



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 1 October 2009 (05.10)  
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**AGRI 407**

**NOTE**

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from: Mr Marek Sawicki, Polish Minister for Agriculture and Rural Development  
to: Mr Eskil Erlandsson, President of the Council of the European Union (Agriculture and Fisheries)  
Subject: Application to the Council concerning the approval of State aid for the purchase of agricultural land

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With a view to the Council meeting on 19 and 20 October 2009, delegations will find attached a letter to the President of the Council of the European Union (Agriculture and Fisheries) from the Polish Minister for Agriculture and Rural Development.

Warsaw, 28 September 2009

F.we 8KE-58/09/4263

**His Excellency  
Eskil Erlandsson  
President of the Council of the European Union  
(Agriculture and Fisheries)**

**Application to the Council  
concerning the approval of State aid for the purchase of agricultural land until  
31 December 2013 on the basis of Article 88(2) of the Treaty establishing the European  
Community**

On the basis of the third subparagraph of Article 88(2) of the Treaty establishing the European Community, the Government of the Republic of Poland requests that the Council endorse State aid for the purchase of agricultural land by farmers for the setting up or expansion of agricultural holdings between 1 January 2010 and 31 December 2013 as compatible with the common market.

The above application is justified by exceptional circumstances, which have to be judged in the light of the political and economic circumstances and the worsening effects of the financial and economic crisis. The political and economic conditions prior to Poland's accession to the European Union limited farmers' ability to improve the area structure of their individual holdings. Although aid was granted for the purchase of agricultural land during the economic transformation period, years of delays in the development of Polish agriculture and lack of capital meant that farming

families were unable to improve the structure of their agricultural holdings in any meaningful way and so make a decent living off the land. According to statistical data from Poland's Central Statistical Office (GUS), farms with agricultural areas of up to 5 ha accounted for 70,1 % of all farms in Poland in 2007. Unfavourable area structures in such a large number of agricultural holdings, combined with lower direct payments, prevent many farming families from improving their living conditions. Under the Treaty of Accession, Polish farmers receive significantly lower direct payments, with payments in the first year following accession amounting to as little as 25 % of the 2004 payments applied in the 15 Member States. Furthermore, under Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003 (OJ EU L 30), direct payments in Poland are to be introduced in accordance with a schedule of increments expressed as a percentage of the applicable level of such payments in Member States other than the new Member States, whereby the payments granted to farmers in 2009 are equal to 60 % of the payments granted to farmers in the 15 Member States. In 2013 the payments will be equal to 100 % of the payments granted in the 15 "old" Member States. However, it should be borne in mind that the reference yield for Poland adopted in the Treaty of Accession (average of all agricultural holdings, i.e. those above 1 ha) means that the level of payments in Poland is considerably lower than in the other European countries. Furthermore, agricultural incomes in Poland are low, mainly owing to the disproportionately high labour inputs compared with most EU countries. The Polish agricultural labour force accounts for 19 % of the EU-27 agricultural labour force. The unfavourable area structure of agricultural holdings in Poland and the lower payments arising from the Treaty of Accession result in lower incomes for Polish farmers, in particular for holdings with an area of less than 50 ha, which means that they have a lower standard of living and little prospect of taking out commercial loans for the purchase of agricultural land. In 2008 farmers' incomes dropped further as a result of the fall in the value of payments to farmers following the 10 % decrease in the euro exchange rate.

At the end of 2008, as a result of the current global financial and economic crisis, there was a decline in trade in goods on a scale not seen for many years, together with a substantial squeeze on investment. The deepening recession in the world economy caused by the global crisis has adversely affected Polish agricultural holdings in that there are problems in marketing agricultural products, and the prices which farmers obtain for their agricultural products are low, often failing to cover production costs. Farm incomes have plummeted this year as a result, amongst other things, of a steep fall in cereals prices: wheat prices are approx. 45 % down on March 2008 levels, and rye prices are approx. 60 % down. The purchase prices imposed on farmers are hovering around the intervention mark, which is roughly equivalent to the average level of basic production inputs, and this has had a catastrophic impact on farmers' living standards. According to data from the Polish Institute of Agricultural Economics and Food Management (a National Research Institute), the basic (not final) production costs for cereals harvested in 2009 rose significantly as a result of the rising prices of the means of production. This had a negative impact on the relationship between production costs and purchase prices. Milk producers are suffering similar difficulties as result of the fall in prices. In July of this year the price of milk was 9,5 % lower than in July 2008. In contrast to the falling prices for agricultural produce, the prices of agricultural inputs such as fertiliser, pesticides, feed and fuel, etc. have continued to rise this year. It is likely that conditions will continue to worsen for many Polish farms, with a consequent increase in the number of farming families at risk of poverty.

At the same time, in the current crisis, banks have tightened up their criteria for granting farmers loans for investments such as the purchase of agricultural land. In circumstances such as these, there is likely to be an increase in the speculative purchase of agricultural land by those from outside the farm sector who have funds available and also easier access to credit.

In the first quarter of this year rural unemployment rose compared with last year. There is a risk that unemployment will rise still further, even in rural areas, as workers continue to be laid off, not only by small firms, but also by large employers such as dockyards, automotive plants and other businesses. For farming families with fragmented holdings, one alternative is to buy agricultural land with the aim of securing an income that will guarantee them a basic standard of living.

If State aid for the purchase of agricultural land for setting up or expanding agricultural holdings is not retained until the end of 2013 at least, it will not be possible to achieve the established objectives of utilising land held by the ZWRSP (Agricultural Property Stock of the State Treasury) and of improving the area structure of individual agricultural holdings across Poland. This should result in an improvement in the economic situation of many farming families, as well as a drop in unemployment and poverty in the rural population.

In the absence of State aid, land sales will stagnate, as will the process of gradually expanding the area of individual agricultural holdings to a scale where farmers can earn an income enabling them to operate their farms up to European standards.

Given the above, the Polish Government intends to continue granting farmers aid over the period from 2010 to 2013 to purchase agricultural land for the purposes of setting up or extending agricultural holdings which meet the criteria for family-run holdings, i.e. up to 300 hectares. The aid will take the form of subsidising interest payments on loans or arranging for the repayment in instalments of amounts due for agricultural land purchased from the Agricultural Property Stock of the State Treasury.

Detailed justification:

1. In 2007 Poland had 1 804 063 agricultural holdings with a surface area of over 1 hectare, and the number of holdings had decreased by only 2.6 % since 2004. According to statistics, the average area of an agricultural holding in 2007 was 6.63 hectares, a size which is highly inefficient in terms of the profitability of agricultural production and as a source of livelihood for farming families. Polish farmers receive significantly lower individual direct payments than those in the EU-15 Member States. The average size of an agricultural holding can be improved by purchasing agricultural land from small and unprofitable agricultural holdings or from the Agricultural Property Stock of the State Treasury. Over the last 17 years, of the approximately 4.8 million hectares of land acquired from former state-owned agricultural holdings by the Agricultural Property Stock of the State Treasury, 2.3 million hectares have been dealt with, including approximately 1.8 million hectares in private sales.
2. In view of farmers' lack of capital and the high interest rates on commercial loans for the purchase of real estate, including agricultural land and building plots (in August 2009 rates ranged from 6.26 % to 8.17 % per annum), State aid in Poland is granted by means of subsidies from public funds for the payment of interest on bank loans for the purchase of agricultural land, or by arranging for the repayment in instalments of amounts due for agricultural land bought from the Agricultural Property Stock of the State Treasury on preferential terms.

According to information from 11 banks active in the real-estate lending sector, 25 % of commercial credit lines for the purchase of real estate have an annual interest rate of 8.17 %, while over 70 % of commercial credit lines have an interest rate of 7 % to 7.77 %.

One of the conditions for the payment of subsidies from public funds for interest on loans for the purchase of agricultural land for the purpose of setting up or extending an agricultural holding is that the lending bank charge a rate of interest not exceeding 1.5 times the rediscount rate on bills of exchange accepted from banks for rediscounting by the National Bank of Poland (as at August 2009 this interest rate is not in excess of 5.3 % per annum). The minimum annual interest rate paid by farmers is 2 %, and, moreover, the rate of aid does not exceed the limits fixed in EU legislation on state aid in the agricultural sector for the period from 2007 to 2013. Natural persons with full legal capacity (excluding pensioners), legal persons and organisational entities without legal personality are eligible for preferential bank loans to purchase agricultural land.

3. Agricultural land prices in Poland have been rising continuously since 2004; in 2007, for instance, they rose by 31 % compared with 2006, while in the first half of 2008 they rose by another 34 % in comparison to 2007.

On the other hand, according to statistics the average income for work on individual agricultural holdings per conversion hectare in 2007 was PLN 2220 (approximately EUR 502). The number of conversion hectares on a given holding is determined on the basis of the surface area, type and class of agricultural land.

Farming incomes in Poland are low because Polish agriculture is lagging behind in modernisation and development and direct payments are significantly lower than for agriculture in the EU-15 Member States. In 2009, direct payments in Poland are equivalent to 60 % of those made to old Member States, rising to 70 % in 2010, 80 % in 2011, 90 % in 2012 and 100 % in 2013. Indicators of the relationship between incomes from full-time employment on family-run agricultural holdings and the average net wage point to a relative drop in agricultural incomes in comparison to the average national wage in 2007-2008.

4. The income situation of farmers in Poland has been further aggravated in 2009 by losses on 130 thousand hectares of agricultural land through flooding in 11 voivodships (out of a total of 16 voivodships). According to estimates, losses may reach some PLN 240 million.
5. Given the circumstances outlined above, and the fact that aid from public funds covers the sale of around 160 thousand hectares of agricultural land a year, extending the possibility of granting State aid to support the purchase of agricultural land in Poland to 31 December 2013 would enable around 600 thousand hectares of agricultural land to be sold to farmers during the period from 2010 to 2013. State aid over that period would amount to around PLN 400 million (approximately EUR 100 million). This would make it possible to limit the extent of rural poverty in Poland.

Further to the above, I would request that the Ministers of the Member States consider the exceptional circumstances which have hindered and continue to hinder a satisfactory level of improvement in the area structure of agricultural holdings in Poland, and support the decision to approve the granting of State aid for the purchase of agricultural land for the purposes of setting up or extending agricultural holdings in Poland for the period from 1 January 2010 to 31 December 2013.

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