

WEDNESDAY 4 MARCH 2009

Present

Arran, E.
Brooke of Alverthorpe, L.
Caithness, E.
Cameron of Dillington, L.
Dundee, E.
Sewel, L. (Chairman)
Ullswater, V.

Witness: **Mr Andrzej Babuchowski Andrzej**, Agriculture Attaché, Poland, and **Ms Karina Makarewicz**, examined.

Q281 Chairman: Can I first of all thank you very much indeed for coming and helping us with our inquiry into the revision of the Less Favoured Areas scheme. We are a Committee of the House of Lords and this is the topic of one of our inquiries. We will be issuing a report at the end of the inquiry with our conclusions. As it is a formal evidence session there will be a transcript taken. You will get a copy of it within a few days, hopefully, and you can look at it and take out any mistakes or errors that have crept in. My first question has been very well answered by this piece of paper we have. The only trouble is that we do not understand the second box because the number of farms supported with LFA goes from 116,552 to 1,264,756, and then down to 128,001. Are those figures correct or has there been an error?

Mr Babuchowski: My colleague is a specialist. She is just looking at it.

Q282 Chairman: I think there are problems with the whole of box two because there are difficulties with a number of the figures.

Mr Babuchowski: Yes. In fact, that was delivered to the ministry and I asked them whether they were correct and they said they were correct. I could not understand why they were

correct. In fact, 2006 was the end of this period, but anyway we will try to help you and maybe correct it.

Q283 Chairman: Perhaps you would have a look at it

Mr Babuchowski: Yes, because for me also I could not believe that in 2007 so many quit again with LFA. It mentions the lack of data. They are not available because our statistical office has not produced them in the statistical year book.

Q284 Chairman: Okay; that is fine. If you could have a look at that and clear that up that would be super.

Mr Babuchowski: Yes, we will.

Q285 Chairman: The next question I have is about farmland abandonment. Is that a problem in Poland? Do you get people not just leaving agriculture, which I assume is happening, but the agricultural activity being lost and land just being left without cultivation?

Mr Babuchowski: In fact, we have observed this problem starting from the 1990s. After the economic transformation many people abandoned land and there were several reasons for that. Some of the reasons were economic. They did not have enough money to support activities and many state supports ceased from that period. Secondly, some of the tenants took a huge amount of formerly state-owned farms, hoping that they could manage to do farming, but they could not. The third was that at the beginning there was a very high interest rate on any credits given not only to the farms but also to the farmers, and this led to a period of very high inflation. Later on what happened was that the accelerating economy made it more attractive for many people to work in industry or services, especially those living near the cities, so they abandoned the land. The trend was reversed from 2002. In 2002 we had the highest percentage of abandoned land when, if I remember, about 17 per cent of land was

abandoned. Now the trend has started to be reversed because people knew from that very time that we were going to join the EU and then there would be some payment.

Q286 Chairman: Something called the Common Agricultural Policy!

Mr Babuchowski: Yes, the Common Agricultural Policy, but what we found also was that there was no one factor which influenced abandonment of the land. Usually there were several factors. In most cases these were physical factors, especially concerning the climate, the poor soil and the short vegetation period which mean low land productivity, but there was also another factor, the close proximity of another source of income. If these factors co-existed abandonment was much higher. Also what we should say is that this phenomenon occurred mostly in north east and north west Poland as well as in southern Poland. The north east and north west areas were not very highly populated anyway. In southern Poland it was a little different, but perhaps the factors which influenced them were also very different. In southern Poland we have very small farms, so they definitely could not support life or activities, and we have quite substantial, well developed industry in southern Poland, so it is not too difficult for them to move there. As for northern Poland, on the other hand, our biggest farms are in this region so the reason was more economic; they did not have enough resources to support this because the average area of farms in north-western Poland is now 25 hectares. This may seem low but in Polish conditions it is relatively big, but the lack of capital was the problem.

Q287 Lord Cameron of Dillington: Does anybody start farming in Poland? Does anybody buy a farm in Poland?

Mr Babuchowski: Oh, yes.

Q288 Lord Cameron of Dillington: So is the land being abandoned or is it just that they are going out of farming?

Mr Babuchowski: This is quite a good question. Even if people abandon the land they do not sell it.

Q289 Chairman: They stop farming but they keep the land.

Mr Babuchowski: Yes, they keep the land. If they are tenants sometimes they stop farming but they do not want to give the land back to the owner, in most cases the state agency, but also if somebody wants to start to farm, yes, she or he could do this, and, of course, she or he could buy the land either from a private person or from the state agency, but definitely it is very difficult because the business is very capital-intensive now.

Q290 Chairman: In percentage of income terms how important are LFA payments to farmers who receive them? Is it a very significant part of their income or not?

Mr Babuchowski: Yes, it is. First of all, we must say that direct payment in Poland was set at rather a low level because our land productivity per hectare was calculated slightly below three tonnes per hectare, 2.98, so it was very low, which gives a little more than 300 zloty per hectare. Secondly, we have phasing in of our payments, so we started in 2005 with 25 per cent plus 30 per cent national top-up, but this 30 per cent of national top-up is the highest percentage and it also depends on the willingness of the government or the availability of funds. For example, this year farmers are getting this 30 per cent and for next year perhaps also, so together they got 50 per cent, which is for this year, and then 30 per cent top-up, which is 80 per cent, but in some other countries there are some cuts because of the crisis and so it is 22.5 per cent, 17 per cent; it depends on the country. Therefore, starting from this level, this payment for LFA was very substantial. I have some data, so, for example, the single area payment basic for 2008 was 339.31 zloty, let us say 339 zloty per hectare, but

from the LFA, for example, in mountain areas they could get 320 zloty, which means almost double, which will not be the case in the future when you have got 100 per cent, but now it is double. Even in the lowlands, in zone one, it is 179, and in zone two it is 264. In an LFA with a specific handicap it is 264. Anyway, it is more than 50 per cent of what they got from direct payments, so it is very substantial.

Q291 Chairman: And how much would they get from the market, roughly? Any idea?

Mr Babuchowski: For what?

Q292 Chairman: For selling their product. How much would they get from the market?

Mr Babuchowski: That depends what is the production.

Q293 Chairman: Yes, I know. Have you got an average figure to sit with those single farm payments and LFA payments?

Mr Babuchowski: No, because you just want to know how much the farmer can get from one hectare, but that depends on the production, so let us put it that way. Let us talk about this year, because last year there was a different situation. This year, for example, the average productivity for wheat will be about four tonnes per hectare, and the price is set now slightly above 400 zloty, 440/450, so when you multiply by four it will be 1,800-2,000 zloty. Then the payment which they get from the LFA in this respect will be about one seventh or one sixth, so 16 per cent. That is only for LFA.

Q294 Chairman: That is fine. It just gives us an idea.

Mr Babuchowski: Also, when you think about rape seed it will be different, much higher, but I just say about grain.

Chairman: Let us move on to the rationale of the scheme.

Q295 Viscount Ullswater: Could you explain to us why the Polish government are using the LFA as a scheme and what are the benefits for the public out of it? Is it properly targeted to the right areas? Is it to sustain agriculture? Is it to give environmental landscape value? What is the public getting from this subsidy?

Mr Babuchowski: All of them.

Q296 Chairman: Which is the most important?

Mr Babuchowski: The most important for us is to avoid abandonment and migration, so to keep the population in those areas. We can use the rural development programme for infrastructure but what happens to this infrastructure while investment is down and people migrate somewhere else and we have thousands or millions of euros somewhere in the ground as a pipeline but nobody is there? For us, therefore, the most important thing is to avoid migration. It also means that we want to keep the agricultural character of the rural areas. The policy is directed rather to family farming, this type of activity, and if the farmers are working on sandy soils with very low productivity there is a very high risk that they will abandon the land, so this payment keeps them in these areas because they can improve productivity but they can also have a comparable income to those living in areas with better soil or a bigger farm, et cetera. We must also not forget about the environment because the animals and birds live in areas which are used by farmers, they do not really live in wild areas, so when farmers leave those areas the eco system changes and that which exists disappears, so we want to preserve the eco system which exists, and also the landscape. Therefore, we think this is very important for us everywhere, but especially in the mountain areas, where by their nature the farms are very small, and in northern Poland where you have a very nice landscape. There are plenty of forests, lakes, et cetera, so it is a recreational area, and these areas are the most prone to abandonment and migration.

Q297 Viscount Ullswater: So it is in order to keep the viability of the farms that this payment is necessary?

Mr Babuchowski: Yes.

Q298 Viscount Ullswater: And in doing so it preserves the landscape that you wish to preserve?

Mr Babuchowski: Exactly, and also helps them to keep up good agricultural practices.

Ms Makarewicz: Exactly, we have to encourage that.

Q299 Viscount Ullswater: That is important?

Ms Makarewicz: Yes.

Q300 Earl of Arran: Knowing as we do the implications and the intentions of the LFA, how in your opinion do they differ from, or indeed complement, those of other CAP instruments, such as single farm payments or other agri-environmental schemes?

Mr Babuchowski: We think there is a very positive synergy between the activities which are done between the single area system and this area-based scheme because we can continue agricultural production in some handicapped areas and so we can also improve the competitiveness of those farms. We also observe that there is a very high correlation between farmers applying for the LFA scheme and the environmental programmes, so we think this is very important. We also think that this helps farmers to preserve the extensive way of production and sustainable production. Otherwise they could turn to more intensive forms of production. The income from this environmental issue and LFA payments plus the national payment therefore allows them to be more competitive.

Q301 Earl of Arran: Taking this into account, are your farmers very anxious to come to the table to negotiate a new LFA agreement or are they content with the status quo?

Mr Babuchowski: That is a very tricky question because the new LFA system perhaps will be in different areas from the existing one, so it depends to whom you direct the question. Earlier, when we were trying to use the present system, some farmers said, “My land is almost as good as another person’s and he is getting the LFA payment; I am not”, because he is just in another community which is not covered by it, and some farmers say, “My land is partly in this community and partly in another. I am getting LFA for part of my land but not for the other part. What happened?”. There were always these questions, who can gain and who can lose, but generally I guess the farmers will be getting it as a whole in order to maintain the system.

Q302 Lord Brooke of Alverthorpe: Looking to the future and the discussions that are going to take place on further reform of the CAP, at least some of us hope there will be some and there will obviously be linked budget reviews as well, to what extent do you think these might have an impact on LFA payments, and do you have any ideas on the way in which you think LFA payments should develop in the future, notwithstanding what you have just said about your farmers’ interests?

Mr Babuchowski: What do we think generally in Europe? That the level of payment should perhaps be maintained at the same level. We do not say anything about the distribution. Perhaps the distribution as a result may change because there are no priorities, but we think that this is one of the most important payment activities and we think that it should be maintained. This is also very important for us because this activity was very effectively realised in Poland. Besides, it is very simple and it is well accepted by the farmers, but also it is important for small and low income farms. If they are deprived of this activity then we will have problems in keeping our rural areas agricultural, so we think it is very important that this payment should be maintained, if possible at the same level.

Q303 Lord Brooke of Alverthorpe: Looking at your statistics, I see that the number of claimants has increased between 2006 and 2007 because there has been a change in the eligibility terms, a re-definition anyway. Do you see this continuing, the numbers going up?

Mr Babuchowski: Oh, no, because the LFA area has increased a bit in 2006 due to the one-time change in delineation methodology which went down much lower than NUTS-5 level, thus is even more transparent and fair at the moment.

Q304 Earl of Dundee: For the designation of intermediate LFAs what does your government think about the common biophysical criteria that are currently proposed?

Mr Babuchowski: First of all, I was requested to say one thing, that we are very happy with the system which exists. This is a very curious situation. Usually we are backward. There was something in the EU which was much better developed than in our country and we always were requested to catch up with those who were the best. Now we, Germany and Austria have perhaps the best system and quite simple, and now we are going to retreat a little because there are some difficulties, so it is a little awkward for us.

Q305 Earl of Dundee: So you do not want anything different, but that is not to say that you might not, if you had the choice, want to have something additional?

Mr Babuchowski: In fact, under the new system of biophysical criteria we can select some of them because, when we consider the new system, it is only devoted to or aimed at the lowlands, not mountains, and in Poland we are very flat, so many of those criteria do not apply. In fact, we do not know which will relate only to the soil and the soil quality in this respect and one criterion which is missing is the acidity of the soil.

Ms Makarewicz: In fact, for the moment it is a bit incoherent because in some EC documents we can see acidity as one of the toxicity criteria in general, but in others it is not there so we cannot be sure if it is included or not for the moment.

Q306 Earl of Dundee: So you would like clarification?

Ms Makarewicz: Yes, of course, we would like to have that.

Mr Babuchowski: We also think that each country should determine itself which criteria it wants to apply because the climatic situation and soil quality differ among the countries, but it is very difficult to find out what criteria should be applied for all countries.

Q307 Lord Cameron of Dillington: So, as far as biophysical criteria are concerned, you do not want to see harmonisation of the biophysical criteria, judging from your last answer?

Mr Babuchowski: It is harmonisation perhaps. It depends what you mean by harmonisation. Harmonisation should be brought in but, for example, we think that countries should have a margin of freedom from the criteria which are set because some criteria which now concern the soil, the water permeability and the temperature are more suitable for southern countries than northern ones. They are completely different.

Q308 Chairman: I think I have got the argument. On the designation criteria you do not like the common biophysical criteria. You want to have a recognition of other factors, like toxicity and acidity and things like that.

Mr Babuchowski: Yes.

Chairman: You want that in the designation criteria, but then, when we come on to eligibility, it is a matter of what sort of activities should be included and what sort of farms.

Q309 Lord Cameron of Dillington: It is the framework, ie, from what you are saying you want as loose a framework as possible so that Poland can set its own rules and therefore include as many farms as possible.

Mr Babuchowski: No, not necessarily. It is rather that countries should be allowed to select two or three criteria which they will use and then the limits, minimum or maximum, should be

set at some, let us say, broad value because they could vary depending on the country's condition and climatic conditions and so on.

Q310 Lord Cameron of Dillington: We heard from Germany earlier on that any intensive farming which seems to involve any crop growing is excluded. Obviously, in Poland, because you were talking about your yields of wheat, you do not exclude intensive farming. What farms get excluded under your eligibility criteria?

Mr Babuchowski: We would like to exclude definitely the big farms.

Q311 Lord Cameron of Dillington: So it is farm size?

Mr Babuchowski: Farm size, definitely, yes, because sometimes even the farms which are big farms on the very sandy soils, because of the size, are profitable, so it is not necessary to be used as an LFA, but the way it is done must be very precise so as not to throw away those who are not sustainable.

Ms Makarewicz: And the criteria have to be very well documented and also the reference to the criteria.

Mr Babuchowski: The only problem is that we do not have the data concerning some of those criteria, so there will be a problem in using some of those criteria only because of the lack of data.

Ms Makarewicz: We do not have the resources and if we have resources we have to aggregate the data at a certain level and we can only go up to a certain size.

Q312 Earl of Dundee: On the accumulation of relevant data, what is happening in your country? Is it now being accumulated rather well? How long would it take you to assemble the facts?

Ms Makarewicz: What do you mean? What data? LFA or other country data?

Q313 Earl of Dundee: You were saying that you lacked data.

Ms Makarewicz: No. In fact, if we are talking about biophysical criteria we do not lack data because, as Mr Babuchowski said before, our current system is a sophisticated one and we have data for those criteria in the last European Commission proposal, but if we are talking about eligibility criteria and production criteria, so non-biophysical criteria, we have a problem with that.

Q314 Earl of Caithness: Given what you have said about the size of farms in light of the existing system, do you think the proposed new payment formula of “additional costs and income foregone” meets your requirements and is the right test for a Less Favoured Area?

Mr Babuchowski: Concerning this proposed new payment, definitely, we are not very happy that we can verify the size of the payment according to the new criteria, because what is suggested is a lump sum payment. This is based on the calculation of lost or foregone income and also some additional cost which relates to the economic data concerning the agricultural production average for the last three years. In our case the problem is that these data, depending on the region, could be very substantial, and to make this average for some regions implies that eventually some of the calculations of income for the farms are either under- or over-estimated. We think that is the problem, because in agriculture in Poland counting is only done for a very small number of farms. It is about 17 per cent of farms that are covered, so most of it will be made based on estimation and that could imply substantial error.

Q315 Earl of Caithness: Could you give us a suggested formula that you would prefer for a payment system?

Mr Babuchowski: The best systems for us will be those which exist now. That means that when somebody complies with the existing criteria it includes a requirement that it should be paid per hectare, as it is now, because that is the simplest system for us.

Q316 Chairman: Is Poland likely to be in the Presidency when this comes to decision-making?

Mr Babuchowski: No, no.

Q317 Chairman: I was going to say – you will just close it down all the way.

Mr Babuchowski: We are in the second half of 2011, and this is supposed to be implemented in 2010. This year is the Swedish Presidency, and next, after the Swedish, it is going to be Spain and Belgium. They will have to deal with the matter.

Q318 Lord Cameron of Dillington: What do you call a large farm?

Mr Babuchowski: Ha, ha. A large farm is supposed to be more than 300 hectares because we think that up to 300 hectares it is a family farm, but the common perception by farmers is that a farm which is over 50 hectares is already a large one.

Q319 Viscount Ullswater: You were saying about reducing payments from large farms. Were you thinking of 300 hectares as being a sort of cut-off point, that if you farmed 400 hectares you would not get an LFA payment?

Mr Babuchowski: No, no. Let us say that the policy of our government is not to deprive the big farms of any payment, rather to decrease it by percentage.

Q320 Viscount Ullswater: Not withdraw it?

Mr Babuchowski: No, definitely not. We are not against big farms because some of them could think that we are against them. They are very productive but in the areas which are, let us say, precious environmentally because of the landscape, it is better to keep these smaller farms which allow us to preserve the natural values, the environmental values. In fact, the biggest farm in Poland which we used to have was 32,000 hectares, so it was rather big. Now

it does not exist. It was split up. There are still several farms of about 1,000 hectares, so we do not want to exclude them from payments.

Chairman: Thank you very much indeed.