

THURSDAY 6 DECEMBER 2007

Present

Dundee, E.
Greaves, L.
Jones of Whitchurch, B.
Plumb, L.
Sewell, L. (Chairman)
Ullswater, V.

Witness: **Mr Benjamin Gawlik**, First Secretary (Agriculture), Polish Permanent Mission, examined.

Q777 Chairman: Thank you very much indeed for coming and helping us with our inquiry.

We are very grateful to you for finding the time.

Mr Gawlik: I hope it will be a great pleasure for me. It is the first time I have spoken before such an honourable audience. I hope I will be able to answer all of your questions. I must admit I might have some problems with answering questions concerning rural development. Unfortunately, I am not a specialist in this area but I have some handouts from my colleagues from the capital so I will try to use them from time to time.

Q778 Chairman: We are a Sub-Committee of our European Union Committee and for us this is a formal evidence session, so a record will be taken. If you want to say anything off the record just tell us. The other thing is you will get a copy of the transcript as soon as it is ready so you can make any revisions. I suppose a good starting point is to ask you what has been the experience of Polish agriculture since Poland joined the EU and what effect has joining the EU had on your agriculture?

Mr Gawlik: From our perspective, and that of our farmers, the CAP is a marvellous tool. Just before accession farmers were the most euro-sceptical part of our society and according

to the polls only 20 per cent of farmers were in favour of joining the EU and accession. After accession that figure has changed dramatically and 70 per cent of farmers are euro enthusiasts. From the farmers' perspective it was a good thing and they have profited from accession and for the part of the economic sector concerning agri-food it has been a positive thing. From accession our export to the European market has increased to both old and so-called new Member States. The overall net balance of trade has risen by five times during the first two years. It has been quite positive. Our sector, especially the processing sector, has made quite good progress if you take into account that before accession in 2000 or 2001 there were only 100 processing establishments which could sell to the European market and after accession there are more than 2,000 establishments in the sector of meat processing and dairy processing which sell to the European market. It is true that at the beginning some of the processing plants had transitional periods to adjust and there were close to 700 such establishments which were listed in an annex to our Act of accession. Right now the end of the transitional period is approaching and I asked my colleagues in the capital and it seems a couple of them will not adjust in time. It is also worthwhile mentioning that many of them had adjusted even before the end of the agreed period for adjustment. Some of them have adjusted totally but for some of them, if they were involved in a different type of business, let us say a meat processing plant which also had a slaughterhouse, to adjust the slaughterhouse was very costly so they just closed the slaughterhouse and invested in the rest of the business.

Q779 Chairman: The benefit to Polish agriculture has been more the access to European markets, that has been the main thing, rather than CAP payments, is that right?

Mr Gawlik: CAP payments, yes, and all the instruments which are connected to the CAP. Most of the farmers feel that there is still unequal treatment on the European market, at least in the case of farmers because they started from 25 per cent of the direct payments. Definitely the introduction of the CAP led to a more stable market for the farmers and direct payments

have led to an increase in their ability to modernise. On the other side there was also part of the rural development support even before accession, the so-called SAPARD¹ programme, which was used quite efficiently by our processing industry. Maybe less by the farmers but definitely by the processing industry. After 2004 farmers had access to the second pillar as well.

Q780 Lord Plumb: So market prices have risen by what sort of percentage?

Mr Gawlik: It varies from market to market. In the case of sugar beet the rise in prices was close to 50 per cent and there was also similar rise in the sugar prices for the final consumers. After accession sugar beet production became one of the most profitable types of agricultural activity in Poland. A growth of producer prices that was also the case for beef production and pork production. In certain types of production, like pork or poultry, there was an increase in prices immediately after accession but in the case of poultry, for example, there was a drop back to the levels before accession just after these problems with avian influenza at the end of 2005, beginning of 2006. The market for pork is very volatile. Prices rose just after accession but then they dropped once again to the levels noted before accession. In the case of milk there was a rise in prices but that is more a European-wide phenomenon, not only connected with our accession, the increase in demand for milk and milk products on the European and international markets.

Q781 Chairman: Looking at the Health Check, various elements within the Health Check, do some cause you concern or do some give you optimism? What is your view on the various elements of the Health Check?

¹SAPARD (Special Accession Programme for Agriculture and Rural Development) established in June 1999 by the Council of the European Union to help countries of Central and Eastern Europe deal with the problems of the structural.

Mr Gawlik: Our concern is the possible implementation of the intervention measures. That is the biggest concern. We think that will lead to a further decrease in prices. There is no space for discussion about diminishing the direct support because right now it seems there will be no additional compensation for the price drop. That is probably the most important concern. There are a couple of things which seem to be positive. For example, the Commission seems to see that our simplified system of direct payments, so-called SAPS², is quite efficient. It is appreciated by the farmers. It is also quite easy to manage for the administration. The Commission considers that it is worthwhile to discuss the prolongation of this type of system of direct payments up to 2013. It is quite a positive signal for us but we are rather disappointed that the Commission would like to leave it for discussion in the mainstream Health Check discussion and then we could expect a decision about the prolongation of SAPS at the end of 2008. Right now, this is a good occasion to discuss the prolongation of the system because there is a proposal concerning the simplification of the cross-compliance discussed in the Council and within the framework of this discussion on simplification we presented our request to prolong the system. It is hard to understand why the Commission cannot agree to our request. It is not only a Polish request but a request from many of the new Member States who apply this system. Why should we wait for the end of 2008 to possibly have a positive result from the Health Check discussion on the prolongation of SAPS? As a positive signal we see the possibility to discuss the so-called “fatter” rate payment in the case of direct payments. We apply flat rate payments and, in fact, we have only a couple of markets where we have higher and differentiated support but mostly due to the so-called complementary direct payments from the national budget. It is just for a couple of products where in the past support in the EU was quite high and it would be discriminatory

² Single Area Payment scheme

for our farmers if they were not paid at a level a little closer to their colleagues from the EU-15 can get for tobacco production, hops or potato starch production. We think the Commission could be more ambitious because, as it is presented in the document, it will be a possibility to have a “flatter” rate payment but only at the Member State level. We think we might be more ambitious and start to discuss “flatter” rate payments within the European Union.

Q782 Chairman: The philosophy behind much of the reform recently, and even going forward into the Health Check, is very much to get European agriculture more market-oriented moving away from product subsidies, direct subsidies generally, and the farmer getting a greater return from the market and if that means structural change in agricultural industries then so be it. Is Poland comfortable with that approach or is Poland really looking to defend its direct income?

Mr Gawlik: We would definitely like to retain the direct income support if there is any change in the price level. For us, there is no room for discussion about the level of direct payments, especially as we are still waiting to get full direct payments. At the time when we reach this full direct payment level, for us it might be the time to be on a level playing field with everybody else within the EU. In relation to your question, at least in the case of Poland, and probably in the case of many new Member States, when we apply this simplified system, and there is single support or a single rate of support for one hectare of arable land we think it leaves farmers with the possibility to adjust to market signals.

Q783 Viscount Ullswater: The 2003 reform made the receipt of SAPS, in your case, dependent upon cross-compliance. I am wondering how that cross-compliance was implemented in Poland. The Commission in the Health Check are proposing some amendments to that, and you have mentioned those already and said you are in favour of

them, but could you say what changes particularly you would welcome and the arrangements around cross-compliance.

Mr Gawlik: In the case of Poland and the simplified payment system, right now we apply good agricultural and environmental condition³. It is implemented now and respected by the farmers and controlled during the checks connected with the direct payments. In relation to cross-compliance, the provisions on which cross-compliance is based are fully implemented in Poland but cross-compliance as such will start to be implemented from 1 January 2009⁴. Right now there is discussion in the Council on the proposal from the Commission to implement this cross-compliance in new Member States in three stages, as in the case of the old Member States, starting from 2009 with a part A of these cross-compliance requirements from Regulation 17/82/2003⁵. These are environmental requirements. From 2010 these are health and sanitary requirements which should be respected and from 2011 animal welfare requirements. We agree with starting the implementation of the environmental requirements from 2009 but we think the new Member States should have the possibility to implement cross-compliance in the longer term. We agree with the three steps approach the Commission has proposed but we propose two year-intervals between each step so full cross-compliance will be implemented from 1 January 2013. It will be the time when our farmers will receive full direct payments. Why would we like to see such a longer period for the implementation of cross-compliance? First, it will be quite a task for our administration to implement this. Most of the administrations, even in the old Member States, have had problems with the implementation of this. As far as I remember from discussions at the Council level there was the issue of the one per cent of farms which should be checked for the cross-compliance and different requirements are controlled within the Member States by different inspection bodies,

³According to the Article 5 of the Regulation (EC) 1782/2003 with later amendments

⁴According to the current legal framework

⁵Point A of the Annex III to the Regulation (EC) 1782/2003 with later amendments

so there is this problem of co-ordination. Even old Member States have problems with that. We will have to control 15,000 farms as far as the environmental requirements are concerned.

Viscount Ullswater: Quite a vet!

Q784 Chairman: Would it be a good thing to have fewer farms?

Mr Gawlik: I thought that might be your next question! As far as the animal welfare requirements are concerned we think that even though the law is implemented it might be the hardest part for the farmers to adjust to fulfil these requirements.

Q785 Viscount Ullswater: Will that be because of investment?

Mr Gawlik: Exactly.

Q786 Viscount Ullswater: Investment rather than cultural?

Mr Gawlik: If you take into account that right now there are about 600,000 pig producers and they will have to adjust to the stock density requirements, or a certain number of these farmers will have to adjust, especially those who are smaller but are still producing for the market, they have to adjust and there will not be enough money from the rural development sources for them. Of course, due to the lower direct payments they will not have as much possibility to invest due to their lower incomes.

Q787 Lord Plumb: It is the next question. We are well aware that there are a lot of hard working and quite efficient smaller farmers in Poland but there are big farmers too. What is your view on, in effect, what is called the capping of the upper and lower level holding back payments at a certain level possibly? What is happening structurally? Are changes rapidly or gradually taking place in structural reform? To what extent is investment taking place from foreign investment and is that permissible, legally can people just come in and buy land, and are they doing so? I will ask my other question at the same time and you can answer

altogether, if you like. The other question is on the whole question of milk quotas. The Commission, as you well know, have proposed the elimination ultimately of milk quotas. They are in being at the moment and the proposal now is to increase the milk quota by two per cent making a softer landing when they are eventually eliminated. Does that commend itself to Polish farmers?

Mr Gawlik: I will be quite brief here because we are still analysing the issue of the upper limit. In our case, in relation to the lower limit, an agricultural holding is considered as a farm when it has at least one hectare of arable land. The signals from the Commission are that there will be quite a large degree of flexibility for the Member States to state what they would consider as a farm. Right now we think we will have no problem with the lower limit, if there is any.

Q788 Chairman: Do you want to keep a lot of farms of the size of one hectare?

Mr Gawlik: In our case if we keep them away from the business that will be a couple of thousand farms or hundreds of thousands of farmers and there will be no real alternative for those people. They have to have something to earn their living.

Q789 Lord Plumb: You said there are 600,000 pig farmers.

Mr Gawlik: Yes.

Q790 Lord Plumb: What is the average number of pigs per holding?

Mr Gawlik: I am afraid I do not know.

Q791 Lord Plumb: I am talking very generally.

Mr Gawlik: I would be pleased to provide you with that information⁶.

⁶According to the EUROSTAT data for 2005 the average pig number per holding was 31.3 animals

Q792 Lord Plumb: I think it would be very interesting to look at this and see what is happening.

Mr Gawlik: What concerns the pig farming, and it is connected with your first question, my Lord Chairman, is that there is quite a big change in the concentration of production, so middle and medium-sized farms are more important in production for the market than small farms. Concentration is quite visible. Those farms which produce for the market and are the most efficient are of a bigger size.

Q793 Lord Greaves: Are the very small farms mainly producing for themselves, for their families, or do they sell at markets in the villages and so on?

Mr Gawlik: It depends on what type of production they have. They produce mainly for themselves and partially to sell to neighbours and at local markets.

Q794 Lord Plumb: Do they add value? Do they kill pigs and make products from the pig meat and sell them? Is it something that is developing in the rural areas?

Mr Gawlik: I am not aware of that because then you have to fulfil quite strict sanitary and veterinary rules if you run this type of production.

Q795 Lord Plumb: Milk quotas?

Mr Gawlik: We welcome this discussion about the soft landing and milk quotas as such. You might be aware of the fact that two months ago we presented our proposal to the Council to increase milk quotas from the next marketing year by five per cent. (The answer continued off the record) It is welcomed by us that the Commission sees a possibility to increase milk quotas immediately from the next marketing year because there is room on the international market and the EU market to produce and sell more milk products. It would be wise to give our farmers, at least those who would like to use this possibility, the chance to produce more

for the market. In relation to milk quotas, we think it is not the best time to make a final decision about the abolition and dismantling of the quota system totally. It is quite a favourable situation in the market at the moment. It seems that everybody is quite enthusiastic and sees the possibility to dismantle the system. It would probably be less painful right now but nobody can question that the system as such has some stabilising value. Before the analysis we are not sure whether we should dismantle system totally.

Q796 Earl of Dundee: A theme of growing importance since 2003 has been the need to safeguard the natural environment and, of course, Poland has some of the most valuable areas of natural habitat and landscape. Through Pillar II and EAFRD are enough funds available just now to look after these assets?

Mr Gawlik: This is part of the question which I am not best prepared to answer but I will do it with the help of the notes from my colleagues. Within this rural development plan for the next Financial Perspective there are a couple of activities which concern the most endangered species of birds and most vulnerable habitats which are outside the Natura 2000 areas. To answer the question whether this money is enough or not it is hard to answer right now, we will have to wait and assess whether those actions are efficient. In the discussion about the Health Check we think that it would be worthwhile to start discussions about possible support for the farmers who operate on so-called vulnerable zones under the Nitrate Directive. As I understand it, they are excluded from the agri-environmental programmes right now which is connected with the principle of “polluter pays”. It might be worthwhile to start discussions about whether these farmers could be supported within the EAFRD.

Q797 Earl of Dundee: What efforts, if any, so far have been made, or maybe it is too soon, to exclude such farmers from the agri-environment programme?

Mr Gawlik: I am afraid I cannot answer your question precisely. If you are interested in obtaining this information I could provide you with it in written form⁷.

Earl of Dundee: That is very kind of you.

Q798 Baroness Jones of Whitchurch: Could I just ask a quick supplementary and, similarly, you may not be able to answer it but it is a more general point. Do the Polish farmers understand the need to protect the environment or do they see themselves just as farmers or do they understand why in the EU we might want the farmers to have a broader environmental responsibility as well? Do they understand that or do they think we are slightly odd for expecting that?

Mr Gawlik: They definitely understand it because they are working closely in relation to the environment so they rely on the environment.

Q799 Baroness Jones of Whitchurch: Would they understand if we made a case for stronger biodiversity or maintaining semi-wild habitats and things like that?

Mr Gawlik: In our case during the 1990s there were quite negative changes in agriculture and after the transition agriculture has been less intensive so it will not be so hard for them to adjust to the higher environmental requirements.

Q800 Lord Greaves: I have got a couple of technical questions on what I might call the rural development side of the rural development funds as opposed to the environmental side. Before asking them, I wonder if I can ask something else. I have been thinking about these hundreds of thousands of people on very tiny farms of perhaps one, two or three hectares, which in many ways are for their subsistence and so on, on a typical Polish farm of a very small size like this, will there be people who are not earning their income from the farm but

⁷This information is provided in the form of additional note to this transaction

who have other jobs? Would it be typical that if there is a couple, a man and a woman, that one of them might have another job and perhaps their children might have jobs? Would that be typical or would they all rely on the farm?

Mr Gawlik: In many cases it works like that. On those smaller farms, the farm is not the only source of income for them. In the past and for a certain period of time after transition⁸, it was even more common for them to be more small farmers who relied not only on their farms and later, due to economic changes, they were forced to rely on what they earned as farmers.

Q801 Lord Greaves: Because the other jobs had gone?

Mr Gawlik: Yes.

Q802 Lord Greaves: What sort of other jobs? We are talking about rural villages here, not next to towns where people can perhaps go into the town and have a job but out in the sticks, as we would say, what sort of jobs would they have?

Mr Gawlik: You mean in the future?

Q803 Lord Greaves: No, now. What sort of jobs might be available out in the countryside which are not farming?

Mr Gawlik: It depends on the region. If there is the agricultural processing sector in the region it might be those kinds of jobs. Sometimes it is not permanent jobs but seasonal jobs within processing. Sometimes it might be jobs within services, for example in communication and transport companies, wholesale and retail trade, construction sector.

Q804 Lord Greaves: It is jobs which are providing services for the agricultural community and agricultural economy of the area?

⁸It is after economic and political transition in 1989

Mr Gawlik: For the agricultural community but not only for that, for the general public as well.

Q805 Lord Greaves: That is very helpful. I must say I do not know how many of these people would come to this country and get similar jobs in similar industries nowadays, but we will not pursue that. Certainly quite a few perhaps, and presumably they will send the money back home and help to subsidise these little farms. Are those rural development funds integrated adequately with other European structural funds and, indeed, with Polish national programmes, whatever they may be? Has the presence of the rural development funds so far helped farmers in any significant way to improve their competitive position by improving their efficiency, perhaps by the amalgamation of farms, et cetera?

Mr Gawlik: I will have to take a look at my notes. Taking into account our experience from 2004-06, when we implemented these rural development measures under the old policy and when it was divided into two parts and partially financed by the structural funds, we can see it is quite positive that those funds have been integrated into one single rural development fund. It is also the case that the rural development programme should be quite efficiently integrated with other policies under the structural funds. Taking into account our experience it is quite obvious that support from the rural development funds, and only support from the rural development funds, for the rural areas is not enough. To solve problems like hidden and register unemployment deficiencies in infrastructure and services we definitely need more support from the structural funds in rural areas as well.

Q806 Lord Greaves: Does the Polish Government itself have programmes of development in the rural areas to help with this?

Mr Gawlik: I know that there was intense co-operation between two ministries, one dealing with regional development policy and the second one the Agriculture Ministry in this process

of preparation of a rural development programme to integrate it with programmes run within regional policy. Unfortunately, I cannot provide you with the result of that discussion. It was one of the requirements by the Commission to integrate both types of programmes. I assume our rural development plan was accepted by the Commission, so the Commission is satisfied with the result of this discussion between the two ministries.

Lord Greaves: It is still very early days. Thank you.

Q807 Viscount Ullswater: The Commission's Communication envisages two quite substantial changes, the end of export subsidies and also greater access to the EU markets for third-country suppliers. How far is Polish agriculture prepared for such a competitive environment in the future? Is there a good supply chain from the grower to the market already established? What changes do you see are either needed to react to this new competitive climate or just to improve the efficiency of the sector?

Mr Gawlik: For the European products a possibility for equal competition with products from the third countries is, let us say, hampered a little bit by all these strict and quite high standards which should be fulfilled by our farmers and our processing sector. In this respect, when the imports come from the countries where these standards are not respected or lower, our European industry is in a worse position. If we open our markets to imports from third-countries the possibility for sales of our products might be hampered and diminished. It could have some negative consequences for the consumers and generally for food security as such. There is a need to protect European agriculture in such a way as to secure food supply. The situation could be comparable to that of fuel security as well.

Q808 Chairman: But there will be continuing pressure, will there not? The commitment to abolish export subsidies is there and there will be continuing pressure to decrease tariff barriers, so there will be pressure to improve efficiency.

Mr Gawlik: Before accession, our agricultural sector as such was quite efficient and competitive, in many cases without any export refunds. Taking into account the fact that the processing side of the sector has adjusted enormously from just before accession to right now, they will have room for manoeuvre and the possibility to adjust to a new situation. But on the other hand after implementation of the CAP and after some years of activity under the CAP umbrella there might be some problems with a more open market for third-country imports as well.

Q809 Viscount Ullswater: Do you see then the output of the farming industry dropping in the next ten years, a retraction of the whole sector?

Mr Gawlik: Right now it is hard to assess whether it will drop or not because we have no agreement at an international level⁹ about how far our protection will drop. Going back to your question about concentration and co-operation within the agriculture chain, I must say that the situation varies between different sectors because in the poultry sector, for example, this sector is quite concentrated on the production of the raw materials is quite concentrated and there is a strong vertical concentration and co-operation with the processing industry as well. On the contrary sectors like pig production and pork processing or the fruit and veg sector, and the processing industry for fruit and veg, there is definitely a need for adjustment and for actions to support vertical co-operation between the raw material producers and the processors.

Q810 Baroness Jones of Whitchurch: As you probably know, the whole issue of climate change is moving up the political agenda at the moment. In Poland are the farmers already

⁹It means the Doha Round negotiations in the WTO have been not finalized

experiencing the effects of climate change? Is there a debate going on in Poland about what would need to happen to mitigate the impact of climate change in the future?

Mr Gawlik: As you have mentioned, our farmers are experiencing something which could be connected with climate change. For example, this year there was a strong frost at the beginning of spring which affected fruit production in many regions of Poland. As far as more general issues are concerned, the decoupling of support is helping in a way to cope with climate change because right now there is no link between how intensive production is and how big the support is for farms, so definitely less intensive farming will lead to mitigating negative effects of farming on the climate. The second pillar of the CAP gives some possibilities to implement actions which might cope with the negative effects of climate change. Within the Commission's Communication document water management was mentioned and within the second pillar it is possible to support these actions which are connected with the retention of water or flood control measures.

Baroness Jones of Whitchurch: What about trying to cut down on the agricultural impact on CO₂ emissions?

Chairman: Greenhouse gases generally, I think.

Baroness Jones of Whitchurch: Yes.

Q811 Chairman: There are a lot of pig farmers.

Mr Gawlik: What about the dairy farming or cattle farming? In our case, the intensity of this type of production is definitely lower than in certain other Member States so, of course, support for extensification of production will be more welcome, especially in the second pillar. There is quite a big issue on biofuels or renewable resources of energy where agriculture might have quite a big influence. This is still an area for discussion, especially in the case where there are obligatory targets for the use of biofuels and we think we should start to discuss equal conditions for the production of raw materials for biofuels or bio-energy

within the European Union. It seems that in new Member States there has been quite a positive response from farmers and increase of energy crop production but there is still not equal treatment for farmers in the old Member States and those in the new Member States in the level of support for this type of production. In the old Member States they can use land for which they receive 100 per cent of direct payments plus this energy premium whereas in the case of new Member States they will receive the energy premium and lower direct payment due to the phasing in mechanism.

Chairman: Thank you very much indeed for your time and your patience with us. Thank you very much for helping us with our inquiry.

Answer to the question Q797 – additional information

This additional information shall be read in relation to the answer to the question Q796.

Farmers operating in vulnerable zones under the Nitrate Directive (Nitrate Vulnerable Zones) are in fact excluded from the agri-environment programmes, which is stated in the answer to the question Q796. This exclusion relates to all the packages consisting of farmers' commitments corresponding to requirements defined for the programmes drawn up for the purpose of the Nitrate Directive. In Poland agri-environment programmes consist of the so-called packages which set out farmer's commitments for which he/she receives a flat rate payment.

In practice agricultural holdings operating in the Nitrate Vulnerable Zones are excluded from the possibility of receiving support under the package "sustainable agriculture", which requires the drawing up of a nutrient management plan. This exclusion results from the rules of the agri-environment programme, which provide that only commitments going beyond mandatory standards and requirements established by the EU or national law can be eligible for payments.

However, in Poland's opinion this problem is broader and certain forms of assistance for farmers in Nitrate Vulnerable Zones should be envisaged to encourage them to take action for the benefit of the environment under Pillar II of the CAP. Taking into account that water management and water protection are very important elements in the discussion on the future of CAP it would be worthwhile to consider some measures of diverse nature supporting local initiatives for the benefit of the environment, including water protection. This might take the form of aid for the creation of conditions and infrastructure for biogas production (purchase of

equipment for slurry transport, construction of fermentation tanks and systems for electricity production), support for purchase of special machines for slurry disposal, construction of small sewage treatment plants.