many public tasks and the international commitments of the EU. More than one-third of the CAP budget in the years 2014-2020 is linked to the environment and climate measures. This dimension of the CAP is often expected to be strengthened.
- Increased EU activity within other Community policies (e.g. trade or environment and climate policy) which often increases the cost of agricultural production and investment risk in the sector enhances adaptation and compensatory function of the CAP. Without providing uniform solutions under the CAP, increasing the requirements (e.g. environmental, climate, animal welfare)³ would be difficult to reconcile with opening of the EU market to competition from trade partners with lower production standards.
- Maintaining at least the existing financial dimension of the CAP in relation to the EU-27 GDP (in the current MFF, the allocations for the EU-27 correspond to 0.43% of the EU-27 GDP) is, therefore, necessary to maintain the efficiency of this policy. Attempts to shift the burden of financing the CAP to the national budgets of the Member States, e.g. by co-financing direct payments, will not be supported by Poland.

3. The future CAP should provide the level playing field on the EU single market. Therefore, Poland demands to equalise direct payments among the Member States.

- The equalisation of direct payments is necessary for competitive functioning of the EU single market, as well as for the sustainable use of agricultural resources in the EU. This would also serve the implementation of the Treaty objectives in the field of economic, social and territorial cohesion and respect for the principle of equality of the EU citizens. Differences in the amount and intensity of production from before several decades (determining the amounts of national envelopes of direct payments in the Member States) should not determine the level of support for the implementation of the present and future CAP objectives⁴.
- Distribution of support for direct payments between Member States based on the criterion of the uniform area rate across the EU (*flat-rate*) well corresponds to the

² Cf. *Agricultural Policy Monitoring and Evaluation 2016*, OECD

³ In the economic sense, the objective to increase the requirements is to shift to the producers (internalisation) of external costs of pursuing the (agricultural) activity which, in conditions of covering all (agricultural) producers with these requirements and with the competitive functioning of the markets would lead to a partial shift of the rise in these costs to the prices paid by consumers.

⁴ The basis for determining the amount of subsidies in each EU-10 country were, as established in the Treaty of Accession, national baseline areas and reference yields of crops in the EU-10 countries, as well as the animal numbers, which under the solutions applicable in the CAP during the negotiations received various bonuses (related to rearing or slaughter of the animals). The reference yield for Poland has been established at the level of 3 tonnes/ha which resulted from the average cereal yield in Poland in the years 1994/95-1998/99 (exclusive of two extreme years). The baseline area covered the area of 9,455 million ha. The reference yield determined for Poland was much below the EU-10 average (3,3 tonnes/ha). Even the very application of up-to-date (contemporary) production intensity indicators would partially bring together the support rates per area unit. However, Poland shares the view/assumption supporting the partial convergence mechanism applied in the current programming period that the best (in terms of the objectives of this instrument) and pragmatic criterion of allocating direct support should be the UAA resulting in the uniform area rate i.e. flat-rate.

current and future CAP objectives. In particular, the utilised agricultural area to a large extent determines the scale of the environmental impact of agricultural activity.

4. It is necessary to strengthen financing and maintain the existing criteria of distribution of support between Member States for the second pillar, while providing greater involvement of other EU policies for rural development.

- Support for the social and economic cohesion in the EU is still a valid task for the CAP. The criteria for the rural development allocations between Member States should, as yet, to the largest possible extent, take into account the differences in the wealth of rural residents, their number and utilised agricultural area.
- Most rural areas belong to the least-favoured EU regions, whose GDP *per capita* is much lower than the European average. Therefore, rural development is still an important challenge for the sustainable territorial development, and these areas require support as regards increasing the level of employment, living standards and the development of non-agricultural functions, which requires the complementary involvement of several EU policies.

II. Maintenance of the current CAP structure after 2020

5. It is necessary to maintain the three existing CAP components: common organisation of agricultural markets, direct payments (first pillar) and support for rural development (second pillar).

- A major challenge in the agri-food sector has become management of the common organisation of agricultural markets, including responding to ever-changing market conditions. The Treaty objective of the CAP as regards market stabilisation should be effectively implemented at the EU level – gradual transfer of responsibility for this task to the Member States (as in the recent crisis in the milk and pork markets) may lead to distortions of competition on the internal market.
- Also after 2020, direct payments should ensure: i) support and stabilisation of agricultural income, ii) level playing field on the single EU market (due to their dominant share in the CAP budget), iii) compensation for costs and lost income related to the implementation of the high EU standards (with regard to production methods, in particular, the environmental requirements and tasks), as well as iv) maintenance of agricultural production in the least-favoured regions (in connection with the measures of the second pillar of the CAP)⁵.
- The second pillar of the CAP should focus on reducing the differences in the level of development of the agricultural sector, strengthening the position of producers and processors on the global market and creating the conditions to stimulate the

⁵ In order to take into account new challenges and to increase the efficiency of the CAP for the 2014-2020 period, the primary instrument of this policy, i.e. direct payments, has been reconstructed. New mandatory elements have been introduced (e.g. greening, degressivity), while providing the Member States with a possibility of targeting and adjusting the distribution of this form of support to the specific structure and problems of the agricultural sector.

development of economic, social and environmental-oriented activity in rural areas related to agri-food production. One of the key priorities of the CAP after 2020 should also be supporting the emergence and implementation of innovations in the agri-food chain.

6. Scope of activities and legal framework of the CAP, established during the reform of this policy in 2013, are a good basis for implementing the CAP objectives also after 2020, although a number of detailed modifications and simplifications is required.

- A wide range of instruments of the current CAP, which reflects the achievements of the reforms of this policy (inter alia, stronger targeting of support, inclusion of new tasks), provides sufficient scope for further modernisation and necessary simplifications. Also, existing experience as regards implementing the current solutions, the high complexity of the legal regulations and the time-consuming legislative process support carrying out the necessary adjustments of the CAP for the period after 2020 without another in-depth reconstruction of this policy.
- Improving the effectiveness and efficiency of the CAP would be supported by strengthening the integrated approach to programming of all its instruments, bearing in mind the complementarity and synergy among them, a need to focus on the EU strategic objectives, and taking into account the national structural and social conditions. It would also be supported by increasing the reliance on Member States' competences with regard to the planning, implementation and control of the implementation of the individual instruments, in accordance with the principle of subsidiarity.

III. Modifications of the detailed solutions in the CAP after 2020

Common organisation of agricultural markets

7. Instruments of common organisation of agricultural markets should be used actively so as to more efficiently prevent crisis situations on agricultural markets.

- The current safety net does not work effectively. The current level of intervention prices does not reflect market realities, including, in particular, growing costs of production. It is important that in case of market crises, available instruments are used timely and efficiently and are not dependent on the discretionary decision of the Commission only.
- In the current formula, ineffective is also the crisis reserve. It could be used for the flexible response to variable needs of agricultural markets, but this would require a major change in the rules of its functioning, including, first of all, the sources of financing.

8. Bargaining power of agricultural producers and processors in the food chain needs to be strengthened.

- The incentives to create producer groups and organisations as well as cooperatives should be increased to rise their market share. Currently, support provided for this purpose in the provisions on rural development is insufficient.
- In response to unfair trade practices in the agri-food chain harmonised regulations at the EU level are also necessary. These practices undermine the position of farmers and processors, as well as of consumers and distort the competition on the single European market. Voluntary solutions (e.g. „the code of good practice”) may only play a supporting role.
- Further development of market risk management instruments, including futures markets is essential due to price fluctuations. However, the differences in the structure of agricultural holdings in various regions of the EU and interactions with other CAP activities must be taken into account.

9. Alternative channels of distribution, including short supply chains and local markets should be supported more efficiently, as they increase farmers’ share in the value added chain, promote the development of organic and traditional production and strengthen ties between farmers and consumers.

- Support for the development of alternative channels of distribution, including direct sales, should be strengthened, especially to boost development opportunities for small holdings, producing mainly for local markets.
- It is also necessary to analyse possibilities how to support the development of trading platforms in agri-food commodities with the use of Internet tools, which should improve the efficiency and transparency of the markets on which larger commercial holdings operate.
- Comprehensive support for organic and GMO-free production, which may become the European speciality on international markets, should be provided. This requires, *inter alia*, strengthening (innovative) product traceability systems.

10. Measures promoting demand for EU agri-food products and healthy eating habits of consumers, available under the common organisation of agricultural markets, should be used to a greater extent.

- Promotion policy plays an important role within the CAP. It enables European agricultural producers to reach new markets and establish new trade relations. Mechanisms to promote and support exports should play an increasingly important role in maintaining the supply and demand balance on agricultural markets.
- Programmes to promote healthy nutrition, which operate under the CAP („School Milk Scheme”, „School Fruit and Vegetable Scheme”), play an important role in shaping good eating habits, particularly among children and adolescents. These programmes should

be continued, taking into account the assessment of the effects of their changes introduced as from 2017/2018 („School Scheme”).

Direct payments

11. The direct payment system should be focused on the basic functions of the agricultural policy and new European challenges, along with simplification.

- Changes in the direct support system, implemented since 2015, strengthened its focus on the main, current objectives of the EU agricultural policy, giving also an opportunity to optimise the structure and intensity of this support (within national envelopes) to the specific conditions and needs of the Member States.
- Successively collected experience and analyses of the achieved effects may be a basis for further targeting of support to holdings that create and maintain jobs, contribute to sustainable growth and development of rural areas and other CAP priorities. Such targeting may be achieved through reviewing such parameters as: (i) share of individual payments in financial envelopes, (ii) degree of flexibility for the Member States and farmers, (iii) shape of individual requirements and (iv) links (integration) with other components of the CAP (e.g. greening with the activities with the second pillar of the CAP). The further improvement in the efficiency of the direct payment system does not need any deep legislative and institutional changes.
- Other forms of direct support and stabilisation of agricultural income (e.g. income stabilisation instrument or counter-cyclical payments) applied in some OECD countries (e.g. in the USA) may be taken into account only as complementary, voluntary or pilot instruments (due to, *inter alia*, the fragmented structure of the EU agricultural sector).

12. Possibility of targeting support at small and medium-sized agricultural farms should be maintained.

- Small farms are an important element of the European Model of Agriculture and serve well the sustainable development goals, especially in terms of the employment policy, environment protection and social cohesion in rural areas. Possibility to target part of direct support to these holdings in a form of redistributive payment and small payment scheme should be maintained.

13. Coupled payments to selected sectors should be maintained.

- It is necessary to maintain the possibility of using coupled payments in the sectors of particular social, economic and environmental importance and to provide the greater flexibility of this instrument, *inter alia*, by an option to apply these payments in other sectors than it is now, within the framework of the existing EU commitments in the WTO.
- In particular, it should be possible to promote production of protein crops given the deep deficit of the EU in plant protein (including GMO-free protein) and the role of these crops for the soil and climate protection.

14. Direct payments effectively promote the EU environmental objectives. The current scale of greening is the proper compromise between traditional (income support) and new (environment and climate) challenges. Any potential change in the requirements in this regard should result from a thorough assessment of existing experience.

— Environmental effects in the future may be pursued without increasing administrative costs, by: (i) cross-compliance, (ii) greening component, (iii) targeted coupled payments and (iv) implementation of the environmental measures (including support for the Natura 2000 sites) within the financially strengthened second pillar of the CAP. The positive environmental effect of the CAP will also depend on maintaining the diversified structure of the sector, including the differentiation of agricultural production, in relation to the European model of agriculture.

15. The single area payment scheme (SAPS) proved to be efficient and it should be made available for all EU Member States in the future.

— The SAPS, introduced for the countries joining the EU in 2004, is consistent with the WTO rules and priorities of the CAP reforms in terms of the greater market orientation, equalising support rates and simplification. It is also comprehensible to farmers and well adapted to the new objectives of the CAP. The introduction of direct support based on (historical) payment entitlements in the Member States currently applying the SAPS would lead to the large complexity of the scheme, undermining the credibility of the objective to modernise and simplify this policy.

16. Further simplifications of the direct payment scheme both for farmers and for administration should be pursued.

— To this end, the potential of the LPIS system may be used, which in combination with the application of new geospatial data collection techniques may contribute to building a more efficient, less burdensome for farmers and cheaper systems of application and control.

Second pillar of the CAP for rural development

17. Second pillar of the CAP should remain an important part of integrated and complementary EU policies (including the cohesion policy and first pillar of the CAP) supporting rural development and other economic, cohesion and environmental EU objectives.

— Poland supports the conclusions of the Cork Declaration 2.0 and stresses that in the current programming period progress was achieved in including the EU and national strategic objectives into the rural development programmes, which improved the efficiency and effectiveness of EU policies affecting the rural development.

— Rural areas have a big potential in solving many economic, social and environmental challenges faced by the EU and their contribution should be more strongly reflected in support focused on the territorial development under various Community policies.

18. Further increase of the competitiveness and innovation of the agri-food sector should remain an important part of rural development under the CAP's second pillar.

- Modernisation and investment instruments, which promote creating new jobs and competitiveness of the agri-food sector and related activities located in rural areas (processing, renewable energy, services), should still be of major importance. These instruments trigger endogenous potentials for the development of rural areas and reduce differences in the rural and agriculture development among the Member States, as well as among the regions.
- It is also necessary to support transfer of innovative solutions to agriculture, to effectively reconcile short-and long-term economic and public objectives, including environmental and climate related ones. In particular, it is necessary to support the development of innovative solutions tailored to the needs of small and medium-sized farms.
- It is necessary to maintain the targeted instruments for the adaptation to and prevention against negative effects of climate change and for protection of biodiversity related to farming as well as prevention of natural disasters and catastrophic events.

19. The second pillar of the CAP is an important tool for implementing the European objectives for the environmental protection and climate change.

- An important task of the CAP is to protect environmentally valuable areas, not only agricultural, but also rural, and to create simple and result-oriented environmental services addressed to farmers and other beneficiaries managing these areas.
- It is necessary to continue activities focused on the management of water and agricultural waste. It is also necessary to strengthen education and training measures for rural residents, to increase their environmental awareness and knowledge on the links between agriculture and climate change.
- The contribution of agriculture to climate protection and to building resilience to climate change should concentrate on protecting existing and building new resources of organic carbon in soil and biomass of agricultural origin and on the development of renewable energy sources (RES). This approach, implemented through the activities in both pillars of the CAP, will provide the synergy of the mitigation and adaptation objectives. It is also the least burdensome for the competitiveness of EU agriculture and takes into account the specific nature of its structures and production systems in the EU.

20. Financial instruments should play a complementary role to grants.

- The financial instruments should be tailored to the nature and assumed objectives of interventions under the CAP. They should be complementary to grant-based support and should be implemented gradually.

21. It is necessary to simplify implementation rules of the rural development policy.

- In case of the second pillar of the CAP, which is subject to the regulations of the cohesion policy, rural development and to the CAP regulations, important is the

harmonisation of the regulations, reducing administrative burdens, including, *inter alia*, maintenance of the principle of proportionality in relation to sanctions and guaranteeing their non-retroactive application.

IV. Conclusions – criteria in evaluating the future solutions for the CAP

The solutions tabled during the further debates on CAP will be evaluated by the Polish government in line with the following criteria. In Poland's opinion, the solutions within the CAP in the next financial perspective should:

- guarantee the effective implementation of the **Treaty objectives of the CAP**;
- maintain the fully **Community nature of this policy**, including, in financial terms;
- guarantee the **level playing field** for Polish agriculture on the single market, in particular through the harmonisation of: (i) the amount of compensation (direct payments) for uniform requirements, (ii) the degree of flexibility and national competence with regard to the implementation of the CAP in the EU Member States;
- **reduce the differences in the agricultural and rural development** – improving the socio-economic cohesion should still be reflected both in financial and programme terms and in the proposed instruments of the CAP;
- **serve the development of small and medium-sized family holdings**, which, *inter alia*, determine the viability of rural areas in the EU, their sustainable development and jobs;
- be **simple and transparent**, for both the beneficiaries of this policy, as well as for other EU citizens and reduce administrative costs to a maximum extent;
- take into account the **environmental and climate aspects** using, in the first place, the effects of synergies with the European Model of Agriculture based on family farms, while minimising the negative consequences for their international competitiveness;
- take into account the **changes in other EU policies** which affect the conditions of the functioning of agriculture and rural areas;
- take into account **health aspects of food** – both quality and safety, as well as a need to support consumption structure reflecting health needs of the population.