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SUPPORT SYSTEMS FOR THE AGRICULTURAL SECTOR – A COMPARATIVE ANALYSIS OF THE POLISH, GERMAN AND RUSSIAN SYSTEMS

1. Introduction

The condition of Polish agriculture influences the whole economy. The political transformation has been seen in agriculture as an economic pressure. This has led to a decrease in the profitability of agriculture by 50 percent over the last 10 years. Production is still gradually falling [see www.samoobrona.org.pl, 2005]. Interest in financial instruments of support, as well as the policy pursued in other countries, is justifiable. A comparison between Polish and German agriculture is interesting, as Germany was a EU member when the common agricultural policy was introduced, and most of Polish farms were privately owned in socialist times. The case study of Russia, which conducts its own, independent agricultural policy, shows problems with transforming large-scale state farming. Although most of Polish farms are small and private, it shows difficulties Polish state farms faced and why they without state help collapsed.

2. Financial support within agriculture connected with European Union enlargement

The resolution of the Berlin summit established a general strategy of development and enlargement of the Union. Additional sources from Union funds comprise of:

- pre-accession financial aid (PHARE, ISPA, SAPARD) to implement the principles of the Common Agricultural Policy in the new member states,
- structural funds.

These issues were regulated by directive WE 1255/1999 of the Council. The sum of the pre accession sources was established to be 3.1 thousand million euro annually (until 2006), out of which 0.52 thousand million was to support agriculture, 1.04 thousand million for structural aid and 1.56 thousand million for the PHARE program. Altogether the Union allocated 21.7 thousand million euro for these purposes, from which agriculture obtained 3.6 thousand million euros. It also received roughly 1.5 thousand million euros from PHARE. It may be estimated that the annual value of aid to Polish agriculture and rural areas due to accession amounted to about 220 million euro. This was meant to account for one fifth of Polish state expenditure on the development of Polish agriculture and rural areas, as long as conditions for its effective use were created.

Initially, financial help was taken from PHARE, which indicates that only about two thirds of designated sources had not been used before Poland entered the European Union. Various sources for funding European Union Enlargement were allocated and amounted to 4.1 thousand million euro in the first year (2002) and 14.2 thousand million euro in 2006, out of which 1.6 thousand million euro in 2002 and 3.4 thousand million euro in 2006 was allocated for agriculture. It is common knowledge that the Union underestimated the sources required for European Union Enlargement, especially for agriculture.

The adoption of the principles of the Common Agricultural Policy in the Polish region will accelerate changes and increase the level of contact between Polish and other European agricultural producers. At present, Polish agriculture is competitive with European agriculture only in a few fields (taking into account European Union subsidies). The prices of many agricultural products in Poland and in the EU15 countries have already become similar. Thus, Poland's entry into the European Union and resulting potentially wider access of Polish agriculturalists to the Union market has not significantly increased agricultural production and profits coming from it. The structure of agriculture in Poland, as

well as the low resources of Polish agriculturalists, make it difficult for them to use the latest solutions of science and technology. Polish agriculturalists can be highly competitive with western European agriculturalists, especially in labour intensive areas of farming, as salaries are lower than in the European Union.

3. The fundamental assumptions of the Common Agricultural Policy

The aims and principles of the Common Agricultural Policy were set in accordance with the resolutions of the Treaty of Rome. The most important aims are [www.ueonline.host.sk, 2005]:

- increasing agricultural productivity by supporting technological progress, rationalisation of productivity and optimising the application of factors of productivity,
- providing agriculturalists with a decent quality of life, mainly by increasing the income of people actively involved in agriculture,
- stabilisation of agricultural markets.

As the Treaty was signed several years after World War II when Europe was still a net importer of agricultural-food products, the tasks included [Neal and Barbezat, 1998]:

- guarantee of an appropriate supply of agricultural products,
- making it possible for consumers to buy agricultural products at "reasonable" prices.

Under the Common Agricultural Policy, three fundamental principles were adopted [Neal and Barbezat, 1998]:

- the principle of the Common Market, which means the free flow of agricultural products between Member States (guaranteed by the liquidation of excise duties and other constraints connected with protection of national markets, also by introducing common prices and unifying the principles of competitiveness, as well as adoption of common principles in trading agricultural products with countries outside the Union),
- the principle of preference for the Union, which signifies protection of the internal market against the influx of cheaper imported products,
- the principle of financial solidarity, which obliges the Member States to participate in the costs of the agricultural policy.

To realize this policy, such instruments as organization of agricultural markets and rules of the common agricultural policy were adopted. One can distinguish the four most important instruments supporting agriculture under the Common Agricultural Policy. These are supporting market prices, limitation of quantity, direct income support and the so-called

other forms for supporting agriculture. Direct income support is based on producers in the EU receiving a certain sum of money which is independent of the sum they obtain from selling their products on the market. This increases a farmer's profits without influencing prices.

Other forms of support for agriculture can be split into two basic groups:

- reduction in production costs (reducing the cost of credit, subsidies on production, tax policies),
- comprehensive services *i.e.* activities which in the long-term reduce costs in the agricultural sector and provide other benefits like examination, counseling, sanitary inspection, pesticides, activities enhancing agricultural structures and infrastructure, marketing and promotion etc.

The political transformation initiated in Poland at the beginning of the 1990s made Poland's economy and agriculture face up to new challenges. These new challenges are related to both the necessity for the profound restructuring and modernising of the agricultural sector, as well as improving socio-economic coherence and eliminating the effects of backwardness in the rural areas.

The impetus for increasing the speed of these changes was membership of the European Union. The process of adapting the Polish agricultural sector to that of the EU is closely related to the Common Agricultural Policy and must follow the continuous changes in this sector. Thanks to the Common Agricultural Policy, it was and is possible to maintain the dominance of single households as the base of the agricultural system in the Union and protection of the historically established European Model of the Countryside, the so called European Model of Agriculture.

The main features of this model are as follows [Cardwell, 2004]:

- competitive agriculture capable of gradually increasing exports without significant subsidies,
- sustainable development of rural areas in the whole Union,
- methods of agricultural production friendly to the environment and guaranteeing the high quality of healthy products that meet the demands of the market,
- sustainable agriculture, well-balanced with rich traditions, orientated not only to efficiency, but also to the environment and landscape of the country, providing food and increasing the rate of employment,
- simpler, more understandable agricultural policy, which clearly separates decisions made by the Union from those which should be still made by Member States,

– agricultural policy guaranteeing that the expenditure on its realization will be justifiable by agriculturalists' activities with relation to satisfying the needs of society and the landscape).

By developing production, food processing and connections with the world market, the Union has created an unusually elaborate economic-legal system for development of the market and price maintenance, supporting modernization of farms, as well as rural and agricultural development.. "Every year the Union devotes half of its budget to fulfilling these aims (over 40 thousand million euro). The budget of the Member States, which is 15–20 billion euro, must be taken into account. To compare, the support for Polish agriculture amounts to 0.8 thousand million USD annually [The Planned Budget..., 1997]."

Furthermore, agriculture is subsidized to a great extent by consumers themselves. Half of the income of agricultural households in the European Union comes from subsidies and these subsidies are 70 times as high as those a Polish agriculturalist receives. Taxes are four times lower than in Poland. The use of production subsidies is three times as high as in Poland and the use of external outlays thirty times as high. Owing to this, the value of animal rearing per agricultural household in the European Union exceeds the value of crop production (unlike in Poland). It is more shocking, however, to compare agricultural profits devoid of subsidies. In Poland, income per hectare, without direct subsidies, is comparable to the analogous average income in France, from three to ten times higher than in Portugal and Germany. These data were gathered a few years ago, but the factors shaping economics and the effectiveness of farms are still relevant.

The agricultural policy that Poland accepted when entering the EU are not as beneficial as those the eleven countries of the old EU were offered. For instance, annual subsidies per hectare in 2004 amounted to 309 euro in Greece, 266 euro in Denmark, 266 euro in Germany and only 51 euro in Poland. Direct annual subsidies in the EU per employee in 2004 were 7,924 euro in Denmark, 3,573 euro in Germany, 2,358 in Greece and 352 euro in Poland. Annual direct subsidies per agricultural household in 2004 were 12,292 euro in the United Kingdom, 6,919 in Germany, 11,314 euro in Denmark and 464 in Poland. Most of these sources go to big agricultural farms, whereas small and poor households receive very little. Polish agriculture obtained the lowest limits on the production of milk, sugar, isoglucose, tobacco, potato starch, beef and rearing of cows and sheep. These conditions were accepted by our government, but talks will be held to renegotiate the conditions [www.samoobrona.org.pl, 2005].

4. The influence of the Common Agricultural Policy on Polish agriculture

Despite its evolution, the Common Agricultural Policy has preserved its core and the range of its support for agriculture up to 2006 and this will continue in the following years. From the standpoint of Poland's agriculturalists, it is important that the Common Agricultural Policy is based on a few principles, which make it possible to modernize agriculture quickly and transform the structure of Polish agriculture. These principles are as follows [www. Samoobrona.org.pl, 2005]. The profitability of agriculture must be guaranteed. The conditions (prices, subsidies) of production should not only be negotiated with agriculturalists, but must also be known 6–7 years in advance. Huge reserves, a mutual market and the system of widespread insurance significantly soften the consequences of crop failure and other dramatic events which have recently affected Polish agriculturalists. Prices, production volume and subsidies established at the summit of the European Union in Berlin (in spring 1999) will be valid until 2006. "All these conditions guarantee, under its assumptions, an increase in the income of agriculturalists from the European Union by one quarter in this period. What is important, at the Berlin summit the conditions for Polish agriculturalists which were to be valid after accession (between 2004 and 2006) were established. These conditions cannot be negotiated." The changes projected in the Common Agricultural Policy will not significantly change the conditions of economic production.

"The profitability" of agriculture is paid for by extensive financing of agrarian changes, modernization of households, support for young agriculturalists, lowering the age of retirement and forestation. This facilitates changes in agriculture and in particular causes a drop in the number of small farms and consequently increases the rate of unemployment in the Polish countryside. This in turn makes people look for a job outside agriculture.

An active policy of regional development, which supports the agricultural program in the European Union, is separately financed and indirectly creates favourable conditions for the economic and social development of rural areas and agriculture. Separate subsidies for environmental protection constitute an increasing part of the annual income of agricultural households.

All these mean that the development of agriculture, and especially agrarian transformation in Poland, will have more favourable grounds in the near future. It is especially important that these instruments of support for "the profitability" of agricultural production work simulta-

neously. So far Poland has failed to implement these instruments, which means that aspects of the governmental program such as preferential credit cannot be realized.

The adoption of the principles of the Common Agricultural Policy in Polish agriculture will accelerate its changes and increase the level of contact between Polish agriculturalists and the large European market for agricultural and food products.

The very low profitability of Polish agriculture in the 1990s did not promote the modernization of big farms, and often led to decapitalisation of production assets. It must be expected, however, that the initial phase of Poland's membership in the European Union will be a period of rapid modernization of big farms. This will be caused by increasing profitability from production and, above all, the high level of direct support for processes of modernization in rural areas. This signifies an enhancement of agriculture, but it must also entail an increase in the living standards of the whole rural community.

The increase in the income of agriculturalists will depend mainly on the development of other so called non-agricultural sources of income, such as food processing, rural tourism or more intense involvement of agricultural groups in marketing and production. This will generate an increase in demand for production means and thus will favourably influence the whole economy. The extensive stratification which is seen in farm households resembles that of the USA. With regard to the material status of the rural population, it is essential to note that the majority (60 percent) of Polish farmers own fewer than 5 hectares of arable land [GUS, 2001], so a vast majority will have limited access to support from the Common Agricultural Policy. This will result in the further polarization of the economic situation of farm households, which is also taking place in the European Union. This problem cannot be solved easily, even when one takes into consideration the fact that in the north and south of Poland an average farm household has 18 hectares of land, which is almost equal to the size of an average agricultural household in the EU15 countries [GUS, 2001].

For the majority of households this constitutes a challenge, because big households obtaining large subsidies from the Common Policy are serious and strong competitors on local and regional markets for agricultural products. The possible change in production methods in modern agricultural households, which will start using labour-saving technologies, will not improve but may increase the unemployment rate in Poland. High unemployment is a characteristic of Polish rural areas. The Union market for agricultural and food products, accompanied by a wide

range of instruments of the Common Agricultural Policy, should increase the stability of Polish agriculture, but this is not guaranteed.

The disruptions on the international markets observed in the 1990s and significant changes in the prices of energy shattered market stability and the Union system of quality control did not protect farmers and consumers from problems connected with BSE, excessive use of antibiotics and food contaminated with toxins. In this light it seems to be justifiable that Polish agriculturalists are looking hopefully towards changes to the Union Policy on Agriculture and rural areas. If the direction of these changes is maintained, the adaptation of Polish agriculture to the European Union will have shorter distance to cover. It will result from the efforts of the European Union to intensify agricultural production, support family farms, limit agricultural production and increase environmental and social functions. The new model of the EU agricultural policy gives rise to chances of supporting the features of Polish agriculture which have been disregarded so far.

Above all, ecological and socio-cultural aspects are becoming more important. In accordance with the reform of the milk market [Agenda 2000, 1999] the conditions on the milk market will be changed in June 2005. The retail price of milk will be lowered and the intervention price for milk and milk powder will be lowered as well. This will cause in turn a drop in the price of milk paid to agriculturalists by dairies. Simultaneously, agriculturalists have the opportunity of obtaining direct payments for milk per tonne (within the allocated quota) amounting to 5.75 euro per tonne in 2005, 11.49 euro per tonne in 2006 and 17.24 euro per tonne in 2007. These direct payments could be raised for certain households and to 13.9 euro in 2005, 27.8 euro in 2006, and 41.7 euro in 2007. Another issue is how high the payment should be. This payment is heavily criticized. The criteria for financing dairy subsidies are established by a Member State in agreement with the European Commission. The financial measures come from the budget of the European Union under the so called **country envelopes**. The Commission is to project the maintenance of the dairy quota until 2008. For Polish producers (as in other Union countries) the fall in the price of milk may decrease the income from milk production, because direct payments might not fully compensate for the price drop [Der Finanzrahmen, 1999].

The Common Agricultural Policy and structural funds do not constitute any menace to Polish rural areas, as argued by opponents of integration. The effectiveness of the instruments of these policies depend on the process of adaptation and the abilities of agriculturalists, rural local governments to use the instruments. One menace may lie in the possibility of a low rate of absorption of Union resources.

The structural funds, like most of the Union resources supporting development, requires professionalism from beneficiaries and active participation of social partners. In the Polish countryside, this absorption might be distorted by two factors: the low level of education and underdevelopment of institutions both government and non-government, including the low number of non-government organizations, associations and foundations. One menace for Polish agriculture is the fact that the Union treats Polish agriculturalists unfairly not providing them with equal access to Union resources. Examining the menaces to the development of agriculture and rural areas, one cannot forget about the process of globalization of the world economy, which sets further challenges. The question arises as to whether instruments of the economic systems of rural areas will be established in the future enlarged Union embedded in the comprehensive development of the world economy and implementation of new technologies, information and flow of services. New economic conditions require profound structural transformations in agriculture. These two deficiencies: educational and institutional could turn out to be the most serious threat, making it impossible to initiate new opportunities of development for agriculture and rural areas in Poland.

5. German agriculture and reform of the Common Agricultural Policy

Agriculture, forestry and fishing is a relatively unimportant economic sector in Germany, with a share in GDP of 1.2 percent in 2003, employing approximately 2.4 percent of the work force. The value of production amounts to 47 thousand million euro [www.meat-n-more.info/portal/news/news_landwirtschaft.php?we_objectID=3052, 2005].

A rapid increase in the productivity of German agriculture has been of great importance for society and the economic situation. In the years between 1993 and 2003 the productivity of agricultural sector employees increased by 49 percent from 17.700 euro to 26.400 euro [www.bauernverband.de, 2005]. This rapid productivity increase in agriculture was possible due to high performance agricultural machinery and improved production methods. The use of these capital-intensive means of production was, however, accompanied by a fall in agricultural employment. Despite this large increase in productivity, Germany has always remained a net importing country in agricultural and food goods. In 2002/03 the degree of food self-sufficiency degree was 88 percent.

BSE and other diseases brought discussions on agricultural change to a broader public. The necessity for such reform does not, however, only

result from the interests of consumer protection, because the previous agricultural policy had proven to be unsustainable. The objective of the European agricultural policy – established already by the Rome Treaties of 1957 – does not correspond any longer to the requirements of today's challenges, e.g. the three pillars of "sustainable development". The EU agricultural policy was neither economically acceptable, ecologically compatible, nor socially just. Extension of this outdated agricultural policy to the new member states was not desirable. Meanwhile, approximately 90 thousand million euro of the expenditure from European Union structural funds went to agriculture (approximately 50 percent).

Consumer protection organizations deplore the quality of food, which even found confirmation from the European Commission – which stated that the agricultural policy has "negative effects". Several rural and agricultural interest groups (like the Federation of German Farmers) deplore the unfair distribution of these subsidies. Just four per cent of the farmers receive 40 percent of European Union payments. Large enterprises take several million in subsidies, without having to give any ecological or social return. Agricultural reform was planned at the European level as early as 1992. The person responsible at the European Union level, the agriculture commissioner MacSharry, expressed in most critical tones "the status quo can neither be defended nor kept up". MacSharry continued to state that the mechanisms of the common agricultural policy originated at a time, when there was a food deficit and it was a work intensive sector.¹

The most important markets had already developed by the beginning of the 1990s and there was over production of agricultural goods. Agricultural price support was coupled to production subsidies and this developed further incentives to increase production and intensify production methods, which lead to negative impacts on the environment.

The results of the 1992 reforms are unimpressive, not because of commission policy, but due to the governments of the twelve member states, which had to finally decide on the "new" policy and the interests of the agricultural lobby.²

Not much remained of these ideas after the European Union summit in Berlin in March 1999, at which "Agenda 2000" was set out. Similar reforms were only implemented as guidelines with each member state

¹ MacSharry Report.

² The proposal was presented by the commission in 1992. Direct payments, which farmers have been receiving since 1992 in the form of subsidies per hectare according to the crops grown, should be coupled (as announced in 1992) with environmental regulations and subsidies.

encouraged to introduce such a strategy at the national level. Germany made no use of this policy. Also, the coupling of direct payments with ecological subsidies suggested by the commission did not meet the agreement of the member states. In such a way Agenda 2000 ended like the agricultural reform of 1992.³

Many individual farmers, consumers, livestock, the environment and nature would be winners from agricultural reform. The profits from it would only change gradually. Recent challenges are:

- the enlargement of the European union to include CEE countries,
- the World Trade Organization negotiations regarding the further liberalization of world trade,
- the maintenance of social acceptance of direct payments to agriculture, the adaptation of policy to different market sectors (milk, rye) according to market requirements.

The decisions to reform the common agricultural policy made in June 2003 and April 2004 are a milestone in European agricultural politics. The direction of the agricultural reform of 1992 and Agenda 2000 have been continued. The core elements of this agricultural reform are the following points:

- **Decoupling of direct payments to production.** The centerpoint of the resolutions is reform of direct subsidies paid per hectare of land or per unit of livestock. This is to be achieved in Germany by first by a combination of payments. Part of these direct payments follow the principles of the former model (also known as historical model).

The level of direct payments received in the past determines the level of direct payments received in the future. The rest of the decoupled direct payments is distributed according to the principles of a regional model. According to such a regional model uniform amounts per hectare are granted. This mixed model is to be transferred in the long run into a pure regional model. Certain conditions are placed on a farm wishing to obtain the full amount of these decoupled and coupled direct payments.

- **Cross-compliance** or adherence to new obligations. The linkage of subsidies with standards in the fields of the environment and animal protection, as well as life and food security, *i.e.*

- the type of management,
- ecological standards and
- farm models of ecological and consumer friendliness.

- **Modulation.** By reducing direct payments funds are made available to support rural development measures. The resolutions plan that

³Interview with Lutz Ribbe.

these changes start in 2005, *i.e.* direct payments are cut in all member states by a given percentage.

6. Problems of agriculture in Russia⁴

It may seem that Russian agriculture is of no interest for Poland, as in socialist times it consisted of cooperative and state-owned farms, while most of Polish agriculture was private and most of the farms were small. However, many basic problems in Russia are also faced by Polish farmers:

- low profitability which constrains the technical potential, which is seen in the lack of modern and effective machines and equipment,
- degradation of arable lands and contamination of the environment (ecological problems),
- the difficult financial situation of agricultural producers, which is especially caused by the low prices for agricultural products and their low quality,
- lack of working capital for financing seasonal production,
- a big discrepancy between prices and incomes; agriculture cannot compete with other branches of the economy, especially when the agricultural market is poorly developed.

Problems that are more characteristic for Russian agriculture are:

- high debt level, especially caused by government preferential credit. These financial commitments result from not paying credit installments, which gradually leads to liquidation of bank accounts,
- since the devaluation of the ruble in 1998, favourable conditions for the food market have gradually been established. This situation enabled securing the profitability of agricultural and food production,
- the limited size of agricultural and food production constitutes a serious problem. Liberalisation of prices in 1992 and withdrawal of subsidies for agricultural production limited demand. The financial crisis in 1998 increased imports of food and limited demand for domestic products, which lowered the income of the agricultural sector,
- the workings of the agricultural and food market is impeded by the conflict between old methods (regulated prices) with new mechanisms. Interregional administrative barriers constitute additional problems.

In Russian agriculture, Russian companies which operate in the food and agriculture market are divided into two categories. The first category of producers meets the needs of the domestic market and the second

⁴This section is based on the documents no. 76-r (22-01-2001) and 858 (03-12-2002) of the government of the Russian Federation.

exports products. Consequently, the first category faces price problems, restructuring, modernization, whereas the second cannot meet the high economic-financial requirements. This second group is not interested in the domestic market. Social and demographic issues are significant to the development of agriculture. In many regions, work in the agricultural and food sectors is the only source of income and the lack of work makes young people flock to cities, which in turn leads to a lack of labour and limits on production. In numerous regions demographic problems are becoming increasingly acute. There are no young people willing to work in agriculture, a lack of agricultural specialists and managers can be observed.

To improve agriculture, it was indispensable to restructure the debts of agricultural households. Preferential credit and subsidies can be granted on the basis of procedures and agreements with agricultural entrepreneurs. These agreements specify the repayment schedule. At a regional level aid should be combined with federal law. This especially refers to taxes. It is indispensable to create financial reserves to ensure the financial stability of farmers. Sources from the federal budget are used to finance investments of subjects participating in federal programs, as well as building, reconstruction and technical modernization. Ecological problems are becoming more serious in Russian agriculture.

The size of farms is not limited, the area of some farms exceeds several thousand hectares. The tax policy of the country is to simplify the tax system and equalize the tax burdens on all agricultural subjects. Insurance is becoming increasingly essential. Its basic task is to shape and develop an effective system of agricultural enterprises. Some of the responsibility for insurance should be taken by the state and a separate state guaranteed insurance system should be introduced. The difficult situation in the 1990s required the government to elaborate a comprehensive program for the development of rural areas until 2010. On the basis of directives passed by the President of The Russian Federation on February 22, 2001 and ratified by the government of the Russian Federation on December 3 2002, the following stages of a realization plan were accepted: the first stage 2003–2006, the second stage 2007–2010. Under this program, the following sources from the budget were projected: 18.7 thousand million rubles from the federal budget, which accounts for 10.5% of all outlay, 76.9 thousand million rubles from the budget of the Russian Federation *i.e.* 43% and 83.1 thousand million rubles from the internal budget *i.e.* 46.5%. The results of the implementation of this program will be seen in a few years time.

To some extent, the Russian program resembles the principles of the Common Agricultural Policy. The similarity lies in the stress on

socio-economic development. However, the specific structure of Russian agriculture makes it difficult to draw lessons for Polish agriculture, maybe except for former state-farms that bankrupted as state support drastically decreased in the 1990s.

7. Conclusions

In Poland, Germany and Russia, the agriculture and food sector is undergoing transformation that is generated by economic globalization. Poland became a member of the EU recently and it has enormous difficulties in adapting its agricultural sector to the Common Agricultural Policy. Conducting agricultural policy in isolation from the EU is impossible under the present conditions that Poland is in.

The support Polish farmers receive is much smaller than in the EU15 countries. Fast changes can be expected in agriculture, and an important question is whether mistakes made in EU agricultural policy, e.g. large scale and/or intensive farming, leading to unfavourable changes in rural areas and lower food quality, will be repeated in Poland. To a certain extent the problems faced in Polish agriculture are similar to problems in Russian farming. However, it is difficult to draw lessons for the future from the Russian example, as the structure of Russian farming is completely different.

When implementing the Common Agricultural Policy in Poland, there are important lessons to be learned from past experience. However, agriculture in Poland is currently much more important for socio-economic development than, for example, in Germany. Restructuring of farming should rather focus on employment creation, as unemployment is already high, and many people are still employed in agriculture. Furthermore, the fruits of economic transformation were rather picked in urban areas, while rural areas remained behind. Thus, proper policy should, among other things, focus on infrastructural investments in rural areas, multi-functional development of rural areas by e.g. stimulating the development agro-tourism, basic food processing, etc. This not only in order to increase rural income and rural employment, but also to strengthen rural society and to prevent environmental deterioration.

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